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.

AFRICAN REGIONS

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

INTERNATIONAL

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

	South Africa	African Regions	International
Group revenue	14%	8%	21%
Group operating profit	16%	12%	18%

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.

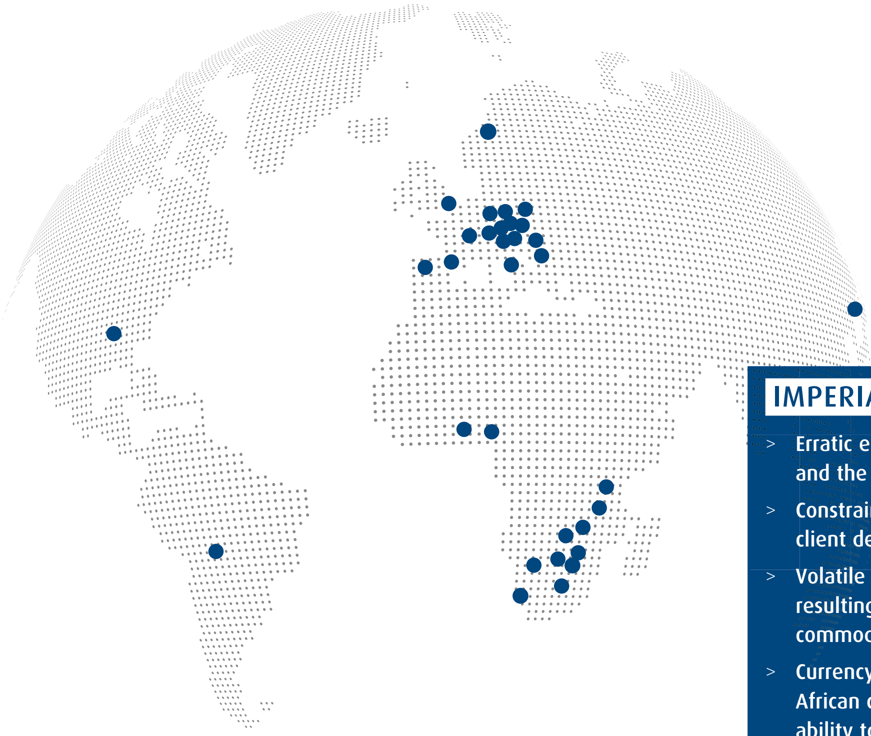
Strategy

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.



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.

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.

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.

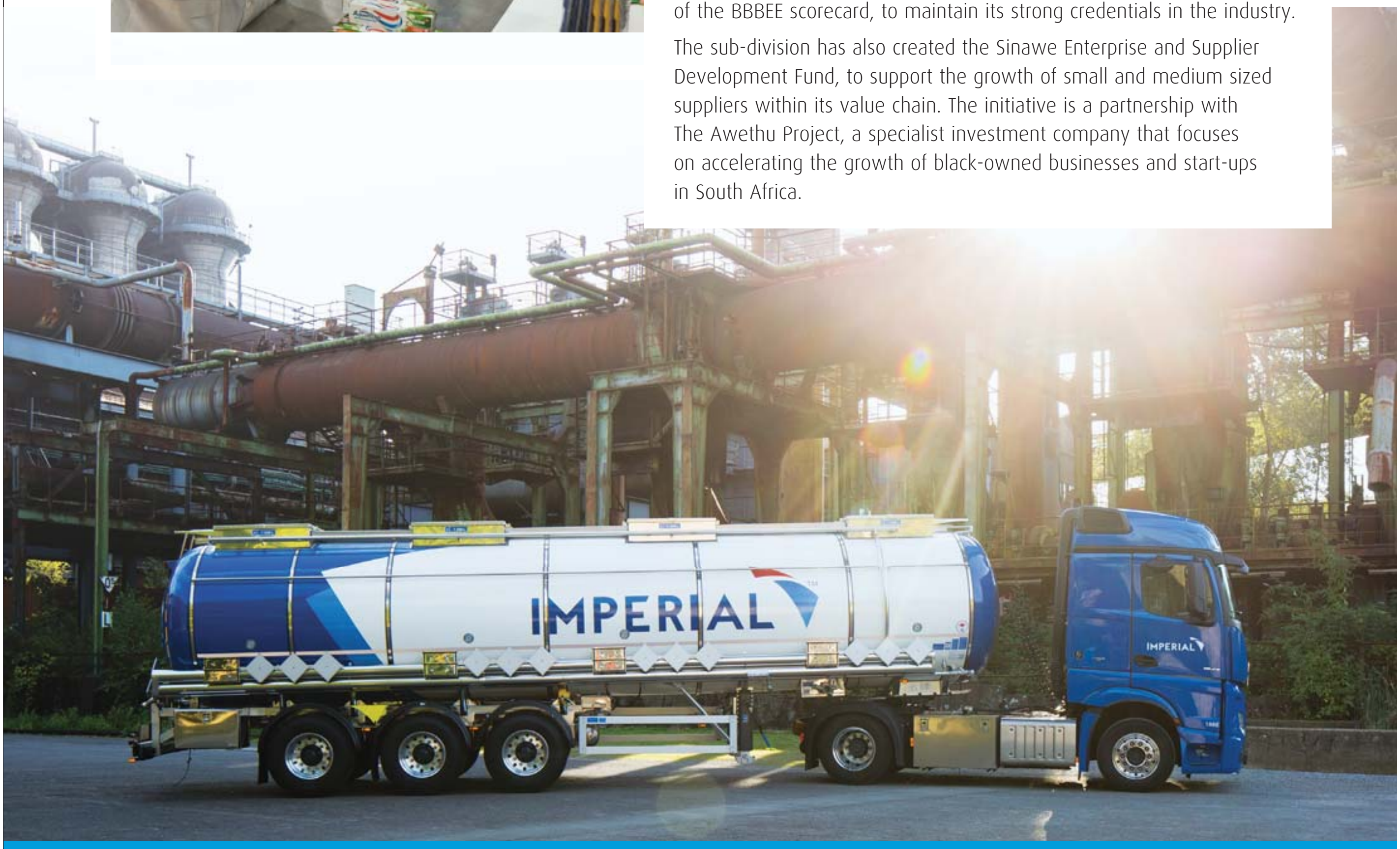
Integrated service providers like Imperial Logistics depend on the full scope of outsourced logistics planning and management, rather than execution only. This justifies a price premium for realising integration benefits across the supply chain, including managing other service providers and assuming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

