

## – Our operating context –

*Imperial operates in diverse and often complex geographies, industries and markets with different socio-economic, political, regulatory and technological profiles. With its footprint extending across more than 30 countries and six continents, the group is subject to broader global economic conditions and the specific performance of the diverse economies and sectors within which its businesses operate.*

As an international organisation with a suitably diversified portfolio of assets and geographic presence, Imperial is better able to withstand cyclical and country-specific constraints. Likewise, it will be able to benefit from more favourable conditions in individual sectors and geographies as these opportunities arise. In addressing the impact of external factors on the group's performance, its value should improve over time.

### GLOBAL CONTEXT<sup>1</sup>

- Global growth forecasts for 2016 lowered to 3,2% and 3,5% for 2017, indicating the persistence of challenging global conditions.
- Increase in economic, political and institutional uncertainty, with the UK vote to leave the European Union a key factor.
- Lower commodity prices and exports.

### SOUTH AFRICA

- > Economy tightened and trading environment remained challenging.
- > National GDP growth forecasts lowered to 0,1% in 2016 and 1,0% in 2017<sup>1</sup>.
- > Specific uncontrollable factors that affected Imperial during the 2016 financial year included:
  - 27% decline in average rand/dollar exchange rate.
  - 8% decline in national new vehicle sales.
  - Sharp decline in commodity, chemical and fuel volumes.
  - Declining consumer confidence and rising interest rates depressed personal income expenditure and consumer goods volumes.

# 58%

OF GROUP REVENUE  
(R66,0 BILLION)

# 64%

OF GROUP OPERATING  
PROFIT  
(R3,7 BILLION)

<sup>1</sup> International Monetary Fund, April 2016.

## OUR PERFORMANCE &gt; OUR OPERATING CONTEXT

## REST OF AFRICA

Falling commodity demand, lower oil prices and the consequent impact on currencies and private consumption reduced economic growth.

Specific uncontrollable factors impacting the group included:

- > Lower commodity prices and slowing economies.
- > Currency volatility and availability.
- > Subdued consumer goods volumes.

11%

OF GROUP REVENUE  
(R13,3 BILLION)

14%

OF GROUP OPERATING  
PROFIT  
(R853 MILLION)

## EUROZONE AND UK

> Slower than expected recovery but satisfactory trading conditions in the Eurozone.

> Solid economic growth in the UK.

> Specific uncontrollable factors that affected the group included:

- Low water levels on German waterways depressed profitability of inland shipping in the first half.
- Solid UK economic growth supporting our business, before the impact of Brexit.
- Weakening of the rand against the pound and euro assisted rand-denominated results of our businesses in this region.

31%

OF GROUP REVENUE  
(R36,4 BILLION)

22%

OF GROUP  
OPERATING PROFIT  
(R1,3 BILLION)

The divisional reviews on pages 57 and 65 provide more detailed information on operating context in relation to each division's key drivers of value.