

CHAIRMAN'S REPORT



Thulani S Gcabashe Chairman

IMPERIAL HAS BEEN RECOGNISED FOR ITS COMMITMENT TO SKILLS DEVELOPMENT IN THE LOGISTICS AND SUPPLY CHAIN INDUSTRY THROUGH AWARDS INCLUDING CORPORATE EDUCATOR OF THE YEAR.

IN THIS SECTION:

- ▶ Sustainable development
- ▶ Corporate governance
- ▶ Directorate and management
- ▶ Black economic empowerment
- ▶ Acknowledgements

For the year to 30 June 2009, Imperial Holdings has delivered a pleasing performance under extraordinarily challenging conditions. In a year characterised by two distinct halves for most of the group's divisions, the global economic crisis affected trading volumes across the board while tight credit criteria and reduced demand affected motor retailing and distribution in South Africa.

Strategic actions and operational streamlining during the review period and in the prior period have resulted in cost efficiencies, a strong balance sheet and the capability to deliver on the group's strategic intentions. Shareholders' capital was managed with great care and is reflected by the switch to higher-return industries and a lighter asset orientation. As detailed in the chief executive officer's report, the focus is on pursuing decreased risk and cyclicity of operational earnings without forfeiting growth.

Acquisitions and greenfield investments in existing or complementary businesses are being carefully pursued, with an ongoing emphasis on optimal capital management.

Despite major restructuring and tough market conditions since 2007, Imperial has continued

paying dividends, albeit at a lower level due to credit and industry circumstances.

Sustainable development

Leadership skills and technical training are key drivers for our business and therefore prominent in our people development initiatives. These initiatives together with our on-going management development programmes are important in achieving our transformation goals.

During the year, R24 million was invested in a second state-of-the-art technical training centre. In addition, Imperial spent over R61 million during the year on training and development for our people – a key stakeholder group. People development and transformation has now been elevated to an executive portfolio, underscoring the importance of these initiatives in the group's sustainable growth.

Imperial has been recognised for its commitment to skills development in the logistics and supply chain industry through awards including Corporate Educator of the Year and was recognised by the Department of Labour for good practice in skills development.

Imperial companies remain active in the communities that provide our employees, nurture our future leaders and buy our products and services. The opening of an administration block at an underprivileged school in Gauteng, noted earlier, is visible evidence of this commitment. Through the Imperial Ukhamba Community Development Trust, and in close co-operation with the Gauteng Education Department, our active initiatives benefit some 3 500 learners from disadvantaged backgrounds during the vital formative years.

Corporate governance

The principles contained in King II are reflected in the group's corporate governance



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www.imperial.co.za/ar2009/reports/chairmans_report.asp

structures and are reviewed to accommodate organisational changes and any developments in this area. We believe our overall corporate governance standards will stand us in good stead to comply with the requirements of King III which is effective from our new financial year. Our sub-committees that cover the various aspects of corporate governance including audit, risk, remuneration, treasury and transformation are functioning well.

Directorate and management

The Imperial board now has 15 members, with a good balance between independent, non-executive and executive directors. Of the nine non-executive directors, six are independent according to the King II codes of corporate governance.

During the year, Max Sisulu resigned as a director of the group following his election as speaker of the National Assembly. Nazeer Hoosen, who was an executive director and also joint managing director of Regent group, resigned during the year. We thank both Max and Nazeer for their respective contributions over the years.

Several changes have been made to Imperial's executive committee, strengthening this team and broadening its base of skills. In May 2009, David Gnodde joined the executive committee of Imperial Holdings after being appointed chief executive officer of the Regent group, comprising of Regent Insurance Company Limited and Regent Life Assurance Company Limited. Prior to that, he was an executive director and chief operating officer of the Professional Provident Society (PPS).

