

GENERAL REPORT

FINANCIAL REVIEW

INTRODUCTION

The South African economy registered real GDP growth of 5% in calendar 2006, i.e. the third consecutive year at around such a level. The economy remained remarkably resilient towards the end of 2006 and early in 2007 in the face of higher interest rates. Both the global and domestic financial markets have also shrugged off the jitters that surfaced in May and June 2006 and in late February 2007. Domestic business and consumer confidence remained poised at elevated levels during the early part of 2007 suggesting that the strong economic growth could continue. With robust fixed investment spending across many sectors, employment is growing and this is improving household finances generally, in turn underpinning consumption spending.

While the interest rate sensitive components of domestic spending are expected to slow down, robust fixed investment and a recovery in exports are encouraging elements of the economy's recent performance. This needs to improve further in order to create a better balance on the current account of the balance of payments. The deficit on the current account which widened to 6.4% of GDP in 2006, continues to be handsomely financed by capital inflows, although these inflows tend to be dominated by portfolio investments. This in turn results in an element of risk regarding the rand exchange rate.

While domestic CPIX inflation came in close to the mid-level of the 3-6% target range during 2006, inflation accelerated towards the end of the year, breaking through the upper 6% boundary in April this year. Energy and food price increases have been the main drivers of higher inflation, but there is also evidence of broader inflation pressures. The SA Reserve Bank decided to increase interest rates with half a percent in June after pausing with interest rate hikes in February 2007. CPIX inflation is likely to continue trending above the upper 6% inflation target level over the short term, which increases the risk of further interest rate hikes.

On the global front, a key source of economic strength remains the robust growth in emerging markets, led by China, which is underpinning commodity strength and capital flows into developing countries. The resurgence of economic growth in Europe and Japan provides further support and compensates for what appears to be a soft landing in the USA. The global economy remains supportive of the South African economy although slightly lower growth is expected over the short term compared to last year.

HEADLINE EARNINGS

Total headline earnings for the year to 31 March 2007 increased by 34.8% from R5 084 million to R6 853 million. Headline earnings per share, however, increased by 37.4% from 1 052.3 cents to 1 445.4 cents due to the favourable effect of the share repurchase programme. Excluding Remgro's share of the non-recurring portion of BEE costs incurred by various investee companies in the comparative year, headline earnings and headline earnings per share increased by 25.4% and 27.8% respectively.

CONTRIBUTION TO HEADLINE EARNINGS

	Year ended 31 March				
	2007 R'm	Non-recurring portion of BEE costs included % change	2006 R'm	Non-recurring portion of BEE costs excluded % change	2006 R'm
Tobacco interests	2 964	25.1	2 369	25.1	2 369
Financial services	1 529	33.3	1 147	6.5	1 436
Industrial interests	1 924	62.5	1 184	50.9	1 275
Mining interests	155	(46.2)	288	(46.2)	288
Corporate finance and other interests	281	192.7	96	192.7	96
	6 853	34.8	5 084	25.4	5 464

The following commentary, comparing the results to those of the previous year, is based on headline earnings excluding the non-recurring portion of BEE costs.

The contribution of the tobacco interests, which represented 43.3% (2006: 43.4%) of headline earnings, increased by 25.1%.

Currency movements had a greater impact on the Group's earnings than in the previous financial year. Due to the weaker rand, the currency impact on translation of R&R Holdings SA, Luxembourg's (R&R) contribution to headline earnings increased from an unfavourable R26 million in 2006 to a favourable R420 million, as set out in the table below.

	Year ended 31 March	
	2007	2006
Average exchange rate (R/£)	13.2898	11.4050
Closing exchange rate (R/£)	14.3449	10.6437
R&R's contribution (£'m)	223	208
R&R's contribution (R'm)	2 964	2 369
Favourable/(unfavourable) currency impact (R'm)	420	(26)

In sterling terms, R&R's contribution increased by 7.2%.

The combined contribution of FirstRand and RMBH to Remgro's headline earnings amounted to R1 529 million (2006: R1 313 million), an increase of 16.5%, due to good performances by First National Bank and Rand Merchant Bank. In 2006 dividends from Absa Group Limited amounting to R123 million were also accounted for in headline earnings.

The contribution of the industrial interests to headline earnings increased by 50.9%. Unilever Bestfoods Robertsons and Tsb Sugar produced strong results, while Distell and Rainbow Chicken continued their earnings growth, with contributions to Remgro's headline earnings amounting to R210 million and R293 million respectively (2006: R164 million and R250 million). Kagiso Trust Investments (Pty) Limited's (KTI) contribution to Remgro's headline earnings was R307 million. During the year under review KTI's profit was favourably impacted by fair value adjustments of the conversion right attached to its holding of Metropolitan Holdings Limited preference shares (R390 million) as well as a non-recurring profit realised on the exercise of its option to acquire an interest in The FirstRand Empowerment Trust (R81 million). As Remgro effectively acquired its investment in KTI during December 2005, no income from KTI was accounted for during the comparative year. Medi-Clinic's contribution to headline earnings increased from R200 million in 2006 to R278 million. This increase can be attributed mainly to secondary taxation on companies (STC) paid by Medi-Clinic in the comparative period on the special dividend that was paid in December 2005. Nampak's contribution to Remgro's headline earnings amounted to R125 million (2006: R107 million).

