

OUR STRATEGY

Imperial's strategy seeks to drive capability-based growth and focused value creation through greater strategic clarity and financial discipline at group and divisional level.

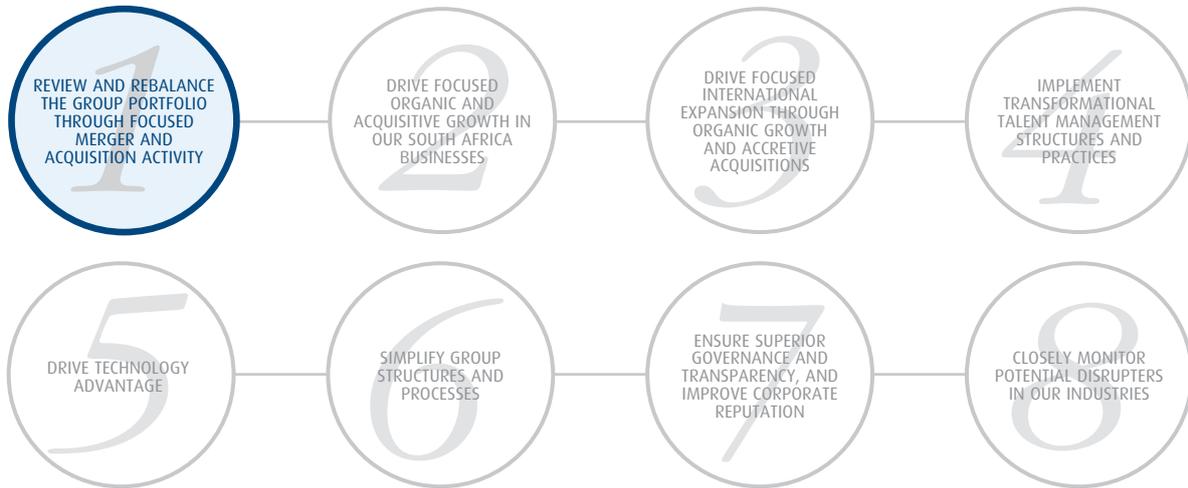
In this regard, return on invested capital (ROIC) > weighted average cost of capital (WACC) + risk-adjusted premium has been set as the overarching target for evaluating the group's portfolio of businesses, and allocating capital to the group's organic and acquisitive growth strategy. In setting the target, management aims to improve the group's return on capital, as the key indicator of shareholder value creation, while acknowledging that any erosion of shareholder value will over time undermine the group's ability to meet the needs of all its stakeholders.

The key themes informing the strategy are:

- > The group will leverage its capabilities, client relationships, scale and assets to drive aggressive organic growth.
- > Larger "transformational" acquisitions, and bolt-on acquisitions, will be considered to deepen the group's penetration within or in areas adjacent to its vehicles and logistics value chains, and to achieve niche domination or scale relevance outside South Africa.
- > The South African logistics market is largely saturated with limited growth opportunities, specifically for acquisitions which are constrained by the group's large market shares. The focus here will therefore be mainly on organic growth.
- > The logistics business in the rest of Africa is considered to be the key driver of Imperial's asset-light growth strategy, given the generally positive macro-economic outlook and the degree of fragmentation in logistics markets across the continent. The aim is for these operations to equal the contribution of the South African logistics operations by 2020.
- > Similarly, the group will pursue asset-light organic and acquisitive growth opportunities in Europe and other regions where we can apply our capabilities and client relationships.
- > Notwithstanding the impact of challenging macro-economic factors on our Vehicle Import, Distribution and Dealerships division, both our vehicle businesses in South Africa will remain a solid source of operating cash flows that will increase with any upturn in the macro-economic cycle.
- > Given these considerations, further diversification of revenue and profit streams through the rebalancing of the group's portfolio is an imperative.

i **Page 43** For a discussion on the group's strategy in relation to its material issues, refer to the CEO's report.

Our strategic thrusts



The major initiatives that will drive our strategic progress are encapsulated in eight strategic thrusts, which provide a precisely worded set of objectives and guidelines against which management can act and report to the board.

STRATEGIC THRUST

1 REVIEW AND REBALANCE THE GROUP PORTFOLIO THROUGH FOCUSED MERGER AND ACQUISITION ACTIVITY

INTENT AND OBJECTIVES:

Release capital, and sharpen executive focus and return on effort, by disposing of businesses that are non-core, strategically misaligned, underperforming or provide a low return on effort.

