

– Our material issues –

The group's material issues reflect the most important considerations in the board's deliberations and management's thinking in managing the business, to ensure the group's ongoing ability to deliver capability-based growth and focused value creation for its stakeholders.

The process to refine and reaffirm the group's material issues in 2016 included the following direct inputs:

- > Key questions and concerns of group and divisional stakeholders, determined through engagement with group leadership responsible for stakeholder relationships.
- > The key risks identified by the group.
- > Feedback from investors garnered through ongoing engagement throughout the year.
- > The board's key discussions and considerations in the year.
- > Input from group and divisional leadership.

The material issues provide the key themes for the group's Integrated Annual and Sustainable Development reports. This section provides an overview of each material issue, associated strategic responses and relevant management actions and performance.

1. DRIVING FOCUSED GROWTH

Build on and expand our capabilities and reshape the group to create stakeholder value, in a strategically disciplined and focused manner.

Rebalancing the portfolio

- » Dispose of non-core, strategically misaligned and low return on effort assets to release capital and enhance strategic and management focus.

Key actions

- Disposal process approaching completion.
- Rationalisation of property portfolio underway, taking into account the requirements of OEMs and with a view to retaining strategically aligned properties. This will unlock substantial value for the group.

Key indicators

- > Disposals to the value of R5,2 billion.
- > R2,4 billion in cash received by year end.
- > Further disposals of mainly non-strategic properties amounting to R2,6 billion anticipated over the next 12 to 18 months.

- » Grow organically and through acquisition by leveraging existing capabilities to expand into new geographies, and diversify the group's earnings base to withstand cyclical and macro-economic constraints.

Key actions

- Acquisitions in the pharmaceuticals sector by Logistics Rest of Africa are contributing positively to performance. The acquisition of 95% of Palletways in the UK for R3 billion complements the division's business model and geographic reach in Europe.
- Imperial acquired the 10% minority in the AMH Group for R750 million.
- Imperial acquired a further 14% in Midas for R112,5 million, and a further 10% acquired post year end. The group now owns 100% of Midas.
- The Vehicles division is considering opportunities in other African markets, having already concluded vehicle distribution agreements in six African countries, and will continue to grow its aftermarket parts business on the continent. In the UK, the business is expanding into light commercial vehicles.

Key indicators

- > Revenue growth of 8%.
- > R4,4 billion invested in acquisitions.
- > Winning new long-term contracts with global and national market leaders.

The CFO's report starting on page 44 and the divisional reviews starting on page 54 set out other acquisitions and disposals in the year.

OUR BUSINESS > OUR MATERIAL ISSUES

Simplifying the group to reduce complexity and cost

- » Restructure the group to streamline the portfolio of businesses and realise opportunities for capability-based synergies.

Key actions

- Devised the creation of two integrated divisions dedicated to Logistics and Vehicles. Each division will be led by its own board and executive committee.
- Group executives are represented on the boards to facilitate the change management process and to ensure divisional executive management maintain their focus on the day-to-day operations of their businesses.
- 52 legal entities were taken out of the group structure during the year, excluding disposals.
- Review of management positions and functions underway to identify opportunities for consolidation.

Key indicators

- From 1 July 2016 Imperial comprises two divisions:
- > Imperial Logistics (all logistics businesses).
 - > Motus (all vehicles businesses).

Maintaining and growing market share

- » Defend and grow market share in challenging economic and competitive environments by leveraging strong relationships with business partners.
- » Focus on customer value and satisfaction.

Key actions

- All divisions are focused on maintaining market share in challenging operating environments, centred on enhancing customer satisfaction and value propositions.
- In the Vehicles businesses, customer satisfaction scores are monitored to ensure a high level of customer satisfaction.
- In the Logistics businesses, ongoing analysis of customer requirements contributes to understanding their needs.

Key indicators

- > Total market share of all new vehicles businesses in South Africa: 18,6% (2015:19,4%).
- > In Logistics, volume losses in most sectors in South Africa were partly offset by new contract gains. In Logistics International, improved visibility to its client base and a centralised sales capability improved contract gains.

Optimal asset utilisation

- » Achieve the targeted ROIC, with a focus on asset-light models, optimising of existing assets and leveraging technology.

Key actions

- Various optimisation and consolidation opportunities are being explored. In Logistics, asset-light managed logistics is proving highly effective.
- Upgrade of the dealership management system in Vehicles will allow for operational and administrative efficiencies.
- In Vehicles, new approaches in the dealership model will enable optimal utilisation of property assets.

Key indicators

- > Disposal of 29 businesses that produced unsatisfactory returns.

