Chairman’s letter

Dear Shareholder

It gives me great pleasure to reflect on the 2017 financial year, and to provide you with our thoughts on PSG Group Ltd ("PSG" or "PSG Group") and the future.

With South Africa's much deliberated recent downgrade of its sovereign debt rating in mind, we acknowledge that there are challenges facing South Africa, and at times our fellow citizens may think it is insurmountable. Although one is concerned about the downgrade and the effect thereof on all walks of life, we believe that:

"South Africa continues to offer significant rewarding opportunities, despite its challenges. At PSG, we will aspire to achieve continued success through hard work and a positive attitude."

The famous inventor Thomas A. Edison once said: *"Opportunity is missed by most people because it is dressed in overalls and looks like work."*

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 business that makes a positive contribution to society. Our investments continue to provide solutions to some of the challenges experienced in our country, such as education, energy and low-cost banking. Such solutions improve people's lives, reduce the burden on government, and benefit our country as a whole.

WHO WE ARE

PSG is an investment holding company consisting of underlying investments that operate across a diverse range of industries including banking, education, financial services and food and related business, as well as early-stage investments in growth sectors. Our market capitalisation (net of treasury shares) is approximately R55bn, while we have influence over companies with a combined market capitalisation of approximately R160bn.

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

- Capitec (retail banking)
- Curro (private education)
- PSG Konsult (wealth management, asset management and insurance)
- Zeder (investment in food and related business)
- PSG Alpha *[previously known as PSG Private Equity]* (early-stage investments in growth sectors)
- Dipeo (BEE investment holding company)
- PSG Corporate (investment management and treasury services), including PSG Capital (corporate finance)

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 well-diversified portfolio of businesses with high growth potential that consistently yield above-market returns, while contributing positively to society.

OUR INVESTMENT PHILOSOPHY

The investment universe is complex with a myriad of variables. Good investors base their decisions on sound fundamentals and proven investment principles. PSG aims to be a disciplined investor, remaining committed to its philosophy:

- 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 clients and 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 co-owners are generally more focused and dedicated to growing their businesses. This also applies to PSG – the board of directors owns 30,2% of the company.

OUR STRATEGY

PSG has always excelled at early-stage investing by building businesses alongside entrepreneurs from the development stage. Both Capitec and PSG Konsult were started from within PSG's offices, and the investment in Curro was made when they only had three schools:

- 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 level, and often also at an executive committee ("exco") level.
- We either serve on or attend audit and risk committee meetings as a measure of ensuring good corporate governance.

PSG historically employed various strategies in response to ever-changing circumstances:

- PSG grew substantially during its early years from 1995 to 1998, essentially striving to build a financial services business.
- Following the Asian crisis in 1999, and the South African A2 banking crisis and dot-com collapse of the early 2000s, PSG employed a strategy called *Project Unlock Value*, whereby surplus capital was used to repurchase approximately 38m PSG shares at attractive prices representing a then 27% interest, and to pay special dividends.
- By 2004, we had suitably positioned PSG and embarked on *Project Growth*. This strategy comprised various arbitrage investments, e.g. acquiring and subsequently disposing of 15% of the JSE rights in issue (effectively representing a 15% interest in what is today the JSE Ltd), and the creation of Zeder and PSG Alpha.
- Since the financial crisis in 2008/9, we have been operating in accordance with *Project Internal Focus*, a strategy whereby our focus has primarily been directed at the optimisation, refinement and growth of PSG's existing investment portfolio.

Looking back, all these strategies were ultimately focused on the continued creation of wealth for shareholders. So where does this leave us?

Albert Einstein said: *"Compound interest is the eighth wonder of the world."* PSG has historically achieved superior returns (i.e. 49,5% compound annual growth rate ("CAGR") since establishment). Given our current size, it is highly unlikely, if not impossible, to achieve similar returns going forward. We will, however, be satisfied with compound growth of at least 15% per annum going forward, but will always strive for more.

Our core investments are all among the best in their respective industries with quality management and attractive growth prospects given, inter alia, their relatively low market shares. I am therefore confident that these investments should provide us with strong "base" growth going forward, even in a low GDP growth environment. We simply must be better than the competition:

- Capitec currently has a 2,7% share of the South African consumer credit book. Although Capitec has a large share of the primary banking clients market, substantial growth remains possible from clients in the higher income brackets. Capitec has an 11% market share of clients earning between R10 000 and R30 000 per month and only a 2% market share of clients earning more than R30 000 per month.
- PSG Konsult has gained significant traction in recent years and we are confident that they will be able to increase their respective core industry market shares, being 5% of wealth management, 2% of asset management and 1% of short-term insurance.
- The Curro opportunity remains significant being the leading provider of private education in South Africa with a mere 0,4% share of the schoolgoing learner market.

