



**ARC**  
**INVESTMENTS**

Incorporated in the Republic  
of Mauritius  
Company number: C148 430  
JSE share code: AIL  
ISIN code: MU0553S00000

AUDITED ANNUAL  
FINANCIAL STATEMENTS  
for the year ended 30 June **2018**



The reports and statements set out below form the Audited Annual Financial Statements of African Rainbow Capital Investments Limited (ARC Investments or the Company) for the year ended 30 June 2018 presented to the shareholders. They were prepared under the supervision of Karen Bodenstern, Chief Financial Officer, B Compt (Accounting Science).

These Audited Annual Financial Statements have been audited in compliance with the applicable requirements of the Mauritius Companies Act 2001.

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<sup>1</sup> This information does not form part of the information audited by the Independent Auditor.

# STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The Directors are responsible for the preparation, integrity and fair presentation of the Audited Annual Financial Statements of the Company including the Report of the Board of Directors and the Report of the Audit and Risk Committee on pages 3 to 59, and the annexures and information for shareholders on pages 60 to 81. The Audited Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the Mauritius Companies Act 2001, and the Johannesburg Stock Exchange Limited (JSE) Listings Requirements and include amounts based on judgements and estimates made by management.

The Directors consider that having applied IFRS in preparing the Audited Annual Financial Statements, they have used the most appropriate accounting policies, consistently applied and supported by reasonable prudent judgements and estimates, and that all IFRS standards that they consider to be applicable have been followed. The Audited Annual Financial Statements fairly present the results of operations for the year and the financial position of the Company at year-end in accordance with IFRS.

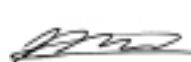
ARC Investments operates in a maturing control environment, which is documented and will be reviewed annually as the business grows. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute assurance that assets are safeguarded and the risks facing the business are being controlled. In this regard, it is assisted with the operations of the ARC Fund (its primary investment wherein it is a Limited Partner through the *en-commandite* partnership agreement with Ubuntu-Botho Investments General Partner Proprietary Limited (UBI GP/the General Partner), through the governance processes established by the General Partner, including its Board, Investment Committee and Audit and Risk Committee.

Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The going concern basis has been adopted in preparing the Audited Annual Financial Statements. The Directors have no reason to believe that the Company would not be considered a going concern in the foreseeable future, based on forecasts and available cash resources. These Audited Annual Financial Statements support the viability of the Company.

The Audited Annual Financial Statements have been audited by the Company's independent auditors, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board and committees of the Board, including those of the General Partner. The independent auditors were invited to, attended and participated in all the Audit and Risk Committee meetings of the Company and the General Partner during the year under review. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The Report by the Board of Directors and the Audited Annual Financial Statements were approved by the Company's Board of Directors on 12 October 2018 and are signed on its behalf by:



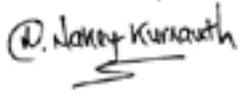
**Mark Cyril Olivier**  
**Chairman of the Board**



**Clive Msipha**  
**Chairman of the Audit  
and Risk Committee**

# CERTIFICATE BY THE COMPANY SECRETARY

In accordance with section 166(d) of the Mauritius Companies Act, the Company Secretary certifies, to the best of its knowledge and belief, that the Company has lodged with the Registrar of Companies all such returns as are required of the Company under the Mauritius Companies Act for the year ended 30 June 2018.



**Toorisha Nakey-Kurnauth**  
For and on behalf of  
**Intercontinental Trust Limited**  
*Company Secretary*

12 October 2018

# REPORT BY THE BOARD OF DIRECTORS

The Directors are pleased to present their report on the Audited Annual Financial Statements and performance of the Company for the year ended 30 June 2018.


## NATURE OF BUSINESS

African Rainbow Capital Investments Limited (ARC Investments/ Company/ARCI) listed on the Johannesburg Stock Exchange Limited (JSE) on 7 September 2017 and reports its maiden Audited Annual Financial Statements for the year ended 30 June 2018. It is 51.7% owned by African Rainbow Capital Proprietary Limited (ARC) which in turn is 100% owned by Ubuntu-Botho Investments Proprietary Limited (UBI).

The Company was incorporated in the Republic of Mauritius on 30 June 2017 as a private Company limited by shares and converted to a public Company on 2 August 2017. The Company holds a Category One Global Business License under the Mauritian Financial Services Act, 2007 and is regulated by the Mauritian Financial Services Commission.

The registered office and principal place of business of the Company is located at Level 3, Alexander House, 35 Cybercity, Ebène 72201, Mauritius. The principal activities of the Company are that of an investment holding company whereby it offers shareholders long-term capital appreciation by indirectly investing in a diversified portfolio of listed and unlisted investments.

ARC made various investments since 2015 and sold these investments to ARC Investments as part of the listing process. ARC Investments participates in the underlying investments through its Limited Partnership interest of 99.95% in the ARC Fund Partnership (the ARC Fund), which is South African based.

Full details of the acquisitions and structure of the group were disclosed in the Pre-Listing Statement issued on 28 August 2017 and published on the Company's website [www.arci.mu](http://www.arci.mu). 

## STRATEGY

The main purpose for the establishment of ARC Investments and the listing was to:

- create a Broad-Based Black-controlled capital raising and investment vehicle of significant scale with a diversified indirectly held portfolio of investments;
- enable public market investors to invest in ARC Investments and obtain an indirect exposure to a diversified pool of listed and unlisted Broad-Based Black Economic Empowerment (B-BBEE) assets through a listed investment vehicle; and
- enable ARC Investments to access capital markets, if required, to fund future expansion.

The most significant benefit in this regard is access to high quality listed and unlisted companies which ARC facilitates. This allows ARC Investments' shareholders access to a diverse portfolio of investments, some of which would otherwise not be available to normal investors on the JSE. In addition, investments are acquired at an appropriate B-BBEE discount where the investment carries a B-BBEE lock-in for a contractually agreed period of time. These factors offer a very attractive proposition to investors.

The UBI group endorses B-BBEE as a suitable mechanism for the redistribution of wealth and resources to the poor and marginalised communities in South Africa. UBI group seeks to utilise its empowerment credentials, its financial strength, its strong, well experienced leadership team and its strong brand to achieve superior capital appreciation for investors in ARC Investments.

## INVESTMENT STRATEGY

ARC Investments does not conduct any material trading activity as its main objective is to hold the investment in the ARC Fund. By investing in a broad range of sectors and through a variety of listed and unlisted entities, the ARC Fund generally seeks to gain exposure to growth and early-maturity stage businesses in which management teams are appropriately incentivised. The ARC Fund generally seeks to acquire significant minority equity interests in established and start-up businesses that meet one or more of the following criteria:

- Experienced, qualified and capable management.
- A demonstrable track record.
- Strong cash flow generation.
- Solid growth prospects.
- Established market position.
- The opportunity to consolidate their respective markets and/or existing businesses within the ARC Fund portfolio.
- Commercial prospects which can be enhanced by having strong B-BBEE credentials.

Where the ARC Fund holds majority or significant minority interests in portfolio companies, the ARC Fund, where appropriate, seeks to provide broad strategic guidance to such companies. This is generally provided through participation on their Board of Directors. The ARC Fund has the flexibility to participate in opportunistic investments as and when they arise and seeks to focus on transactions in South Africa and other select countries in Africa but may also invest in Portfolio Companies with interests and/or operations elsewhere in the world. The ARC Fund does not have a target size and may be geared, as appropriate, to meet its investment strategy.

ARC Investments' medium- to long-term objective is to grow its Intrinsic Net Asset Value (INAV) by at least 16% per annum. Each investment opportunity is expected to exceed this minimum risk adjusted return hurdle on a standalone basis (i.e. without considering potential synergistical benefits that can be derived from being part of a diversified portfolio). The return threshold applicable to start-ups may be significantly higher than the 16% per annum hurdle, reflecting the higher risks attaching to such ventures relative to established businesses.

Acquisitions made post listing have been concluded in the ARC Fund and African Rainbow Capital Financial Services Holdings Proprietary Limited (ARC FinHoldCo) in which the ARC Fund holds a 49.9% interest.

ARC Investments has a single investment in the ARC Fund in its capacity as a Limited Partner. The underlying investments of the ARC Fund are managed in the ARC Fund by the fund manager, UBI General Partner Proprietary Limited (the General Partner).

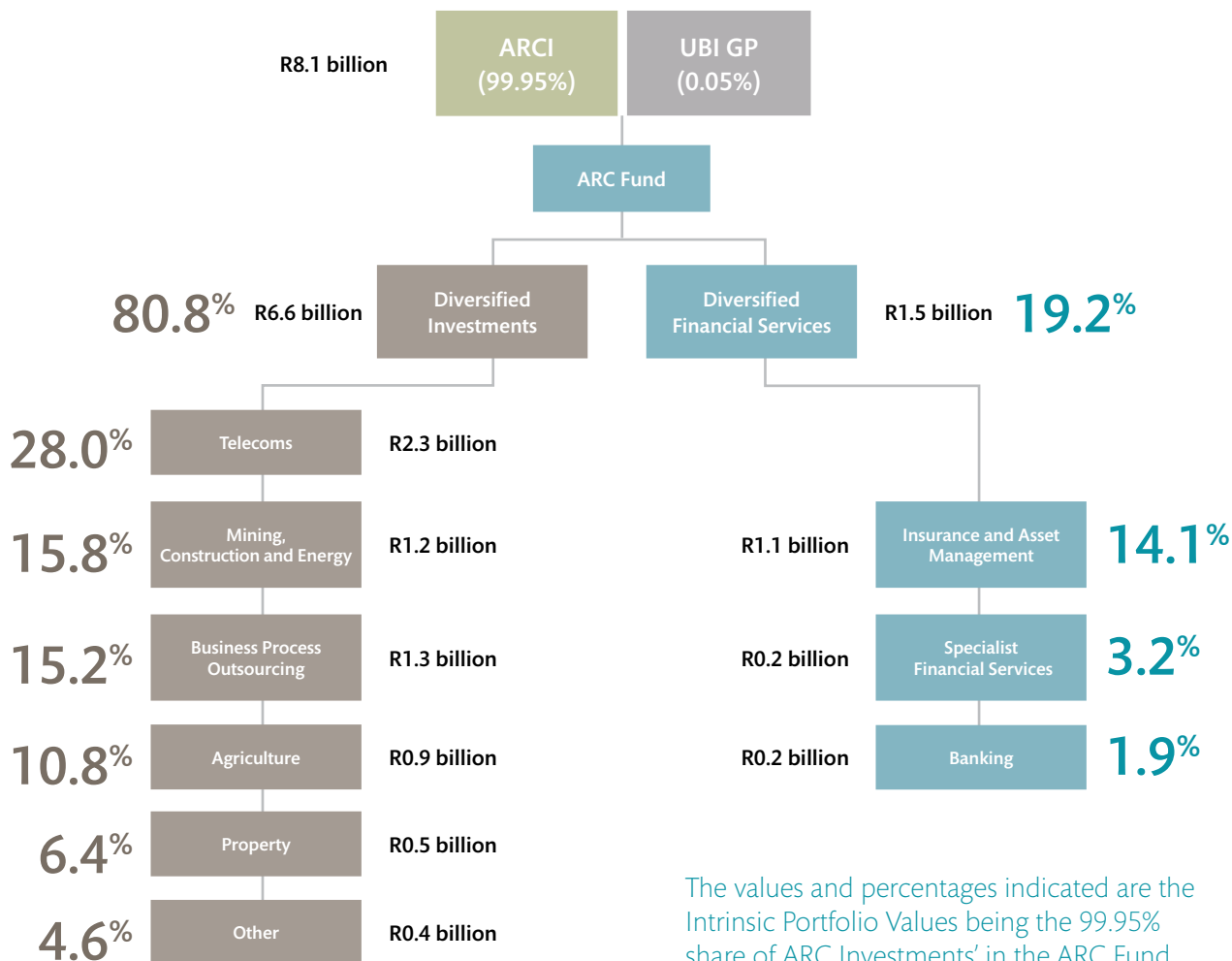
# REPORT BY THE BOARD OF DIRECTORS (continued)

## INVESTMENT PORTFOLIO

Per the Segment Information in note 4, on an Intrinsic Portfolio Value (IPV) basis the initial underlying Investment Portfolio in the Company through its investment in the ARC Fund comprised of:

- 100% of interests in the non-financial services Portfolio Companies (within the Diversified Investments segment); and
- 49.9% of interests in the financial services Portfolio Companies of ARC FinHoldCo (within the Diversified Financial Services segment).

The investments are categorised as follows:



The values and percentages indicated are the Intrinsic Portfolio Values being the 99.95% share of ARC Investments' in the ARC Fund as at 30 June 2018. Please refer to Annexure I – Detailed Intrinsic Portfolio Value by Reporting Segment for further details.

For investments in non-financial services businesses within the **Diversified Investments** portfolio, the approach is to invest in good standalone businesses and to back a strong and effective management team to deliver on the required return on investment for the business.

For investments in the **Diversified Financial Services** portfolio, the ARC Fund seeks to drive synergies among portfolio companies. This allows the ARC Fund to build a holistic financial services business.

## OPERATING ENVIRONMENT

The spectrum of businesses in the ARC Fund is diverse, which is strategically important for the overall performance of the ARC Fund. Since most of the businesses in the ARC Fund are exposed to the South African economy, the low economic growth in South Africa, which has been estimated at between less than 1.0% to about 1.5% across the various industries in the period under review, has negatively impacted the trading environments of many of our portfolio businesses with a consequential knock-on effect on our reported performance. It is expected that the performance of these investments will improve over the short- to medium-term.

## OVERVIEW OF RESULTS

### Intrinsic Net Asset Value (INAV)

For the period since listing INAV increased from R8 734 million to R9 527 million. The ordinary shares in issue remained constant throughout the period at 1 032 million. The INAV per ordinary share of R9.23 on 30 June 2018 represents a 9.1% growth in INAV per share for the period. On an annualised basis the growth in INAV per share is 11.2%.

The diluted INAV per share after fees for the period increased by 7.8% from R8.46 at listing to R9.12 at 30 June 2018 after performance participation. This represents an annualised growth of 9.6% in diluted INAV per share.

There were no reconciling items between earnings per share and headline earnings per share and both measures thus increased to 81 cents at 30 June 2018 from (11 165 769 cents) at 30 June 2017. NAV per share increased to 931 cents at 30 June 2018 from (11 165 769 cents) at 30 June 2017.

### Intrinsic Portfolio Value (IPV)

The IPV amounted to R4 473 million at listing on 7 September 2017. IPV increased to R8 147 million at 30 June 2018 as a result of acquisitions, fair value adjustments and income earned. During the period under review, the ARC Fund made net cash acquisitions of R2 735 million while Intrinsic Portfolio Value (IPV) increased by R708 million being net fair value adjustments and interest on loans to Portfolio Companies.

### Cash balances

ARC Investments raised R4 300 million during the listing process on 7 September 2017. The ARC Fund utilised R2 735 million of the contributed cash capital by the Company of R4 224 million during the period under review to fund its acquisitions. Cash balances increased by a net amount R246 million due to interest and dividends earned, less expenses and fees paid, resulting in a cash balance of R1 577 million at 30 June 2018.

### Fees

The ARC Fund incurred R94 million in fees charged by the General Partner since listing comprising of portfolio management fees (R88 million) and cash management fees (R6 million).

### Performance participation

The ARC Fund achieved an annualised IPV growth in excess of the 10% hurdle rate for the period under review which resulted in a Performance Participation expense of R115 million in the Company. The Performance Participation results in the conversion of 12.6 million C shares into ordinary shares as disclosed in more detail in note 10.

## PORTFOLIO REVIEW

Below is a summarised review of the portfolio performance. For detailed commentary on the portfolio, please refer to *Annexure I – Detailed Intrinsic Portfolio Value by Reporting Segment* on pages 60 to 67.

### Telecommunications (28.0% of IPV)

The ARC Fund investment in Rain (26.3% of IPV) increased from R656 million at listing to R2 144 million at 30 June 2018. The increase is mainly attributable to further investment of R1 122 million and revaluations of R366 million.

### Mining, Construction and Energy (15.8% of IPV)

The IPV of the investments in Mining, Construction and Energy increased from R1 121 million at listing to R1 285 million at 30 June 2018. The increase is mainly attributable to an investment in the Last Mile Fund of R132 million.

### Business Process Outsourcing (15.2% of IPV)

The IPV of the investments in Business Process Outsourcing increased from R867 million at listing to R1 245 million at 30 June 2018. The increase is mainly attributable to an investment in Bluespec of R509 million and a decrease in the fair value of the investment in EOH of R236 million.

### Agriculture (10.8% of IPV)

The IPV of the investments in Agriculture increased from R432 million at listing to R877 million at 30 June 2018. The increase is mainly attributable to:

- investments made in Subtropico and RSA totalling R184 million; and
- revaluation of the investment in BKB by R196 million to the agreed contract sale price to Acorn Agri and Food of R416 million.

### Property (6.4% of IPV)

The IPV of the investments in Property increased from R314 million at listing to R523 million at 30 June 2018. The increase is mainly attributable to the revaluation of ARC Real Estate of R90 million; Majik of R57 million and Val de Vie of R22 million.

### Other (4.6% of IPV)

The Other investments consist mainly of a 51% equity interest in Fledge Capital acquired for R315 million during the period under review.

# REPORT BY THE BOARD OF DIRECTORS (continued)

## Diversified Financial Services (19.2% of IPV)

The IPV of Diversified Financial Services increased from R967 million at listing to R1 567 million at 30 June 2018. The increase is mainly attributable to acquisitions of R533 million of which the majority consists of an investment in TymeDigital of R158 million and increases in the shareholding in Alexander Forbes (R266 million) and Afrocentric (R43 million).

## LEADERSHIP AND GOVERNANCE

### ARC Investments

The Company is managed and controlled in Mauritius by an experienced, multinational and majority independent Board of Directors (the Board) that has final oversight and responsibility in respect of ARC Investments' business, strategy and key policies. This includes the investment in the ARC Fund.

ARC Investments is a Limited Partner in the ARC Fund, an *en-commandite* partnership established in South Africa. It thus plays no role in the management or investment decisions of the ARC Fund. The Board consists of five Non-executive Directors, four of whom are independent. There are no Executive Directors on the Board of ARC Investments. As an investment holding Company, ARC Investments will not appoint a Chief Executive Officer. Ms Karen Bodenstein is the Chief Financial Officer of ARC Investments but not a Director. Ms Bridget Radebe is the Chief Financial Officer of Ubuntu-Botho Investments Proprietary Limited (UBI) and a member of the Investment Advisory Committee of the General Partner.

Name (age)	Nationality	Function	Amount (USD)
<b>Mark Cyril Olivier (49)<sup>1</sup></b>	British	Independent Non-executive Director (Chairperson)	20 000
<b>Deans Tommy Lo Seen Chong (58)<sup>2</sup></b>	Mauritian	Independent Non-executive Director	7 500
<b>Renosi Mokate (60)</b>	South African	Independent Non-executive Director	20 000
<b>Clive Msipha (36)</b>	Zimbabwean	Independent Non-executive Director (Chairperson of Audit and Risk Committee)	20 000
<b>Bridget Ntombenhle Radebe (38)</b>	South African	Non-executive Director	-

The amounts above are the Directors' fees paid to the Directors for the current financial year.

During the year under review, Siphon Nkosi resigned as a Director and was replaced by Renosi Mokate as an independent Non-executive Director on the Board of ARC Investments effective 23 November 2017.

All the investment decisions of the ARC Fund are taken by the General Partner through its Investment Committee or, subject to the terms of any delegations in place, its Investment Advisory Committee. The ARC Fund's relationship with the General Partner is governed through a partnership agreement. The Company's Investment Guidelines have been adopted by the General Partner's Investment Committee in its charter. This includes governance oversight to ensure that the Investment in the ARC Fund adheres to the Company's Investment Guidelines. This ensures conformance therewith in all investment decisions made in the ARC Fund by the General Partner. The General Partner has, in turn, entered into the Investment Services Agreement with ARC. In terms of this agreement, ARC assists the General Partner to source investment opportunities for the ARC Fund and provides certain administrative and back office support to the General Partner.



## UBI General Partner

The Board of Directors of the General Partner is responsible for the general investment decisions, reviews of the ARC Fund, management of the pipeline and liquidity of the ARC Fund. It will provide representation on the Boards of Directors of Portfolio Companies (where appropriate), prepare valuation reports to ARC Investments and provide general feedback to ARC Investments on relevant matters relating to the ARC Fund.

### The General Partner Board members are:

Name	Designation <sup>#</sup>
<b>Dr Patrice Motsepe (Chairman)</b> BA (Legal), LLB, DCom ( <i>Honoris Causa</i> )	<b>Non-executive Director</b>
<b>Alexander Maditsi</b> BProc, LLB, LLM, Dip Company Law	<b>Non-executive Director</b>
<b>Johan van der Merwe</b> MCom, MPhil (Cantab), CA(SA), AMP (Harvard), COL (Insead)	<b>Executive Director</b>
<b>Dr Johan van Zyl</b> Phd (Economics), DSc. (Agric)	<b>Non-executive Director</b>
<b>Michael Arnold</b> BCompt (Hons), BSc Mining Geology, CA(SA)	<b>Non-executive Director</b> <b>Appointed 7 June 2018</b>
<b>Abigail Mukhuba</b> BCompt (ACC), BCom (Hons), CA(SA), MCom (SA International Tax), MBA	<b>Non-executive Director</b> <b>Appointed 19 July 2018</b>
<b>Boipelo Lekubo</b> BCom CA(SA)	<b>Non-executive Director</b> <b>Appointed 20 July 2018</b>

<sup>1</sup> These Directors are Mauritian residents and thus the composition of the Board meets the Mauritian regulatory requirements.

<sup>#</sup> Other than where indicated, all Directors were appointed at the time of ARC Investments' listing on 7 September 2017.

# REPORT BY THE BOARD OF DIRECTORS (continued)

## LEADERSHIP AND GOVERNANCE (continued)

All investment decisions of the ARC Fund are made by the Investment Committee of the General Partner which is a subcommittee of the Board of Directors. Members of the investment committee are:

Name	Designation <sup>#</sup>
<b>Tom Boardman (Chairman)</b> BCom CA(SA)	<b>Non-executive Director</b>
<b>Dr Patrice Motsepe</b> BA (Legal), LLB, DCom ( <i>Honoris Causa</i> )	<b>Non-executive Director</b>
<b>Alexander Maditsi</b> BProc, LLB, LLM, Dip Company Law	<b>Non-executive Director</b>
<b>Michael Arnold</b> BCompt (Hons), BSc Mining Geology, CA(SA)	<b>Non-executive Director</b> <b>Appointed 7 June 2018</b>
<b>Abigail Mukhuba</b> BCompt (ACC), BCom (Hons), CA(SA), MCom (SA International Tax), MBA	<b>Non-executive Director</b> <b>Appointed 19 July 2018</b>
<b>Boipelo Lekubo</b> BCom CA(SA)	<b>Non-executive Director</b> <b>Appointed 20 July 2018</b>

<sup>#</sup> Other than where indicated, all Directors were appointed at the time of ARC Investments' listing on 7 September 2017.