2. MANAGING CAPITAL EFFECTIVELY

Maintain appropriate funding structures at competitive rates to execute strategy, and manage exchange rate and foreign currency risk.

Accessing capital

- » Maintain adequate facilities to fund the group's regional growth strategies.
- » Ensure appropriate gearing ratio.
- » Engage proactively with funders, rating agencies and investors to ensure clear understanding of strategy, financial position and mitigating actions in relation to volatile operating contexts.

Key actions	Key indicators
<ul style="list-style-type: none"> - The group maintains three regionally defined funding structures (South Africa, Rest of Africa, International). - The group targets a gearing range of 60% to 80%. - Implementing asset-light business models by subcontracting assets where sector regulations and contractual agreements allow. - As part of the process leading to the consolidation of the group's divisions, the group engaged with analysts and major shareholders to ensure their ability to analyse the group is maintained. - The group has expanded its facilities with banks and has capacity under its bond programme. 	<ul style="list-style-type: none"> > The group's reporting to stakeholders was recognised as the best in the industrial services category in the 2016 Investment Analysts Society (IAS) Awards. > Net debt to equity (including preference shares as equity and including Regent's cash resources) at 73% in 2016 is within the target gearing range of 60% to 80%. > The net debt to EBITDA ratio was 1,7 times (2015: 1,5 times).

 CEO's report (starting on page 40), CFO's report (starting on page 44).

Achieving appropriate returns

- » Maintain strict capital allocation criteria for organic and acquisitive growth.
- » Account for factors unique to each international jurisdiction, including return on executive effort (particularly in challenging or complex operating markets), and multi-country and political risk.

Key actions	Key indicators
<ul style="list-style-type: none"> - Return on invested capital (ROIC) > weighted average cost of capital (WACC) + risk-adjusted premium remains the overarching target for allocating capital. - Factors such as return on executive time and effort, and the broader risk environment, are key considerations when considering capital allocation. 	<ul style="list-style-type: none"> > Return on invested capital 12,4% (2015: 13,1%[*]). > Weighted average cost of capital 10,2% (2015: 9,0%[*]).

^{*} Restated

Reducing exposure to currency risk

- » Reduce impact of currency volatility on vehicle import business.

Key actions	Key indicators
<ul style="list-style-type: none"> - The vehicle import business maintains appropriate forward cover and hedging strategies. Persistent rand weakness necessitated vehicle price increases during the year. - The group has hedged its foreign currency purchases to April 2017. 	<ul style="list-style-type: none"> > Improved performance in all three major exclusive imported brands (Hyundai, Kia and Renault) was attributable to an expeditious trade-off of volume and margin, enhanced by assistance from OEMs, price increases and prudent currency hedging strategies.
<ul style="list-style-type: none"> » Manage foreign exchange shortages in Rest of Africa. 	
Key actions	
<ul style="list-style-type: none"> - Sudden shortages of foreign currency in certain African countries are being managed operationally, and through restructuring payment terms and sourcing funding in-country. Where feasible, products are sourced locally from local manufacturers in local currency. 	

3. DEVELOPING EFFECTIVE LEADERSHIP AND EMPOWERED PEOPLE

Ensure strong leadership for performance and sustainability, and empower people to deliver.



The group's Sustainable Development Report provides comprehensive information about the group's people practices.

Ensure strong leadership

» Ensure alignment between board and executive competencies and strategy.

Key actions

- Directors' skills in relation to strategy is considered in making board appointments. Non-executive directors are given unfettered access to group and divisional leadership to deepen their understanding of divisional strategies.

Key indicators

- > Four non-executive director appointments in the past 18 months.

» Continue to build succession depth.

Key actions

- The appointment of leadership for the two consolidated divisions from within the group demonstrates its progress in deliberate succession planning.
- Succession status of critical roles has been determined. Future successors have been identified for most leadership roles.
- An executive succession and self-development ethos is being embedded across the group.

Key indicators

- > Marius Swanepoel appointed CEO of Imperial Logistics (previously CEO of Logistics Africa).
- > Osman Arbee (current group CFO) to become CEO of Motus Holdings from 1 January 2017.
- > Mohammed Akoojee (current CEO of Logistics Rest of Africa) to be appointed CFO of Imperial from 1 April 2017.

» Ensure smooth transition to new leadership structure.

Key actions

- Profiling of leadership roles commenced, for completion in 2017.
- Appointment of leadership from within the group and ongoing involvement of executive directors on divisional boards will facilitate a smooth transition.

» Strengthen leadership's skills, agility and resilience with regard to organisational change.

