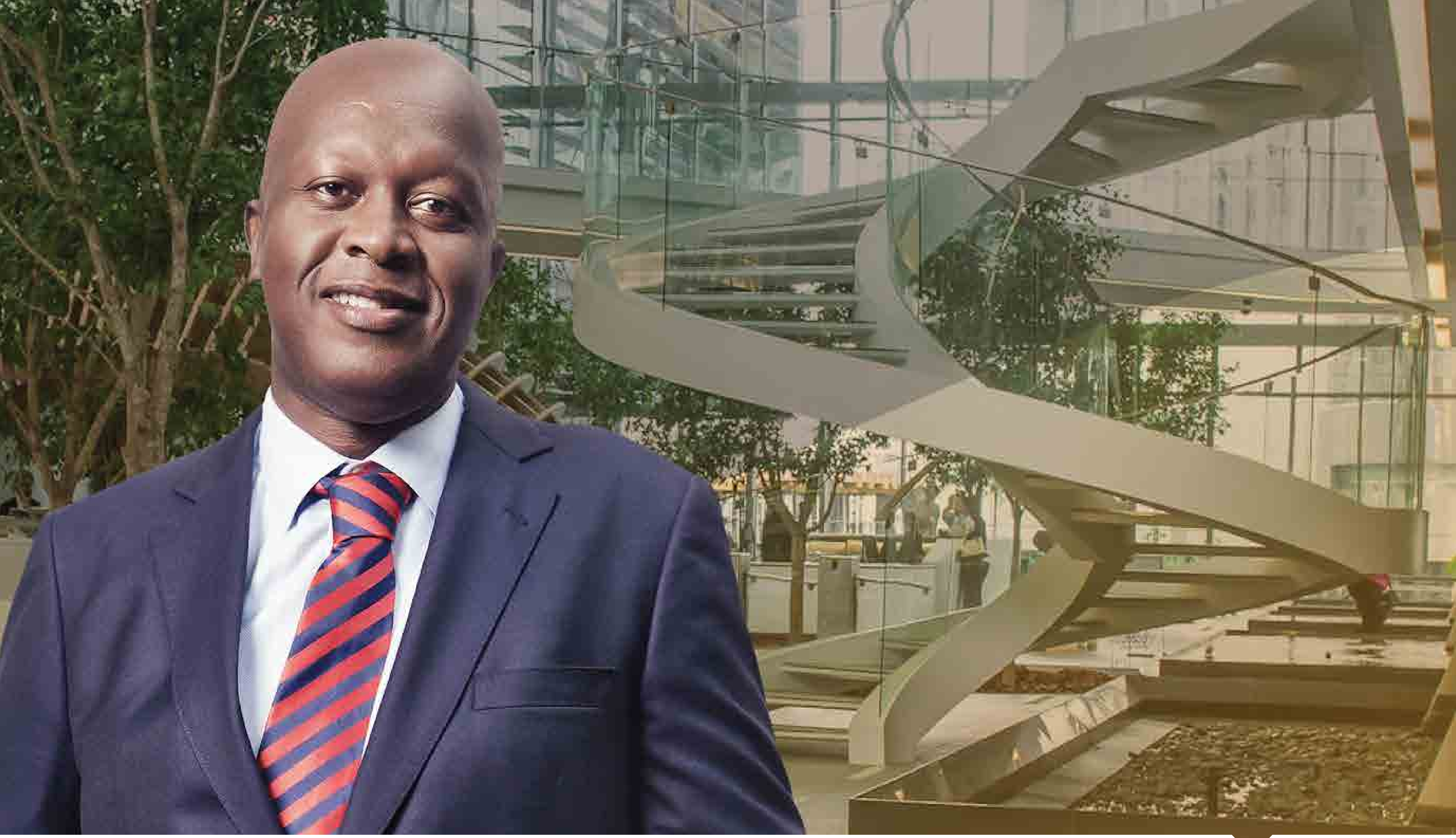


ON 1 JULY 2014, IN ANTICIPATION OF OUR LISTING ON THE JSE ON 24 JULY 2014, WHEN OUR GROUP WOULD CEASE TO BELONG TO PRIVATE EQUITY OWNERS, I BECAME THE NON-EXECUTIVE CHAIRMAN OF ALEXANDER FORBES.

On 24 July 2014 the Alexander Forbes group ceased to belong to the private equity consortium and became, instead, a listed member of the JSE. The listing also resulted in Mercer McLelland making a strategic acquisition of 34 percent of the group. With our listing came great excitement at our Sandton head office, and at our offices from Cape Town to Nairobi and London. More importantly, our listing brought with it great opportunities: to sharpen our strategic direction, to reconfigure the group's capital structure and to create greater alignment with our employees.

We report here on our progress as a listed entity and of how we have grasped our new opportunities and executed our responsibilities. In particular we seek, in this report, to explain where we believe the Alexander Forbes journey will take us.

PROGRESSING INTEGRATED THINKING

An important part of our journey is towards greater integrated thinking in how we devise and execute our strategy. Despite not being a publicly listed company for the past seven years, this is our fifth integrated annual report and I trust you will agree that we have come a long way on this particular part of our journey.

Most integrated reports contain sections called, typically, 'operating context', in which the reporting entity attempts to explain the socio-economic and market conditions under which it sells its products or services and how the external environment influences its business model and its creation of value. Our report is no different and on pages 24 to 26 you will find just such an operating context section. The difference is that, this year, we set out to share, in greater detail than before, not only the conditions that make it possible for us to stay in business, but the conditions that present us with great opportunities to create value – for our clients, our shareholders, our employees and, in a very real sense, for the societies in which we operate.

