

INTRODUCTION

The South African economy slowed sharply towards the end of 2008. A broad cyclical slowdown was already under way since the end of 2007 when the global financial crisis erupted in full force during September of 2008, sending the world economy into a tailspin. The South African economy registered its first quarterly decline in ten years during the fourth quarter of 2008 (-1.8%) and the annual growth rate receded to 3.1%, following four calendar years of growth of around 5% per annum.

Whilst electricity supply shortages caused major disruptions to economic growth during the first part of calendar 2008, the slowdown in economic activity for the full year was evident in the growth rate of real household consumption receding to 2.3% from 6.6% in 2007, reflecting that the level of real consumer spending actually contracted during the second half of the year. The contractions deepened during the first quarter of 2009. The growth momentum in real fixed investment spending (the private and public sectors in aggregate) slowed from above 16% in 2007 to 2.6% during the first quarter of 2009. Adding insult to injury, exports contracted sharply during the final quarter of the year and the first quarter of 2009 in response to the vicious world economic recession unfolding.

Business has been navigating exceptionally treacherous waters during the past calendar year and faces an equally treacherous and uncertain outlook, which is dominated by the unstable world economic conditions. Global real GDP is estimated to have contracted at a 6.7% annualised pace during the fourth quarter of 2008 and 5.6% during the first quarter of 2009. The contraction in economic activity was led by the advanced economies. The world economic recession is synchronised and the deepest since World War II. Global trade and financial flows shrunk sharply, commodity prices tumbled and production and employment losses have been and still are mounting. The economic woes are worst in the developed economies; however, emerging economies have been impacted via the close trade and financial linkages. The commodity price-induced global inflation shock of 2006 to 2008 has spectacularly reversed, and across the globe central banks, fiscal authorities and multilateral financial institutions are immersed in a full-on battle to arrest deflationary tendencies. From March 2009 the global economic crisis appears to have stabilised and optimism began building that a recovery was under way.

Whilst the South African economy has been shielded from the trigger of the global financial crisis (i.e. the bursting of the US sub-prime financial bubble), it is fully exposed to the indirect impact on export demand and prices flowing from the world recessionary conditions, as well as the contraction in capital flows. The local manufacturing sector experienced a particular strong downturn during the final quarter of 2008 and business survey indices in the sector declined to decade lows during the first quarter of 2009. Whilst the growth in real consumer spending has slowed and retail activity has contracted, a measure of resilience was still detected during the first quarter of 2009; however, the outlook is clouded by additional production cutbacks and threatening employment losses.

A number of positive fundamental factors bolster an otherwise worrying outlook for South Africa. Firstly, South Africa's banking sector has a negligible direct exposure to the sub-prime financial woes, is well capitalised and astutely regulated. Whilst the rand exchange rate took a hit initially, its resilience in the face of the global financial crisis and the return of inward equity investment during the first quarter of 2009 bode well. Secondly, in both the monetary and fiscal policy departments considerable space has been created in recent years for countervailing intervention. Prime overdraft interest rates have already declined by 450 basis points and could decline further should external conditions deteriorate again. The budgeted fiscal deficit is projected to increase from -1% in 2008/09 to -3.8% in 2009/10, which will still leave the public debt ratio (currently at 22.6%) well below the level of 48.1% recorded in 1996/97. Thirdly, South Africa has already embarked on an aggressive public fixed investment drive which will serve to counter some of the adverse tendencies expected in the private sector.

As heartening as these fundamentals are, the scope and intensity of the prevailing risks generated by the global financial/economic crisis are profound. For South Africa these risks centre on exports and the availability of foreign capital to finance the large current account deficit.

HEADLINE EARNINGS

With effect from 3 November 2008 the investment in British American Tobacco Plc (BAT) was distributed to Remgro shareholders as an interim dividend *in specie*. For the year under review the investment in BAT was accordingly only equity accounted for the seven months to 31 October 2008, resulting in distortions when comparing the financial results for the two years reported on.

For the year to 31 March 2009 both headline earnings and headline earnings per share decreased by 41.7% from R7 991 million to R4 660 million and from 1 692.8 cents to 987.7 cents respectively.

CONTRIBUTION TO HEADLINE EARNINGS

	Year ended 31 March	
	2009 R million	2008 R million
Tobacco interests	2 295	3 579
Financial services	1 576	2 120
Industrial interests	1 318	1 895
Mining interests	164	264
Corporate finance and other interests	(693)	133
	4 660	7 991

Currency movements continued to impact the tobacco interests' contribution to the Group's earnings. Due to the weaker rand, the positive currency impact on translation of R&R Holdings SA, Luxembourg's (R&R) contribution to headline earnings (consisting mainly of equity accounted income from BAT) was R141 million during the year under review, compared to R250 million in 2008, as set out in the table below.

	Year ended 31 March	
	2009	2008
Average exchange rate (R/£)	15.2235	14.2882
R&R's contribution (£'m)	151	251
R&R's contribution (R'm)	2 295	3 579
Favourable currency impact (R'm)	141	250

The combined contribution of FirstRand and RMBH to Remgro's headline earnings from financial services amounted to R1 576 million (2008: R2 120 million). The decrease of 25.7% can be attributed mainly to an increase in bad debts in the retail lending business of the banking division as well as to equity trading losses.

