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## TERMINOLOGY

Terms used in this review:

- > **Africa:** covers all logistics operations on the continent, including South Africa.
- > **African Regions:** refers to all African operations excluding South Africa.
- > **International:** refers to all operations beyond the African continent.

## REFERENCES

Abbreviations used to reference information elsewhere in Imperial's reporting suite include:

- > **IAR:** Integrated Annual Report
- > **SDW:** Sustainable Development website
- > **CSI:** Corporate Social Investment Brochure
- > **CDP:** Carbon Disclosure Project



# About Imperial Logistics

*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 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.

### AFRICAN REGIONS

- > 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.

### INTERNATIONAL

- > 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.

### CONTRIBUTION TO GROUP PERFORMANCE

14% GROUP REVENUE

16% GROUP OPERATING PROFIT

8% GROUP REVENUE

12% GROUP OPERATING PROFIT

21% GROUP REVENUE

18% GROUP OPERATING PROFIT

Note: based on external revenue for the division, including businesses held for sale.



# 2017 performance overview

## Financial performance

REVENUE  
**50 665**  
(2016: 47 912)

OPERATING  
PROFIT  
**2 764**  
(2016: 2 543)

OPERATING  
MARGIN  
**5,5%**  
(2016: 5,3%)

RETURN ON  
INVESTED CAPITAL  
**11,5%**  
(2016: 11,8%)

*Besides the economic and social benefits of supporting the supply chains of major industries, we are the leading pharmaceuticals distributor in Africa, and we deliver medication to HIV/AIDS programmes in 16 countries. Given that up to 40% of the total delivered cost of medicines in Africa is made up of supply chain, distribution and other non-core costs, we play a key role in the affordability of medicine in these areas through efficient service delivery.*

### The reporting year to June 2017

Erratic economic growth is impacting Imperial Logistics' clients and the markets they serve. In general, however, the extent and scope of logistics outsourcing has continued to grow in the markets in which the division operates. 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.

Low to negative GDP growth, together with political and economic uncertainty in South Africa, continues to depress business and consumer confidence, exacerbated by sovereign rating downgrades. Clients are implementing cost-cutting measures and in this highly competitive environment, major competitors are focused on profit improvement initiatives. Reduced sub-contractor capacity and fluctuating fuel prices have also had an impact.

Beyond South Africa, low commodity prices have resulted in difficult trading conditions in certain African countries. Currency movements have been volatile and unpredictable, impacting creditor payments and procurement from cross-border suppliers. Increasing inflation and higher interest rates have reduced consumer demand and weather conditions, such as the recent droughts in certain sub-Saharan countries, have resulted in sharp food price increases as regional crop production reduces.

Europe experienced moderate economic growth. In Germany, the annual growth in freight transport was low and decreasing volumes were experienced in specific sectors, including coal, steel and aluminium. Volumes in Germany were also impacted by the lowest water levels in 80 years and, in Asia, by increasing e-commerce retail sales. Additional pressures included increasing competition in the European market, changing cost structures due to complex trade union negotiations across different sectors and increasing regulatory requirements, including emissions and energy efficiency legislation.

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

We consolidated Imperial Logistics Africa and Imperial Logistics International as a single division with one management team on 1 July 2016. This provides significant opportunities, as the division clarifies and aligns its value proposition to clients and employees across its portfolio of diverse businesses. Our challenge is to retain the entrepreneurial excellence that has underpinned our growth while unlocking the benefits of a more integrated business.

