Imperial Logistics

DIVISIONAL REVIEW

Imperial Logistics is a mainly African and European logistics provider of outsourced integrated value-add, supply chain and route-to-market solutions – customised to ensure the relevance and competitiveness of its clients.

With established capabilities in transportation, warehousing, distribution and synchronisation management and expanding capabilities in international freight management, the division operates in specific industry verticals – consumer packaged goods, specialised manufacturing and mining, chemicals and energy, healthcare, automotive, machinery and equipment, and agriculture.

SOUTH AFRICA

> Leading logistics provider across entire supply chain, driving innovation and continuous improvement.

14% GROUP REVENUE | 16% GROUP OPERATING PROFIT

AFRICAN REGIONS

> Leading distributor of pharmaceuticals and consumer packaged goods in Southern, East and West Africa.

8% GROUP REVENUE | 12% GROUP OPERATING PROFIT

INTERNATIONAL

> Leading positions in exacting industries such as chemical and automotive. Specialised express distribution capabilities.

21% GROUP REVENUE | 18% GROUP OPERATING PROFIT

Based on external revenue for the division, including businesses held for sale.

South Africa	African Regions	International
> Leading market position in a mature and highly competitive market. > Specialised operations, extensive regional footprint and end-to-end service offering, with an unrivalled ability to reduce clients' costs and enhance their competitiveness. > Unique value and risk-based commercial engagements focused on eliminating supply chain inefficiencies for clients. > Differentiated through range and scale, customisation and specialisation – with a strong ethos of continuous improvement and transformation.	> Unique distributor approach supported by local partnerships, and exclusive relationships with principals. > Provides end-to-end integrated route-to-market solutions across African markets to multinational clients, with a focus on creating maximum value for principals and their customers. > Deep experience in navigating the complexity, diversity and distinct challenges of African markets. > Ability to grow consumer and pharmaceutical brands in challenging trading environments with complex sales and marketing channels.	> Manages complex logistics services in developed niche markets. > Provides road and river transportation, express freight and specialised value-add logistics to the highest quality standards, with a leading position in demanding industries such as chemical, automotive, steel, machinery, equipment and shop fitting. > Ability to reproduce high-quality offerings in new industries and markets through an integrated portfolio of services across clients' supply chains. > Well-established client partnerships are the basis for entering new markets.

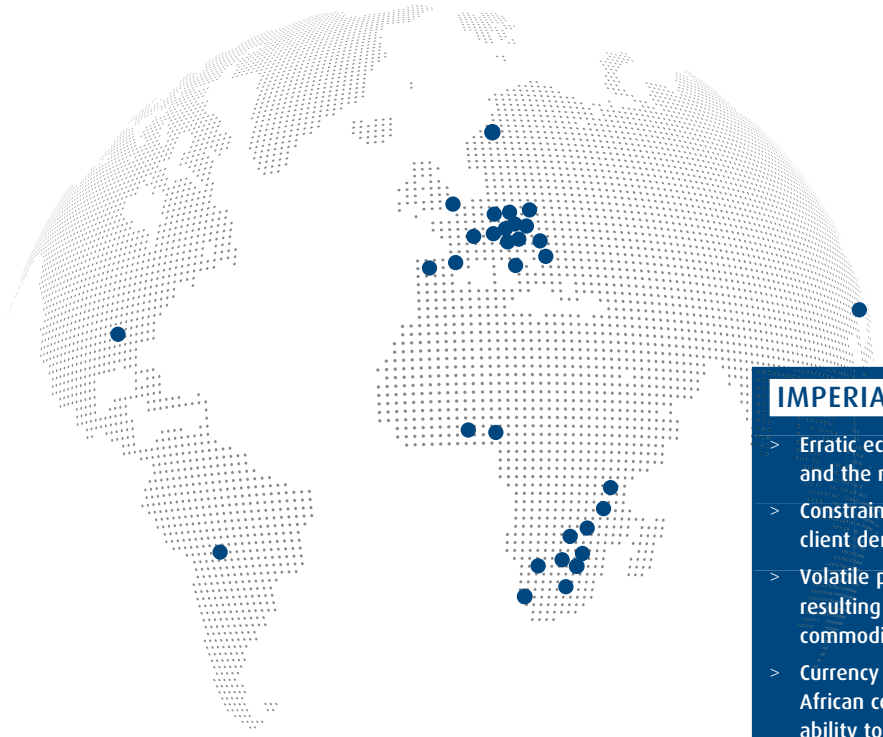
Strategy

Imperial Logistics Africa and Imperial Logistics International were consolidated as a single division with one management team, on 1 July 2016. With annual revenue of more than R50 billion, Imperial Logistics is currently recognised as the 27th largest third-party logistics group in the world.

This position provides significant opportunities, as the division clarifies and aligns its value proposition to clients and employees across its portfolio of diverse businesses, which was grown by acquisition. The challenge of divisional consolidation is to retain the entrepreneurial excellence of its businesses, while unlocking the benefits of a more integrated business able to leverage the core linkages between verticals, geographies and capabilities.

The transition to the new leadership structure introduced specialist divisional functions, including strategy and business development, mergers and acquisitions, finance and reporting, and information technology and innovation. It also achieved consistent reporting and measurement, which is facilitating strategic decision-making across the division.

Specifically, the emphasis on return on invested capital (ROIC) is enhancing the division's assessment of end-to-end profitability within different capabilities, sectors and contract types, to ensure focused capital allocation.



IMPERIAL LOGISTICS

- Erratic economic growth impacting clients and the markets they serve.
- Constrained consumer spending limiting client demand for logistics services.
- Volatile prices and stagnant growth resulting in a rapid decline in hard commodity volumes.
- Currency volatility and illiquidity in certain African countries affecting principals' ability to trade, with lower import volumes.
- Changes in international leadership and policy impacting donor funding due to shifting political priorities.
- Increased regulatory requirements related to specific sectors and general social and environmental imperatives.

RESPONDING TO A CHALLENGING OPERATING CONTEXT

The trends in the division's operating environment, reflected alongside and below, have had a direct bearing on the division's strategic development and performance in the year.

SOUTH AFRICA

- Low to negative GDP growth.
- Political and economic uncertainty and low business and consumer confidence, exacerbated by sovereign rating downgrades.
- Reduced consumer spending.
- High unemployment and limited job creation constraining economic recovery and social spending.
- Clients implementing cost-cutting measures.
- Highly competitive environment with price recovery and cost reduction efforts among major competitors.
- Increasing competition, especially from smaller logistics players, putting pressure on margins.
- Increased pressure to meet broad-based black economic empowerment (BBBEE) requirements, specifically black ownership.