Our listing unlocked value for our private equity shareholders as well as for our empowerment shareholders who supported the group over several years while making it possible for us to create value for many other stakeholders. One such beneficiary is the Alexander Forbes Community Trust which will, in future, be able to use dividend proceeds to further its critical investment in deserving communities. Listing also made it possible for us to give our employees a stake in their company while sharply reducing our historically large interest expense will mean we are able to allocate more resources to growing our business.

BATTLING ECONOMIC HEADWINDS

It is no secret that the journey of democratic South Africa has recently encountered a number of potholes – poverty, inequality, discord and corruption. Power interruptions and labour upheavals have dented investor confidence and a country that is crying out for quality jobs to be created as quickly as possible is, instead, shedding employment.

South Africa's 'operating context' within the global environment is also hardly without challenges: in China growth is slowing, Europe is battling to stave off the spectre of deflation and recovery in the US is still far from assured. We operate in an environment of many stresses and great uncertainty. But all is not doom and gloom. While 2014 was, in many respects, a year of many challenges we anticipate at least a slightly improved economic performance in 2015.

Meanwhile many good men and women are working hard to fix the South African highway and to get this country up to speed again. They strive to improve social protection – the safety net that underpins our economy and society. Employee benefits are a vital part of such social protection (as, increasingly, they are in those African markets outside of South Africa in which we operate).

MENDING THE SOCIAL PROTECTION SAFETY NET

One of the engines that South Africa must inevitably turn to propel it forward is the financial services sector – internationally respected for the quality of its service and systems and its accountability. And a vital cog in that engine is Alexander Forbes.

We subscribe wholeheartedly to the National Development Plan and we believe wholeheartedly that it is possible to create a better South Africa in which working communities and families raise their children in security and plenty. To create that wished-for future South Africa we need to make employee benefits work – not for fund managers, administrators and the multitude of intermediaries who are active in this space but for ordinary working South Africans. We need to ensure that their financial needs and those of their families are taken care of before and after retirement; that they have peace of mind, knowing they have made the right choices and investments based on advice that is right, not for people like them but for them specifically.

DELIVERING OUR MISSION

As a group our mission is about giving peace of mind to the more than one million South Africans who put their trust in us (these one million South Africans plus, today, 380 000 individuals elsewhere in Africa.) If more than a million South Africans have peace of mind that their financial well-being is being well taken care of by capable, trustworthy professionals, the social value that will be created will be enormous.

Our Strategic Intent, which we explain on pages 14 to 21, is all about attending to an employee benefits system that urgently needs fixing, and about creating wealth and certainty for people in a new era in which the certainty of defined benefits has become the exception rather than the norm.

I am proud to be part of a company that is so acutely attuned not just to its opportunities but also to its responsibilities – towards clients, shareholders, employees and society. A very important part of how we respond to these responsibilities, to the creation of broader social as well as financial value, relates to the very considerable resources we invest in researching and understanding our sector and our social impact. Through initiatives such as Benefits Barometer, Ready Set Retire and Hot Topics, plus innumerable public platforms, we share this tremendous store of intellectual capital whenever and wherever the opportunity presents itself. I'm proud to report that this year Alexander Forbes Financial Services, in particular, has achieved conspicuous success in disseminating its redoubtable thought leadership far and wide.

In addition to sharing thoughts and insights through the media and on public platforms, we engage, on a daily basis, with partners, including government, regulators, institutional clients and trade unions – the good men and women who are as committed as we are to mending our country's social protection potholes.

REFORMING RETIREMENT

In fixing the system, retirement reform is today very much on the South African agenda. Our executives have been involved in discussions with regulators on consolidating pension and provident funds and retirement annuities into a single type of retirement fund with greater tax benefits for contributors. We welcome such moves as we believe they will be good for the employee benefits sector but, most importantly, for the individual members.

Similarly, we enthusiastically endorse proposals to enforce at least partial preservation on the withdrawal of retirement funding. Both of these endeavours will go a long way towards strengthening South Africa's social protection and giving real financial peace of mind to hundreds of thousands of employees. Alexander Forbes is ready, willing and, most importantly, well prepared to help overcome the many obstacles that stand between us and the achievement of a truly effective social protection system.

A theme running throughout this report is our commitment to always serve our customers to the best of our ability, and to do so honestly, openly and fairly, securing their financial well-being. Across all businesses we have engaged with the Financial Services Board's Treating Customers Fairly framework, not in a spirit of compliance but one of enthusiasm and a belief that this framework will be good for our customers, our businesses and the whole financial services sector.

I am also pleased to report that we made very substantial progress in implementing the pillars of the Solvency Assessment and Management (SAM) framework and now believe that we will be fully ready for the implementation of this new regulatory regime on 1 January 2016.

CREATING FINANCIAL WELL-BEING

While we research and communicate at every opportunity, the Strategic Intent to which we commit ourselves is about engaging directly with beneficiaries, about putting words into practice and so fixing a broken system, one member at a time. In 2014/15 a great deal of thought, time, effort and financial resources went into preparing our group for the implementation of the Financial Well-being programme. In time, I have no doubt, Financial Well-being will come to be regarded as a watershed development not just for Alexander Forbes but for the financial services sector as a whole, such will be its profoundly positive impact.

Financial Well-being, while conceived and packaged by a leadership team that has been reinvigorated by our group's new status as a public company, will be carried out by the 4 000 Alexander Forbes foot soldiers, our greatest assets. The board and I have noted with great satisfaction the heightened engagement the company now has with its employees and the overwhelmingly positive way in which our people have rolled up their sleeves in response to their new opportunities and responsibilities. It was therefore a source of great satisfaction that we could announce this year the creation of an employee share ownership plan (ESOP) which will give all employees but especially black women a 2.9% share in the business for which they work every day to create value.

EMPOWERMENT AND TRANSFORMATION

Our ESOP was about building up to meaningful empowerment – as well as about our broad-based black economic empowerment status. Our commitment to transformation remains and will only be strengthened in the new era of our JSE listing.

