

Imperial Holdings Limited
Incorporated in the Republic of South Africa
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("Imperial Holdings")



Imperial Holdings Limited - 2018 Annual General Meeting Statement

Introduction

The 2018 Imperial Integrated Annual Report and the 2018 Annual Financial Statements were made available to shareholders on 27 September 2018. These reports seek to provide stakeholders with insight into the final steps taken to ensure two clearly positioned, self-sufficiently resourced, well-governed independent businesses - Imperial Logistics and Motus Holdings ("Motus").

With the separation of the Imperial Group into Imperial Logistics and Motus pending only shareholder approval, we are pleased to report that the culmination of the far-reaching changes to the portfolios, strategies, structures and management of each of Imperial's businesses, which we set out to achieve a few years ago, has been reached, and Imperial Logistics and Motus compare in every way to the governance, executive, operating, control and reporting standards of major public companies.

As is customary at this time, we provide shareholders with an update on developments during the first quarter of the current financial year.

Progress on the unbundling of Motus

The relevant documentation relating to the unbundling of Motus was made available to shareholders on 27 September 2018. The final outstanding matters relating to the proposed unbundling of Motus are nearing conclusion, as set out below:

- Debt syndication process and arranging required for the refinancing of existing facilities have been completed. As reported previously, both entities will have sufficient capacity and liquidity to pursue their individual growth strategies;
- The buy-back of the preference shares was completed on 15 October 2018;
- Imperial Holdings' employees were appropriately accommodated at Imperial Logistics or Motus and have been transferred accordingly;
- The boards and sub-committees have been appropriately constituted for Imperial Logistics and Motus; and
- The shareholder vote on 30 October 2018 remains the only outstanding material criteria for the implementation of the unbundling. Should the unbundling be approved at the general meeting, Motus will be listed separately on the JSE on 22 November 2018 under the ticker code 'MTH' and Imperial Holdings will undergo a name change to Imperial Logistics under the current ticker code 'IPL' once the unbundling becomes unconditional.

Environment/operating context

Conditions in Imperial's operating markets remain mixed.

South Africa

The South African economy is in a technical recession with most sectors under pressure. High unemployment, negative economic growth, VAT increases, fuel price increases and static household income are weighing down on consumer demand and affordability. The ongoing challenging trading conditions have been exacerbated by a prolonged volatile Rand, largely driven by external factors relating to emerging markets, poor economic data, policy and political concerns and more recently, US Dollar strength mainly influenced by the US Federal Bank hiking interest rates and the movement of trade flows from equity markets into US government bonds.

The impact of this lacklustre trading environment on Imperial Logistics' revenues, approximately 32% of which is generated in South Africa, was reduced volumes and competitive and client pressures, particularly in the manufacturing and consumer businesses. Despite a challenging trading environment our gain rate on new contracts and renewal rates on existing contracts remain high, with an encouraging pipeline of new opportunities. We continue focusing on rationalising our operations thereby taking out inefficiencies, complexity and cost to counter the negative impact of the economy.

The impact on the revenues of Motus, approximately 69% of which is generated in South Africa, is a highly competitive vehicle market where national vehicle unit sales as reported by NAAMSA decreased 1% in the 3 months to the end of September 2018 compared to the previous period. The trend of consumers trading down to entry level models is continuing. Our market share remained stable compared to the prior period at 19.5%.

African Regions

The gradually improving domestic demand has enhanced economic prospects in most countries in sub-Saharan Africa. Our positioning as mainly a distributor of pharmaceuticals and consumer packed goods (CPG) in the African Regions has therefore stood us in good stead. A slow economic recovery in Kenya post the elections has depressed consumer demand and increased competition in the market has negatively impacted our performance in this market. Imres is performing better than the prior period and has a strong order book. Our businesses in Nigeria and Mozambique performed well.

Europe, United Kingdom and Australia

In Europe, certain sectors in which we operate remain under pressure, e.g. steel. The US tariffs on Chinese products will likely divert trade flows from China to Europe, particularly steel, which could push steel prices down further and could result in reduced exports for our customers. Our German shipping operations are being negatively impacted by significantly lower water levels on the River Rhine for a prolonged period (lowest levels in history), resulting from hot weather conditions since July 2018. The implementation of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) has resulted in significantly lower vehicle production volumes in Logistics International's automotive business. This is a once-off impact with a recovery in production volumes expected from Q2 F2019.

