

GENERAL REPORT

FINANCIAL REVIEW

INTRODUCTION

The South African economy registered a 5.1% real GDP growth rate in 2007, in line with the average growth tempo over the period since 2004. A particularly encouraging development during the course of 2007 was the strong fixed investment momentum in the economy, both in the private and the public sector. Outside of the residential sector, private fixed investment grew by no less than 16% during the final quarter of 2007.

On the other hand it was clear that household budgets came under increasing pressure towards the end of the year due to the impact of higher inflation and interest rates since 2006. The consumer boom over the 2004-07 period, where real household consumption spending grew by average annual growth rates in the region of 7-8%, has probably come to an end. The consumer sector is facing a period of cyclical adjustment.

The cyclical slowdown in the economy is reflected in lower business and consumer confidence levels. Confidence took a serious knock during the first quarter of 2008, not only as the cyclical slowdown in the economy intensified, but also due to three exogenous headwinds. Firstly, the global economic slowdown triggered by the US sub-prime financial crisis and reinforced by the explosion in commodity prices (food, oil and industrial raw materials). Secondly, the local electricity supply crunch, which broke out in full force at the end of January when South Africa's mines were closed for five working days in order to stabilise the grid. Economic life in South Africa is adjusting to scheduled load shedding and power rationing and households, industry and commerce are facing steep increases in electricity prices. Thirdly, the return of political uncertainty in the wake of the Polokwane ANC National Conference where the ANC leadership was radically changed.

The business environment has therefore become substantially more challenging. Whilst the USA is probably entering recession, the global economy is still expected to avoid recession, mainly due to economic resilience in Europe and – to a lesser extent – in Japan, as well as sustained robust growth in emerging economies, led by China. Domestically, inflation hit double digit figures early in 2008 despite interest rates having increased by 450 basis points between June 2006 and April 2008. This reflects the impact of the supply shocks to inflation, driven by escalating food and energy prices. This is a global phenomenon and a major challenge to central banks. It is possible that domestic interest rates increase further as the rolling supply shocks to inflation are fed into inflation expectations and so-called second round effects. This threatens the outlook for trend inflation and longer term economic growth.

Due to the slowing domestic growth momentum and heightened uncertainties, combining with the increased risk aversion of international investors related to global financial instability, the rand has come under pressure. The deficit on the current account of the balance of payments widened to 7.3% of GDP last year. While the rand's depreciation has added to inflationary pressures, it is contributing to a recovery in export growth while import growth is flattening off. A better balance between export and import growth already evident in 2007, combined with strong public sector infrastructure fixed investment spending will prove key supports in terms of aggregate real GDP growth in the current environment where the domestic market has come under substantial pressure.

Given the broader picture, a slowdown to a 3-3½% average real GDP growth rate over the short term (2008/09) will by no means be disastrous, but should rather be seen as an opportunity to find new balance, to reduce excessive debt levels, to increase productivity and to address the infrastructure bottlenecks in the South African economy.

HEADLINE EARNINGS

Total headline earnings for the year to 31 March 2008 increased by 15.9% from R6 892 million to R7 991 million. Headline earnings per share, however, increased by 16.5% from 1 453.6 cents to 1 692.8 cents due to the favourable impact of the share repurchase programme in the previous year. During the year under review Rainbow Chicken Limited concluded a black economic empowerment (BEE) transaction. The accounting treatment of this transaction resulted in a non-recurring charge of R37 million (Remgro's share), or 7.9 cents per share, against headline earnings for the year under review. Due to this reason headline earnings per share, and its year-on-year comparison, are also presented excluding the non-recurring portion of BEE costs.

Excluding Remgro's share of the non-recurring portion of BEE costs, headline earnings and headline earnings per share increased by 16.5% and 17.0% respectively.

CONTRIBUTION TO HEADLINE EARNINGS

	Year ended 31 March				
	Non-recurring portion of BEE costs included		Non-recurring portion of BEE costs excluded		2007 R million
	2008 R million	% change	2008 R million	% change	
Tobacco interests	3 579	20.7	3 579	20.7	2 964
Financial services	2 120	35.2	2 120	35.2	1 568
Industrial interests	1 895	(1.5)	1 932	0.4	1 924
Mining interests	264	70.3	264	70.3	155
Corporate finance and other interests	133	(52.7)	133	(52.7)	281
	7 991	15.9	8 028	16.5	6 892

In 2007 headline earnings was impacted favourably by foreign currency gains amounting to R65 million relating to intergroup balances, as well as the accounting recognition of a pension fund surplus amounting to R70 million following the finalisation of a surplus allocation process. Excluding these items, as well as Remgro's share of the non-recurring BEE costs accounted for during the year under review, Remgro's headline earnings and headline earnings per share increased by 18.8% and 19.3% respectively.

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 represents 44.6% (2007: 43.0%) of headline earnings, increased by 20.7%. In sterling, R&R Holdings SA, Luxembourg's (R&R) contribution increased by 12.6%.

Currency movements continued to impact the tobacco interests' contribution to the Group's earnings materially. Due to the weaker rand, the positive currency impact on translation of R&R's contribution to headline earnings (consisting mainly of equity accounted income from BAT) was R250 million during the year under review, compared to R420 million in 2007, as set out in the table below.