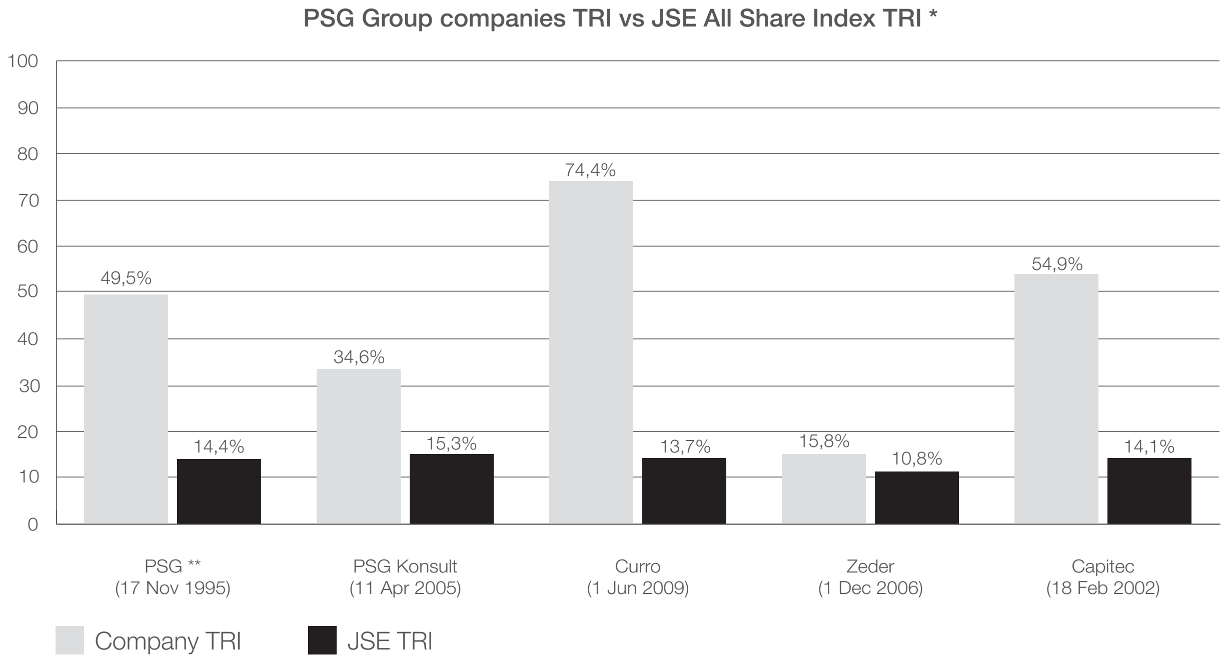
In addition, the PSG Exco and our management team will continue to help build select smaller investments in the PSG Alpha and Zeder portfolios into sizeable businesses, thereby adding growth to the "base". *Shareholders should, however, bear in mind it generally takes many years to build a successful business – PSG Konsult and Curro each took more than 15 years before making its first R100m in profit!*

EVALUATING OUR PERFORMANCE

We believe that performance should be measured in terms of 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 *CAGR* of an investment, and is calculated by taking cognisance of share price appreciation, dividends 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 2017 was 49,5% per annum over the approximately 21-year period since establishment. Had you purchased R100 000 worth of PSG shares in November 1995 and reinvested all your dividends, your investment would be worth around R524m today. The same investment in the JSE All Share Index over this period would only be worth R1,8m. We are proud of the wealth we have created for our shareholders.



* *Measured since the respective dates set out above until 28 February 2017.*
** *Capitec unbundling in November 2003 treated as a dividend.*

With foreign investors now owning approximately 11% of PSG, of which the majority is institutional investors, it is useful to benchmark the *TRI* (expressed in US dollar terms) of PSG and its core investments with that of the MSCI Emerging Markets Index ("MSCI EM Index") over one, three and five years, respectively.