In the United Kingdom (UK), depressed economic conditions are negatively impacting Palletways' members resulting in increased support, costs and underperformance of own depots. The passenger vehicle market in the UK is also being depressed by the uncertainties arising from Brexit. Latest forecasts indicate an overall decline in the UK vehicle market in the 2018 calendar year. WLTP has reduced sales volumes in the passenger business, which was partially mitigated by switching between brands.

The Australian new vehicle market is steady but remains fragmented yet competitive, which places pressure on margins.

To counter the negative impact of the trading environment both businesses are rationalising structures and reducing costs.

Operational performance

The following are the most noteworthy developments of the first quarter of financial year 2019:

- Imperial Logistics performed satisfactorily in mixed trading conditions. Performance was negatively impacted mainly by depressed consumer demand and lower volumes in South Africa, significantly lower water levels on the River Rhine impacting the German shipping operations, and the once-off impact WLTP that resulted in substantially lower vehicle production volumes in the automotive business in Logistics International. The Africa Regions sub-division performed well.
- Motus performed satisfactorily in a depressed market. This was mainly due to competitive vehicle pricing and high volumes in entry level and small SUV vehicle sales in South Africa as consumers continue to trade down from luxury vehicle brands, and despite some pressure on importer volumes. Favourable forward cover to the end of April 2019 at exchange rates of R13.13/\$ and R15.93/€ position us well in H2 F2019. The financial services and aftermarket parts segments provide annuity income streams that are less impacted by depressed market conditions in vehicle retail. The prior year acquisitions in the UK, Australia and Taiwan continue to contribute positively to revenue and operating profit.

BBBEE deal

Given the complexity and size relating to the disposal of 30% of Imperial Logistics South Africa to a BBBEE partner, and which was therefore taking substantially longer than previously anticipated, a smaller transaction constituting only the energy, mining and chemicals businesses in Imperial Logistics South Africa (ILSA) is being pursued. As such, a newly incorporated entity ("NewCo") will be formed which will be the holder of the Tanker Services Food & Chemicals and TankerServices Fuel & Gas business units within Imperial Logistics South Africa Group (Pty) Limited and Imperial KWS Logistics (Pty) Limited, a subsidiary of ILSA (annual turnover of approximately R3.5 billion).

Afropulse Group (Pty) Limited, a black woman-owned business, has been confirmed as the strategic BBBEE partner in the deal, and will subscribe for 25% of the issued share capital in NewCo for a cash consideration of R200 million. The core capability of the NewCo post the acquisition of the Imperial Newco Business Units is bulk road transportation management of liquids, gases, powders, ores and grains with road tankers and tippers, which requires specialised assets and skills. The commercial terms and funding of the transaction have been confirmed but are subject to conditions precedent usual for a transaction of this nature. We anticipate the transaction to be implemented by the end of Q3 F2019.

Strategic priorities

As we are set to conclude the multifaceted restructuring of Imperial with the separate listings of its two businesses, management in both businesses are cognisant that delivering on their stated strategic objectives and showing improving financial performance should be top of mind. In order to achieve this, the strategic priorities for each business are clear and articulated below:

Imperial Logistics:

1. In South Africa, the business is well-positioned to retain and expand contracts with existing clients through customisation, innovation and service excellence; enhance B-BBEE credentials, accelerated employment equity and enterprise and supplier development, in order to underpin and enhance market leadership; and to exit unviable contracts and operations.
2. In the African Regions, the business is well positioned to deliver on its strategic objectives through targeting strategic growth opportunities to complement and grow its exiting footprint in healthcare and consumer packed goods ("CPG"); to leverage its unique ability to provide brand owners with access to fragmented markets through integrated solutions, unrivalled scale

and multi-regional distribution; to expand its managed solutions offerings; and becoming the single strategic partner to multi-national clients.