Although we continued to maintain our Level 2 contributor status, we acknowledge that we still have a great deal of work to do to transform our company. In particular, there are areas of employment equity that need to be addressed and much work needs to be done on developing and empowering black-owned suppliers so that they can become fellow travellers on the exciting journey which our new Strategic Intent maps out for us.

GOVERNANCE AND RISK MANAGEMENT

Alexander Forbes is changing and so is the retirement and investment landscape. A new direction, coupled with the reforms and changes facing our industry, mean considerable opportunities but also substantial risks. At such times the quality of an organisation's leadership is of the utmost importance and I believe that our stakeholders should be assured that our group's leadership and governance are of the highest order.

At board level, subsequent to our listing, we underwent a partial changing of the guard with the appointment of three new non-executive directors while myself, two executives and four other independent directors and the senior executive leadership ensured, we believe, a considerable measure of continuity.

APPRECIATION

In welcoming Messrs O'Regan, Anderson and Kgosana to our board I commend my fellow directors for consistently displaying an energy that mirrors the zeal now evidenced throughout Alexander Forbes. In particular the board has acted decisively and with great application to strengthen our risk management policies, systems and procedures (as detailed on page 81). As such we embrace the new 2016 – 2020 Strategic Intent with resolve and the greatest confidence.

To our clients and fund members: thank you for your ongoing faith in our business. To our new shareholders I extend a heartfelt welcome and trust that they will enjoy a rewarding and, we hope, long association with Alexander Forbes. It is with great pleasure that we have declared our maiden cash dividend of 12 cents per ordinary share.

In closing I thank my fellow directors for their unflagging support and congratulate Group Chief Executive, Edward Kieswetter, Chief Financial Officer, Deon Viljoen, and the entire executive team on a year of great achievement. Your hard work is noted and appreciated by the board of directors and by all with an interest in Alexander Forbes. Lastly, my thanks and congratulations go to all employees of our group for their engaged commitment to work, every day, to achieve our mission, to create value for all our stakeholders.

Sello Moloko
Chairman

Sandton
30 June 2015

THE YEAR UNDER REVIEW WAS IN ALMOST ALL RESPECTS A TRULY MOMENTOUS ONE FOR ALEXANDER FORBES, OUR CLIENTS, OUR EMPLOYEES, SHAREHOLDERS AND THE SOCIETY IN WHICH WE OPERATE. WE RETURNED TO THE JSE A COMPANY WITH DEEP INSTITUTIONAL AND FINANCIAL INTEGRITY.

A WATERSHED YEAR

In July 2014, we successfully returned to the Johannesburg Stock Exchange after an absence of seven years, our listing valuing the business at almost R10 billion. The overwhelming support received from a wide range of investors, including our cornerstone shareholder, Mercer, was not only gratifying in the extreme, but the most significant vote of confidence in our company, its leadership and professional competence – the positive performance of our share since, as well as our maiden dividend payment has been a solid reward for the belief shown in our group.

Our 2014/15 results marked a watershed year in the group's transition from being a privately controlled company to one that is proudly listed on the JSE. These results reveal a focused core group of companies executing a clear strategic intent of delivering excellent financial services to growing markets in South Africa, the rest of Africa and the United Kingdom.

Top-line revenue from continuing operations in 2014/15 reflects an overall 12% growth; our various retail and public sector offerings growing their business by the same percentage and our institutional business increasing operating profit also by 12%, a most commendable performance given the many headwinds faced during the year. Elsewhere, our AfriNet division posted a 17% growth in net operating income and our International operation cemented and grew its position in a very competitive market. Our institutional core is sometimes considered by market commentators as 'mature' but it is noteworthy that this same core secured R9.9 billion in AUM and AUA in new business and 268 brand new clients.

INVESTING FOR GROWTH

We continued this year to husband our resources, our overall costs increasing by 12.3%. This was an order of increase which would have been substantially lower were it not for once-off costs and investments into our three growth strategies as well as the rising cost of staying in business (including compliance costs which this year rose by 35% and a four-year compound growth of over 30%). Other significant investments were made in our IT infrastructure; in modernising and significantly improving our systems and the value they create to underpin our growth. We have also fully absorbed the disynergy effect of selling of large divisions as we refined our core group.

In addition, in response to client feedback, we invested in our AFICA platform. The investment into our platform for individual member administration has immediately borne fruit through higher retention and flows, growing by 17% in the past year. This state-of-the-art user-friendly platform that improves value to our individual clients. Also, we invested extensively in developing Alexander Forbes Life's retail skills and the team at FPC to upsell our new retail proposition. Regrettably, amounts invested in Alexander Forbes Compensation Technologies (AFCT) and in healthcare did not realise the anticipated increase in new business due to a change in a major client's business. The public sector generally failed to meet targets, new deals taking longer than anticipated to come to fruition and being of a smaller size than had previously been the case. Nevertheless, we remain optimistic that the public sector will be a substantial area of growth in future.

This was an unusual year, one which, in addition to conscious investment choices, was characterised by a significantly restructured balance sheet, costs relating to the listing, the crystallisation of a seven-year management share trust as well as a new long-term incentive plan for key executives. The detailed CFO's report (pages 37 to 41) provides clarity on what factors should be considered to obtain, from our income statement, a more normalised view of our profits before and after tax. Notwithstanding these caveats, at R1 137 million, our profit from group operations was up 10% on the previous year, our overall financial performance reflecting a year of solid achievement.

GROWING SUSTAINABLY

In 2014/15, we posted solid financial results in an environment that was scarcely conducive for growth. Competition in our sector has increased sharply and our achievement in growing market share – among institutions, among individual investors, in short-term insurance and in the rest of Africa – should not be underestimated.

