– VEHICLES –

In line with the group's strategic objectives, the consolidation, integration and restructuring of Imperial's various vehicle-related businesses under one division – Motus Holdings – will strengthen its position as a highly competitive and profitable distributor and retailer of vehicles and related products and services in sub-Saharan Africa and selected international markets.

Key data

R million	REVENUE 2016	REVENUE 2015	% change	OPERATING PROFIT 2016	OPERATING PROFIT 2015	% change	OPERATING MARGIN 2016 %	OPERATING MARGIN 2015 %
Vehicle Import, Distribution and Dealerships	**28 473**	27 437	4	**1 149**	960	20	**4,0**	3,5
Vehicle Retail, Rental and Aftermarket Parts	**41 045**	37 547	9	**1 677**	1 677	–	**4,1**	4,5
Motor-related Financial Services	**1 634**	1 429	14	**669**	620	8	**40,9**	43,4
Total Vehicles	**71 152**	66 413	7	**3 495**	3 257	7	**4,9**	4,9

	RETURN ON INVESTED CAPITAL % 2016	RETURN ON INVESTED CAPITAL % 2015	WEIGHTED AVERAGE COST OF CAPITAL % 2016	WEIGHTED AVERAGE COST OF CAPITAL % 2015
Vehicle Import, Distribution and Dealerships	**7,2**	6,4*	**10,0**	9,1*
Vehicle Retail, Rental and Aftermarket Parts	**14,7**	15,2*	**11,0**	9,6*
Motor-related Financial Services	**36,3**	32,7*	**13,9**	12,1*

* *Restated to new calculation method. See page 52.*

Non-financial data

TOTAL SCOPE 1 AND 2 CO_2 EMISSIONS:

VEHICLE IMPORT, DISTRIBUTION AND DEALERSHIPS:

61 975 TONNES

(**2015:** 66 330 tonnes)

VEHICLE RETAIL, RENTAL AND AFTERMARKET PARTS:

100 017 TONNES

(**2015:** 105 451 tonnes)

TRAINING SPEND:

VEHICLE IMPORT, DISTRIBUTION AND DEALERSHIPS:

R59 MILLION

(**2015:** R42 million)

VEHICLE RETAIL, RENTAL AND AFTERMARKET PARTS:

R126 MILLION

(**2015:** R118 million)

NUMBER OF TRAINING HOURS:

VEHICLE IMPORT, DISTRIBUTION AND DEALERSHIPS:

86 842 HOURS

(**2015:** 100 542 hours)

VEHICLE RETAIL, RENTAL AND AFTERMARKET PARTS:

278 709 HOURS

(**2015:** 293 176 hours)

For more on the Vehicles division's sustainable development performance, see the Sustainable Development Report online.

VALUE DRIVERS	OPERATING CONTEXT
Economic growth in operating markets and personal consumption expenditure.	> Economic growth in South Africa is expected to fall well below 1%. Together with higher inflation and interest rates, consumers will continue to curtail personal expenditure on durables and capital items. > In the UK, economic uncertainty due to the consequences of Brexit will temper demand.
Performance of the South African rand relative to major currencies.	> Volatility of the rand against the US dollar and euro is necessitating price increases of imported vehicles and components across the vehicles value chain. > Positive translation impact on foreign currency earnings.
Growing and ageing vehicle parc.	> Anticipated year-on-year decline in new vehicle sales volumes. > Buying behaviour expected to shift towards entry-level and pre-owned vehicles. > Potential increase in use of grey (non-original manufacturer) vehicle parts.
Accessibility of consumer credit and regulatory developments.	> Tighter lending criteria and affordability assessments will negatively impact the granting of credit. > In financial services, amendments to tax legislation related to company cars used by Imperial dealerships staff members could reduce the demo fleet size, and as a result impact rental income. > Various regulatory developments related to financial services (for example Protection of Personal Information Act, Treating Customers Fairly and Retail Distribution Review) require close monitoring and potential early adoption if competitive advantage can be gained.
Desirability of imported brands and sales channels.	> New model introduction of key import brands (Hyundai, Kia, Renault). > Noticeable increase in buyers and sellers utilising digital platforms.
Competitive environment.	> Aggressive competition for market share among major automotive manufacturers and retailers in response to declining new vehicle sales. > In financial services, increasing competition in the value-added products and services market, particularly from banks and insurers.

