

**“We had a fantastic year as a group,
with all our key investments
performing strongly and
PSG reaching new heights.”**



Dear Shareholder

2014 was an eventful year for South Africa. We saw a challenging year for the economy, with one of the longest strikes in South African history. Eskom's load shedding made life difficult for most businesses, with up to three power cuts on some days. To top it all off, our cricket boys came home early from the World Cup, despite a strong effort ... without making any excuses, I cannot help to think what the outcome would have been had it not rained (again).

The global economy also saw some significant events. Oil hit record low price levels of around US\$50 a barrel. While this gave the South African consumer a reprieve through a reduction in the petrol price, it was short-lived as it was offset by the weakening of the rand against the dollar.

In the context of these significant and mostly negative events, it is my pleasure to share with you PSG's major positives for the 2015 financial year. We had a fantastic year as a group, with all our key investments performing strongly and PSG reaching new heights.

Some of the highlights included:

- Capitec exceeding the R50bn market capitalisation level and approaching inclusion in the JSE Top 40 Index;
- Zeder concluding the largest transaction in the history of PSG valued in excess of R2,5bn;
- PSG raising R1,3bn in cash through the issue of ordinary shares;
- PSG's *recurring headline earnings* exceeding R1bn for the first time; and
- The end of the Thembeka era through a scheme of arrangement amounting to R1,5bn, resulting in Thembeka shareholders obtaining liquid PSG shares.

A PSG shareholder therefore had a silver lining to the past year's challenges.

WHO WE ARE

PSG is an investment holding company consisting of underlying investments that operate across a wide range of industries, including financial services, banking, private equity, agriculture and education. Our market capitalisation (net of treasury shares) is approximately R40bn, while we have influence over companies with a combined market capitalisation of around R130bn.

There are seven main business units on which we report, namely:

- Capitec (retail banking);
- PSG Konsult (wealth management, asset management and insurance);
- Curro (private school education);
- Zeder (investment in the agribusiness sector);
- PSG Private Equity (investment in sectors other than agribusiness);
- Our BEE investment holding company; and
- PSG Corporate (investment management and treasury services), including PSG Capital (corporate finance) and Grayston Elliot (tax advice).

Since PSG's establishment in November 1995, our aim has been to create value for our shareholders and for the people of South Africa. We believe in conducting sustainable businesses that make a positive contribution to society. Our investments have provided solutions to some of the challenges experienced in our country, such as education, energy and electricity, and low-cost banking. All in all, our business has primarily been based on improving people's lives and our country.





OUR OBJECTIVE

Our long-term economic goal remains to continuously create wealth for our shareholders through a combination of share price appreciation and the payment of dividends. In order to achieve this, we have invested in a diversified group of businesses with high growth potential that consistently yield above-average returns.

