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

Introduction

As published on 20 February 2018, Imperial's half year revenue and operating profit grew by 11% to R66.5 billion and by 5% to R3.1 billion respectively in the 6 months to 31 December 2017.

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

Conditions in Imperial's markets remain mixed.

South Africa

While it is still early days, the new political leadership has given rise to a general improvement in business and investor confidence in South Africa, which will generate approximately 54% of Group revenues in the current financial year. However, despite the World Bank and S&P revising South Africa's GDP forecasts for 2018 and 2019 upward, high unemployment and sub-optimal economic growth continues to weigh down on trading conditions, which remain challenging.

The impact of this environment on Imperial Logistics' revenues, approximately 31% of which will be generated in South Africa in the current financial year, has been depressed volumes and competitive pressures resulting in the renewal of contracts at lower margins. The impact on the revenues of Motus, approximately 69% of which will be generated in South Africa in the current financial year, remains highly competitive, where national vehicle unit sales as reported by NAAMSA increased 2% in the 10 months to the end of April 2018. The luxury brand segment remains under severe pressure. For the 10 months to April 2018, sales volumes in our importer brands (Hyundai, Kia and Renault) increased 10% with our vehicle mix aligned to current market demand, i.e. entry level and smaller SUV models. Market share of our imported brands increased by 1% to 14.9%.

Imperial's business in the Rest of Africa (predominantly logistics) constitutes 8% of Group revenues and 21% of Imperial Logistics revenues. Firming commodity prices, strengthening currencies, gradually improving domestic demand and some policy reforms improved economic prospects in most countries in sub-Saharan Africa. However, factors negatively impacting performance during the period include subdued growth in Kenya (extended elections), the economic recession in Namibia, the listeriosis outbreak (impacting exports of affected products out of SA into neighbouring countries) and the strengthening of the Rand against the US Dollar.

Economic conditions in Europe are positive, although certain sectors in which we operate remain under pressure, e.g. steel. Economic growth and the vehicle market in the United Kingdom (UK) are being depressed by the uncertainties arising from Brexit and consumers switching from diesel vehicles to petrol vehicles. Palletways' performance was also hindered by toughening economic conditions in the UK. The Australian vehicle market has recorded growth but margins on new vehicles remain under pressure.

Unbundling

Progress with the implementation of the Group's plans to unbundle Motus is at an advanced stage and no obstacles are currently anticipated. The self-sufficiency, independence and balance sheet capacity necessary for both divisions' growth strategies is a key priority and progress to date in achieving appropriate and optimal gearing (net debt to equity of between 55% and 65%) and self-sustaining balance sheets by June 2018 is well advanced. As previously announced, the board will announce a final decision on the unbundling before the end of June 2018.

Executive focus and operational performance

Executive directors and senior executives of the Imperial Group remain preoccupied with two tasks: the day to day management of the businesses in less than favourable economic environments and significant corporate activity in pursuit of further shareholder value.

The following are the most noteworthy developments for the 10 months to the end of April 2018:

- Group
    - Revenue, operating profit and profit before tax from continuing operations (excluding Regent and businesses held for sale) are in line with expectations with improved growth in H2 compared to H1.
    - In general, Motus recorded a stronger performance than Imperial Logistics.
    - Further improvement in the Group's gearing position and progress on creating self-sufficient capital structures for Motus and Logistics.

- Imperial Logistics
    - Logistics South Africa’s performance was negatively impacted by lower volumes in the consumer products and manufacturing industries. This was partly offset by stronger performances from the commodities, fuel and gas businesses.

    - The disposal of 30% of Imperial Logistics South Africa to a BBBEE partner is progressing steadily, with funding to be finalised with the selected partner. We expect to announce key terms of the transaction by Q1F2019. The BEE transaction is not a pre-requisite for the potential unbundling of Motus.