AFRICAN REGIONS

- Discrepancies in GDP growth rates, with commodity dependent economies struggling and more diversified economies showing resilience.
- Low growth particularly in Nigeria, Mozambique and Zambia.
- Volatile and unpredictable currency movements, with certain currencies being overvalued and illiquid.
- Increasing inflation and higher interest rates resulting in reduced consumer demand.
- The impact of drought conditions on sub-Saharan markets, with water shortages and reduced crop production negatively affecting food and beverage manufacturing, resulted in sharp food price increases in the year.

INTERNATIONAL

- Moderate economic growth in Europe, with strengthening domestic demand.
- In Germany, low annual growth in freight transport and decreasing volumes in specific sectors, including coal, steel and aluminium.
- Volumes impacted by water levels in Germany being the lowest in 80 years.
- Competition in European market intensifying, with increased consolidation of supply chains.
- Complexity of managing trade union negotiations across different sectors.
- Increase in e-commerce retail sales reducing store footprint expansion and business volumes in Asia.
- Increased regulatory requirements in mineral oil transport, liquid transportation and shipping.

Logistics outsourcing is subject to cyclical trends. As economic conditions affect volumes and costs, clients may elect to insource their supply chains to improve performance unless there are tangible benefits to outsourcing.

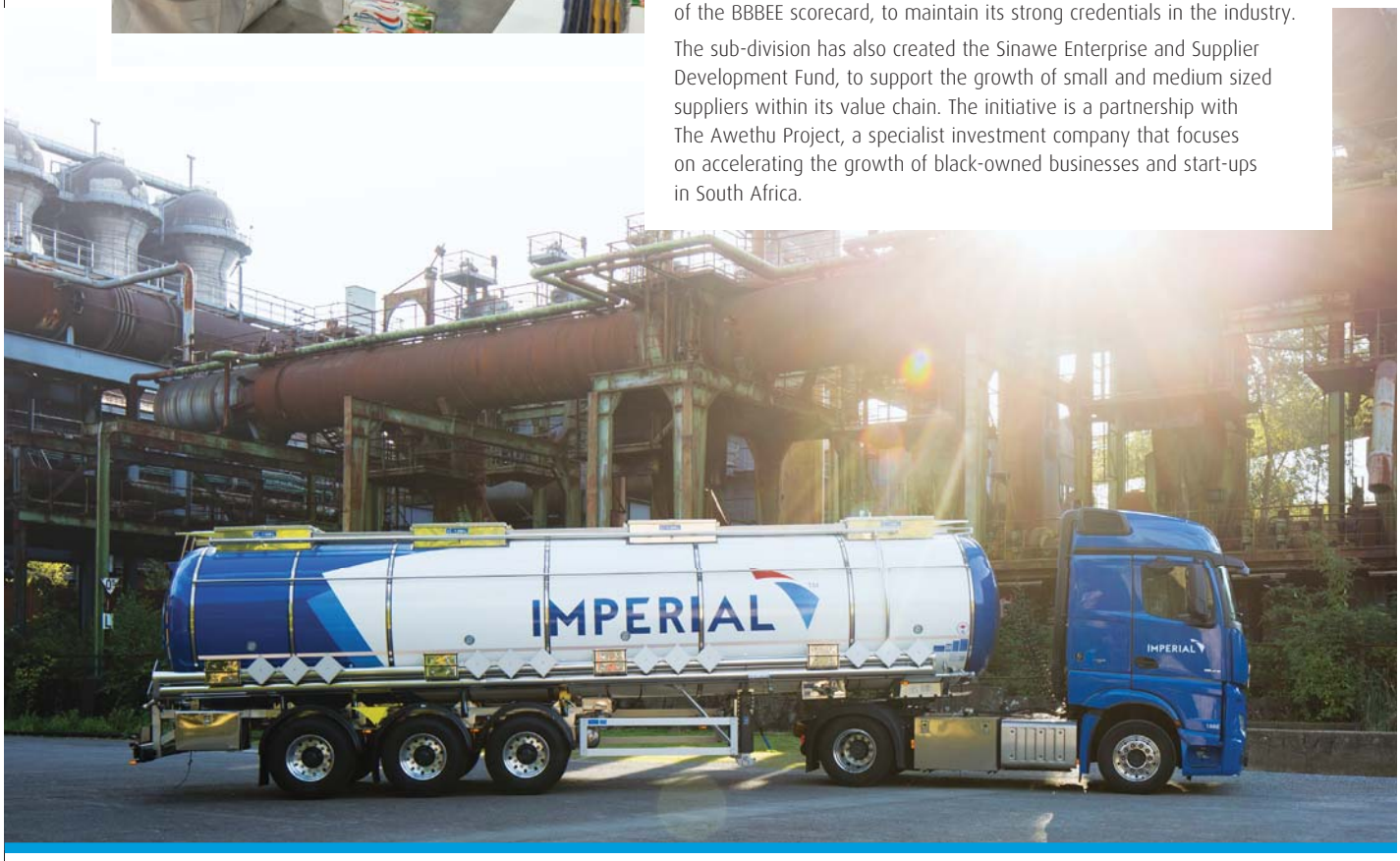
Integrated service providers like Imperial Logistics depend on the full scope of outsourced logistics planning and management, rather than execution only. This justifies a price premium for realising integration benefits across the supply chain, including managing other service providers and assuming responsibility for safety, security and sustainability, on behalf of the client.

In general, the extent and scope of logistics outsourcing has continued to grow in the markets in which the division operates, notwithstanding the economic pressures. The division has benefitted from this growth due to its deep understanding of its clients' requirements and its ability to leverage its scale, assets and expertise to add value to its clients beyond the cost of the outsourced services provided. Its longstanding relationships with major clients has alleviated the threat of disintermediation by service providers with specific focus areas in the supply chain.

Maintaining the division's competitive position centres on a client-centric mindset that makes excellent service delivery non-negotiable, and continuously reinforces clients' reliance on the division's services.

For Logistics South Africa, securing sustainable competitive advantage extends to its contribution to BBBEE. The process of securing a strategic partner for the sub-division, which will result in the business becoming a 51% black-owned enterprise, is underway. Beyond ownership, this strategic partnership is expected to accelerate the transformation of executive leadership. The division will continue to focus on all elements of the BBBEE scorecard, to maintain its strong credentials in the industry.