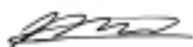
Karabo Nondumo resigned as a Board member of the General Partner effective 12 December 2017. The following directors were appointed to the Board of Directors of the General Partner, Michael Arnold on 7 June 2018, Abigail Mukhuba on 19 July 2018 and Boipelo Lekubo on 20 July 2018. They were simultaneously also appointed as members of the Investment Committee and Audit and Risk Committee of the General Partner at the aforementioned dates.

The General Partner's Investment Advisory Committee supports the Investment Committee by sourcing and recommending investments to the ARC Fund. Members of the Investment Advisory Committee are:

Name	Qualifications
Johan van der Merwe ( <b>Chairman</b> )	<b>MCom, MPhil (Cantab), CA(SA), AMP (Harvard), COL (Insead)</b>
Charmaine Padayachy	<b>BCom, BCom (Hons), CA(SA)</b>
Bridget Ntombenhle Radebe	<b>BCom, BCom (Hons), CA(SA)</b>

## APPROVAL

The Audited Annual Financial Statements for the year ended 30 June 2018 were approved by the Board of Directors of the Company on 12 October 2018 in Mauritius.



**Mark Cyril Olivier**  
**Chairman of the Board**



**Clive Msipha**  
**Chairman of the Audit and Risk Committee**

# REPORT OF THE AUDIT AND RISK COMMITTEE

## For the Audited Annual Financial Statements for the year ended 30 June 2018

The report by the Audit and Risk Committee (A&RC), which is chaired by Mr Clive Msipha, is presented below.

The main objective of the A&RC is to assist the Board in fulfilling its oversight responsibilities, in particular with regard to evaluation of the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes. In addition, the A&RC assesses the independence and effectiveness of the external auditors. This report aims to provide details on how the A&RC has satisfied its various statutory obligations during the period, as well as discuss some of those significant matters that arose during the year under review and how these have been responded to by the Company's A&RC in order to ensure the integrity of the Company's financial reporting. In doing so, as indicated in the report by the Board of Directors, the A&RC of the Company leverages the strong and robust governance processes followed by the General Partner in the ARC Fund, whose members are instrumental in the sound functioning of the *encommandite* Partnership in which the Company has a 99.95% Partnership Participation.

## Composition and Governance

Members of the committee satisfy the requirements to serve as members due to their Non-executive and independent designation in the governance structures of the Company, which are in compliance with the principles of King IV of Corporate Governance. In addition, the members have adequate knowledge and experience to carry out their duties. The committee meets three times a year (five times a year for the General Partner) and its responsibilities over the three meetings (five for the General partner) are itemised in the sections which follow. In the current year, due to the Company's listing on the JSE Limited, there were four meetings convened by the committee.

The composition of the committee and the attendance at the meetings by its members for the 2018 financial year are set out below:

Name	Attendance*
Clive Msipha ( <b>Chairman</b> )	3/4 <sup>1</sup>
Deans Tommy Lo Seen Chong	4/4 <sup>1</sup>
Renosi Mokate	2/4 <sup>2</sup>

<sup>1</sup> Clive Msipha was appointed to the Board of Directors of the Company on 11 August 2017, post the inaugural meeting of the committee which took place on 10 August 2017, chaired by Tommy Lo Seen Chong. At that date he took over from Tommy Lo Seen Chong as the Chairperson of the A&RC.

<sup>2</sup> Dr Renosi Mokate was appointed to the Board of Directors of the Company and became a member of the A&RC effective 23 November 2017.

\* Meeting dates: 10 August 2017; 12 March 2018; 12 September 2018 and 28 September 2018.

The composition and attendance of meetings of the General Partner is as follows:

Name	Attendance*
Tom Boardman ( <b>Chairman</b> )	5/5
Alexander Komape Maditsi	4/5
Michael Arnold	3/5 <sup>1</sup>
Abigail Mukhuba	1/5 <sup>2</sup>
Boipelo Lekubo	2/5 <sup>3</sup>

<sup>1</sup> Michael Arnold was appointed to the Board of Directors of the Company on 7 June 2018 and has attended all meetings since his appointment.

<sup>2</sup> Abigail Mukhuba was appointed to the Board of Directors and the Audit and Risk Committee of the General Partner on 19 July 2018.

<sup>3</sup> Boipelo Lekubo was appointed to the Board of Directors and the Audit and Risk Committee of the General Partner on 20 July 2018, and has attended all meetings since her appointment.

\* Meeting dates: 17 November 2017; 8 March 2018; 7 June 2018; 12 September 2018 and 27 September 2018.

# REPORT OF THE AUDIT AND RISK COMMITTEE

## (continued)

### Composition and Governance (continued)

The executive management and representatives of the external auditors are invited to attend all A&RC meetings of both the Company and General Partner to provide the committee with greater insight into specific issues or areas of the Company and the ARC Fund. The Chairpersons of the A&RC of the Company and the General Partner have regular contact with the management team to discuss relevant matters directly over and above the closed sessions at the interim and year-end reporting periods. The Company and General Partner's external auditors have direct access to the committee, over and above closed sessions without management at every meeting, on any matter that they regard as relevant to the fulfilment of the committee's responsibilities.

### Responsibilities of the A&RC

The A&RC of the Company and the General Partner were newly constituted in the year under review, and accordingly have had their duties and responsibilities delegated to them by the Board of Directors. New charters were adopted by the committees which are in compliance with the King IV Code of Corporate Governance and encompass the regulatory requirements stemming from the JSE and the Mauritian Companies Act 2001 (the South African Companies Act, 2008 for the General Partner). These documents are included as annexures in the Company's integrated report and are also available on its website [www.arci.mu](http://www.arci.mu).

In addition to the duties set out in the A&RCs' charters the A&RCs carried out their functions, *inter alia*, as follows:

### Governance and Internal Control Environment

- Adopted and implemented the new charter of the A&RC and reviewed the governance matters as delegated by the Board of Directors to ensure these were adequately covered in the annual work plan of the committee during the year;
- Adopted and implemented a non-audit services policy to ensure appropriate safeguards are in place where the external auditor performs non-audit services to the Company and its related entities;
- Received assurance that proper and adequate accounting records were maintained and the systems safeguard the assets against unauthorised use or disposal;
- Reviewed an assessment prepared by management of the going concern status of the Company (and the ARC Fund) and made recommendations to the Board. The committee concurs that the adoption of the going concern premise in the preparation of the Audited Annual Financial Statements is appropriate;
- Reviewed the funding, financial and general covenants applicable to the Company (and the ARC Fund) as well as the current capital structures, which were found to have been complied with and appropriate;
- Evaluated and reported to the Board on the effectiveness of risk management controls and governance processes;
- Evaluated the experience and expertise of the Chief Financial Officer and the strength of the skillset of the Finance Team;
- Evaluated the competence, qualification and experience of the Company Secretary;
- Considered the representation letter from the A&RC of the General Partner on the execution of its duties as the General Partner under the Partnership Agreement and including those arising from the A&RC Charter of the General Partner as well as other reporting matters requested by the A&RC of the Company.

### External Auditors

- Determined the terms of engagement and fees to be paid to PricewaterhouseCoopers (for the Company) and PricewaterhouseCoopers Inc. (for the General Partner); ensured that the appointment of PricewaterhouseCoopers complied with the legislation relating to the appointment of auditors;
- Considered the tenure of PricewaterhouseCoopers and the engagement partner and deemed it appropriate;
- Understood and assessed the procedures performed by PricewaterhouseCoopers as detailed in their Audit Planning report to the A&RC and further confirmed in their Final Report to the A&RC;
- Assessed and monitored allegations of corruption against the external auditor and received a positive declaration from the firm;
- Reviewed the external auditors' report on the year end audit and the key audit matters;
- Monitored the effectiveness of the external auditors in terms of their audit quality, expertise and independence, as well as the content and execution of the audit plan;
- Reviewed the findings and recommendations of the external auditors and confirmed that there were no unresolved matters;
- Confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, 26 of 2005 of South Africa;

## Responsibilities of the A&RC (continued)

### External Auditors (continued)

- All decision letters and explanations issued by the Independent Regulatory Board for Auditors or any other regulator, and any summaries relating to monitoring procedures or deficiencies (if applicable) issued by the audit firm to confirm the suitability for appointment of the audit firm and the designated individual partner, Ms Chantel van den Heever; and
- Nominated the re-appointment of PricewaterhouseCoopers (for the Company) and PricewaterhouseCoopers Inc (for the General Partner) as the registered independent auditor after satisfying itself through enquiry that PricewaterhouseCoopers Inc. and Ms Chantel van den Heever (the engagement partner) are independent as defined in terms of the Mauritius Companies Act 2001, the Companies Act of South Africa, 2008, and Independent Regulatory Board for Auditors (IRBA) in South Africa.

### Financial Reporting

- Reviewed the half-year and year-end detailed valuations and Investment Reporting from the General Partner to satisfy itself of the valuation of the Investment Portfolio in the reported results;
- Reviewed and recommended the summarised interim; short form advert for interim; abridged annual; short form advert and the Audited Annual Financial Statements to the Board for approval;
- Considered the appropriateness of the accounting policies adopted and changes thereto;
- Considered accounting treatments, significant unusual transactions and key accounting judgements; and
- Reviewed and recommended the Integrated Annual Report to the Board for approval.

Based on the above, the committee formed the opinion that there were no material breakdowns in internal control, including financial control, business risk management and maintenance of effective material control processes. The A&RC is satisfied with the experience and expertise of the Chief Financial Officer; and the competence, qualification and experience of the Company Secretary.

The A&RC reviewed and approved all non-audit services performed by the external auditor, as well as the value and scope of the non-audit services during the year, ensuring that only those non-audit services that do not affect their independence and entail skills and experience that make them the most appropriate suppliers were approved during the year.

IRBA has issued a rule prescribing that auditors of public interest entities in South Africa must comply with mandatory audit firm rotation with effect from 1 April 2023. IRBA has reported that the application of such a rule is to strengthen the independence of auditors from their clients. This is the second financial year end that PricewaterhouseCoopers have been the auditors of the Company, and thus the A&RC concluded that this new promulgation (once implemented) would not impact the Company for approximately another eight years.

# REPORT OF THE AUDIT AND RISK COMMITTEE

(continued)

## Material Matters

The A&RC has considered the appropriateness of the key audit matters reported in the external audit opinion and considered the significant audit matters relating to the Audited Annual Financial Statements and how these were addressed by the committee: The composition of the committee and the attendance at the meetings by its members for the 2018 financial year are set out below:

Material Matter	Manner addressed by the Audit and Risk Committee
Valuation of unlisted investments	<p>The investment guidelines were adopted upon listing of the Company on 7 September 2017. These were also adopted by the Investment Committee of the General Partner and give guidelines on the valuation reporting processes.</p> <p>The A&amp;RC also reviewed the newly adopted accounting policies of the Company, with a particular focus on the fair value requirements arising from <i>IFRS 13, Fair Value Measurement</i>.</p> <p>Over the course of the financial year, management reported to the A&amp;RC on the valuation models which formed the basis of the quarterly reporting and supported the valuation of the Intrinsic Portfolio Values arrived at with a detailed valuation report on each Portfolio Investment entity Company.</p> <p>The processes, key areas of judgement and outcomes were found to be appropriate.</p>

The A&RC has further considered the remaining significant judgements and sources of estimation uncertainty as articulated in the accounting policy note and is satisfied that appropriate judgements have been made and adequate processes followed. The A&RC recommended the Audited Annual Financial Statements for the year ended 30 June 2018 for approval to the Board. The Board has approved the Audited Annual Financial Statements which will be open for discussion at the forthcoming Annual General Meeting of shareholders.



**Clive Msipha**  
**Chairman of the Audit and Risk Committee**

12 October 2018

# REPORT OF THE INDEPENDENT AUDITOR

To the Shareholders of African Rainbow Capital Investments Limited

## OUR OPINION

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of African Rainbow Capital Investments Limited (the Company) as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### What we have audited

African Rainbow Capital Investments Limited's Annual Financial Statements set out on pages 16 to 59 comprise:

- the Statement of Financial Position as at 30 June 2018;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section of our report*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# REPORT OF THE INDEPENDENT AUDITOR (continued)

To the Shareholders of African Rainbow Capital Investments Limited

## Key Audit Matter

## How our audit addressed the Key Audit Matter

### The fair value of the unlisted investments held by the ARC Fund

The Company holds 99.95% as a single investment in ARC Fund, an *en-commandite* partnership established in South Africa, in its capacity as a Limited Partner. The ARC Fund is invested in several listed and unlisted investments. The fair value of the Company's effective interest in the unlisted investments that are held by ARC Fund at 30 June 2018 is R6 739.4 million as disclosed in note 4.3 of the Financial Statements (Page 26). The fair value of the unlisted investments is determined by applying the valuation methodology which includes the income approach and discounted cash flow approach, and comparing the result against the valuation determined using a market approach. Refer to Note 3.1.1 of the Annual Financial Statements for further detail.

The most significant assumptions used in discounted cash flow models and the income approach are the estimations of expected future post-taxation cash flows (including growth rates), terminal values, and risk adjusted discount rates. The most significant assumption applied in the market approach is the determination of comparable companies, taking into account differences in size, risk profile and earnings prospects.

Due to the magnitude of the investment, the estimation uncertainties in the assumptions, and the degree of judgement required, the assessment of the fair value is considered a matter of most significance to our audit. The investment and the valuation models applied in valuing the ARC Fund investment are presented in note 5.4.

The reasonability of the fair values assigned to the unlisted investments within the ARC Fund was assessed on a sample basis using our valuation expertise. The methodologies applied by management were assessed for appropriateness based on the nature of the investments.

In order to determine the reasonableness of the discount rates, the rates used in the cash flow models (on a sample basis) were compared to a range of discount rates independently calculated by us based on the markets in which the businesses operate, taking into account the nature of the individual businesses. The assumptions used in the models were tested by comparing these assumptions to our independently derived expectations, which are based on historical experience of the businesses, as well as expectations for the markets in which the individual businesses operate. In order to assess the reasonability of the forecasted cash flows used in the models, previous budgets were compared to the actual experience of the businesses, where applicable. Terminal growth rates have been assessed for reasonableness based on market expected long-term growth rates.

Market multiples have been compared to those of similar entities, which have been adjusted for entity specific factors which includes size, diversification and country risk adjustments, amongst others.

Using independently determined discount rates and assumptions, a range of fair values was calculated and compared to the fair value calculated by management for the purpose of determining whether a material difference exists between the value determined by management, and that independently determined by ourselves.

## OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the *African Rainbow Capital Investments Limited Audited Financial Statements for the year ended 30 June 2018*. Other information does not include the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



# AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**PricewaterhouseCoopers Inc.**

Director: C van den Heever

**Registered Auditor**

Cape Town

12 October 2018

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

R million	Notes	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in the ARC Fund at FVTPL*	5	9 581.7	-
<b>Current assets</b>			
Trade and other receivables		0.9	-
Cash and cash equivalents	6	28.5	-
<b>Total assets</b>		<b>9 611.1</b>	<b>-</b>
<b>EQUITY</b>			
Stated capital	8.1	8 831.8	-
Accumulated loss		(131.4)	(11.2)
Performance Participation reserve	10	115.1	-
Fair value reserve	7.3	794.7	-
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		0.9	11.2
<b>Total equity and liabilities</b>		<b>9 611.1</b>	<b>-</b>

\* FVTPL: Fair value through profit or loss.

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

R million	Notes	Audited total for the year ended 30 June 2018	Audited at incorporation 30 June 2017
Fair value movements on the investment in the ARC Fund at FVTPL*	7.1	794.7	-
Other income		2.1	-
Other expenses		(7.2)	(11.2)
Performance Participation expense	10	(115.1)	-
<b>Profit/(Loss) before taxation</b>		<b>674.5</b>	(11.2)
Taxation	11	-	-
<b>Profit/(Loss) for the period</b>		<b>674.5</b>	(11.2)
Other comprehensive income/(loss)		-	-
<b>Total comprehensive income/(loss)</b>		<b>674.5</b>	(11.2)
<i>Earnings per share:</i>			
Basic earnings per share (cents)	8.2	81	(11 165 769)
Diluted earnings per share (cents)	8.2	79	(11 165 769)

\* FVTPL: Fair value through profit or loss.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

R million	Notes	Stated Capital	Accumulated Loss	Performance Participation Reserve	Fair value Reserve	Total Equity
Balance at the beginning of the period		-	-	-	-	-
Issue of shares <sup>1</sup>	8.1	-	-	-	-	-
Total comprehensive loss for the period		-	(11.2)			(11.2)
<b>Audited balance at incorporation 30 June 2017</b>		-	(11.2)	-	-	(11.2)
<i>Issue of shares:</i>						
- Acquisition of portfolio assets settled with equity	8.1	4 563.3	-	-	-	4 563.3
- Issue of shares	8.1	4 300.0	-	-	-	4 300.0
- Share issue costs	8.1	(31.5)	-	-	-	(31.5)
Total comprehensive income for the period		-	674.5	-	-	674.5
Transfer to fair value reserve		-	(794.7)	-	794.7	-
Performance Participation	10	-	-	115.1	-	115.1
<b>Balance at 30 June 2018</b>		<b>8 831.8</b>	<b>(131.4)</b>	<b>115.1</b>	<b>794.7</b>	<b>9 610.2</b>

<sup>1</sup> The amount is below R1 million and is rounded to Rnil.

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

R million	Notes	Audited for the year ended 30 June 2018	Audited at incorporation 30 June 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash utilised in operations before investment activities	12	(16.0)	-
Cash invested in ARC Fund Partnership	5	(4 224.0)	-
<i>Net cash outflows from operating activities</i>		<b>(4 240.0)</b>	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of shares	8.1	4 300.0	-
Share issue costs	8.1	(31.5)	-
<i>Net cash inflows from financing activities</i>		<b>4 268.5</b>	-
Net increase in cash and cash equivalents		<b>28.5</b>	-
Cash and cash equivalents at the beginning of the period	6	-	-
<b>Total cash and cash equivalents</b>	<b>6</b>	<b>28.5</b>	<b>-</b>

# ACCOUNTING POLICIES

For the Audited Annual Financial Statements for the year ended 30 June 2018.

## 1. Definitions

The following definitions are key to the understanding of the Company's Audited Annual Financial Statements:

### 1.1 IFRS Portfolio Value

Investments in the ARC Fund are reported in compliance with International Financial Reporting Standards (IFRS).

### 1.2 Intrinsic Portfolio Value

The Intrinsic Portfolio Value is determined by the Directors at every reporting period. The Intrinsic Portfolio Value is the IFRS Portfolio Value adjusted for non-IFRS measures as set out in note 5.3. The significant non-IFRS measurement differences comprise:

- Valuing underlying listed investments on a 30-day volume weighted average price (VWAP) basis (compared to closing spot price), net after taxation; and
- Valuing underlying listed investments after recognising B-BBEE discounts on a 30-day VWAP basis (compared to closing spot price), net after taxation.

### 1.3 Intrinsic Net Asset Value (INAV)

Intrinsic Portfolio Value of ARC Investments plus cash and other net assets.

### 1.4 NAV

The net asset value of ARC Investments as reported in note 5.3.

## 2. Basis of preparation

### 2.1 Statement of compliance

The Audited Annual Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board; the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee; the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; the Listings Requirements of the JSE Limited; and the requirements of the Mauritius Companies Act 2001, insofar as applicable to Category One Global Business Licensed Company under the Mauritian Financial Services Act, 2007 which is regulated by the Mauritian Financial Services Commission.

### 2.2 Functional currency and presentation currency

The Company's Audited Annual Financial Statements are presented in South African Rand (Rand), which is the Company's functional and presentation currency. All financial information presented in Rand has been rounded to the nearest million (R million) to one decimal place except for when otherwise indicated.

All other accounting policies are consistent with IFRS, *inter alia*, financial instruments; deferred taxation; taxation; Performance Participation and cash and cash equivalents where IFRS offers no accounting policy choice.

### 2.3 Basis of measurement

The financial statements have been prepared on the historical cost-basis, except for the measurement of financial instruments at fair value.

The going concern basis has been used in preparing the Audited Annual Financial Statements as the Directors have a reasonable expectation that the Company will continue as a going concern for the foreseeable future.

## 3. Key areas of judgement

### 3.1 Fair value measurement of the investment in the ARC Fund

The basis of valuation of the Investment in the ARC Fund is dependent on the basis of valuation of all investments in the ARC Fund Portfolio. The basis of valuation of all investments in the ARC Fund Portfolio and consequently the Investment at fair value through profit or loss (FVTPL), is fair value. Fair value is determined at the end of each quarter. All investments are valued in accordance with the valuation policy outlined below.

The sum of the individual instruments plus the cash and net assets in the ARC Fund make up the investment in the ARC Fund. The valuation of the individual assets is in line with IFRS 13, therefore the sum of these represents the IFRS 13 fair value of the investment in the ARC Fund.

The General Partner values the investment portfolio in accordance with its valuation policy. The valuation policy considers the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines) and is consistent with the below detailed valuation approach, which will be consistent year on year except where there have been changes in circumstances in relation to an investment, and therefore the impact of such change would be disclosed.

#### 3.1.1 Basis of valuation and approach

The fair value approach of the investments in the ARC Fund was determined as at the measurement date in accordance with the principles of *IFRS 13, Fair Value Measurement*. Fair value is defined as the price that would be received for an asset 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.

For **listed** investments which are suitably liquid investments, the available market prices (calculated at spot on reporting date) will be the basis for the measurement of the IFRS Portfolio Value for identical instruments.

For **unlisted** investments, the primary valuation methodologies applied are the income approach (IA) and discounted cash flow (DCF), compared against a market approach (MA), where appropriate.

The General Partner uses its judgement to select the valuation technique most appropriate for an investment. The use of multiple valuation approaches on an investment is encouraged. On a specific investment, a single valuation technique or approach may be appropriate (e.g. when valuing an asset using quoted prices in an active market for identical assets). If multiple valuation techniques or approaches are used to measure fair value, the results of the various valuation methods are evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

In determining the fair value of an investment, the General Partner uses its judgement. This includes consideration of those specific terms of the investment which may impact its fair value. In this regard, the General Partner would consider the economic substance of the investment, which may take precedence over the strict legal form. The General Partner would take the results of each of the valuation methods applied into account in concluding the final value of an investment.

**Foreign** investments are those considered to be in jurisdictions outside of South Africa. These are valued in the local currency of the country of investment and translated to Rand at the spot rate at the valuation date.