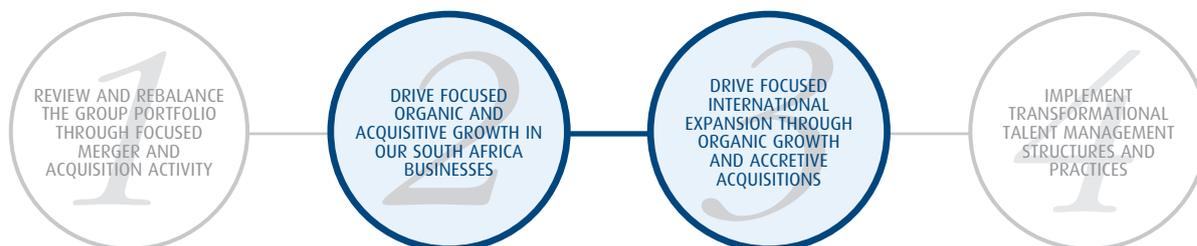
Identify, assess and close strategically aligned and bolt-on acquisitions.

PERFORMANCE AGAINST STRATEGIC THRUST:

- > Effective 9 July 2014, the Logistics Africa division acquired 62,5% of the issued share capital of Pharmed, a pharmaceutical wholesaler in South Africa, for a cash consideration of R148 million. Pharmed generates turnover of R612 million.
- > Effective 1 September 2014, the Logistics Africa division acquired a 70% interest in Imres, a wholesaler of pharmaceutical and medical supplies, for a cash consideration of R647 million (€46 million). Headquartered in Lelystad in the Netherlands with a facility in India, Imres has annual revenues of approximately R1,2 billion (€88 million).
- > Effective 1 September 2014, the Vehicle Retail, Rental and Aftermarket Parts division acquired 100% of the issued share capital of S&B Commercials plc for a cash consideration of R167 million (€9 million). S&B Commercials plc is a Mercedes-Benz (commercial and van) and Fuso dealer in the UK with annual turnover of approximately R1,7 billion (€96 million).
- > The proposed sale of Imperial's interest in Regent to The Hollard Insurance Group is the first major disposal of a non-core business.

While the business of Regent has grown strongly since its establishment, a large fast-growing portion of Regent's 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. Therefore, and consistent with its espoused strategy to invest in its core capabilities, Imperial has decided to dispose of the business and insurance licenses of Regent. As motor-related financial services remain core to the group's strategy, the transaction will be structured to allow the group to retain access to the income flows generated by the distribution of vehicle-related insurance and value-added products through the group's dealership network with the use of cell captives.

Since the issuing of the last cautionary renewal, the due diligence is progressing positively and the parties have agreed to extend the initial three-month exclusivity period to the end of September when shareholders will be advised of developments.



STRATEGIC THRUST

2 DRIVE FOCUSED ORGANIC AND ACQUISITIVE GROWTH IN OUR SOUTH AFRICA BUSINESSES

INTENT AND OBJECTIVES:

Leverage the strategic positioning and competitive advantage of South African businesses, to drive organic growth at targeted margins and ROIC, through:

- > Defensible competitive value propositions for clients;
- > Operational excellence; and
- > Deployment of replenishment capital no greater than current depreciation.

More specifically, within the two value chains, the following objectives will be pursued:

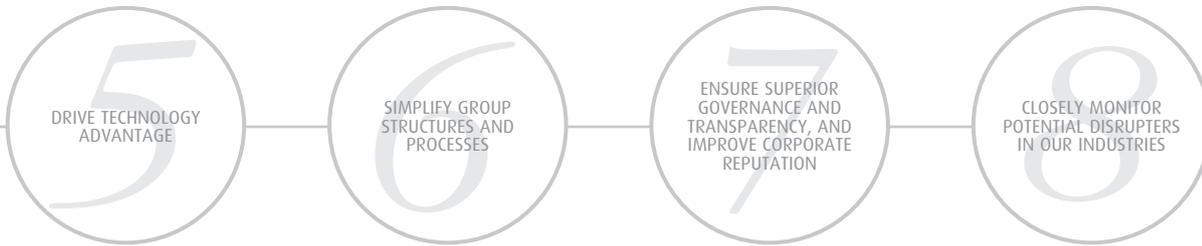
- > **Logistics:** market aggressively for organic growth of revenue and profit throughout the entire logistics value chain by:
 - Achieving niche differentiation or scale; and
 - Driving competitive advantage through efficiency initiatives that lower costs and reduce the environmental footprint of operations, which is of increasing importance to clients.
- > **Vehicles:** maximise all revenue and profit opportunities throughout the value chain by:
 - Securing market shares of certain imported passenger and commercial brands, with strong support from dedicated and multi-franchise dealerships in the Vehicle Import, Distribution and Dealerships division;
 - Focusing on becoming dealers of choice for OEMs and principals, and providers of value and service excellence for clients in the Vehicle Retail, Rental and Aftermarket Parts division; and
 - Building on Imperial's vehicle range, dealership network and expertise to create an integrated vehicle-related financial services proposition that engenders the loyalty of the South African motoring public.