## OUR STRATEGIC OBJECTIVES

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

**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.**

**Grow organically through a deep understanding and penetration of our 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.**

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

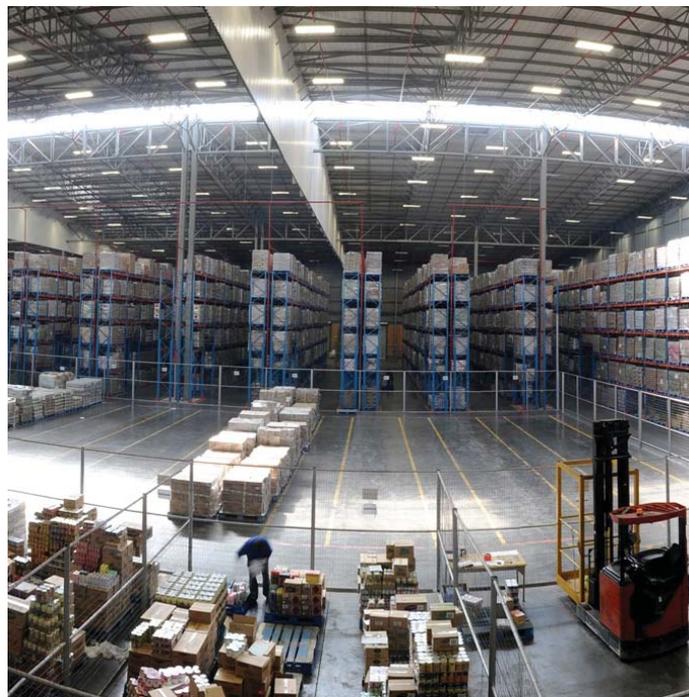
**Imperial Logistics' strong market presence in South Africa favours foreign capital deployment and acquisitive growth.**

Our focus on managed logistics involves consolidating our businesses with similar service offerings and transitioning to an 'asset right' model where our investment in assets aligns to clients' needs. This requires that we use specialised owned vehicles and have contracted partnerships with transport providers to enable flexibility. In South Africa, fleets are downsized in response to market conditions, however, where our traditional vehicle asset-based solutions remain relevant on profitable routes, we retain this asset capacity. In the African Regions, transport operations have been converted into 'asset light' operations and managed logistics operations have been initiated in Ghana, Kenya and Nigeria.

## HOW WE PERFORMED

Imperial Logistics recorded growth in revenue and operating profit of 6% and 9% respectively, supported by the Palletways acquisition in Europe, a solid performance from 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, 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.



*IAR page 40: more information on Imperial Logistics' strategy and financial performance.*

## Our people

*We achieved employment equity targets in South Africa for top, senior and junior management levels, as well as women middle managers. Two black (African, Coloured and Indian) employees were appointed into executive positions, bringing the number of black executives to five.*

### 88% of training spend

IN SOUTH AFRICA WAS ALLOCATED TO BLACK EMPLOYEES (2016: 79%) AND 472 (2016: 589) LEARNERS WERE REGISTERED FOR LEARNERSHIP PROGRAMMES OF WHOM 90% ARE BLACK.

IMPERIAL LOGISTICS INTERNATIONAL IMPLEMENTED A SYSTEM TO OPTIMISE THE RECRUITMENT PROCESS AND MAKE IT MORE TRANSPARENT.

COMPLETED THE FIRST PHASE OF THE STANDARDISED IN-HOUSE DRIVER TRAINING PROGRAMME IN SOUTH AFRICA AND, IN THE INTERNATIONAL OPERATION, RELEASED NINE HEALTH AND SAFETY GUIDELINES TO DRIVE AN IMPROVED SAFETY CULTURE.