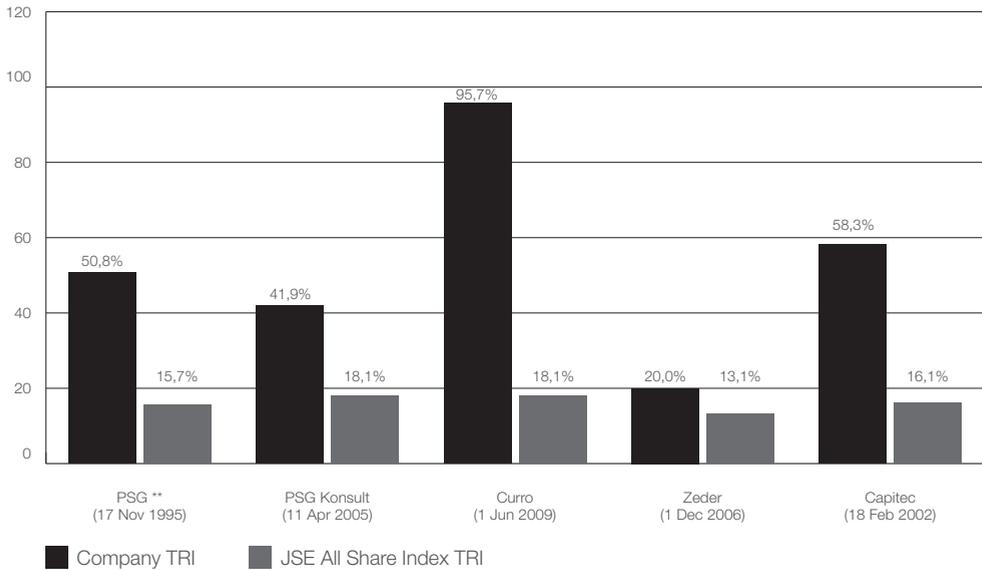
EVALUATING OUR PERFORMANCE

We believe that performance should be measured on the return that an investor receives over time, with a focus on *per share* wealth creation.

When evaluating PSG's performance over the *long term*, one should focus on the *total return index (TRI)* as a measurement tool. The *TRI* is the *compound annual growth rate (CAGR)* of an investment, and is calculated by taking cognisance of share price appreciation, dividend and other distributions. This is a sound measure of wealth creation and a reliable means of benchmarking different companies.

PSG's *TRI* as at 28 February 2015 was 50,8% per annum over the 19-year period since establishment. This means that had you purchased R100 000 worth of PSG shares in November 1995 and reinvested all your dividends, your investment would be worth around R279m today. The same investment in the JSE All Share Index over this period would be worth R1,7m today. We are proud of this achievement.

TRI of PSG group companies vs JSE All Share Index TRI *



* Measured since the respective dates set out above until 28 February 2015.

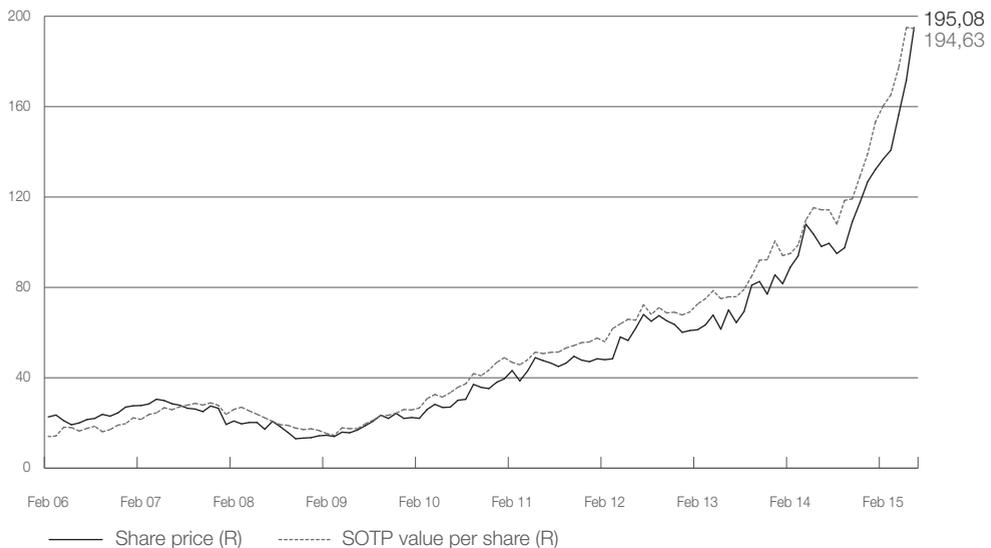
** Capitec unbundling in November 2003 treated as a dividend.





When evaluating PSG's performance over the *short to medium term*, we focus on the growth in PSG's *sum-of-the-parts (SOTP) value* per share and *recurring headline earnings* per share. History confirms that PSG's share price tracks its *SOTP value* per share. Positive growth in PSG's *SOTP value* per share thus ultimately leads to an increase in the share price. However, an increase in PSG's *SOTP value* per share over time will ultimately depend on sustained growth in the profitability of the underlying investments. Consequently, we use the *recurring headline earnings* per share concept to provide management and investors with a more realistic and transparent way of evaluating PSG's performance from an earnings perspective.