Key actions

- Strategic talent reviews of Executive Forum members have informed talent discussions and decisions regarding key appointments.

Managing organisational effectiveness

» Implement effective people practices and processes across the group to anticipate future human capital requirements in support of strategy.

Key actions

- Reviews of key human capital elements have been undertaken in each division, including strategy, policies and processes; technology and reporting; work structures; performance and competency management; pay and incentives; and organisational culture. This has led to a group-wide initiative to create a robust HR architecture that can support leaders in making effective people-related decisions.

Key indicators

- > Talent management is linked to executive and senior management's performance and remuneration incentives.
- > Metrics to measure progress in implementing the talent plan are being determined.

OUR BUSINESS > OUR MATERIAL ISSUES

Managing organisational effectiveness (continued)

- » Gain insight into the group-wide talent profile and medium-term talent requirements, and align performance management.

Key actions

- A comprehensive job profiling exercise is being undertaken across the group.
- Divisional talent forums to inform group-level talent requirements.
- The job profiling exercise will inform the development of a group-wide performance management framework.

- » Implement training and development aligned to business objectives, including technical and customer-facing sales skills and middle management development.

Key actions

- Employee development needs are assessed as part of the performance and talent management processes.
- The Management Development and Dealership Management programmes support promotion to middle management.
- The group operates three academies: the accredited Imperial Logistics Academy; and in the Vehicles division, the Imperial Technical Training Academy and the Imperial Retail Academy.

Key indicators

- > Training spend of R319 million (2015: R295 million) increased due to higher spend on organisational effectiveness projects.
- > Imperial Logistics Academy: 589 and 207 employees registered for learnerships and tertiary education respectively.
- > Imperial Technical Training Academy: 1 135 registered at June 2016.
- > Imperial Retail Academy: 40 participants per year.

- » Leverage technology to ensure effective people management practices.

Key actions

- People systems for all divisions are being investigated and will be implemented in a phased approach.

Key indicators

- > Group head of human resources technology appointed to oversee the automation of people practices.

Promoting workforce diversity

- » Drive employment equity in the South African businesses, particularly black and women representation at senior management levels.

Key actions

- Completed a review of the group's employment equity practices and are addressing gaps identified with regard to target setting and external recruitment.
- Growth in black representation at senior and middle management levels is linked to performance and remuneration incentives of executive and senior managers.

Key indicators

- > 19,4% (2015: 17,5%) and 24,3% (2015: 21,2%) black representation at top and senior management respectively.
- > 16,5% (2015: 18,3%) and 20,8% (2015: 21,0%) women representation at top and senior management respectively.

- » Increase women representation in international operations.

Key actions

- Logistics International voluntarily subscribes to meeting German requirements for women representation at senior level. Gender diversity is linked to performance and remuneration incentives.

OUR BUSINESS > OUR MATERIAL ISSUES

Reward and remuneration

- » Ensure ability to retain and compete for talent in a globalised market, and in South Africa, a scarce talent environment.

Key actions

- Management remuneration is in line with industry peers and is linked to relative performance. Long-term incentives support retention of executive and key management.
- Benchmarked the remuneration of the CEO as well as executive and senior staff remuneration packages.

Key indicators

- > The remuneration of executives and senior management was in line with the benchmark median. In certain cases, remuneration was in line with or above the benchmark.

- » Build a culture that drives performance and recognises and rewards top performing individuals and teams.

Key actions

- The job profiling project will support the linking of performance to reward.
- Annual incentives for executive management comprise a mix of financial and non-financial performance criteria.

 See the Remuneration report starting on page 86 for more.

4. IMPROVING SYSTEMS AND DRIVING INNOVATION

Leverage technology to realise efficiencies, new growth opportunities and competitive advantage.

Accelerating investment in IT

- » Enhance operational and functional effectiveness.
- » Implement technology solutions that answer customer needs.
- » Leverage technology to drive innovation in customer service for competitive differentiation.

Key actions

- People systems being implemented across the group will enable consistent application of policies and procedures, and provide accurate, timely data for management decision-making.
- In the Logistics division, various technology initiatives are being undertaken to transition from existing products and traditional distribution models to those that deliver appropriate solutions that meet customer needs.
- The Vehicles division is adapting its sales approach to account for consumers' increasing preference for digital platforms to source vehicle information and pricing.
- Motor-related Financial Services is expanding its digital sales channel, providing customers with access to self-service capability and value-adding services.

Key indicators

- > Dealerships utilise world-class OEM systems.
- > Major systems implementations in Logistics Africa (SAP and others); Logistics International (Imperial Freight Management System); and Vehicles (Dealer Management System and others).

