CEO and CFO report

Dear Stakeholders

The two key benchmarks used by PSG Group to measure performance are *sum-of-the-parts ("SOTP") value* and *recurring earnings* per share, as long-term growth in PSG Group's *SOTP value* and share price should depend on, inter alia, sustained growth in the *recurring earnings* per share of our underlying investments.

SOTP VALUE

The calculation of PSG Group's *SOTP value* is simple and requires limited subjectivity as more than 90% of the value is calculated using JSE-listed share prices, while other investments are included at market-related valuations. At 28 February 2018, the *SOTP value* per PSG Group share was R255,17 (2017: R240,87), representing a 6% increase. The five-year compound annual growth rate ("CAGR") of both PSG Group's *SOTP value* and share price was 29% at 28 February 2018.

Asset/(liability)	**29 Feb 2016 Rm**	**28 Feb 2017 Rm**	**28 Feb 2018 Rm**	*Share of total*	*Five-year CAGR* #
Capitec *	16 820	25 727	**29 540**	*51%*	*35%*
Curro* *(incl. Stadio until unbundling in Oct 2017)*	9 773	11 180	**7 987**	*14%*	*13%*
PSG Konsult *	5 441	6 084	**7 048**	*12%*	*25%*
Zeder *	2 815	5 398	**4 823**	*8%*	*14%*
PSG Alpha	1 367	1 909	**5 201**	*9%*	*29%*
Stadio * *(since unbundling from Curro in Oct 2017)*			**2 379**		
Other investments +	1 367	1 909	**2 822**		
Dipeo +	557	812	**535**	*1%*	
Other assets	5 868	3 586	**2 603**	*5%*	
Cash ^	2 895	1 513	**1 000**		
Pref investments and loans receivable ^	1 335	2 002	**1 558**		
PSG Corporate ++	1 510				
Other ^	128	71	**45**		
Total assets	42 641	54 696	**57 737**	*100%*	
Perpetual pref funding *	(1 309)	(1 350)	**(1 278)**		
Other debt ^	(949)	(949)	**(949)**		
Total SOTP value	40 383	52 397	**55 510**		
Shares in issue *(net of treasury shares)* (m)	216,3	217,5	**217,5**		
SOTP value per share (R)	186,67	240,87	**255,17**		*29%*
Share price (R)	173,69	251,43	**217,50**		*29%*

* *Listed on the JSE* + *SOTP value* ++ *Valuation* ^ *Carrying value*

\# *Based on share price/SOTP value per share*

Note: PSG Group's live SOTP is available at www.psggroup.co.za.

It is evident from the graph below that the discount at which PSG Group's share price is trading to its *SOTP value* has increased towards the end of the financial year under review. The current discount is around 15% compared to the five-year average of 5%. Whether this has anything to do with the Steinhoff debacle late last year which saw them selling their 25,5% shareholding in PSG Group, and the recent attacks on Capitec – who knows. We as management, however, remain focused on growing the underlying businesses together with the respective management teams. If successful, the PSG Group share price will continue to grow.

PSG Group share price vs SOTP value per share
(28 February 2018)

RECURRING EARNINGS

During the year under review, PSG Group changed its *recurring headline earnings* key benchmark to that of *recurring earnings*, following the first-time inclusion of PSG Alpha's investment in Evergreen, a company that owns and operates retirement lifestyle villages. Evergreen's financial performance is predominantly measured with reference to the fair value adjustments recognised on its investment property, being excluded from *headline earnings* in terms of accounting conventions. Being a sizeable investment, it has necessitated PSG Group to include such fair value adjustments on investment property to provide management with a realistic measure to evaluate the group's earnings performance. *Recurring earnings* is therefore simply *recurring headline earnings* as previously calculated, plus the after-tax fair value adjustments recognised on Evergreen's investment property portfolio.

PSG Group's *recurring earnings* per share increased by 7% following resilient performance from the majority of PSG Group's core investments during the year under review. This was offset by Zeder's weaker performance, being largely invested in the food and related sectors that were negatively affected by particularly tough conditions.