PSG share price vs SOTP value per share



At 28 February 2015, the *SOTP value* per PSG share was R163,28, which equated to a 44% *CAGR* over the last five years. At 6 May 2015, the *SOTP value* per share was R194,63.

Capitec is PSG's largest investment and comprises more than 40% of the *SOTP value's* total assets. This follows the significant increase in Capitec's share price during the past year and an increase in PSG's direct interest in Capitec as a result of the aforementioned Thembeka scheme of arrangement. We are often asked whether we are not concerned about our portfolio being skewed given our large exposure to Capitec from an *SOTP value* perspective. The answer is simply *no!* Unlike a unit trust, we are not bound by prudential limits and are therefore able to hold onto our winners (such as Capitec) for as long as we like, regardless of our investment portfolio weightings. This is a differentiating factor and provides us with a competitive advantage. Having said that, we have a number of potential high growth investments in our portfolio that could make a significant contribution to PSG's *SOTP value* in future.

Recurring headline earnings for the year ended 28 February 2015 increased by 39%, exceeding the R1bn mark for the first time in PSG's history. *Recurring headline earnings* per share increased by 32% to 593,6 cents, with commendable earnings growth from all our key investments.





OUR INVESTMENT PHILOSOPHY

The investment universe is complex with a myriad of variables. Good investors base their decisions on sound fundamentals and philosophies. PSG aims to be a good investor and as such we have developed our own specific philosophies over the years.

- We invest in:
 - Enterprises with uncomplicated business models operating in industries that we understand;
 - Industries and businesses with attractive growth prospects and high barriers to entry;
 - Focused, talented, hard-working and passionate management.
- We are long-term investors with no predetermined exit strategy.
- Sound corporate governance is non-negotiable – we believe in accurate, transparent and succinct information.
- A key tenet of success is trust – without trust, companies lose customers; without trust, leaders lose their teams. We advocate trust through our philosophy of ultimate empowerment. We employ smart, competent individuals and empower them through trust.
- We believe in co-investing with management. Management as owners are generally more focused and dedicated to growing their businesses. This also applies to PSG – the board of directors owns 36% of the company.

OUR STRATEGY

PSG has always been good at early-stage investing – building businesses, alongside entrepreneurs, from the development stage. We acquire large influential stakes in businesses we believe in and offer investees our strategic input, helping them establish and drive ambitious plans. We provide access to capital that helps expedite future growth, both organically and through acquisitions. We participate actively at board and, often also, at an executive committee level. We either serve on or attend audit and risk committee meetings as a measure of ensuring good corporate governance.

Project Internal Focus in action

Project Internal Focus, our strategy the last couple of years, has primarily been directed at the optimisation, refinement and growth of PSG's existing investment portfolio. This strategy continues to yield positive results and should remain in place for the foreseeable future. We are, however, continuously investigating new investment opportunities in an attempt to find "the next big thing".

OUR INVESTMENTS

When evaluating PSG's key investments, each has definite characteristics that are representative of our aforementioned investment philosophy.

Capitec (30,7%)

- *Simple and focused business model*
 - lending and transaction banking
- *High growth potential*
 - increase in transaction banking clients
- *High barrier to entry*
 - regulatory requirements and funding

The 2015 financial year saw Capitec proving itself in testing times. The demise of African Bank, its largest competitor, as well as extended labour strikes affecting many of the bank's clients, culminated in an undue credit downgrade by a prominent rating agency. This generally had a negative impact on market confidence in the sector, but particularly on the wholesale funding market.





Despite these challenges, Capitec's share price increased by an astounding 123% during the past financial year, and by a further 32% subsequent to year-end. This signifies the market's re-rating of the company, and is an acknowledgement of the solid fundamentals that underpin Capitec as a retail bank.