The sub-division has also created the Sinawe Enterprise and Supplier Development Fund, to support the growth of small and medium sized suppliers within its value chain. The initiative is a partnership with The Awethu Project, a specialist investment company that focuses on accelerating the growth of black-owned businesses and start-ups in South Africa.



In the African Regions, the sub-division's strategic focus on the consumer packaged goods and healthcare value chains creates the opportunity for upstream and downstream synergies that benefit principals and clients. The sub-division's ability to service multiple channels preserves principals' appetite for decentralised supply chains. Furthermore, its integrated multi-market partnership model, which combines routes-to-market with sales and demand activation offerings, supports the relevance and competitiveness of brand-owners in a way that would be difficult to replicate.

Clients with international operations attach a high priority to efficient logistics networks, which provide competitive advantages in globalised markets through rapid, reliable, flexible and seamless supply chains that also meet sustainability targets. Logistics International has developed highly specialised and holistic solutions in the sectors it serves based on a tightly meshed geographic presence and a broad portfolio of services.

Across Imperial Logistics, further value is added through a focus on sustainability performance, which is increasingly important to clients, particularly in managed logistics. The division implements health and safety, and fuel efficiency controls that reduce client input costs and benefit their scorecards. This includes ensuring that third-party contractors adhere to the relevant policies and standards.

For comprehensive information on the division's sustainability performance and related initiatives, refer to the SDR: Imperial Logistics review.

Technology-driven disruption is a material threat to the division, with new competitors enabled by technological advancements and e-commerce on the rise. In response, Imperial Logistics continues to deepen its value proposition to clients through a focus on innovation, including:

> Vehicle technology that drives payload optimisation, lower fuel consumption and better safety.

> Warehousing technology that drives labour productivity, product protection and process reliability.

> Information technology that drives process digitisation and improved decision-making.

> Providing highly specialised logistics skills and capabilities, which are increasingly scarce, to cover the gaps in client organisations.

HOW IMPERIAL LOGISTICS WILL COMPETE AND WIN IN THE NEXT THREE YEARS

OBJECTIVE:
Grow revenues, profits and returns by increasing principals, products and markets within and adjacent to its spheres of competence, and disposing of non-core or low return businesses.

The division is deepening its client value proposition to support profitable growth in constrained environments. Performance-based partnerships with clients, which focus on total value rather than only total cost, are being introduced as a differentiator to support sustainable margins and returns. Furthermore, although the division's geographic dispersal makes operational synergies or savings between its businesses in Africa and those outside the continent elusive, its acquisition strategy is designed to deepen upstream and downstream synergies within the respective regions to benefit principals, clients and their customers.

Although Logistics South Africa's leading market position limits its acquisitive growth potential, it made acquisitions during the year that extended its client offering and its capabilities into adjacent markets. A 70% stake in Sasfin Premier Logistics, for R38 million, has added a comprehensive logistics and financing service that includes freight-forwarding and customs-clearing; and 55% of Itumele Bus Lines, for R147 million, has positioned the sub-division to compete for large people transport contracts.

Adjusting to the centralisation of retail supply chains, which removes volumes from the sub-division's distribution network, Logistics South Africa is consolidating capabilities and developing new channels. The newly formed Imperial Consumer Packaged Goods business is implementing multi-temperature distribution capabilities to offer cost-effective additional routes-to-market, including convenience stores, quick service restaurants, liquor stores, pharmacies, the hospitality and food service industry, and the informal market. The sub-division also has plans to diversify into e-commerce fulfilment capabilities within retail supply chains.

Despite uncertain economic and political conditions in the African Regions, resilient demand in the consumer packaged goods and healthcare value chains is evident. Given their defensive characteristics, further expansion will be pursued in these value chains by adding more products and principals to existing route-to-market channels.

Logistics International is deepening its exposure to stable and growing regions, while diversifying and expanding its industry exposure. Safeguarding existing market shares for the long term will include investing in and offering intermodal solutions to clients, and expanding into new customer segments to broaden the service portfolio. Its focus on refining and expanding its service offerings will increase the value of its high-quality, dedicated logistics services to clients, differentiating them from commoditised offerings.

The sub-division plans to dispose of non-core businesses and assets, including its chemical manufacturing operations, and its dry-bulk shipping fleet will be sold in favour of sub-contracting to reduce utilisation risk in the steel and energy sectors. In liquid shipping and road transport the division plans to exit markets where required returns cannot be achieved, and in highly competitive contracts (e.g. automotive) achieving returns on deployed capital will include reducing capital investment as far as possible and avoiding contract renewals where the required price recovery cannot be realised. Proceeds from disposals will be used to reduce the gearing of the business or reinvested in the acquisition of asset-light businesses to replace profits.

OBJECTIVE:
Develop and acquire less capital-intensive higher return businesses with strong revenue growth potential and cash flows, while ensuring sound capital and foreign exchange management.

The division's efforts to reduce capital intensity include aggressive working capital management and the sale of non-strategic properties.

Asset intensity is being systematically reduced through a transition to an "asset-right" model, which involves aligning asset investment commitments to clients, specifically the use of specialised owned vehicles, with contracted partnerships with transport providers that provide flexible capacity.

With market conditions expected to remain challenging in South Africa, the sub-division is reducing its exposure to cyclical markets, such as mining and manufacturing, through its managed logistics offering. Asset intensive transport businesses, competing in the commoditised cross-border transport market, are being converted into asset-light solutions that limit the utilisation risks of asset ownership and reduce invested capital.

This is being mirrored in the African Regions, where the sub-division's participation in sectors other than consumer packaged goods and healthcare, are being converted into managed logistics offerings. To this end, the disposals of non-core and asset heavy transport operations, including LSC Namibia and Botswana, have been concluded.

The sub-division's consumer products distributorships continue to grow in the SADC region. However, further investment into other regions will be cautiously pursued. The sub-division exchanged its 100% interest in Global Holdings (Botswana) for a 25% shareholding in PST, an entity that was merged with Global Holdings to provide a more appropriate platform to distribute consumer packaged goods in Botswana.

