Chairman's letter

Group earnings after tax grew by 2% to R920 million (2015: R899 million), with operating revenue rising by 10% to R2.3 billion (2015: R2.1 billion).

Dear Stakeholder

Against a background of challenging market conditions, I am pleased to report that JSE performance was resilient, achieving 2% growth in Group earnings after tax to R920 million (2015: R899 million).

On the basis of strong cash generation, the board has declared an ordinary dividend of 560 cents per share, an 8% increase on the ordinary dividend declared last year.

The operating environment in 2016

The past year got off to a difficult start on the back of elevated political and economic uncertainty, with the unexpected removal of the finance minister and subsequent events. This resulted in heightened trading activity on our markets. Although political developments continued to fuel local financial market volatility throughout the year, trading activity decelerated, particularly in the closing months of the year.

The positive aspect of this is that the country found its democratic voice in 2016, as evidenced by the widespread public support for both Minister Gordhan and for former Public Protector Advocate Thuli Madonsela, together with the outcome of the August municipal elections. In an effort to uphold our world-class Constitution and promote conditions for sustainable and more inclusive economic growth, leading business executives, politicians and ordinary South Africans joined forces to take a firm stand against corruption. This bears testimony to the widespread desire to reduce inequality in the country and to prevent a sovereign credit rating downgrade.

The government, labour and business also moved closer to agreeing on a national minimum wage. The National Minimum Wage Commission panel appointed by the National Economic Development and Labour Council made its minimum wage proposal in November and recommended that all legislative and institutional arrangements for implementation of the national minimum wage be finalised by mid-2017. This is a significant step towards improved relations between all social partners and particularly between business, labour and labour unions.

South Africa grew modestly in 2016, partly because of its struggling mining sector, its drought-stricken agricultural sector, and low global demand. However, growth has also been hampered by persistent structural impediments and the absence of a cohesive policy framework. A variety of factors such as low economic growth accompanied by a decline in wealth, heightened political risk and limited fiscal space, all culminated in an unequivocal warning from the world's major rating agencies: address these issues or risk the country losing its sovereign investment rating in 2017. Such an event would be devastating for the economy and business, specifically impacting financial markets and therefore the JSE's business.

The upside of the difficulties encountered in 2016 was that the volatility recorded during the year contributed positively to the JSE's performance, with value traded in the Equity and Bond markets both rising. Activity was particularly heightened around key global and domestic events in the months of March, June, August and September.

Investors also positioned themselves to reduce the risks associated with a number of potential political and economic events in the closing stages of 2016. These included the possibility of a South African sovereign rating downgrade to sub-investment level and a more accelerated tightening of US interest rates in 2017, in the wake of President Trump's stated ambition to widen investment spending. This resulted in increased portfolio capital outflows, according to the non-resident activity recorded on our markets, especially the Equity Market. On the Bond Market, activity by all market participants resulted in a record turnover for the year, while the holdings of bonds by non-residents proved more resilient, despite occasional market tantrums resulting in substantial outflows.

We had some technology successes in 2016, notably the launch of T+3. We are proud to announce that we have had no rolled or failed trades, which bears testimony to the resilience of our technology and the concerted efforts made across our stakeholder base.

This is particularly positive for the JSE because technology is defining where economic growth will come from in the not too distant future and the skills that will be required to drive such growth. The lingering global economic slowdown has clearly highlighted this. Many sub-Saharan African economies that remain commodity dependent and insufficiently diversified have struggled to recover in recent years and have either recorded very low growth or contracted in 2016.

Operating environment outlook for 2017

The International Monetary Fund expects the global economy to expand by 3.4% year-on-year in 2017 and for emerging and developing economies also to fare better and continue to exceed growth across the developed world.

The consensus forecast outlook for South Africa pins GDP growth at 0.8% year-on-year, which is only slightly ahead of its 2016 performance. However, there is likely to be some improvement in agricultural output as the negative impact of the domestic drought fades. Non-energy commodity prices are also likely to improve amid tight global supply and increased demand as the global economy remains in recovery mode, which should support South Africa's commodity exports and economic growth.

These improvements could be partly offset by tighter fiscal policy in the form of higher taxes on income, if government wishes to sustain its social spending programmes in a low-growth environment. This underlines the importance of defining a cohesive policy framework that would set the country on the path to higher long-term growth, while steering it through the cyclical downturns as well as the distractions caused by political noise. It is the absence of such policy and the impact on the economy that keeps uncertainty heightened.