Capitec yet again delivered exceptional financial results with a 26% increase in *headline earnings* per share for the year ended 28 February 2015. Net transaction fee income from banking operations increased by 35% to R2,6bn, covering 65% of operating expenses (2014: 59%).

Key characteristics of Capitec's business model are:

- *Simple and efficient retail banking* – Capitec was voted South Africa's favourite financial services institution in the *Ask Africa Orange Index*;
- *Recoverable loan book* – loans in arrears have improved to 5,4% of gross loans and advances (2014: 6,5%) following the application of advanced client affordability assessments;
- *Conservative provisioning and bad debt write-off policies* – provisions are almost twice the size of loans in arrears, as demonstrated by the arrears coverage ratio of 196% (2014: 167%);
- *Well-capitalised balance sheet* – a diversified funding base with a capital adequacy ratio of 36%, and a high level of liquidity with R19,8bn in cash and short-term funds, representing 37% of total assets.

PSG remains a loyal supporter of Capitec and looks forward to its continued success.

Curro (58,5%)

- *Simple and focused business model*
 - private schooling
- *High growth potential*
 - size and potential of the private schooling market
- *High barriers to entry*
 - capital intensive

Curro is the largest for-profit private school group in South Africa, with 42 campuses and 36 021 learners. The education market offers significant investment opportunities and Curro continues to capitalise on same in pursuit of its 2020 target of 80 schools with 80 000 learners. Curro reported revenue of R1bn and *recurring headline earnings* of R56m for its financial year ended 31 December 2014.

We are proud of the positive contribution that Curro makes to South Africa. Through education, the company is empowering young people to achieve their potential as individuals and members of society, which will help develop our country in the *long term*.

PSG remains fully supportive of Curro and we are excited about this company's future prospects.

PSG Konsult (62,7%)

- *Simple and focused business model*
 - the provision of financial advisory and insurance services
- *Key competitive advantage*
 - an extensive distribution platform across the country

During the past financial year, PSG Konsult listed on both the JSE and Namibian stock exchanges. This is in line with our philosophy that the listing of a company should ultimately lead to improved performance as it becomes a sense of pride for management to regularly account to stakeholders regarding its strategies and the company's financial results.





PSG Konsult reported commendable growth, with a 31% increase in *recurring headline earnings* per share for the past financial year. This resulted from a strong performance by the *PSG Wealth* and *PSG Asset Management* divisions in particular. Total assets under management increased by 27% to R142bn following, inter alia, favourable market conditions and an effective marketing campaign.

The *Insurance* division continues to make inroads in the highly competitive short-term insurance market as a provider of simple, cost-effective solutions to select clients.

We are proud of how PSG Konsult has repositioned itself for growth and we look forward to it making a continued positive contribution to PSG going forward.

Zeder (33,8%)

- *Simple and focused business model*
 - investment in agribusiness sector
- *Strong and focused management throughout the underlying investments*

Zeder has applied our *Project Internal Focus* strategy to great effect within its portfolio, with numerous restructurings and changes to key management resulting in significant value creation for shareholders.

The past financial year saw Zeder undertake the largest transaction in PSG's history. The Agri Voedsel scheme of arrangement, valued in excess of R2,5bn allowed Zeder to increase its direct stake in Pioneer Foods to 27,3%. Following the conclusion of this transaction, Zeder now owns an asset portfolio valued in excess of R14bn, with its interest in Pioneer Foods representing 73% of the total. Zeder's *SOTP value* per share increased by 75% to R9,18 during the past financial year. Zeder's share price followed suit and shareholders would have enjoyed the significant increase in same.

Zeder's *recurring headline earnings* per share increased by 15% during the year under review, and its dividend per share by 22%. Pioneer Foods, in particular, reported strong earnings growth for the year under review. All the other key investments, apart from Agrivision Africa (previously known as Chayton Africa), the commercial farming and milling business in Africa, yielded positive results for the year under review.