**Lack of control/minority interest:** To the extent that an investment is a minority interest and is not able to be easily realised, an appropriate minority discount would be considered. However, to the extent that the ARC Fund has certain rights in respect of an investment (such as minority protections or Board representations) these rights would be considered in the IFRS Portfolio Value of the investment in arriving at a **control premium** adjustment.

**Restriction on trading:** To the extent that the ARC Fund is restricted from disposing of the investment for a period of time, this restriction would be considered in the IFRS Portfolio Value of the investment in arriving at a marketability discount adjustment.

# ACCOUNTING POLICIES (continued)

For the Audited Annual Financial Statements for the year ended 30 June 2018.

## 3. Key areas of judgement (continued)

### 3.1.2 Income approach methodology

When applying the income approach, the General Partner will consider the appropriateness of any sensitivity and/or scenario analyses.

### 3.1.3 Discounted cash flow methodology

The discounted cash flow method is used to derive the enterprise value of the investment using reasonable assumptions on the estimations of expected future post-taxation cash flows and the terminal value (free cash flows to the firm), and discounting to the present value by applying the appropriate risk adjusted rate that captures the risk inherent to the projections weighted average cost of capital (WACC). To arrive at an appropriate equity value, an adjustment for net indebtedness will be made. Where appropriate, an adjustment to the valuation would be made for surplus non-operating assets and liabilities in the investment.

In some valuations (for example, insurance and banking valuations), the use of free cash flow to equity might be preferred.

The length of period for which it would remain appropriate to use this valuation technique will depend on the specific circumstances of the investment and is subject to the judgement of the General Partner.

### 3.1.4 Market approach methodology

If a multiple approach is used, where appropriate, the General Partner would apply an Enterprise Value (EV)/earnings before interest, taxation, depreciation and amortisation (EBITDA) or price/earnings (P/E) multiple that is appropriate and reasonable, based on comparable companies and taking account of the size, risk profile and earnings prospects of the underlying company. In other cases, where appropriate, EV/EBITDA and price/book value may also be considered.

The General Partner as Fund Manager of the portfolio assets is contractually bound to perform fair valuation of the Portfolio Companies on a quarterly basis and provide quarterly accounts and valuation reports with respect thereto to the partners of the ARC Fund after approval by the Board of Directors of the General Partner on recommendation for such approval by the Audit and Risk Committee of the General Partner with the support, guidance and direction of the Investment Committee. Whilst the best judgement is used in determining the fair value of these investments, there are inherent limitations in any valuation technique involving securities of the type in which the ARC Fund invests. Therefore, the fair values presented herein may not be indicative of the amount which the ARC Fund could realise in a current transaction.

## 3.2 Control over the ARC Fund

The General Partner directs all the relevant activities of the ARC Fund. The Company does not have a currently exercisable right to remove the General Partner other than for a reasonable cause. Therefore, the Company does not control the ARC Fund. ARC Investments do not have the power to participate in the financial and operating policy decisions of the ARC Fund. Therefore ARC Investments does not have significant influence over the ARC Fund.



# SEGMENTAL INFORMATION

For the Audited Annual Financial Statements for the year ended 30 June 2018

## 4. Segmental information

### Accounting policies and choices

The Company's operations consist of the investment in the ARC Fund. The Company has only one operating segment in terms of IFRS 8, *Operating Segments*. The chief operating decision-makers (CODMs), being the Board of Directors, evaluate the investment in the ARC Fund based on Intrinsic Portfolio Value and fair value movement in this Intrinsic Portfolio Value. This is disclosed in note 5 and 7 herein. Information of the ARC Fund is also reported to the CODMs for the purpose of assessing segment performance. This is specifically focused on the reporting to the Board of the Company by the General Partner in the ARC Fund through its Investment Committee under the adopted ARC Investments Limited Investment Guidelines.

### Company context in application of accounting policy choices

Diversified Investments – these are the non-financial services investments acquired by the ARC Fund for purposes of growth potential demonstrated and the ability to deliver returns above the cost of capital of 16%. These are a combination of growth assets and businesses about to reach steady state. The key factor around the Diversified investments strategy is that the ARC Fund partners with industry leaders in the sub-segments to ensure the right level of monitoring and oversight is achieved with people with the requisite knowledge and experience of the relevant industry. As a consequence of this, the Diversified Investments segment is further sub-segmented as follows:

- **Telecommunications** – The most significant asset in this cluster is Rain, and the Rain team is the partner on all telecommunications related investment decisions.
- **Business Process Outsourcing** – With the acquisition of Gemcap, the management team advises on the BPO cluster of investments for the ARC Fund.
- **Mining, Construction and Energy** – Afrimat team, an experienced and highly effective team in the industry are the consultants on industry matters.
- **Agriculture** – With the consolidation of Overberg Agri and Acorn Agri, this team will be looked to for Agri Industry insights leveraging Dr Johan van Zyl's experience.
- **Property** – Through the ARC Real Estate joint venture ARC with the Buffet group, property related matters are dealt with through that joint venture. Some other opportunities which have arisen include the joint venture with Barloworld and Atterbury which saw the implementation of an additional extension to the cluster.
- **Other** – Smaller investment opportunities are referred to the Fledge Capital team.

Diversified Financial Services, this is the core industry experience of the executive management team within the ARC Fund. As such, the investment strategy is that of portfolio assets that demonstrate synergistic benefits to delivering on the greater UBI strategy of a Black-owned and-controlled financial services Company. To this end, the segment is organised into the following sub-segments:

- **Insurance and Asset Management** – a mix of small and large clients with diverse and deep client pools.
- **Specialist Financial Services** – These comprise of unique investment opportunities with a disruptive edge in the current environment.
- **Banking** – TymeDigital Bank

IFRS 8 has thus been applied in applying the look-through-basis into the ARC Fund in identifying the reportable segments, reporting the relevant segment information and the associated disclosure. There are no accounting policy choices afforded by IFRS 8 which have been elected by the Company that require further explanation.

A reconciliation between the IFRS Portfolio Values and the Intrinsic Portfolio Values is presented in notes 5.3 and 7.2.

# SEGMENTAL INFORMATION (continued)

For the Audited Annual Financial Statements for the year ended 30 June 2018

## 4.1 Valuation of investment portfolio<sup>1</sup>

R million	IFRS Portfolio Value				Intrinsic Portfolio Value			
	Audited at listing 7 September 2017	Audited net additions (including interest)	Audited IFRS Portfolio Value fair value adjustments <sup>2</sup>	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited net additions (including interest)	Audited Intrinsic Portfolio Value fair value adjustments <sup>2</sup>	Audited as at 30 June 2018
<b>Diversified Investments</b>								
Telecommunications	774.5	1 128.2	377.2	<b>2 279.9</b>	772.6	1 128.3	379.0	<b>2 279.9</b>
Business Process Outsourcing	783.9	559.0	(92.5)	<b>1 250.4</b>	866.6	559.0	(180.6)	<b>1 245.0</b>
Mining, Construction and Energy	1 203.9	177.6	(35.5)	<b>1 346.0</b>	1 121.4	177.6	(14.3)	<b>1 284.7</b>
Agriculture	432.9	184.2	259.9	<b>877.0</b>	431.8	184.2	261.0	<b>877.0</b>
Property	370.5	71.1	81.5	<b>523.1</b>	313.8	39.8	169.4	<b>523.0</b>
Other	-	344.9	28.6	<b>373.5</b>	-	344.6	26.7	<b>371.3</b>
	3 565.7	2 465.0	619.2	<b>6 649.9</b>	3 506.2	2 433.5	641.2	<b>6 580.9</b>
<b>Diversified Financial Services</b>								
Insurance and Asset Management	780.6	345.6	9.3	<b>1 135.5</b>	755.1	339.2	52.7	<b>1 147.0</b>
Specialist Financial Services	212.2	35.3	14.0	<b>261.5</b>	212.0	35.3	14.2	<b>261.5</b>
Banking	-	158.0	-	<b>158.0</b>	-	158.0	-	<b>158.0</b>
	992.8	538.9	23.3	<b>1 555.0</b>	967.1	532.5	66.9	<b>1 566.5</b>
<b>Total</b>	<b>4 558.5</b>	<b>3 003.9</b>	<b>642.5</b>	<b>8 204.9</b>	<b>4 473.3</b>	<b>2 966.0</b>	<b>708.1</b>	<b>8 147.4</b>

<sup>1</sup> A reconciliation of IFRS Portfolio value to Intrinsic Portfolio value is disclosed in notes 5 and 5.3.

<sup>2</sup> The values are stated net of related expected taxation cash flows for the Portfolio assets held in ARC FinHoldCo. Differences in the IFRS Portfolio Value and the Intrinsic Portfolio Value are explained below.

## 4.2 Return on Investment Portfolio Segment Information<sup>1</sup>

R million	Income from	IFRS Portfolio	IFRS Portfolio	Intrinsic	Intrinsic
	investments <sup>2</sup>	Value fair value	Value fair value	Portfolio Value	Portfolio Value
	Audited for the	Audited for the	Audited for the	Audited for the	Audited for the
	year ended	year ended	year ended	year ended	year ended
	30 June 2018	30 June 2018	30 June 2018	30 June 2018	30 June 2018
		adjustments <sup>3</sup>	adjustments	fair value	fair value
			plus income	adjustment <sup>3</sup>	adjustments
			from		plus income
			investments <sup>3</sup>		from
					investments <sup>3</sup>
<b><i>Diversified Investments</i></b>					
Telecommunications	-	377.2	377.2	379.0	379.0
Business Process Outsourcing	40.3	(92.5)	(52.2)	(180.6)	(140.3)
Mining, Construction and Energy	16.9	(35.5)	(18.6)	(14.3)	2.6
Agriculture	10.1	259.9	270.0	261.0	271.1
Property	22.6	81.5	104.1	169.4	192.0
Other	-	28.6	28.6	26.7	26.7
	<b>89.9</b>	<b>619.2</b>	<b>709.1</b>	<b>641.2</b>	<b>731.1</b>
<b><i>Diversified Financial Services</i></b>					
Insurance and Asset Management	20.2	9.3	29.5	52.7	72.9
Specialist Financial Services	5.0	14.0	19.0	14.2	19.2
Banking	-	-	-	-	-
	<b>25.2</b>	<b>23.3</b>	<b>48.5</b>	<b>66.9</b>	<b>92.1</b>
Interest income: cash and cash equivalents	131.3	-	131.3	-	131.3
Expenses directly attributable to the ARC Fund	(94.2)	-	(94.2)	-	(94.2)
<b>Total</b>	<b>152.2</b>	<b>642.5</b>	<b>794.7</b>	<b>708.1</b>	<b>860.3</b>

<sup>1</sup> A reconciliation of IFRS Portfolio value to Intrinsic Portfolio value is disclosed in note 7.2.

<sup>2</sup> Income from investments includes dividend income, interest on loans and Directors' fees pertaining to portfolio entities in the ARC Fund and ARC FinHoldCo; and the interest income and cash and cash equivalents in the ARC Fund and ARC FinHoldCo.

<sup>3</sup> The values are stated net of related expected taxation cash flows for the Portfolio assets held in ARC FinHoldCo. Differences in the IFRS Portfolio Value and the Intrinsic Portfolio Value are explained below.

# SEGMENTAL INFORMATION (continued)

For the Audited Annual Financial Statements for the year ended 30 June 2018

## 4.3 Other Valuation of investment portfolio Segment Information<sup>1</sup>

R million	IFRS Portfolio Value				Intrinsic Portfolio Value			
	Audited at listing 7 September 2017	Audited net additions (including capitalised interest)	Audited IFRS Portfolio Value fair value adjust- ments <sup>2</sup>	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited net additions (including capitalised interest)	Audited Intrinsic Portfolio Value fair value adjust- ments <sup>2</sup>	Audited as at 30 June 2018
<b>Profile</b>								
<b>Listed:</b>	1 357.2	352.4	(244.1)	<b>1 465.5</b>	1 333.8	351.7	(274.8)	<b>1 410.7</b>
– Diversified Investments	1 076.9	42.6	(198.4)	<b>921.1</b>	1 078.4	42.5	(265.5)	<b>855.4</b>
– Diversified Financial Services	280.3	309.8	(45.7)	<b>544.4</b>	255.4	309.2	(9.3)	<b>555.3</b>
<b>Unlisted:</b>	3 201.3	2 651.5	886.6	<b>6 739.4</b>	3 139.5	2 614.3	982.9	<b>6 736.7</b>
– Diversified Investments	2 488.8	2 422.4	817.6	<b>5 728.8</b>	2 427.8	2 391.0	906.7	<b>5 725.5</b>
– Diversified Financial Services	712.5	229.1	69.0	<b>1 010.6</b>	711.7	223.3	76.2	<b>1 011.2</b>
<b>Total</b>	<b>4 558.5</b>	<b>3 003.9</b>	<b>642.5</b>	<b>8 204.9</b>	<b>4 473.3</b>	<b>2 966.0</b>	<b>708.1</b>	<b>8 147.4</b>
<b>Geographic:</b>								
South Africa	4 247.1	2 974.8	604.2	<b>7 826.1</b>	4 162.3	2 956.5	650.2	<b>7 769.0</b>
International	311.4	29.1	38.3	<b>378.8</b>	311.0	9.5	57.9	<b>378.4</b>
<b>Total</b>	<b>4 558.5</b>	<b>3 003.9</b>	<b>642.5</b>	<b>8 204.9</b>	<b>4 473.3</b>	<b>2 966.0</b>	<b>708.1</b>	<b>8 147.4</b>

<sup>1</sup> A reconciliation of IFRS Portfolio value to Intrinsic Portfolio value is disclosed in notes 5 and 5.3.

<sup>2</sup> The values are stated net of related expected taxation cash flows for the Portfolio assets held in ARC FinHoldCo. Differences in the IFRS Portfolio Value and the Intrinsic Portfolio Value are explained below.

#### 4.4 Other Return on Investment Portfolio Segment Information<sup>1</sup>

R million	Income from	IFRS Portfolio	IFRS Portfolio	Intrinsic	Intrinsic
	investments <sup>2</sup>	Value fair value	Value fair value	Portfolio Value	Portfolio Value
	Audited for the	Audited for the	Audited for the	Audited for the	Audited for the
	year ended	year ended	year ended	year ended	year ended
	30 June 2018	30 June 2018	30 June 2018	30 June 2018	30 June 2018
<b>Profile</b>					
<b>Listed:</b>	35.1	(244.1)	(209.0)	(274.8)	(239.7)
– Diversified Investments	24.3	(198.4)	(174.1)	(265.5)	(241.2)
– Diversified Financial Services	10.8	(45.7)	(34.9)	(9.3)	1.5
<b>Unlisted:</b>	80.0	886.6	966.6	982.9	1 062.9
– Diversified Investments	65.6	817.6	883.2	906.7	972.3
– Diversified Financial Services	14.4	69.0	83.4	76.2	90.6
<i>Interest income: Cash and cash equivalents</i>	131.3	-	131.3	-	131.3
<i>Expenses directly attributable to the Fund</i>	(94.2)	-	(94.2)	-	(94.2)
<b>TOTAL</b>	152.2	642.5	794.7	708.1	860.3
<b>Geographic:</b>	115.1	642.5	757.6	708.1	823.2
South Africa	104.5	604.2	708.7	650.2	754.7
International	10.6	38.3	48.9	57.9	68.5
<i>Interest income: Cash and cash equivalents</i>	131.3	-	131.3	-	131.3
<i>Expenses directly attributable to the Fund</i>	(94.2)	-	(94.2)	-	(94.2)
<b>Total</b>	152.2	642.5	794.7	708.1	860.3

<sup>1</sup> A reconciliation of IFRS Portfolio value to Intrinsic Portfolio value is disclosed in note 7.2.

<sup>2</sup> Income from investments includes dividend income, interest on loans and Directors' fees pertaining to portfolio entities in the ARC Fund and ARC FinHoldCo; and the interest income and cash and cash equivalents in the ARC Fund and ARC FinHoldCo.

<sup>3</sup> The values are stated net of related expected taxation cash flows for the Portfolio assets held in ARC FinHoldCo. Differences in the IFRS Portfolio Value and the Intrinsic Portfolio Value are explained below.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the year ended 30 June 2018

## 5. Investment in the ARC Fund at FVTPL

### Accounting policies and choices

The investment in the ARC Fund is a financial instrument at fair value through profit or loss and has been recognised and measured in accordance with the principles in IAS 39, *Financial Instruments: Recognition and Measurement*, with associated disclosures presented in accordance with IFRS 7, *Financial Instruments Disclosure* and IFRS 13, *Fair Value Measurements*. There were no accounting policy choices afforded by the aforementioned standards which need to be explained further.

Key judgements relate to the fair value measurement as well as control over the ARC Fund. These are discussed in more detail under Accounting Policies in note 3 above.

The investment in the ARC Fund at FVTPL and the underlying portfolio (which is compiled on a look-through basis in the ARC Fund), need to be classified within the appropriate level of hierarchy on which their fair values are based. Fair value classification within these provisional reviewed condensed financial statements is as follows:

**Level 1 fair value hierarchy** – Investments trading in active markets and deriving their fair value from quoted market prices of identical assets are classified within level 1. These prices provide the most reliable fair value classification and the Company does not need to adjust the quoted prices to measure the fair value of investments. The quoted market price used for investments held by the Company is the current bid price.

**Level 2 fair value hierarchy** – pertain to Investments trading in markets not considered to be active and deriving their fair value from observable inputs other than quoted prices included within level 1 above. These inputs need to be directly or indirectly observable for the investment and can include: quoted market prices for similar assets in active or non-active markets; observable inputs other than quoted prices; and inputs derived or corroborated by observable market data.


**Level 3 fair value hierarchy** – this classification applies to investments where observable inputs are not available for the asset to determine its fair value. Unobservable inputs are used to measure fair value where relevant observable inputs are not available. The unlisted investments, shareholder loans and derivatives in the ARC Fund are typically classified as level 3.

### Company context in application of accounting policy choices

The Company obtains exposure and has indirect interests in a diversified pool of listed and unlisted investments (Portfolio Companies) by investing as a Limited Partner into an *en-commandite* partnership established in South Africa known as the ARC Fund. The Fund is managed by a Black-owned and controlled Fund Manager, UBI General Partner Proprietary Limited (UBI GP Co.) as the General Partner.

#### Investment objective

The Company's medium- to long-term objective is to grow its NAV by at least 16% per annum, risk-adjusted, gross of dividend distributions and any management fees paid to the General Partner of the ARC Fund and any performance participation. Each investment opportunity will be expected to exceed this minimum risk-adjusted return hurdle on a standalone basis (i.e. without considering potential synergy benefits that can be derived from being part of a diversified portfolio).

The Company has a detailed Investment Policy, which has been formulated in compliance with section 15 of the JSE Limited Listings Requirements as well as certain other ancillary matters, which sets out its investment strategy, investment objective, investment focus and investment parameters. The ARC Fund Investment Committee has adopted these Investment Guidelines in its charter to ensure conformance therewith in its investment decision-making in the ARC Fund. The details of the investment policy and guidelines of the Company are available on its website [www.arci.mu](http://www.arci.mu). 

Any material changes to the Investment Policy of the Company must be approved by Shareholders of the Company by way of ordinary resolution. Any future changes to the Investment Guidelines reciprocally adopted in the ARC Fund must be approved by the Company, as an amendment or variation to the Partnership Agreement.

## 5. Investment in the ARC Fund at FVTPL (continued)

### Company context in application of accounting policy choices (continued)

#### Categorisation of investments

The investment in the ARC Fund is a financial asset that is designated as fair value through profit or loss at initial recognition. The investment is managed and its performance evaluated on a fair value basis, in accordance with the Company's documented risk management and investment strategy, consequently information about the investment is provided internally on that basis. It is stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Investments made by the fund are broadly categorised as:

**Equity interests in Portfolio Companies** which are a group of financial assets that are designated as fair value through profit or loss upon initial recognition and is managed and its performance evaluated on a fair value basis, and the basis of accounting is the same as the investment in the ARC Fund described above. The investments are initially recognised at fair value. Day one gains, which typically arise in B-BBEE transactions which result in an investment at a discount to the fair value at acquisition date are recognised in profit or loss.

**Loans and other receivables** that have fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial. Loans and receivables at amortised cost within the ARC Fund approximates fair value per IFRS 13.

R million	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited at incorporation 30 June 2017
<b>The movement of the investment in the ARC Fund at FVTPL are as follows:</b>			
Opening balance	-	-	-
Contribution of Portfolio Assets	4 563.0	4 563.0	-
Cash capital contribution	4 224.0	4 224.0	-
Fair value movements on the investment in the ARC Fund at FVTPL	794.7	-	-
<b>Total</b>	<b>9 581.7</b>	8 787.0	-
<b>The segmental analysis of the investment is as follows:</b>			
Diversified Investments	6 649.9	3 565.7	-
Diversified Financial Services	1 555.0	992.8	-
<b>IFRS Portfolio Value</b>	<b>8 204.9</b>	4 558.5	-
Cash and cash equivalents in the ARC Fund	1 576.3	4 221.9	-
Other net assets/(liabilities) in the ARC Fund	(199.5)	6.6	-
<b>Total Investment in the ARC Fund at FVTPL</b>	<b>9 581.7</b>	8 787.0	-
<b>Valuation information:</b>			
IFRS 13 fair value hierarchy	Level 3	Level 3	n/a
Valuation methodology	Sum of the parts	Sum of the parts	n/a

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in the ARC Fund at FVTPL (continued)

### 5.1 Movement and valuation discounts on investment in the ARC Fund (Intrinsic Portfolio Value)

R million	Audited movement in the Intrinsic Portfolio Values period to 30 June 2018				Audited as at 30 June 2018
	Audited at listing 7 September 2017	Acquisitions	Fair Value Adjustment	Deferred Taxation	
Diversified investments	3 506.2	2 433.5	641.2	-	<b>6 580.9</b>
Diversified financial services	967.1	532.5	84.3	(17.4)	<b>1 566.5</b>
<b>Intrinsic Portfolio Value</b>	<b>4 473.3</b>	<b>2 966.0</b>	<b>725.5</b>	<b>(17.4)</b>	<b>8 147.4</b>

### 5.2 Significant Portfolio Assets in the ARC Fund Investment

The following Portfolio Assets in the ARC Fund are individually greater than 5% of the portfolio by Fund Value based on Intrinsic Portfolio Value:

R million	Valuation methodology	Percentage of portfolio (%)
<b>Portfolio Asset</b>		
Rain	Discounted cash flow	26.3
Alexander Forbes group Holdings Limited <sup>1</sup>	Listed share price	4.6
Alexander Forbes Limited <sup>1</sup>	Proxy valuation to listed share price	3.9
Afrimat	Listed share price	7.9
Bluespec	Acquisition cost	6.2
Elandsfontein group	Discounted cash flow and loan values	5.6
Gemcap	Sum of the parts	5.3
BKB	Sale contract price	5.1
<b>Balance of portfolio</b>		<b>35.1</b>
<b>Total portfolio</b>		<b>100.0</b>

<sup>1</sup> Exposure to Alexander Forbes is computed as the combined value of the Investment in Alexander Forbes group Holdings Limited and Alexander Forbes Limited and amounts to 8.5%.

