

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 2017.

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 predominantly in South Africa, with operations across sub-Saharan Africa and businesses in Australia, Europe, New Zealand and the United Kingdom. Its principal operating activities include supply chain management, dealerships and fleet management activities.

Financial results

The results for the year are set out in the Annual Financial Statements presented on pages 10 to 82. The Annual Financial Statements are published on the Group's website www.supergroup.co.za.

Year under review

Overview of results

The financial year ended 30 June has been a challenging period on many fronts. The SG Fleet and Dealerships businesses, both locally and in the UK, performed exceptionally well, with Supply Chain Africa's major businesses being negatively impacted by prevailing tough economic conditions. Supply Chain Europe reported satisfactory results, in Euro-terms, and Fleet Africa, as expected, reported a decline in results despite having improved margins. The foreign earnings are subject to exchange rate volatility. As such, the strengthening of the Rand against all the major currencies, especially the British Pound (£) and Euro which are reported in Rands, negatively impacted the Group's results.

In the previous comparable year the earnings included, after taxation and non-controlling interests, a once-off foreign exchange profit of R98.3 million on the SG IN tIME forward exchange contract as well as lower B-BBEE expenses of R12.7 million compared to the current year's R25.6 million.

During the 2017 financial year, the Group expanded its geographic footprint and market share with SG Fleet's acquisition of Fleet Hire and Motiva, providers of contract hire, salary sacrifice, short-term rental and fleet management services in the UK. These acquisitions established SG Fleet in the Top 20 fleet management service providers in the UK market. Locally, the Group acquired nine Western Cape dealerships, primarily Mercedes-Benz dealerships, and a strategic property from Sandown Motor Holdings, effective 1 September 2016. Effective 30 September 2016, Super Group acquired Legend for a purchase price of R110.5 million. Dealerships UK acquired Essex Auto Group effective 1 March 2017 for R407.0 million. During the year, Super Group also acquired the remaining 49.2% interest in SG Coal for R167.3 million.

As a result of the various strategic acquisitions made, the non-South African businesses contributed 40% and 61% to revenue and earnings before interest, tax and amortisation of Purchase Price Allocation (PPA) intangibles (EBITA), respectively, for the year under review. The acquisitions made during the year are referenced in note 29 of the Annual Financial Statements.

On 9 September 2016 and 31 October 2016, the JSE granted Super Group a listing of its second and third issuance, SPG002 and SPG003, senior unsecured notes, in terms of its Domestic Medium Term Note Programme dated 22 October 2013. The total value of the SPG002 DMTN's issued and listed was R50 million and R154 million, respectively. The authorised DMTN programme size is R2 billion.

Financial performance

Group revenue increased by 15.1% to R29.9 billion (June 2016: R25.9 billion) primarily due to the inclusion of nlc and SG IN tIME for the full year, the acquisitions as well as the commendable turnaround in SG Coal's results.

EBITA was up by 10.1% to R2 292.4 million (June 2016: R2 082.5 million). The amortisation of PPA intangibles increased by 35.1% to R176.4 million (June 2016: R130.5 million) mainly as a result of the inclusion of the results of nlc and SG IN tIME, Fleet Hire for 11 months and Motiva for seven months.

Operating profit increased by 8.4% to R2 116.1 million (June 2016: R1 952.0 million), largely due to the acquisitions and the improved performance by SG Coal within Supply Chain Africa.

The increase in net finance costs of 10.0% to R280.0 million (June 2016: R254.7 million) is attributable to the funding of the various acquisitions, the funding of the working capital for and the properties of the Western Cape dealerships and the Essex Auto Group as well as the FML borrowings in the SG Fleet United Kingdom acquisitions. The average interest rate paid on borrowings was 6.2% (June 2016: 6.0%) and the average interest rate earned on cash was 3.7% (June 2016: 3.7%).

Profit before tax increased by 8.2% to R1 836.1 million (June 2016: R1 697.3 million). The effective tax rate increased to 27.4% (June 2016: 25.8%) primarily as a result of the increase in profits in territories that have higher corporate tax rates.

EPS and HEPS decreased by 3.9% to 285.0 cents (June 2016: 296.6 cents) and 1.4% to 288.5 cents (June 2016: 292.6 cents), respectively, due to the impact of the increased weighted number of shares and the once-off foreign exchange profit on the SG IN tIME forward exchange contract in the prior comparable period. Core HEPS increased by 7.8% to 332.0 cents (June 2016: 308.1 cents). Core HEPS in the prior comparable period also excluded the once-off profit made on the foreign exchange contract. The increase of 4.8% in the weighted average number of shares in issue was due to the rights issue and book-build concluded in October 2015 and December 2015, respectively, to fund the SG IN tIME and nlc acquisitions.