#### TRAINING SPEND

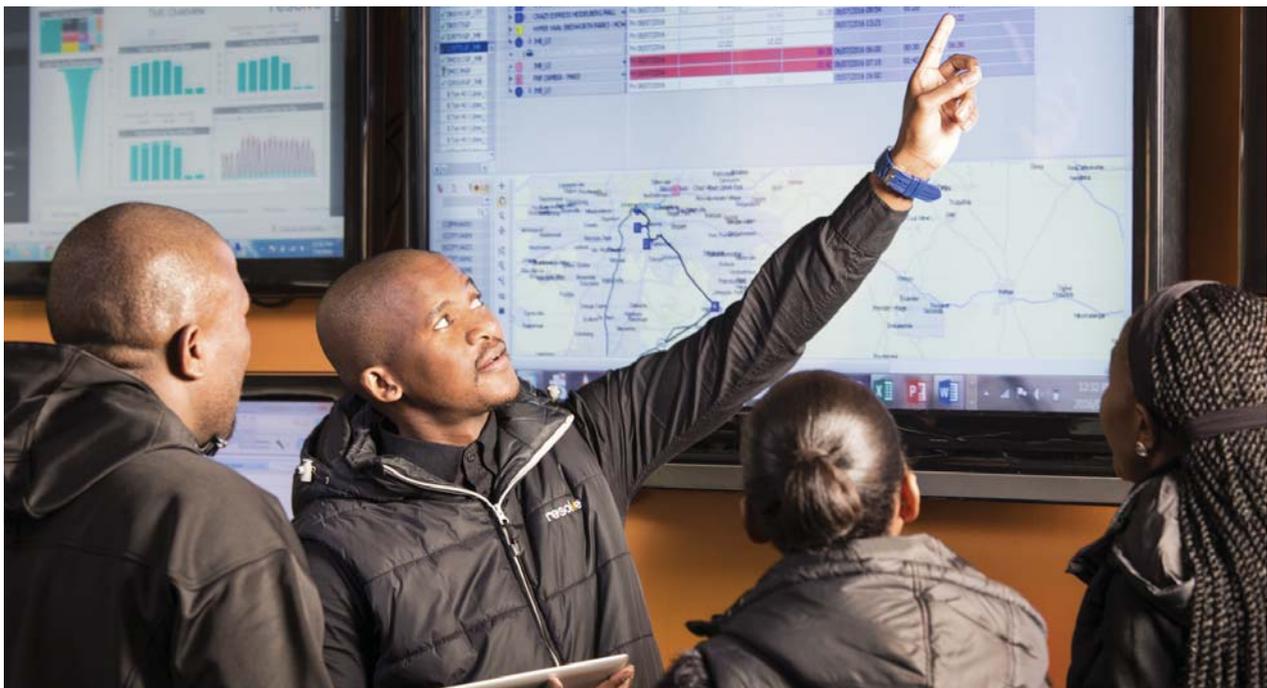
AFRICA	INTERNATIONAL
<b>R99,8 million</b> 2016: R109,3 million	<b>R35,3 million</b> 2016: R24,0 million

#### INJURIES PER MILLION KILOMETRES TRAVELLED

AFRICA	INTERNATIONAL
<b>0,102</b> 2016: 0,158	<b>0,106</b> 2016: 0,101

#### FATALITIES PER MILLION KILOMETRES TRAVELLED

AFRICA	INTERNATIONAL
<b>0,009</b> 2016: 0,002	<b>0</b> 2016: 0



## Our contribution to society

### Retained Level 3 BBBEE rating

ROBUST STRATEGIES ARE IN PLACE TO MEET THE DEPARTMENT OF TRADE AND INDUSTRY'S MORE STRINGENT BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE) CODES OF GOOD PRACTICE (DTI CODES).

A TRANSACTION TO INCREASE THE EFFECTIVE BLACK OWNERSHIP OF IMPERIAL LOGISTICS SOUTH AFRICA TO 51% IS UNDERWAY AND IS EXPECTED TO ACCELERATE THE TRANSFORMATION OF EXECUTIVE LEADERSHIP. WE HAVE ALSO LAUNCHED AN ENTERPRISE AND SUPPLIER DEVELOPMENT INITIATIVE, THE SINawe FUND.

WHISTLE-BLOWING AWARENESS CAMPAIGNS WERE UNDERTAKEN IN BOTSWANA, MOZAMBIQUE, NAMIBIA, NIGERIA AND SWAZILAND, AND IN THE INTERNATIONAL OPERATION EMPLOYEES RECEIVED TRAINING ON THE ANTI-BRIBERY POLICY AND COMPETITION LAW.

### R1,6 million

IN BURSARIES AWARDED TO THE CHILDREN OF EMPLOYEES IN SOUTH AFRICA TO ASSIST WITH THEIR TERTIARY EDUCATION. (2016: R1,9 million).