The valuations, which have been performed in accordance with the Company's valuation policy as disclosed under Key Areas of Judgement in Accounting Policies note 3, have given rise to the above Intrinsic Portfolio Value. The key valuation inputs are disclosed in note 5.4 below.



Audited valuation Discounts Applied at 30 June 2018					Gross Portfolio Value as at 30 June 2018
Control Premium	Minority Discount	Marketability Discount	Deferred Taxation		
-	457.4	606.9	-		7 645.2
(92.5)	97.4	131.9	17.4		1 720.7
(92.5)	554.8	738.8	17.4		9 365.9

Audited as at 30 June 2018	IFRS		Audited as at 30 June 2018	Intrinsic	
	Audited at listing 7 September 2017	Audited at incorporation 30 June 2017		Audited at listing 7 September 2017	Audited at incorporation 30 June 2017
2 143.7	657.0	-	2 143.7	655.7	-
345.2	130.0	-	371.2	126.7	-
321.1	288.1	-	321.1	288.3	-
725.5	734.7	-	641.1	655.6	-
509.0	-	-	509.0	-	-
454.3	422.6	-	454.3	421.8	-
432.0	324.0	-	429.1	323.8	-
415.7	220.5	-	415.7	219.9	-
5 346.5	2 776.9	-	5 285.2	2 691.8	-
2 858.4	1 781.6	-	2 862.2	1 781.5	-
8 204.9	4 558.5	-	8 147.4	4 473.3	-

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in the ARC Fund at FVTPL (continued)

### 5.3 Intrinsic Net Asset Value (INAV<sup>1</sup>)

The Directors monitor the performance of the investment in the ARC Fund on the basis of the INAV. A reconciliation between IFRS Portfolio Value and Intrinsic Portfolio Value is presented below:

R million	Notes	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited at incorporation 30 June 2017	Change
<b>Reported IFRS Portfolio Value</b>		<b>8 204.9</b>	<b>4 558.5</b>	-	<b>3 646.4</b>
<i>Adjust for non-IFRS measures included in Intrinsic Portfolio Value<sup>2</sup>:</i>		<b>(57.5)</b>	(85.2)	-	27.7
30-day VWAP difference to SPOT on listed portfolio assets		<b>67.2</b>	88.5	-	(21.3)
Deferred taxation on 30-day VWAP difference to spot price		<b>(5.4)</b>	7.1	-	(12.5)
B-BBEE lock-in discount on listed assets		<b>(119.3)</b>	(115.7)	-	(3.6)
IFRS day one gain reported in equity		-	(56.1)	-	56.1
Other		-	(9.0)	-	9.0
<b>Segment reported Intrinsic Portfolio Value</b>		<b>8 147.4</b>	4 473.3	-	3 674.1
Liabilities in the ARC Fund <sup>3</sup>		<b>(261.6)</b>	-	-	(261.6)
Cash and other net assets in the ARC Fund		<b>1 613.5</b>	4 228.5	-	(2 615.0)
Cash and other net assets in the ARC Investments		<b>28.5</b>	32.4	-	(3.9)
<b>INAV</b>		<b>9 527.8</b>	8 734.2	-	793.6
<b>NAV</b>		<b>9 610.2</b>	8 763.3	-	846.0
Number of shares (million)	8.2.2	<b>1 032.0</b>	1 032.0	-	-
Diluted number of shares (million)	8.2.2	<b>1 045.0</b>	-	-	1045.0
<b>INAV per share (cents)</b>		<b>923</b>	846	-	77
<b>Diluted INAV per share (cents)</b>		<b>912</b>	846	-	66
<b>NAV per share (cents)</b>		<b>931</b>	849	-	82
<b>Diluted NAV per share (cents)</b>		<b>920</b>	849	-	71
<b>Gross Intrinsic Portfolio Value<sup>4</sup></b>		<b>9 365.9</b>	4 991.1	-	4 374.80
The following adjustments have been effected to the Gross Intrinsic Portfolio Value in arriving at the reported Intrinsic Portfolio Value.					
<i>Total discounts recognised</i>		<b>(1 218.5)</b>	(517.8)	-	(700.7)
Minority discounts <sup>5</sup>		<b>(554.8)</b>	(189.9)	-	(364.9)
Marketability discounts <sup>6</sup>		<b>(738.8)</b>	(401.4)	-	(337.4)
Control premium <sup>7</sup>		<b>92.5</b>	75.3	-	17.2
Deferred taxation on Diversified Financial Services Portfolio assets and other adjustments		<b>(17.4)</b>	(1.8)	-	(15.6)
<b>Segment reported Intrinsic Portfolio Value</b>		<b>8 147.4</b>	4 473.3	-	3 674.1

- <sup>1</sup> Intrinsic Portfolio Value is defined under the definitions in Accounting Policies.
- <sup>2</sup> The adjustments for Non-IFRS measures include:
- listed investments valued on a 30-day VWAP basis (compared to closing spot price), net of deferred taxation; and
  - listed investments valued after recognising B-BBEE discounts (compared to closing spot price), net of deferred taxation.
- <sup>3</sup> Liabilities in the ARC Fund include the R134 million loan facility drawn down in ARC FinHoldCo pertaining to the TymeDigital equity investment and R84 million for deferred consideration payable mainly to RSA (R45 million) and Subtropico (R24 million).
- <sup>4</sup> Gross Intrinsic Portfolio Value is defined as the Intrinsic Portfolio Value before taking into account the control premium, marketability discount, minority discount and consequential deferred taxation.
- <sup>5</sup> These are adjustments for lack of control which are applied in the case of a minority interest valuation. In applying the minority discounts, the specific nature and characteristics of the interest being valued in relation to the facts and circumstances surrounding the valuation were considered. This analysis focused on the specific contractual rights arising from subscription and shareholders' agreements granted to the controlling shareholder(s) in the business including, inter alia:
- election of Directors;
  - ability to select management;
  - control over dividend policy;
  - ability to set corporate strategies;
  - ability to acquire or liquidate assets;
  - ability to affect future earnings; and
  - ability to acquire or liquidate the assets.
- <sup>6</sup> Marketability discounts, which include B-BBEE lock-in discounts, pertain to the lack of marketability associated with an interest in a privately held company where there is no established market for the active trade of the portfolio entity shares and listed portfolio interests where B-BBEE lock-ins are contractually agreed, and reflect the inability of the ARC Fund to sell its interest.
- <sup>7</sup> Control premium for purposes of Intrinsic Portfolio Value valuation is the inverse of minority discount and is applied up to 40%.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in ARC Fund at FVTPL (continued)

### 5.4 Valuation inputs disclosures for the ARC Fund at FVTPL

The details of the valuation inputs and methodology applied for the Portfolio assets which are greater than 5% of the ARC Fund Value by Intrinsic Portfolio Value are as follows:

Details of valuation inputs  R million	Rain	
	Audited as at 30 June 2018	Audited at listing 7 September 2017
Gross Intrinsic Portfolio Value	2 799.9	655.7
<b>Adjustment for:</b>	<b>(656.2)</b>	-
Minority discounts	(350.0)	-
% minority discounts	(13%)	-
Marketability discounts	(306.2)	-
% marketability discounts	(13%)	-
Control premium	-	-
% control premium	-	-
Deferred taxation	-	-
<b>Segment reported Intrinsic Portfolio Value</b>	<b>2 143.7</b>	655.7
% of Intrinsic Portfolio	<b>26.3%</b>	14.7%
% of Business Segment	<b>94.0%</b>	84.9%
<b>Valuation information:</b>		
IFRS 13 fair value hierarchy		Level 3
Valuation methodology		Discounted cash flow
Other details		For Rain, there was an additional acquisition of R1 052.0 million in October 2017 and a further amount of R69.6 million during April 2018.

Alexander Forbes group Holdings Limited		Alexander Forbes Limited		Afrimat Limited	
Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017
365.0	126.7	405.0	376.6	754.3	771.5
6.2	-	(83.9)	(88.3)	(113.2)	(115.7)
-	-	(72.9)	(62.8)	-	-
-	-	(15%)	(15%)	-	-
-	-	(82.6)	(81.0)	(113.2)	(115.7)
-	-	(20%)	(25%)	(15%)	(15%)
-	-	81.0	75.3	-	-
-	-	20%	20%	-	-
6.2	-	(9.4)	(19.8)	-	-
371.2	126.7	321.1	288.3	641.1	655.8
4.6%	2.8%	3.9%	6.4%	7.9%	14.7%
32.4%	16.8%	28.0%	38.2%	49.9%	58.5%

Level 1  
30-day VWAP

Level 2  
Proxy to listed share price  
30-day VWAP

Level 1  
30-day VWAP

During the year, the Alexander Forbes group Holdings investment was increased by a further R265.8 million.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in ARC Fund at FVTPL (continued)

### 5.4 Valuation inputs disclosures for the ARC Fund at FVTPL (continued)

Details of valuation inputs R million	Rain	
	Audited as at 30 June 2018	Audited at listing 7 September 2017
<b>Key inputs:</b>		
Input 1 Input variable	WACC 18.7%	At the time of listing the agreement for the purchase of Rain had recently been concluded at a 20% equity interest for a consideration of R1 708.0 million. Due to it being a recent, the agreed price was indicative of the fair value of the investment and thus was not revalued upon listing.
Input 2 Input 2 variable	Terminal growth rate 3.0%	
<b>Sensitivity of key inputs:</b>		
Input 1 Input variable	WACC R204.0 million per 1% change	
Input 2 Input 2 variable	Terminal growth rate R103.0 million per 1% change	
<b>Portfolio entity disclosures:</b>		
B-BBEE lock-in		Transfer restrictions and pre-emptives apply to the ARC Fund's interest.
Listed/unlisted		Unlisted
<b>Summarised financial information:</b>		
ARC Fund effective interest		20.6%
Reported period		
Share of comprehensive income		The entity is in an early stage of its growth trajectory and thus the financial information will be disclosed after a year or two of trade for meaningful comparison.
Dividends received		-

Alexander Forbes group Holdings Limited		Alexander Forbes Limited		Afrimat Limited	
Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017
Not applicable due to portfolio asset being a level 1 fair value hierarchy.		Not applicable due to portfolio asset being a level 2 fair value hierarchy.		Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
Not applicable due to portfolio asset being a level 1 fair value hierarchy.		Not applicable due to portfolio asset being a level 2 fair value hierarchy.		Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
None		Three years from February 2017. Nine months remaining at 30 June 2019.		Four years from September 2016. Two years and three months remaining at 30 June 2018.	
Listed		Unlisted			
4.4%		5.0%		18.5%	
31 March 2018	31 March 2017	31 March 2018	31 March 2017	28 February 2018	28 February 2017
12.5	15.6	31.4	34.8	45.3	51.6
10.7	-	-	-	16.3	-

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in ARC Fund at FVTPL (continued)

### 5.4 Valuation inputs disclosures for the ARC Fund at FVTPL (continued)

Details of valuation inputs  R million	Bluespec	
	Audited as at 30 June 2018	Audited at listing 7 September 2017
Gross Intrinsic Portfolio Value	509.0	-
<b>Adjustment for:</b>	-	-
Minority discounts	-	-
% minority discounts	-	-
Marketability discounts	-	-
% marketability discounts	-	-
Control premium	-	-
% control premium	-	-
Deferred taxation	-	-
<b>Segment reported Intrinsic Portfolio Value</b>	<b>509.0</b>	-
% of Intrinsic Portfolio	6.2%	-
% of Business Segment	40.9%	-
<b>Valuation information:</b>		
IFRS 13 fair value hierarchy	Level 3	
Valuation methodology	Acquisition cost	
Other details	Bluespec was acquired in the current financial year in October 2017.	



Gemcap		Elandsfontein		BKB	
Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017
429.1	325.8	511.9	489.2	415.7	313.8
-	-	(57.6)	(67.4)	-	(93.9)
-	-	(18.6)	(21.8)	-	(47.2)
-	-	(12.5%)	(12.5%)	-	-
-	-	(39.0)	(45.6)	-	(46.7)
-	-	(30%)	(30%)	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
429.1	325.8	454.3	421.8	415.7	219.9
5.3%	7.2%	5.6%	9.4%	5.1%	4.9%
34.5%	37.4%	35.4%	37.6%	47.4%	50.9%

Level 3  
Sum of the parts.

Level 3  
Sum of the parts.

Level 3  
14-year life of mine discounted cash flow.  
The increase in the life of the mine is because of increased proven ore body.

Level 3  
10-year life of mine discounted cash flow.

Level 3  
Contract sale price to Acorn Agri and Food.

Level 3  
Five-year discounted cash flow.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in ARC Fund at FVTPL (continued)

### 5.4 Valuation inputs disclosures for the ARC Fund at FVTPL (continued)

Details of valuation inputs R million	Bluespec	
	Audited as at 30 June 2018	Audited at listing 7 September 2017
<b>Key inputs:</b>		
Input 1	Not applicable	-
Input variable		-
Input 2		-
Input 2 variable		-
Input 3		
Input 3 variable		
<b>Sensitivity of key inputs:</b>		
Input 1		-
Input variable	Not applicable	-
Input 2		-
Input 2 variable		-
<b>Portfolio entity disclosures:</b>		
B-BBEE lock-in	Five years from September 2017. Four years and three months remaining at 30 June 2018.	Not applicable
Listed/unlisted	Unlisted	
<b>Summarised financial information:</b>		
ARC Fund effective interest	25.0%	
<b>Reported period</b>	<b>31 August 2017</b>	<b>31 August 2016</b>
Share of comprehensive income	54.6	24.0
Dividends received	17.0	-

Gemcap		Elandsfontein		BKB	
Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017
<b>EBITDA multiple (average) 6.9 x</b>	EBITDA multiple (average) 6.5 x	<b>Commodity price USD/t FOB 107</b>	Commodity price USD/t FOB 84	<b>Acorn Agri Share Price R26.00</b>	WACC 0.1
<b>Growth rate 6.0%</b>	Growth rate 6.0%	<b>USD : ZAR rate R/\$ spot 13.7 and forward rate based on 2.6% inflation differential</b>	USD:ZAR rate ZAR:USD rate		Terminal growth rate 5.4%
		<b>WACC 17.3%</b>	WACC 18.0%		
<b>EBITDA multiple R4 million per 1% change</b>	EBITDA multiple R3.2 million per 1% change	<b>Commodity price R8 million per 1% change</b>	Commodity price R14.5 million per 1% change	<b>Acorn Agri Share Price R4.2 million per 1% change</b>	WACC R25 million per 1% change
<b>Growth rate R17.5 million per 1% change</b>	Growth rate R13.2 million per 1% change	<b>USD : ZAR rate R8 million per 1% change</b>	USD:ZAR rate R6 million per 1% change		Terminal growth rate R12 million per 1% change
		<b>WACC R21 million per % change</b>	WACC R4.4 million per 1% change		
Transfer restrictions apply for consumer friend for five years from April 2017. Three years and ten months remaining at 30 June 2018.		Ten years from April 2016. Seven years and ten months remaining at 30 June 2018.		The 18 month lock-in period expired at 30 June 2018.	
Unlisted		Unlisted			
51.0%		25.0%		20.0%	
		The entity has yet to become operational and commission its plant, and thus the financial information will be disclosed after a year or two of trade for meaningful comparison.		<b>7.0</b>	

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in ARC Fund at FVTPL (continued)

### 5.5 Financial instruments within the investment in the ARC Fund at FVTPL

The portfolio assets within the ARC Fund, on a look-through-basis, have been further categorised using IAS 39, Financial Instruments: Recognition and Measurement, definitions based on the type of financial instrument it is and also taking cognisance of the material contractual terms that underpin it and would impact the fair value of the Company's investment in the ARC Fund as disclosed below:

R million	IFRS Portfolio Value		Intrinsic Portfolio Value	
	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited as at 30 June 2018	Audited at listing 7 September 2017
Listed shares <sup>5.5.1</sup>	1 465.0	1 356.0	1 410.7	1 333.8
Listed notes <sup>5.5.2</sup>	101.4	92.9	101.4	92.9
Unlisted shares <sup>5.5.3</sup>	5 903.2	2 526.6	5 900.0	2 463.6
Preference shares <sup>5.5.4</sup>	17.7	2.5	17.7	2.5
Shareholder loans <sup>5.5.5</sup>	717.6	580.5	717.6	580.5
Derivatives <sup>5.5.6</sup>	-	-	-	-
<b>Total</b>	<b>8 204.9</b>	<b>4 558.5</b>	<b>8 147.4</b>	<b>4 473.3</b>

Please refer to note 3 accounting policy above for the classification and categorisation of the above financial instruments. No standalone derivatives are held by ARC Investments or ARC Fund. The below relates to embedded derivatives which, due to the fair value basis of valuation applied, have not been separated from the host contract

#### 5.5.1 Listed shares – Financial asset at FVTPL (level 1)

- Subject to certain exemptions, the ARC Fund will not be entitled to dispose of any of its shares and loan claims in Afrimat for four years from 6 December 2016. The fair value of the investment is R735.5 million (R724.7 million at 7 September 2017). This has no restriction on the Company's Investment in the ARC Fund, but ultimately impacts on the FV of the total investment in ACR Fund.
- The Santam shares were obtained by UBI in a B-BBEE transaction with its Black employees and shareholders and are thus subject to the normal restrictions characteristic with shares of this nature. The Santam shares were sold to ARC in 2015 and subsequently transferred to ARC FinHoldCo as part of the listing of the Company. Therefore the Santam shares form part of the fair value of the Company's investment in the ARC Fund.

#### 5.5.2 Listed notes – Financial asset at FVTPL (level 1)

- The Braw Notes of R101.4 million (R92.9 million at 7 September 2017) consist of asset-backed listed debt instruments issued by Braw Property Holdings Plc, a London Stock Exchange listed entity, and have been subscribed for at a total value of GBP5.4 million. They bear interest at 8% per annum compounded monthly in arrears and are redeemable at the option of the issuer between the second to fifth anniversary of their issue, being December 2016, and compulsorily redeemable on the fifth anniversary of their issue, being December 2021. Therefore the Braw Notes forms part of the fair value of the Company's investment in the ARC Fund.

#### 5.5.3 Unlisted shares – Financial asset at FVTPL (level 2 or 3)

- ARC entered into a flip-up agreement with Alexander Forbes group Holdings Limited and Alexander Forbes Limited. In terms of the flip-up agreement, on the flip-up date, ARC FinHoldCo will transfer its Alexander Forbes Limited shares (currently the ARC Fund effective interest is 5% of the entity) reported at a value of R321.0 million at 30 June 2018 (R288.3 million at 7 September 2017) to Alexander Forbes group Holdings Limited (or its nominee). As consideration for the transfer, Alexander Forbes group Holdings Limited will allot and issue shares in Alexander Forbes group Holdings Limited (which investment was reported at a fair value of R345.2 million at 30 June 2018, (7 September 2017: R130.0 million)) as calculated based on a formula in the Flip Up Agreement and will amount to an additional equity interest in the listed entity of approximately 8.8%.
- In terms of the Flip-Up agreement if the flip-up takes place prior to the end of the "Minimum Hold Period" (three years from 1 February 2017), ARC shall not be entitled, without the prior written consent of Alexander Forbes group Holdings Limited and subject to certain exceptions, to transfer any of the flip-up shares it acquires in Alexander Forbes group Holdings Limited. Non-compete restrictions are applicable during the Minimum Hold Period. Therefore the flip-up Agreement will adjust the fair value of the Company's investment in the ARC Fund and the exposure to equity price and fair value risk.

## 5. Investment in ARC Fund at FVTPL *(continued)*

### 5.5 Financial instruments within the investment in the ARC Fund at FVTPL *(continued)*

#### 5.5.3 Unlisted shares – Financial asset at FVTPL (level 2 or 3) *(continued)*

- At the time of transfer into the ARC Fund, the Investment in Metrofibre Networkx Proprietary Limited was subject to an additional subscription of 43 shares, which occurred in full in the year under review for a subscription value of R14.8 million. At year end, the investment had a fair value of R136.2 million (7 September 2017: R117.5 million). Therefore the Investment in Metrofibre Networkx Proprietary Limited as at 30 June 2018 forms part of the fair value of the Company's investment in the ARC Fund.
- The ARC Fund has committed to invest R542.2 million in Gemcap Investments to enable the portfolio Company to make approved investments in investee entities that fall within the business process outsourcing industry. As at 30 June 2018, R317.0 million had already been disbursed under this commitment leaving a balance of R225.2 million still to be disbursed. The fair value of the investment at 30 June 2018 was reported at R432.0 million (7 September 2017: R324.0 million). Therefore the commitment will change the fair value of the Company's investment in the ARC Fund and exposure to equity price and fair value risk.
- The acquisition agreement for RSA included an earn out clause requiring an additional consideration of R42.4 million plus interest in the event that the FY2018 profit after taxation of the Company exceeded R42.5 million. The ARC Fund has considered this probably in determining the fair value of its investments and the Company included it in the valuation of the Investment of the ARC Fund.
- A profit warranty clause in the acquisition of Subtropico resulted in the recognition of a contingent consideration of R24 million. The ARC Fund has considered this probably in determining the fair value of its investment and the Company included it in the valuation of the Investment of the ARC Fund.
- The ARC Fund is committed to pay the remaining tranches of the subscription price for the investment in Edge Growth if the Company achieved a set net profit after taxation over a cumulative five years. The entity had previously not achieved the set target, but subsequent to year end, its management indicated that the target for 2018 has been met and once confirmed with an audit review, would trigger an earnout of R14.5 million due and payable from the ARC Fund. The outstanding consideration impacts on the fair value of the Company's investment in the ARC Fund.
- One of the shareholders of Pluvial Proprietary Limited (a special purpose entity whose sole purpose is to hold Rain shares) sold their shares to the ARC Fund. Whilst the shares were immediately transferred in terms of ownership at acquisition date of April 2018, the purchase consideration was payable in instalments. An amount of R25.4 million is still outstanding and will be settled in equal instalments of R12.7 million on 31 July and 31 August 2018. The outstanding consideration impacts on the fair value of the Company's investment in the ARC Fund.
- The ARC Fund has guaranteed in favour of Standard Bank Limited the punctual payment of all amounts that may be due and owed by Setso Holdco Proprietary Limited (an entity in the Joint Venture arrangement in ARC Real Estate). The liability guaranteed is limited to R75 million. As at 30 June 2018 this had no effect on the fair value of the Company's Investment in the ARC Fund.
- ARC FinHoldCo has committed to fund, by way of a loan, an amount of R29 million for transactions that will be undertaken by Ooba Proprietary Limited upon creation of a joint venture with the portfolio entity. ARC FinHoldCo would hold a 50.1% interest in the joint venture. No funding had been advanced as at 30 June 2018. Therefore the commitment will change the fair value of the Company's investment in the ARC Fund and exposure to equity price and fair value risk.
- The investment in TymeDigital was funded R27.5 million in cash and the balance of R130.2 million through draw downs on a loan facility granted by Common Wealth Bank of Australia. The facility amounts to R865 million and was granted to ARC Imali Madi Proprietary Limited (ARC SPV), a wholly owned subsidiary of ARC FinHoldCo, where in the investment in TymeDigital is housed, for the sole purpose of funding ARC SPV's funding commitments to the Company under the subscription agreement for TymeDigital. The drawn debt bears interest at the South African prime interest rate and its terms indicate that the shares are the security for the debt. Therefore the funded cash and draw downs forms part of the fair value of the Company's Investment in the ARC Fund.