The increase in total assets of 9.1% to R24.9 billion (2016: R22.8 billion) is mainly as a result of the newly acquired assets of Fleet Hire and Motiva by SG Fleet, the nine Western Cape dealerships, property related to the dealership transaction and the interest in Essex Auto Group during the year under review. The Group has taken a decision to modify the calculation of net operating assets by including the interest-bearing Dealerships' floorplan liabilities. As a consequence, the Group's RNOA, after tax, was 12.2% (June 2016: 15.7%).

Super Group's net debt position at 30 June 2017 increased by 56.2% or R1 117.0 million to R3 105.7 million, with R537.6 million attributable to property and other borrowings relating to Dealerships SA and Dealerships UK. The Group's gearing, as at 30 June 2017, was 31.5% (June 2016: 21.4%). The net asset value per share increased by 9.0% for the year to 2 394.1 cents at 30 June 2017 (June 2016: 2 196.4 cents).

Operating cash flow increased by 17.3% for the year to R3 111.4 million (June 2016: R2 651.5 million) mainly due to the increase in earnings before interest, taxation, depreciation and amortisation. Cash generated from operations, after working capital, increased by 10.3% to R3 194.3 million (June 2016: R2 897.0 million).

The Group would rather re-invest the cash generated in its operations in acquisitions or to repurchase shares and therefore no dividend for the year ended 30 June 2017 has been declared.

Significant events

SG Fleet acquisition of Fleet Hire

SG Fleet acquired Fleet Hire effective 4 August 2016 for a purchase price of R367.5 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.

Western Cape dealerships

The Group acquired the Western Cape dealerships business from Sandown Motor Holdings (Pty) Ltd effective 1 September 2016 for a purchase price of R899.3 million. The business consists of nine dealerships, predominantly Mercedes-Benz dealerships, and one property.

Listing of DMTN on 9 September 2016 and 31 October 2016

The JSE listed Super Group's SPG002 and SPG003 senior unsecured notes, in terms of its DMTN Programme dated 22 October 2013 on 9 September 2016 and 31 October 2016, respectively. The value of the SPG002 issue was R50 million with the interest linked to the three-month Johannesburg Interbank Agreed Rate (JIBAR) coupon rate payable quarterly on 9 March, 9 June, 9 September and 9 December of each year. The maturity date of this issue is 9 September 2019. The value of the SPG003 issue was R154 million with the interest linked to the three-month JIBAR coupon rate payable quarterly on 31 January, 30 April, 31 July and 31 October of each year. The maturity date of this issue is 31 October 2019.

Acquisition of ABF Legend Logistics (Legend)

The Group acquired a 75% in ABF Legend Logistics, a coal transport company, for R110.5 million with effect from 30 September 2016. Legend has bolstered the Supply Chain Africa business.

SG Fleet acquisition of Motiva

SG Fleet acquired Motiva effective 30 November 2016 for a purchase price of R249.0 million. Motiva is one of the UK's leading independent Vehicle Fleet Solution Providers.

SG Coal transactions

During the year, Super Group acquired the 49.2% minority interest in SG Coal for R167.3 million.

Acquisition of Essex Auto Group

The Group acquired Essex Auto Group (EAG) effective 1 March 2017 for R407.0 million. EAG owns five Ford, two Kia, one Mazda and one Fiat dealerships.

Share capital

The authorised and issued share capital is detailed in note 12 to the Annual Financial Statements.

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*
- 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 posting of the Annual Financial Statements.

Details of directors' remuneration, share appreciation rights and options appear on pages 69 to 71.

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 22 November 2016 and the General Meeting on 24 January 2017, 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 these Annual Financial Statements.

Subsidiary companies

Details of the principal subsidiary companies appear on page 82 of the Annual Financial Statements.

Share option schemes

Refer to note 36 for information relating to option schemes, share-based payments and the B-BBEE Staff Empowerment Scheme.

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Events subsequent to 30 June 2017

SG IN tIME acquisition of an interest in Servicios Empresariales Ader S.A (Ader)

Effective 4 July 2017 SG IN tIME acquired an 89.5% interest in Ader, a Spanish courier and express transport operator, for a purchase consideration of €11.6 million.

Acquisition of Bestodeck Limited (Slough Motor Corporation)

Dealerships UK acquired Slough Motor Corporation (SMC) effective 4 July 2017 for a purchase consideration of £24.0 million. SMC owns six Ford dealerships and two Suzuki dealerships in Kent and Berkshire.

Increase in SG Fleet interest

Effective 25 August 2017, Bluefin Investment Limited acquired an additional 1.63% in SG Fleet for R175 949 000, increasing the Group's holding in SG Fleet to 54.0%. Effective 11 September 2017, SG Fleet issued 4 136 925 shares on exercise of vested options granted as long-term incentive awards under SG Fleet's Equity Incentive Plan, diluting the Group's holding to 53.14%.

Acquisition of Minority interest in Digistics

Effective 18 September 2017, Super Group Holdings Proprietary Limited acquired the remaining 45% minority interest in Digistics Proprietary Limited for R102 665 000, increasing the Group's holding to 100%.

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 these Annual Financial Statements, 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 2017 and the date of these 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.