Osman S Arbee

SOLID PERFORMANCE AND IMPROVED BALANCE SHEET AND CASH FLOW

Imperial produced a satisfactory result in challenging trading environments in all its key markets. All divisions showed good revenue and operating growth, except the Logistics International division which was marginally up on last year and the Vehicle Import, Distribution and Dealerships division, which declined.

TRADING ENVIRONMENT

The challenging trading environments have been fully outlined in the chief executive officer's report and are summarised for context to the results as follows.

South Africa has been impacted by a weak currency, load shedding, lower private consumption and low business confidence. The demand for Imperial's products and services has been negatively impacted with vehicle buyers trading down to smaller or pre-owned vehicles and consumer goods and bulk commodity volume growth being weak.

In the European Logistics operations volumes, rates and utilisation have been impacted by the slow recovery in the industries that we serve.

In the rest of Africa there are concerns around the economic and political stability in the regions in which we operate and the potential negative impact on consumer growth due to lower commodity prices.

STRATEGIC SALE OF THE INSURANCE BUSINESS: DISCONTINUED OPERATIONS

The Regent Insurance business has grown strongly since its establishment, a large portion of the revenue and profits are unrelated to the Group's core vehicles and logistics businesses and enjoy no strategic, competitive or financial advantage from Imperial's ownership. Imperial has decided to dispose of the business. The sale of Regent is considered to be highly probable in terms of the accounting standards. A buyer has been identified and is currently performing the due diligence, which is progressing positively. The sale will only be confirmed once the due diligence has been finalised, and all the commercial terms and regulatory approvals have been completed.

As a result the statement of profit and loss has been split between continuing and discontinued operations, and on the statement of financial position, Regent's assets are included under 'Assets held for sale' and its liabilities under 'Liabilities directly associated with assets held for sale'. We are required to reflect the net assets held for sale at the lower of its carrying value and net realisable value. Our assessment is that there is no need for impairment.

FINANCIAL HIGHLIGHTS

Revenue up 7% to
R110,5 billion

Operating profit up 1% to
R6,2 billion

HEPS remained stable at
1 624 cents per share

Core EPS down 3% to
1 754 cents per share

Free cash flow increased from R2,1 billion to
R4,5 billion

Return on invested capital of
12%

Return on equity of
17%

Full year dividend of
795 cents per share
(2014: 820)

RESULTS OVERVIEW

Summarised profit and loss for the year ended 30 June	Total 2015	Continued 2015	Dis-continued 2015	Restated 2014	% change
Revenue	110 487	107 453	3 034	103 567	7
Operating profit	6 235	5 671	564	6 185	1
Operating margin (%)	5,6	5,3	18,6	6,0	
Net finance cost	(1 194)	(1 194)	–	(926)	29
Income from associates	32	33	(1)	76	
Profit before tax	4 599	4 044	555	4 957	(7)
Income tax expense	(1 213)	(1 035)	(178)	(1 330)	
Net profit for the year	3 386	3 009	377	3 627	
Attributable to owners of Imperial	3 054	2 735	319	3 272	
Attributable to non-controlling interest	332	274	58	355	
Effective tax rate	26,6%			27,2%	

Restated: Vehicles on rental to car hire companies were reclassified out of Inventory into Vehicles for hire; no impact on operating profit.

Revenue growth of 7% to R110,5 billion was attributable mainly to the acquisitions of Pharmed, Imres and S&B Commercials during the year and Eco Health contributing for the full financial year. Revenue for continuing operations, excluding Regent, was R107,5 billion, up 7%.

The group's operating profit grew by 1% and operating margins reduced from 6,0% to 5,6% mainly due to the decrease in profits and margins in the Vehicle Import, Distribution and Dealerships division, caused by a weakening rand, on the competitiveness and profitability of the division. Operating profit from continuing operations, excluding Regent, declined by 1% to R5,7 billion.

