Pre Closed Period Briefing to Annual Investor Day meeting and Trading Update

Introduction

As publicised on the 21st February 2017, Imperial's half year revenue and operating profit for continuing operations, excluding Regent, both grew 3% to R59.7 billion and R2.9 billion respectively in the 6 months to December 2016.

Imperial's management team will today host members of the investment community at its Annual Investor Day in Johannesburg. The following update will be provided during the event and the presentation in support of the event will be available on the company's website (www.imperial.co.za). The event will also be screened live via a webcast.

Environment / operating context

South Africa

The trading environment remains challenging in South Africa where R35.2 billion or 59% of Group revenue and R1.9 billion or 64% of Group operating profit was generated in the 6 months to December 2016.

Following the President's politically motivated ill-advised and illogic decision to replace highly respected ministers in treasury, S&P downgraded South Africa's long term foreign currency sovereign credit to sub-investment grade on the 3 April 2017. Fitch followed on 7 April 2017 downgrading both foreign and local currency debt to sub-investment grade.

These developments have cast doubt on the expected recovery of GDP in 2017, with a high probability that a similar move to sub-investment grade by Moody's could result in recessionary conditions heading towards 2018. If so, already fragile business and consumer confidence will deteriorate in response to a weaker Rand and rising interest rates, inflation, unemployment and social unrest.

Specific factors affecting Imperial in South Africa during the first half of 2017 were: negative real growth of retail sales; improved demand for commodities; a decline in national new vehicle sales; and the volatility of the Rand which created foreign exchange hedging losses and increased the cost of inventory, thereby depressing the competitiveness of imported vehicles.

Eurozone, United Kingdom (UK) and Australia

Slow economic recovery continues and trading conditions remain satisfactory in the Eurozone, UK and Australia, where R19,3 billion or 32% of Group revenue and R588 million or 20% of Group operating profit was generated in the six months to December 2016.

Specific factors affecting Imperial during the first half of 2017 were: low water levels on the Rhine; lower demand and pricing pressures in the steel, energy, commodities and construction sectors; steady UK economic growth as yet unaffected by Brexit; and the Rand volatility which affects the translation value of our foreign operations.

African Regions

Falling commodity demand, low oil prices and the consequent impact on currencies and private consumption continues to depress the growth rate in sub-Saharan Africa, where R5,7 billion or 9% of Group revenue and R461 million or 16% of Group operating profit was generated in the six months to December 2016.

Specific factors affecting Imperial in certain African countries during the first half of 2017 were: slowing GDP growth rates; rising inflation and interest costs; lower consumer demand; and currency volatility, specifically the significant devaluation of the Mozambique Metical and Nigerian Naira.

Group strategy and Capital Allocation

Imperial remains dedicated to create long-term value for stakeholders through strategic and structural clarity, operational excellence, financial discipline and strictly defined capital allocation principles.

To this end, in late 2014, the Group embarked upon a major restructuring of the portfolio, organisation, management and reporting of Imperial. We are pleased to report that this restructuring is ahead of plan, nearing completion during the first half of 2017.

Imperial’s activities are now fully contained within two clearly defined increasingly self-sufficient divisions, Imperial Logistics and Motus, focussed respectively and exclusively on the logistics and vehicle supply chains under separate boards and management.

The primary objective of this restructuring is to increase participation and performance in the supply chains of both sectors through better co-ordinated and competitive value propositions to clients. This will be achieved by strategic and managerial focus, the elimination of complexity and the reduction of operating expenses through intra-divisional efficiencies and collaboration.

Since the release of the H12017 results, progress towards each of Imperial’s five capital allocation objectives is as follows:

1. **To release capital and sharpen executive focus, by disposing of non-core, strategically misaligned, underperforming or low return on effort assets.**
   - On 24 April 2017, the South African Competition Tribunal approved the sale of Regent to Hollard for approximately R1.8 billion including the R697 million Regent Africa proceeds. The final transaction, still subject to FSB approval, differs from that originally advised to shareholders in that the value added products businesses were excluded. The latter was necessary to remedy Competitions Commission objections but it will strengthen Imperial’s participation in the vehicle value chain.
   - Since 1 July 2016 34 non-strategic properties have been sold. A further 17 properties are under negotiation. We expect R1.5 billion to be received in calendar 2017. We anticipate a further R600 million in calendar 2018.
   - Although the bulk of identified disposals have been concluded, continual analysis of the strategic and financial performance of businesses will result in refinements to the portfolio of Motus and Imperial Logistics over the medium term.