3. In International, expanding capabilities into international freight management to position the business as a tier 1 international logistics player and achieve the appropriate rating versus international peers; expanding specialised capabilities to strengthen client relationships in specific market sectors, underpinned by a differentiated approach to digitisation and innovation; seek opportunities to expand specialist capabilities into developing markets in Europe and Asia; and strong focus on improved returns through business and contract rationalisation, capability alignment and reduced asset intensity.

Motus:

The key strategic focus is to deepen our competitiveness and relevance across the integrated automotive value chain through maintaining and growing market share and competitiveness in our local and international markets; driving organic growth through optimisation and innovation; selective acquisitive growth outside South Africa that complements the existing network and provide opportunities to replicate aspects of the integrated business model in South Africa; drive innovation by leveraging key strategic partnerships and entering into new targeted partnerships to deliver innovative mobility solutions to customers; and remaining the partner of choice for OEMs and business partners through exceptional service and solutions.

Prospects

Despite operating in challenging trading conditions, both businesses are well positioned to deal with the uncertainties, volatility and current ambiguous environment. The balance sheets of both businesses remain strong and each will have sufficient headroom in terms of capacity and liquidity based on the new facilities put in place leading up to the unbundling. In Motus, favourable forward cover rates will maintain its competitiveness in the South African vehicle market. Appropriate foreign exchange risk management, exposure to defensive industries and a capital light business model in the Logistics African Regions sub-division positions Imperial Logistics well.

Imperial Logistics H1 F2019 outlook:

Given challenging trading conditions in South Africa and the once-off negative impacts of the WLTP implementation and prolonged period of significantly low water levels in the first quarter, it is anticipated that Imperial Logistics will achieve revenue and operating profit for H1 F2019 in line with the prior period and HEPS growth (before taking into account any costs relating to the proposed unbundling and subject to stable currencies in the economies in which we operate). In H1 F2018, Imperial Logistics recorded headline earnings of R469 million and HEPS of R2.41 per share.

Motus H1 F2019 outlook:

Notwithstanding a highly competitive vehicle market, and depressed consumer demand and affordability in South Africa, Motus is anticipated to increase revenue and operating profit in H1 F2019 with growth in HEPS compared to the prior period (before taking into account any costs relating to the proposed unbundling, including the IFRS 2 share based equity charge relating to the deferred shares issued to Ukhamba). In H1 F2018, Motus recorded headline earnings of R940 million and HEPS of R4.65 per share (based on 202 million shares in issue on the same basis as disclosed for the 12 months to 30 June 2018 in the Motus Pre-Listing Statement).

Financial year 2019 outlook:

At this stage our expectations for Imperial Logistics' and Motus' performance in F2019 are unchanged and subject to stable currencies in the economies in which we operate, and we expect:

- A stronger second half performance from Imperial Logistics mainly due to the once-off factors as highlighted above that impacted H1 2019;
- Imperial Logistics and Motus to grow revenues and operating profit in F2019; and
- Growth in HEPS for Imperial Logistics (continuing operations) and Motus, subject to any once-off costs relating to the proposed unbundling.

Board changes and appreciation

Messrs SP Kana, MV Moosa and A Tugendhaft will retire from the Board following the board meeting on 30 October 2018.

The current deputy chairman, Mr A Tugendhaft, has served on the board and various committees since 1998. During this time he provided invaluable advice and wisdom to the board and management which saw the group grow to its present day size. He will join the board of Motus on the unbundling.

Mr Moosa, served with distinction for the past 13 years, since his initial appointment as representative of Lereko Mobility in 2005.

The current chairman, Mr SP Kana, joined the board in 2015 and has indicated that his commitment to Imperial would end upon the culmination of the strategy of the group in unbundling. He provided guidance and important leadership in the period during which the business underwent significant restructuring and management changes.

We thank Messrs Kana and Moosa for their contribution to the company and wish them well in their future endeavours.

Finally, we thank our owners and funders for their continued support through the years.

The financial information contained in this announcement is based on information available at the time of publication and has not been reviewed or reported on by Imperial's auditors.

Bedfordview
30 October 2018

Sponsor:
Merrill Lynch South Africa (Pty) Limited