However, what particularly pleases me, even more than the top-line performance indicators, are the underlying numbers that point to the progress we continue to make – and which tell about the sustainability of our revenues. These achievements include: on retail: assets under advisement by FPC up by 17% to R56.3 billion; assets under administration up by 14% and assets under management up by 14.5%.

We achieved solid growth while retaining exceptional client loyalty, institutional client retention rates of almost 100% being of the utmost importance to our sustainability. And we succeeded in retaining the critical skills which create value for our investors and our clients, and for which there is, understandably, a very considerable demand.

Our South African Institutional business passed the one-million-individual-member mark and ended the year on 1 021 000. Elsewhere in Africa, we have almost 400 000 members. This was achieved by not only doing what we do best but by doing it better.

In 2014/15, as we celebrated our new status as a publicly listed company, we marked the end of a remarkable five years of growth and achievement – and we set ourselves confidently on an even bolder new course towards building a great company by 2020.

KEEPING OUR PROMISES

Elsewhere in this report, we detail just how we have performed on the promises we made back in 2010. To briefly recap: in 2010 we promised to build on our proud, then 75-year, heritage by building a bigger, more valuable enterprise. The value placed on Alexander Forbes on 24 July 2014 and by subsequent market appreciation proves that we have achieved this objective.

We promised back in 2010 double-digit annual growth in net operating income from continuing operations. In 2014/15, we achieved net operating income of R4.9 billion – a compound annual growth rate of 10.4% since 2010. (This was despite us selling non-core businesses that, in 2010, had accounted for more than a third of our net revenue.)

Thirdly, we undertook to carefully and judiciously husband our financial resources. We succeeded on this score as well. While we deleveraged (another of our 2010 promises), we relentlessly kept investing in our ability to create sustainable value for all of our stakeholders. At the same time as growing value for our private equity owners, we systematically allocated resources to enhance the skills and strengths of our people, our brand, our systems, our products and, most importantly, our clients.

Whereas 2014/15 has been described as a year in transition for Alexander Forbes, it has been anything but a 'gap year' for the group. A great deal of work was done, in a very short space of time, to prepare for our listing while at the same time we redoubled our efforts to entrench and accelerate our three growth strategies: retail, Africa beyond the Limpopo and the public sector.

We worked extremely hard to achieve growth in these key target markets, just as we worked with fanatical discipline to safeguard and grow our core business – the institutional clients who trust us, day in and day out, to do our utmost for their individual members' peace of mind and to secure their financial well-being. This is the restated higher purpose to which we are committed and which will always remain a critical part of our new strategic intent.

CHALLENGING TIMES

The external environment which our industry requires if it is to achieve solid growth, consists of a positive equity market, a stable, expanding economic environment and a growing labour force. Not all these factors have worked in our favour in the past year, requiring unprecedented resolve and innovative approaches to deliver on our double-digit growth commitment, without compromising our long-term vision to create a great company.

We (and our clients) have gained from the South African bull market which has trended for the past six years but, as the chairman makes clear in his message, other factors largely beyond our control have been less favourable. Specifically, the labour market has been flat and even contracting and the disposable income of the formally employed minority has been squeezed and drained on many fronts. That we have gained market share under such formidably challenging conditions speaks to the wisdom of the investments we keep making in our strengths, in our reputation and in our employees.

PROVIDING SERVICES WITH REAL IMPACT

As much as we created value for shareholders this year we kept our promises to our clients; in the second half of the year 71% of Investment Solutions' funds performed ahead of benchmark and our performance on assets under management was generally very satisfactory.

Most pleasingly, customer satisfaction rates continued to improve. Receiving prestigious accolades such as the PMR diamond arrow award for the best consulting and actuarial business and the highest rated pension fund administrator award, both for the eighth consecutive year, speaks of our commitment to being the very best at what we do best. Awards and customer service scores are important measures of our success – they tell us how embedded is our culture of always treating the customer fairly and of consistently serving them with positive impact. I believe I can confidently say that in the year reviewed we further entrenched our SERVE culture across Alexander Forbes.

This year we invested large sums in improving our core offering to both institutional and retail customers, in developing and marketing exceptional new value propositions. We invested similarly large amounts of money, time and effort in improving our IT platforms and in a new employee value proposition. In the immediate future we intend working harder than ever to build our brand and to communicate our key strengths and the impact our services can have as well as deepening our investment into reaching our target markets with our extended value proposition and refreshed IT platforms.

A NEW STRATEGIC INTENT

After a year of sustained improvement and growth, in April 2015 we embarked on a new five-year strategic course, one that renews our commitment to our SERVE ethos and to our higher purpose. This new course will enable Alexander Forbes to exploit its tremendous potential and its many strengths, to become a truly great company by 2020. Our ambition statement is to be a company producing an annual operating profit of R2 020 million and one that creates value for each of its key stakeholder groups – clients, employees, society and investors.

The more we achieve well-being for our employees the better equipped they will be to achieve financial well-being for their clients and members. Well-being for our clients, in turn, will translate into greater financial well-being for investors which, as we have seen this year, allows us to increase the positive contribution we make towards society. To give concrete expression to this ambition by early 2015 we had identified and trained 22 financial well-being consultants, a new breed of all-round experts whose work will support our quest to move beyond products to providing meaningful financial wellness. We also prepared to roll out an extensive well-being workplace programme, to make sure that our people enjoy the kind of financial peace of mind we seek to give our clients and members.

Our new five-year strategic intent (which we unpack on pages 14 to 21) is being implemented in an environment of exponential, unprecedented and often quite daunting change. In 2014/15, we laid the basis for a culture of high innovation where our aim is to seek ongoing opportunities for incremental improvement whilst future-proofing ourselves to leapfrog towards a more robust and competitive business model.