At year end, Moeketsi Mosola and Berenice Francis were appointed to Imperial's executive committee. Moeketsi was previously the CEO of SA Tourism, after serving as chief director in the Department of Environmental Affairs and Tourism and as a director at the Department

of Provincial and Local Government. He will head the group's tourism division including Springbok Atlas (touring and charter), Grosvenor Tours, Eastgate Safaris and Imperial Chauffeur Drive. Berenice joined Imperial Holdings in July 2008 as group risk manager, after serving as chief risk officer of the State IT Agency (SITA). Her portfolio on the executive committee will be risk, transformation and people development.

An executive share purchase scheme was established in June 2005 under which 115 senior managers of the group were granted interest-bearing loans to acquire shares in the company. This loan was impaired in the previous year due to the shortfall of its balance against the underlying shares. The outstanding debt, including interest to the end of June 2009, was R170 per share compared to the combined share price of Imperial and Eqstra of R65. This amount is unlikely to be recovered due to the shortfall which would escalate as interest of approximately R1,50 per share accrues monthly.

The board considered the very strong possibility that the debt would not be finally recoverable against the serious consequences of instituting collection action against our senior management which would not be in the interest of the group. Accordingly, the board has resolved to settle the shortfall on the loans to senior management after the sale of the underlying shares by using the related impairment provisions created in previous years. In respect of the executive directors, a special share appreciation right award has been made to assist in settling the loan in due course. It is not anticipated that the termination of this share purchase scheme will require any further impairments or cost to the group.

Black economic empowerment

We believe black economic empowerment (BEE) is a strategic imperative and that our

future success and sustainability depends on it. We are committed to transformation and empowerment, and will continue to pursue and promote all facets of empowerment in our business.

Although recent global economic events have put pressure on BEE deals, we remain committed to our BEE partners Ukhamba Holdings and Lereko Mobility.

During the year Imperial issued a guarantee in support of Lereko Mobility in favour of its lenders to underpin the transaction. In July 886 269 deferred shares owned by Ukhamba were converted into ordinary shares and listed.

Acknowledgements

The review period fully tested the mettle of the Imperial Group. It also demonstrated the calibre and commitment of people at every level. On behalf of the board, sincere thanks to Hubert Brody and his executive management team for keeping this group firmly on the path to sustainable growth and steady returns.

I thank my fellow board members for their insight and counsel which plays such a valuable role in refining the strategy that is spearheading our growth.

Thulani S Gcabashe

Chairman

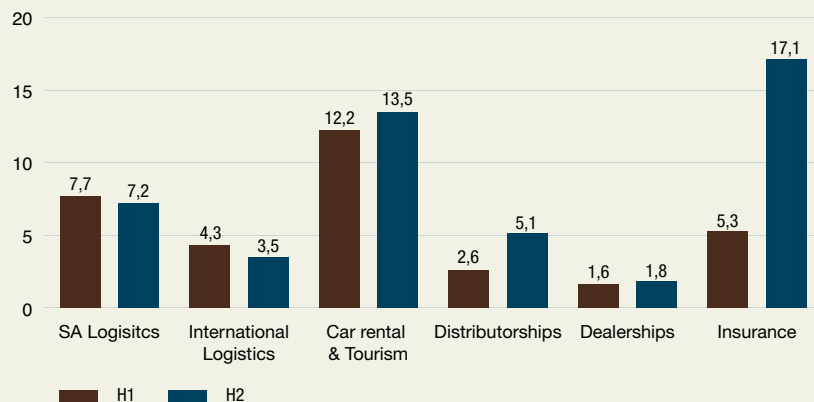
25 August 2009

CHIEF EXECUTIVE OFFICER'S REPORT



Hubert Brody Chief executive officer

2009 OPERATING MARGINS



We are pleased with our results for the year to 30 June 2009, which were achieved under very difficult economic conditions, particularly in Europe and in the motor retailing environment.