#### 5.5.4 Preference shares – Loans and receivables at amortised cost (level 3)

ARC FinHoldCo subscribed for the following preference shares in its portfolio companies:

- 362 A Class preference shares in Sinayo Securities Proprietary Limited for an ARC Fund effective price of R9 million which earn dividends according to a predetermined formula and are cumulative and redeemable in 2046. Therefore the preference shares forms part of the fair value of the Company's Investment in the ARC Fund.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 5. Investment in ARC Fund at FVTPL (continued)

### 5.5 Financial instruments within the investment in the ARC Fund at FVTPL (continued)

- 100 A Class cumulative redeemable preference shares in Sinayo Capital Proprietary limited for a subscription price of R5.0 million. The preference share dividend is a cumulative preferential cash dividend that accrues based on a formula using the long bond rate plus 5% and becomes payable on 27 February each year until the scheduled redemption date of 31 December 2027. Therefore the preference shares forms part of the fair value of the Company's Investment in the ARC Fund.

#### 5.5.5 Shareholder loans – Loans and receivables at amortised cost (level 3)

- The loans to Elandsfontein of R368.7 million (R336.3 million at 7 September 2017) are unsecured and subordinated. The loans earn interest at the Johannesburg Interbank Average Rate plus 3%. There are no fixed payment terms, the loans are subordinated in favour of third party debt providers and Elandsfontein will make payment subject to adequate cash resources being available.
- The shareholder loan to Majik Property Holdings of R99.2 million (R78.1 million at 7 September 2017) is unsecured and subordinated. The loan is denominated in GBP. The loan earns interest at 7% compounded monthly in arrears, with no fixed repayment term.
- The loan to Sinayo Securities of R13.7 million (R11 million at 7 September 2017), which represents 49.9% of the funding arrangement held through FinHoldCo, is unsecured, interest free and has no fixed terms of repayment.
- The loan to Gemcap Investments of R136.8 million (R100.2 million at 7 September 2017) accrues based on the R186 plus 6% compounded monthly in arrears and currently has no determined repayment date.
- An interest free facility of R45.0 million repayable 31 December 2027 has been contractually agreed with Autoboy Holdings. At 30 June 2018 the facility was drawn to the amount of R25.0 million.
- The loan to Last Mile fund is a bridging loan of R40.0 million bearing interest at 22.2% per annum compounded monthly and was advanced in June 2018. It is repayable in three months from June 2018 on 21 September 2018.
- All the Shareholders loans – loans and receivables at amortised cost, form part of the fair value of the Company's Investment in the ARC Fund. Loans interest rates approximate market related rates and therefore the amortized cost amount approximates its fair value.

#### 5.5.6 Derivatives – Financial asset at FVTPL (level 3)

- The ARC Fund has an option to acquire an additional 5% in A2X at a value of R15 million. This option is exercisable up to October 2019. As at 30 June 2018, the option's fair value was not considered significant.
- Global Asset Management has given the ARC Fund a call option to acquire 4.3 million of Earthwise Energy Holdings Proprietary Limited shares in Global Asset Management amounting to an additional 5.9% in the Company. The option is exercisable in the event of insolvency or default not remedied within 30 business days as well as breach of the contractual terms of the voting pool agreement entered into for the acquisition and participation in the entity. Earthwise Energy Holdings Proprietary Limited has a reciprocal option on the shares of the ARC Fund in the entity should the ARC Fund breach any of the terms of the voting pool agreement. As none of the trigger events have occurred, the option is valued at Rnil at year end.
- Bravura management have contractually agreed that if Bravura's comparable earnings for the 2017 – 2019 financial years are lower than R109 million, the shareholders of Bravura will procure that Bravura purchases ARC FinHoldCo's shareholding at the price originally paid by the entity. At 30 June 2018, the fair value of the option was not significant.
- ARC FinHoldCo has an option which grants it the right to sell the shares in Alternative Prosperity Proprietary limited if the annualised internal rate of return calculated over a five-year period is not achieved. At 30 June 2018, the option was valued at Rnil.

Unless otherwise stated, all the portfolio assets are classified as non-current and have no current portion which is realisable within the next 12 months except for the loans disclosed above insofar as their contractual obligations (taking serviceability into consideration) are concerned.

#### 5.5.7 Renegotiated terms

During January 2018, the terms of the relationship with the management of ARC Health were renegotiated and resulted in a buyout of the management minority in the entity (for an amount of R21 million) and ARC FinHoldCo. owning 100% of the entity. Therefore the buyout forms part of the fair value of the Company's investment in the ARC Fund.

Other than those indicated above, none of the financial assets have been renegotiated in the last year.

## 5. Investment in ARC Fund at FVTPL *(continued)*

### 5.6 Expected taxation cash flows in the investment in the ARC Fund

#### Accounting Policies and Choices

The expected taxation cash flows in respect of taxation consequences arising due to differences between the carrying amounts of the investment portfolio assets for financial reporting purposes and the amounts used for taxation purposes as the base cost of the underlying investments within the ARC Fund are considered as part of the IFRS 13 fair value of the investment in the ARC Fund. The amount of expected taxation cash flows provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities of the ARC Fund and is measured at the taxation rates (enacted or substantively enacted at the reporting date) that are expected to be applied to the temporary differences when they reverse.

#### Company context in application of accounting policy choices

The expected taxation cash flows arise as a consequence of the fair value adjustments of the Diversified Financial Services Portfolio Companies in the South African registered entity, ARC FinHoldCo, which would be subject to capital gains taxation on the fair value movements of the investments. It has thus not been separately recognised in the Company or the ARC Fund, but rather only considered in measuring the fair value of the investment in ARC Fund. The expected taxation cash flows giving rise to taxation cash outflows and taxation cash inflows relate the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the Segmental Information and its related disclosure.

The composition of the expected taxation cash flows arising as a consequence of the measurement of the fair value adjustments of the portfolio assets in ARC FinHoldCo at 30 June 2018 are as follows:

R million	IFRS Portfolio Value		Intrinsic Portfolio Value	
	Audited as at 30 June 2018	Audited at incorporation 30 June 2017	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
Expected taxation cash outflows	(30.8)	-	(23.9)	-
Expected taxation cash inflows	16.9	-	6.5	-
<b>Net expected taxation cash flows at 30 June 2018</b>	<b>(13.9)</b>	<b>-</b>	<b>(17.4)</b>	<b>-</b>

## 6. Cash and cash equivalents

R million	Audited as at 30 June 2018	Audited at listing 7 September 2017	Audited at incorporation 30 June 2017
Bank balance	28.5	45.1	-

The Company's bank balance is held with Investec Private Bank whose external credit rating is indicated as Baa3.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 7. Realisation and derecognition

### Accounting policies and choices

The Company applies the derecognition principle in IAS 39: *Financial Instruments: Recognition and Measurement* and derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, it recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognise the financial asset and also recognises a secured borrowing for the proceeds received.

Consistent with the Accounting Policy indicated in note 5, the Investment in the ARC Fund as a financial asset at fair value through profit or loss, all the fair value movements are recognised included in profit or loss.

### Company context in application of accounting policy choices

Per the Dividends and Dividend Policy in note 9, we indicate the strategic objective and policy of the Company as it relates to dividends, is not to declare any dividends in the short- to medium-term as it is dependent on return of capital from the ARC Fund.

As such, the Company's partnership profit share in the reporting period is not as a result of a return of capital, but rather the fair value movements of the Portfolio Companies in the ARC Fund and are therefore unrealised. The Company has thus adopted a policy whereby unrealised profits of this nature are transferred to the fair value reserve. In the event of a return of capital by the ARC Fund, these would be realised and accordingly transferred from the fair value reserve to retained earnings.

Per the segment report accounting policy the below information of the ARC Fund is also reported to the CODMs for the purpose of assessing segment performance.

### 7.1 Fair value movements on the investment in the ARC Fund at FVTPL

R million	Notes	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
<b>Income</b>		<b>888.9</b>	-
Fair value movements on Diversified Investments		619.2	-
Fair value movements on Diversified Financial Services		23.3	-
Income from Diversified Investments		89.9	-
Income from Diversified Financial Services		25.2	-
Interest income on cash and cash equivalents		131.3	-
<b>Expenses</b>		<b>(94.2)</b>	
Fees paid to the Fund Manager		(94.2)	-
Net foreign exchange gains/(losses) on mark-to-market of foreign denominated loans and receivables in the portfolio		12.9	-
Other expenses		(12.9)	-
<b>Total</b>		<b>794.7</b>	-



## 7. Realisation and derecognition (continued)

### 7.2 Reconciliation of reported IFRS Portfolio fair value adjustment to Intrinsic Portfolio fair value adjustment

R million	Notes	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
Fair value adjustments in the reporting period amounted to R642.5 million compared to the intrinsic reported fair value adjustments per the segment report of R708.1 million. A reconciliation to the reported intrinsic value is as follows:			
<b>Reported IFRS Portfolio fair value adjustment</b>		<b>642.5</b>	
Adjust for non-IFRS measures included in Intrinsic Portfolio fair value adjustment		<b>65.6</b>	
30-day VWAP difference to spot price on listed portfolio assets		<b>(21.3)</b>	-
B-BBEE lock-in discount on listed portfolio assets		<b>(3.6)</b>	-
Deferred taxation on B-BBEE lock-in discounts		<b>(12.6)</b>	-
Equity day one gains <sup>1</sup>		<b>103.1</b>	-
<b>Segment reported Intrinsic Portfolio fair value adjustment</b>		<b>708.1</b>	-

<sup>1</sup> Gains on transfer of the portfolio assets from ARC where the transfer value was lower than the fair value at date of transfer have been recognised as a capital contribution in equity of IFRS Portfolio value. These have not been adjusted for the Intrinsic Portfolio Value.

### 7.3 Fair value reserve

R million	Notes	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
Opening balance		-	-
Fair value movements on the Investment in the ARC Fund at FVTPL	7.1	<b>794.7</b>	-
Segment reported IFRS Portfolio fair value adjustment		<b>794.7</b>	-

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 8. Capital and return on capital

R million	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
<b>8.1 Stated capital</b>		
ARC Investments has the following categories of share capital:		
<b>Category</b>	<b>Rights</b>	
A Ordinary shares	Participating share with voting rights	
B shares	Non-participating non-voting share except if as at any ordinary shareholder record date an appointed B-BBEE Rating Agent determines that ownership of ordinary shares by Black people as defined in the B-BBEE Codes, as determined using the flow-through principle in accordance with the B-BBEE Codes is less than 51%; and that ARC as the holder of the B share, holds at least 26.1% of the ordinary shares of the Company and since issue of these shares, the holding percentage has never dropped below 26.1%.	
C shares	Non-participating, non-voting shares with automatic conversion based on the terms of the performance participation (refer below).	
<p>In terms of the Mauritius Companies Act 2001, as amended, the Company is not required to have an authorised share capital. All of the Company's classes of shares are of no par value and, accordingly, the Company does not have a share premium account.</p> <p><b>Issued share capital</b></p> <p><b>Ordinary shares</b></p> <ul style="list-style-type: none"> <li>• 100 Ordinary shares of no par value issued at incorporation at USD1 per share (translated at R12.91)<sup>1</sup></li> <li>• 526 588 235 shares issued to ARC Proprietary Limited under an asset for share sale transaction</li> <li>• 505 882 353 shares issued at listing date at R8.50 per share</li> <li>• Share issue costs</li> </ul>		
	-	-
	<b>4 563.3</b>	-
	<b>4 300.0</b>	-
	<b>(31.5)</b>	-
<b>Total issued share capital at the end of the period</b>	<b>8 831.8</b>	-
<b>B share</b>		
One share issued to ARC Proprietary Limited at a nominal value of R1	-	-
<b>C shares</b>		
5 billion shares issued to UBI Proprietary Limited at a nominal value of R1 for the Performance Participation	-	-

<sup>1</sup> The number is less than R1 million and is rounded to Rnil.

## 8. Capital and return on capital (continued)

R million	Notes	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
<b>8.2 Earnings per share</b>			
Basic earnings per ordinary share (cents)		<b>81</b>	(11 165 769)
Diluted earnings per ordinary share (cents)		<b>79</b>	(11 165 769)
Headline earnings per ordinary share (cents)		<b>81</b>	(11 165 769)
Diluted headline earnings per ordinary share (cents)		<b>79</b>	(11 165 769)
<b>8.2.1 Reconciliation of reported earnings to headline earnings:</b>			
Earnings/headline earnings of the Company		<b>674.5</b>	(11.2)
There were no items that require adjustment from the reported earnings in terms of SAICA Circular 2/2015, Headline earnings.			
<b>8.2.2 Number of shares (million):</b>			
Number of shares in issue at the end of the period	8.2.3	<b>1 032.0</b>	-
Weighted average number of shares (million)	8.2.3	<b>836.9</b>	-
Diluted weighted average number of shares (million)	8.2.3	<b>849.4</b>	-
Diluted number of shares (million)	8.2.3	<b>1 045.0</b>	-
<b>8.2.3</b> On 7 September 2017, the Company issued 1 032 470 588 shares upon listing on the JSE Limited initially through an asset for share transfer transaction with ARC Proprietary Limited (as discussed above in note 8.2.2) and thereafter a private placement including cornerstone investors Public Investment Corporation Limited (PIC), GIC Private Limited and Sanlam Private Wealth Proprietary Limited. As the issued number of shares at the beginning of the period was 100, the impact of the new issue has been weighted for the 296 days they were in issue at 30 June 2018 over the 365-day reporting period resulting in a weighted average number of shares of 836.9 million for the year.			
Diluted weighted average number of shares (million)	10	<b>849.4</b>	-
Diluted number of shares (million)	10	<b>1 045.0</b>	-

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 9. Dividends and Dividend Policy

### Company context in application of accounting policy choices

#### *Company strategic objective*

The Company is a capital-raising and investment entity designed to offer its shareholders long-term capital appreciation through the growth in the NAV of its underlying investment in the ARC Fund. As such, ARC Investments does not currently intend to pay dividends on the ordinary shares but may choose to pay dividends, including special dividends, at some time in the future when it is appropriate to do so.

#### *Dividends*

The Company's ability to pay dividends is a function of the return of capital by the ARC Fund, which is not anticipated in the short-term and over which the Company has no direct control. Furthermore, the current intention of the General Partner is that cash raised by the ARC Fund through realisations and distributions received from Portfolio Companies will generally be utilised for new investment opportunities.

If the Company receives the proceeds of realisations or distributions by underlying Portfolio Companies from the ARC Fund and chooses to pay dividends, the Board anticipates declaring and paying a final dividend only. The Board may; however, resolve to declare and pay interim dividends on the ordinary shares. The payment of a dividend will be subject to the Company's constitutional documents and applicable laws and regulations and the reasonably foreseeable obligations of the Company and will require the approval of the Board. The dividends that are envisaged would primarily be paid from distributions received by the ARC Fund from the Portfolio Companies and proceeds arising from the disposal of underlying investments by the ARC Fund, that are distributed to the Company as returns of capital by the ARC Fund.

#### *Unclaimed dividend*

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed, provided that dividends unclaimed for a period of three years from the date they were declared may be forfeited for the benefit of the Company. There is no fixed date on which entitlement to dividends arises and the date of payment will be determined by the Board at the time of declaration, subject to the JSE Listings Requirements. There are no current arrangements under which future dividends are waived or agreed to be waived.

## 10. Performance Participation

### Accounting policies and choices

The Performance Participation is an equity settled share-based payment accounted for in accordance with the provisions of *IFRS 2: Share-based Payments*. The share-based payment expense is recognised in profit or loss and the reserve in the statement of changes in equity as separate reserve.

### Company context in application of accounting policy choices

As detailed in note 8.1, the Company has issued 5 billion C-shares to Ubuntu-Botho Investments Proprietary Limited (UBI) through a subscription agreement signed on 14 August 2017 for purposes of the Performance Participation, which in accordance with their rights and terms, are convertible into ordinary shares, at no consideration.

<b>Grant date:</b>	14 August 2017
<b>Grant price:</b>	R1 for the full 5 billion shares.
<b>Performance hurdle:</b>	10%
<b>Participation percentage:</b>	16%, provided the IPV NAV at the beginning of the measurement period not being less than the previous highest IPV NAV.
<b>Performance period:</b>	Each annual financial year of the Company commencing 1 July and ending 30 June. <sup>1</sup>
<b>Conversion date:</b>	No more than 10 business days (excluding weekends) from the date the Board approves the calculation of the Performance Participation which will normally be the date of approval of the Audited Annual Financial Statements of the Company.
<b>C-shares conversion formula:</b>	The number of C Shares that will automatically convert into ordinary shares is determined by dividing the Performance Participation for the relevant annual measurement period by the INAV per ordinary share at the end of that measurement period. The conversion is calculated based on the growth in the IPV for the performance period percentage exceeding the performance hurdle rate of 10% per annum compounded annually at each financial year-end during each performance period.

<sup>1</sup> The performance period in the year of listing commenced at listing date of 7 September 2017 and ended 30 June 2018.

R million	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
The annualised growth in Intrinsic Portfolio Value for the reporting period amounted to 12.4%, a Performance Participation amounting to R115.1 million has been recognised as a share-based payment expense with a corresponding recognition of a share-based payment reserve in equity. The consequential conversion of C-shares into ordinary shares was estimated at 12 577 126 ordinary shares as at 30 June 2018, with a full dilutive impact on the weighted average number of shares for the period. The total diluted number of shares at year-end is 1 045 047 713.		
Performance Participation expense for the performance period	(115.1)	-

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 11. Taxation

### Accounting policies and choices

Normal income taxation and deferred taxation is recognised using the taxation rates and taxation laws that have been enacted or substantively enacted by the end of the reporting period in accordance with the recognition and measurement principles in IAS 12: Taxes.

### Company context in application of accounting policy choices

The Company holds a Category One Global Business Licence, for the purpose of the Mauritian Financial Services Act 2007. It was registered in Mauritius as a private company limited by shares on 30 June 2017 and converted to a public company on 2 August 2017. It is liable to income taxation at a rate of 15%. However, the Company is entitled to a taxation credit equivalent to the higher of the actual foreign taxation suffered and 80% of the Mauritian taxation on its foreign source income, thus having a standard taxation rate of 3%.

The foregoing is based on current interpretation and practice and is subject to any future changes in Mauritian Taxation laws.

R million	Audited as at 30 June 2018	Audited t incorporation 30 June 2017
No provision has been made for taxation as the Company has an estimated taxation loss carried forward amounting to R17.4 million (at 30 June 2017: R11.2 million loss). Mauritian taxation regulations permit the carry forward of unused taxation losses for a maximum period of five-year from the date they arose. The accumulated taxation losses are available for set-off against future taxable income as follows:		
Arising in FY 2018, carry forward up to 2023 financial year	(6.2)	
Arising in FY 2017, carry forward up to 2022 financial year		(11.2)
<b>Reconciliation of loss before income taxation:</b>		
Profit before taxation	674.5	(11.2)
<b>Taxation at a statutory effective rate of 3% for Category One Global Business License after foreign taxation credit</b>	20.2	(0.3)
<b>Taxation consequences in the year:</b>		
<b>Non-deductible expenditure</b>	3.5	-
Performance Participation expense	3.5	-
Other (incorporation fees and realised foreign exchange losses) <sup>1</sup>	-	-
<b>Non-taxable income</b>	(23.9)	-
Fair value movements on the investment in the ARC Fund at FVTPL	(23.8)	-
Interest earned on local bank account	(0.1)	-
- Deferred taxation asset not raised	0.2	0.3
<b>Taxation expense for the year</b>	-	-

<sup>1</sup> The amount is less than R1 million and thus is rounded to Rnil.

## 11. Taxation (continued)

R million	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
A deferred taxation asset amounting to R0.5 million has not been raised as the ARC Fund is not expected to declare partner profit distributions in the foreseeable future, thus the Company will not have taxable income against which the deferred taxation asset can be utilised.		
<b>Reconciliation of taxation rate:</b>	%	%
Mauritian standard income taxation rate for a Company with a Category One Global Business Licence	15.0	15.0
Foreign taxation credit	(12.0)	(12.0)
Non-deductible expenditure	0.5	-
Non-taxable income	(3.5)	-
Deferred taxation asset not raised	-	(3.0)
Effective taxation rate	-	-

## 12. Reconciliation of cash utilised in operations before investment activities

R million	Audited as at 30 June 2018	Audited at incorporation 30 June 2017
<b>Profit/(Loss) before taxation</b>	674.5	(11.2)
<b>Adjustment for non-cash items</b>	(679.3)	-
Fair value movements on the investment in the ARC Fund at FVTPL	7.1	-
Performance Participation expense	10	-
Unrealised foreign exchange gains/(losses) <sup>1</sup>	0.3	-
<b>Working capital movements</b>	(11.2)	11.2
Increase in trade and other receivables	(0.9)	-
Decrease in trade and other payables	(10.3)	11.2
<b>Cash utilised in operations before investment activities</b>	(16.0)	-

## 13. Financial instruments

### 13.1 Financial instruments in the Company are categorised as follows:

R million	Audited as at 30 June 2018			
	Audited			
	Financial assets at fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
<b>Financial assets</b>	9 581.7	29.4	-	9 611.1
Investment in the ARC Fund at FVTPL	9 581.7	-	-	9 581.7
Trade and other receivables	-	0.9	-	0.9
Cash and cash equivalents	-	28.5	-	28.5
<b>Financial liabilities</b>	-	-	(0.9)	(0.9)
Trade and other payables	-	-	(0.9)	(0.9)

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 13. Financial instruments (continued)

### 13.1 Financial instruments in the Company are categorised as follows: (continued)

Audited at listing at 7 September 2017				
R million	Financial assets at fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
<b>Financial assets</b>	<b>8 787.0</b>	<b>46.4</b>	<b>-</b>	<b>8 833.4</b>
Investment in the ARC Fund at FVTPL	8 787.0	-	-	8 787.0
Trade and other receivables	-	1.3	-	1.3
Cash and cash equivalents	-	45.1	-	45.1
<b>Financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(14.0)</b>	<b>(14.0)</b>
Trade and other payables	-	-	(14.0)	(14.0)

The financial instruments balances at 30 June 2017 were Rnil and thus have not been included in the table above.