2016 PERFORMANCE

Vehicle Import, Distribution and Dealerships

Notwithstanding extremely challenging trading conditions and lower vehicle sales volumes during the year, revenue and operating profit increased by 4% and 20% respectively, resulting in an improved operating margin of 4,0%. The improved performance was seen in all three major exclusive imported brands (Hyundai, Kia and Renault). This was attributable to an expeditious trade-off of volume and margin, with the latter enhanced by assistance from OEMs, price increases and prudent currency hedging strategies. Although the rand was weaker against the euro and more so against the US dollar, the division achieved increased profitability on euro-based products in the first half. Forward cover on US dollar and euro imports currently extends to April 2017. Annuity revenue streams generated from aftersales parts and services contributed positively with revenue up 4%. The growing vehicle parc of the imported brands (over 1 million) is delivering good levels of aftermarket activity for the dealerships. The Australian operations returned a strong performance off a low base, driven by increased unit sales. The newly established African operations contributed positively to the increased growth in operating profit.

Vehicle Retail, Rental and Aftermarket Parts

The division delivered good revenue growth, while maintaining operating profit in challenging trading conditions. Results were supported by the strong performance of the UK Commercials division, which included S&B Commercials for 12 months, and the acquisition of Humberside Tail Lifts which is included for eight months. A weaker rand supported rand-denominated results. In line with the market, lower volumes in SA Commercials resulted in a decline in operating profit, exacerbated by the disposal of two dealerships to Lereko Motors. The passenger vehicle unit sales for new vehicles declined 13% and pre-owned vehicle sales increased by 3%. Aftersales parts and services increased operating profit, supported by strong new vehicle sales in the past three years. The aftermarket parts business performed to expectation, with improved revenue and flat operating income. The Leisure business's performance was hampered by a fire in its factory early in the financial year, although it was adequately insured. Car rental increased its revenue and market share supported by contract gains, despite a challenging and competitive operating environment. However, operating profit was negatively impacted by higher accident costs and lower profit on disposal of fleet.

Motor-related Financial Services

Despite lower vehicle sales, revenue and operating profit grew by 14% and 8% respectively. Innovative new products and channels have improved retention and penetration rates. During the year, funds and policies held under service, maintenance, roadside assistance and warranty plans and policies were maintained. The book growth and returns from the vehicle finance alliances with financial institutions was tempered due to increased impairment provisions and challenging economic conditions.

GUIDANCE

The division will continue to focus on retaining and growing market share. Increased used vehicle sales and the increasing retention of vehicles beyond manufacturer warranty and maintenance contract periods should contribute to greater demand for aftersales warranty and maintenance products.

All the division's businesses will focus on cost management, efficiency improvements and sales innovation.

There is no reason to anticipate an improvement in the trading conditions facing Motus Holdings in the short term. National new vehicle sales in South Africa are expected to continue to decline in response to declining private consumption expenditure, rising interest rates and tightening credit. In addition, the volatility of the rand and the currencies in the countries in which we operate, and the group's hedging policy to cover forward, will affect both competitiveness and profitability.

Flat revenue and a decline in operating profit is expected from the Import, Retail, Car Rental and Aftermarket Parts sub-division, with flat revenue and operating profit from Motor-related Financial Services.

STRATEGY

In line with the group's intention to simplify its businesses, the creation of one consolidated Vehicles division, Motus Holdings, from 1 July 2016, will create opportunities to reduce costs and drive profitability through the sharing of expertise, eliminating duplication of assets, functions, effort and expenses, and minimising capital employed. Identifying and realising these opportunities will be a key focus for divisional and group leadership over the next year, with various work-streams already underway.