### CORPORATE SOCIAL INVESTMENT (CSI) SPEND

#### SOUTH AFRICA

**R16,3 million,**  
focusing on education and skills development, and healthcare.

### ENTERPRISE AND SUPPLIER DEVELOPMENT SPEND

#### SOUTH AFRICA

**R21 million**  
2016: R10 million

## Our environmental performance

*Imperial Logistics Africa launched a set of environmental performance standards to further support its environmental management framework and, in South Africa, a target to recycle 80% of general waste was set for the medium term.*

### Imperial Logistics received an Enviro Award

IN THE 2016 LOGISTICS ACHIEVER AWARDS FOR ITS ENERGY MONITORING INITIATIVES IN SOUTH AFRICA.

IMPERIAL LOGISTICS INTERNATIONAL'S ISO 50001 ENERGY MANAGEMENT SYSTEM WAS CERTIFIED FOR A PERIOD OF THREE YEARS AND COVERS GERMANY, LUXEMBOURG, POLAND, HUNGARY AND SWEDEN.

### KILOMETRES TRAVELLED

AFRICA	INTERNATIONAL
<b>422 million</b> 2016: 443 million	<b>85 million</b> 2016: 79 million

### TOTAL SCOPE 1 AND SCOPE 2 EMISSIONS

AFRICA	INTERNATIONAL
<b>515 822 tonnes</b> of carbon dioxide (CO <sub>2</sub> ) 2016: 561 397 tonnes of CO <sub>2</sub>	<b>240 685 tonnes</b> of CO <sub>2</sub> 2016: 286 430 tonnes of CO <sub>2</sub>

### TOTAL FUEL USAGE

AFRICA	INTERNATIONAL
<b>163 868 kilolitres</b> 2016: 178 866 kilolitres	<b>84 602 kilolitres</b> 2016: 91 243 kilolitres

# Stakeholder insight

Imperial group’s stakeholder universe is defined as entities or individuals that may be affected by the organisation’s activities, products and/or services, as well as those whose actions can be expected to affect the ability of the group to successfully implement its strategies and achieve its objectives. Key stakeholder issues are considered when formulating the group’s material issues and divisional sustainable development priorities.

We aim to build and maintain open and constructive relationships with our stakeholders to enhance the management of our operations, as well as our social and environmental risks and impacts. The table below sets out key sustainability concerns raised by Imperial Logistics’ stakeholders during the year. Concerns arising from our financial capital and business relationships that relate to strategy and financial performance, are discussed in the full stakeholder engagement table online.

## Stakeholder concerns

CONCERN	STRATEGIC INITIATIVES	SUSTAINABLE DEVELOPMENT PRIORITY	DETAILED INFORMATION
<p><b>Owners, investment community and debt providers:</b> the impact of disruptive change and how the division is responding.</p> <p><b>Clients and employees:</b> innovative value-added offerings beyond just logistics services.</p>	<ul style="list-style-type: none"> <li>&gt; Implement deep value propositions as the essence of client centricity.</li> <li>&gt; Respond to the impact of digitalisation and disruptive technologies.</li> <li>&gt; Leverage technology for efficiencies and competitive advantage.</li> </ul>	01	 Page 11. IAR: page 48.
<p><b>Owners, investment community and debt providers:</b> management structures and how management is incentivised.</p>	<ul style="list-style-type: none"> <li>&gt; Consolidation into one division with one leadership team.</li> <li>&gt; Fair remuneration with due regard for skills and performance.</li> </ul>	02	 Page 17. IAR: page 40.
<p><b>Business relationships:</b> improve the BBBEE rating in South Africa, particularly black ownership and enterprise and supplier development.</p>	<ul style="list-style-type: none"> <li>&gt; Strategic partnership to increase Imperial Logistics South Africa’s black ownership to 51%.</li> <li>&gt; The Sinawe Fund to promote enterprise development.</li> </ul>	05	 Page 31.
<p><b>Clients:</b> compliance with anti-corruption and anti-money laundering legislation, and the ethical conduct of employees.</p>	<ul style="list-style-type: none"> <li>&gt; Ensure exemplary ethical practices and governance standards.</li> <li>&gt; Executive awareness of the Foreign Corrupt Practices Act.</li> <li>&gt; Training and awareness interventions.</li> </ul>	04	 Page 26.
<p><b>Employees:</b> slow improvement in the transformation of executive and senior management.</p>	<ul style="list-style-type: none"> <li>&gt; Employment equity plan and targets.</li> <li>&gt; Training and development initiatives.</li> </ul>	02	 Page 20.



