Directors' Report

The directors present their report which forms part of the Annual Financial Statements of the company and of the Group for the year ended 30 June 2016.

Nature of business

Super Group Limited (Registration number 1943/016107/06), the holding company of the Group, is a company listed on the Main Board of the JSE in the "Industrial Transportation" sector, incorporated and domiciled in the Republic of South Africa. Super Group is a broad-based supply chain management business, operating in South Africa, with operations across sub-Saharan Africa and businesses in Australia, New Zealand, the United Kingdom and Europe. Its principal operating activities include supply chain management, dealerships and fleet management activities.

Financial results

The Annual Financial Statements can be found on pages 7 to 85.

Year under review

Overview of results

Super Group reported a solid set of final results for the year ended 30 June 2016. The majority of the existing businesses performed well. The results include Allen Ford's (UK) results for the full year compared to seven months in the prior year, SG IN tIME's (Supply Chain Europe's) results for eight months and NLC Proprietary Limited's (NLC's), through SG Fleet (Australia), results for seven months. Super Group concluded a Rights Offer raising R900 million to part fund the acquisition of the 75% interest in SG IN tIME, Germany, and an Accelerated Bookbuild Offer raising R360 million to bolster the Group's capital structure following the NLC acquisition by SG Fleet. During the year under review, Super Group expanded its international footprint and at year end, the non-South African businesses contributed 42% and 60% to revenue and operating profit, respectively. The final results for the Group are commendable given the continued challenges being faced by some of the Supply Chain Africa businesses, the weak Rand against all major currencies during the reporting period and the competitive business environment in the geographical locations in which the Group operates. The Australian operating environment was muted and business sentiment declined over the reporting period. Despite these trends, the fleet management market continued to grow and SG Fleet continues to enjoy a strong tender pipeline. The fleet management market remains competitive, however, SG Fleet is well positioned in the Australian market and continues to gain traction in the UK market.

The logistics industry, globally, has experienced pricing pressures and increased competition, compounded by lacklustre economic growth and socio-political turmoil. The major global concern remains the impact of the slowdown in China as the global economy is increasingly dependent on China to deliver economic growth and, more recently, Britain's exit from the European Union (EU). The performance of the South African logistics and transport industry is closely linked to the prevailing state of the economy. As a result, economic factors, including interest rates, exchange rates and inflation have a significant impact on logistics costs. The competitive logistics industry, both locally and internationally, continues to place pressure on operating margins which results in companies focusing on stringent cost controls.

The South African fleet management market is largely dependent on decisions by governments, parastatals and large companies to outsource the management and maintenance of their vehicle fleets. The lead times in securing these contracts are lengthy, but once secured, the contracts are long-term. The local as well as international fleet management markets are driven by the need for operational efficiencies. The Australian fleet management market, including the novated lease segment, has consistently shown good growth.

NAAMSA continues to report sharp declines in new vehicle sales. The United Kingdom (UK) dealership market has shown consistent growth over the reporting period.

During the year under review, Super Group concluded various transactions that are explained in more detail in note 31 of the Financial Statements.

Financial performance

Group revenue increased by 30.9% to R25.9 billion (June 2015: R19.8 billion) mainly as a result of the commendable performances by FleetAfrica, SG Fleet and Dealerships as well as the inclusion of the results of Allen Ford (UK), SG IN tIME and NLC (through SG Fleet), for the periods previously mentioned.

Operating profit increased by 30.0% to R1 952 million (June 2015: R1 501 million), marginally below revenue growth, despite a poor performance by SG Coal in the first half of the year.

The increase in net finance costs of 83.7% to R255 million (June 2015: R139 million) is attributable to the higher borrowings to fund the various acquisitions in Australia, Europe and the UK. The average interest rate paid on borrowings was 6.0% (June 2015: 6.7%) and the average interest rate earned on cash was 3.7% (June 2015: 4.8%).

Profit before taxation increased by 24.6% to R1 697 million (June 2015: R1 362 million). The effective tax rate increased to 25.8% (June 2015: 23.7%) as a result of the remaining historical assessed losses in South Africa being utilised and the increase in profits in territories that have higher corporate tax rates.