At the core of the division's strategic positioning is its participation in all aspects of the vehicles value chain related to the ownership, usage, running and maintenance of vehicles. In addition to diversifying its revenue base, this positioning enables the division to leverage cross-selling opportunities and synergies across its vehicles-related businesses.

From the 2017 financial year, Motus Holdings will report segmentally on two sub-divisions:

- Import, Retail, Car Rental and Aftermarket Parts
- Motor-related Financial Services

However, as consolidation, integration and management restructuring has only recently commenced, this report deals with the strategy of the three sub-divisions as configured in the 2016 financial year.

Vehicle Import, Distribution and Dealerships

The division will seek to defend and sustainably grow market share of its directly imported vehicle brands. The shift in buying behaviour to entry-level brands – a number of which are exclusively represented by the division – is expected to contribute positively to market share. In partnership with manufacturers, the division has introduced further incentives

Focus on: sales innovation

In line with the Imperial group's strategy to optimise asset utilisation and pursue asset-light growth, the Vehicles division is rethinking traditional dealership models to prepare for the future of vehicle retail.

Showrooms

Rising real estate costs in urban centres and changing buying behaviour creates the opportunity for purely sales-focused showrooms, with centralised vehicle servicing and administrative functions housed off-site in lower-cost areas.

This approach has been successfully trialled by the Vehicle Import, Distribution and Dealerships division in Cape Town, with showrooms in the city centre to maintain brand visibility and provide convenient access to potential customers. Multi-franchise dealerships – where one dealership represents multiple brands – also creates an opportunity to reduce the number of physical single-brand dealerships.

Digital sales channels

Buying behaviour is increasingly moving online. In the Imperial Select business, vehicle enquiries resulting in a successful sale has increased from around 33% four years ago, to 65% in the past year. The percentage for new vehicle sales remains lower at 32%, leaving significant room to grow the conversion rate of new vehicle customers enquiring online.

Buyers are increasingly knowledgeable about their preferred vehicle, using online reviews to decide on a vehicle before visiting a dealership. This creates the need for the evolution of sales executives from providers of information, to providers of the high level of customer experience required to secure a sale. Motus Holdings will continue to invest in the skills and technologies required to be successful in this changing consumer context.

Sustainable development in brief

People development

Skilled customer-facing employees and suitably qualified technicians are crucial to delivering superior customer service, driving sales volumes and ensuring continued utilisation for vehicle servicing and maintenance.

The division's vehicles businesses all have talent development initiatives in place. At senior levels, succession planning and developing future leaders is an ongoing focus.

Customer satisfaction

Delivering quality, relevant products and services and an excellent customer experience are key determinants of customer satisfaction, supporting sales and ongoing utilisation of services. The division will leverage technology to continuously measure and improve customer satisfaction.

Transformation

In addition to being a social and moral imperative in South Africa, transformation performance in areas such as employment equity is crucial to participating in corporate and government tenders. The group's vehicles businesses have employment equity plans in place, supported by talent management frameworks.

Compliance

The division is subject to various laws and regulations across different aspects of its value chain, requiring ongoing compliance assessments and training. The financial services businesses are registered financial services providers under South African legislation, and are therefore impacted by an increasingly complex financial services regulatory framework.

For more on these and other sustainable development topics, see the Sustainable Development Report online.

such as extensions of manufacturer warranty periods and maintenance plans on key brands to increase the desirability of brands under current market conditions.