Our group-wide innovation campaign this past year yielded an extremely positive response. Some 573 ideas were submitted to our new innovation hub and 16 business cases received by divisional executive committees. By year-end five innovations had been implemented and 12 robust business cases pitched at our first ever 'Innovation Den' held in May 2015. In the new year I intend spending a significant amount of time personally heading up our new drive to innovate, disrupt and to reinvent ourselves.

A NEW STRATEGICALLY ALIGNED STRUCTURE

We believe that structure follows strategy and so, following the board's endorsement of our new strategic intent in February 2015, we restructured our business along cluster lines to better support the realisation of our ambition to create a truly great company by 2020.

We have been in the fortunate position of retaining a highly skilled, experienced and stable leadership core which is, as I write, working to realise the new future of Alexander Forbes.

Our clusters (see pages 20 and 21) give expression to our strategic intent. They also speak to our key strengths and will translate into more optimal use of operations and resources which, traditionally, have been silo'd. This, we have no doubt, will mean better cost control – a more focused, more fit-for-purpose Alexander Forbes.

In driving our new strategic direction, we seek to exploit opportunities and to embrace a number of key challenges. These challenges include hiring, retaining and engaging excellent people and constantly enhancing our business model to give a client experience that is engaging, effortless, consistent, remarkable and rewarding.

We will work hard to maximise technology to remain agile and to be able to seamlessly manage an influx of new clients (particularly individuals) and seek higher levels of operational gearing. The quality of our leadership will be tested by the extent to which we bring fanatical discipline to bear on executing our strategic intent and engender productive paranoia that ensures we plan effectively for the future – all while practising empirical creativity to underpin our innovation and next-generation products, services and delivery models.

The rate of change continues to growth exponentially. Great companies will be those that approach disruption not as a threat but as a very real opportunity – an opportunity to constantly reinvent themselves through discipline and disruptive thinking. In 2015, Alexander Forbes is, I believe, such an organisation.

APPRECIATION

In closing I thank my executive teams and all employees – in South Africa, elsewhere in Africa and in Europe – for their extremely hard work in a most demanding year. I also extend my sincere appreciation to our chairman, Mr Sello Moloko, and the board for their unstinting support in guiding our group so skilfully through the many challenges encountered and embraced.

We have in place a first-class executive team that is uniquely equipped to build a great company by 2020, to create positive impacts for all stakeholders while giving people peace of mind through securing their financial well-being, now and in the future.

Edward Kieswetter
Group chief executive

Sandton
30 June 2015

ENSURING LONG-TERM FINANCIAL INTEGRITY

Sound allocation and management of our financial resources ensures that we remain sustainable as a custodian of our clients' financial well-being, an employer and an investment for our shareholders.

FINANCIAL HIGHLIGHTS AND CHALLENGES

The financial year ended 31 March 2015 has been a year in transition; our listing on the JSE on 24 July 2014 marked the end of seven years of private equity control and the beginning of a new era as a publicly listed entity with a strong cornerstone investor. Despite this considerable corporate activity, the group grew in all its operating segments and continued to invest in people and processes. Today, Alexander Forbes provides a solid platform to respond to the changing needs of our clients, thereby ensuring our own growth and sustainability ambitions which we are confident of achieving.

In 2014/15, the group generated net operating income (NOI) of R4.9 billion and profit from continuing operations (PCO) of R1.1 billion, compared with R4.3 billion and R1.0 billion respectively in 2013/14. This shows healthy growth of 12% in NOI and 10% in PCO. In 2014/15, 63% of the group's NOI and 76% of PCO (excluding property lease) were derived from the South African operations, 6% of NOI and 5% of PCO from the sub-Saharan African (excluding South Africa) operations, and 31% of NOI and 19% of PCO from the non-African (primarily UK) business.

A review of the group's portfolio of businesses in support of its strategic focus has resulted in various corporate actions over the past number of years. The final material disposal of the Guardrisk business was concluded on 3 March 2014 and the board approved management's recommendation to dispose of the Alexander Forbes Compensation Technology business in March 2015. This business has therefore been recorded as discontinued in the current year's results. The businesses that were treated as discontinued operations at the end of the previous financial year were materially disposed of during the year under review, with the exception of LCP Belgium, which is expected to be disposed of in the first quarter of the new financial year.

Five-year trend analysis of net operating income and operating profit from continuing operations

	2014/15	2013/14	2012/13	2011/12	2010/11
Net operating income from continuing operations (Rm)	4 851	4 338	3 672	3 245	2 963
Net revenue growth	12%	18%	13%	10%	–
Profit from continuing operations (Rm)	1 137	1 030	894	840	759
Operating profit growth	10%	15%	7%	11%	–
Operating margin (on net operating income)	23%	24%	24%	26%	25%

Performance of continuing operations

The group's results from continuing operations for the financial year ended 31 March 2015 continued to show solid growth.

GROSS REVENUE

Gross revenue from operations is a good measure of the size of the group's operations. The group's gross revenue from continuing operations, including insurance premium earned, increased from R6.6 billion in 2013/14 to R7.2 billion in the current year (9%).

NET OPERATING INCOME

Net operating income (NOI) consists of income earned net of direct expenses such as underlying asset manager fees paid by Investment Solutions and reinsurance premiums paid by the short-term and long-term insurers in the group. The group generates NOI primarily from two sources: commissions and fees for services rendered; and net underwriting profit from the risk-taking activities of the insurance operations.

We use NOI as the more appropriate measure of the income for financial analysis.

The group continued to show good growth in NOI across its continuing operations in 2014/15. Net operating income increased by R513 million, or 12%, from R4.3 billion in 2013/14 to R4.9 billion in 2014/15, primarily due to strong new business flows in the South African and AfriNet Financial Services businesses and Investment Solutions benefiting from good new business flows and strong equity market performance. The weakening rand exchange rate had a positive effect (2.4%) on revenue contribution from the international operations for the year.