We are positive about the growth prospects of the Zeder investment portfolio. Zeder recently announced its firm intention to acquire the remaining 25% shares in Capespan, held by minority shareholders other than management, by means of a scheme of arrangement. The proposed transaction is valued in excess of R500m.

PSG Private Equity (100%)

- *High growth potential*
 - early-stage investments

PSG Private Equity serves as incubator to find the businesses of tomorrow. Its investment portfolio contains businesses across various industries and in different stages of maturity. Currently, energy and education are priority industries. Opportunities offered by *Energy Partners*, *Impak* and *IT Schools Innovation (ITSI)* should yield attractive returns in the *medium to long term*, and may also present opportunities for listing.

PSG Private Equity does not use debt to enhance returns but rather invests in companies with high growth potential. Management has spent a considerable amount of time restructuring the portfolio and assisting underlying investments in resolving various challenges. *Project Internal Focus* has also played a key part in ensuring that the portfolio is well capitalised, has good management in place and is geared to realise the expected growth.



We hope to unearth more Capitecs, Curros, PSG Konsults and Pioneers from this portfolio in future. However, given its nature, this portfolio is likely to yield volatile earnings, while providing significant optionality.

BEE investment holding company (previously Thembeke) (49%)

The past financial year marked the end of Thembeke, a BBBEE investment holding company in which PSG owned 49%. Shareholders were afforded the opportunity to swap their illiquid Thembeke shares for PSG shares by means of a scheme of arrangement in order to realise the underlying value that had been created since Thembeke's establishment in 2006.

Thembeke truly was an extraordinary BEE success story with significant value creation, for example, at the outset the United Reformed Church acquired 800 000 Thembeke shares for R80 (this is not a misprint). They received R5m in dividends and their investment is worth R265m today!

The new BEE investment holding company, emanating from the aforementioned transaction, is 51%-owned by the Stellenbosch BEE Education Trust of which all beneficiaries are black individuals. PSG provided the new BEE investment holding company with R800m in preference share funding to acquire select investments from Thembeke, the most significant being interests of 6,6% in Curro, 4,4% in Pioneer Foods and 20% in Kaap Agri. These investments are all subject to BEE lock-in periods. The value created will be used by the Stellenbosch BEE Education Trust to fund gifted but needy black students' education.

OUR CONTRIBUTION TO SOCIETY

A great company could never be a drag on society. PSG subscribes to this notion. We contribute to the development and upliftment of the South African community through the creation of employment opportunities and our contributions in taxes, donations and sponsorships. We believe in the leverage effect of investing in and supporting education. We are involved in the following education-related initiatives:

- *The PSG Group Bursary Loan Scheme at the University of Stellenbosch*
 - We started this initiative when PSG and I each donated 100 000 PSG shares seven years ago, and have since offered financial support to a number of gifted but disadvantaged students. Their fields of study include medicine, actuarial science, accounting and investment management. For the 2015 academic year, 20 students have been funded through this scheme, each with bursaries of up to R50 000.
- *Akkerdoppies*
 - PSG continues to financially support this pre-primary school, which is part of the Sibusisiwe charity. Akkerdoppies is committed to early childhood development, and provides essential education and skills to children from the disadvantaged communities of Stellenbosch. The school is attended by 160 children and now employs 18 people. We are committed to a long-term relationship with this initiative and anticipate a significant positive contribution to the community.
- *Curro*
 - We continue to invest in Curro, which plays an important part in educating the South African youth. With the existence of Curro, government can increase its focus on those areas where the availability and quality of education are particularly poor, and in so doing provide proper educational facilities to the disadvantaged. Curro also offered extensive bursaries of approximately R44m.