Logistics African Regions is leveraging the sourcing and procurement capabilities of Imres and managed logistics operations have been initiated in Nigeria, Ghana and Kenya, to leverage its presence in the healthcare value chain. The priority is to further expand its footprint into East Africa, following the Surgipharm acquisition in July 2017, and to investigate acquisition opportunities in French-West Africa. Leveraging capabilities and exploiting cross-selling opportunities across the businesses acquired will be a focus going forward.

As a leading distributor of pharmaceutical, medical, surgical and allied supplies in Kenya, with an annual turnover of approximately R940 million, Surgipharm caters to all pharmaceutical distribution channels, directly supplying products to the Kenyan Ministry of Health, parastatals, hospitals, clinics, dispensing doctors, pharmacies and wholesalers. This acquisition complements the division's position in the pharmaceutical sector, adds geographic diversification and increases its exposure to generic pharmaceuticals.

As the sub-division increases its exposure to African markets, the impact of currency devaluation and illiquidity requires careful management. This impact is being mitigated through price increases, active risk and currency management, and targeting the distribution of locally manufactured goods.

To reduce capital intensity, the Logistics International sub-division needs to become more asset-light and to contain its focus to sustainable industries. As indicated, the sub-division is rationalising its exposure to cyclical and declining industries or exiting them altogether with the capital released to be deployed in areas where required returns can be achieved.

To this end, the sub-division acquired Palletways in July 2016, for £155,1 million (R3,0 billion). Palletways is a leading operator in express delivery solutions for small consignments of palletised freight across 20 European countries, positioned to grow revenue and sustain margins with low capital investment requirements. The UK franchise network continues to grow and the expansion of the European network remains on track. Services were extended to Poland in the year and 100% of Topco in Italy was acquired for R14 million to strengthen its presence in that

country. Although the devaluation of the Pound has impacted the translated earnings of Palletways, the expansion into Europe will mitigate the currency risk.

OBJECTIVE:
Grow organically through a deep understanding and penetration of its chosen sectors, carefully staged integration and collaboration, and the development and deployment of human capital that accords to best practice and responds to unique market dynamics.

Imperial Logistics' managed solutions business, formed through the consolidation of value-added logistics and supply chain management capabilities, will be an important driver of focused organic growth going forward. The division is integrating businesses across the regions with similar service offerings, thereby simplifying regional structures, eliminating duplication of businesses and reducing operating cost. The division will pursue opportunities and international expansion in other emerging and developed markets based on its managed solutions competencies.

In Logistics International, the sophistication of the German market and the sub-division's exposure to cyclical industries limits organic growth potential in the region. As part of reviewing its sector participation and value chain focus, opportunities are being evaluated to capitalise on African capabilities, specifically in healthcare. Opportunities for establishing new routes-to-market are being explored in emerging markets like Eastern Europe and Southeast Asia.

Ultimately, it is the division's people that determine its sustainable competitive advantage and the success of its growth strategy. Imperial Logistics aims to be recognised as an employer of choice in all its markets, and is creating a single, common framework for managing human capital, while allowing for flexibility within specific businesses.

Leadership development and succession planning remain key priorities and the division has completed a job-matching exercise to identify and place the best people for each role. Human capital management and payroll solutions that are fit-for-purpose and aligned across the organisation are being implemented. The new systems will enable line management and employee self-service functions over time and better position human capital professionals to deliver an efficient tailor-made service to the organisation. The consolidation of the division is strengthening the organisation's high-performance and ethical culture across all regions as the mindset shifts to one Imperial Logistics business.

The investment in human capital management is being tailored to each region, with talent management in the African Regions being accelerated through the retention and development of local management teams to facilitate succession. In Logistics International, an alternative personnel sourcing model is being designed to counteract the specific staffing challenges in its markets.

OBJECTIVE:
Embrace relevant information, digital positioning, and automation technologies across value chains and sectors, to increase transactional and operational efficiency, productivity and client value.

Leveraging the power and potential of technology is a critical strategic priority for Imperial Logistics given the disruption expected in the logistics sector. The division's digital strategy is focused on building a global IT capability that is a reliable and professional service partner to all businesses in the division. The systematic digitisation of

processes is enhancing integration, reducing complexity and leveraging the excellence across different businesses. IT services are being implemented to support process leadership and efficiency, including improved client engagement and debtor management, and procurement cost savings through visibility and spend control.

The division has set up a Supply Chain Lab in Berlin, responsible for the rapid development, testing and implementation of innovative supply chain solutions tailored to clients' needs, and for securing the relevant partnerships in this regard. Two initiatives are currently in progress – one dealing with managing the documentation that accompanies supply chain management, and the other addressing idle capacity in warehouses. More broadly, regular assessments of digital trends relevant to the industry have become an essential part of the division's process.

OBJECTIVE:
Imperial Logistics' strong market presence in South Africa favours foreign capital deployment and acquisitive growth.

Future cash generation in Logistics South Africa will be used to recapitalise the African Regions or to fund ongoing geographic expansion through the acquisition of complementary capabilities. Strategic acquisition targets to broaden and strengthen the service offerings and global network of Logistics International will also be pursued.

Performance

imperial Logistics recorded growth in revenue and operating profit of 6% and 9% respectively, supported by the Palletways acquisition in Logistics International, a solid performance from Logistics South Africa despite challenging trading conditions, and an excellent performance from Ecohealth in Nigeria.

Excluding acquisitions and disposals in the current and prior year, revenue and operating profit declined by 3% and 7% respectively. These declines are partly due to the strengthening of the Rand by 8% on average against the Euro and by 6% against the US Dollar during the year.

Key financial indicators

	REVENUE			OPERATING PROFIT			OPERATING MARGIN		ROIC		WACC	
R million	**2017**	2016	% change	**2017**	2016	% change	**2017 %**	2016 %	**2017 %**	2016 %	**2017 %**	2016 %
Logistics South Africa	**16 207**	14 447	12	**953**	828	15	**5,9**	5,7				
Logistics African Regions	**9 356**	11 016	(15)	**746**	773	(3)	**8,0**	7,0				
Logistics International	**24 220**	19 512	24	**1 105**	1 000	11	**4,6**	5,1				
Business held for sale	**882**	2 937		**(40)**	(58)							
Total Logistics	**50 665**	47 912	6	**2 764**	2 543	9	**5,5**	5,3	**11,5**	11,8	**7,1**	7,6

	REVENUE			OPERATING PROFIT			OPERATING MARGIN	
Euro million	**2017**	2016	% change	**2017**	2016	% change	**2017 %**	2016 %
Logistics International (Euro)	**1 638**	1 298	26	**75**	63	19	**4,6**	5,0