The strategy to grow the group's retail operations continued to show good progress, with combined net operating income from retail clients increasing by 12%.

OPERATING EXPENSES

Operating expenses (excluding non-trading and capital items) of continuing operations increased by R406 million, or 12%, from R3.3 billion in 2013/14 to R3.7 billion in 2014/15, which includes the impact of the weaker rand when converting the expenses incurred in pound sterling to the reporting currency.

The group continues to balance disciplined cost management in the established business areas with investment and capacity building in the strategic growth areas. Apart from the impact on expenses resulting from the weaker exchange rate, the increase in operating expenses in 2014/15 was primarily due to further investment in the strategic growth areas of the group, including the appointment of further new business consultants in AFI and financial planners and advisers supporting the retail strategy.

In addition, the group has experienced a significant increase in regulatory compliance and related costs in preparation for, among others, the introduction of the Solvency Assessment and Management (SAM) regulatory regime, the Protection of Personal Information Act (POPI), Treating Customers Fairly (TCF), and various new developments in regulation and legislation. The recent disposals of businesses resulted in some shared services costs, previously absorbed by those businesses, having to be absorbed by the remaining continuing operations of the group.

Further, 2014/15 also reflects the impact resulting from the prescribed method used to account for operating leases. In terms of IFRS the annual contractual rent escalations, despite being market-related, are required to be accounted for on a straight-line basis over the term of the lease. This increases the lease cost in the first half of the 12-year rental period and reduces the lease cost in the latter half of the rental period.

The impact on the current year amounted to R40 million (2014: R47 million) and is isolated in the segmental results from operations.

Segmental analysis of operating profit from continuing operations before non-trading items

	Net revenue			
	2014/15	2013/14	2012/13	2014 – 2015 Change
Africa (Rm)				
Alexander Forbes Financial Services SA	**1 852**	1 700	1 537	9%
Investment Solutions	**806**	717	635	12%
Alexander Forbes Insurance	**407**	350	307	16%
AfriNet	**291**	249	202	17%
International (Rm)	**1 495**	1 322	991	13%
Total continuing operations (Rm) excluding property lease	**4 851**	4 338	3 672	12%

The above results also include the impact of accounting for the new share-based long-term management incentive and remaining amortisation of deferred compensation of transaction incentives totalling R32 million (3% negative growth impact). In the prior year, these incentives were largely ownership-based.

PROFIT FROM CONTINUING OPERATIONS

Profit from continuing operations increased by R107 million, or 10%, from R1 030 million in 2013/14 to R1 137 million in 2014/15.

INVESTMENT INCOME

Investment income includes income of R103 million (2014: R162 million) related to individual policyholder funds in Investment Solutions that are liable for fund-level taxes and for which an equal tax liability is raised. This income should theoretically be excluded when assessing the group's own investment income, which largely relates to return on assets backing regulatory capital adequacy requirements. Excluding the policyholder income, the group's investment income amounts to R123 million for the year.

FINANCE COSTS

The significant changes to the group's capital structure which became effective on 31 March 2014, the last day of the previous financial year, are reflected in the income statement below the profit from operations. When comparing to the prior year, it should therefore be borne in mind that the comparative period includes interest paid on the previously highly leveraged capital structure. Finance costs for the period amount to R119 million compared to the R843 million of the previous year.

ACCOUNTING FOR ALEXANDER FORBES SHARES HELD IN POLICYHOLDER INVESTMENT PORTFOLIOS

In terms of IFRS as presently constituted, any Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes' consolidated financial statements as treasury shares and the elimination of any fair value gains or losses made on the shares.

This accounting treatment results in fair value movements in respect of linked investment policy assets and liabilities that would normally be offset (and which, economically, should be offset) no longer being matched in the income statement. The resultant mismatch between the asset and liability movement does not reflect the economic substance of the transactions. The result of this mismatch is that an accounting expense or gain will be reported in Alexander Forbes' consolidated income statement, whereas no actual economic loss or gain will ever be realised by the group. The reported loss of R26 million arising from the accounting for policyholder investments as treasury shares for the reporting period since listing is separately disclosed on the face of the income statement.

PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

After non-trading items, finance charges and the effect of the policyholder investments explained above, the group's profit before taxation from continuing operations of R866 million shows a significant increase from the R317 million of the previous financial year.

The effective tax rate compared to profits before tax appears high as a result of taxation payable on behalf of policyholders being included in this amount (refer to the investment income discussion), resulting in an after-tax profit of R505 million compared to a loss of R167 million in the previous year.

NORMALISED PROFIT FROM CONTINUING OPERATIONS

The profit after tax from continuing operations should be viewed in the context of:

- non-trading costs related to the transition from the private equity shareholding structure and listing of the group;
- the change in capital structure of the group on 31 March 2014 which impacts on the comparison to prior year; and
- the requirements for accounting under IFRS for certain transactions which do not necessarily reflect the underlying economic substance of the transactions.

In order to facilitate proper comparison of results, we highlight various items to consider when analysing our results for the year. These normalisation items should be considered individually and collectively depending on the purpose of normalisation.

The adjustments are summarised as follows:
Non-trading items include the following:

- Transaction costs incurred during the current financial year amounting to R50 million. These costs were detailed in the pre-listing statement. Included in the prior year are transaction costs amounting to R60 million which relate to the capital restructure.
- Culmination of historical incentive costs in the current year amounting to R99 million. These costs were also detailed in the pre-listing statement and include the exit transaction incentive and 2011 executive long-term incentive plan.
- Management Share Trust payment agreement amounting to R58 million which resulted from the capital restructure in the previous year and the leveraged Management Trust shareholding. Details of the structure and payments are included in notes to the annual financial statements.