Any opportunities for acquisitive growth will be focused on deepening penetration into the logistics or vehicles value chains, with the acquired assets having inherent potential for revenue and profit growth, and integrated rapidly into existing structures.

PERFORMANCE AGAINST STRATEGIC THRUST:

- > **Logistics Africa**
 - Continues to drive organic growth through client retention and new client engagement, and expanding further in its existing client base.
 - The acquisition of Pharmed during the year augments Imperial Health Sciences in support of Imperial's strategy to integrate pharmaceutical wholesaling and distribution into its service offering. Based in Durban and Johannesburg, South Africa, it purchases product from pharmaceutical companies, and warehouses, distributes and sells to hospitals, private pharmacies and dispensing doctors.
- > **Vehicle Import, Distribution and Dealerships**
 - Progressing plans to deepen the client value proposition, and expand the dealer network to increase market share of major vehicle brands.
- > **Vehicle Retail, Rental and Aftermarket Parts**
 - Progressing plans to acquire selected dealerships to maintain strong market share.
- > **Financial Services**
 - Progressing plans to defend and grow market share by differentiating its services in the market and strengthening its direct sales capability, as well as developing innovative customer-orientated products.

i Pages 56 to 81 For more information on specific plans at divisional level to answer this strategic thrust, refer to the divisional reviews



STRATEGIC THRUST

3 DRIVE FOCUSED INTERNATIONAL EXPANSION THROUGH ORGANIC GROWTH AND ACCRETIVE ACQUISITIONS

INTENT AND OBJECTIVES:

Optimise current assets and capabilities to drive organic growth of existing non-South African businesses to increase market share, achieve targeted margins, and business- and country-specific risk-adjusted ROIC, through:

- > Competitive value propositions for clients;
- > Operational excellence;
- > Exploiting all opportunities for expense reduction and productivity improvements; and
- > Optimising working capital and capital structure for growth and ROIC.

More specifically, within the value chains, the following objectives will be pursued:

- > **Logistics:** increase utilisation of capability and capacity by distributing more products for more principals in the rest of Africa; and optimise niche domination and scale throughout the logistics supply chain in International Logistics, while seeking to diversify away from maturing industries by deploying capabilities into new industries and sectors.
- > **Vehicles:** establish viable footprints in motor distribution and vehicle-related financial services in targeted markets outside South Africa.

In terms of acquisitive growth, the objectives include:

- > Targeting asset-light acquisitions of FMCG, pharmaceutical and vehicle distribution businesses in Southern, West or East Africa.
- > Identifying and concluding acquisitions outside Africa based on each division's capabilities and adjacent growth opportunities.

PERFORMANCE AGAINST STRATEGIC THRUST:

> **Logistics Africa (outside South Africa)**

- The controlling interest acquired in Imres adds sourcing and procurement capabilities to the division's offering, with the potential to leverage off Imperial's existing network and capabilities on the African continent. It operates in the international medical relief industry, targeting mainly African and emerging countries with developing healthcare markets, as a wholesaler of pharmaceutical and medical supplies to its client base, which includes NGOs, hospitals and retailers. Imres plays a key role in the supply chain to end users and its service offering includes sourcing, inbound logistics, supplier audits, quality control, warehousing, distribution and transport coordination. Its product portfolio includes pharmaceuticals, medical kits, hospital equipment and related medical products.

> **Logistics International**

- The division is driving its strategy for organic growth through a restructuring that presents "one face to the client" for all of its businesses in Germany and key strategic hubs in Europe.
- Outside Europe, the division is focused on leveraging clients' internationalisation strategies by applying its existing capabilities and assets. Of note is the division's entry into the South American inland shipping market, which is performing to expectations and returning good results. The success of this initiative has demonstrated its ability to successfully transfer its core capabilities to new markets, which will continue to be a focus in the year ahead.

> **Vehicle Import, Distribution and Dealerships**

- The division is targeting distribution opportunities in the rest of Africa in right-hand drive markets that can be accessed from its South African base, including Nissan distribution in Kenya, Tanzania and Malawi. It is also exploring expansion opportunities in Australia.

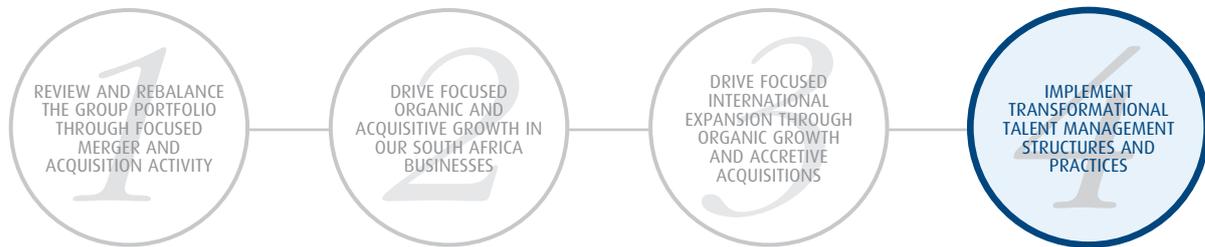
> **Vehicle Retail, Rental and Aftermarket Parts**

- The division has progressed its plans to grow market share in the commercial vehicle sector in the UK through the acquisition of S&B Commercials. This acquisition has enhanced the division's dealer network by adding new territories to its Mercedes-Benz footprint while further diversifying its brand representation in the United Kingdom.

> **Financial Services**

- Opportunities are being investigated to grow into new markets outside South Africa.

i **Pages 56 to 81** For more information on specific plans at divisional level to answer this strategic thrust, refer to the divisional reviews.



STRATEGIC THRUST

4 IMPLEMENT TRANSFORMATIONAL TALENT MANAGEMENT STRUCTURES AND PRACTICES

INTENT AND OBJECTIVES:

Implement leading-edge talent management processes to drive performance, succession and transformation, specifically focused on the Imperial Executive Forum (the most senior leaders within the group). Specific objectives include:

- > Define three- to five-year talent requirements (capabilities, growth, succession);
- > Address imminent succession challenges;
- > Calibrate internal talent with external stars;
- > Define and invest in targeted leadership development initiatives;
- > Inculcate an executive succession and developmental ethos; and
- > Review compensation structures.

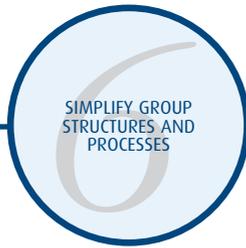
PERFORMANCE AGAINST STRATEGIC THRUST:

It is critical to achieve this thrust as it forms the basis for achieving the group's other strategic thrusts. Three major initiatives are underway to establish a focused platform for leadership development, and assist the divisional CEOs to implement performance-enhancing people management practices. They will also drive a shift from a culture focused on operational and financial performance, particularly over short-term time horizons, to developing increased capability for strategic thinking that sustains long-term value creation.

To be achieved over the next 18 months, these initiatives are:

- > The **Imperial Executive Forum**, which brings together approximately 150 of the group's most senior leaders. It provides a forum for communication on important group issues and drives customised capability and leadership development focused on performance, succession and transformation. A key focus of the initiative includes identifying individual successors and measuring the desired leadership capabilities. To ensure it achieves its objectives, the group will invest an initial R30 million a year in the initiative.
- > A robust **Talent Management Strategy and Framework** is being implemented to identify the talent that meets the group's requirements, and determine metrics to assess the three- to five-year talent pool. The focus of this initiative extends to reviewing our remuneration structures as part of defining the employee value proposition per segment. PwC has been engaged to review the group's reward and recognition philosophy and to align it to world-class practice.
- > A new **HR Architecture** will be implemented to support these initiatives by providing a foundation for effective people practices and processes through:
 - Ensuring compliance with relevant people-related regulations;
 - Achieving greater alignment of people management practices across the group;
 - Enabling line managers to make better decisions that will be based on accurate, easily accessible people-related data; and
 - Empowering employees to manage their own careers across the group.

i Page 44 For more information on how this strategic thrust is being addressed, refer to the CEO's report and the Sustainable Development Report online.



STRATEGIC THRUST

5 DRIVE TECHNOLOGY ADVANTAGE

INTENT AND OBJECTIVES:

Invest in technology for control, efficiency and differentiation. Establish group oversight, standards and approve divisional implementation, specifically ensuring objective assessment of chief information officer (CIO) capability in all divisions and conducting peer reviews of all technology investments greater than R20 million.

STRATEGIC THRUST

6 SIMPLIFY GROUP STRUCTURES AND PROCESSES

INTENT AND OBJECTIVES:

Improve productivity and reduce costs by eliminating complexity in organisation structures, reporting lines, legal structures, minorities, boards and accounting.

PERFORMANCE AGAINST STRATEGIC THRUST:

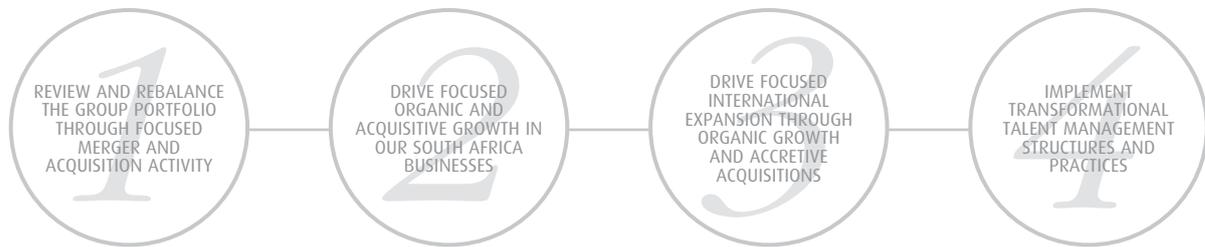
- > The group currently has strategic IT projects being implemented in five key businesses, and will spend approximately R1 billion on technology projects in the 2015 and 2016 financial years.
- > All divisions now have competent CIOs.
- > An annual self-assessment questionnaire detailing the principles and guidelines of expected IT policies, processes and behaviours, which are independently verified by the Imperial IT audit function, has been implemented in all divisions.

A quarterly CIO forum, chaired by the executive of risk management, operates across all divisions to enhance the effectiveness of IT implementation, including risk management and achieving cross-functional synergies.

i **Pages 56 to 81** For more information on specific plans at divisional level to answer this strategic thrust, refer to the divisional reviews.

PERFORMANCE AGAINST STRATEGIC THRUST:

- > The purchase of minority interests and the reduction of legal entities has commenced, together with the rationalisation of businesses into larger operating companies.
- > Logistics International is restructuring its businesses according to its service offerings and implementing a new management structure, as well as enhancing the related corporate management tools and processes.
- > Vehicle Import, Distribution and Dealerships is revising the structure of its constituent businesses.
- > The proposed sale of Regent will reduce the complexity of the group's regulatory compliance requirements.



STRATEGIC THRUST

7 ENSURE SUPERIOR GOVERNANCE, TRANSPARENCY AND IMPROVE CORPORATE REPUTATION

INTENT AND OBJECTIVES:

Practice superior governance, transparency, disclosure and communication to ensure credibility among all stakeholders.

The following key management structures, systems, and governance processes are being reviewed to ensure effectiveness:

- > Levels of authority;
- > Risk structures and processes;
- > Social, ethics and sustainability structures and processes;
- > Stakeholder mapping and analysis;
- > The group's Guiding Principles;
- > Corporate social investment initiatives;
- > Industry memberships and supported organisations; and
- > All group advertising.

i Page 41

For more information on how this strategic thrust is being answered refer to the chairman's report.

i Page 45

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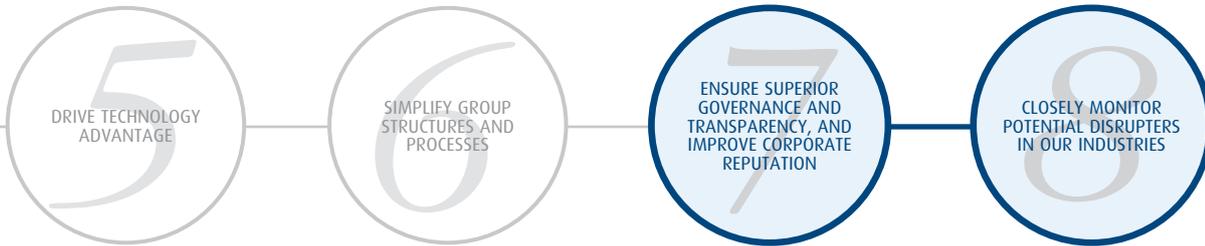
i Page 56 to 81

For the divisional reviews.

b For more information refer to the Sustainable Development Report online.

PERFORMANCE AGAINST STRATEGIC THRUST:

- > We are currently undertaking a detailed stakeholder survey, to understand the perceptions of key stakeholders and identify potential areas of risk in our relationships with them. We anticipate that this analysis will enable us to sharpen our approach to stakeholder engagement at all levels, further enhancing our ability to make a positive impact on society through our business activities.
- > As part of its commitment to enhance its reputation as an active corporate citizen, the group continues to focus on education, road safety, healthcare and reducing its environmental impact.
 - **Education of employees' dependants**, through the Next Generation Scholarships programme which was established in 2015. The programme awards scholarships for the second year of tertiary study onwards, to the children of employees with at least five years' service and whose total compensation is less than R600 000 a year. The awards made in 2015 will enable 57 students to fund their degrees, subject to them passing all subsequent years of required study.
 - **Education, through the Imperial and Ukhamba Community Development Trust**, which supports learning by providing libraries and training assistant librarians to achieve the improvement of literacy and numeracy outcomes at underprivileged Gauteng schools. At the end of 2015, 16 Imperial and Ukhamba libraries had been established with a further 10 planned for the next two years, with a staff complement of about 90. The initiative touches the lives of some 20 000 learners.
 - **Road safety, through national road safety initiatives**, undertaken in partnership with national and provincial government. By the end of June 2015, scholar patrol programmes had been implemented in 660 schools nationwide, reaching over a quarter of a million learners, and more than 5 013 car seats had been collected in partnership with Wheel Well and redistributed to needy families. Through the I-Pledge campaign, over 584 900 South Africans have pledged their commitment to follow road safety rules in South Africa. The group spent approximately R3,6 million on these initiatives in 2015.
 - **Healthcare provision through the Unjani Clinics**, operated by the Africa Logistics business. The clinics provide affordable primary healthcare services to over 32 000 patients annually through a low-cost, sustainable model which creates community employment and empowers owner-operators based in communities. During the financial year, ten clinics were opened bringing the total to 16 and resulting in the creation of an additional 23 jobs. During 2015, R15 million was invested in Unjani, and similar funding has been committed for the 2016 and 2017 financial years.
 - **Reducing the group's fuel consumption**, to around 257 million litres of road fuel over a distance of over 747 million kilometres, a decrease of 1% on the previous year. In 2015 the group recorded a 2% increase in emissions from 2014, with 82% of our Scope 1 emissions resulting from fuel usage and 18% from Scope 2 emissions.
 - **Numerous ongoing initiatives are focused on reducing environmental impact** in electricity and water consumption and waste management at divisional level. Due to the scale of our business and the numerous facilities we manage, this is an important way of ensuring that we reduce our collective impact on the environment. During the year, the group's businesses reduced electricity costs by 2% to under R334 million.
 - **Community-based environmental projects**, focused mainly on waste management.



STRATEGIC THRUST

8 CLOSELY MONITOR POTENTIAL DISRUPTERS IN OUR INDUSTRIES

INTENT AND OBJECTIVES:

Actively monitor the competitive, financial, technological and regulatory developments that could disrupt, threaten or impede the progress of Imperial.

PERFORMANCE AGAINST STRATEGIC THRUST:

The following developments are being monitored given their potential impact on the group's businesses:

- > As the largest user of fuel in South Africa, the proposed carbon tax regime for South Africa and the conversion to Euro 6 fuel specifications.
- > The shift in logistics from a supply chain orientation (all activities related to sourcing, producing and delivering a final product) to an integrated value chain orientation (integration and enhancement of all internal and external processes to increase the perceived value of a product or service to end users), which will require increasingly specialised and sophisticated skills and information systems.
- > The shift in consumer requirements to cheaper, more fuel efficient and technologically enabled vehicles and a digitally enabled buying experience.
- > The availability of technical and management skills, particularly as we grow our African operations, which may require the development of an expatriate policy to support greater mobility of people across the group.
- > The exponential rate of change in business and social systems with the increasing convergence of information and communications technology e.g. customers investigating and choosing our buying options online.