TRI

Company	1 year *	3 years *	5 years *
PSG Group	**78%**	**34%**	**27%**
Capitec	**86%**	**51%**	**21%**
Curro	**28%**	**16%**	**28%**
PSG Konsult	**30%**	**(4%)**	**10%**
Zeder	**70%**	**15%**	**12%**
Pioneer Foods	**53%**	**19%**	**10%**
MSCI EM Index	**30%**	**2%**	**0%**

* *CAGR*

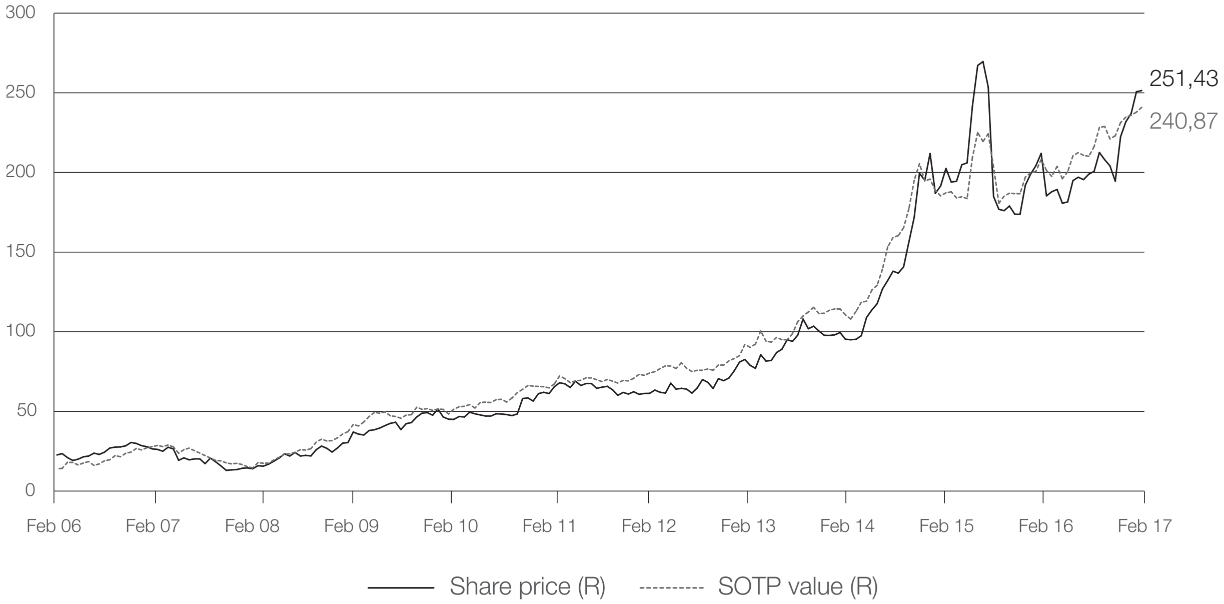
Ranking

Company	1 year *	3 years *	5 years *
PSG Group	**2**	**2**	**2**
Capitec	**1**	**1**	**3**
Curro	**7**	**4**	**1**
PSG Konsult	**5**	**7**	**5**
Zeder	**3**	**5**	**4**
Pioneer Foods	**4**	**3**	**6**
MSCI EM Index	**6**	**6**	**7**

It is evident from the table above that the group has performed well in US dollar terms with most of our companies outperforming the MSCI EM Index over the various periods (taking cognisance of the approximately 17% appreciation of the rand against the US dollar during the year ended 28 February 2017). We have consequently provided our foreign investors with attractive returns when compared to the benchmark.

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. Growth in PSG's *SOTP value* per share thus ultimately leads to share price appreciation. However, an increase in PSG's *SOTP value* per share and share price 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 2017, the *SOTP value* per PSG share was R240,87, amounting to a 34% *CAGR* over the last five years.

Recurring headline earnings per share for the year ended 28 February 2017 increased by 18% to R9,27, following resilient performance from the majority of PSG's core investments.

THE ECONOMY

The belaboured point that general trading conditions are tough, serves little purpose. We would all prefer to operate in an environment with GDP growth of 5%+, low inflation and unemployment, as well as political stability. But these are the cards we have been dealt, so PSG will continue to seek growth opportunities that such conditions present. No one knows how long the current circumstances will prevail, so you may just miss the boat by doing nothing until such time there is improvement. In the words of Warren Buffett: *"Be fearful when others are greedy. Be greedy when others are fearful."* I certainly do not see a lot of people/businesses being "greedy" at present!