R million	Audited as at 30 June 2018	Audited at listing 7 September 2017
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### 13.2 Risk management

The Company's exposure to market risks is predominantly through its investment in the ARC Fund. To this end, the Board of the General Partner, through its Investment Committee agrees and reviews the ARC Fund policies for managing all market risks that the financial instruments within the ARC Fund are exposed to. The Directors of the Company manage the Company's exposure to market risks as indicated below:

#### 13.2.1 Equity price risk

Most of the Company's interest in the ARC Fund is deployed in equity instruments (91% at 30 June 2018; 88% as at 7 September 2017), the Company is thus exposed to equity price risk through the valuation of the underlying Portfolio Investments held by the ARC Fund. The fair value of these investments is derived through the valuations disclosed in note 5.4. The underlying Portfolio Companies are valued quarterly and the Board has access to the valuation information to monitor and review the fair value of the investments and, where impairment indicators have been identified, consider any possible impairment adjustments

##### Change in portfolio equity prices

+5%	<b>7 838.9</b>	4 160.2
Equity component being 91% (7 September 2017: 88%) of reported IFRS Portfolio Value	<b>7 465.6</b>	3 962.1
-5%	<b>7 092.4</b>	3 764.0

#### 13.2.2 Interest rate risk

The Company is mainly exposed to interest rate risk through its investment in the ARC Fund which has interest bearing loan assets and cash of R2 200 million (as at 7 September 2017: R4 745 million) in its portfolio.

##### Change in portfolio loan receivable interest rates - annualised

+100 basis points	<b>22</b>	48
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## 13. Financial instruments (continued)

### 13.2 Risk management (continued)

R million	Audited as at 30 June 2018	Audited at listing 7 September 2017
<p><b>13.2.3 Credit risk</b></p> <p>The cash and cash equivalents of the Company and the ARC Fund balance are held with the four largest banks in South Africa. The Company is exposed to credit risk through the ARC Fund Portfolio and the counter parties of the financial instruments in the portfolio. The diversity of the portfolio mitigates concentration of credit risk. Rigorous assessments, adherence by the Fund Manager to the Investment Guidelines and reviews and due diligence with each investment decision made by the General Partner Investment Committee, which consists of strong and well experienced members, ensure that the Company effectively manages exposure to credit risk. On a quarterly basis, the Board receives detailed reports and updates from the Fund Manager to enable it to monitor the performance of the underlying investments.</p>		
R million	Audited as at 30 June 2018	Audited at listing 7 September 2017
<p><b>13.2.4 Currency risk</b></p> <p>The Company's exposure to currency risk is primarily through its Investment in the ARC Fund. The portfolio interests of the ARC Fund are predominantly denominated in ZAR with 4.6% denominated in GBP. The exposure to currency risk is thus low; however, the Board continually monitors the exposure to currency risk through the Investment Committee of the Fund Manager.</p>		
<p><b>13.2.5 Liquidity risk</b></p> <p>The Company is exposed to the risk relating to the payment of trade and other payables which at the reporting date were not significant. At listing the Company retained sufficient funds from the listing proceeds for working capital requirements. The adequacy of the working capital of the Company is reviewed by the Board bi-annually.</p>		

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 14. Commitments

As at the year ended 30 June 2018, the Company did not have any commitments. The commitments in the ARC Fund were as follows:

Contracted	R million
Contingent consideration on existing portfolio investment <sup>1</sup>	140.3
Other contractual commitments arising from signed investment agreements <sup>2</sup>	375.0
<b>Total contracted</b>	<b>515.3</b>

<sup>1</sup> R94.0 million of the R140.3 million contingent consideration has been recognised as a liability in the year-end results as the portfolio entities concerned had met the required hurdles.

<sup>2</sup> The Investment Committee of the ARC Fund has approved, and management have concluded contractual commitments to investments of R400.0 million where the funds relating thereto are yet to be paid. The most significant relate to investments in the Barloworld project and into Rand Mutual Assurance which were announced on SENS during the financial year.

Approved not yet contracted	R million
Other contractual commitments arising from signed memorandum of understanding (MOU) <sup>3</sup>	1 594.0
<b>Total approved not yet contracted</b>	<b>1 594.0</b>
<b>Total commitments</b>	<b>2 109.3</b>

<sup>3</sup> A number of prospective investments approved by the Investment Committee of the ARC Fund are currently under negotiation and still subject to approved contracts.

The aging profile of commitments in accordance with the financial year-ends of the Company and the ARC Fund are as follows:

Year	2019	2020	2021	Total contracted	Total approved	Total commitments
Contracted	260.3	140.0	115.0	515.3	-	515.3
Approved	1 026.0	568.0	-	-	1 594.0	1 594.0
<b>Total</b>	<b>1 286.3</b>	<b>708.0</b>	<b>115.0</b>	<b>515.3</b>	<b>1 594.0</b>	<b>2 109.3</b>

The cash and cash equivalents of the ARC Fund at 30 June 2018 amounted to R1.6 billion and would be utilised to fund the commitments in the 2019 financial year. These commitments would impact the Company's valuation of the Investment in the ARC Fund and their exposure to equity price risk.

## 15. Related party disclosures

### Accounting Policies and Choices

Related party transactions are transfers of resources, services or obligations between the Company and a related party (as identified below), regardless of whether a price is charged or not. They include commitments to do something if a particular event occurs (or does not occur) in the future and executory contracts (recognised or unrecognised). The Company has complied with the provisions of IAS 24, *Related Party Transactions*, in identifying, quantifying and disclosing the information below.

### Company Context in Application of Accounting Policy Choices

The Company has identified the following related party relationships and related transactional terms which are relevant to the current year's Audited Annual Financial Statements:

Name	Relationship	Nature of transaction/terms
<b>Companies:</b>		
• UBI	<ul style="list-style-type: none"> <li>• Ultimate parent</li> <li>• Holder of the C shares for the Performance Participation</li> </ul>	<ul style="list-style-type: none"> <li>• None.</li> <li>• Issue of the C shares (note 8.1).</li> <li>• The Performance Participation (note 10).</li> </ul>
• ARC	<ul style="list-style-type: none"> <li>• Controlling shareholder</li> <li>• Holder of the B share</li> <li>• Incorporation loan</li> </ul>	<ul style="list-style-type: none"> <li>• Asset-for-share transaction prior to listing (note 8.1).</li> <li>• Issue of the B share (note 8.1).</li> <li>• Loan advanced per the loan agreement signed on 14 August 2017 for the payment of incorporation and listing related expenses incurred prior to the listing date and effective 18 August 2017 for an amount of up to R60.0 million. The loan is unsecured, bore no interest and repayments were to be financed from the listing proceeds.</li> </ul>
• The ARC Fund	<ul style="list-style-type: none"> <li>• South African <i>en-commandite</i> Partnership at a partnership interest of 99.95%.</li> </ul>	<ul style="list-style-type: none"> <li>• Contribution of Portfolio Assets (note 5).</li> <li>• Cash capital contribution (note 5).</li> </ul>
• General Partner	<ul style="list-style-type: none"> <li>• General Partner in the ARC Fund</li> </ul>	<ul style="list-style-type: none"> <li>• 0.05% in the ARC Fund Capital and partnership profit share.</li> <li>• Fund management fees (note 7.1).</li> </ul>

Name	Relationship	Nature of transaction/terms
<b>Key management personnel:</b>		
• MC Olivier	<ul style="list-style-type: none"> <li>• Non-executive Director and Chairman</li> </ul>	<ul style="list-style-type: none"> <li>• Directors fees.</li> </ul>
• T Lo Seen Chong	<ul style="list-style-type: none"> <li>• Non-executive Director</li> </ul>	<ul style="list-style-type: none"> <li>• Directors fees.</li> </ul>
• C Msipha	<ul style="list-style-type: none"> <li>• Non-executive Director</li> </ul>	<ul style="list-style-type: none"> <li>• Directors fees.</li> </ul>
• R Mokate	<ul style="list-style-type: none"> <li>• Non-executive Director</li> </ul>	<ul style="list-style-type: none"> <li>• Directors fees.</li> </ul>
• NB Radebe	<ul style="list-style-type: none"> <li>• Non-executive Director</li> </ul>	<ul style="list-style-type: none"> <li>• Rnil.</li> </ul>
• K Bodenstein	<ul style="list-style-type: none"> <li>• Chief Financial Officer</li> </ul>	<ul style="list-style-type: none"> <li>• Executive salary.</li> </ul>

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2018

## 15. Related party disclosures (continued)

Transactions with related parties in the year under review are as follows:

R million	Audited balance due from/(to) as at 30 June 2018	Audited transactions during the year	Audited balance due from/(to) as at 30 June 2017
<b>UBI</b>	-	115.1	-
Issue of C shares (note 8.1) <sup>1</sup>	-	-	-
Performance Participation (note 10)	-	115.1	-
<b>ARC</b>	-	4 574.2	(11.2)
Issue of B-share (note 8.1) <sup>1</sup>	-	-	-
Accrual of listing expenses	-	-	(11.2)
Recovery of expenses payable by ARC	-	3.2	-
Settlement of incorporation loan	-	8.0	-
Asset-for-share transaction prior to listing (note 8.1)	-	4 563.0	-
<b>The ARC Fund</b>	<b>9 581.7</b>	9 581.7	-
Contribution of Portfolio Assets (note 5)	<b>4 563.3</b>	4 563.3	-
Cash capital contribution (note 5)	<b>4 224.0</b>	4 224.0	-
Partnership profit share for the year (note 5)	<b>794.7</b>	794.7	-
<b>General Partner</b>	<b>(30.7)</b>	30.7	-
Fund management fees accrued for the year	<b>(94.2)</b>	(94.2)	-
Fund management fees paid for the year	<b>63.5</b>	63.5	-
<b>Directors' interest</b>			
MC Olivier – 305 882 shares in the Company at a 0.005% interest	<b>n/a</b>	n/a	n/a
<b>Key management personnel</b>	<b>(0.3)</b>	(0.3)	
MC Olivier fees accrued	<b>(0.3)</b>	(0.3)	-
– fees paid to MC Olivier	<b>0.2</b>	0.2	-
T Lo Seen Chong fees accrued	<b>(0.1)</b>	(0.1)	-
– fees paid to T Lo Seen Chong	<b>0.1</b>	0.1	-
C Msipha fees accrued	<b>(0.3)</b>	(0.3)	-
– fees paid to C Msipha	<b>0.2</b>	0.2	-
R Mokate fees accrued	<b>(0.3)</b>	(0.3)	-
– fees paid to R Mokate	<b>0.2</b>	0.2	-
NB Radebe	<b>-</b>	-	-
K Bodenstein executive salary accrued	<b>(0.1)</b>	(0.1)	-
– salary paid to K Bodenstein	<b>0.1</b>	0.1	-

<sup>1</sup>Amount is less than R1 million and is rounded to Rnil.

## 16. Subsequent events

Other than the investment activities post the reporting period detailed below, the Company and the ARC Fund had no other subsequent events that required adjustment to or disclosure in the reported results.

The following investments were concluded in the ARC Fund post the reporting period:

### Acquisition of TymeDigital

On 8 August 2018, the Company announced that its controlling shareholder, ARC has reached agreement to acquire, through ARC's 50.1% held subsidiary, ARC Financial Holding Company (FinHoldCo), 90% of TymeDigital by Commonwealth Bank SA, after which FinHoldCo will become the 100% owner. The acquisition is subject to approval by the regulatory authorities, including that of the Prudential Authority of the South African Reserve Bank. The ARC Fund holds 49.9% of FinHoldCo. This would impact the fair value of the Company's Investment in the ARC Fund.

## 17. Application of new and revised International Financial Reporting Standards (IFRS)

### New standards adopted in the current reporting period

The following new standard became effective for the Company in the current reporting period and have been adopted:

Standard, amendment or interpretation	Summary of expected impact	Effective for financial periods beginning on or after
Amendment to IAS 12 – Income taxes	<p>Summary of amendment</p> <p>The amendments were issued to clarify the existing guidance under IAS 12 around requirements for recognising deferred taxation assets on unrealised losses. The amendments clarify the accounting for deferred taxation where an asset is measured at fair value and that fair value is below the asset's taxation base. They also clarify certain other aspects of accounting for deferred taxation assets. These amendments thus do not change the underlying principles for the recognition of deferred taxation assets.</p> <p>Summary impact on the Company</p> <p>The Company has applied the existing guidance, the adoption thereof has not had an adjusting impact on the Audited Annual Financial Statements of the Company.</p>	1 January 2017
Amendment to IAS 7 – Cash Flow Statements	<p>Summary of amendment</p> <p>In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of the financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt.</p> <p>The Company has applied the existing guidance, the adoption thereof has not had an adjusting impact on the Audited Annual Financial Statements of the Company.</p>	1 January 2017

### New standards in issue but not yet effective or early adopted

The following standard has been published and is deemed relevant to the Company but is not yet effective and has also not been early adopted:

Standard, amendment or interpretation	Summary of expected impact	Effective for financial periods beginning on or after
IFRS 9 – Financial Instruments	<p>Summary of amendment</p> <p>This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.</p> <p><b>Summary impact on the Company</b></p> <p>The Directors anticipate that these amendments will be applied in the financial statements for the annual period beginning 1 July 2018. The Directors have evaluated the business model of the Company under the provisions and guiding principles of IFRS 9, specifically, to its main financial instrument – the investment in the ARC Fund. Since the investment in the fund is a fair value through profit and loss investment which is managed on its intrinsic fair value performance, the adoption of the new standard will present no change in the basis of recognition and measurement of the financial instruments of the Company. It is thus expected to have minimal impact.</p>	1 January 2018

# I – DETAILED INTRINSIC PORTFOLIO VALUE BY REPORTING SEGMENT

Investment (R million)	Opening Cost	Acquisition/ (Disposal)	Revaluation	Fund Value	Gross Investment Value
<b>Diversified Investments</b>					
<b>Telecommunications</b>	<b>772.6</b>	<b>1 128.3</b>	<b>379.0</b>	<b>2 279.9</b>	<b>2 978.0</b>
Rain	655.7	1 121.6	366.4	2 143.7	2 799.9
MetroFibre	116.9	6.7	12.6	136.2	178.1
<b>Mining, Construction and Energy</b>	<b>1 121.4</b>	<b>177.6</b>	<b>(14.3)</b>	<b>1 284.7</b>	<b>1 472.4</b>
Afrimat <sup>#</sup>	655.6	-	(14.5)	641.1	754.3
Elandsfontein	421.8	32.5	-	454.3	511.9
Last Mile Fund	-	132.4	-	132.4	132.4
Global Asset Management	44.0	12.7	0.2	56.9	73.8
<b>Business Process Outsourcing</b>	<b>866.6</b>	<b>559.0</b>	<b>(180.6)</b>	<b>1 245.0</b>	<b>1 245.0</b>
Bluespec	-	509.0	-	509.0	509.0
Gemcap	323.8	35.0	70.3	429.1	429.1
Humanstate	138.9	-	-	138.9	138.9
EOH <sup>#</sup>	313.9	-	(235.5)	78.4	78.4
Capital Appreciation <sup>#</sup>	65.0	-	(15.4)	49.6	49.6
Autoboys	25.0	15.0	-	40.0	40.0
<b>Agriculture</b>	<b>431.8</b>	<b>184.2</b>	<b>261.0</b>	<b>877.0</b>	<b>877.0</b>
BKB	219.9	-	195.8	415.7	415.7
Acorn Agri and Food	211.9	-	65.2	277.1	277.1
RSA	-	105.9	-	105.9	105.9
Subtropico	-	78.3	-	78.3	78.3
<b>Property</b>	<b>313.8</b>	<b>39.8</b>	<b>169.4</b>	<b>523.0</b>	<b>620.0</b>
Majik	171.9	9.0	57.4	238.3	252.9
Val de Vie	141.9	-	21.9	163.8	227.0
ARC Real Estate	-	7.0	90.1	97.1	116.3
ARC Properties	-	23.8	-	23.8	23.8
<b>Other</b>	<b>-</b>	<b>344.6</b>	<b>26.7</b>	<b>371.3</b>	<b>452.8</b>
Fledge Capital	-	314.8	27.0	341.8	423.3
African Rainbow Capital Investments <sup>#</sup>	-	29.8	(0.3)	29.5	29.5
<b>Total Diversified Investments</b>	<b>3 506.2</b>	<b>2 433.5</b>	<b>641.2</b>	<b>6 580.9</b>	<b>7 645.2</b>

<sup>#</sup>Denotes a listed entity.

Control Premium		Minority Discount		Marketability Discount		Deferred Taxation	Fund Value	% of Fund Value
-	-	-	(367.9)		(330.2)	-	2 279.9	28.0
-	-	(12.5%)	(350.0)	(12.5%)	(306.2)	-	2 143.7	26.3
-	-	(10.0%)	(17.9)	(15.0%)	(24.0)	-	136.2	1.7
-	-	-	(26.3)	-	(161.4)	-	1 284.7	15.8
-	-	-	-	(15.0%)	(113.2)	-	641.1	7.9
-	-	(12.5%)	(18.6)	(30.0%)	(39.0)	-	454.3	5.6
-	-	-	-	-	-	-	132.4	1.6
-	-	(10.0%)	(7.7)	(15.0%)	(9.2)	-	56.9	0.7
-	-	-	-	-	-	-	1 245.0	15.3
-	-	-	-	-	-	-	509.0	6.2
-	-	-	-	-	-	-	429.1	5.3
-	-	-	-	-	-	-	138.9	1.7
-	-	-	-	-	-	-	78.4	1.0
-	-	-	-	-	-	-	49.6	0.6
-	-	-	-	-	-	-	40.0	0.5
-	-	-	-	-	-	-	877.0	10.8
-	-	-	-	-	-	-	415.7	5.1
-	-	-	-	-	-	-	277.1	3.4
-	-	-	-	-	-	-	105.9	1.3
-	-	-	-	-	-	-	78.3	1.0
-	-	-	(42.0)	-	(55.0)	-	523.0	6.4
-	-	(15.0%)	(7.9)	(15.0%)	(6.7)	-	238.3	2.9
-	-	(12.5%)	(28.4)	(17.5%)	(34.8)	-	163.8	2.0
-	-	(5.0%)	(5.7)	(12.5%)	(13.5)	-	97.1	1.2
-	-	-	-	-	-	-	23.8	0.3
-	-	-	(21.2)	-	(60.3)	-	371.3	4.6
-	-	(5.0%)	(21.2)	(15.0%)	(60.3)	-	341.8	4.2
-	-	-	-	-	-	-	29.5	0.4
-	-	-	(457.4)	-	(606.9)	-	6 580.9	80.8

# I – DETAILED INTRINSIC PORTFOLIO VALUE BY REPORTING SEGMENT (continued)

## Diversified Investments Portfolio analysis

### Listed companies

Listed companies report as per the regulated reporting cycles and information on these companies is readily available. As such no additional information other than the information contained in the table on the previous page is disclosed.

## Telecommunications

### Rain

Rain is aiming to become a full-service Mobile Network Operator, focusing on data as a primary offering. The major assets constitute spectrum licenses, including an allocation in the 1 800 MHz band, along with the other major operators, as well as an allocation in the sought after 2 600 MHz band. Rain intends to build a dedicated national LTE Advanced network and infrastructure that will eventually facilitate an environment where open access to the internet becomes a reality in South Africa, with the best possible quality and internet speed, at affordable rates.

The Rain group consists of three main operating business units, namely Networks, Business-to-Business and Mobile.

The Network business unit builds and manages the Rain LTE Advanced network. The business unit is responsible for the capital expenditure to build a network of LTE sites and expand the network to enable nationwide connectivity for the Business to Business and Direct business units. It has a target of reaching 3 000 sites by 28 February 2019. By the end of July 2018, 2 100 sites were already in operation. In addition to the infrastructure, the network business unit is responsible for roaming agreements with other major telecommunication companies.

The Business-to-Business unit provides fixed wireless connectivity to end users. The main driver of this business is the number of subscribers, which has increased significantly. Rain; however, currently does not sell directly to users, and the business relationship is with intermediary Internet Service Providers (ISPs).

Rain Mobile represents Rain's mobile strategy which has been offered directly to the public since 6 June 2018. By 30 June some 4 860 Rain sim cards were activated without any marketing campaigns being undertaken. Media coverage and social media posts are the major drivers in expanding the Mobile customer base.

Overall, the growth prospects for Rain remain optimistic. Revenue growth has been encouraging and significant progress has been made to further improve on network performance and stability. The appointment of Willem Roos, former CEO of Outsurance, as CEO of Rain, is encouraging and strengthens confidence in the business going forward.

### MetroFibre

MetroFibre is an internet infrastructure company that provides managed fibre optic broadband connectivity in South Africa. MetroFibre customers consist of service providers, resellers, residential and business properties. Consumers can take advantage of an array of services that are tailored to meet their business needs. The business is performing slightly ahead of targets. The main objective remains to expand its infrastructure roll-out.

## Business Process Outsourcing

### Bluespec

Bluespec is a holding company comprised of several specialist businesses which collectively aim to transform the motor repair and recovery industry to enable its customers to deliver more effective and efficient propositions to their clients in the most cost-effective manner. Business units include Incident Logistics (Firstgroup), Autobody Repair (Renew-it group), Salvage (Auction Nation), Motor Retail (Daytona group), Technology (DreamTec) and StraightThrough. Bluespec is 51% Black-owned with WIPHOLD Investment Trust and The ARC Fund as the B-BBEE partners.

### Gemcap

Gemcap consists of Payprop SA, CSG Holdings Limited, Consumer Friend and Infoslips.

Payprop SA (Payprop) is a well-established, market leading residential letting outsourcing business that offers a unique end-to-end rental property management and compliance software platform. Payprop is an automated payment platform system that offers settlement functionality within the real-time banking environment, enabling automation of the entire letting transaction life cycle according to property-specific payment rules set up by clients. Payprop continues to gain market share and its customers range from small independent letting agencies to large rental agencies.

CSG Holdings Limited is a listed company and is a leading strategic outsource partner of choice for staffing solutions, facility management, security and related services in Southern Africa.

Consumer Friend operates a leading debt review technology platform with all major debt counsellors using it.

Infoslips is a document outsourcing service.

### Humanstate

Humanstate is a private technology services group based in the United Kingdom. It provides businesses and non-profit organisations with state-of-the-art web-based software applications, integrated with on-demand payment processing based on their global transactional platform.

Humanstate is invested in Payprop UK and Payprop Canada. Payprop UK is in early development stage while the Canadian initiative is still in a start-up phase.