A normalised income statement for the group

	Reported results	Non-trading cost				Accounting adjustments				Normalised results	Normalised results	Change
	Mar 2015	Listing costs	Incentive costs	Make good	Insurance cell	Lease	Intangibles	Treasury shares	Policyholder tax	Mar 2015	Mar 2014	
Operating income net of direct expenses	4 851									4 851	4 338	11.8%
Operating expenses	(3 714)					40				(3 674)	(3 261)	12.7%
Profit from operations before non-trading and capital items	1 137	–	–	–	–	40	–	–	–	1 177	1 077	9.3%
Non-trading and capital items	(355)	50	99	58	23		131			6	32	6.7%
Operating profit	782	50	99	58	23	40	131	–	–	1 183	1 109	
Investment income	226								(103)	123	71	
Finance costs	(119)									(119)	(143)	
Loss from policyholder investments as treasury shares	(26)							26		–	–	
Share of net loss of associates (net of income tax)	3									3	2	
Profit before taxation	866	50	99	58	23	40	131	26	(103)	1 190	1 039	14.5%
Income tax expense	(361)	–	(28)	–	(6)	(11)	(37)		103	(340)	(296)	
Profit/(loss) from continuing operations	505	50	71	58	17	29	94	26	–	850	743	14.4%

- Normalisation adjustment for the results of the professional indemnity cell recorded in the prior year and in the current year. This result will typically be highly variable from year to year as it reflects the result of developments and assessment of a number of claim years with open claims. However, expectation is that this result should trend to zero if measured over the medium to long term.

Accounting adjustments include the following:

- An adjustment for the IFRS accounting treatment for operating property leases. This adjustment is explained in the discussion of operating expenses above and amounts to R40 million in the current year (2014: R47 million).
- An adjustment of the accounting for individual policyholder funds in Investment Solutions that are liable for fund-level taxes and for which an equal tax liability is raised.
- The accounting for Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) as explained on page 36.
- The amortisation of intangible assets amounting to R131 million for the year is a result of the capitalisation of intangible assets and related amortisation required at the time of the private equity acquisition of the group in 2007. The holding company that was established at the time remains in existence (and is now the listed entity); the amortisation will continue as long as it is required to amortise the remaining asset balance to zero. The useful lives of the various assets determined at the time of the exercise varied from eight to 20 years. The amortisation is a non-cash accounting item.

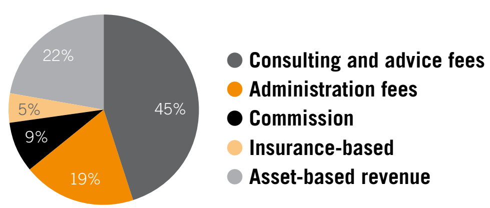
Change in capital structure adjustment includes the following:

- A pro forma adjustment to the comparative number for the historical interest expense which was incurred under the private equity structure. The adjustment to prior year interest cost amounts to R700 million. The interest adjustment is calculated based on a term loan balance that would have been held during the year, resulting in the actual closing term loan balance given the cash generated during the year.

QUALITY AND SUSTAINABILITY OF REVENUES AND PROFITS

The following charts demonstrate the stable nature of the group's net operating income based on the year ended 31 March 2015.

Net operating income by type

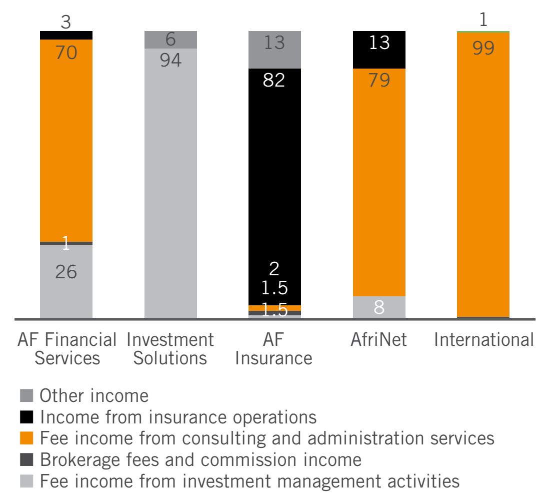


Approximately 77% of Alexander Forbes' revenue base is recurring or predictable in nature, with approximately 8% representing net underwriting profits in FY2015. The recurring fee income comprises asset-based income (approximately 34%), fee income from services rendered to clients, monthly administration (either on a fee per member or a percentage of salary contribution basis), consulting fees and commission income.

Other than the indirect exposure to equity markets, there is limited volatility in the group's revenues due to the relatively low proportion of one-off consulting fees, ad hoc retirement fund administration services and underwriting income.

As a material proportion of the group's income is linked to pension contributions, we benefit from the macro-economic drivers affecting employment and wage inflation which have been low but positive in recent years.

Net operating income by business unit (%)



Alexander Forbes has limited working capital requirements with high cash flow generation and limited credit risk exposure in the business as a significant proportion of our income is collected from the retirement funds and investments it administers. Our exposure to debtors remains limited as investments into retirement funds and investment products are made only once funds are received from clients and payments to clients are made only once funds are received from redeemed investments.

Alexander Forbes' capital expenditure requirements, relating mainly to IT investments, are relatively stable and predictable, and have historically been in line with depreciation. The strategic investment in the retail market has increased the demand for greater technology solutions during the current year, an increase in capital expenditure that is likely to continue in the near future.

DISPOSALS

The group completed the sale of Guardrisk in March 2014 for R1.6 billion. In addition to the discontinuance of LCP Belgium reported in the previous year which is still in process, the board has approved a strategic decision to dispose of the Alexander Forbes Compensation Technologies business. The process of this disposal of the business is underway. As a result of this decision, the operating results of the division have been reclassified to discontinued operations and the carrying value of goodwill allocated to this cost-generating unit has been impaired.

