

# OUR KEY RISKS

RISK	CONTEXT	RESPONSE
<b>SOUTH AFRICAN CURRENCY WEAKNESS IMPACT ON DIRECT IMPORTS OF NEW VEHICLES</b>	The weakening of the rand severely affects the pricing of new vehicles, and therefore the competitiveness and performance of the Vehicle Import, Distribution and Dealerships division, which continues to contribute a large portion of the group's revenue and profits.	<ul style="list-style-type: none"> <li>&gt; Specific actions to ameliorate the impact on the Vehicle Import, Distribution and Dealerships division include:               <ul style="list-style-type: none"> <li>- An established hedging policy;</li> <li>- Regular reviews by the assets and liabilities committee (ALCO).</li> </ul> </li> <li>&gt; Manage the platform for forex hedging and assist with hedging strategies and review hedging instruments.</li> <li>&gt; Diversify the group's portfolio of businesses and geographical presence over time.</li> </ul>
<b>SLOW GROWTH IN SOUTH AFRICA AND EUROPE</b>	<p>In South Africa, unemployment and social unrest continues to impede economic growth, limiting growth in our local businesses in both the logistics and vehicles value chains.</p> <p>In Europe, the subdued rate of economic recovery is limiting the growth of our businesses in this region.</p>	<ul style="list-style-type: none"> <li>&gt; Ongoing focus on financial discipline and operational efficiencies.</li> <li>&gt; Focus on niche products and services within our current offerings.</li> <li>&gt; Ensuring agility in our operating model.</li> <li>&gt; Active monitoring of costs and margins.</li> <li>&gt; Clear strategies for organic and acquisitive growth.</li> <li>&gt; Diversification across sectors and geographies.</li> </ul>
<b>SUCCESSION AND TALENT MANAGEMENT</b>	As a major determinant of our success, the attraction and retention of professional, qualified and competent leaders is imperative. The retirement of key senior management within the next three years has elevated the importance of succession planning, requiring that we identify critical positions and individuals to ensure continuity. More broadly, the limited pool of qualified skills in South Africa, and the impact of an ageing population in both our South African and European businesses, are challenges in accessing the talent we need to resource our strategy.	<ul style="list-style-type: none"> <li>&gt; Succession is a key focus of specific group HR initiatives underway.</li> <li>&gt; A key focus of the Imperial Executive Forum includes identifying individual successors and measuring the desired leadership capabilities.</li> <li>&gt; Key talent at top management level is being evaluated and a top talent database is being developed.</li> <li>&gt; A coordinated talent management strategy and related HR architecture is being implemented, which will also address transformation requirements.</li> <li>&gt; The talent management strategy takes the group's strategic intent to expand geographically into account.</li> </ul>
<b>CREDIT EXTENSION AND CLIENT AFFORDABILITY IN THE RETAIL MARKETS</b>	The growth in our vehicles businesses (including vehicle-related financial services) is dependent on the ability of customers to access credit and the appetite of banks to lend. The indebtedness of the South African consumer is therefore a cause for concern.	<ul style="list-style-type: none"> <li>&gt; Market assessment of client affordability.</li> <li>&gt; Monitoring of bank appetite to extend credit.</li> <li>&gt; Building alliances with more than one bank.</li> <li>&gt; Growing annuity revenue streams.</li> </ul>
<b>THIRD-PARTY DEPENDENCE AND RELIANCE</b>	We are dependent on our relationships with OEMs in our vehicles businesses, and must comply with the agreements we have with them. In our logistics businesses we manage a complex network of suppliers, including sub-contractors, on whom we rely to deliver superior service to our clients.	<ul style="list-style-type: none"> <li>&gt; Proactive relationship and contract management with key suppliers and clients.</li> <li>&gt; Formalised and proactive management of service and product level expectations.</li> <li>&gt; Supplier development, including training and financial support, to ensure the quality and cost of products and services.</li> <li>&gt; Monitoring suppliers for compliance with the group's ethical standards.</li> <li>&gt; Ongoing oversight and monitoring of contract renewals and negotiations.</li> </ul>