CONCERN	STRATEGIC INITIATIVES	SUSTAINABLE DEVELOPMENT PRIORITY	DETAILED INFORMATION
<p><b>Employees and trade unions:</b> fair working conditions including minimum wage, and health and safety.</p>	<ul style="list-style-type: none"> <li>&gt; Robust health and safety frameworks.</li> <li>&gt; Strong relationships with union representatives.</li> <li>&gt; Medium-term wage settlements.</li> </ul>	<p>03 04</p>	<p> Page 22 and 29.</p>
<p><b>Clients:</b> environmental initiatives in the logistics businesses and how the division can assist clients to reduce their carbon footprint.</p>	<ul style="list-style-type: none"> <li>&gt; Environmental frameworks, policies and performance standards.</li> <li>&gt; Technology used to reduce the environmental footprint associated with transportation and energy efficiency initiatives in warehouses.</li> <li>&gt; Employee training on the conservation of resources.</li> </ul>	<p>06</p>	<p> Page 36.</p>



*SDW: group overview; full stakeholder engagement table at group level.*

# Sustainable development priorities



## 01 Continually improving integrated and customised services

- > Building client partnerships
- > Enhancing competitive advantage through digitisation
- > Supplier assessment



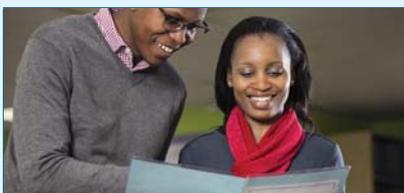
## 02 Developing effective leadership and empowered people

- > Maturing human capital management processes and practices
- > Talent management and development
- > Promoting workforce diversity



## 03 Ensuring stakeholder health and safety

- > Health and safety management and compliance
- > Product responsibility



## 04 Maintaining ethical business practices

- > Regulatory compliance and guarding against corruption
- > Managing effective labour relations
- > Protecting human rights in the African Regions



## 05 Being locally relevant in markets of operation

- > Accelerating transformation progress in South Africa
- > Ensuring local relevance



## 06 Minimising the environmental footprint

- > Environmental compliance and awareness
- > Energy consumption and emissions efficiency
- > Water and waste management

# Governance of sustainable development

*Sustainability performance is increasingly important to our clients and business partners, and therefore imperative to our competitiveness. It is managed by dedicated functions within our sub-divisions.*

Sustainable development at Imperial Logistics Africa is managed by the health and safety and the sustainability functions, with the executives of each function reporting to the chief shared services officer who, in turn, reports to Imperial Logistics' chief executive officer (CEO)

Each function formulates health and safety, as well as sustainability, policies and standards. Operating companies which are responsible for implementation, develop their own standard operating procedures to give effect to these policies and standards.

Imperial Logistics Africa's social, ethics and sustainability committee is a management committee which meets quarterly and is attended by the CEOs, chief financial officers

(CFOs) and risk executives of each sub-division, as well as the health and safety and sustainability executives. The most pertinent issues dealt with by the committee during the year were accidents and road safety; and the management of energy, water, greenhouse gas and waste, as well as fuel efficiency.

In Imperial Logistics International, the quality, environment, health and safety and sustainability (QEHS and sustainability) department, established in 2016, centralises how we manage sustainability issues and ensures we comply with the relevant laws and standards. The department brings together previous management systems for quality, environment, occupational health and safety (OHS), energy management and sustainability into one integrated system that enables the sharing of specialist knowledge and best practices from individual businesses. The department manages and monitors quality, health and safety, and environmental performance, and going forward it will drive improvements that benefit the whole of Imperial Logistics International, including providing assurance on the quality and sustainability of our initiatives.