However, the outlook for the global and domestic economies could very easily be altered by the new political dispensation in the United States, as it takes shape, as well as the fate of the eurozone and the broader European Union, with both France and Germany bracing for elections in 2017. These could cause further disruption just as Britain negotiates its exit from the European Union.

There is also much debate on whether fiscal austerity has inadvertently stifled economic growth and whether it will be loosened to some extent during the course of the year.

It will not be easy for the domestic economy to gain traction, especially if a rating downgrade does occur, despite having been staved off up until now. Price pressures are likely to be stubborn and there should be potential for interest rate increases.

Chairman's letter
(continued)

Domestically, we anticipate the following:

- continued political noise;
- continued low growth, with the possibility for some recovery in the agricultural sector;
- increased competition as new exchange licences are granted and recent entrants start to operate; and
- continued regulatory developments, both as twin peaks legislation starts to be implemented and as national regulators drive towards global regulatory compliance.

Globally, we anticipate the following:

- continued uncertainty and volatility while policy direction is charted – including in the United States following the change in administration, and the United Kingdom and the European Union following Brexit;
- continued regulatory attention and pressure on financial markets;
- increased corporate activity and innovation among our global exchange peers, specifically in the post-trade and the information services areas, which we have identified as our post-2017 growth areas; and
- a continued acceleration in technological innovation.

Competition

The competitive landscape has changed with the granting of two licences to newly established exchanges, ZARX and A4X. The JSE is well down the road in its competitive responses (please see the CEO's review on page 26 for more detail).

The JSE has a long track record of competing with exchanges across the globe and looks forward to competition in South Africa. Although the JSE has had concerns about the complexity and fragmentation that multiple exchanges could bring to the domestic capital market, we welcome competition, while strongly believing that it should take place on a level playing field.

Global exchange trends

There is no doubt that the world of exchanges and trading places is changing at an ever-increasing pace. These trading places now span a wide array of trading platforms, alternative trading venues, crossing networks and related platforms bringing together buyers and sellers. With the continued advances in fintech, the ability of more companies to make an impact increases, and the distributed ledger focus shows no sign of letting up.

There is a pursuit of "bigger, better, faster, more" in trading technology, tempered by the implementation of speedbumps by new exchanges.

There is also a continued focus on achieving scale as news of mergers, acquisitions and new disruptive initiatives appears with increasing regularity. Blockchain technology is synonymous with the idea of disruption of the financial services sector. Interest in this technology has taken root in the exchange related industry. In South Africa, a consortium of banks, Strate, the Payments Association of South Africa and the Financial Services Board are part of a working group that aims to co-create South Africa's first distributed ledger based solution for the local financial services industry.

In the regulatory space, global standard setting associations continue to focus on the resilience, recovery and resolution of central counterparties. This work will continue into 2017. Guidance by the Financial Stability Board, the Committee on Payments and Market Infrastructure and the International Organisation of Securities Commissions is expected to be finalised in 2017.

The European Commission has completed an assessment of the cumulative effect of the EU financial sector rules put in place since the crisis and has initiated a programme to fine-tune the regulatory framework. As the first mover, the European Commission has proposed legislative amendments that build on existing European Union banking rules, including the proposed amendment to the Basel III leverage ratio rule implemented in the Capital Requirements Regulation. In its current form, this regulation is a disincentive to client clearing by banks. The Financial Stability Board and its G-20 members will also undertake a comprehensive review of the implementation and effects of the over-the-counter derivatives reforms during 2017.

African Linkages

On the African continent, the Nairobi, Nigerian and the Moroccan stock exchanges, along with the JSE, have been involved in the African Exchange Linkages Project, which aims to connect these four exchanges through technology. A feasibility study was finalised in December 2015, with domestic and regional engagements completed in 2016. The project was officially launched on 11 July 2016 in Abidjan, Ivory Coast. It has generated overwhelming interest from the market across the continent and Mauritius and BRVM have joined the project. The JSE holds chairmanship of the Committee of SADC Stock Exchanges (CoSSE) and has been proactively engaging South African regulators as well as the relevant Southern African Development Community bodies on behalf of CoSSE about the project, to identify risks and mitigating measures. For this project to work, regulators and policy makers need to work together to harmonise law, regulation and processes to facilitate the development of the linkages concept.