The contribution of the industrial interests decreased by 30.4% to R1 318 million (2008: R1 895 million). Total South Africa's contribution to headline earnings amounted to a loss of R25 million (2008: R207 million profit). The results of Total South Africa were materially impacted by the lower international oil price during the second half of 2008, resulting in substantial stock losses. Kagiso Trust Investments' (KTI) contribution to headline earnings amounted to a loss of R139 million (2008: R88 million profit). KTI's results were negatively impacted by unfavourable fair value adjustments amounting to R368 million (2008: R38 million favourable) relating to its holding of Metropolitan Holdings

FINANCIAL REVIEW

Limited convertible preference shares. Distell reported good results with its contribution to headline earnings amounting to R304 million (2008: R261 million). Rainbow reported lower results with its contribution to Remgro's headline earnings amounting to R235 million (2008: R377 million), while Unilever's contribution to headline earnings amounted to R231 million (2008: R229 million). Tsb Sugar reported excellent results with its contribution to headline earnings amounting to R187 million (2008: R121 million). Tsb Sugar's results were favourably impacted by the current high world price of sugar as well as favourable climatic conditions resulting in high levels of sugar production. Medi-Clinic and Nampak's contribution to headline earnings amounted to R288 million and R105 million respectively (2008: R285 million and R163 million).

Mining interest's contribution to headline earnings decreased by 37.9% to R164 million (2008: R264 million). Dividends received from Implats amounted to R346 million (2008: R267 million). Trans Hex reported a headline loss of R637 million for the year under review (2008: R8 million loss). Remgro's share of this loss amounted to R182 million (2008: R3 million loss). Included in Trans Hex's results for the 2009 financial year are impairment losses amounting to R370 million.

The contribution of corporate finance and other interests decreased to a headline loss of R693 million (2008: R133 million profit). The decrease can be attributed mainly to secondary taxation on companies (STC) amounting to R686 million payable on the dividend *in specie*, as well as losses amounting to R108 million which were equity accounted from the investment in Xicom (2008: R38 million loss for eight months of the year). Lower interest rates than in the comparative year also resulted in a decrease in the contribution from the central treasury division of R36 million. Also included in headline earnings are foreign currency profits amounting to R50 million realised on the repatriation of R&R dividends.

HEADLINE EARNINGS FROM CONTINUING OPERATIONS

In order to facilitate year-on-year comparison, headline earnings and headline earnings per share are also presented for continuing operations, which excludes the equity accounted income of BAT, as well as all non-recurring costs relating to the unbundling, as set out in the following table.

	2009	2008
	R million	R million
Headline earnings as reported	4 660	7 991
Equity accounted income of BAT	(2 211)	(3 440)
STC on the BAT unbundling	686	–
Other non-recurring costs relating to the unbundling	33	–
Headline earnings from continuing operations	3 168	4 551
Headline earnings per share as reported (cents)	987.7	1 692.8
Headline earnings per share from continuing operations (cents)	671.5	964.1

Headline earnings from continuing operations decreased by 30.4%, from R4 551 million to R3 168 million, while headline earnings per share from continuing operations decreased by 30.3% from 964.1 cents to 671.5 cents.

EARNINGS

Total earnings increased by 358.2% to R45 330 million (2008: R9 893 million), mainly as a result of the capital gain amounting to R40 805 million realised on the unbundling of the investment in BAT.

During the year under review Remgro made a provision for impairment amounting to R438 million on three of its investments, i.e. Dorbyl, Trans Hex and PGSI, as their carrying values exceeded their estimated recoverable amounts.

REPURCHASE OF REMGRO SHARES

At 31 March 2008, 8 554 019 Remgro ordinary shares (1.9%) were held as treasury shares. During the six months ended 30 September 2008 a wholly owned subsidiary company of Remgro acquired 3 500 000 Remgro ordinary shares at an average price of R189.71 for a total amount of R666.4 million. These shares were acquired for the purpose of hedging the new share appreciation right scheme that was implemented subsequent to the unbundling of the investment in BAT. At 30 September 2008, 12 054 019 Remgro ordinary shares (2.7%) were held as treasury shares.

During the year under review no Remgro ordinary shares were purchased by The Remgro Share Trust, while 1 042 426 shares were delivered to participants against payment of the subscription price.

Subsequent to 30 September 2008, as part of the preliminary steps to the unbundling of the investment in BAT, the 8 554 019 Remgro ordinary shares held as treasury shares and 969 836 of the Remgro ordinary shares held by The Remgro Share Trust were cancelled after the unbundling of the investment in BAT was approved by Remgro shareholders. The balance of the Remgro ordinary shares held by The Remgro Share Trust were delivered to participants and a wholly owned subsidiary company of Remgro provided a direct finance facility to the participants to allow them to settle the outstanding purchase price.