	29 Feb 2016 Rm	28 Feb 2017 Rm	*Change %*	**28 Feb 2018 Rm**
Capitec	989	1 164		**1 369**
Curro *(incl. Stadio until unbundling in Oct 2017)*	58	96		**110**
PSG Konsult	254	300		**348**
Zeder	212	275		**205**
PSG Alpha *(incl. Stadio since unbundling in Oct 2017)*	113	133		**172**
Dipeo	(28)	(20)		**(56)**
PSG Corporate	69	29		**(7)**
Other *(mainly pref div income)*	101	112		**136**
Recurring earnings before funding	1 768	2 089	*9*	**2 277**
Funding *(net of interest income)*	(148)	(104)		**(135)**
Recurring earnings	1 620	1 985	*8*	**2 142**
Non-recurring items	(250)	160		**(186)**
Headline earnings	1 370	2 145	*(9)*	**1 956**
Non-headline items	113	17		**(42)**
Attributable earnings	1 483	2 162	*(11)*	**1 914**
Weighted average number of shares in issue *(net of treasury shares)* (m)	205,7	214,2	*1*	**215,5**
Earnings per share (R)				
– Recurring	7,88	9,27	*7*	**9,94**
– Headline	6,66	10,01	*(9)*	**9,08**
– Attributable	7,21	10,09	*(12)*	**8,88**
Dividend per share (R)	3,00	3,75	*11*	**4,15**

PSG Group's *headline* and *attributable earnings* per share decreased by 9% and 12%, respectively, mainly as a result of unrealised fair value losses incurred on Dipeo's investment portfolio, as opposed to unrealised fair value gains achieved in the prior year.

OUR STRATEGY

PSG Group's largest successes have come from early-stage investing whereby we have built businesses alongside entrepreneurs from the development stage. Our investments in Capitec, Curro and PSG Konsult attest hereto. Our focus remains on finding the "next big thing", and to help build it into a sizeable and highly profitable business.

PSG Group's strategy is comprehensively set out in the *chairman's letter* on page 2 of this annual report.

SIGNIFICANT TRANSACTIONS DURING THE YEAR

PSG Alpha obtained a 50% interest in Evergreen, one of South Africa's leading providers of retirement lifestyle living, for a total investment of R675m, of which R400m has been paid. This investment marks a significant new focus area for PSG Group and one of its biggest initial cash investments to date.

Following its listing and unbundling from Curro, Stadio, the private higher education provider, undertook a fully-underwritten rights offer of R640m to fund growth. PSG Alpha followed its rights, investing R328m at R2,50 per share.

GEARING AND LIQUIDITY MANAGEMENT AT PSG GROUP HEAD OFFICE

PSG Group has a prudent approach to gearing. Simply put, we do not borrow money unless certain that we will be able to repay it.

The simple philosophy of "cash is king" rings true in any business. Accordingly, PSG Group's 12-month rolling cash flow forecast is closely monitored by both the chief financial officer ("CFO") and the PSG Group Executive Committee on an ongoing basis. Being an investment holding company, and although we do not manage the underlying investee companies' cash flows, it is imperative to have visibility thereof for the integrity of such cash flow forecast. This way we are able to plan well ahead, which includes the refinancing of redeemable debt if necessary.

Furthermore, the PSG Group board has previously imposed internal debt covenants, being more stringent than those imposed by third-party funders:

- Gearing, inclusive of PSG Financial Services' (being a wholly-owned subsidiary of PSG Group) JSE-listed perpetual preference shares, not to exceed 40% of PSG Group's consolidated balance sheet equity; and
- PSG Group's interest cover, calculated using free cash flow, to exceed 2x at all times.

For the avoidance of doubt, PSG Group's gearing includes that of the Company and head office-managed subsidiaries (all being wholly-owned apart from PSG Alpha in which PSG Group owns 98%). Compliance with all debt covenants, whether internally or externally imposed, are regularly monitored by the CFO and group finance team and reported on to the PSG Group Audit and Risk Committee, as well as to the relevant third-party funders.

As at the reporting date, PSG Group's gearing comprised:

1. PSG Financial Services' JSE-listed perpetual preference shares, with a market value of R1,3bn; and
2. Five-year redeemable preference shares of R949m (R930m capital and R19m accrued preference share dividend).

PSG Group also maintains a strict policy not to provide any guarantee or surety in respect of investee companies' borrowings, unless wholly-owned and managed at a head office level.