The downgrade of South Africa's sovereign debt rating to sub-investment grade will have a negative effect on our economy following foreign disinvestment from South Africa, resulting in a devaluation of the rand over time. Higher import prices, especially on fuel, will result in rising inflation. Should inflation exceed the South African Reserve Bank's target band of 3% to 6%, interest rates will inevitably increase, putting further pressure on the consumer, corporate South Africa and the economy as a whole. Highly geared individuals and companies will suffer most.

PSG is well positioned to weather any storm with approximately R1,4bn in cash and conservative gearing levels with a *debt to SOTP value* ratio of only 4,4%, and a healthy *interest cover* ratio of 4,4x. The majority of PSG's interest rate exposure has been fixed and there is significant capacity to introduce further debt, if required in the event of significant new investment.

PSG's core investments too are well positioned with low gearing levels:

- *Capitec*
  A conservative 34% capital adequacy ratio, as well as R31bn in cash and other liquid assets on its balance sheet
- *PSG Konsult*
  0,2% debt to equity ratio
- *Curro*
  33% debt to equity ratio
- *Pioneer Foods*
  12% debt to equity ratio (should reduce as the high commodity price cycle unwinds)

CAPITEC IS OUR LARGEST INVESTMENT

We often get asked the question whether we are concerned that Capitec forms such a large part of our portfolio.

It remains PSG's largest investment comprising 47% (2016: 39%) of the *SOTP value's* total assets as at 28 February 2017. While this is significant exposure to a single company, we remain confident that Capitec will continue gaining market share and deliver impressive results. One of the advantages of being an investment holding company is that we are not bound by prudential limits and can therefore have unlimited exposure to a single company, unlike the asset management industry. This has produced significant returns for us as we have been able to hold on to our winners, such as Capitec.

OUR THOUGHTS ON INTERNATIONAL EXPANSION

This has been a heavily debated subject given the current economic and political climate in South Africa, and these are our thoughts on the matter:

PSG has significant competitive advantages in South Africa:

- We are born and bred South Africans and understand the fundamentals of the country from a political, economic and cultural perspective.
- We have well-established relationships with key role players, including financial institutions, regulators, and the like.
- PSG is a large player in a South African context, but relatively small in international terms.
- PSG has a good reputation in South Africa and is well respected.

In addition, the PSG Exco may not necessarily have in-depth knowledge of all sectors, but fundamentally understand banking, education, financial services, the food and related business, as well as the energy sector. Therefore, as generalists, it is imperative that we operate in an environment that we understand and are familiar with.

There are always exceptions, but investment companies have expressed how difficult they are finding investments abroad not being country/sector experts, and not having reliable contacts in those countries. They are also not able to effectively assist management in those countries should the need arise since they are simply too far removed from the action.

That said, we do encourage our underlying companies (Capitec, PSG Konsult, etc.) who are specialists in their respective industries to continue investigating *sensible* overseas expansion opportunities that will enhance their business. They are able to eliminate sector risk by integrating acquired overseas businesses into their existing operations. Capitec's recently announced move into Eastern Europe through the acquisition of an interest in Creamfinance fits perfectly into this strategy, the acquisition being small and containing optionality in the case of success.

According to the international asset management community, at least part of our higher market rating can be explained by the "pure" South African focus of our investments. They do not approve of "ignorant" diversification strategies. A deal should always be earnings enhancing rather than to simply earn hard currency, which often results in dividing management's focus. Asset managers rightly so argue they can do the diversification themselves at a fund level, if desired.

OUR INVESTMENTS

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

Capitec (30,7%)

- *Simple and focused business model*
  - lending and transaction banking
- *High barriers to entry*
  - regulatory requirements and funding
- *High growth potential*
  - increase in transaction banking clients and growth in loan book
  - significant growth potential given its current market share:
    - ~2% market share of > R30 000 p.m. earners
    - ~11% market share of R10 000 – R30 000 p.m. earners
    - ~2,7% of the consumer credit book

Capitec has consistently stayed true to its core fundamentals of 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 the brand was awarded the top position in the retail banking category at the *Sunday Times Top Brands Awards* in August 2016.