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<b>ACQUISITION AND BUSINESS INTEGRATION OF NEW COMPANIES</b>	<p>As the group's acquisition strategy gathers momentum, there is a risk of entering markets that are not well understood. Also, the group may need to rely on outside partners in this respect.</p>	<ul style="list-style-type: none"> <li>&gt; Clearly defined expansion areas have been identified.</li> <li>&gt; Strong group mandate relating to investments in place.</li> <li>&gt; Regular review of acquisition risks and criteria at executive level.</li> <li>&gt; Formal post-acquisition reviews process.</li> </ul>
<b>LABOUR RELATIONS</b>	<p>Increasing labour disruptions and unprotected strikes are having an adverse effect on our businesses and customers, and impact our cost base.</p>	<ul style="list-style-type: none"> <li>&gt; Active participation in industrial labour councils.</li> <li>&gt; Agility and diversification of supply chain channels.</li> <li>&gt; Review of operational labour plans to ensure continuity of services.</li> <li>&gt; Diversification and spread of risk across industries and geographies.</li> </ul>
<b>FUNDING AND GEARING MANAGEMENT</b>	<p>The impact of an aggressive acquisition strategy, compounded by additional working capital requirements, may result in the group operating at higher gearing ratios.</p>	<ul style="list-style-type: none"> <li>&gt; The assets and liabilities committee monitors gearing and liquidity exposures as well as credit rating guidelines.</li> <li>&gt; All investment decisions in capex or acquisitions follow strict approval criteria.</li> <li>&gt; Review WACC (risk adjusted) and ROIC by division on a monthly basis.</li> <li>&gt; Tight working capital disciplines are practised.</li> </ul>
<b>INFORMATION TECHNOLOGY (IT) STRATEGY AND EXECUTION OF INFRASTRUCTURE, SYSTEMS AND APPLICATIONS</b>	<p>It is imperative to ensure we select the best possible IT systems to support current and future business requirements, and that we control costs and minimise disruption.</p>	<ul style="list-style-type: none"> <li>&gt; IT strategy alignment review done per division.</li> <li>&gt; Divisional project management capability within CIO office.</li> <li>&gt; Board oversight and monitoring of material IT projects.</li> </ul>
<b>REGULATORY AND COMPLIANCE</b>	<p>As a multinational group, Imperial is subject to a wide range of legislation, which it monitors to ensure compliance, with approximately 200 pieces of legislation material to the group. The most material laws and regulations in South Africa that impact the group's businesses include Treating Customers Fairly, the Competition Act, the Consumer Protection Act, the Protection of Private Information Bill, the Labour Relations Act, the Employment Equity Act, the revised dti Broad-based Black Economic Empowerment (BBBEE) Codes and the regulations imposed by the Financial Services Board. Additional requirements and a new penalty regime listed in these Acts could affect our profitability and may have adverse reputational consequences in instances of non-compliance.</p>	<ul style="list-style-type: none"> <li>&gt; The group has a legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation.</li> <li>&gt; Selected specialist areas are centralised where the compliance risk is high.</li> <li>&gt; Proactive monitoring, input and operational implementation plans and frameworks are in place for emerging legislation.</li> <li>&gt; Increased capability in legal and compliance units.</li> <li>&gt; The transformation committee has implemented a project to review best practice employment equity recommendations.</li> <li>&gt; BBBEE initiatives and targets are consistently monitored and independently verified, including scorecards at divisional level.</li> <li>&gt; Improvement in BBBEE performance at a group or divisional level, as appropriate, determines 20% of the incentives paid to all South African-based group executives.</li> <li>&gt; An executive has been appointed to drive and report on transformation initiatives.</li> <li>&gt; Actively assessing and responding to the impact of the revised BBBEE Codes at group and divisional level.</li> </ul>