The results for the group's first three months are promising with continued income growth being reported.

### Other

The other portfolio investments include:

### Autoboys

Autoboys was established in 2011 as part of the Retail Division of Grandmark International. In 2017, the Parts and Glass Divisions were transferred into Autoboys Holdings, and the ARC Fund subscribed for a 51% interest. The company is a provider of aftermarket automotive parts and has a large market share of glass replacements for the insurance industry. The glass business is showing progress in line with expectations.



## EOH

The business, including its subsidiaries, is the largest technology services company in Africa and has a wide range of solutions in Industry Consulting, IT Services, Software, IT Infrastructure, Industrial Technologies and Business Process Outsourcing. The business is listed on the JSE. The investment in EOH is held for sale and will be disposed of at an appropriate time.

## Capital Appreciation

The business started as a Special Purpose Acquisition Company (SPAC) with the intention of acquiring viable assets and funds for acquisitions held in escrow until ready for investment. The business is listed on the JSE.

## Mining, Construction and Energy Afrimat

Afrimat is a leading Black-empowered supplier to the resources, industrial minerals, mining, road, rail and construction sectors, with a national footprint across Southern Africa. The company specialises in open cast mining, industrial minerals and beneficiated mined products.

While some challenges were experienced in the financial year which negatively impacted the share price, we remain confident in the management of the entity and specifically the CEO.

## Elandsfontein

Elandsfontein is a phosphate mine and processing plant on the West Coast. The initial project has been completed within budget and scheduled timeframes but faces a number of challenges. During the pre-commissioning testing phase, the reverse flotation process was unable to consistently yield the required phosphate concentration of 32%. Consequently, commissioning was postponed, and additional ore sampling and laboratory testing were conducted.

Designs have been completed to augment and reconfigure the processing plant. Construction will commence once the necessary funding for the capital expenditure has been procured. Due to the delayed commissioning the project has technically defaulted in terms of certain funding facilities amounting to US\$30 million. The provider of such facilities has agreed to waive the default and amend the facility on the basis that the additional capital is raised through the initial public offering planned for the end of October 2018, as described below.

A listing on the Alternative Investment Market of the London Stock Exchange is scheduled for completion by the end of October 2018. The ARC Fund will participate in the listing as an anchor investor taking up at least US\$10 million at IPO. It is expected that US\$32 to US\$40 million will be raised.

Recently the phosphate market price has increased significantly after a prolonged period of decline. This, in conjunction with the weaker Rand, augers well for the project once it starts commercial production which is scheduled for September 2019.

## Last Mile Fund

The Last Mile Fund is a Black-owned fund incorporated to explore opportunities that exist in the broader resource space created and accelerated by B-BBEE legislation. To date two investments have been made. They include a coal mine and an investment in a crane business, the latter which is a supplier to the mining industry.

## Other

The other portfolio investments include:

## Global Asset Management

A JSE AltX listed holding company focused on asset-based financing and development of alternative energy businesses.

## Agriculture BKB

BKB is a leading agri-business in South Africa and is a mature, sound and diversified business.

The ARC Fund is in the process of disposing of its investment in BKB after expiry of the B-BBEE lock-in period in June 2018.

## Acorn Agri and Food

Acorn Agri and Food is a long-term investor focusing on food and food processing, agricultural processing and the agricultural value chain. Acorn Agri and Food has the following investments: Lesotho Milling, Montagu Dried Fruits and Nuts, BKB, Grassroots and ACG Fruit, Overberg Agri Grain Division, Overberg Agri Retail, Overberg Mechanisation, Overberg Financial Services, Overberg Insurance, Overberg Irrigation, Loxton Irrigation, Agpack (supplier of packaging), Boltfast, Bontebok Limeworks and Bredasdorp Abattoir.

Acorn Agri and Overberg Agri entered into an Amalgamation Agreement whereby the two entities amalgamated their respective businesses into one combined entity. This has created a leading national agriculture and food investment company, with a shared culture and values, a focused and complementary investment portfolio, proven management and track record. It is aiming for a listing in the medium term. The ARC Fund's shareholding has diluted to 7.78% but the amalgamation has created significant value for the ARC Fund.

## Other

The other portfolio investments include:

## The RSA group

RSA is a horizontally integrated sales organisation which offers a unique value proposition to the suppliers of fresh produce in the agricultural sector across all channels.

## Subtropico

Subtropico operates in the food and agricultural sector, focusing mainly on the services segment in these industries. The group consists of a fresh produce market agent, livestock agents, a packing facility, an equity interest in Farmwise, shareholding in Natsure, and a shareholding in KLK Landbou (an agri-business operating in the Northern Cape).

# I – DETAILED INTRINSIC PORTFOLIO VALUE BY REPORTING SEGMENT (continued)

## Property

### Majik

Majik is a private equity structure which invests in commercial real estate in the United Kingdom. The investment is held through Majik Property Holdings Limited, which is a Limited Partner in the Squarestone Growth Limited Liability Partnership (Squarestone).

The business of Squarestone involves the acquisition, active management, holding, marketing and sale of secondary commercial real estate in the United Kingdom, with a predominant focus in Scotland and the North of England. The underlying property portfolio is performing well.

### Val de Vie

Val de Vie is an established luxury residential estate located in Paarl. After a recent acquisition of Pearl Valley Golf Estate, Val de Vie has grown to become a mega estate. Paarl is fast becoming a new node separate from the Cape Town northern suburbs. The development is progressing as planned.

### Other

The other portfolio investments include:

Investment (R million)	Opening Cost	Acquisition/ (Disposal)	Revaluation	Fund Value	Gross Investment Value
<b>Diversified Financial Services</b>					
<b>Insurance and Asset Management</b>	<b>755.1</b>	<b>339.2</b>	<b>52.7</b>	<b>1 147.0</b>	<b>1 267.4</b>
Alexander Forbes group Holdings*	126.7	265.8	(21.3)	371.2	365.0
Alexander Forbes Limited	288.3	-	32.8	321.1	405.0
Afrocentric*	83.3	43.4	4.4	131.1	132.4
ARC Health	89.8	-	5.8	95.6	95.6
Colourfield	65.8	4.4	9.7	79.9	110.3
Indwe	41.3	-	13.7	55.0	57.6
Santam*	45.4	-	7.6	53.0	61.4
EBS International	14.5	1.4	-	15.9	15.9
LifeCheq	-	11.2	-	11.2	11.2
Lima Mbeu	-	7.5	-	7.5	7.5
Infund Solutions	-	5.5	-	5.5	5.5
<b>Specialist Financial Services</b>	<b>212.0</b>	<b>35.3</b>	<b>14.2</b>	<b>261.5</b>	<b>295.3</b>
Ooba	97.3	-	12.3	109.6	135.9
Bravura	36.3	-	1.6	37.9	38.4
Sinayo	14.0	23.1	0.8	37.9	42.9
Anglo African Finance	-	33.2	-	33.2	33.2
A2X	11.0	5.1	-	16.1	16.1
Constellation Capital	40.4	(26.1)	(0.9)	13.4	13.2
Edge Growth	7.5	-	-	7.5	7.5
Alternative Prosperity	5.5	-	0.4	5.9	8.1
<b>Banking</b>	<b>-</b>	<b>158.0</b>	<b>-</b>	<b>158.0</b>	<b>158.0</b>
TymeDigital	-	158.0	-	158.0	158.0
<b>Total Diversified Financial Services</b>	<b>967.1</b>	<b>532.5</b>	<b>66.9</b>	<b>1 566.5</b>	<b>1 720.7</b>
<b>Total Fund Invested Portfolio value</b>	<b>4 473.3</b>	<b>2 966.0</b>	<b>708.1</b>	<b>8 147.4</b>	<b>9 365.9</b>

\* Denotes a listed entity.

## ARC Real Estate

Setso is a majority Black-owned unlisted real estate fund with a diversified portfolio comprising commercial and retail assets. The portfolio is spread across Gauteng and the Western Cape and covers 89 000 square metres of lettable space. The portfolio of properties is performing very well. During the year certain properties in the portfolio were disposed of at a significant profit.

## Other

### Fledge Capital

ARC partnered with Fledge Capital to execute smaller investments as there are significant investment opportunities which the ARC

Fund is not able to execute due their size. Fledge provides funding solutions to private companies within a wide range of industries. Investments include Safari and Outdoor, WeBuyCars and Better Life.

ARC advanced R200 million to Fledge during the period under review in the form of a loan, which converted to equity when Competition Commission approval for the equity transaction was obtained. The ARC Fund owns a 51% interest in Fledge Capital. The business had a satisfactory 2018 financial year with the net asset value increasing 24%.

	Control Premium	Minority Discount	Marketability Discount	Deferred Taxation	Fund Value	% of Fund Value			
	-	92.5	-	(84.3)	-	(115.0)	(13.6)	1 147.0	14.1
	-	-	-	-	-	-	6.2	371.2	4.6
20.0%	81.0	(15.0%)	(72.9)	(20.0%)	(82.6)	(9.4)	(9.4)	321.1	3.9
	-	-	-	-	-	-	(1.3)	131.1	1.6
	-	-	-	-	-	-	-	95.6	1.2
	-	(7.5%)	(7.9)	(20.0%)	(19.6)	(2.9)	(2.9)	79.9	1.0
20.0%	11.5	(5.0%)	(3.5)	(10.0%)	(6.7)	(3.9)	(3.9)	55.0	0.7
	-	-	-	(10.0%)	(6.1)	(2.3)	(2.3)	53.0	0.7
	-	-	-	-	-	-	-	15.9	0.2
	-	-	-	-	-	-	-	11.2	0.1
	-	-	-	-	-	-	-	7.5	0.1
	-	-	-	-	-	-	-	5.5	0.1
	-	-	(13.1)	-	(16.9)	(3.8)	(3.8)	261.5	3.2
	-	(7.5%)	(10.2)	(10.0%)	(12.6)	(3.5)	(3.5)	109.6	1.3
	-	-	-	-	-	(0.5)	(0.5)	37.9	0.5
	-	(7.5%)	(1.8)	(15.0%)	(3.3)	0.1	0.1	37.9	0.5
	-	-	-	-	-	-	-	33.2	0.4
	-	-	-	-	-	-	-	16.1	0.2
	-	-	-	-	-	0.2	0.2	13.4	0.2
	-	-	-	-	-	-	-	7.5	0.1
	-	(15.0%)	(1.1)	(15.0%)	(1.0)	(0.1)	(0.1)	5.9	0.1
	-	-	-	-	-	-	-	158.0	1.9
	-	-	-	-	-	-	-	158.0	1.9
	-	92.5	-	(97.4)	-	(131.9)	(17.4)	1 566.5	19.2
	-	92.5	-	(554.8)	-	(738.8)	(17.4)	8 147.4	100.0

# I – DETAILED INTRINSIC PORTFOLIO VALUE BY REPORTING SEGMENT (continued)

## Diversified Financial Services portfolio analysis

### Listed companies

Listed companies report as per the regulated reporting cycles and information on these companies is readily available. As such no additional information other than the information contained in the table on the previous page is disclosed.

## Diversified Financial Services

### Insurance and Asset Management

#### Alexander Forbes

ARC FinHoldCo owns 10% of the operating company Alexander Forbes Limited and owns 8.9% in the listed company Alexander Forbes group Holdings Limited. ARC FinHoldCo has the right to convert its shareholding in Alexander Forbes Limited for shares in Alexander Forbes group Holdings Limited in two years' time. The conversion ratio per the agreement currently translate to shareholding of 8.8%. The effective combined shareholding in Alexander Forbes group Limited on conversion is currently 16.9% (after considering the dilution impact of the flip-up on current shareholding in the listed entity). The ARC Fund (through its 49.9% in ARC FinHoldCo) thus has an effective shareholding of 8.4%.

The share price has recently reacted adversely due to weaker business performance and the high level of attrition evidenced at the senior experienced management level.

ARC will continue to play an appropriate role in the investment in terms of strategy, acquisitions and people.

#### Afrocentric

Afrocentric is a Black-empowered investment holding company with an investment portfolio focused on providing services to the healthcare sector. Through its operating subsidiaries, the businesses provide health administration and health risk management solutions.

The business has delivered a solid operating result in a very challenging operating environment. It is maintaining its expansion programme and has a sound financial position.

#### ARC Health group

ARC Health is a private investment company and wholly owned subsidiary of ARC FinHoldCo.

This business primarily consists of three key underlying businesses operating in various parts of the value chain servicing mainly the entry-level market.

#### Colourfield

Colourfield Liability Solutions is an asset management firm which specialises in Liability Driven Investment (LDI), goals-based investing, the management of inflation linked bonds and "smart beta" equity management solutions.

The core LDI business is stable and continues to perform well. Agreement has been reached with Alexander Forbes Investments to launch new products.

#### Other

The other portfolio investments include:

#### Santam Limited

ARC has direct ownership of 0.4% in Santam, which is listed.

#### Indwe Broker Services

Indwe is an independent South African general insurance broker that provides personal insurance, business insurance and specialist risk consulting services to private, commercial and corporate clients.

#### EBS International

EBS International provides hosted member administration and asset management solution platforms as well as providing technology, consulting, disaster recovery and business continuity services.

#### LifeCheq

The business is an independent financial advisory company (IFA) that targets the middle market in SA, being individuals with a monthly income between R15 000 and R60 000. This segment comprises approximately 3.2 million individuals that, whilst they may have high income, are not asset rich. The LifeCheq model aims to disrupt the traditional IFA model as it effectively combines robo-advice with human interaction to reduce service costs.

#### Lima Mbeu

The business is a start-up investment management group focusing on asset management for institutional clients and it targets retirement funds in both the private and public-sector market segments.

#### InFund Solutions

The business is a start-up positioning itself for legislative changes in the employee benefits sector that will be introduced in March 2019. It will focus on providing pension funds with a retirement benefits counsellor (in terms of new regulations). It also focusses on comprehensive member communication and has a business offering including off-balance sheet solutions with regards to living annuity products.

## Specialist financial services

### Ooba

Ooba is primarily a mortgage originator with a strong life and general insurance business flowing from the origination. Ooba is one of the leading players that dominates the South African origination landscape.

The company is generally performing well despite subdued economic conditions. The value increase is attributable to both the origination and insurance businesses.

### Other

The other portfolio investments include:

#### A2X

An alternative stock exchange for the secondary listing of companies. The business plan largely remains on track. Various initiatives are underway to develop revenue.

#### Constellation Capital

A research and brokering business in the South African equity and currency derivative market. Despite of recent market conditions, the business is performing well.

#### Edge Growth

A leading enterprise and supplier development firm that focuses on strategic partnerships between business and Small to Medium Enterprise (SME) development, commercial leadership and enterprise development strategy.

#### Alternative Prosperity

A majority Black-owned company that offers products and services in responsible investment, transformation and sustainability.

#### Bravura

Bravura offers astute and sound financial solutions underpinned by an independent and flexible approach as well as rigorous risk management practices.

#### Sinayo Securities

Sinayo Securities specialises in equity sales and trading of listed South African companies. It provides quality services to institutional investors. Sinayo Securities is majority owned by Black women and is a Level 2 B-BBEE company. The core business is performing well.

#### Anglo African Finance

The business provides structured rental solutions to a variety of businesses, with the core business being in the commercial asset finance product space.

## Banking

### TymeDigital

Following a decision by Commonwealth Bank of Australia to exit all of its emerging market operations (including SA) in June 2018, ARC FinHoldCo was approached to acquire the bank's 90% shareholding in TymeDigital. The transaction was announced on the JSE SENS on 8 August 2018 and is subject to regulatory approvals.

The investment is currently held at a net cost of R56 million in ARC FinHoldCo.

## II – DIVERSIFIED INVESTMENTS PORTFOLIO VALUATION INPUTS

The significant Investment Portfolio Companies being 5% or more of the sub-segments of the Diversified Investments segment are presented below along with the key valuation inputs and other relevant information.

Details of valuation inputs	Telecommunications			
	Rain		MetroFibre	
	30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
<b>R million</b>				
Gross Intrinsic Portfolio Value	2 799.9	655.7	178.1	117.0
<b>Adjustment for:</b>	<b>(656.2)</b>	-	<b>(41.9)</b>	-
Minority discounts	(350.0)	-	(17.9)	-
% minority discounts	(12.5%)	-	(10.0%)	-
Marketability discounts	(306.2)	-	(24.0)	-
% marketability discounts	(12.5%)	-	(15.0%)	-
Control premium	-	-	-	-
% control premium	-	-	-	-
Deferred taxation	-	-	-	-
<b>Segment reported Intrinsic Portfolio Value</b>	<b>2 143.7</b>	655.7	<b>136.2</b>	117.0
% of Intrinsic Portfolio	26.3%	28.0%	1.7%	2.6%
% of Business Segment	94.0%	84.9%	6.0%	15.1%
Investment type	Equity		Equity	
<b>Valuation information:</b>				
IFRS 13 fair value hierarchy	Level 3	Level 3	Level 3	Level 3
Valuation methodology	Ten year discounted cash flow	Acquisition cost	EBITDA multiple	Consistent with the Pre-listing statement, the entity was valued at the cost to ARC plus a rolled forward cost of capital of 16%.
<b>Portfolio entity disclosures:</b>				
Listed/unlisted	Unlisted		Unlisted	
Other details	For Rain, there was an additional acquisition of R1 052.0 million in October 2017 and a further amount of R69.6 million during April 2018.			
BEE lock-in period	Transfer restrictions and pre-emptives apply to the ARC Fund's interest.		Five years from March 2016. Two years and nine months remaining at 30 June 2018	
Reserved matters	Yes		Yes	
Other minority protections	Yes		Yes	
Board representation	Dr Johan van Zyl		Marlene Jennings	
<b>Key inputs:</b>				
Input 1 Input variable	<b>WACC</b> 18.7%	At the time of listing the agreement for the purchase of Rain had recently been concluded at a 20% equity interest for a consideration of R1 708.0 million. Due to it being a recent, the agreed price was indicative of the fair value of the investment and thus was not revalued upon listing.	<b>EBITDA multiple</b> 7.3	Not applicable.
Input 2 Input 2 variable	<b>Terminal growth rate</b> 3.0%			
<b>Sensitivity of key inputs:</b>				
Input 1 Input variable	<b>WACC</b> R204.0 million per 1% change	At the time of listing the agreement for the purchase of Rain had recently been concluded at a 20% equity interest for a consideration of R1 708.0 million. Due to it being a recent, the agreed price was indicative of the fair value of the investment and thus was not revalued upon listing.	<b>EBITDA multiple</b> R1.5 million per 1% change.	Not applicable.
Input 2 Input 2 variable	<b>Terminal growth rate</b> R103.0 million per 1% change			
Input 3 Input 3 Variable				
<b>Summarised financial information:</b>				
The ARC Fund effective interest	20.6%		15.4%	
<b>Reported period</b>	The entity is in the early stage of its growth trajectory and thus the financial information will be disclosed after a year or two of trade for meaningful comparison.		<b>31 December 2017</b>	<b>31 December 2016</b>
Share of comprehensive income			(0.6)	2.5
Dividends received			-	-

### Business Process Outsourcing

Bluespec		Gemcap	
30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
509.0	-	429.1	323.8
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
509.0	-	429.1	323.8
6.2%	-	5.3%	7.2%
40.9%	-	34.5%	37.4%
Equity		Equity and loans	
Level 3 Acquisition cost		Level 3 Sum of the parts	Level 3 Sum of the parts
Unlisted		Unlisted	
Bluespec was acquired in the current financial year in October 2017.			
Five years from September 2017. Four years and three months remaining at 30 June 2018.		Five years from April 2017. Three years and ten months remaining at 30 June 2018	
Yes		Yes	
Yes		Yes	
Johan van der Merwe Brenda Matyolo Charmaine Padayachy		Johan van der Merwe	
Not applicable	-	EBITDA multiple (avg) 6.9 x	EBITDA multiple (avg) 6.5 x
	-	Growth rate 6.0%	Growth rate 6.0%
Not applicable	-	EBITDA multiple R4 million per 1% change	EBITDA multiple R3.2 million per 1% change
	-	Growth rate R17.5 million per 1% change	Growth rate R13.2 million per 1% change
25.0%		100.0%	
31 August 2017		31 August 2016	
54.6	24.0	-	-
17.0	-	-	-

## II – DIVERSIFIED INVESTMENTS PORTFOLIO VALUATION INPUTS continued

### Mining, Construction and Energy

Details of valuation inputs	Elandsfontein		Afrimat Limited	
	30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
<b>R million</b>				
Gross Intrinsic Portfolio Value	511.9	489.2	754.3	771.6
<b>Adjustment for:</b>				
Minority discounts	(18.6)	(21.8)	-	-
% minority discounts	(12.5%)	(12.5%)	-	-
Marketability discounts	(39.0)	(45.6)	(113.2)	(115.7)
% marketability discounts	(30.0%)	(30.0%)	(15.0%)	(15.0%)
Control premium	-	-	-	-
% control premium	-	-	-	-
Deferred taxation	-	-	-	-
<b>Segment reported Intrinsic Portfolio Value</b>	<b>454.3</b>	<b>421.8</b>	<b>64.1.1</b>	<b>655.9</b>
% of Intrinsic Portfolio	5.6%	9.4%	7.9%	14.7%
% of Business Segment	35.4%	37.6%	49.9%	58.5%
Investment type	Equity and loans		Equity	
<b>Valuation information:</b>				
IFRS 13 fair value hierarchy	Level 3	Level 3	Level 1	Level 1
Valuation methodology	Fourteen year life of mine discounted cash flow. The increase in the life of mine is because of increased proven ore body.	Ten year life of mine discounted cash flow.	30 day VWAP.	
<b>Portfolio entity disclosures:</b>				
Listed/unlisted	Unlisted		Listed	
Other details				
BEE lock-in period	Ten years from April 2016. Seven years and ten months remaining at 30 June 2018.		Four years from September 2016. Two years and three months remaining at 30 June 2018.	
Reserved matters	No		No	
Other minority protections	Yes		No	
Board representation	Dr Rejoice Simelane Machiel Reyneke Marlene Jennings		Johan van der Merwe	
<b>Key inputs:</b>				
Input 1	<b>Commodity price</b>	Commodity price	Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
Input 1 variable	<b>\$/t FOB 107</b>	\$/t FOB 84		
Input 2	<b>USD : ZAR rate</b>	USD : ZAR rate		
Input 2 variable	<b>R/\$ spot 14.3 and forward rate based on 2.6% inflation differential</b>			
Input 3	<b>WACC</b>	WACC		
Input 3 variable	<b>17.3%</b>	18.0%		
<b>Sensitivity of key inputs:</b>				
Input 1	<b>Commodity price</b>	Commodity price	Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
Input 1 variable	<b>R8.0 million per 1% change</b>	R14.5 million per 1% change		
Input 2	<b>USD : ZAR rate</b>	USD : ZAR rate		
Input 2 variable	<b>R8.0 million per 1% change</b>	R6.0 million per 1% change		
Input 3	<b>WACC</b>	WACC		
Input 3 variable	<b>R21.0 million per % change</b>	R4.4 million per 1% change		
<b>Summarised financial information</b>				
The ARC Fund effective interest	26.3%		18.5%	
<b>Reported period</b>	The entity has yet to become operational and commission its plant, and thus the financial information will be disclosed after a year or two of trade for meaningful comparison.		<b>28 February 2018</b>	<b>28 February 2017</b>
Share of comprehensive income			45.3	51.6
Dividends received			16.3	-



