

## FINANCIAL REVIEW

### SALIENT FEATURES

Ordinary dividend per share	+ 10.0%
Headline earnings per share (including BAT in the comparative year)	- 30.1%
Headline earnings per share from continuing operations (excluding BAT in the comparative year)	+ 2.8%
Increase in intrinsic value per share	+ 22.7%
Successful completion of the VenFin acquisition on 23 November 2009	



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## INTRODUCTION

As witnessed in most parts of the world, economic conditions in South Africa were particularly challenging during 2009, with GDP declining by 1.8%, the first annual output contraction since the early 1990s. The domestic economy suffered a double blow through a decline in South African consumer spending amid significant job losses, as well as a sharp export fall in reaction to plunging global demand. One of the reactions from business was to postpone/reduce planned fixed investment outlays, which had a further dampening impact on economic activity. World GDP declined by 0.5% in 2009, the first time since World War II that the global economy contracted for an entire calendar year.

While the data for 2009 as a whole is depressing, the second half of the year already saw a return of global growth, supported by unprecedented government stimulus measures and a moderation in the rate of inventory destocking. After still contracting by more than 5% (quarter on quarter, annualised) in 2009Q1, the IMF reports that the global economy grew by 4.5% in the second half of 2009. Leading indicators such as the global purchasing managers' index (PMI)<sup>(1)</sup>, which rose to a 71-month high in April 2010, suggest that the world growth recovery continued in the early stages of 2010.

The South African economy likewise appears to have turned the corner in the middle of 2009. After the real GDP registered a substantial quarter-on-quarter decline of 7.4% (annualised) in 2009Q1, followed by another (albeit smaller) fall in the second quarter, South Africa exited the recession when real GDP increased by 0.9% in 2009Q3. The recovery strengthened in the final quarter of 2009 with growth of 3.2% quarter on quarter recorded. In terms of the sectoral split, the South African economic recovery has (in line with global trends) to a large degree been driven by the manufacturing sector, with the consumer demand dependent trade sector lagging the recovery in the rest of the economy.

The local economic data released so far in 2010 have been mixed, with the interest rate sensitive sectors of the economy (especially the housing and vehicle

markets) continuing to recover at a robust pace. Albeit coming from a low base in 2009, Naamsa reported that new vehicle sales increased by 22% year on year during the first four months of 2010. The various house price indices from the major banking groups also indicate a return to house price growth, even in real terms. These upbeat trends reflect the positive impact that the 550 basis points worth of interest rate reductions since December 2008 is having on the economy.

Besides an export recovery (the volume of vehicles exported surged by 51.6% year on year in April 2010), the improved global economic conditions have also benefited South Africa through a strong rise in foreign purchases of domestic stocks and bonds. In the year to 30 April 2010, foreign investors were net buyers of R30 billion worth of bonds and R12.5 billion of stocks on the Johannesburg Stock Exchange (JSE). The return to global growth has seen a strong rebound in the prices of key commodity prices such as platinum and copper, which is also helping South Africa's exports and increased the attractiveness for foreigners to invest in the resource heavy JSE.

However, despite these positive developments, the South African economy continues to face a number of headwinds. Most important is the employment situation – recently released employment figures from Stats SA indicate that the economy lost 171 000 jobs during the first quarter of 2010, which pushed the official unemployment rate back above 25%. A sluggish job market recovery poses one of the biggest risks to South Africa's economic recovery as it will restrain the possible rebound in consumer spending, responsible for more than 60% of GDP.

Although the recovery has evolved better than expected, the global economy continues to pose a risk to the South African growth outlook. The recent sharp declines on global stock markets in reaction to sovereign debt concerns in a number of southern European countries (Greece, Spain, Portugal, etc.) illustrated that the recovery from the global recession is unlikely to proceed in a straight line. Of concern is that a number of countries more important to the world economy, mainly the United States and United

<sup>(1)</sup> The PMI is an up-to-date indicator that gauges the health of the manufacturing sector.

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Kingdom, are also faced with the difficult challenge of trying to reduce large fiscal deficits (measuring above 10% of GDP) at a time when a sustainable growth recovery is not assured.

Going forward, the large deficits will limit the ability of developed country governments to support their economies in the event of a growth relapse. Furthermore, the steps being taken in the aftermath of the global crisis, including proposals to increase regulation of the financial sector and the possibility of higher taxes (Australia has already announced plans to increase the tax on mining companies), may result in lower GDP growth rates than was the case through the 1990s and early 2000s.

