

CONCLUSION OF A SETTLEMENT AGREEMENT BETWEEN R&E AND PRICEWATERHOUSECOOPERS INCORPORATED, DISTRIBUTION OF A VOLUNTARY CIRCULAR AND GENERAL MEETING OF R&E SHAREHOLDERS AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Shareholders are hereby advised that R&E and its former auditor, PricewaterhouseCoopers Incorporated ("PWC") have concluded a settlement agreement dated 16 April 2014 ("the Settlement Agreement"), in respect of the legal dispute between R&E and PWC arising from PWC's appointment as R&E's auditor during the financial period 2000 to 2003 and PWC's alleged failure to audit R&E properly resulting in losses claimed by R&E which are disputed by PWC ("the Settlement").

2. DETAILS OF THE SETTLEMENT

2.1. Background information

- 2.1.1. On 3 August 2008, R&E instituted a civil action against PWC in the High Court of South Africa ("the Action"), which Action arose as a consequence of PWC's engagement as R&E's auditor in respect of the financial period 2000 to 2003.
- 2.1.2. Arising from PWC's alleged failure to properly perform its audit, R&E has, by way of its amended particulars of claim in the Action, claimed damages from PWC as set out therein, contending that in consequence of such alleged audit failures it suffered the damages claimed by it, being the replacement cost of various shares allegedly misappropriated from it and further losses sustained by it in consequence of the misappropriations ("the R&E Claims").
- 2.1.3. For the purposes of the Settlement Agreement, "the R&E Claims" means all and any claims enjoyed by R&E against PWC which arose on or before the signature date of the Settlement Agreement, including any claims which R&E becomes aware of subsequent to the signature date of the Settlement Agreement, in respect of transactions, dealings, conduct and/or acts or omissions which occurred prior to the signature date of the Settlement Agreement, in respect of which R&E enjoys a claim against PWC, whether or not a claim has been instituted against PWC, and incorporating the claims made by R&E against PWC including the capital of, interest incurred on and legal costs in respect of such claims.
- 2.1.4. PWC has defended the Action, denying any wrongdoing on its part and that it is liable to R&E in the amount claimed, or at all. PWC has raised a number of defences to the R&E Claims, as set out in its amended plea. For the purposes of the Settlement Agreement, "the PWC Claims" (which are to be settled) means all and any claims enjoyed by PWC against R&E which arose on or before the signature date of the Settlement Agreement, including any claim which PWC becomes aware of subsequent to the signature date of the Settlement Agreement, in respect of transactions, dealings, conduct and/or acts or omissions which occurred prior to the signature date of the Settlement Agreement, in respect of which PWC enjoys a claim against R&E, whether or not a claim has been instituted and includes the capital of, interest incurred on, and legal costs in respect of such claims.
- 2.1.5. As at the date of this announcement, the pleadings have closed and the disputes have been referred by R&E and PWC to arbitration ("the Arbitration"), pursuant to the conclusion of an arbitration agreement on 26 July 2013.
- 2.1.6. Without any admission of liability or the making of any concessions on the part of either R&E or PWC and purely with a view to avoiding costly litigation and for commercial reasons, R&E and PWC have decided to settle the R&E Claims and the PWC Claims on the basis as provided for in the Settlement Agreement, in terms of which PWC shall make payment to R&E of R150 000 000.00 (one hundred and fifty million rand) ("the Settlement Amount").

2.2. Conditions precedent

The implementation of the Settlement Agreement is subject to the conditions precedent that:

- 2.2.1. R&E procures written irrevocable undertakings from shareholders holding at least 51% (fifty one percent) of the issued ordinary share capital of R&E, within 7 (seven) business days of the signature date of the Settlement Agreement, to vote in favour of the R&E Resolution; and
- 2.2.2. R&E shareholders approve and ratify the conclusion and implementation of the Settlement Agreement within 40 (forty) business days of the signature date of the Settlement Agreement, by way of an ordinary resolution requiring 51% (fifty one percent) of R&E shareholders voting in favour of such resolution ("the R&E Resolution").

2.3. Payment of the Settlement Amount

- 2.3.1. PWC shall make payment of the Settlement Amount to R&E within 30 (thirty) days of the closing date of the Settlement Agreement, being the date of fulfilment of the conditions set out in paragraph 2.2 above ("the Closing Date").
- 2.3.2. To the extent that it is determined by the South African Revenue Service that value added tax ("VAT") is payable on the Settlement Amount, or any portion thereof, PWC shall, over and above the Settlement Amount, pay such VAT as is due to R&E, on presentation of a VAT invoice by R&E to PWC.
- 2.3.3. Prior to PWC making payment of the Settlement Amount to R&E, in the event of any person obtaining an order of court in South Africa (including an interim order), prohibiting R&E from adopting the R&E Resolution and/or either or both of R&E and PWC from implementing the Settlement Agreement and such prohibition does not cease to operate within 12 (twelve) months of the Closing Date, either party shall be entitled to resile from the Settlement Agreement, upon giving 5 (five) days written notice to the other party of its intention to do so, in which event the Settlement Agreement shall be of no force or effect and the parties shall be restored to the positions they occupied prior to entering into the Settlement Agreement.