Headline earnings per share (HEPS) from continuing operations were 13% higher than last year at 698 cents, and capital management and cash flow were good. Divisional results generally exceeded our expectations, which were in turn tempered by the sudden downturn in the economy during the year.

These results underscore the benefits of rationalisation in the first half of the year

and of recent strategic restructuring actions that included streamlining the group and the closure or sale of a number of weak and underperforming businesses. Over the past two years we were also steadfast in our resolve to exit businesses that were inefficient in their utilisation of capital. In this respect we are disposing of our shareholding in Imperial Bank to Nedbank for R1 775 million.

Despite the sale of our shareholding in Imperial Bank, our motor dealerships will have a relationship with Nedbank which will facilitate the seamless continuation of vehicle finance to customers and continued benefit to our group from the financial

RESULTS FOR THE YEAR UNDERSCORE THE BENEFITS OF STREAMLINING THE GROUP. IMPERIAL'S STRONG BALANCE SHEET AND REBALANCED PORTFOLIO OF BUSINESSES POSITION US WELL IN THE CURRENT MARKET.

IN THIS SECTION:

- ▶ Trading environment and performance
- ▶ Vehicle sales
- ▶ Financial results
- ▶ Future strategic focus
- ▶ Expansion of the group during the year
- ▶ Skills development, health and social investments
- ▶ Appreciation
- ▶ Prospects

services product range that we currently offer.

Trading environment and performance

Trading conditions were very difficult in most of our businesses for most of the year. Specifically, vehicle retailing in South Africa, the United Kingdom and Australia and logistics in Germany experienced unparalleled challenges while car rental, tourism and the southern African logistics businesses were also under pressure.

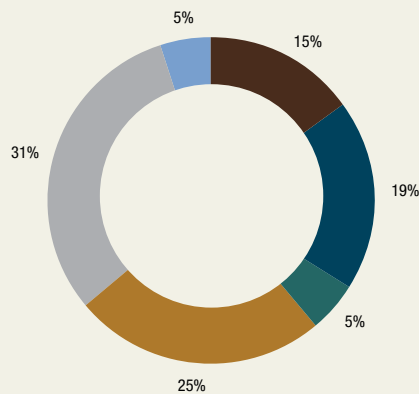
The group's logistics operations in Europe performed well in the first half, but the global financial crisis caused a drastic decline



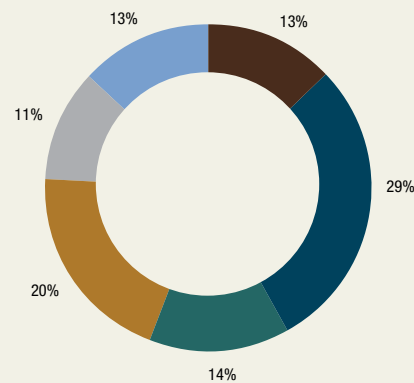
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DIVISIONAL STATISTICS

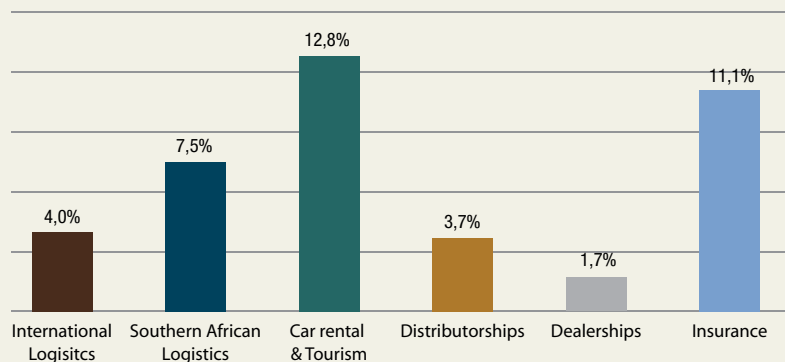
REVENUE CONTRIBUTION



OPERATING PROFIT CONTRIBUTION



OPERATING MARGIN



in logistics volumes from November. The southern African logistics business was also affected and did well to increase its operating profit by 5.4%, with solid margins in a year when a nine-day strike in the transport industry affected profitability.

