Dear Stakeholder

The JSE delivered excellent financial results, growing Group earnings after tax by 25% to R634 million (2013: R507 million).

I am pleased that, on the basis of strong cash generation, we were able to increase our dividend from 400 cents to 480 cents per share. For more details on our financial performance as well as our future plans, please look at what our CEO, Nicky Newton-King, has to say in her *CEO's review*.

The operating environment in 2014

The Group's results were noteworthy, given the operating environment in which they occurred.

Financial markets faced considerable headwinds in 2014, including patchy and asymmetrical global economic growth. Some major economies, like the US and the UK, showed signs of recovery, but the performance of others, like the euro area and Japan, remained lacklustre. Our emerging market peers, notably Brazil, Russia and, to a lesser extent, China, also showed signs of economic strain. As a result of these factors, together with a collapse in commodity prices and lingering structural impediments across a number of important economies, the expected stronger recovery at the start of 2014 did not materialise.

In Africa, the Ebola outbreak exacted a heavy human toll and is likely to impact economic growth in West Africa through a negative impact on tourism and trade.

The divergent economic conditions in 2014 led to divergent monetary policy stances, with the US reaching the end of its programme of quantitative easing, but Japan stepping up its liquidity provision. One of the most significant unknowns for both the JSE and South Africa in 2015 is the impact of changes in global monetary policy stances on financial markets.

South Africans can take pride in having held their fifth peaceful democratic general election in May. However, the country's stubbornly high unemployment rate, the tension in relations between business and labour and the level of discontent reflected in growing service-delivery protests give cause for concern and are impacting sentiment about South Africa as an investment destination. In its Article IV consultation report released in December, the International Monetary Fund highlighted the need for South Africa to address the problems of low growth, unemployment and the twin deficits by implementing the structural reforms required and highlighted in the National Development Plan, among other measures. It is gratifying to observe government shifting the focus towards implementation of the National Development Plan; we need to encourage this momentum.

The poor performance of the domestic economy in 2014 bears testimony to the need to step up the pace of reforms. After a difficult first half, marred by long-lasting strikes, the economy improved marginally in the second half, but not sufficiently to increase GDP growth significantly. Domestic share prices, as reflected by the All Share Index, maintained an upward trend for most of the year, reflecting a continued decoupling from the real economy. However, share prices started to waver from September through to the end of the year. This correction was prompted by subdued global economic growth, the decline in commodity prices and uncertainty surrounding the timing and pace of the increase in US interest rates. Although the rand was very volatile in 2014, the finance sector remained an important contributor to economic growth.

The economy's unimpressive performance in 2014 brought pressure to bear on the fiscus, as emphasised by the Minister of Finance in October during the Medium-Term Budget Policy Statement.

Lower GDP growth suppressed revenue collections, while an expansionary fiscal policy in prior years produced higher debt levels and debt servicing costs. These factors resulted in a high and unsustainable fiscal deficit, which will need to be addressed by reducing spending and finding ways (including selling or listing assets) to raise new funding over the medium term.

Such measures should help to deter further credit rating reductions by the major rating agencies, which downgraded South Africa's sovereign debt in response to the socio-economic environment in the country in 2014. This exerted further pressure on the economy, which nonetheless recovered somewhat in the second half of the year.

However, the business climate remained subdued and 2014 ultimately presented the local economy with significant challenges, many of which we expect to be carried over into 2015.

The operating environment for 2015

The International Monetary Fund is expecting marginally improved global growth in 2015 on the back of stronger growth in advanced economies. However, some countries will undoubtedly continue to struggle more than others to register a recovery.

In South Africa, economic growth prospects will remain key to investor sentiment. In this regard, the electricity crisis is a major cause of uncertainty. Increased private sector participation in power generation will be necessary to ensure an adequate and stable supply in the longer-term. The successful renewable energy programme is a good starting point in this direction. Without this, long-term fixed investment will suffer, with severe consequences for economic growth.

The fiscal policy sketched by the Minister of Finance and a moderate contraction of monetary accommodation by the South African Reserve Bank are positive factors. The Reserve Bank's task of maintaining inflation within the target range will be facilitated by the substantial decline recorded in the international oil price as well as other commodity prices in 2014, provided the rand does not depreciate excessively.

South Africa, like many other emerging markets, benefited from the money released by quantitative easing in the US in recent years. However, with monetary policy in the US likely to enter a tightening cycle, market liquidity is expected to dry up, potentially impacting negatively on portfolio capital flows and the rand's exchange rate. This is expected despite quantitative easing in the euro area and Japan. The current account balance is therefore likely to remain under pressure.

Amid this uncertainty, the global regulatory environment has been changing too. The financial sector finds itself at the epicentre of much of this change, with more stringent capital adequacy regulations being imposed on banks and financial market infrastructures and an increase in regulations defining how higher risks are to be mitigated. In the domestic environment, 2015 will usher in new regulations aimed at aligning South Africa to the G20-agreed standards.

In principle, the proposed twin peaks system of regulation, which will result in the formation of a financial sector conduct authority and a prudential authority, is welcome and much needed. However there is some way to go before these proposals are finalised and however, as with all regulatory developments, it will be important to ensure that the regulation is appropriately balanced and does not result in unintended consequences that hamper business operations in the future. We are concerned that the increasing speed and complexity of new regulation is difficult for our industry to digest.