- *Impak*
 - This company provides grade 0 to 12 educational products and services to home scholars and learners enrolled at their 110 support centres across the country. Through our investment in this company, we believe we will further contribute to education in South Africa while also creating a business opportunity for entrepreneurs/educators who wish to open a support centre, embracing their passion for education while building a profitable business. We are excited about the growth prospects for this alternative form of education.
- *Stellenbosch BEE Education Trust*
 - We established and funded the Stellenbosch BEE Education Trust with R102m to buy shares in Thembeka. Following the Thembeka/PSG scheme of arrangement, the trust owns interests in various investments associated with PSG, and we look forward to this trust assisting many previously disadvantaged learners in obtaining quality education in the future.

It is evident from the aforementioned that PSG makes a significant direct contribution to society. However, being an investment holding company with each of our underlying investments also having various social development initiatives, we also make a substantial indirect contribution to society. Below we highlight some of the *corporate social investment (CSI)* projects undertaken by investee companies:

- *Kaap Agri*
 - Kaap Agri's CSI projects focus on training and skills development. Through the Kaap Agri Academy, the company runs a Farmer Development Programme that trains approximately 25 students each year who are emerging farmers in the Western and Northern Cape. The academy also trains farm workers in various practical skills including welding, chemical handling, equipment maintenance and productivity management.
 - The company also offers bursaries and scholarships to students studying agricultural sciences at the University of Stellenbosch and the Cape Peninsula University of Technology (CPUT), offering approximately 100 scholarships every year.
 - Kaap Agri publishes all the community work done by each branch and its employees in a periodical community newsletter called *Care and Grow*, which is compiled by employees of the company.
 - In 2014, Media24 recognised Kaap Agri's contributions to society by awarding them the top prize in the *Unlisted Company Corporate Social Responsibility Awards*.
- *Capespan*
 - Capespan covers two major approaches in its CSI initiatives, namely:
 - *Education* – wherein the company supports infrastructure development and access to resources at educational institutions. Projects include:
 - o the Grabouw Primary and Secondary School Education Fund (financial support provided to the school);
 - o SRCC Foundation Partnership Project (for the renovation of pre-school facilities in different regions in South Africa); and
 - o School Aid UK and RSA (partnership with Maersk and School Aid UK for the shipping of donated school equipment).
 - *Health* – wherein the company supports a wide range of clinical services and programmes in poorly resourced communities. Projects include:
 - o Thembalethu HIV/AIDS Trust (promoting community preventative Health and Education programmes in the Eastern Cape);
 - o CANSA national fund-raising initiative; and
 - o Life Choices Health4life Community Programme (offering mobile HIV counselling and testing facilities).
 - In 2014, Capespan began a programme whereby the company makes donations to institutions in which staff are actively involved and have been for at least a year. This expands the reach of the company to beyond what can be done at a corporate level.





- *Zaad*
 - Agricol and Klein Karoo Seed offer training and mentoring programmes to small farmers across Africa, and provide health education to different communities. A major project undertaken is the three-year training of 309 small-scale farmers in tunnel farming, with the companies supplying extensive equipment and resources needed for successful farming.
- *Pioneer Foods*
 - While Pioneer Foods offers various feeding schemes across the country, its key focus is on project development and empowering community members with farming skills. Projects supported include:
 - *Foodpods Khayamandi* – a small-scale agri-business platform currently supporting eight women from previously disadvantaged backgrounds. These women are taught to plant and grow seeds in crates, and to supply their produce to families in their communities.
 - *Permaculture food gardens* – the company has provided 57 schools in the Limpopo region with permaculture food gardening kits, creating natural and sustainable food gardens in the schools and entrepreneurial opportunities for unemployed parents of learners.
 - The company also has an extensive enterprise development programme that offers loan funding to supporting businesses operating in the food segment.
- *Capitec*
 - Capitec's primary CSI focus is on improving financial literacy and education.
 - The company operates a bursary fund that targets public school learners in grades 10 to 12, with mathematics as a matric subject. The bursaries cover tuition fees for one year.
 - A major project sponsored by Capitec is the Ikamva Youth initiative. This is a volunteer-based group that gives high school learners access to skills, networks and resources that enable them to reach tertiary education and employment opportunities after matriculation. While more than half of the volunteers are ex-learners, in some cases Capitec employees also volunteer their time to this initiative.
- *PSG Konsult*
 - PSG Konsult contributes to the Green-preneurship project facilitated by the Wildlands Conservation Trust. The project creates a bartering system for underprivileged youth whereby they plant trees and organic food, and collect items for recycling, using these products to barter for essential items they need in their daily lives. PSG Konsult supports the programme through donations towards food, clothing and educational needs of the children, and also through participation by some employees in the bartering activities of the youth.
- *PSG Private Equity*
 - The investee companies under PSG Private Equity run various projects and make a wide range of contributions in the communities and areas in which they operate. The prevalent themes relate to early childhood development and care, education (particularly pre-school and primary) and youth development.