Local regulation

South African financial sector policy makers and regulators have guided the Financial Sector Regulation Bill, also known as the twin peaks Bill, through the Standing Committee on Finance in Parliament. The Regulations primarily provide for the regulation of the over-the-counter derivatives market but include the governance, capital requirements and risk requirements for market infrastructures (exchanges, clearing houses, central counterparties, central depositories and trade repositories). This Bill will impact both how the JSE is regulated and the cost of operating in a regulated environment. The JSE is ready to meet the new regulatory capital requirements and is exploring opportunities to provide products and services to give capital relief to its clients.

The JSE welcomes the implementation of King IV, in which the JSE was deeply involved. King IV is expected to come into effect by April 2017.

Showcasing South Africa

The JSE has a central and crucial role to play in corporate South Africa, both in operating a world-class securities trading environment that stakeholders can trust and in using its voice to enable and support a robust and informed discourse at critical moments in our country.

As the home of some of South Africa's largest companies, the JSE plays a significant role in promoting the South African investment case, along with the government and other stakeholders. We therefore hosted the fourth annual SA Tomorrow conference in New York with UBS, Standard Bank, the National Treasury and Old Mutual. It was again well attended and very well received. We use the conference, which is addressed by the Minister of Finance, the Governor of the Reserve Bank, Top40 CEOs and labour representatives, to discuss the country's positioning, including the current economic outlook, challenges and developmental programmes, with major US investors. This is a unique opportunity for investors to see business and the government in the same venue and to have one-on-one time with all the South African delegates.

Transformation

The board and the executive management recognise and embrace transformation as a moral and strategic business imperative. Transformation of our economy remains a work in progress and the JSE seeks to play its role in the efficient allocation of productive resources in South Africa.

Accolades

South Africa's overall rating in the World Economic Forum Global Competitiveness Index improved in the 2016-2017 rankings to 47th, from 49th last year. The financial sector and corporate governance continue to be highlights for South Africa and we have top three global rankings in the following categories: Strength of auditing and reporting standards; protection of minority shareholders' rights; and financing through the local equity market. We are number two in financial services meeting business needs and soundness of banks, as well as number three in the efficacy of corporate boards and regulation of securities exchanges. These accolades demonstrate how relevant and competitive our financial sector remains.

Changes to directorate and executive committee

In 2016, there was the following change to our Board:

- Dr Leila Fourie, director of Post-Trade and Information Services, resigned with effect from 18 July 2016, following her emigration.

In 2016, there were a number of changes to our Executive Committee:

- Dr Alicia Greenwood was appointed with effect from 1 February 2016 as director of Post-Trade Services;
- Leanne Parsons was appointed with effect from 1 July 2016 as director of Information Services;
- Tshwantsho Matsena was appointed with effect from 1 July 2016 as director of Trading and Market Services; and
- Donald Khumalo was appointed with effect from 1 November 2016 as director of Human Resources.

Auditor rotation

In accordance with our policy on audit firm rotation, the JSE will be proposing that shareholders consider and approve, at the annual general meeting to be held on 18 May 2017, the appointment of new independent auditors for the Group.

KPMG Inc has served for an extended period as our independent auditors, and has executed these responsibilities with diligence and distinction. Given the tenure of KPMG Inc as independent auditors, the firm was not considered for re-appointment in 2017. I would like to thank KPMG Inc for their service over many years.

Looking forward

The Board has determined that as from 1 January 2017 the social and ethics mandate will be discharged by the newly formed Group Social & Ethics Committee, under the chairmanship of Dr Suresh Kana, an independent non-executive director. This mandate was previously executed by the Group Human Resources Committee.

Appreciation

In conclusion, 2016 was a year of hard work in an environment of uncertainty in a number of areas, not only for the JSE, but for business in general. Despite this, the JSE team made good use of the year to lay a sound foundation for the challenges ahead.

I therefore take this opportunity to express my appreciation to the Board, the JSE executive and the staff as a whole.

As an Exchange, we look forward to continuing to improve the way in which we provide investors and issuers with a safe and credible environment in which to list, trade and invest.

Nonkululeko Nyembezi-Heita
JSE Chairman