Non-financial indicators

Total number of employees:

31 741
(2016: 30 678 TONNES)

Total scope 1 and 2 CO_2 emissions:

AFRICA:
515 822 TONNES
(2016: 561 397 TONNES)

INTERNATIONAL:
240 685 TONNES
(2016: 286 430 TONNES)

Training spend:

AFRICA:
R99,8 MILLION
(2016: R109,3 MILLION)

INTERNATIONAL:
R35,3 MILLION
(2016: R24,0 MILLION)

Number of training hours per employee:

OVER 17 HOURS
(2016: OVER 15 HOURS)

Injuries per million kilometres travelled:

AFRICA:
0,102 (2016: 0,158)

INTERNATIONAL:
0,106 (2016: 0,101)

Fatalities per million kilometres travelled:

AFRICA:
0,009
(2016: 0,002)

INTERNATIONAL:
0 (2016: 0)

Kilometres travelled:

AFRICA:
422 MILLION
(2016: 443 MILLION)

INTERNATIONAL:
85 MILLION
(2016: 79 MILLION)

Total fuel usage:

AFRICA:
163 868 KILOLITRES
(2016: 178 866 KILOLITRES)

INTERNATIONAL:
84 602 KILOLITRES
(2016: 91 243 KILOLITRES)

Outlook

For the year to June 2018, Imperial Logistics is expected to grow revenue and operating profit from continuing operations.

Refer to the CEO's report on page 21 for more detail.

LOGISTICS DIVISIONAL BOARD

Mark James Lamberti
Non-executive chairman

See our leadership on page 38 for detailed CV.

Marius Swanepoel
Chief executive officer

See our leadership on page 38 for detailed CV.

George de Beer (44)
Chief financial officer

BCompt (Hons), CA(SA)

George joined Imperial in 2005 and held various executive positions in the subsequent years – most recently holding the position of CFO for Imperial Logistics Africa. He was also closely involved with the creation of the African Regions business and his expertise in integrating acquisitions and establishing controls contributed to the evolution of the division from a collection of relatively small transport businesses to the R11 billion business it is today.

Nico van der Westhuizen (53)
Imperial Logistics South Africa CEO

BA (Hons), BIURIS

Nico was appointed CEO of Imperial Logistics South Africa in February 2016. He joined Imperial Logistics in May 1994 and has held various positions within Imperial Logistics since, serving as managing director of Imperial Dedicated Contracts, CEO of Imperial Logistics Specialised Freight, CEO of Imperial Logistics Transport and Warehousing and CEO of the then Imperial Logistics Industrial division.

Prior to joining the group, Nico held various senior management roles at the International Transport Corporation, Langeberg Foods (Tiger Brands) and Sasol.

Renier Engelbrecht (41)
Imperial Logistics African Regions CEO

BCom (Hons), CTA in Accounting CA(SA)

Renier was appointed CEO of the African Regions sub-division of Imperial Logistics on 1 February 2017 and is responsible for the overall performance of the division – which includes 20 operating companies and currently generates an annual revenue and operating profit of approximately US$900 million and US$50 million, respectively.

Renier is a chartered accountant and has held various CFO and commercial roles within the Imperial Group since joining in 2008. He is also a member of the Imperial treasury committee.

Carsten Taucke (52)
Imperial Logistics International CEO

Diploma in Business Management and Economics

Carsten has been the CEO of Imperial Logistics International since 1 January 2015. Carsten has held the position of CEO of Imperial Shipping Holding and Imperial Reederei Gmbh – Duisburg at Imperial Logistics International GmbH.

Carsten has previously served as a CEO at Fiege Logistik Holding Stiftung & Co. KG, Logistics Director of Mallinckrodt Medical and Vice President of Global Logistics & Strategic Sourcing of Dade Behring. He worked for these companies in Germany and in the USA for 10 years.

Cobus Rossouw (48)
Chief strategy officer

BEng (Hons) (Industrial), BCom (Hons) Logistics

Cobus is the chief strategy officer of Imperial Logistics, responsible for the group's strategic business development, marketing and strategy co-ordination. Cobus was a co-founder of Volition (which became part of Resolve, an Imperial Logistics company). Cobus also held the position of Logistics Director at Cadbury South Africa and consulted to various food and chemicals businesses from Louis Heyl and Associates.

Cobus is a past president of SAPICS, the Association for Operations Management of Southern Africa and also served as a board member of the Consumer Goods Council of South Africa (CGCSA).

Michael Lütjann (48)
Chief information officer

State examination in business management and economic computer science

Michael was appointed CIO for Imperial Logistics in April 2017. Michael also serves as a member of the board of directors. Michael began his distinguished career at the Red Cross in 1989 and then worked at Fiege and DB Schenker before joining Imperial in 2015.

Focusing initially on formulating IT and digitalisation strategies, Michael has also developed applications providing end-to-end visibility for clients, harmonised the IT landscape and articulated global solutions for the FMCG, electronics, chemicals, industrial, automotive and retail industry verticals.

George Nakos
Corporate finance director

See our leadership on page 39 for detailed CV.

Mohammed Akoojee
Non-executive director

See our leadership on page 38 for detailed CV.

Osman Suluman Arbee
Non-executive director

See our leadership on page 39 for detailed CV.

Graham Wayne Dempster
Non-executive director

See our leadership on page 36 for detailed CV.

Motus

DIVISIONAL REVIEW

Motus is a highly competitive and profitable vehicle group, focused on creating value for customers across the vehicle value chain.

Motus, a distributor and retailer of vehicles and related products and services in Southern Africa and selected international markets, provides an integrated offering of services across all segments of the vehicle value chain for a broad range of the world's most respected vehicle brands.

Vehicle Import and Distribution

- Exclusive South African importer of Hyundai, Kia, Renault, Mitsubishi and five smaller automotive brands.
- Distributorships in six African countries, mainly Nissan.

6% GROUP REVENUE

12% GROUP OPERATING PROFIT

Vehicle Retail and Rental

- South Africa
  - Represents 22 OEMs through 358 vehicle dealerships (including 94 pre-owned), 245 franchised dealerships and 19 commercial vehicle dealerships.
  - 113 car rental outlets in South Africa (Europcar and Tempest) and 16 in Southern Africa.
- 58 commercial dealerships in the UK.
- 18 dealerships in Australia.