The motor retailing division and Associated Motor Holdings, which is the largest business in the distributorships division, excelled in the manner in which they reacted to tough trading conditions and we are delighted with their performance over the year and the rationalisation and cost-conservation steps taken. Conditions, particularly in motor retailing, however remain extremely difficult, in a market that has halved since 2006.

The year saw significant internal streamlining and procedural improvements in the Regent group subsequent to combining the two operations (life and short-term insurance) under one co-ordinated management team. Far-reaching management changes took place during this process and we believe underwriting results are becoming more consistent and sustainable again.

Our exposure to equities has been reduced to a level appropriate for an industrial group, although we will explore avenues to improve the yield on our shareholders' capital and float. The Regent group is an important component in the total design and capital management balance

of our group and has solid cash-generation capabilities.

The ratio of net debt (excluding non-redeemable preference shares) to equity was 50% compared to 81% last year and 75% at the interim stage. This is well below management's target range of 60 – 80%.

Notably, revenue from services again increased in the review period and now accounts for over 40% of total revenue.

Included in headline earnings for 2009 was a foreign exchange gain of 212 cents per share (R394 million, 2008: R150 million) realised on repatriating some of the capital of our European operations. Our offshore

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED...

businesses serve as a natural hedge against currency weakness and capital is repatriated from time to time when the exchange rate is favourable.

Vehicle sales

In southern Africa, the group retailed 53 241 new and 47 925 used vehicles, respectively 35% and 19% down on last year. Notably, the vehicle sales market in South Africa for the year to 30 June 2009 recorded a 30% decrease. This can only be described as severe circumstances for businesses where some 80% of overheads are fixed. The decline in the total vehicle market as well as the closure of 40 new and used car dealerships contributed to the drop in our vehicle sales. It is noteworthy however that the mix of new and used vehicles is nearly at a ratio of 1:1, which is viewed as healthy. The group also sold 10 002 new vehicles to outside dealers as a distributor, a 40% decrease from last year. The Australian, Swedish and United Kingdom operations sold 10 727 new and 4 460 used vehicles, respectively 85% and 93% of last year's sales.

Financial results

The group returned a profit attributable to Imperial shareholders of R1 518 million compared to a loss of R870 million in the prior year. The loss in the prior year included losses on the disposal and closure of the aviation and commercial vehicle assembly and distribution businesses, and in the current year, the gain on the disposal of Tourvest is included. Continuing operations recorded a 13% increase in headline earnings to R1 294 million or 698 cents per share.

Net debt (excluding preference shares) was R5,1 billion compared to R8,5 billion a year ago, a decline of 39%. This reflects the strong focus placed on cash and liquidity management during the year.

In the current economic climate, net capital expenditure was 33% lower at R1 755 million, primarily because of lower expansion capital

expenditure. Replacement capital expenditure was maintained at prior-year levels.

A final ordinary dividend of 120 cents per share was declared, bringing the total ordinary dividend for the year to 200 cents per share.

Future strategic focus

Through the recent restructuring of the group, we have succeeded in strengthening the balance sheet and management can now focus on expansion into our chosen focus areas. These areas are logistics, tourism and selected aspects of financial services that are aligned to our current business.

Internationally, our expansion will be aligned to Imperial Logistics International, and opportunities in Europe in the current depressed regional economies are beginning to emerge. Our southern African logistics division will continue its organic and acquisitive growth and we will also pursue acquisitions that are adjacent to our current operations and skills base where we have a competitive advantage.

In line with our stated goal of enhancing capital efficiencies and entering adjacent industries, the southern African logistics business created a fourth division housing its integrated services. Volition, recently acquired, has been transferred to this unit, and the objective is to complement and enhance the existing service offerings of Imperial Logistics with professional services leveraging people, processes and information technology assets.