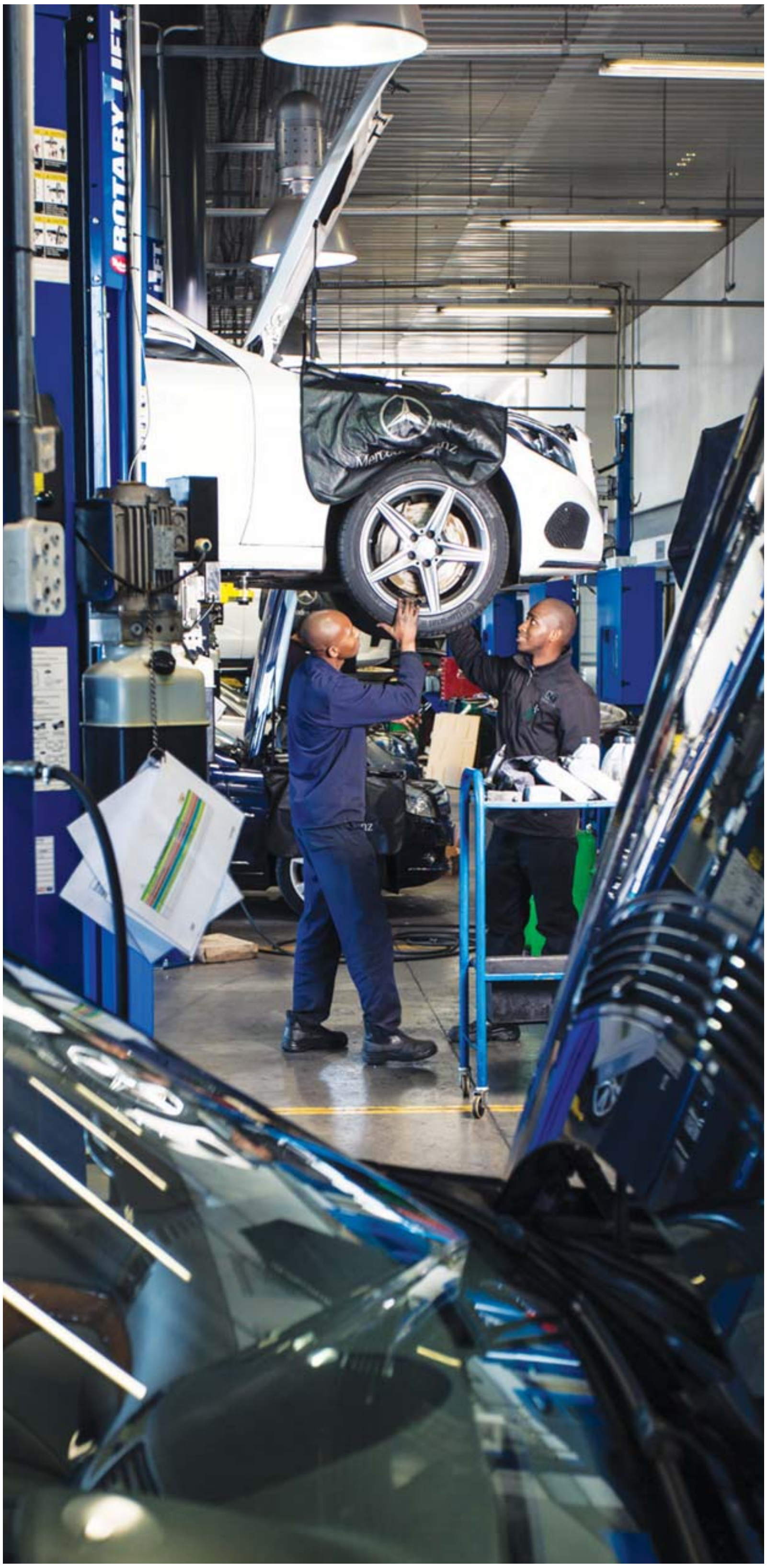
The division actively manages its exposure to currency volatility. Sudden and severe exchange rate impacts are mitigated by maintaining hedging strategies together with longer-term forward cover and approved option hedging products. Sustained rand weakness has necessitated increases to vehicle selling prices, partially offset by preferential prices negotiated with manufacturers of its imported brands. As new vehicle trade in Africa is predominantly in US dollars, the division's exposure to currency shortages in countries north of South Africa is minimal.

The greater use of digital platforms by both buyers and sellers requires the division to adapt its sales approach and invest in relevant technologies. Its digital strategy includes introducing new interactive online platforms to facilitate sales, with the potential of expanding these platforms into its African operations over time.