Since H2 F2014: 42 businesses with total revenue of R11.8 billion and operating profit of R886 million, and 82 properties have been or are in the process of being sold in a number of unrelated transactions in various jurisdictions. The total capital employed in these businesses and properties totals R4.4 billion

2. **We will invest capital in South Africa to maintain the quality of assets and market leadership in our logistics and motor vehicle businesses.**

   - There have been no acquisitions in South Africa in H2 F2017.

   Since H2 F2014 8 acquisitions of businesses valued at R458 million have been concluded.

3. **We will invest capital in the African Regions primarily to achieve our 2020 objective for the revenue and profits generated in that region to equal that of our South African logistics**

business, and secondarily to expand our vehicle businesses in the region.

- The acquisition of 70% of Surgipharm Limited for USD35 million (ZAR470 million) announced on 15 February 2017, has since been approved by the Kenyan competition authorities and is now subject only to COMESA competitions authority approval.

Since H2F2014 7 acquisitions of businesses valued at R808 million have been concluded.

4. **We will invest the cash generated from operations and divestments to grow our businesses beyond the continent, but with an emphasis on logistics.**

- There have been no acquisitions beyond the continent in H2 2017.

Since H2F2014 8 acquisitions of businesses valued at R3.4 billion have been concluded.

5. **The development and sustainability of Imperial will be underpinned by investment in human capital and information systems.**

- Group wide investments in human capital development and information systems in H1 F2017 amounted to R538 million.

Guidance by sub-division for the year to 30 June 2017

The executive management of Imperial will provide qualitative detail on the operations of each division in response to questions from members of the investment community and in support of the following guidance, which is marginally changed since the release of the H1 F2017 results on the 21 February 2017.

Imperial Logistics:

- South Africa: Growth of revenues and operating profit (No change).

- African Regions: Decline in revenues and operating profit attributable primarily to the impact of currency movements on volumes, margins and the translation of profits into Rands (No change).

- International: Growth of revenues and operating profit, attributable to the acquisition of Palletways, and a recovery in the German and South American businesses in H2 2017, which remain dependent on weather conditions and customer volumes (No change).

Motus:

- Import and Distribution: Increase in revenues due to a change in sales mix (Changed) but a decline in operating profit, impacted by market contraction, pressure on consumers and vehicle price inflation.

  The previously reported high cost of foreign exchange cover resulted in a decision to unwind some of the excessive and uneconomical committed forward exchange contracts, resulting from the stronger Rand. In addition, certain currency losses debited directly to equity will be realised in the income statement as foreign exchange losses.

  Forward cover on the US Dollar and Euro imports currently extends to November 2017 at an average of R13.80 to the US Dollar and R14.65 to the Euro, and is lower than the previously disclosed rates of R15.02 to the US Dollar and R16.47 to the Euro.

- Retail and Rental: Decline in revenues and operating profit, attributable to challenging trading conditions in South Africa (No change).

- Aftermarket Parts: Increase in revenues and operating profit (No change).

- Motor Related Financial Services: Growth of revenues and operating profit (No change).

Guidance for Imperial Group for the year to 30 June 2017

Absent any deterioration in trading conditions or currencies, we expect the Imperial Group to achieve a single digit increase in revenues and unchanged operating profit for the year to June 30 2017. A significant increase in foreign exchange losses and higher financing costs will however depress headline earnings.

The forecast financial information herein has not been reviewed or reported on by Imperial’s auditors. The forward looking information contained in this announcement contains the views and forecasts of management at the time of publication.

Sponsor:

Merrill Lynch SA (Pty) Limited
Date: 16 May 2017