### HEADLINE EARNINGS

For the year to 31 March 2010 headline earnings decreased by 28.0% from R4 660 million to R3 355 million, while headline earnings per share decreased by 30.1% from 987.7 cents to 690.1 cents.

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 table below.

	Year ended 31 March	
	2010 R million	2009 R million
Headline earnings as reported	3 355	4 660
Equity accounted income of BAT	–	(2 211)
STC on the BAT unbundling	–	686
Other non-recurring costs relating to the unbundling	–	33
<b>Headline earnings from continuing operations</b>	<b>3 355</b>	<b>3 168</b>
Headline earnings per share as reported (cents)	<b>690.1</b>	987.7
<b>Headline earnings per share from continuing operations (cents)</b>	<b>690.1</b>	<b>671.5</b>

Headline earnings from continuing operations increased by 5.9%, from R3 168 million to R3 355 million, while headline earnings per share from continuing

operations increased by only 2.8% from 671.5 cents to 690.1 cents due to the dilutive effect of issuing ordinary shares for the acquisition of VenFin.

### CONTRIBUTION TO HEADLINE EARNINGS

	Year ended 31 March			
	2010 R million	% change	Excluding BAT 2009 R million	Including BAT 2009 R million
Tobacco interests	–		–	2 295
Financial services	1 355	(14.0)	1 576	1 576
Industrial interests	1 982	50.4	1 318	1 318
Media interests	17		–	–
Mining interests	96	(41.5)	164	164
Technology interests	13		–	–
Other investments	(64)	20.0	(80)	(80)
Central treasury	57	(79.5)	278	194
Other net corporate costs	(101)	(14.8)	(88)	(807)
<b>Total</b>	<b>3 355</b>	<b>5.9</b>	<b>3 168</b>	<b>4 660</b>

Refer to the composition of headline earnings on page 17 for further information. The headline earnings "Excluding BAT" presented above represent headline earnings from continuing operations.

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The acquisition of VenFin necessitated the introduction of two new reporting groups, "Media interests" and "Technology interests". A third new reporting group, "Other investments" was also created. In order to facilitate year-on-year comparison, the information presented for the comparative year has been adjusted accordingly.

*The following commentary, comparing the results to those of the previous year, is based on headline earnings from continuing operations only.*

### Financial services

The combined contribution of FirstRand and RMBH to Remgro's headline earnings from financial services amounted to R1 355 million (2009: R1 576 million). The decrease of 14.0% 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.

### Industrial interests

The contribution of the industrial interests to headline earnings increased by 50.4% to R1 982 million (2009: R1 318 million). Kagiso Trust Investment's (KTI) contribution to headline earnings amounted to R128 million (2009: R139 million loss). KTI's results were impacted by favourable fair value adjustments amounting to R20 million (2009: R368 million unfavourable) relating to its shareholding in Metropolitan Holdings Limited. Total South Africa's contribution to headline earnings amounted to R42 million (2009: R25 million loss). The improved performance of Total South Africa is mainly due to a more stable international oil price than in 2008, resulting in lower stock revaluation losses. Rainbow reported improved results with its contribution to Remgro's headline earnings amounting to R259 million (2009: R235 million). Medi-Clinic's contribution to headline earnings amounted to R460 million (2009: R288 million). This substantial increase is due to improved operating results, as well as non-recurring items amounting to R176 million (Remgro's share being R81 million). Distell and Unilever's contribution to headline earnings amounted to R274 million and R279 million respectively (2009: R304 million and R231 million). Tsb Sugar's contribution to headline earnings

amounted to R227 million (2009: R188 million). This increase is mainly due to a change in the valuation methodology of its biological agricultural assets, resulting in an increase in profit of R34 million.

### Media interests

Media interests consist primarily of the interest in Sabido that was previously held by VenFin. Sabido's contribution to Remgro's headline earnings for the three months to March 2010 amounted to R11 million.

### Mining interests

Mining interest's contribution to headline earnings decreased by 41.5% to R96 million (2009: R164 million). Dividends received from Implats amounted to R85 million (2009: R346 million), while Remgro's share of the results of Trans Hex amounted to R11 million (2009: R182 million loss). It should be noted that with effect from 30 November 2009 the investment in Trans Hex was reclassified as an investment "held for sale" and consequently Trans Hex was only equity accounted for the eight months to 30 November 2009.

### Technology interests

Technology interests primarily represent the interest in the CIV group of companies that was acquired with VenFin. For the year under review the CIV group was only equity accounted for the three months to March 2010 and contributed R7 million to Remgro's headline earnings.