Logistics Africa performed well, with revenue and operating profit up 15% and 25% respectively. The rest of Africa contributed with an excellent performance benefiting from good organic growth and acquisitions which are performing in line with or ahead of expectations. South Africa benefitted from operational efficiencies and a favourable market position in South Africa in a challenging environment.

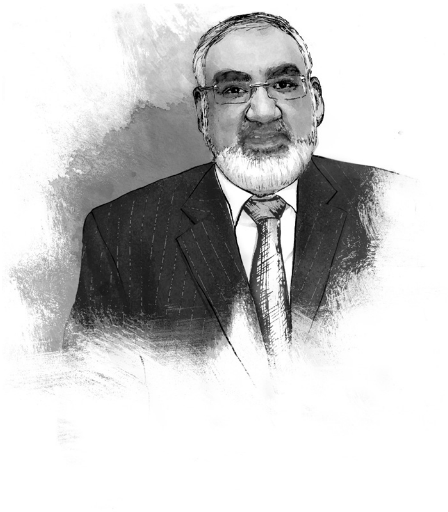
Logistics International's operating profit in euros was slightly up on the prior year, impacted by lower volumes, rates and utilisation. Revenue was up 2% and operating profit up 1% in euros.

As predicted, the Vehicle Import, Distribution and Dealerships division faced extremely challenging trading conditions during the year with volumes and operating margins under pressure. Revenue was up 1% and operating profit down 37%.

The Vehicle Retail, Rental and Aftermarket Parts division had a solid performance supported by strong performance from its vehicle dealerships and the acquisition of S&B Commercials in the UK. The Car Rental business was negatively impacted by lower volumes in all markets and the Aftermarket Parts profits were flat. Revenue and operating profit was up 10% and 7% respectively.

Operating profit from Motor-related Financial Services and Products is up 6% as a result of aggressive fund management and tight cost control.

The Insurance business achieved an operating margin of 18,6% against 15,6% in the prior year. The increase is mainly due to the growth in underwriting income (up 46%), moderated by the decline in investment income (down 25%).



Net finance costs increased 29% to R1,2 billion on increased debt levels and an increase in the group's blended cost of debt. The increase in debt is due to acquisitions, additional working capital and capital expenditure. Despite the higher net finance costs, interest covered by operating profit remains sound at 5.2 times (2014: 6.7 times).

Income from associates and joint ventures contributed R32 million (2014: R76 million) and declined mainly due to the negative performance of Ukhamba, resulting from the impairment of its investment in DAWN. The joint venture, through which we import and distribute Chery and Foton products, was under pressure and recorded losses in the current year. Mix Telematics, in which Imperial holds a 25,3% shareholding, contributed R33 million, down 18% from the prior year.

The effective tax rate of 26,6% was slightly down compared to 27,2% in the prior year. The tax rate benefited from prior year over provisions.

Net profit attributable to non-controlling interests (minorities) reduced from R355 million to R332 million. The increase in minorities as a result of the recent acquisitions was more than offset by significantly lower profits from the Vehicle Import, Distribution and Dealerships division which has the most significant minorities.

The return on average equity of the group was 17%. The group's return on invested capital (ROIC) was 12% and weighted average cost of capital (WACC) was 9%. The table below summarises the reconciliation from earnings to headline and core earnings:

R million	2015	2014	% change
Net profit attributable to Imperial shareholders	**3 054**	3 272	(7)
Profit on disposal of assets	**(85)**	(192)	
Impairments of goodwill and other assets	**95**	84	
Profit on sale of businesses	**(17)**	(74)	
Other	**84**	17	
Tax effects of re-measurements	**13**	42	
Non-controlling interest	**(9)**	2	
Headline earnings	**3 135**	3 151	(1)
Amortisation of intangibles	**415**	336	
Foreign exchange gain on intergroup monetary items	**(104)**	–	
Future obligations under an onerous contract	**–**	64	
Charge for amending conversion profile of deferred ordinary shares	**–**	70	
Re-measurement of contingent considerations, put option liabilities and business acquisition costs	**63**	20	
Non-controlling interest and other	**(37)**	(3)	
Tax effects	**(85)**	(119)	
Core earnings	**3 387**	3 519	(4)

Attributable earnings in the prior year were enhanced by the profit on disposal of property, plant and equipment (R192 million) and the sale of the Tourism businesses. Included in 'other' above, is the loss on sale of shares and the impairment of Ukhamba's investment in DAWN which reduced attributable earnings in the current year.