Capitec delivered strong financial results with an 18% increase in *headline earnings* per share for the year ended 28 February 2017. It again saw a record increase in client numbers, taking on more than 100 000 new active clients per month and converting roughly 50% into primary banking clients (those clients who make regular deposits, mainly salaries). This resulted in the number of active clients increasing by 18% to 8,6m and primary banking clients increasing by 17% to 3,9m. Primary banking clients are less likely to move their banking elsewhere and, on average, do five times more transactions than a regular banking client.

The past financial year also saw Capitec expand their product offering with the successful launch of their credit card, which will assist in attracting higher-income earners and ultimately help increase its market share. We have always believed that Capitec's offering would be well received across borders and, while we remain confident that it will, time will tell with its acquisition of Creamfinance. This is a leading online technology-driven lender, offering multiple credit products across international markets. The acquisition is small by Capitec's standards (interest of 40% for €21m), but will allow Capitec to deliver cutting-edge financial solutions to people across the globe and, if successful, could yield promising returns.

Capitec is a phenomenal success story with significant growth potential, both locally and abroad. We remain proud shareholders as Capitec continues to pursue its strategy to be the best retail bank. Together with its management, we are excited to introduce Capitec and what it has to offer to the rest of the world.

Curro (56,1%)

- *Simple and focused business model*
  - private education
- *High barriers to entry*
  - capital intensive
- *High growth potential*
  - Curro has less than 10% of the private school market and 0,4% of the total schoolgoing learner market in South Africa
  - the local private school market will grow substantially in the next 10 years
  - global trends indicate that independent schools are evolving towards representing 20% of the total number of schools

Curro has been another success story for PSG. It established itself as the first truly national brand in the private school sector, now operating 54 campuses with 127 schools and 47 589 learners across the country and in Namibia.

With its origin in schooling, a natural progression for Curro is to move into higher education, being the next phase in the education cycle of a learner. Consequently, Stadio Holdings was created to help meet the demand for higher education in South Africa. To keep the two education businesses focused on their respective market segments, a decision has been taken to list Stadio Holdings on the JSE, and to unbundle it from Curro.

Dr Chris van der Merwe recently decided to step down as Curro CEO to become the chairman of Stadio Holdings, and in time also the chairman of Curro. This way he will be able to provide strategic direction to both businesses. I would like to thank Chris for his tenure as Curro CEO. He is one of the best CEOs we have had the pleasure working with, and has helped build a great business that will make an everlasting contribution to both South Africa and its youth.

Curro reported strong results for its financial year ended 31 December 2016 with *headline earnings* per share having increased by 55% to 43,9 cents.

With more schools exiting the J-curve phase following increased capacity utilisation, the business now generates strong cash flows and for the first year since its listing, Curro has not planned for a rights issue to fund further growth. Curro plans to invest R1,8bn in 2017 by building nine new schools and expanding 11 schools through the addition of 204 classrooms.

We remain excited about Curro and Stadio Holdings's growth prospects.

PSG Konsult (61,7%)

- *Simple and focused business model*
  - the provision of financial advisory and insurance services
- *Key competitive advantage*
  - an extensive distribution platform across the country
- *High growth potential*
  - significant growth potential given its current market share:
    - less than 5% of the wealth management market
    - ~2% of the asset management market
    - ~1% of the short-term insurance market

PSG Konsult supports advisors through its open architecture, stable systems, and risk and regulatory compliance, allowing them to focus on client interaction. 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 2017. This was achieved amid challenging trading conditions and considering PSG Konsult's equity market dependence. The *Asset Management* and *Insure* divisions in particular reported good results with a 57% and 70% increase in *recurring headline earnings*, respectively. PSG Konsult continues to attract assets in tough market conditions with total assets under management having increased by 14% to R175bn, underpinned by top-quartile performance from all its core managed funds.

PSG Konsult is a rising star in the financial services industry and we are optimistic about its growth prospects.

Zeder (42,1%)

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

The past financial year saw Zeder's share price increase by 39% to R7,44 as at 28 February 2017. This was due to a 23% increase in its *SOTP value* per share, coupled with the discount between its *SOTP value* per share and share price reducing from 33% at 29 February 2016 to 13% at 28 February 2017 following the internalisation of the PSG management fee.

A tough trading environment caused primarily by the severe drought and heat conditions, resulted in weaker earnings performance from the majority of Zeder's investments. Zeder's consolidated *recurring headline earnings* per share consequently increased by only 0,5% for the year under review.

Zeder will continue to drive platform growth. New and adjacent investment opportunities are reviewed on an ongoing basis as Zeder aims to expand its portfolio.