Mining interests' contribution to headline earnings decreased by 46.2% to R155 million (2006: R288 million). This decrease can be attributed mainly to the non-recurring special dividend amounting to R183 million received from Implats during the comparative year. Dividends received from Implats amounted to R147 million (2006: R277 million). Trans Hex's contribution to headline earnings was R8 million (2006: R10 million).

The central treasury division's contribution increased from R146 million to R266 million. This increase can be attributed mainly to higher interest rates as well as higher average cash balances compared to 2006. Also included therein, are foreign currency profits amounting to R65 million

GENERAL REPORT

FINANCIAL REVIEW

(2006: R24 million loss) relating to intergroup balances. These intergroup balances were settled during the past year.

Headline earnings was also impacted favourably by the accounting recognition of a pension fund surplus amounting to R70 million following the finalisation of a surplus allocation process.

EARNINGS

Total earnings decreased by 15.4% to R6 942 million (2006: R8 202 million), mainly as a result of capital gains arising on the realisation of investments accounted for during the comparative year.

CASH EARNINGS

Attributable cash earnings (excluding the Group's share of net profits retained by associated companies), before impairments and capital and non-recurring items, decreased by 24.9% from R4 871 million to R3 660 million, mainly as a result of a decrease in dividends received from associated companies. The latter amounted to R2 580 million compared to R3 478 million in 2006. This substantial decrease was mainly due to the special dividends received from Medi-Clinic and Dorbyl as well as Implats in 2006.

REPURCHASE OF REMGRO SHARES

During the year under review, a wholly owned subsidiary company of Remgro acquired a further 7 174 384 Remgro ordinary shares at an average price of R143.71 for a total amount of R1 031.0 million. At 31 March 2007, 8 554 019 Remgro ordinary shares (1.9%) were held as treasury shares. No derivative transactions, which may have lead to the repurchase of Remgro shares, were entered into during the year under review.

The Remgro Share Trust purchased 563 000 (2006: 21 000) Remgro ordinary shares during the year under review, at an average price of R132.68 (2006: R134.46) for a total amount of R74.7 million (2006: R2.8 million), while 262 016 (2006: 1 308 790) shares were delivered to participants against payment of the subscription price.

DIVIDENDS

Ordinary dividends of 434.00 cents per share were declared for the year, compared to 361.00 cents the previous year. This represents an increase of 20.2%. The dividend is covered 3.3 times by headline earnings and 1.8 times by cash earnings, against 3.1 times (excluding BEE costs) and 2.8 times respectively the previous year.

INTRINSIC VALUE

The intrinsic net asset value of the Group includes valuations of all investments, incorporating subsidiary and associated companies, either at listed market value or, in the case of unlisted investments, at directors' valuation. The net assets of wholly owned non-investment subsidiary companies, consisting mainly of monetary items, are included at book value.

The following factors are taken into account in determining the directors' valuation of unlisted investments:

- Market value and earnings yield of similar listed shares, taking into account that the marketability of unlisted investments is limited and, in some cases, also the tradeability;
- Growth potential and risk;
- Underlying net asset value;
- Profit history; and
- Cash flow projections

The intrinsic net asset value at the end of March 2007 amounted to R221.00 per share. A schedule, setting out the analysis of the intrinsic net asset value per share on 31 March 2007 and 2006, is included at the end of the investment review.

The cash at the centre differs from the cash in the balance sheet. The latter comprises the following:

	2007	2006
	R million	R million
Per balance sheet	5 004	6 357
Less: Cash from other operating subsidiaries	(647)	(562)
Cash at the centre	4 357	5 795
– Local	1 220	4 066
– Offshore	3 137	1 729

Cash held by associated companies are not included. For information, R&R's cash attributable to Remgro at 31 March 2007, amounted to £150 million or R2 151 million (2006: £143 million or R1 524 million).

The table below compares the relative performance of the Remgro intrinsic net asset value per share in relation to certain selected JSE indices. No account has been taken of dividends paid by Remgro.

	2007	2006	2005	2004	2003	2002
Intrinsic net asset value –						
Rand per share	221.00	157.59	119.97	100.36	77.23	89.50
JSE – All share index	27 267	20 352	13 299	10 693	7 680	11 015
– Fin & Ind 30 index	24 960	19 491	13 477	9 953	6 682	9 713
– Financial 15 index	9 345	7 616	5 258	3 782	2 744	3 415
– Resource 20 index	50 018	34 923	21 585	19 961	15 763	24 512
Remgro share price (Rand)	181.00	135.00	93.80	72.00	51.45	63.00

	1 year to	5 years to
	31 March 2007	31 March 2007
	(% year-on-year)	(% comp p.a.)
Relative performance		
Intrinsic net asset value	+40.2	+19.8
JSE – All share index	+34.0	+19.9
– Fin & Ind 30 index	+28.1	+20.8
– Financial 15 index	+22.7	+22.3
– Resource 20 index	+43.2	+15.3
Remgro share price	+34.1	+23.5

The table below compares Remgro's internal rate of return (IRR) with that of certain selected JSE indices. For this purpose it has been assumed that dividends have been reinvested in either Remgro shares or in the particular index, depending on the case.

	IRR
	From 26 September 2000
	to 31 March 2007
	(% comp p.a.)
JSE – All share index	+24.41
– Fin & Ind 30 index	+16.45
– Financial 15 index	+19.24
– Resource 20 index	+31.55
Remgro share	+32.20