The table below sets out PSG Group's gearing position as at the latest reporting date. The gearing ratio is calculated both including and excluding PSG Financial Services Ltd's JSE-listed perpetual preference shares. Seeing that such funding is non-redeemable, this instrument could arguably be excluded when assessing gearing due to its quasi-equity nature. It is evident that PSG Group's gearing and interest cover ratios are well within the board-imposed covenants.

	Perpetual preference shares			
	2017		2018	
PSG Group gearing and interest cover calculation	Including	Excluding	Including	Excluding
Gearing as % of consolidated equity	14,5%	6,0%	**13,0%**	**5,5%**
Interest cover calculated using free cash flow	4,4x		**4,7x**	

Since year-end, the aforementioned five-year redeemable preference share funding has been refinanced on more favourable terms and extended for a further five years, well in advance of its scheduled redemption date. Accordingly, the facility has been increased from R930m to R2bn, with the increased amount available for drawdown during the next two years, if needed. Including excess cash of R1bn as at year-end, PSG Group has R2bn available for further investments.

Investee companies are similarly committed to managing their cash flows and gearing prudently. PSG Group's core investee companies are well capitalised with conservative levels of debt –

- Capitec: capital adequacy ratio of 36%, with cash and liquid assets of R39bn
- Curro: debt-to-equity ratio of 48%, underpinned by land and buildings
- PSG Konsult: debt-to-equity ratio of 4%

OUR INVESTMENT PORTFOLIO

Capitec (30,7%)

- *Simple and focused business model*
  - lending and transactional banking
- *High barriers to entry*
  - regulatory requirements and funding
- *High growth potential*
  - increase in transactional banking clients and growth in credit book (incl. credit card)
  - significant growth potential given its current market share:
    - approximately 1% of credit card market
    - approximately 2,4% of the total South African consumer credit book

Capitec is a South African retail bank focused on delivering simplified banking that is both affordable and easy to access through personal service. This resonates with most South Africans, especially in the current tough economic climate, giving them a sense of value and control over their money. Capitec received recognition for this when in 2017, for the second year running, it was named "the best bank in the world" by The Lafferty Group.

Capitec continued to deliver strong financial results with an 18% increase in *headline earnings* per share and 27% return on equity for the year ended 28 February 2018. Capitec's number of active clients increased by 15% to 9,9m and primary banking clients (those clients who make regular deposits, mainly salaries) by 16% to 4,5m. Capitec's net transaction fee income consequently increased by 31% in the year under review.

The past financial year also saw the first full 12-month period for Capitec's credit card offering. By 28 February 2018, 289 000 credit cards were in issue, with credit of R2bn. It comprises 4,2% of Capitec's credit book. One of the rationales for launching the credit card offering was to assist Capitec to attract higher-income earners and ultimately help increase market share. This strategy is starting to pay off with higher-income earners driving the 51% increase in the longer-term (61 to 84-month) loan sales during the year. Capitec's credit granting criteria and provisioning policies remain conservative.

Capitec is now also offering insurance solutions as part of its diversification strategy to deliver value to its clients and disrupt the insurance market in a similar way than it did with banking. Capitec is run by an exceptional management team and is a phenomenal success story with significant growth potential. We remain proud shareholders as Capitec pursues its strategy to be the best.

Financial results – year ended February	2016	2017	2018
Headline earnings (Rm)	3 222	3 793	**4 461**
HEPS (R)	27,87	32,81	**38,58**
Growth in HEPS (%)	26	18	**18**
Dividend per share (R)	10,55	12,50	**14,70**
Dividend cover ratio	2,6x	2,6x	**2,6x**
Return on equity (%)	27	27	**27**
Gross loans and advances (Rm)	40 891	45 135	**47 642**
Value of total loans advanced (Rm)	24 228	27 226	**28 292**
Repayments (Rm)	29 388	33 236	**35 974**
Arrears – past due (not up-to-date with contractual obligations) (Rm)	2 297	2 855	**2 700**
Arrears to gross loans and advances (%)	5,6	6,3	**5,7**
Provisions for doubtful debts (Rm)	5 131	5 930	**5 828**
Provision for doubtful debts to arrears coverage (%)	223	208	**216**
Provision for doubtful debts to arrears and all rescheduled loans (not rehabilitated) coverage (%)	91	107	**115**
Net transaction fee income (Rm)	3 020	3 923	**5 127**
Net transaction fee income to operating expenses (%)	66	72	**81**
Number of active clients ('000)	7 269	8 569	**9 868**
Number of primary clients ('000)	3 343	3 909	**4 539**
Number of branches	720	796	**826**
Number of employees	11 440	13 069	**13 333**

Capitec is listed on the JSE and its comprehensive results are available at *www.capitecbank.co.za*.