At 31 March 2009, 3 500 000 Remgro ordinary shares (0.8%) were held as treasury shares.

DIVIDENDS

The final ordinary dividend per share was determined at 110 cents (2008: 330 cents). Total ordinary dividends per share in respect of the financial year to 31 March 2009 therefore amount to 190 cents (2008: 510 cents).

For a Remgro shareholder who continues to hold ordinary shares in BAT as well as Reinet depositary receipts (DRs), this means an increase of 8.0% in dividend income when compared to the previous financial year.

The dividend is covered 52 times by headline earnings against 3.3 times 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
- ✦ Cash flow projections

It is the policy of Remgro not to apply a control premium to the valuation of investments where it holds a majority interest. Where Remgro holds a minority interest a 10% tradeability discount is applied.

Remgro's unlisted investments were valued as follows:

AIR PRODUCTS SOUTH AFRICA

The discounted cash flow method was used to value this investment. A weighted average cost of capital of 12.2% and terminal growth rate of 5.0% were used in calculating the equity value. No tradeability discount is applied to the Air Products South Africa valuation due to the 50% shareholding.

BUSINESS PARTNERS

The last material share trade, at 600 cents per share, was used to value this investment.

KAGISO TRUST INVESTMENTS

A sum-of-the-parts valuation, with an effective date of 28 February 2009, was used as valuation basis. A 10% tradeability discount was applied to the valuation.

KIEF

This investment is still in a start-up phase and is therefore valued at its accounting carrying value.

PGSI

The discounted cash flow method was used to value this investment. A weighted average cost of capital of 12.8% and terminal growth rate of 4.0% were used in calculating the equity value, whereafter a 10% tradeability discount was applied.

TOTAL SOUTH AFRICA

A forward price-earnings ratio of 7.6 was used to determine the equity value of this investment, whereafter a 10% tradeability discount was applied.

TSB SUGAR

A historical price-earnings ratio of 14.0 was used to value this investment. No control premium was applied to this valuation.

UNILEVER SOUTH AFRICA

The investment is valued at the put option value at which the investment can be put to the other shareholder. The option value implies a historical price-earnings ratio of 18.3.

WISPECO

A historical price-earnings ratio of 6.0 was used to value this investment. The after-tax inventory writedown of R27.8 million for the year under review was ignored for valuation purposes. No control premium was applied to this valuation.

XIOCOM

This investment is still in a start-up phase and is therefore valued at its accounting carrying value.

The intrinsic net asset value at the end of March 2009 amounted to R99.15 per share. A schedule, setting out the analysis of the intrinsic net asset value per share at 31 March 2009 and 2008, 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:

	2009	2008
	R million	R million
Per balance sheet	5 050	3 934
Investment in money market funds	1 578	–
Less: Cash of operating subsidiaries	(661)	(661)
Cash at the centre	5 967	3 273
– Local	874	619
– Offshore	5 093	2 654

On 31 March 2009, R1 578 million was invested in money market funds which are not classified as cash and cash equivalents on the balance sheet.

Cash held by associated companies are not included in cash at the centre. For information and comparative purposes, R&R's cash and cash equivalents attributable to Remgro at 31 March 2008, when R&R was still an associate and its cash therefore not included in cash at the centre, amounted to £152 million or R2 433 million.

GENERAL REPORT

FINANCIAL REVIEW

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. The material decrease in the Remgro share price and intrinsic net asset value per share reflects the unbundling of Remgro's interest in BAT on 3 November 2008 to Remgro shareholders.

	2009	2008	2007	2006	2005	2004
Intrinsic net asset value –						
Rand per share	99.15	253.67	221.00	157.59	119.97	100.36
JSE – All share index	20 364	29 588	27 267	20 352	13 299	10 693
– Fin & Ind 30 index	18 080	23 868	24 960	19 491	13 477	9 953
– Financial 15 index	5 438	7 424	9 345	7 616	5 258	3 782
– Resource 20 index	38 767	64 543	50 018	34 923	21 585	19 961
Remgro share price (Rand)	67.50	195.93	181.00	135.00	93.80	72.00

The relative share performance of Remgro's share price and intrinsic net asset value per share are calculated on the assumption that on 31 March 2009 a Remgro shareholder was still in possession of the unbundled shares in BAT and Reinet Investments S.C.A. (Reinet) depositary receipts, and also that a Remgro shareholder followed his rights in terms of the Reinet warrant receipts by exchanging BAT shares for additional Reinet depositary receipts.

Relative performance	1 year to	5 years to
	31 March 2009	31 March 2009
	(% year on year)	(% compounded per annum)
Intrinsic net asset value	(22.95)	14.3
JSE – All share index	(31.2)	13.7
– Fin & Ind 30 index	(24.3)	12.7
– Financial 15 index	(26.8)	7.5
– Resource 20 index	(39.9)	14.2
Remgro share price	(16.4)	17.9

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 2009
	(% compounded per annum)
JSE – All share index	15.02
– Fin & Ind 30 index	9.01
– Financial 15 index	8.64
– Resource 20 index	20.43
Remgro share	27.14