– Our top risks –

Imperial has a well-developed enterprise risk model to identify and assess relevant risks and associated opportunities, where effective risk management can be turned into a competitive advantage. Any risk taken is considered within the group's risk appetite and tolerance levels, which are updated annually.

The group's risk profile reflects our overall strategic direction and as such the changes in risk exposure from last year demonstrate the progress that has been made in implementing the group and divisional strategies, as well as changes in our operating context. Our risk management approach is set out in our *Corporate governance report* on page 84.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
Currency volatility in the markets in which we operate RISK UPDATED	This risk has been revised to include the rapid fluctuations of all the currencies we trade in, in addition to the rand, which affect the pricing of our products. The impact of rand volatility on the pricing of new vehicles, and therefore the competitiveness and profitability of the vehicle import business, remains the most significant aspect of this risk. We have also experienced foreign currency depreciation and are unable to source hard currency in some of our markets in the Rest of Africa.	> Active management of currency volatility and established hedging policies in the vehicle import business. > Preferential pricing from OEMs to support margins and protect market share. > Restructuring payment terms and obtaining funding in-country to mitigate foreign currency shortages in the Rest of Africa. > Ability to reprice parts inventory and pharmaceuticals resulting from weakening currency in South Africa and the Rest of Africa. > Diversification of the group's portfolio of businesses and geographies over time.	*Driving focused growth* *Managing capital effectively*
Our material issues (page 28), CEO's report (page 40), CFO's report (page 44), Divisional reviews (page 54).			
Management of Imperial divisional consolidation NEW RISK	The consolidation of the group's five divisions into two major divisions, Logistics and Vehicles, from 1 July 2016 may undermine divisional management's and employees' focus on growth and profitability, given the complexity and disruption of restructuring operating models and processes, and integrating different business cultures.	> Board and executive management structure for 2017 has been confirmed for both divisions. > Project committees for divisional consolidation include key group executives to ensure effective change management, and to enable divisional management to focus on day-to-day business.	*Driving focused growth* *Developing effective leadership and empowered people*
Our material issues (page 27), CEO's report (page 40). *Sustainable Development Report online: Our people.*			

* Indicates management's assessment of the year-on-year change in residual exposure to the risk.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
Acquisition and business integration (increased)	As the group's acquisition strategy expands, 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. After businesses are acquired, their integration into the group requires stringent and pragmatic processes to ensure value is not impaired.	> Clearly defined expansion areas have been identified. > Group mandate relating to investments is in place. > Regular review of acquisition risks and criteria at executive level. > Clear acquisition guidelines defined and overseen by the group investment committee. > Formal authority limits are adhered to. > Formal post-acquisition review process.	*Driving focused growth*
Our material issues (starting on page 26), CEO's report (page 40).			
Labour and social disruptions (increased)	Increasing labour disruptions and unprotected strikes are having an adverse effect on our businesses and customers, and impact our cost base.	> Active participation in industrial labour councils. > Agility and diversification of supply chain channels. > Review of operational labour plans to ensure continuity of services.	*Developing effective leadership and empowered people* *Strengthening legitimacy among all stakeholders*
Chairman's letter (page 36). *Sustainable Development Report online: Our people.*			
Succession and talent management (unchanged)	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 over the next five years elevates the importance of succession planning, requiring that we identify critical positions and individuals to ensure continuity. The limited pool of qualified skills in South Africa, and the impact of an ageing working population in both our South African and European businesses, are challenges in accessing the talent we need to resource our strategy. Besides leadership skills, the group's businesses depend on specialised technical and customer-facing skills, which need to be developed and retained.	> A talent management programme is in place focused on developing the skills of the group's 200 most senior leaders and aligning these to our future requirements. > The talent management programme is being extended to the next level of senior management. > Identification of key current and future skills and aligning these to development programmes in progress. > Divisional and group training and development programmes, including specialist training academies. > Coordinated transformation policies and programmes focused on development and promotion of internal candidates, and recruitment of employment equity candidates.	*Developing effective leadership and empowered people* *Strengthening legitimacy among all stakeholders*
Our material issues (page 29), CEO's report (page 40). *Sustainable Development Report online: Our people.*			

* *Indicates management's assessment of the year-on-year change in residual exposure to the risk.*

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
Credit extension and client affordability in the retail markets	The growth in our Vehicles division (including 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 and rising interest rates are therefore cause for concern.	> Market assessment of client affordability. > Monitoring of bank appetite to extend credit. > Building alliances with multiple banks. > Growing annuity revenue streams. > Diversification of the group's portfolio of businesses and geographies over time.	*Driving focused growth*
Divisional reviews/Vehicles (page 62).			
Slow growth in the South African and European economy	Given the high market shares in our domestic businesses, which prevent acquisitive growth, their performance is linked to that of the broader economy. The outlook for economic growth in South Africa is poor, which will impede growth in our local Logistics and Vehicles businesses. Also, further downgrades of the South African sovereign rating could adversely impact the group's credit rating, affecting our cost of capital. In Europe, the subdued rate of economic growth and the uncertainty around the economic impact of the UK leaving the European Union, may impact the growth potential of our businesses in the region.	> Focus on niche products and services in our current offerings. > Ensuring agility in our operating model. > Organic and acquisitive growth strategies focused on diversification across sectors and geographies. > Rigorous control of costs and working capital.	*Driving focused growth* *Managing capital effectively*
Our operating context (page 34), CEO's report (page 40), CFO's report (page 44), Divisional reviews (starting on page 54).			
Third-party dependence and reliance	We are dependent on our relationships with OEMs in our Vehicles division, and must comply with the agreements we have with them. In the Logistics division we manage a complex network of suppliers, including sub-contractors, on whom we rely to deliver superior service to our clients.	> Proactive engagement with OEMs as well as relationship and contract satisfaction management with key suppliers and clients. > Formalised and proactive management of service and product level expectations. > Ongoing oversight and monitoring of contract renewals and negotiations.	*Driving focused growth*
Our key relationships (page 18), Divisional reviews (starting on page 54).			

* *Indicates management's assessment of the year-on-year change in residual exposure to the risk.*

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE
Reputation and brand perception NEW RISK	The Imperial brand is a valuable strategic asset that enables the group to expand its markets, maintain its customer base and attract employees. Given the decentralised nature of our operations we need to ensure a consistent experience aligned to our ethics and values wherever we operate, both in physical and digital markets, to protect our reputation. A key consideration is the protection and maintenance of customer and employee data.	> Ongoing monitoring of compliance to group ethics and legal requirements. > Clear policies and guidelines on employee conduct and ethics. > Cybersecurity minimum guidelines. > Group-wide branding and marketing strategy for the Imperial brand.
Our material issues (page 32), Chairman's letter (page 36). *Sustainable Development Report online: Our people.*		
Regulatory and compliance	As a multinational group, Imperial is subject to a wide range of legislation, which it monitors to ensure compliance. Any breach of compliance could result in fines or sanctions that affect our profitability and may have adverse reputational consequences.	> Centralisation of selected specialist areas where compliance risk is high. > Proactive monitoring, input and operational implementation plans and frameworks on emerging legislation. > Increased resource allocation to legal and compliance units.
Our material issues (page 32), Chairman's letter (page 36), Governance report (page 70).		

LINK TO MATERIAL ISSUES

Strengthening legitimacy among all stakeholders

Strengthening legitimacy among all stakeholders

* *Indicates management's assessment of the year-on-year change in residual exposure to the risk.*