Curro (55,4%)

- *Simple and focused business model*
  - private school education
- *High barriers to entry*
  - capital intensive
- *High growth potential*
  - Curro has 8,1% of the private school market and 0,4% of the total school market in South Africa
  - global trends for developing countries indicate private schools representing approximately 20% of total schools
  - with private school learners representing only 4 to 5% of the total school-going population in South Africa at present, the local private school market should grow substantially in the next 10 years

Curro has established itself as the leading national brand in private schooling, now operating 59 campuses with 138 schools and 52 233 learners across the country and in Namibia.

It unbundled its higher education interest, Stadio, during the past year to keep these two education businesses focused on their respective private education segments.

Curro reported satisfactory results for its financial year ended 31 December 2017 with a 17% increase in *headline earnings* per share for the schools-only business.

Curro continues with its aggressive expansion drive and plans to invest a further R2,3bn in new and existing facilities during 2018. We remain excited about its growth prospects.

Financial results – year ended December	**2015**	**2016**	**2017**	**2018 ***
Headline earnings (Rm)	100	169	197	
HEPS (cents)	28,3	43,9	48,1	
Growth in HEPS (%)	64	55	10	
Number of campuses	41	48	51	**59**
Number of schools	100	114	124	**138**
Number of learners	35 130	42 343	45 870	**52 233**
Number of educators	2 290	2 546	2 778	
Learner/educator ratio	15	17	17	
Building size (m^2)	447 221	540 799	598 194	

* *As at 31 January 2018.*

Curro is listed on the JSE and its comprehensive results are available at *www.curro.co.za*.

PSG Konsult (61,5%)

- *Simple and focused business model*
  - the provision of wealth management, asset management and insurance solutions
- *High barriers to entry*
  - regulatory requirements
- *Key competitive advantage*
  - extensive distribution platform across the country
  - trusted brand
- *High growth potential*
  - relatively low market share:
    - less than 5% of wealth management
    - less than 2% of asset management
    - less than 3% of short-term insurance

PSG Konsult is a financial services company, focused on providing wealth management, asset management and insurance solutions to clients.

PSG Konsult supports advisors through its well-established systems and its risk and regulatory compliance platform, allowing the advisors to focus on their clients. With the legal and regulatory environment within the industry becoming increasingly onerous, PSG Konsult saw a 5% increase in the number of financial advisors during the year under review.

PSG Konsult reported strong results with a 16% increase in *recurring headline earnings* per share for the financial year ended 28 February 2018. This was achieved amid challenging trading conditions and considering PSG Konsult's equity market dependence. PSG Konsult continues to attract client assets with total assets under management having increased by 17% to R205bn, underpinned by top-quartile performance from all its core managed funds.

PSG Konsult recently announced that it had concluded agreements to acquire both Absa's Commercial and Industrial and Personal Lines insurance brokerage businesses, whereby approximately 168 advisors and 63 000 clients will be added to the PSG Konsult platform.

We are excited about PSG Konsult's future growth prospects.

Financial results – year ended February	2016	2017	2018
Recurring headline earnings (Rm)	409	486	**566**
Recurring HEPS (cents)	32,1	37,2	**43,0**
Growth in recurring HEPS (%)	19	16	**16**
Total assets under management (Rbn)	154	175	**205**
Gross written premium (Rbn)	2,5	2,9	**3,3**
Number of advisors – PSG Wealth	480	515	**539**
Number of advisors – PSG Insure	231	229	**245**

PSG Konsult is listed on the JSE and the Namibian Stock Exchange, and its comprehensive results are available at *www.psg.co.za*.

Zeder (43,7%)

- *Simple and focused business model*
  - investment in food and related business
- *Focused management throughout the underlying investments*

Zeder is an investor in the broad agribusiness industry. Its largest investment is a 27% interest in Pioneer Foods, comprising 53% of Zeder's total *SOTP* assets.

The tough trading environment continued into the 2018 financial year with severe drought and heat conditions persisting. This resulted in weaker earnings performance from the majority of Zeder's investments, with a consequent 35% decrease in Zeder's consolidated *recurring headline earnings* per share.