The year ahead is thus likely to be challenging on a number of fronts, not only for the JSE, but for business in general, for the government, and for consumers.

Global exchange trends

Around the world, economic pressures and competition are pushing businesses to find the most effective way to invest and hedge risks. Today's exchange markets are unquestionably faster and more transparent than the market structures that preceded them. High frequency trading (HFT) has seized the imagination of not just the reading public, but the regulators.

The JSE has avoided exciting the concerns that have been raised in the US – and for good reason. South Africa has a relatively simple market microstructure, with one exchange at present; a colocation environment that provides for equality of access; strong checks on all algorithmic engines requesting authorisation to enter orders into the JSE trading environment; and an exchange that does not pay for order flow and retains a strong regulatory oversight function, unlike many exchanges in other parts of the world.

Despite concerns in certain markets, recent empirical research by the World Federation of Exchanges has concluded that, in most circumstances, HFT has had beneficial impacts on a variety of core market quality metrics, including tighter spreads, increased liquidity, more efficient price formation, reduced transaction costs and lower market volatility. It is important that we should continue to evolve our trading environment in a way that encourages increased liquidity and improved price discovery, but avoids preferring certain types of activity over others.

Another feature of the changing exchange environment is the rise of some Asian exchanges as prominent listing destinations. London and New York remain attractive, but companies are increasingly seeking to list either close to their consumer base or in markets where a particular niche has been created. This enhances the allure of Hong Kong, Shanghai and Singapore as listing venues and is resulting in increased attempts by these markets to create connectivity models between them that allow customers to access stocks listed in each other's markets.

In South Africa, the JSE's restructuring – to combine all Primary Market activity across markets – enables a strong focus on attracting new issuance across asset classes.

Showcasing South Africa

In October 2014 we hosted the second South Africa Tomorrow investor conference in New York to showcase South Africa to international investors, together with our co-hosts the National Treasury, UBS and Standard Bank.

South African Finance Minister Nhlanhla Nene and Deputy Governor of the South African Reserve Bank Daniel Mminele headlined the event, joined by 12 Top 40 chief executives as well as the chief executives of Eskom and Transnet.

More than 100 international investors accepted our invitation, including chief investment officers, portfolio managers and buy-side analysts from leading fund management organisations, many of whom have global and emerging market mandates.

As investors we met commented, there is much that is compelling about the country as an investment destination, when measured against many of our global peers with whom we compete for global investment flows. However, the common concern was identifying the engine to stimulate growth in the future.

We face challenges in growing this country at the rate necessary to achieve the goals of the National Development Plan and we need to be more forthright and vocal in confronting the challenges to that growth. At the same time, we should bear in mind the tone of our dialogue about the future of this country. While being constructively critical, we need to promote our country realistically as an attractive investment destination, an effort in which the JSE is continually engaged.

Changes to directorate and Executive Committee

In 2014, there were a number of changes to our Board and Executive Committee:

- Humphrey Borkum retired as Chairman of the JSE on 8 May 2014 after a long and distinguished career in the industry and I had the privilege of succeeding him;
- Dr Michael Jordaan's appointment to the Board with effect from 1 January 2014 was ratified by shareholders;
- Bobby Johnston retired as a Board member on 10 June 2014 to concentrate on his other interests. Bobby has been a long-standing member of the JSE community, having also served as Chairman of the JSE when it was an Association of Members;
- Gary Clarke, JSE Group Company Secretary for more than 12 years, announced his resignation on 8 July 2014;
- Graeme Brookes, the JSE's director of Governance, Risk and Compliance, was appointed as Group Company Secretary with effect from 14 August 2014;
- Leila Fourie, the JSE's director of Post-Trade and Information Services, was appointed to the JSE Board as an executive director with effect from 14 August 2014; and
- Donna Oosthuyse, previously the managing director and chief country officer of Citi South Africa, joined the JSE executive as the director of Capital Markets on 4 August 2014.

In 2015:

- Sam Nematswerani retires as a Board member on 21 May 2015 after chairing the Audit Committee since December 2002. Sam's wise counsel and steady hand will be sorely missed; and finally,
- We are delighted to welcome Suresh Kana to the Board on 1 July 2015, after his retirement as Senior Partner of PwC Africa.

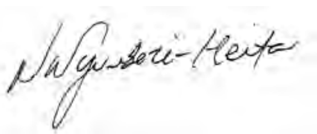
Appreciation

In conclusion, 2014 was a year of hard work in an environment of uncertainty on a number of fronts, not only for the JSE but for business in general. The JSE team made good use of the year to lay a sound foundation for the challenges ahead.

I take this opportunity to express my appreciation to the Board, the JSE executive and the staff as a whole and thank Humphrey Borkum for his unwavering leadership as outgoing Chairman of the JSE, as well as Bobby Johnston and Sam Nematswerani for their contributions to the JSE Board for many years.

Once again, for the fifth consecutive year, the World Economic Forum ranked South Africa first among 144 countries with regard to securities exchange regulation. We are honoured by this accolade.

As an exchange, we look forward to continuing to improve what we do in providing investors and issuers with a safe and credible environment in which to trade, list and invest.



Nonkululeko Nyembezi-Heita
JSE Chairman