    - Logistics African Regions performed satisfactorily despite variations across the portfolio. EcoHealth rendered a strong performance in Nigeria, Surgipharm recorded growth (slightly behind pre-acquisition expectations due to extended elections in Kenya), and CIC contributed positively despite the economic recession in Namibia, while Imres underperformed due to increased competition resulting in lower margins. The strengthening of the Rand against the US Dollar negatively impacted performance during the period.

    - Excluding businesses held for sale, Logistics International performed satisfactorily. Disappointing performances in European inland shipping, retail and industrial sub-divisions were compensated for by a good performance in international shipping and automotive contract logistics. Palletways performed below expectations partly due to toughening economic conditions in the UK and continued competitive pressure in sub-scale operations.

- Motus
    - Motus performed well and recorded good revenue and operating profit growth, resulting from an increase in new and pre-owned vehicle sales in South Africa, specifically in our importer brands, which grew ahead of the market (gained 1% market share).
    - In the UK our commercial vehicles business continues to perform well. The UK passenger segment performed below expectations but increased sales volumes during March 2018 despite the subdued vehicle market in the UK. The Australian operations recorded vehicle sales growth, supported by the SWT acquisition, but margins on new vehicles remain under pressure.
    - The Financial Services and Aftermarket Parts sub-divisions performed in line with expectations showing modest year on year growth.
    - At the end of April 2018, Hyundai and Kia forward cover on the US Dollar and Euro imports extends to November 2018 at average rates of R13.00 to the US Dollar and R15.65 to the Euro.

Gearing and liquidity

As reported for the six months to 31 December 2017, the Group's net debt to equity ratio improved from 98% in December 2016 to 80%. Following the receipt of the Schirm proceeds of approximately R2.0 billion in January 2018, the debt reduced to 71%. We expect a further improvement in gearing to end the 2018 financial year at a debt to equity ratio of 55% - 65%, excluding proceeds from the BBBEE deal in Logistics South Africa but including, proceeds from properties and other asset disposals. For the 10 months to end April, property proceeds of R1,5bn have been received (H1: R606m).

The Group's liquidity position is strong with R11,0 billion of unutilised banking facilities*, excluding* asset backed finance facilities. 75% of the Group debt is long-term in nature and 41% of the debt is at fixed rates. The Group's blended cost of debt is 5.1% (after tax).

In March 2018 Imperial's Baa3 global scale ratings outlook was changed to stable by Moody's after being placed under review for downgrade on 29 November 2017 in line with the sovereign rating. The Group's international and national scale credit rating by Moody's is Baa3 and Aa1.za.

Chief Executive Officer changes

As previously announced, former Group Chief Executive Mark Lamberti resigned with effect from 30 April 2018.

Mr Lamberti has served Imperial with distinction since March 2014, leading a multifaceted portfolio, organisation and management restructuring, a key objective of which was to accelerate executive development and transformation to align Imperial's employee and leadership profile with the economically active demographics of South Africa. The Board thanks Mr Lamberti for his excellent leadership and commitment to the Group.

Osman Arbee, Group Chief Financial Officer from 2013 to 2017 and currently Chief Executive Officer of the Motus division, was appointed Group Chief Executive Officer with effect from 1 May 2018, in addition to his position as CEO of Motus.

Guidance for Imperial Group for the six months to 30 June 2018

We anticipate solid operating and financial results in the year to June 2018, subject to stable currencies in the economies in which we operate.

For the six months to 30 June 2018 for continuing operations (excluding Regent and Businesses Held for Sale) we expect:

- Capital efficiency and gearing to improve.
- Imperial Logistics to increase revenues and operating profit in line with the first half growth.
- Motus to increase revenues in line with the first half growth and operating profit at a higher rate than the first half.
- Imperial Holdings to increase revenues in line with the first half and operating profit at a higher rate than the first half.
- Imperial Holdings to produce a double-digit growth in headline earnings per share off the low base of 2017.

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
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