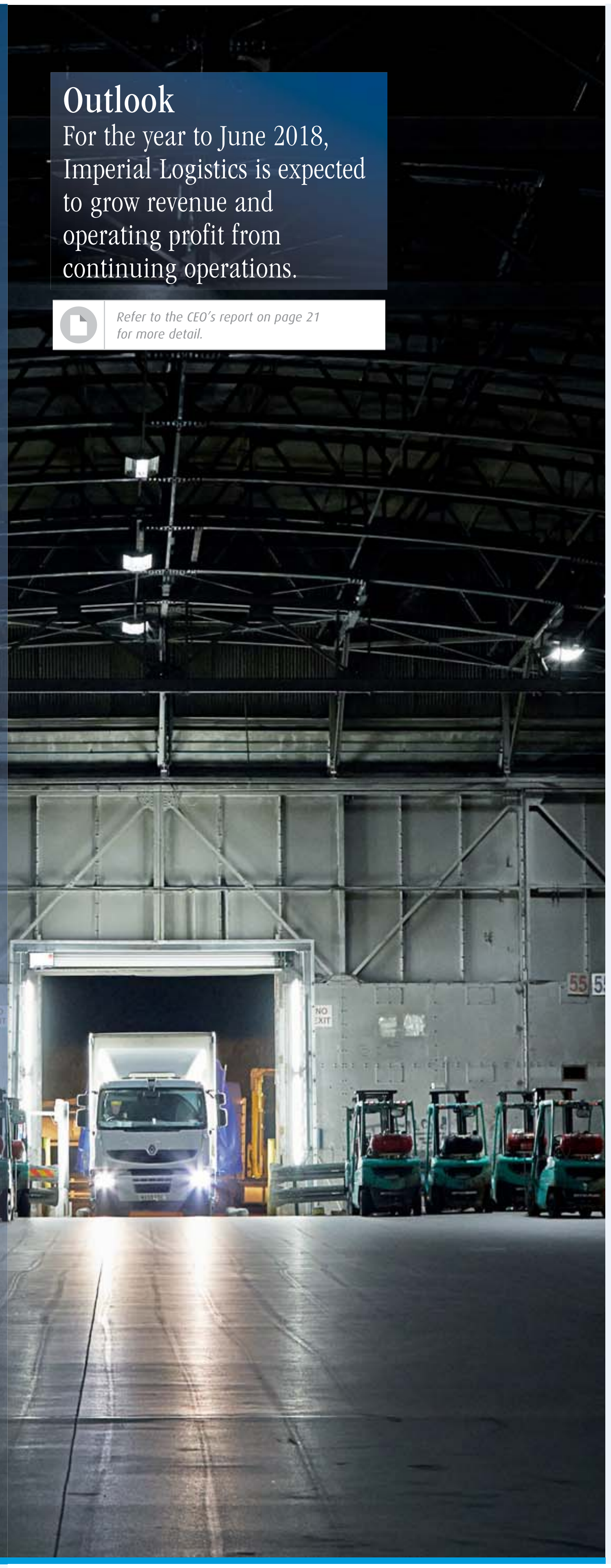
AFRICA:
422 MILLION
(2016: 443 MILLION)

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.