	Year ended 31 March	
	2008	2007
Average exchange rate (R/£)	14.2882	13.2898
Closing exchange rate (R/£)	16.0290	14.3449
R&R's contribution (£'m)	251	223
R&R's contribution (R'm)	3 579	2 964
Favourable currency impact (R'm)	250	420

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The combined contribution of FirstRand and RMBH to Remgro's headline earnings from financial services amounted to R2 120 million (2007: R1 568 million). The increase of 35.2% can be attributed mainly to good performances in the retail, corporate and investment banking segments during the twelve months ended 31 December 2007.

The contribution of the industrial interests to headline earnings increased by 0.4% to R1 932 million (2007: R1 924 million). Kagiso Trust Investments (KTI) reported lower results, with a contribution to headline earnings amounting to R88 million (2007: R307 million). During the previous financial year KTI's results were favourably impacted by a fair value adjustment relating to its holding of Metropolitan Holdings Limited preference shares, amounting to R390 million, as well as certain non-recurring profits. During the year under review KTI's fair value adjustment referred to above amounted to only R38 million. Rainbow's contribution to Remgro's headline earnings increased from R293 million in 2007 to R414 million. This increase can be attributed to earnings growth by Rainbow, as well as Remgro's increased shareholding in Rainbow resulting from the offer to Rainbow minorities concluded during June 2007. Distell reported good results with a contribution to headline earnings amounting to R261 million (2007: R210 million), while Nampak reported improved results with a contribution to headline earnings amounting to R163 million (2007: R125 million). Medi-Clinic's contribution to Remgro's headline earnings amounted to R285 million (2007: R278 million), while the Plate Glass group contributed R22 million to headline earnings for the five months since acquisition.

Mining interests' contribution to headline earnings increased by 70.3% to R264 million (2007: R155 million). Dividends received from Implats amounted to R267 million (2007: R147 million). Trans Hex reported a headline loss of R8 million for the year under review (2007: R23 million profit). Remgro's share of this loss amounted to R3 million (2007: R8 million profit).

EARNINGS

Total earnings increased by 42.5% to R9 893 million (2007: R6 942 million), mainly as a result of a capital gain amounting to R1 167 million realised on the restructuring of Remgro's interest in Unilever, as well as the earnings growth of the underlying investments.

CASH EARNINGS

Attributable cash earnings (excluding the Group's share of net profits retained by associated companies and joint ventures), before impairments and non-recurring and capital items, increased by 29.6% from R3 660 million to R4 743 million, mainly as a result of an increase in dividends received from associated companies. The latter amounted to R3 380 million compared to R2 580 million in 2007. This increase was mainly due to higher dividends from R&R.

REPURCHASE OF REMGRO SHARES

At 31 March 2008, 8 554 019 Remgro ordinary shares (1.9%) were held as treasury shares (31 March 2007: 8 554 019 shares). No shares were repurchased by the Company or any wholly owned subsidiary company during the year under review.

The Remgro Share Trust purchased 150 566 (2007: 563 000) Remgro ordinary shares during the year under review at an average price of R189.19 (2007: R132.68) for a total amount of R28.5 million (2007: R74.7 million), while 126 383 (2007: 262 016) shares were delivered to participants against payment of the purchase price.

DIVIDENDS

Ordinary dividends of 510.00 cents per share were declared for the year, compared to 434.00 cents the previous year. This represents an increase of 17.5%. The dividend is covered 3.3 times by headline earnings and 2.0 times by cash earnings, against 3.4 times and 1.8 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 and joint ventures, 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 2008 amounted to R253.67 per share. A schedule, setting out the analysis of the intrinsic net asset value per share at 31 March 2008 and 2007, is included at the end of the investment review.

The cash at the centre differs from the cash in the balance sheet. The first-mentioned comprises the following:

	2008	2007
	R million	R million
Per balance sheet	3 934	5 004
Less: Cash of other operating subsidiaries	(661)	(647)
Cash at the centre	3 273	4 357
– Local	619	1 220
– Offshore	2 654	3 137

Cash held by associated companies are not included. For information, R&R's cash and cash equivalents attributable to Remgro at 31 March 2008, amounted to £152 million or R2 433 million (2007: £150 million or R2 151 million).

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The tables below compare the relative performance of the Remgro intrinsic net asset value per share with certain selected JSE indices. No account has been taken of dividends paid by Remgro.

	2008	2007	2006	2005	2004	2003
Intrinsic net asset value –						
Rand per share	253.67	221.00	157.59	119.97	100.36	77.23
JSE – All share index	29 588	27 267	20 352	13 299	10 693	7 680
– Fin & Ind 30 index	23 868	24 960	19 491	13 477	9 953	6 682
– Financial 15 index	7 424	9 345	7 616	5 258	3 782	2 744
– Resource 20 index	64 543	50 018	34 923	21 585	19 961	15 763
Remgro share price (Rand)	195.93	181.00	135.00	93.80	72.00	51.45

Relative performance	1 year to 31 March 2008 (% year on year)	5 years to 31 March 2008 (% comp p.a.)
Intrinsic net asset value	14.8	26.8
JSE – All share index	8.5	30.9
– Fin & Ind 30 index	(4.4)	29.0
– Financial 15 index	(20.5)	22.0
– Resource 20 index	29.0	32.5
Remgro share price	8.2	30.6

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 2008 (% comp p.a.)
JSE – All share index	22.54
– Fin & Ind 30 index	13.77
– Financial 15 index	13.51
– Resource 20 index	31.58
Remgro share	29.50