PSG Alpha (100%)

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

PSG Alpha is not a private equity investor as defined, serving as incubator to find the businesses of tomorrow and having no exit strategy. To avoid any misconception, we have changed its name from PSG Private Equity to PSG Alpha.

PSG Alpha reported promising results for the year under review with a 25% increase in *recurring headline earnings* per share. Its investment portfolio currently consists of 11 companies spanning across various industries and in different stages of maturity. Currently, energy *(Energy Partners)* and education *(FutureLearn* and *ITSI)* are considered priority industries as we believe they offer significant growth prospects. The listing of CA Sales on the Botswana Stock Exchange later this year will add further excitement to the portfolio.

PSG Alpha's portfolio companies are well capitalised, have good management in place and are positioned to deliver on its growth potential.

Dipeo (49%)

The Dipeo BEE Education Trust (of which all beneficiaries are black individuals) owns 51% of Dipeo, with PSG owning the remaining 49%. PSG originally provided Dipeo with approximately R800m in preference share funding to acquire select investments, the most significant being interests of 5,3% in Curro, 4,3% in Pioneer Foods, 4% in Quantum Foods and 20% in Kaap Agri. These investments, except for Kaap Agri, are subject to Black Economic Empowerment ("BEE") lock-in periods. The Dipeo BEE Education Trust will use its share of the value created from these investments to fund black students' education. As at 28 February 2017, Dipeo's *SOTP value* amounted to R1,6bn.

OUR CONTRIBUTION TO SOCIETY

PSG subscribes to the notion that a great company can never be a burden on society. We contribute to the development and upliftment of South Africans by creating jobs and contributing financially by way of paying our taxes, donations and sponsorships. The group's contribution to society through the payment of salaries, taxes and dividends amounted to approximately R15bn during the past financial year.

We also embrace the principle that companies should contribute additionally to the success of the country as a whole. The *corporate social investment ("CSI")* section of the annual report deals with PSG's CSI projects. It is by no means a comprehensive list, but illustrates our dedication to making South Africa a better place.

BEE remains integral to the continued success of our country. To date, we have created approximately R20bn in net value for thousands of broad-based BEE shareholders through various BEE transactions undertaken by us (e.g. Arch Equity, Thembeka Capital and Dipeo) and our underlying companies (e.g. Pioneer Foods and Capitec).

However – and here is the "catch" – the success of these BEE transactions can only be ascribed to the phenomenal success of our underlying investee companies.

BOARD OF DIRECTORS AND PSG EXCO

The PSG Board comprises three executive and eight non-executive directors. I serve as the non-executive chairman. Our board has a wealth of knowledge and experience and always acts 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 (CFO) and Johan Holtzhausen (CEO: PSG Capital). Combined, they have nearly 50 years of service with PSG and understand the business fundamentally and the direction it requires to ensure PSG keeps delivering on its aforementioned objective of shareholder wealth creation.

The PSG Exco is a subcommittee of the board and the chief operating decision-maker. It comprises the aforementioned three senior executives and myself, with Piet acting 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;
- Serves on the Zeder Exco;
- Manages PSG Alpha;
- Acts as PSG treasurer by monitoring and managing the capital requirements, gearing and liquidity of PSG, and it allocates and invests PSG's resources;
- Monitors the group's performance and provides strategic input and direction to the underlying companies;
- Is the custodian of good corporate governance; and
- Assumes overall responsibility for the growth and performance of PSG.

OUR FUTURE

These are exciting times for PSG with potential entry into new sectors and a few listings in the pipeline, hopefully to be concluded in the next year or two. Since my early days, I have always loved a listing and cannot help but get excited.

PSG is proudly South African – we remain positive about the future of this great country and will continue to play our part in its development.

A WORD OF THANKS

The main driver of PSG's success has always been its people. I would therefore like to thank all the individuals within the broader group for their contribution. We have been fortunate enough to attract the best and the brightest talent that our country has to offer.

To my fellow directors and members of the PSG Exco – thank you for creating such an enjoyable atmosphere to work in. I am having such fun fulfilling my passion!

To all our clients, shareholders, family members and other stakeholders – thank you for believing in PSG and for walking this journey with us.

In the words of Steve Jobs: *"Everyone here has the sense that right now is one of those special moments when we are influencing the future."* I invite you to join PSG in shaping the future!

Jannie Mouton

12 May 2017
Stellenbosch