The major difference between the year-on-year performance of headline earnings and core earnings is the foreign exchange gain (once off) on intergroup monetary items (R104 million), partially offset by the additional amortisation of intangibles arising from business combinations of R79 million. In the prior year the headline earnings were negatively impacted by the onerous contract provision in the German business and the charge for amending the conversion profile of the deferred ordinary shares.

FINANCIAL POSITION OVERVIEW

	June 2015 Rm	Restated* June 2014 Rm	% change
Goodwill and intangible assets	**7 193**	6 766	6
Investment in associates and joint ventures	**1 351**	1 418	
Property, plant and equipment	**10 967**	10 469	
Transport fleet	**5 610**	5 322	
Vehicles for hire*	**3 603**	2 945	22
Investments and loans**	**357**	2 468	(86)
Net working capital* and ***	**9 874**	8 033	23
Other assets	**1 428**	1 516	
Assets classified as held for sale	**4 618**	–	
Net debt	**(14 493)**	(11 441)	27
Non-redeemable, non-participating preference shares	**(441)**	(441)	
Other liabilities	**(8 121)**	(8 946)	(9)
Liabilities directly associated with assets classified as held for sale	**(2 713)**	–	
Total shareholders' equity	**19 233**	18 109	
Total assets	**65 712**	59 021	11
Total liabilities	**46 479**	40 912	14

* *Vehicles on rental to car hire companies were reclassified out of Inventory into Vehicles for hire.*
** *The decrease in Investments and loans relating to Regent's investments now classified as "held for sale".*
*** *Net working capital includes working capital arising from acquisitions and the prior year includes negative working capital of R929 million for Regent.*

Property, plant and equipment increased by R498 million to R11 billion, mainly due to further investment in properties.

Goodwill and intangible assets rose to R7,2 billion from R6,8 billion as a result of the Imres, S&B Commercials and Pharmed acquisitions.

The transport fleet increased due to the R789 million expansion of the shipping fleet in the Logistics International division.

Vehicles for hire are up R658 million due to increases in: forklifts and industrial equipment, demonstration vehicles and vehicles rented to other car rental companies.

Net working capital increased by 23%. After restating 2014 to exclude the Regent Insurance business the increase is 11%. This is due to acquisitions, and increases in receivables and inventory which has been partly offset by an increase in payables. As a result, our average net working capital turn reduced to 13.0 times from 14.6 times compared to the prior year.

Net debt (excluding preference shares and including Regent's cash resources) to equity was higher at 69% compared to 62% at June 2014.

Total assets increased by 11% to R66 billion (2014: R59 billion) mainly due to acquisitions, higher levels of working capital and capital expenditure.

Regent's assets have been reclassified to assets held for sale.

Net debt was higher than June 2014 due to the increase in working capital, acquisitions and capital expenditure. The net debt level is within the target gearing range of 60% to 80%; the net debt to EBITDA ratio at 1.6 times (2014: 1.4 times) still leaves room for further expansion of the group.

Shareholders' equity was impacted negatively by: a put option liability of R473 million relating to the minority shareholdings in Imres; the strengthening of the rand against the euro, which resulted in a loss in the foreign currency translation reserve of R309 million; and a R93 million reduction resulting from the re-measurement of defined benefit plans in the Logistics International business.