### Other investments

The contribution of other investments to headline earnings improved by R16 million to a loss of R64 million (2009: R80 million loss). Business Partners' contribution to headline earnings amounted to R12 million (2009: R28 million), while losses amounting to R79 million were equity accounted from the investment in Xiocom (2009: R108 million loss). Xiocom was sold in March 2010.

### Central treasury and other net corporate costs

Lower interest rates as well as lower average cash balances resulted in a decrease in the contribution from the central treasury division of R221 million. It should be noted that foreign currency profits amounting to R50 million were realised on the

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repatriation of R&R dividends in the comparative year. The increase in other net corporate costs to R101 million (2009: R88 million) is mainly due to the inclusion of VenFin's corporate costs.

### EARNINGS

Total earnings decreased by 93.2% to R3 060 million (2009: R45 330 million), mainly as a result of the capital gain amounting to R40 805 million realised on the unbundling of the investment in BAT in the comparative year.

During the year under review Remgro made an impairment provision amounting to R168 million in respect of three investments, i.e. PGSI, KIEF and Premier Team Holdings, as their carrying values exceeded their estimated recoverable amounts. In the comparative year an impairment provision amounting to R438 million was made in respect of the investments in Dorbyl, Trans Hex and PGSI.

### TREASURY SHARES

At 31 March 2009, 3 500 000 Remgro ordinary shares (0.8%) were held as treasury shares by a wholly owned subsidiary company of Remgro. As previously reported, these shares were acquired for the purpose of hedging the new share appreciation rights scheme that was implemented subsequent to the unbundling of the investment in BAT during November 2008.

During the year under review no Remgro ordinary shares were repurchased, while 75 956 Remgro ordinary shares were utilised to settle Remgro's obligation towards scheme participants who exercised share appreciation rights granted to them.

At 31 March 2010, 3 424 044 Remgro ordinary shares (0.7%) were held as treasury shares.

### DIVIDENDS

The final ordinary dividend per share was determined at 125 cents (2009: 110 cents). Total ordinary dividends per share in respect of the financial year to 31 March 2010 therefore amount to 209 cents (2009: 190 cents).


The dividend is covered 3.3 times by headline earnings against 5.2 times the previous year.

### INTRINSIC VALUE

Remgro's intrinsic value per share at 31 March 2010 was R121.64 compared to R99.15 on 31 March 2009.

### ACKNOWLEDGEMENT

We extend our sincere appreciation to all who contributed to the performance of the Group over the past year. The shareholders for their continued confidence; the managing directors and all colleagues in the various Group companies for their co-operation and support; all other directors, officials and employees for their dedication and all parties concerned for services rendered.



**Johann Rupert**

Stellenbosch  
21 June 2010



**Thys Visser**

# COMPOSITION OF HEADLINE EARNINGS

AT 31 MARCH 2010

	Year ended 31 March		
	2010 R million	Excluding BAT 2009 R million	Including BAT 2009 R million
<b>Tobacco interests</b>			
R&R Holdings	–	–	2 295
<b>Financial services</b>			
RMBH	720	761	761
FirstRand	635	815	815
<b>Industrial interests</b>			
Medi-Clinic Corporation	460	288	288
Unilever SA Holdings	279	231	231
Distell Group	274	304	304
Capevin Investments	7	–	–
Rainbow Chicken	259	235	235
Tsb Sugar	227	188	188
Air Products South Africa	115	102	102
Nampak	73	105	105
Total South Africa	42	(25)	(25)
Kagiso Trust Investments	128	(139)	(139)
PGSI equity accounted income	1	40	40
PGSI fair value adjustment	82	–	–
Wispeco	63	30	30
Other industrial interests	(28)	(41)	(41)
<b>Media interests</b>			
Sabido	11	–	–
MARC preference shares	5	–	–
Other media interests	1	–	–
<b>Mining interests</b>			
Implats	85	346	346
Trans Hex Group	11	(182)	(182)
<b>Technology interests</b>			
CIV group	7	–	–
Other technology interests	6	–	–
<b>Other investments</b>	(64)	(80)	(80)
<b>Central treasury</b>	57	278	194
<b>Other net corporate costs</b>	(101)	(88)	(807)
<b>Headline earnings</b>	<b>3 355</b>	3 168	4 660
Weighted number of shares (million)	486.2	471.8	471.8
<b>Headline earnings per share (cents)</b>	<b>690.1</b>	671.5	987.7