Zeder will continue to drive platform growth. Complementary investment opportunities are reviewed on an ongoing basis as Zeder aims to expand its portfolio. Management remains cautiously optimistic about a recovery in the food and related sector, which should bode well for the performance of Zeder's investee companies.

Financial results – year ended February	**2016**	**2017**	**2018**
Recurring headline earnings (Rm)	632	691	**474**
Recurring HEPS (cents)	42,4	42,6	**27,6**
Growth in recurring HEPS (%)	20	0,5	**(35)**
SOTP value per share (R)	6,93	8,53	**7,85**
Growth in SOTP value per share (%)	(13)	23	**(8)**
Dividend per share (cents)	9,0	11,0	**11,0**

Both Zeder and Pioneer Foods are listed on the JSE and their respective comprehensive results are available at *www.zeder.co.za* and *www.pioneerfoods.co.za*.

PSG Alpha (98%)

- *High growth potential*
  - early-stage investments in selected high-growth sectors

PSG Alpha serves as incubator to identify and help build the businesses of tomorrow. Given its nature, this portfolio is likely to yield volatile earnings, while providing optionality. Its investment portfolio valued at R5,2bn currently comprises 13 companies spanning across various industries and in different stages of maturity.

Noteworthy transactions during the past year included the listing of CA Sales on the Botswana Stock Exchange and investments in Evergreen and Stadio detailed above.

PSG Alpha reported a 4% increase in *recurring earnings* per share for the year under review, with most of the investments performing to expectation.

PSG Alpha's portfolio companies are well capitalised and have good management in place. Energy (Energy Partners), education (Stadio, FutureLearn and ITSI) and retirement lifestyle villages (Evergreen) are currently considered priority industries as we believe these offer significant growth prospects.

Investment	Description	Interest (%) 2017	Interest (%) 2018
African Unity	Life and related insurance	47,5	**Sold**
Alaris	Antenna-related products	19,3	**26,5**
CA Sales	FMCG distributor	51,8	**48,1**
CSG	Outsourced solutions	12,2	**12,6**
Energy Partners	Utilities	58,4	**52,5**
Evergreen	Retirement lifestyle villages		**50,0**
FutureLearn	Correspondence learning	83,3	**93,3**
ITSI	Education solutions	61,8	**72,7**
ProVest	Mine safety and support services	55,8	**50,5**
Spirit Capital	Leveraged buy-outs	47,9	**49,3**
Stadio	Private higher education		**45,4**
Venture capital investments	Technology		

Dipeo (49%)

Dipeo, a BEE investment holding company, is 51% owned by the Dipeo BEE Education Trust of which all beneficiaries are black individuals. Dipeo's most significant investments include shareholdings in Curro (5,2%), Stadio (3,5%), Pioneer Foods (4,3%), Quantum Foods (4,2%), Kaap Agri (20%) and Energy Partners (15,7%) – the latter investment having been acquired for R150m during the year under review. The investments in Pioneer Foods, Quantum Foods and Energy Partners remain subject to BEE lock-in periods.

Dipeo's *SOTP value* was R1,09bn (2017: R1,66bn) as at 28 February 2018.

The Dipeo BEE Education Trust will use its share of the value created in Dipeo to fund black students' education.

PSG Capital (100%)

PSG Capital provides a complete suite of corporate finance and advisory services to a broad spectrum of clients. Its fields of expertise include mergers and acquisitions, valuations and fairness opinions, capital raisings and listings, JSE and regulatory advice, private equity, BEE, corporate restructurings and debt origination.

PSG Capital is the sponsor, designated advisor and debt sponsor to 42 JSE-listed companies and has numerous unlisted clients. It has advised on publicly announced transactions in excess of R400bn over the last number of years.

PSG Capital consistently ranks among the top performers from a *DealMakers* perspective across most categories.

More detail is available at *www.psgcapital.com*.

PSG Corporate (100%)
PSG Corporate acts as PSG Group's treasurer by monitoring and managing PSG Group's capital requirements, gearing and liquidity. It also allocates and invests PSG Group's resources.

PROSPECTS

We believe PSG Group's investment portfolio is well positioned to continue yielding above-average returns.

Piet Mouton
Chief executive officer

Wynand Greeff
Chief financial officer

17 May 2018
Stellenbosch