BOARD OF DIRECTORS AND PSG EXCO

The PSG board comprises three executive and 10 non-executive directors. I serve as the non-executive chairman. Our board has a wealth of knowledge and experience and always act with the best interest of all stakeholders at heart.

PSG's day-to-day operations are managed by the senior executives, namely Piet Mouton (CEO), Wynand Greeff (FD) and Johan Holtzhausen (CEO: PSG Capital). They are talented, hard-working individuals with great ambitions for PSG. I sleep well at night knowing our future is in good hands.

The PSG Executive Committee (Exco) is a sub-committee of the board and the chief operating decision-maker, and comprises the aforementioned three senior executives and myself as chairman. Our non-executive directors and Chemus Taljaard, our in-house tax advisor, are permanent invitees. The PSG Exco:

- Is responsible for determining and implementing the PSG strategy, as approved by the PSG board of directors;
- Acts as the PSG investment committee;
- Acts as the social and ethics committee;
- Is the appointed manager to Zeder;
- Manages PSG Private Equity;
- Acts as the PSG group treasurer, monitors and manages the capital requirements, gearing and liquidity of the group and allocates and invests the group's resources;
- Monitors the group's performance and provides strategic input and direction to the underlying companies;
- Is the custodian of good corporate governance throughout the group; and
- Assumes overall responsibility for the growth and performance of PSG.

OUR FUTURE

Last year, PSG's share price for the first time broke R100. This year, we have seen more milestones and recently celebrated our share price reaching R200! PSG is turning 20 in November this year – I am proud of this company and what we have achieved thus far.

That said, going forward no one knows what Mr Market will bring. Events such as an interest rate hike in the US, oil prices returning to the US\$100 per barrel level, or the anticipated Chinese economic stimulus, could have a significant impact on stock markets. More so, these are largely beyond our control as investors. However, we at PSG take comfort in the fact that:

- The growth trajectory anticipated for our portfolio companies is ambitious and achievable. The fundamentals of these businesses are sound and the opportunities attractive;
- Our funding and cash resources allow us to support our investee companies with their future plans;
- We have the right management teams who have been tasked to create value at each investee company, and we will support them to achieve their goals.

PSG undoubtedly has a quality asset portfolio and I am confident that we will continue to yield above average returns in future.



**A WORD OF THANKS**

PSG is ultimately a “family” affair. By that I do not mean the prevalence of my family as largest shareholder, but rather the camaraderie and mutual respect between the management of PSG, its underlying investments and shareholders. It is comforting to know that you are part of a family with one vision and goal – to increase shareholder wealth over time while making a positive contribution to society.

I thank each and every colleague throughout our group for their hard work and dedication, and for creating a wonderful environment to work in. To my fellow directors and members of the PSG Exco – your wisdom, innovation and drive to grow our business motivate me to keep going.

Finally, to our clients, our shareholders and all other stakeholders in PSG – your support has allowed us to create significant value over the years. For that, we thank you!

A handwritten signature in black ink, appearing to read 'J. Mouton'.

Jannie Mouton

8 May 2015
Stellenbosch