45% GROUP REVENUE

24% GROUP OPERATING PROFIT

Aftermarket Parts

- Distributor, wholesaler and retailer of accessories and parts for older vehicles, through 700 AAAS (previously Midas) and Alert Engine Parts and Turbo Exchange owned and franchised stores.

5% GROUP REVENUE

6% GROUP OPERATING PROFIT

Motor Related Financial Services

- Manager and administrator of service and warranty plans for ~480 000 vehicles.
- Developer and distributor of innovative vehicle-related financial products and services through dealer and vehicle finance channels, and a national call centre.
- Fleet management services.

1% GROUP REVENUE

13% GROUP OPERATING PROFIT

* *Based on external revenue from the sub-division.*

Vehicle Import and Distribution	Vehicle Retail and Rental	Aftermarket Parts	Financial Services
> Strong relationships with original equipment manufacturers (OEMs) and other partners. > Able to add additional brands to its product portfolio by leveraging the scale of its distribution network.	> Largest vehicle retailer and second-largest car rental operator in South Africa. > Trusted relationships with manufacturers, franchisors, franchisees, customers and suppliers. > Extensive, well-balanced footprint of vehicle retail operations representing almost all major brands, with a broad spread of motor related services in its portfolio.	> Largest distributor in Southern Africa. > Represents all major global brands, and offers a comprehensive range of affordable, private label brands, providing customers with multiple parts solutions. > Balanced portfolio of owned and franchised outlets. > Develops parts supply solutions to satisfy all workshop requirements.	> Access to the dealership network provides significant point of sale opportunities. > Access to market intelligence through the group's vehicle businesses and its own data. > Ability to feed market intelligence back into the vehicles businesses, enabling the division to reach clients with the right product at the right time. > Cash-generative revenue lines that create strong annuity income streams. > Proven track record of innovative product and channel development and deployment.

Strategy

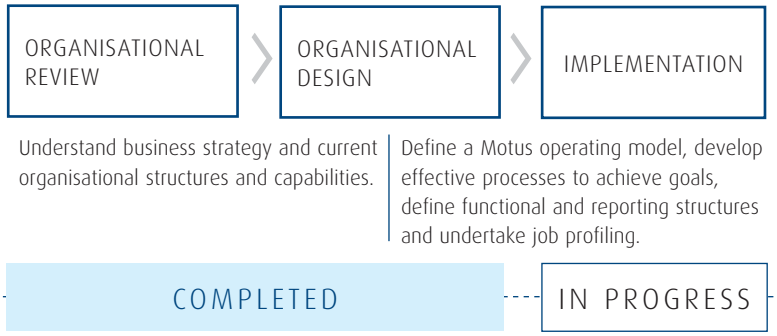
In January 2017, Motus was consolidated as a single division under one collaborative leadership team.

The disposals of non-strategic businesses over the past two years have positioned Motus as a strategically coherent motor vehicle business, with sharpened strategic, managerial and customer focus. Ongoing restructuring of the division will enhance returns by improving intra-divisional collaboration and efficiencies, and reducing complexity, costs and capital employed.

OVERVIEW OF DIVISIONAL CONSOLIDATION

The restructure of Motus' enterprise architecture is aimed at achieving:

> Agile organisational structures that enable growth opportunities.
> Simplified reporting structures and decision-making.
> Improved collaboration across the vehicle value chain.
> Combined head office functions to optimise support to businesses.
> Cohesive teams with the same vision and focus for the future.



RESPONDING TO A CHALLENGING OPERATING CONTEXT

The trends in the division's operating environment that had a direct bearing on the division's strategic development and performance in the year under review, are reflected below.

- High market share in structurally low-growth South Africa, with new vehicle sales down 7,4%.
- Negative consumer sentiment and constrained spending, with tighter credit approvals by banks, shifting demand to entry-level offerings and used cars.
- Aggressive competition for market share curbing ability to raise prices.
- New entrants to the market, including non-franchise disruptors not held to the same standards and financial services disruptors that offer value-added products and services (VAPS).
- Rand volatility against major currencies impacting on profitability, working capital levels and pricing.
- Increasing regulation adding cost and complexity to customer value propositions.
- Brexit uncertainty curbing growth expectations in the UK, and Pound weakness affecting translation of results to Rand.
- Short-to medium-term outlook for the Australian economy is positive.

Amid the significant economic headwinds, Motus is well positioned to defend its market share in South Africa and grow in selected segments of the vehicle value chain. Its participation in all aspects of vehicle ownership, use and maintenance provides the opportunity to grow the proportion of revenue and operating profit, already at 53% and 78% respectively, that is not vulnerable to vehicle sales. Its full value chain exposure also enables the division to cross-sell and leverage synergies and efficiencies across its businesses, giving further protection against cyclical pressures.

More broadly, technology-driven disruption is changing the nature of the industry. Already noticeable is the increase in buyers and sellers utilising digital platforms, although this remains limited to investigating product options. Over the longer term, advances in automotive technology, and changing attitudes to vehicle ownership, will drive the commoditisation of mobility. OEMs are moving to electric, automated and connected cars, providing dealers with a constant link to the customer. Also evident is the shift to shared vehicle ownership and greater use of pay-per-ride services. Telematics are being applied to influence driver behaviour, drive proactive customer interaction and vehicle maintenance, and inform research anddevelopment.

These trends will disrupt the current dealership model and the importance of VAPS is likely to decline in favour of the overall customer mobility experience and services offered. The pace at which these changes filter into the division's current markets will depend largely on OEMs, especially in respect of changes to the dealership model.

The division is well positioned, in its scale and scope, expertise and relationships, to anticipate the changes and respond with the necessary innovations. Specifically, its strong relationships with OEMs will support its ability to respond quickly to their changing requirements. Furthermore, the financial services business has a proven track record in improving customer engagement through innovative channel and product development, underpinned by its data analytics capabilities. It has the skillsets and the strategic partnerships to access the latest thinking and to respond effectively with a continually evolving and differentiated mobility experience for its customers.

HOW MOTUS WILL COMPETE AND WIN IN THE NEXT THREE YEARS

OBJECTIVE: Secure growth and returns through deep direct relationships with leading OEMs, optimal distribution techniques, creative marketing, new dealership and client interface models, shared support facilities and loyalty engendering financial services.