FUNDING STRUCTURE

On 31 March 2014, the group completed a comprehensive capital restructure. The rationale for this restructuring was to:

- optimise and simplify our capital structure;
- ensure compliance with upcoming regulatory changes, most notably the proposed introduction of consolidated supervision;
- align the company's shareholder interests in the group capital structure; and
- facilitate the realisation of their investment by the company's shareholders in due course.

The restructure was aimed at redeeming substantially all remaining debt instruments and preference share instruments in the funding structure of the group and replacing such outstanding amounts with ordinary equity. The unsecured single layer of term debt which was introduced at the time of the restructure was negotiated in the current year to include a revolving credit facility component. This facility is renewable annually for a 12-month period.

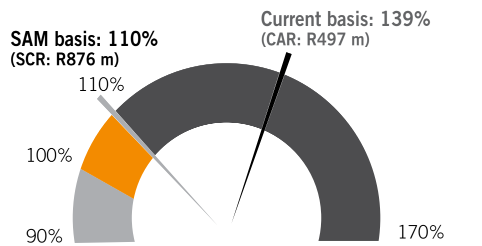
The capital restructure at the end of the previous year achieved exactly what was planned and positions the group well for compliance with regulatory capital requirements.

REGULATORY CAPITAL

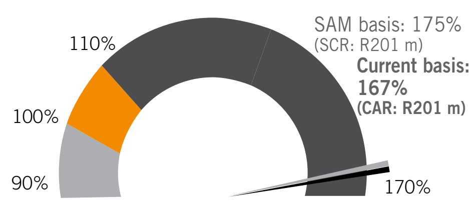
Under the current FSB rules, a minimum level of solvency is required to be held within each insurance subsidiary to meet the regulatory capital adequacy requirements (CAR). For the long-term insurance subsidiaries, the CAR is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of actual future experience departing from the assumptions made in calculating the policyholder liabilities and against fluctuations in the value of assets.

The new SAM regime, which will be implemented on 1 January 2016, will impose more stringent regulatory requirements on both long-term and short-term insurers, requiring them to maintain adequate solvency capital based on risks faced on a day-to-day basis. This is likely to have a positive impact on Investment Solutions given that it assumes no insurance underwriting – provided that the business will be allowed by the regulator to use internal models for capital determination. Any such approval is only expected to become effective some time after the introduction of SAM.

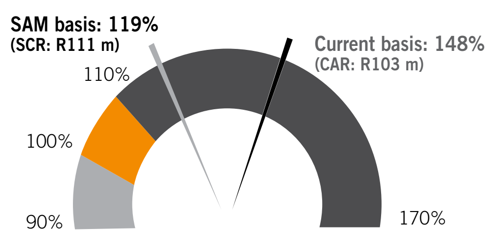
The following CAR and cover ratios are maintained by our insurance entities:



Investment Solutions Ltd



AF Life Ltd



AF Insurance Ltd

Under the broader SAM framework, the group will also be subject to regulation by the FSB at the ultimate holding company level. The group deliberately positioned itself through the capital restructure to target regulatory compliant solvency at 31 March 2015. Despite regulatory changes through the year which increased the requirements, the current group surplus is estimated at approximately R100 million under the SAM standard formula basis.

The FSB has the right, after consultation with the insurer, to impose a capital add-on where the risks, including those posed by the non-regulated entities, are not adequately taken into account in the group capital adequacy or deduct the value of holdings in non-regulated entities from the capital resources of the insurance legal entities in the group. Consolidated supervision is likely to become effective in January 2016.

SHAREHOLDER PERFORMANCE MEASURES

Being a newly listed public group, management is keenly aware of shareholder performance measurements. The historical capital structure was not conducive to the standard measures, and as a result no historical trend is provided. However, trends all have a beginning and, as such, the following performance measures are calculated:

	Mar 2015 Actual	Mar 2015 Normalised	Mar 2014 Actual	Mar 2014 Normalised	Change Normalised
Earnings per share (cents)	20.5	60.1	78	52.9	13.6%
Headline earnings per share (cents)	31.9	60.1	(52.5)	52.9	13.6%
Return on equity* (%)	4.7	13.8	10.9		
Total shareholders' returns (%)	37.3				
Return on capital employed (%)	17.2	17.9	14.0	14.9	20.1%

* *This measure is distorted by the 2007 capitalisation of goodwill and intangible assets brought to account upon the acquisition of the group by Private Equity shareholders.*

DIVIDENDS

A dividend has been declared taking onto account the group's current and projected regulatory capital position. The group's strategy to build a significant retail business will demand additional capital investment; however, this is expected to be provided through ongoing earnings and cash generation of the group. A dividend of 12 cents per share is payable to shareholders recorded on 3 July, with the payment being made on 6 July 2015.

This dividend must be viewed in the context of the group's transition to the anticipated new regulatory capital requirements under SAM. The long-term dividend guidance provided at the time of listing of 2 to 1.5 times dividend cover remains in place.

LOOKING AHEAD

The strategic repositioning and refocusing of the group is substantially complete. The group is now exceptionally well-positioned to continue to strengthen its core businesses and related market positions even further and to drive its growth strategies with clear focus.

The group capital structure positions the group well to operate under a fast changing and more demanding regulatory environment and provides a simplified and more flexible financial position. The group will continue to manage the balance between allocating resources and capacity for long-term growth versus maintenance of short-term objectives.

We continue to make progress in achieving our short-term goals. The results, both financial and non-financial, confirm that our strategic choices are valid and, with greater focus and execution, will deliver shareholder value. Although we acknowledge the challenges that lie ahead, our bias for top-line growth, while optimising operational efficiencies and sustainable organisational integrity, remains unchanged.

Deon Viljoen
Chief financial officer

Sandton
30 June 2015