2.4. Effect of the Settlement

- 2.4.1. Against payment of the Settlement Amount by PWC to R&E (including any VAT that may be payable thereon):
 - 2.4.1.1. R&E shall have no further claims against PWC in respect of the R&E Claims, which shall be fully and finally settled;
 - 2.4.1.2. PWC shall have no further claims against R&E in respect of the PWC Claims, which shall be fully and finally settled;
 - 2.4.1.3. the R&E Group shall have no claims against PWC, which shall be fully and finally settled; and
 - 2.4.1.4. the Action and Arbitration shall be at an end.
- 2.4.2. For the avoidance of any doubt, the Settlement as contained in the Settlement Agreement is specific to R&E and PWC only, and shall not affect any claims enjoyed by R&E against any third party, which R&E has instituted a claim for, prior to the signature date of the Settlement Agreement.

3. R&E BOARD RATIONALE FOR THE SETTLEMENT

The R&E board ("the Board") is of the view that the claim against PWC is robust and good progress has been made in preparing for the Arbitration. The Company issued sixteen claims against PWC, amounting to billions of Rands.

The PWC matter is however complex and it is estimated that the arbitration could endure for a lengthy period of time. Extensive and technical evidence will need to be led in establishing PWC's alleged audit breaches and the resultant losses to R&E. Litigation is by its very nature uncertain and the Board cannot therefore guarantee a successful outcome in the matter.

Furthermore, the pursuit of the Arbitration requires the commitment of major resources, and forensic expenses. The total legal and forensic expenditure for R&E's matters for the 2013 financial year amounted to more than 10% of the Group's NAV. The total legal costs incurred to date relating to the PWC matter amounts to R34 million.

The likelihood of a substantial arbitration award should therefore be weighed against the time it will take to attain an award, the possibility of appeals and the legal and related costs to sustain the process.

The PWC offer of R 150 million (R2.10/share) represents 80% of the Group's NAV and 99% of its weighted average share price (as quoted on the JSE), which makes the offer significant.

The Board has consistently approached the Company's recovery process on a commercial basis and has concluded that the Settlement offer of R150 million by PWC is economically attractive and should be proposed to shareholders.

4. PRO FORMA FINANCIAL INFORMATION

The *pro forma* financial effects set out below have been prepared to assist R&E Shareholders in assessing the impact of the Settlement Amount on the earnings per Share ("EPS"), headline earnings per Share ("HEPS"), net asset value ("NAV") and tangible net asset value ("TNAV") per Share. Due to the nature of these *pro forma* financial effects, they are presented for illustrative purposes only and may not fairly present R&E's financial position or the results of its operations post the receipt of the Settlement Amount.

The *pro forma* financial effects have been prepared in terms of the Listings Requirements of the JSE and the Guide on *Pro Forma* Financial Information issued by the South African Institute of Chartered Accountants. These *pro forma* financial effects are the responsibility of the Board. The material assumptions are set out in the notes following the table.

	Audited results prior to the receipt of the Settlement Amount	<i>Pro forma</i> adjustments	<i>Pro forma</i> post the receipt of the Settlement Amount	Percentage change (%)
EPS (cents)	9.7	219.7	229.4	2 259%
HEPS (cents)	8.2	219.7	227.9	2 672%
NAV per Share (cents)	261.1	209.2	470.3	80%
TNAV per Share (cents)	261.0	209.2	470.2	80%
Ordinary Shares in issue	71 585 172	-	71 585 172	-
Weighted average number of Ordinary Shares in issue	71 585 172	-	71 585 172	-

Notes and assumptions:

1. The "Audited results prior to the receipt of the Settlement Amount" have been extracted from the audited financial results of R&E for the year ended 31 December 2013.
2. For the purposes of calculating EPS and HEPS it was assumed that the Settlement Amount was received on 1 January 2013.
3. For the purposes of NAV per share and TNAV per share it was assumed that the Settlement Amount was received on 31 December 2013.
4. The proceeds received from the Settlement, being R150 million, are assumed to be invested in a short term call account for the 12 month period earning interest at 5% per annum, being the interest rate current achieved by the Company on cash reserves.
5. Transaction costs of R245 000 relating to the Settlement have been assumed.
6. All adjustments have a continuing effect on the financial results of the Company.

5. DISTRIBUTION OF VOLUNTARY CIRCULAR AND GENERAL MEETING OF R&E SHAREHOLDERS

Shareholders are hereby advised that a voluntary circular setting out the full details of the Settlement, incorporating a notice convening a general meeting, will be distributed to R&E shareholders in due course.

Shareholders are hereby advised that the notice of the general meeting and the relevant details relating to the general meeting will be provided on SENS in due course.

6. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement dated 7 April 2014 and are advised that as the details of the Settlement have now been announced, caution is no longer required to be exercised by shareholders when dealing in their securities.