The desirability of its brands, its ability to leverage its scale to create value for customers, and its efforts to ensure excellent customer experiences and quality products, including the development of innovative VAPS, will underpin the growth and retention of its customer base. A collaborative customer engagement strategy is being developed to deliver an integrated and differentiated customer experience across the importer, dealer and financial services businesses. This is being supported by enhancing the data management strategy, and aims to deepen customer loyalty.

Strong and longstanding relationships with OEMs, and its ability to negotiate preferential pricing, supports the division's value proposition to customers. In turn, Motus offers OEMs the best route-to-market through high-quality marketing, high levels of customer satisfaction and strategically located dealerships. While OEMs impose sales, service and parts targets, meeting them provides the opportunity to earn higher variable margins.

To grow annuity income and hedge against the business's dependence on new car sales and market fluctuations, the financial services business is a key growth area. LiquidCapital's direct sales channel, MotorHappy, has successfully strengthened its position in the direct-to-consumer market, providing a single point of contact for customers for all the division's offerings. In anticipation of a shift in buying behaviour from new to lower-cost and pre-owned vehicles, LiquidCapital is developing products that specifically address the needs of this market.

A new fleet management business, 58 Fleet (Pty) Ltd, is expected to grow strongly based on its innovative management system which includes securing a strategic 51% BBBEE partner. The financial services business will drive innovation across the vehicles businesses, specifically by leveraging data to enhance the customer mobility experience. The business is investing in innovative solutions such as virtual showrooms, virtual finance and insurance products and loyalty programmes, with the potential of expanding these platforms into the division's international operations over time.

Similarly, the division has plans to strengthen its position in aftersales parts and services. With the car parc of the importer brands at some 1,2 million vehicles, and growing, capturing a greater share of after-market activity, supported by targeted VAPS focused on older vehicles, provides opportunity for growth.

In line with the escalating activity in the pre-owned market, the division expects to capture a large share of this market through its dealerships in South Africa, and more focus will be placed on pre-owned vehicle volumes in the UK. The business will drive growth in car rental volumes both in South Africa and the SADC regions with the specific objective to grow public sector business.

The division's focus on reducing capital intensity and costs continues, with ROIC introduced as a key performance indicator for senior management. Functions are being combined where it makes sense to do so, with a centralised warehouse and procurement initiative underway. The aim is to shorten the inventory cycle between acquisition and sale through more efficient distribution of new, pre-owned and car rental vehicles and parts. The capital structures of all dealerships are being reviewed, and a sustainable dealership model for the future is under consideration. Attention is being given to improving cost structures, exiting non-strategic dealerships and aligning headcount and labour rates to industry benchmarks.

Currency risk is a material factor for the division, especially the impact of Rand volatility on profitability and working capital levels. This was illustrated as Rand volatility coupled with the slowdown in sales resulted in excess forward cover at uncompetitive rates within the importer business, and lower converted profits from foreign operations. The division continues to manage working capital tightly, particularly for new vehicles and parts, by ensuring realistic OEM expectations of volume and management of inventory levels relative to demand.

For more information on how we manage currency risk, see our full material issues online.
For comprehensive information on the division's sustainability performance and related initiatives refer to the SDR: Motus review.

OBJECTIVE: Continually enhance Motus' asset portfolio by disposing of or rationalising underperforming businesses, dealerships and brands, and by acquiring and rapidly integrating like businesses and assets that can be enhanced by Motus' capabilities and resources.

Recent corporate action is set out below:

Acquisitions	Disposals and closures
Unbundled and retained the VAPS business from Regent, excluding it from the disposal of Regent Life and Regent Short Term completed during the year. The VAPS business provides a foundation for growth as it is fully integrated.	C2 Group, comprising 21 legal entities, was sold on 1 September 2016.
The remaining 10% minority holding in AAAS (previously Midas) was acquired during the year for R87,5 million.	Jurgens and Prestige Safari were sold in February 2017.
75% of SWT Group, based in Australia, which operates 16 dealerships, was acquired after year end for AUS$ 24,2 million (R254 million).	Sale and leaseback property transactions.
100% of Pentagon Motor Holdings, which operates 21 prime retail dealerships in the UK, was acquired after year end for £28 million (R493 million).	15 non-strategic or underperforming dealerships were closed.

Given the limited scope for organic growth in the domestic market, and the largely unregulated pre-owned vehicle imports into sub-Saharan Africa, acquisitive growth will be mostly beyond the continent. Motus will continue to assess acquisitive opportunities to enhance and leverage the current dealership network in existing geographies. In aftermarket parts, there is scope to acquire businesses to expand its footprint in Africa and sourcing businesses in the East are being explored. These will shorten the supply chain of importing these products resulting in cost savings

OBJECTIVE: Seek greater alignment with our customer base in South Africa by investing in the development of previously disadvantaged managers and entrepreneurs in our vehicle distribution, rental, retailing, aftermarket parts and financial services businesses.

Accelerating the transformation of the local business, according to the revised BBBEE Codes, is a strategic imperative. A project to review best practices in employment equity and to understand the barriers to it is underway. Diversity training workshops, to create an inclusive culture, are being held across the division.

Revised recruitment policies and plans to source skilled and experienced black candidates are being put in place, with investment in apprenticeships, learnerships and sales cadet programmes for unemployed black youth and graduate development programmes aimed at building a pipeline of skilled black employees. Specific targets have been set, and the progression of black people into senior roles determines a portion of the incentives for senior management

OBJECTIVE: Drive competitive advantage, operational excellence and sustainability through improved people management, systems renewal and standardisation.

With the new management structure in place, focus has shifted to improving people management practices and processes, including talent management, core data, human capital and payroll technology, and enterprise architecture. The division is investing in technology to improve its human capital data, the basis for improved human capital practices. During the year, a new human capital and payroll system was evaluated and selected, with full implementation expected in the next 18 to 24 months.

Succession plans are in place for key roles and the talent programme identifies individuals with the potential to progress into more senior leadership roles. The Imperial Technical Training Academy provides training on workshop servicing and is recognised as the largest and leading provider of automotive technical trades training in South Africa. The academy currently has 1 103 apprentices and learnership candidates, of which 70% are black.

Enhancing the customer experience and improving business efficiency through new technology is a key focus for the division, including the further expansion of its electronic sales platform and dealership management system, alongside ongoing projects to upgrade or replace legacy systems. These objectives are the responsibility of the newly appointed chief information officer, together with formalising the structure and reporting requirements of the IT function. A cybersecurity strategy and an information security charter are being developed and assessments in this respect are underway, to ensure compliance with ISO 27001.