Earnings per share (EPS) and Headline earnings per share (HEPS) increased by 12.2% to 296.6 cents (June 2015: 264.4 cents) and 10.4% to 292.6 cents (June 2015: 265.0 cents), respectively. Core HEPS increased by 9.0% to 308.1 cents (June 2015: 282.6 cents). Core HEPS excludes acquisition costs, the once-off foreign exchange profit on the SG IN tIME forward foreign exchange contract, the amortisation of Purchase Price Allocation (PPA) intangibles and the Broad-Based Black Economic Empowerment (B-BBEE) related costs, after tax and non-controlling interests. As a result of the Rights Offer undertaken in October 2015 and the Accelerated Bookbuild Offer in December 2015, the weighted and diluted weighted number of shares in issue for the prior comparable year had to be adjusted in terms of IAS 33.28, which resulted in the June 2015 EPS, HEPS and Core HEPS having to be restated.

The increase in total assets of 49.1% to R22.8 billion (30 June 2015: R15.3 billion) is mainly as a result of the newly acquired assets of SG IN tIME and NLC during the year under review. The Group's normalised Return on Net Operating Assets, after tax and excluding the effects of acquisitions during the period, was 15.5% (June 2015: 18.1%).

Super Group's net debt position at 30 June 2016 increased by R993 million to R1 989 million, with R1 479 million debt attributable to SG Fleet largely for the NLC acquisition and R906 million debt attributable to the acquisition of SG IN tIME, Germany. The Rights Offer of R900 million in October 2015 was used to part fund the SG IN tIME acquisition and the Accelerated Bookbuild Offer of R360 million in December 2015 bolstered the Group's capital structure following the acquisition of NLC by SG Fleet. The Group's total gearing, as at 30 June 2016, was 21.4% (30 June 2015: 16.8%), having reduced from 31.9% as at 31 December 2015 as a result of the additional cash generated by the newly acquired businesses. The net asset value per share increased by 30.7% for the year to 2 196.4 cents at 30 June 2016 (30 June 2015: 1 680.5 cents).

Operating cash flow increased by 24.9% for the year to R2 652 million (June 2015: R2 123 million) mainly due to the increase in EBITDA from the acquisitions, with a working capital cash inflow of R245 million (June 2015: R102 million outflow). As a result, cash generated from operations, after working capital, increased by a pleasing 43.4% to R2 897 million (June 2015: R2 021 million).

During the year a subsidiary of the company repurchased 30 871 shares, totaling 0.01% of the issued share capital, at an average share price of R32.62. The total consideration relating to these repurchases was R1 million.

Disposals, acquisitions and restructuring of businesses

SG IN tIME acquisition

The Group acquired a 75% interest in the share capital of IN tIME for R776.0 million. The Statement of Financial Position as at 30 June 2016 has been impacted by increases in intangible assets of R604.7 million, goodwill of R1.9 billion, trade and other receivables of R400.7 million, long-term borrowings of R901.1 million and a net deferred tax liability of R173.4 million as a result of this acquisition. Trading relating to the eight months ended 30 June 2016 has been included in the Statement of Comprehensive Income.

SG Fleet acquisition of NLC

SG Fleet acquired NLC effective 30 November 2015 for a purchase consideration of R2.2 billion. The Statement of Financial Position as at 30 June 2016 has been impacted by increases in intangible assets of R549.8 million, goodwill of R1.8 billion, fund reserves of R131.2 million and a deferred tax liability of R151.4 million as a result of the acquisition. This transaction was funded through the issue of SG Fleet shares, cash and interest-bearing borrowings. Trading relating to the seven months ended 30 June 2016 has been included in the Statement of Comprehensive Income.

Rights Offer

The Group concluded a fully-underwritten Renounceable Rights Offer effective October 2015 for R900 million. The Rights Offer consisted of an offer of 35 019 470 Rights Offer shares at a price of R25.70 per Rights Offer share. The Statement of Financial Position has been impacted by an increase in stated capital of R870.4 million (after share issue expenses).

Sale of Micor to SG Agility

On 30 June 2016, Micor was sold to SG Agility, a joint venture between Super Group (55%) and Agility (45%). SG Agility is disclosed as an equity-accounted investee.