CASH FLOW OVERVIEW

	June 2015 Rm	Restated* June 2014 Rm
Cash generated by operations before movements in working capital	**9 049**	8 674
Movements in net working capital* and **	**(50)**	(2 701)
Cash generated by operations before capital expenditure on rental assets	**8 999**	5 973
Capital expenditure on rental assets*	**(1 531)**	(811)
Interest paid	**(1 180)**	(926)
Tax paid	**(1 301)**	(1 267)
Cash flows from operating activities	**4 987**	2 969
Net new business acquisitions	**(938)**	(297)
Capital expenditure (non-rental assets)	**(2 988)**	(2 788)
Equities, investments and loans	**(1 025)**	969
Dividends paid and share buy-backs	**(1 780)**	(2 442)
Other	**(217)**	(383)
Increase in net debt	**(1 961)**	(1 972)
Free cash flow	**4 514**	2 138

* *Vehicles on rental to car hire companies were reclassified out of Inventory into Vehicles for hire.*
** *Movements in net working capital exclude working capital arising from acquisitions.*

Cash generated by operations before capital expenditure on rental assets was R9 billion compared to R6 billion last year. This was mainly due to more effective working capital management. After interest, tax payments and capital expenditure on rental assets, net cash flow from operating activities increased to R5,0 billion from R3,0 billion last year.

The main contributors to the net R938 million invested in new business acquisitions during the year were Imres, Pharmed and S&B Commercials.

Net replacement and expansion capital expenditure excluding rental assets, was 7% higher than the prior year, which included substantial investment by the Logistics International division in South America, investment in fleet in the Logistics Africa division and higher investments by the South African businesses in properties.

Outflows from equities, investments and loans resulted mainly from our Insurance business investing in foreign equities and longer term deposits.

Dividends of R1,7 billion were paid during the year.

FUNDING

	June 2015 Rm	June 2014 Rm
Gross debt (excluding preference shares)	**16 764**	14 544
Less: Cash resources	**(2 271)**	(3 103)
Net debt before Regent's cash	**14 493**	11 441
Less: Regent's cash	**(845)**	–
Net debt	**13 648**	11 441
Net debt to equity (Preference shares included as equity)	**69%**	62%
Net debt to equity (Preference shares included as debt)	**73%**	66%

Net debt of R13,6 billion increased by R2,2 billion from June 2014. This increase includes the funding of acquisitions, related working capital and higher capital expenditure. The group's debt is of a long-term nature (73% long term) with 54% at floating rates.

The funding of the group's requirements for this financial year was adequately catered for from banking facilities and as no corporate bonds matured, the negative impact on liquidity in the South African debt capital markets from ABIL did not affect the group.

Favourable conditions in the international debt market allowed the group to refinance a euro syndicated loan which was maturing in September 2016. This new five-year syndicated revolving credit facility for €350 million was successfully placed with a group of banks.

The group's Domestic Treasury Management Company (DTMC) that was registered with the South African Reserve Bank in May 2014 enhanced the group's funding capability and R2 billion worth of facilities have been concluded.

Total banking facilities of the group of R23,3 billion include R4,7 billion of asset-based finance facilities, R13,6 billion of the borrowing facilities are of a long-term nature. R9,4 billion of undrawn facilities were available at June 2015.

In September 2015, Imperial's corporate bond IPL 5 for R500 million matures and sufficient long-term banking facilities are available to meet the redemption. The ALCO assesses the group's liquidity position on a quarterly basis. After the redemption of IPL 5 there will be capacity of R4,7 billion under the Domestic Medium Term Note programme and R3,2 billion under the Commercial Paper programme should there be a need to access the debt capital markets.

Moody's reaffirmed the group's credit ratings at Baa3, (Stable Outlook).

Capital management and capital allocation are controlled and reviewed at least annually by group finance and group treasury. The allocation of equity and debt by division is reviewed and the appropriate weighted average cost of capital (WACC) determined in order to evaluate investments and measure performance on a risk adjusted basis applicable to the various types of businesses and geographies.

ORDINARY DIVIDENDS

A final dividend of 445 cents per share (2014: 420 cents per share) has been declared, which brings the full-year dividend to 795 cents per share (2014: 820 cents per share).

PROSPECTS

Imperial's financial position remains strong. In the absence of a marked deterioration in current conditions, we expect Imperial to produce single digit growth of revenue and operating profit for continuing operations in 2016.

17 September 2015