We believe tourism in southern Africa has significant potential and will investigate related opportunities carefully with the intention of expanding the business in a manner that amplifies our current strong base in inbound tour operations and coach touring. We have appointed Moeketsi Mosola, the former CEO of SA Tourism, to build and carry out this initiative.

The strategy to limit the group's relative exposure to the motor retailing industry

continues. Far-reaching steps have been taken to right-size our motor operations in line with our expectations for motor vehicle demand and our requirements for return on capital.

Expansion of the group during the year

In line with our refined focus, corporate activity was again concentrated in our logistics division during the year.

The southern African logistics operations acquired majority stakes in Tip Trans Holdings, Express Hauliers, Logistical Transportation Services, Rustgold, Volition Consulting Services and the minority shareholding in Liebenrans. Imperial Logistics International acquired Hansmann, a logistics provider to the motor industry in Wolfsburg, Germany, and Garex, which provides similar services in Poland.

The car rental and tourism division acquired the businesses of U-Drive, AA Autobay and Gage Car Hire Brokers.

The dealership division acquired Key Delta, a franchise for Opel, Isuzu and Chevrolet, as well as the minority shareholders in Beekman Canopies and Jurgens Caravans.

We established a joint venture with McCarthy Motor Holdings to import and distribute Chinese manufactured vehicles.

Skills development, health and social investments

The group's training centre in Germiston, Gauteng for petrol and diesel mechanics was completed at a cost of R24 million and opened during the year. The centre is aligned to the MERSETA (the industry sector and education training authority), and has capacity to train 640 apprentices per year, in conjunction with existing group facilities. Quality standards in the group's dealerships will be maintained through this training initiative which also contributes to addressing the national skills shortage in this area.

Leadership and management development programmes with a strong focus on black management development are under way in all divisions.

The Imperial Ukhamba Community Development Trust supports three schools in under-privileged parts of Gauteng and has spent over R11 million at these schools since its inception. The projects have achieved significant progress in terms of numeracy and support 3 500 learners through curriculum development, textbooks, teacher training and construction of much-needed infrastructure.

Appreciation

If 2008 was a difficult year for the Imperial group, amid widespread restructuring, 2009 added unprecedented global turmoil. The performance of our 34 353-strong workforce under these conditions was no less than inspirational and I thank every one of you.

The steady support of our suppliers, customers, partners and the public sector, as well as the counsel of my colleagues on the executive committee and the members of the board, is deeply appreciated.

Prospects

The southern African logistics industry is expected to remain under pressure for most of the 2010 financial year, although business activity is adequate for the division to deliver satisfactory returns.

Conditions in Europe remain tough. However, the rise in commodity prices indicates growing demand by global manufacturers which would increase activity in Imperial Logistics International. Later in the financial year we expect that certain important customers in the steel industry will recommission furnaces that were prematurely closed for scheduled maintenance. When this happens, it will contribute to higher volumes in the in- and outbound logistics operations we conduct for them.


The car rental and tourism division is currently operating under difficult trading conditions

given a weak international inbound tourism market, slowdown in business travel and a sluggish used vehicle market. While we expect a slow but sure recovery in these markets, international sporting and cultural events, including the FIFA World Cup, will provide further stimulus to the division in the second half of the new financial year. We will not build significant capacity for these events in isolation, however higher utilisation and consequently better margins are expected.

While our motor vehicle retailing divisions have started to benefit from cost savings, we expect vehicle sales to remain weak in the year ahead.

Underwriting results will be maintained in our insurance operations and investment results are expected to improve. The lower equity content in the portfolios will provide more stability to the performance of this division.

While early signs of improvement in the global economies are beginning to emerge, business conditions in all our markets remain tough. Our strong balance sheet and rebalanced portfolio of businesses position us well in the current market.



Hubert Brody

Chief executive officer

25 August 2009