To grow its presence in Africa, the division is considering opportunities in right-hand drive markets beyond its existing footprint of six African countries (excluding South Africa) and will look to introduce other vehicle brands into existing markets. In Australia, the introduction of new brands and the successful conversion of dealerships into multi-franchise dealerships is contributing positively to performance.

The division disposed of various non-core operations during the year and will continue to evaluate its portfolio of businesses to focus on its core importer, distribution and retail operations. Further opportunities for simplifying the business and reducing costs will be identified as part of the consolidation of Motus Holdings, with an initial focus on back-office and administrative functions.

Other simplification and cost-reduction initiatives include reassessing the division's dealer network to become more asset-light. This includes exploring opportunities to consolidate brands under multi-franchised dealerships and introducing sales-focused dealerships in



prime locations, with vehicle maintenance and administrative functions housed in lower-cost areas serving multiple dealerships. The disposal of non-strategic properties will realise significant value for the division; however, properties considered strategic from a customer visibility and OEM relationship perspective will be retained.

Vehicle Retail, Rental and Aftermarket Parts

In light of challenges in the domestic operating context, growing and defending margin and market share in the passenger vehicle businesses remains a key priority. The division will continue to drive growth in selected businesses and consider revenue-enhancing acquisitions where appropriate.

Enhancing customer experience and business efficiency through implementing and responding to new technology is a key focus for the division, including the further expansion of its electronic sales platform. The appointment of a divisional chief information officer during the year is a key initiative in this regard, together with ongoing projects to upgrade or replace legacy systems.

The division has introduced various work-streams to evaluate and refine its current business structures to reduce complexity and costs and drive efficiencies, including the identification and disposal of non-core or unprofitable dealerships where feasible. It also aims to ensure that assets such as vehicle stock, properties and fleet are used optimally. Engagement with the group's other vehicles businesses is ongoing, to identify opportunities to consolidate or eliminate duplicated functions.

The division expects the strong performance of its UK commercial vehicles business to continue. Building on the positive contribution of its S&B Commercials acquisition, the division is engaging with Mercedes-Benz and other manufacturers to expand further into the light commercial vehicles space, which represents a key growth opportunity. It will also seek to leverage its truck bodybuilding and conversion business to enhance its value proposition to customers.

The aftermarket parts business presents a significant African growth opportunity for the division given current market conditions. Although the process of introducing a consolidated warehouse in the previous year caused some disruption, it is now running well and positions the business to pursue substantial regional opportunities.

During the period, the car rental businesses (Europcar and Tempest), Auto Pedigree and panel shops were placed under a single management team to facilitate integration throughout the rental, accident repair and resale value chain. The addition of the Telesure contract for insurance repairs will continue to make a positive revenue contribution.

In the car rental businesses, the rollout of the administration system in Europcar is yet to be completed, owing to implementation challenges. The opportunities for operational efficiency and cost reduction this project presents, including the utilisation of a single fleet and simpler administration, should start to be realised in the second half of calendar 2017.

Motor-related Financial Services

LiquidCapital uses its advanced information technology, data management capabilities and access to market intelligence from within the group's Vehicles division to develop relevant and customer-focused motor-related products and value-added services. The creation of Motus Holdings will enable it to further extend the strategic advantage it provides to the group's vehicles-related businesses, in addition to extending its access to points of sale.

These strengths position financial services as a key growth area for the division. LiquidCapital's direct sales channel, MotorHappy, has successfully strengthened its position in the direct-to-consumer market. LiquidCapital has also launched a roadside assistance mobile application, providing a single point of contact for customers. Vehicle insurance is provided through LiquidCover in partnership with existing insurance partners.

In anticipation of a shift in buying behaviour from new to lower-cost and pre-owned vehicles, LiquidCapital is developing products that specifically address the needs of this market, notwithstanding the impact of the weak rand on the cost of imported vehicle parts, which increases the average cost of maintenance and service plans.

Although the slowdown in the vehicle sales market is expected to slow growth in funds under management, the strategic initiatives outlined above will stimulate growth in funds and the customer base over time.