SG Coal

Effective 1 March 2016 Super Group acquired the remaining 25% shareholding in SG Coal from Safika Holdings (Pty) Ltd for R70 million and effective 1 June 2016, the Group sold 49% of its shareholding in SG Coal to Joe Singh Group (Pty) Ltd for R180.6 million.

GWM Southern Africa

Effective 1 June 2016, the GWM Distribution business for Southern Africa was sold to GWM (China).

Share capital

The authorised and issued share capital is detailed in note 14 to the Annual Financial Statements.

In terms of the general authority previously granted to the directors, cumulatively 30 871 shares have been repurchased at an average price of R32.62 per share for a total consideration of R1 million by the Super Group Share Incentive Scheme. These shares are classified as treasury shares.

For purposes of the Annual Financial Statements, ordinary shareholders' equity has been reduced by the cost of these shares through the share buyback reserve.

Directors and Group Company Secretary

The names of the directors and Group Company Secretary who currently hold office are as follows:

- Phillip Vallet: Independent Non-executive Director and Chairman of the company
- John Newbury: *Independent Non-executive Director*
- David Rose: *Independent Non-executive Director*
- Mariam Cassim: *Independent Non-executive Director, appointed 1 July 2015*
- Dr Enos Banda: *Independent Non-executive Director*
- Valentine Chitalu: *Independent Non-executive Director*
- Peter Mountford: *Group CEO*
- Colin Brown: *Group CFO*
- Nigel Redford: *Group Company Secretary*

There were no changes to the Board to the date of the Annual Financial Statements.

Details of directors' remuneration, share appreciation rights and options appear on pages 70 to 73.

Dividends

The Board has resolved not to declare a dividend for the current year. The dividend policy will be reviewed in the year ahead.

Resolutions

During the year, other than the resolutions passed at the Annual General Meeting on 24 November 2015, the shareholders of the company passed no other resolutions. No special resolutions, the nature of which might be significant to members in the appreciation of the affairs of the Group, were passed by any subsidiary companies during the year covered by the Annual Financial Statements.

Subsidiary companies

Details of the principal subsidiary companies appear on page 85 of the Annual Financial Statements.

Share option schemes

Refer to note 38 for information relating to option schemes, share-based payments and the B-BBEE Staff Empowerment Scheme.

Events subsequent to 30 June 2016

SG Fleet acquisition

SG Fleet announced the acquisition of Fleet Hire on 4 August 2016, a UK company providing contract hire, salary sacrifice, short-term rental and fleet management services. The enterprise value of GBP25.7 million (purchase price GBP19.6 million plus lease portfolio debt net of cash of GBP6.1 million) will be funded through SG Fleet shares of GBP1.8 million, debt of GBP12.0 million and cash on hand of GBP5.8 million. The acquisition provides SG Fleet with critical mass in the attractive UK market and, in combination with its existing local business, creates a profitable platform for continued growth. The Group will provide further information in the interim financial report ending 31 December 2016.

Mercedes-Benz dealerships

The Group has concluded an agreement with Sandown Motor Holdings Proprietary Limited (Sandown), where the Group, through Super Group Trading Proprietary Limited, has acquired the Western Cape dealership business and related properties effective 1 September 2016. The purchase price of the dealerships is approximately R418 million, while the purchase price of the property is R200 million. The Group will provide more information in the interim financial report ending 31 December 2016.

Listing of Domestic Medium-Term Notes

The JSE has granted a listing to Super Group on 9 September of its SPG002 senior unsecured notes, in terms of its Domestic Medium-Term Note Programme (DMTN) dated 22 October 2013. The value of the issue was R50 million, with the interest linked to the three-month Johannesburg Interbank Agreed Rate (JIBAR) coupon rate and is payable quarterly. The maturity date of this issue is 9 September 2019.

Litigation statement

Super Group is not involved in any material legal or arbitration proceedings or legal actions, nor are the directors aware of any proceedings that are pending or threatened, that may have, or have had, in the 12-month period preceding the date of this Directors' Report, a material effect on the Group's financial position.

Material changes

There have been no material changes in the financial or trading position of the company and its subsidiaries between the year ended 30 June 2016 and the date of the Annual Financial Statements.

Going concern

The directors consider that the Group and company have adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the company's financial statements. The directors have satisfied themselves that the Group and company are in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements.