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– LOGISTICS –

In line with the group's strategic objectives, the consolidation of all Imperial's logistics interests within one division – Imperial Logistics – from 1 July 2016, will enable the creation of an increasingly global, asset-light, cash-generative logistics group able to identify and prioritise strategic opportunities, allocate capital appropriately, exploit synergies and disseminate management expertise.

Key data

	REVENUE			OPERATING PROFIT			OPERATING MARGIN	
R million	**2016**	2015	% change	**2016**	2015	% change	**2016 %**	2015 %
Logistics Africa – South Africa	**15 266**	15 372	(1)	**750**	952	(21)	**4,9**	6,2
Logistics Africa – Rest of Africa	**11 853**	9 975	19	**780**	635	23	**6,6**	6,4
Logistics International	**20 793**	19 071	9	**1 013**	958	6	**4,9**	5,0
Total Logistics	**47 912**	44 418	8	**2 543**	2 545	–	**5,3**	5,7

	REVENUE			OPERATING PROFIT			OPERATING MARGIN	
Euro million	**2016**	2015	% change	**2016**	2015	% change	**2016 %**	2015 %
Logistics International (euro)	**1 298**	1 391	(7)	**63**	70	(10)	**4,9**	5,0

	RETURN ON INVESTED CAPITAL %		WEIGHTED AVERAGE COST OF CAPITAL %	
	2016	2015	**2016**	2015
Logistics Africa	**11,3**	13,3*	**10,0**	8,3*
Logistics International	**9,8**	10,7*	**6,7**	6,4*

* *Restated to new calculation method.* *See page 52.*

Non-financial data

TOTAL SCOPE 1 AND 2 CO_2 EMISSIONS (TONNES):

LOGISTICS AFRICA:

561 397

(**2015:** 624 026)

LOGISTICS INTERNATIONAL:

286 430

(**2015:** 306 441)

LOGISTICS AFRICA:

TRAINING SPEND:

R109 MILLION

(**2015:** R109 million)

NUMBER OF TRAINING HOURS:

441 848

(**2015:** 459 121 hours)

For more on the Logistics division's sustainable development performance, see the Sustainable Development Report online.

INJURIES PER MILLION KILOMETRES TRAVELLED:

LOGISTICS AFRICA:

0,158

(**2015:** 0,059)

LOGISTICS INTERNATIONAL:

0,101

(**2015:** 0,127)

FATALITIES PER MILLION KILOMETRES TRAVELLED:

LOGISTICS AFRICA:

0,002

(**2015:** 0,106)

LOGISTICS INTERNATIONAL:

0

(**2015:** 0)

KILOMETRES TRAVELLED:

LOGISTICS AFRICA:

443 MILLION

(**2015:** 473 million)

LOGISTICS INTERNATIONAL:

79 MILLION

(**2015:** 71 million)

TOTAL FUEL USAGE:

LOGISTICS AFRICA:

178 860 KILOLITRES

(**2015:** 201 766 kilolitres)

LOGISTICS INTERNATIONAL:

91 243 KILOLITRES

(**2015:** 95 124 kilolitres)

VALUE DRIVERS	OPERATING CONTEXT
Economic conditions both globally and within operating markets.	**South Africa** > GDP growth in South Africa remained subdued. > Upward pressure on interest rates potentially limiting growth in personal consumption expenditure. > Depressed manufacturing and mining sectors. **Rest of Africa** > Although growth forecasts for many African countries have been lowered, mainly due to persistent low commodity prices, the longer-term outlook remains positive. > Weakening currencies and liquidity shortages in some sub-Saharan Africa countries. > Increasing inflation and higher interest rates resulting in reduced consumer demand. The impact on demand for pharmaceuticals remains limited. **International** > Moderate economic growth in Europe, with lower export growth but sustained import growth due to strengthening domestic demand. > In Germany, slow but solid GDP growth, which is expected to persist in 2017.
Outsourcing of logistics and client demand for specialist capabilities.	**South Africa** > Low growth and challenging environment resulting in clients implementing cost-cutting measures, which can impact the extent to which they outsource their logistics requirements. > Specialisation and complexity associated with integrated supply chain management and skills shortages within organisations sustaining demand for supply chain expertise and consulting. **Rest of Africa** > Expansion of South African and multinational FMCG and pharmaceuticals companies into Africa remains positive as the long-term fundamentals of the African consumer remain positive. > Underdeveloped infrastructure and complex routes to market leads principals to utilise trusted partners like Imperial in providing an end-to-end demand-driven route-to-market solution. **International** > Trend to outsourcing remains positive, particularly for transactional, operational and repetitive activities. Emerging demand for outsourced IT-based services. > Continued demand for full service offering and international capability.
Strengthening competitive advantage in challenging operating environments.	**South Africa** > Increasing competition especially from smaller logistics players puts pressure on margins. **Rest of Africa** > Threat of disintermediation as multinational brand owners and retailers acquire or create their own distribution, selling and marketing capabilities. **International** > Competition in the European market is expected to intensify due to tightened capacity and increased consolidation within supply chains.

2016 PERFORMANCE

In South Africa, challenging trading conditions continued to put pressure on the division's revenue and profitability due to soft volumes particularly in the manufacturing, commodities, fuel and chemicals sectors. This was partially offset by new contract gains and pleasing performances from Resolve, Imperial Managed Solutions and Imperial Health Sciences. Revenue was down 1% and operating profit declined 21%.

In the Rest of Africa, volume growth, the contribution of the division's businesses in the pharmaceuticals sector and the inclusion of Imres for a full 12 months contributed to an operating margin of 6,6% (2015: 6,4%) and operating profit of R780 million, which exceeded that of the Logistics South Africa business for the first time. The weaker rand also positively impacted the Rest of Africa operations.

Logistics International's revenue and operating profit in euro declined 7% and 10% respectively, mainly due to strategic disposals (primarily Neska and Rijnaarde). Adjusted for disposals and acquisitions, the division's euro revenues and operating profit both increased by 4%. Other factors that impacted the division's results were slow economic growth, which suppressed volumes, increased labour costs in certain of the automotive sites it serves, and an unusually long period of low water levels on European waterways in the first half. This was offset by contract gains and a growing contribution from the South American inland shipping business. The weakening of the rand against the euro assisted the rand-denominated results. Two more convoys became operational in South America during the year to meet the growing demand for inland waterway transport on the Rio Parana in South America. This business now utilises five push boats with 60 barges, some redeployed from Europe, with two additional push boats with 24 barges expected to be commissioned later this year.

GUIDANCE

There is no reason to anticipate an improvement in the trading conditions facing Imperial in the short term. Volume growth is expected to be subdued throughout the logistics operations. In addition, the volatility of the rand and other operating country currencies will affect both competitiveness and profitability.

South Africa

Despite the testing market conditions in South Africa, the business will continue to invest in people, capabilities and assets that will help deliver the required returns for the group's shareholders. With a more asset-light strategy and a renewed focus on customers' needs and continuous improvement, the business is well placed to achieve its focus on developing customised solutions to better service clients and contribute to improving their efficiencies. Growth of revenues and operating profit is expected in the 2017 financial year.

Rest of Africa

The economic environment in key markets, especially in Nigeria and Mozambique, remains challenging and is unlikely to improve in the near term. The knock-on impact of a collapse in commodities continues to place pressure on government finances, liquidity, forex availability, inflation, consumer demand and economic

growth. As a result, the division is cautious about growth in the 2017 financial year but remains optimistic about its positioning in the market and its ability to add new business and manage risk. It remains focused on its key strategic priorities, which include expanding its network geographically, leveraging its capabilities across markets, turning around underperforming businesses and releasing unproductive capital to improve returns. Growth of revenues and a decline in operating profit are expected in the 2017 financial year.

International

The focus on sales and marketing is expected to contribute positively to revenue in the year ahead, with recent investments in shipping and contract manufacturing expected to drive operating profit higher, tempered by ongoing administrative costs relating to strategic initiatives in the prior year and higher labour costs. Growth of revenues and operating profit, substantially from the Palletways acquisition, is expected for the 2017 financial year.

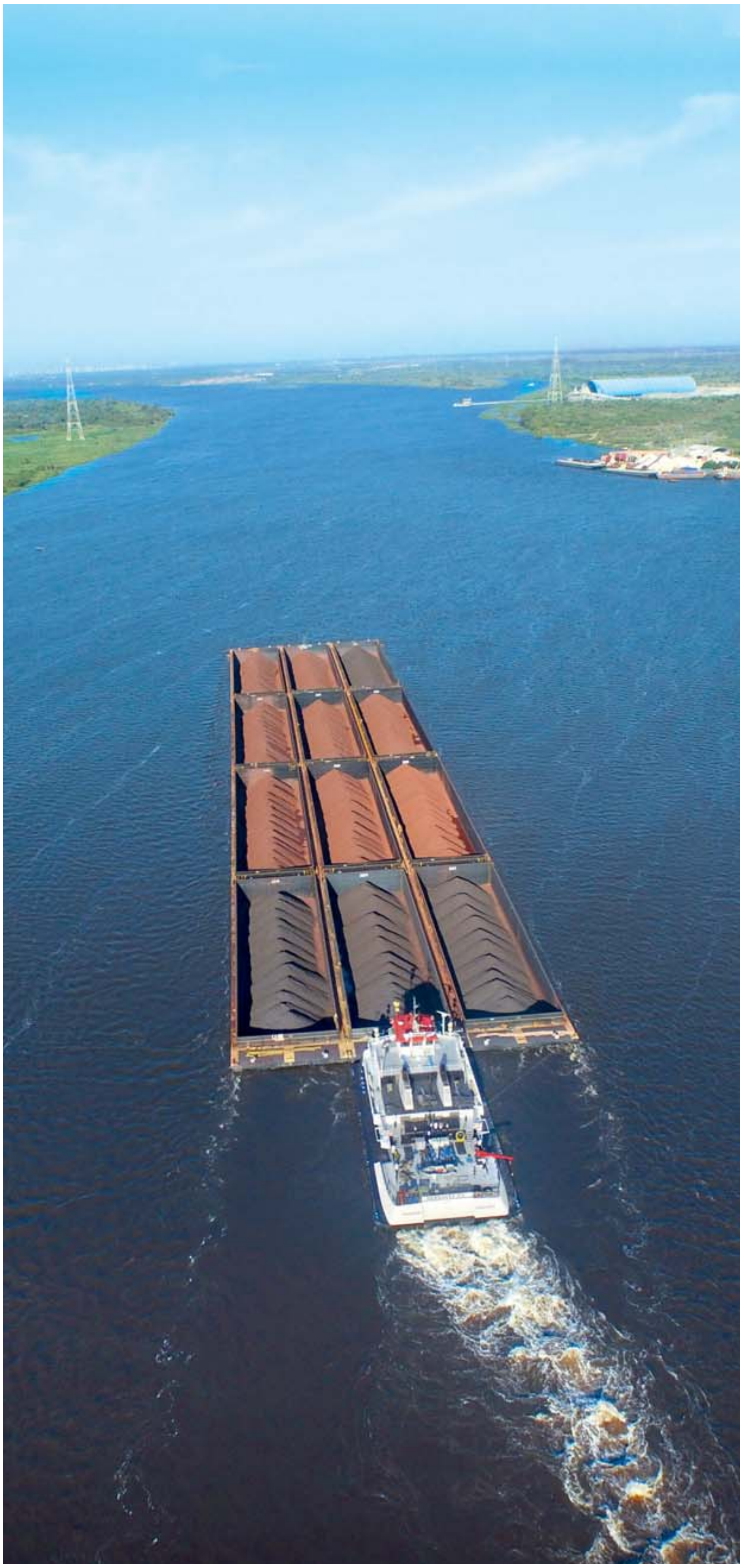
STRATEGY

In line with the group's strategic intent to simplify its portfolio of businesses, the creation from 1 July 2016 of one Logistics division – Imperial Logistics – will enable better coordination of relationships and opportunities with counterparties, and further clarify the growth strategy and capital deployment in existing businesses and acquisitions.

With 71% of operating profit generated outside South Africa in 2016, the new structure affirms Logistics as a large global business led by one board, one CEO and one management team.

For the 2017 financial year, Imperial Logistics will report segmentally on three sub-divisions:

> Logistics South Africa
> Logistics Rest of Africa
> Logistics International



Focus on: managed solutions

Building on the success of its managed logistics offering, Imperial Managed Solutions (IMS) was launched as a stand-alone sub-division in the year. In line with the Logistics division's objective to reduce asset intensity, in addition to its dedicated fleet IMS matches the demand from clients with the supply of vehicles and warehousing owned by independent operators within the markets in which it operates. IMS maintains a high level of control over these assets and applying its intellectual capital to managing them in the most efficient way. This enables the business to provide its customers with the highest levels of service, and ensures sufficient flexibility to respond to their changing requirements, for example, short-term increases in demand.

IMS provides a comprehensive logistics service through six core functional competencies:

> Logistics services, including road transport, freight forwarding, and bulk and bonded warehousing.
> Planning and optimisation, including tracking each load through a customised transport management system.
> Enterprise resource planning and an operations command centre to plan, allocate and execute loads, maintaining full visibility.
> Technology, reporting and business intelligence to ensure efficient management decision-making and operational support.
> Dedicated suppliers who benefit from fleet optimisation and are subject to ongoing quality management.
> Customs management as a registered clearing agent with the South African Revenue Service, including tariff classification and applying for import permits.

Read more at: www.managedlogistics.co.za.

Sustainable development in brief

Talent management

Logistics Africa has sharpened its focus on talent management with over 200 senior managers having participated in a comprehensive assessment process. The Imperial Logistics Academy supports the learning and career development needs of the division's employees. It also serves to promote a learning culture and developmental ethos within the division, and supports the division's ability to meet current and future talent requirements.

In Logistics International, the development programme for young professionals has been extended to other operating markets, and all middle management employees have been assessed to identify high-potential individuals. A succession programme was introduced during the year.

Transformation

In South Africa, the revised dti Codes set challenging but attainable targets for broad-based BEE. The division's BEE roadmap targets the achievement of Level 4 status in 2016, moving progressively to Level 3 status by 2020. Strong BEE performance will provide significant competitive advantage for the division.

In Germany, Logistics International is focused on increasing the representation of women and has aligned its development and succession programmes in this regard. In addition, an ageing population and low rate of unemployment presents challenges to attracting qualified and skilled people to the logistics industry.

Ethics and compliance

To mitigate against underdeveloped regulatory environments, the Logistics division applies best practice in areas such as vehicle quality and safety across all its markets. The division is focusing on embedding an ethical culture aligned to Imperial's code of conduct, which includes the mitigation of corruption risk in cross-border transportation and NGO contracts in Africa and anti-bribery guidelines in its international operations.

Environment

The division's fuel savings and energy management initiatives are expected to contribute positively to operational efficiency. Environmental considerations are a growing feature of tender requirements.

For more on these and other sustainable development topics, see the Sustainable Development Report online.

Logistics South Africa

In South Africa, the division is focused on maintaining and selectively growing its operating margin in a challenging operating environment. A key focus in this regard is on simplifying its Southern African businesses through capability-based operational consolidation to reduce operational and administrative complexity, finding synergies between individual businesses and further strengthening its specialisation in different aspects of supply chain management. Further to this, the division will dispose of businesses where these are strategically or financially misaligned.

Logistics Rest of Africa

Logistics Rest of Africa continues to expand and leverage its footprint in selected African countries and is strengthening its integrated logistics capabilities to penetrate deeper into its clients' and principals' supply chains. Its strategic intent is to become the market leader in providing brand owners of consumer and pharmaceuticals products access to the growing consumer market on the continent, offering a fully integrated, demand-driven route-to-market for principals.

Within its existing focus on pharmaceuticals products in the Rest of Africa, the division is actively pursuing opportunities to extend its services to international donor agencies active on the continent. Opportunities for growth in other industries will be explored where the division can leverage its existing capabilities and capacity, in line with its asset-light approach.

It is extending its focus from traditional road transport to include cross-border and international logistics services and warehousing operations. Ongoing cash, working capital and foreign exchange risk management is critical to ensuring appropriate returns from this region, particularly in light of liquidity shortages and weakening currencies in some sub-Saharan Africa countries.

Achieving Logistics Africa's aspiration to equal revenue of its Rest of Africa operations to that of South Africa by 2020 will require further acquisitions and aggressive organic growth, particularly in the East and West Africa regions. Again, focused capital allocation and stringent cash and working capital management are essential to ensuring appropriate returns and service in these developing regions.

Logistics International

The division remains focused on the German and broader European market given the substantial outsourcing potential and continued trend towards companies outsourcing non-core activities. The biggest potential to increase its share of the outsourced market is within warehousing, contract logistics and contract manufacturing.

A key initiative to grow market share in the European market is the implementation of an enhanced and focused sales organisation. Further to this, the business structure was reorganised according to its service offerings, operating as Imperial Transport Solutions and Imperial Supply Chain Solutions from 1 July 2015. This has improved visibility and clarity of its potential client base, and together with a centralised sales capability has already resulted in contract gains.

To further enhance customer service through technology, the international business is implementing the Imperial Freight Management System to automate the matching of cargo to shipping vessels. This capability will enable it to offer its customers the most cost-efficient and reliable transport on all Western European waterways, and provides customers with online access to various functions, including tracking of cargo.

Logistics International's strategic intent is to shift its business model to more knowledge-based, technology-driven services with a focus on managed logistics. To achieve this, strategically relevant assets will be combined with managed freight and services where appropriate, together with further acquisitions to add the necessary capabilities.

Logistics International expanded its activities in China during the year, and is collaborating with Logistics Africa to evaluate all relevant and developing industries in Asia for potential future investment.

Acquisitions and disposals

The acquisition of UK-based Palletways, effective 5 July 2016, is in line with Imperial's strategic intent to further grow its presence outside South Africa by acquiring asset-light logistics businesses that benefit from the group's existing footprint and capabilities. Palletways provides an express delivery solution for small consignments of palletised freight across 20 European countries. Its business model and geographic reach are complementary to the division's existing services and networks in the logistics sector. The acquisition of Netherlands-based van den Anker strengthens Logistics International's position as a leader in chemical warehousing and distribution.

The disposal of Logistics International's interest in ports operator Neska in October 2015 is in response to growing competition from established operators. The disposal enables the business to focus on further investing in its core capabilities, in line with its strategy to develop asset-light businesses and move asset-intensive businesses towards a managed logistics business model.