Agriculture

BKB		Acorn Agri and Food	
30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
415.7	313.8 (93.9)	277.1	212.0
-	(47.3)	-	-
-	(46.6)	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
415.7	219.9	277.1	212.0
5.1%	4.9%	3.4%	4.7%
47.4%	50.9%	31.6%	49.1%
Equity		Equity	
Level 3	Level 3	Level 1	Level 1
Option value offered by Acorn Agri and Food.	Five-year discounted cash flow.	Over the counter share price.	Consistent with the Pre-listing statement, the entity was valued at the cost to ARC plus a rolled forward cost of capital of 16%.
Unlisted		Unlisted	
Lock in was until 30 June 2018 for 18 months.		Three years from April 2017. One year ten months remaining at 30 June 2018.	
No		Yes	
Yes		Yes	
Dr Johan van Zyl		Johan van der Merwe	
<b>Acorn Agri Share Price</b>	WACC	Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
<b>R26.00</b>	0.1		
	Terminal growth rate		
	5.4%		
Acorn Agri Share Price R4.2 million per 1% change	WACC R25.0 million per 1% change	Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
	Terminal growth rate R12.0 million per 1% change		
20.0%		7.8%	
<b>7.0</b>	-	-	-

## II – DIVERSIFIED INVESTMENTS PORTFOLIO VALUATION INPUTS continued

Details of valuation inputs	Property			
	Majik Property Holdings		Val de Vie	
	30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
<b>R million</b>				
Gross Intrinsic Portfolio Value	252.9	172.0	227.0	196.0
<b>Adjustment for:</b>	<b>(14.6)</b>	-	<b>(63.2)</b>	(54.5)
Minority discounts	(7.9)	-	(28.4)	(24.5)
% minority discounts	(15.0%)	-	(12.5%)	(12.5%)
Marketability discounts	(6.7)	-	(34.8)	(30.0)
% marketability discounts	(15.0%)	-	(17.5%)	(17.5%)
Control premium	-	-	-	-
% control premium	-	-	-	-
Deferred taxation	-	-	-	-
Segment reported Intrinsic Portfolio Value	238.3	172.0	163.8	141.5
% of Intrinsic Portfolio	2.9%	3.8%	2.0%	3.2%
% of Business Segment	45.6%	54.8%	31.3%	45.2%
Investment type	Equity, listed debt notes and loans		Equity	
<b>Valuation information:</b>				
IFRS 13 fair value hierarchy	Level 3	Level 3	Level 3	Level 3
Valuation methodology	Net asset value	Consistent with the Pre-listing statement, the entity was valued at the cost to ARC plus a rolled forward cost of capital of 16%.	Ten year discounted cash flow.	Ten year discounted cash flow.
<b>Portfolio entity disclosures:</b>				
Listed/unlisted	Unlisted		Unlisted	
Other details				
BEE lock-in period	None		None	
Reserved matters	Yes		Yes	
Other minority protections	Yes		Yes	
Board representation	Johan van der Merwe		Johan van der Merwe	
<b>Key inputs:</b>				
Input 1 Input variable	GP : ZAR	Not applicable.	WACC 7.8%	WACC 8.4%
Input 2 Input 2 variable				
<b>Sensitivity of key inputs:</b>				
Input 1	GP : ZAR	Not applicable.	WACC	WACC
Input variable	R2.4 million per 1% change		R5.8 million for every 1% change	R21.4 million for every 1% change.
Input 2 Input 2 variable				
<b>Summarised financial information:</b>				
The ARC Fund effective interest	25.0%		20.0%	
<b>Reported period</b>				
Share of comprehensive income				
Dividends received	5.7	-	12.0	-

	Property		Other	
	ARC Real Estate		Fledge Capital	
	30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
	116.3 (19.2)	- -	423.3 (81.5)	- -
	(5.7) (5.0%) (13.5) (12.5%)	- - - -	(21.2) (10.0%) (60.3) (20.0%)	- - - -
	- - -	- - -	- - -	- - -
	97.1	-	341.8	-
	1.2% 18.6%	- -	4.2% 92.1%	- -
Equity and loans			Equity	
Level 3	Level 3		Level 3	Not applicable.
Net asset value	Not applicable as the entity was valued at Rnil on transfer to the ARC Fund.		Sum of the parts	Not applicable.
			The investment in Fledge Capital arose in the current financial year after listing of the Company on the JSE.	
	Unlisted		Unlisted	
	None		None	
	Yes		No	
	Yes		Yes	
	Johan van der Merwe		The Company has the right to appoint one Director to the Board of Directors of the entity which is in the process of being finalised.	
None noted	Not applicable as the entity was valued at Rnil on transfer to the ARC Fund.		<b>Weighted average PE</b>	Not applicable.
None noted	Not applicable as the entity was valued at Rnil on transfer to the ARC Fund.		<b>Weighted average PE</b>	Not applicable.
			<b>R3.4 million per 1% change</b>	
	51.0%		51.0%	
	-	-	-	-

## III – DIVERSIFIED FINANCIAL SERVICES PORTFOLIO VALUATION INPUTS

The significant Investment Portfolio Companies being 5% or more of the sub-segments of the Diversified Financial Services segment are presented below along with the key valuation inputs and other relevant information.

Details of valuation inputs	Insurance and Asset Management	
	Alexander Forbes group Holdings Limited	
	30 June 2018	At listing 7 September 2017
<b>R million</b>		
Gross Intrinsic Portfolio Value	365.0	126.7
<b>Adjustment for:</b>	6.2	-
Minority discounts	-	-
% minority discounts	-	-
Marketability discounts	-	-
% marketability discounts	-	-
Control premium	-	-
% control premium	-	-
Deferred taxation	6.2	-
<b>Segment reported Intrinsic Portfolio Value</b>	<b>371.2</b>	<b>126.7</b>
% of Intrinsic Portfolio	4.6%	2.8%
% of Business Segment	32.4%	16.8%
Investment type	Equity	
<b>Valuation information:</b>		
IFRS 13 fair value hierarchy	Level 1	Level 1
Valuation methodology	30 day VWAP	30 day VWAP
<b>Portfolio entity disclosures:</b>		
Listed/unlisted	Listed	
Other details	During the year, the Alexander Forbes group Holdings investment was increased by a further R265.0 million.	
BEE lock-in period	None	
Reserved matters	No	
Other minority protections	No	
Board representation	Bridget Radebe	
<b>Key inputs:</b>		
Input 1 Input variable	Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
Input 2 Input 2 variable		
<b>Sensitivity of key inputs:</b>		
Input 1 Input variable	Not applicable due to portfolio asset being a level 1 fair value hierarchy.	
Input 2 Input 2 variable		
<b>Summarised financial information</b>		
The ARC Fund effective interest	4.4%	
Reported period	31 March 2018	31 March 2017
Share of comprehensive income	12.5	15.6
Dividends received	10.7	-

Insurance and Asset Management

Alexander Forbes Limited		Colourfield		Indwe	
30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
405.0 (83.9)	376.6 (88.3)	110.3 (30.4)	95.0 (24.7)	57.6 (2.6)	46.0 (5.6)
(72.9) (15.0%)	(62.8) (15.0%)	(7.9) (7.5%)	(7.1) (7.5%)	(3.5) (10.0%)	-
(82.6) (20.0%)	(81.0) (25.0%)	(19.6) (20.0%)	(17.6) (20.0%)	(6.7) (10.0%)	(5.6) (10.0%)
81.0 20.0%	75.3 20.0%	-	-	11.5 20.0%	-
(9.4)	(19.8)	(2.9)	-	(3.9)	-
321.1	288.3	79.9	70.3	55.0	40.4
3.9%	6.4%	1.0%	1.5%	0.7%	0.9%
28.0%	38.2%	7.0%	8.7%	4.8%	4.5%
Equity		Equity		Equity	
Level 2	Level 2	Level 3	Level 3	Level 3	Level 3
Proxy to listed share price 30 day VWAP.	Proxy to listed share price 30 day VWAP.	Ten year discounted cash flow.	Ten year discounted cash flow.	PE multiple.	Ten year discounted cash flow.
Unlisted		Unlisted		Unlisted	
Three years from February 2017. One year eight months remaining at 30 June 2018.		Three years from August 2016. Fifteen months remaining at 30 June 2018.		None	
No		Yes		Yes	
Yes		Yes		Yes	
The Company has the right to appoint one Director to the Board of Directors of the entity which is in the process of being finalised.		Bridget Radebe		Machiel Reyneke	
				Brenda Matyolo	
<b>Not applicable due to portfolio asset being a level 2 fair value hierarchy.</b>		<b>WACC</b>	18.2%	WACC	19.6%
		<b>Terminal growth rate</b>	5.5%	Terminal growth rate	5.3%
<b>Not applicable due to portfolio asset being a level 2 fair value hierarchy.</b>		<b>WACC</b>	R4.2 million per 1% change	WACC	R3.5 million per 1% change
		<b>Terminal growth rate</b>	R0.7 million per 1% change	Terminal growth rate	R0.5 million per 1% change
5.0%		14.0%		25.4%	
31 March 2018	31 March 2017	31 August 2017	31 August 2016		
31.4	34.8	4.8	4.3		
-	-	3.6	-	-	-

### III – DIVERSIFIED FINANCIAL SERVICES PORTFOLIO VALUATION INPUTS continued

The significant Investment Portfolio Companies being 5% or more of the segment are presented below along with the key valuation inputs and other relevant information.

Details of valuation inputs	Specialist Financial Services	
	Ooba	
	30 June 2018	At listing 7 September 2017
<b>R million</b>		
Gross Intrinsic Portfolio Value	135.9	117.0
<b>Adjustment for:</b>	(26.3)	(19.6)
Minority discounts	(10.2)	(8.8)
% minority discounts	(7.5%)	(7.5%)
Marketability discounts	(12.6)	(10.8)
% marketability discounts	(10.0%)	(10.0%)
Control premium	-	-
% control premium	-	-
Deferred taxation	(3.5)	-
Segment reported Intrinsic Portfolio Value	109.6	97.4
% of Intrinsic Portfolio	1.3%	2.2%
% of Business Segment	41.9%	45.9%
Investment type	Equity	
<b>Valuation information:</b>		
IFRS 13 fair value hierarchy	Level 3	Level 3
Valuation methodology	Five year discounted cash flow.	Five year discounted cash flow.
<b>Portfolio entity disclosures:</b>		
Listed/unlisted	Unlisted	
Other details		
BEE lock-in period	Three years from February 2016. Nine months remaining at 30 June 2018.	
Reserved matters	Yes	
Other minority protections	Yes	
Board representation	Rojie Kristen Johan van der Merwe	
<b>Key inputs:</b>		
Input 1 Input variable	WACC 14.0%	WACC 14.9%
Input 2 Input 2 variable	Growth 5.5%	Terminal growth rate 5.4%
<b>Sensitivity of key inputs:</b>		
Input 1 Input variable	WACC R5.3 million per 1% change	WACC R3.4 million per 1% change
Input 2 Input 2 variable	Terminal growth rate R4.7 million per 1% change	Terminal growth rate R3.0 million per 1% change
<b>Summarised financial information:</b>		
The ARC Fund effective interest	15.0%	
Reported period Share of comprehensive income		
Dividends received	3.7	-

Specialist Financial Services

	Bravura		Alternative Prosperity	
	30 June 2018	At listing 7 September 2017	30 June 2018	At listing 7 September 2017
	38.4 (0.5)	36.4 -	8.1 (2.2)	5.5 -
	-	-	(1.1)	-
	-	-	(0.2)	-
	-	-	(1.0)	-
	-	-	(0.2)	-
	-	-	-	-
	-	-	-	-
	(0.5)	-	(0.1)	-
	37.9	36.4	5.9	5.5
	0.5% 14.5%	0.8% 17.1%	0.1% 2.3%	0.1% 2.6%
Equity	Equity and loans			
Level 3	Level 3	Level 3	Level 3	Level 3
Discounted put-option price.	Consistent with the pre-listing statement, the entity was valued at cost to ARC plus a rolled forward cost of capital of 16.1%	Consistent with the pre-listing statement, the entity was valued at cost to ARC plus a rolled forward cost of capital of 16.1%	Five years discounted cash flow.	Consistent with the pre-listing statement, the entity was valued at cost to ARC plus a rolled forward cost of capital of 16.1%
	Unlisted		Unlisted	
	Five years from August 2019. Three years and three months remaining at 30 June 2018.		None	
	Yes		Yes	
	Yes		Yes	
	None		Brenda Matyolo	
	<b>WACC</b> 0.2	Not applicable.	<b>WACC</b> 0.2	Not applicable.
			<b>Terminal growth</b> 0.1	
	<b>WACC</b> R0.4 million per 1% change	Not applicable.	<b>WACC</b> R0.2 million per 1% change	Not applicable.
			<b>Terminal Growth</b> R0.1 million per 1% change	
	15.0%		12.5%	
	-	-	-	-

# INFORMATION FOR SHAREHOLDERS

## SHAREHOLDER ANALYSIS

The Company complies with the minimum shareholder spread requirements as set out in the JSE Listings Requirements paragraphs 3.37 and 4.28(e) as 42.2% of the A Ordinary shares disclosed below are held by the public at 30 June 2018.

Distribution of Shareholders	For the year ended 30 June 2018			
	Number of Shareholders	% of total Shareholders	Number of shares	% of total issued shares
<b>Shareholder type</b>				
Entities in the UBI group	3	0.6%	594 517 804	57.6%
Corporate Holdings	1	0.2%	1 058 823	0.1%
Custodians	2	0.4%	41 962 158	4.1%
Hedge Fund	3	0.6%	1 058 033	0.1%
Insurance Companies	9	1.9%	23 245 017	2.3%
Key management	4	0.8%	2 438 254	0.2%
Local Authority	1	0.2%	319 727	-
Medical Aid Scheme	3	0.6%	759 606	0.1%
Mutual Funds	2	0.4%	9 239 256	0.8%
Other Managed Funds	19	4.0%	7 861 913	0.8%
Pension Funds	24	5.0%	170 225 009	16.5%
Private Investor (Individual/Trusts)	289	60.1%	97 926 174	9.5%
Trading Position	8	1.7%	10 713 963	1.0%
Unit Trusts	56	11.6%	58 763 308	5.7%
Other	57	11.9%	12 381 543	1.2%
<b>Total</b>	<b>481</b>	<b>100%</b>	<b>1 032 470 588</b>	<b>100%</b>

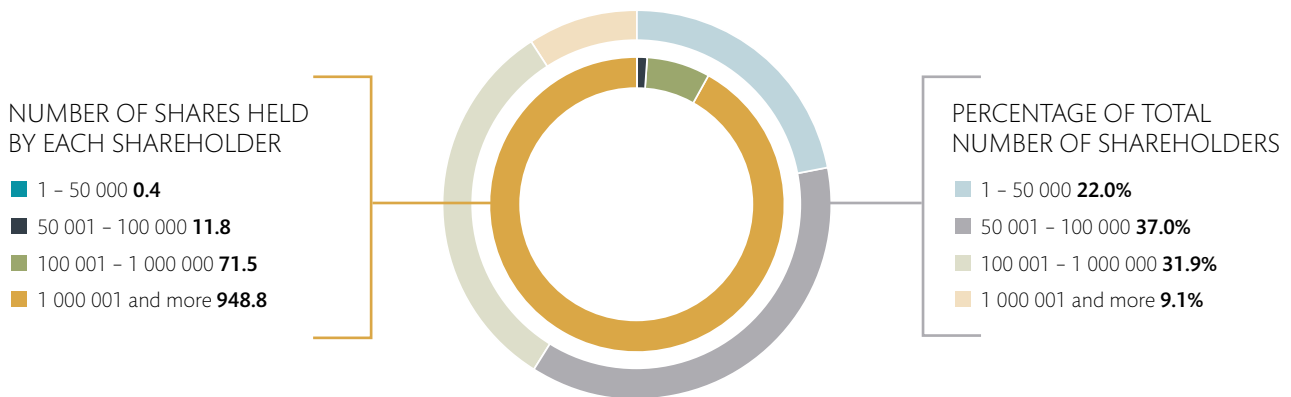
### SHAREHOLDER TYPE





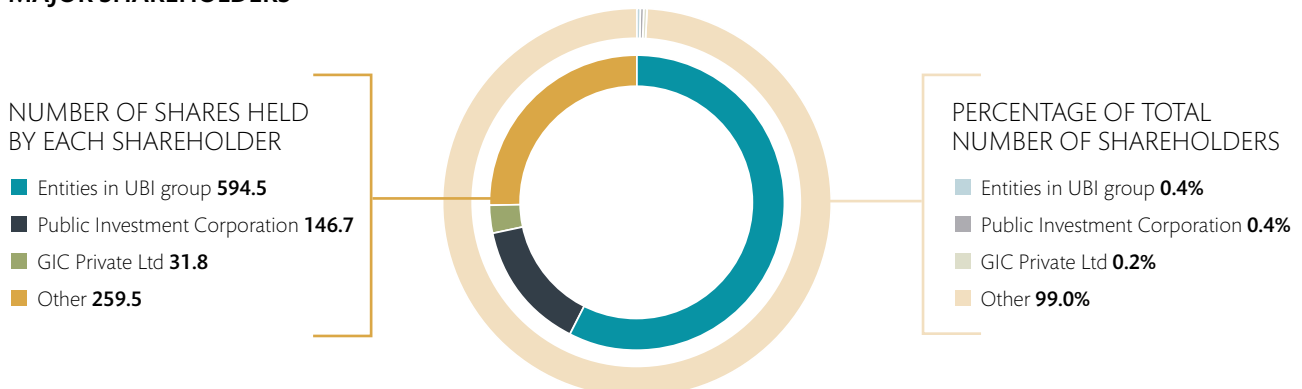
Distribution of Shareholders	For the year ended 30 June 2018			
	Number of Shareholders	% of total Shareholders	Number of shares	% of total issued shares
<b>Shareholder spread</b>				
1 – 50 000	106	22.0%	437 397	0.1%
50 001 – 100 000	178	37.0%	11 801 953	1.1%
100 001 – 1 000 000	153	31.9%	71 534 840	6.9%
1 000 001 and more	44	9.1%	948 696 398	91.9%
<b>Total</b>	<b>481</b>	<b>100%</b>	<b>1 032 470 588</b>	<b>100%</b>

## SHAREHOLDER SPREAD



Distribution of Shareholders	For the year ended 30 June 2018			
	Number of Shareholders	% of total Shareholders	Number of shares	% of total issued shares
<b>Major shareholders</b>				
Entities in UBI group	2	0.4%	594 517 804	57.6%
Public Investment Corporation	2	0.4%	146 661 346	14.2%
GIC Private Ltd	1	0.2%	31 764 705	3.1%
Other	476	99.0%	259 526 733	25.1%
<b>Total</b>	<b>481</b>	<b>100%</b>	<b>1 032 470 588</b>	<b>100%</b>

## MAJOR SHAREHOLDERS



# INFORMATION FOR SHAREHOLDERS (continued)

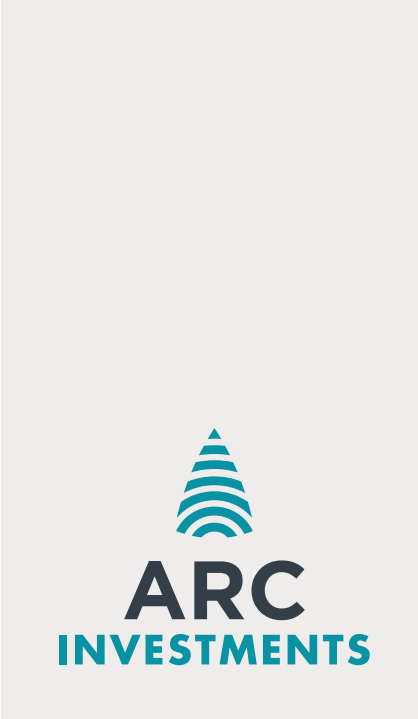
## SHAREHOLDERS' DIARY

The key dates to be noted by shareholders are as follows:

Details	Date
Integrated Annual Report	15 October 2018
Annual General Meeting	13 November 2018
Interim Results Announcement	March 2019
Financial year end	30 June 2019
Year end results announcement	September 2019

# CORPORATE INFORMATION

<b>Contact Information</b>	African Rainbow Capital Investments Limited (A Company registered and domiciled in the Republic of Mauritius) www.arci.mu
<b>Registration number</b>	C148430
<b>JSE share code</b>	AIL
<b>ISIN code</b>	MU0553S00000
<b>Directors</b>	Mark Cyril Olivier (Chairman) Deans Tommy Lo Seen Chong Clive Msipha Renosi Mokate Bridget Ntombenhle Radebe
<b>Executive Management</b>	Karen Bodenstein (Chief Financial Officer)
<b>Registered Address</b>	Level 3, Alexander House, 35 Cybercity Ebène, 72201 (Level 3, Alexander House, 35 Cybercity, Ebène, 72201) Mauritius Registered and incorporated as a private Company in Mauritius on 30 June 2017 and converted to a public Company on 2 August 2017.
<b>Company Secretary</b>	Intercontinental Trust Limited Level 3, Alexander House, 35 Cybercity, Ebène, 72201 (Level 3, Alexander House, 35 Cybercity, Ebène, 72201) Mauritius (Company number: C23546)
<b>Sponsor</b>	Rand Merchant Bank, a division of FirstRand Bank Limited 1 Merchant Place Cnr Fredman Drive and Rivonia Road Sandton, Johannesburg, 2196 (PO Box 786273, Sandton, 2146) South Africa Registration number 1929/001225/06
<b>Transfer Secretaries</b>	Computershare Investor Services Proprietary Limited Registration number 2004/003647/07 Rosebank Towers, 15 Biermann Avenue Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) South Africa Registration number 2004/003647/07 SENS release date: 13 March 2018
<b>Independent Auditors</b>	PricewaterhouseCoopers and PricewaterhouseCoopers Inc. 3rd Floor, 18 Cybercity, Ebène, 72201, Mauritius 5 Silo Square, V&A Waterfront, Cape Town, 8002, South Africa
<b>Investor Relations</b>	Ainsley Moos investors@arci.mu +230 (403) 0800 +21 (21) 180 0107 +27 (83) 296 4697



[www.arci.mu](http://www.arci.mu)