Performance

Revenue and profit for Motus declined by 3% due to a slowing vehicle market and higher cost of inventory in the Vehicle Import and Distribution sub-division in the first half, partly offset by a strong performance from the Financial Services Sub-division. National vehicle sales in South Africa contracted by 7% during the year. The Motus passenger and light commercial vehicle businesses, including the UK and Australia, retailed 113 074 (2016: 118 787) new and 70 158 (2016: 69 637) pre-owned vehicles during the year.

The strengthening of the Rand against the Pound (20% on average) and Australian Dollar (3% on average) reduced the Rand denominated results of the UK and Australian businesses, which increased revenue by 12% and 11% and operating profit by 14% and 22% respectively in local currencies. Excluding acquisitions and disposals in the current and prior year, revenue and operating profit increased by 2% and 3% respectively.

During the year, a foreign exchange loss of R388 million was realised. This related to the unwinding of uneconomical and excessive forward cover, mainly in Renault, caused by a volatile Rand exchange rate, excessive ordering in a slowing market and delayed model launches. The group's foreign exchange controls and policies were reviewed and remain unchanged, but the group's oversight of their application was subsequently strengthened. Imperial's current policy is to cover forward up to seven months on a rolling basis, depending on the brand of vehicle.

Net capital expenditure of R2,2 billion was incurred during the year (2016: R2,1 billion) largely on vehicles for hire.

The Regent transaction was concluded on 26 June 2017. The consequent acquisition of the VAPS business by the Financial Services sub-division has enhanced its ability to provide Motus customers with a wide range of innovative products that will engender client satisfaction, loyalty and annuity income.

Key financial indicators

R million	REVENUE 2017	REVENUE 2016	% change	OPERATING PROFIT 2017	OPERATING PROFIT 2016	% change	OPERATING MARGIN 2017 %	OPERATING MARGIN 2016 %	RETURN ON INVESTED CAPITAL 2017 %	RETURN ON INVESTED CAPITAL 2016 %	WEIGHTED AVERAGE COST OF CAPITAL 2017 %	WEIGHTED AVERAGE COST OF CAPITAL 2016 %
Vehicle Import and Distribution	**18 157**	`18 307	(1)	**728**	913	20	**4,0**	5,0				
Vehicle Retail and Rental	**55 633**	55 132	1	**1 478**	1 426	4	**2,7**	2,6				
Aftermarket Parts	**6 153**	5 824	6	**406**	382	6	**6,6**	6,6				
Motor Related Financial Services	**2 036**	1 837	11	**833**	725	15	**40,9***	39,5*				
Businesses held for sale and eliminations	**(15 439)**	(12 621)		**(135)**	(44)							
Total	**66 540**	68 479	(3)	**3 310**	3 402	(3)	**5,0**	5,0	**11,8**	12,2	**10,1**	10,2

** The operating margin for Financial Services reflects various business ventures that yield operating profits without any associated revenues.*
Note: Since the publication of the H1 2017 results there have been minor adjustments to the sub-divisions of Motus, requiring the segmental report to be amended and the reported H1 2017 numbers to be restated as above. These changes comprise reallocations of: appropriate eliminations to Motus out of group head office and eliminations; the transfer of the African distributorship operations from the Vehicle Retail and Rental sub-division to the Vehicle Import and Distribution sub-division; and the transfer of Beekmans from the Vehicle Import and Distribution sub-division to the Aftermarket Parts sub-division. The above numbers are also adjusted to include the VAPS business in Financial Services. The restated segment report for December 2015 and December 2016 is available on the company's website www.imperial.co.za.

Key non-financial indicators

Total scope 1 & 2 CO_2 emissions:
147 693 TONNES
(2016: 161 992 TONNES)

Road fuel usage
26 169 KILOLITRES
(2016: 26 703 KILOLITRES)

Training spend:
R205,4 MILLION
(2016: R185.6 MILLION)

Total number of employees
17 523
(2016: 19 436)

Number of training hours:
71 HOURS
PER EMPLOYEE, INCLUDING APPRENTICE TRAINING HOURS

SDR online.

Outlook
Motus is expected to grow revenues and operating profit from continuing operations in the year to June 2018.

Refer to the CEO's report on page 21 for more detail.

MOTUS DIVISIONAL BOARD

Mark James Lamberti
Non-executive chairman

See our leadership on page 38 for detailed CV.

Osman Suluman Arbee
Chief executive officer

See our leadership on page 38 for detailed CV.

Ockert Janse van Rensburg (44)
Chief financial officer

BCompt, CA(SA), HDip Co Law

Ockert has been with the Imperial Group since January 2015, during which time he has been the CFO for Associated Motor Holdings. Prior to joining the group, he was the chief financial officer of a large multinational food manufacturing and distribution company, Foodcorp Holdings, for seven years. Prior to joining Foodcorp, he held the position as partner of PricewaterhouseCoopers Inc.

Philip Michaux (57)
Vehicle Retail and Rental CEO

Philip is the CEO of the Vehicle Retail and Rental division. He started his career in the motor industry in 1981 with Saficon Holdings and has held various management positions within the industry over the years. He spent the first 23 years within the Mercedes-Benz franchise. Imperial acquired Saficon in 1995, which resulted in him joining the group. He was the managing director of Cargo Motors until 2006 at which time he was promoted to CEO of the Automotive Retail division. His portfolio was expanded to include the Car Rental and Aftermarket Parts divisions in his previous position as CEO of Vehicle Retail, Rental and Aftermarket Parts divisions. He was appointed to the group executive committee in October 2011 and to the group board in May 2014. In line with changes in his executive responsibilities, Philip resigned from the group board on 21 August 2017.

Kerry Cassel (44)
Financial Services CEO

BCom Acc, Dip Acc, CA(SA)

Prior to joining the group in 2002, Kerry was an audit manager at Deloitte & Touche. Kerry held multiple senior positions at Associated Motor Holdings and LiquidCapital. Kerry was promoted to managing director of LiquidCapital (Pty) Limited in April 2010.

Mohammed Akoojee
Non-executive director

See our leadership on page 38 for detailed CV.

Manny de Canha
Non-executive director

See our leadership on page 36 for detailed CV.

Phumzile Langeni
Non-executive director

See our leadership on page 36 for detailed CV.

Marius Swanepoel
Non-executive director

See our leadership on page 38 for detailed CV.

Younaid Waja
Non-executive director

See our leadership on page 36 for detailed CV.