Technology governance

- » Ensure effective oversight of IT investments.

Key actions

- The group IT governance framework has been adopted by the divisions, providing guidance to divisional and operational IT functions and enabling the measurement of IT maturity across the group.

- » Ensure strategic IT alignment across the group's divisions.

Key actions

- All divisions have chief information officers (CIOs) and a quarterly CIO forum, chaired by the executive responsible for risk management, operates across all divisions to enhance the effectiveness of IT implementation, including risk management and achieving cross-functional synergies.
- Increased focus on IT security and potential cyber threats.

5. STRENGTHENING LEGITIMACY AMONG ALL STAKEHOLDERS

Maintain high governance standards and ensure the group contributes meaningfully to society.

 The group's Sustainable Development Report provides comprehensive detail on the group and divisional sustainability initiatives and performance.

Broad-based black economic empowerment (BBBEE)

» Accelerate transformation progress in South Africa.

Key actions

- The remuneration committee refined the criteria for growth in black representation at senior and middle management levels, performance against the BBBEE scorecard, and succession and talent management, within the performance and remuneration incentive structure.
- As part of a broader talent management approach, deliberate transformation considerations will be included in learning and development, succession planning and recruitment.

» Align to the Department of Trade and Industry's revised codes for BBBEE.

Key actions

- Under the revised codes, the group has revised its transformation projects and divisional strategies. The updated BBBEE Act requires the group to report a full scorecard from 2017. Given that procurement spend is largely weighted to OEMs in the vehicle import business, meeting the procurement thresholds under the new enterprise and supplier development pillar will be challenging. Under the revised codes, the group aims to achieve its previous contribution levels in its applicable South African businesses over the next three years.

Regulatory compliance and policy advocacy

» Adhere to a broad range of regulations across jurisdictions and sectors.

Key actions

- Divisional boards and risk committees oversee compliance and report quarterly to the group's audit and risk committees.
- The executive committee of each division is accountable for ensuring compliance with legislation across all jurisdictions.
- Systems and control processes within divisions are monitored and managed by legal and compliance units and internal audits are undertaken in all operations to assess critical compliance processes and controls.

» Engage with regulators and respond proactively to regulatory developments.

» Contribute to policy discussions to create an enabling business environment.

Key actions

- Engagement with regulators is proactive and ongoing.
- The group undertook a detailed gap analysis against the requirements of the Protection of Personal Information (POPI) Act.
- Legal and compliance officers meet in a quarterly forum to monitor and report on regulatory matters.
- The group and its divisions participate in relevant industry bodies and business associations to contribute to policy development.

Maintaining ethical business practices

» Instilling an ethical business culture.

Key actions

- The group's code of ethics remains the primary means for instilling a high ethical standard across all its underlying businesses.
- Whistle-blowing hotlines are in place in all operating regions.

Key indicators

- > Over 1 387 senior managers formally confirmed that they had not been involved in any corrupt activity and were not aware of any specific activity which contravened the policy.
- > 140 (2015: 133) tip-offs were registered through the whistle-blowing hotlines. These incidents are being investigated.

OUR BUSINESS > OUR MATERIAL ISSUES

Demonstrating social value

» Drive initiatives that create social value, aligned to the group's operational realities and critical social concerns.

Key actions

- We ensure the safety of our drivers and their potential impact on other road users throughout our countries of operation by investigating every accident involving one of our vehicles, which results in remedial actions implemented into day-to-day operations.

Key indicators

- > One road fatality (2015: six).
- > Road fatalities per million kilometres: 0,0001 (2015: 0,008).
- > 678 road accidents (2015: 517).
- > Road accidents per million kilometres: 0,920 (2015: 0,693).
- > 145 road injuries (2015: 103).
- > Road injuries per million kilometres: 0,197 (2015: 0,138).

Key actions

- The Ukhamba Holdings Share Scheme is the vehicle through which Imperial's black employees are able to participate in share ownership.
- Other initiatives include building libraries for schools in underprivileged communities in South Africa (through the Imperial and Ukhamba Community Development Trust), the Unjani clinics project, which is a primary healthcare network run and owned by professional nurses; Imperial Logistics' participation in the Trucking Wellness programme; and various other road safety campaigns.

Key indicators

- > Since over-the-counter trading commenced in November 2013, 10 409 058 A class shares have been traded realising R222,6 million in value.

Sustainable development management and assurance

» Reduce the environmental footprint of the group's operations.

Key actions

- Key initiatives include reducing fuel consumption in our logistics businesses and conserving water in our vehicles businesses. The Logistics division accounts for 91% of the group's total fuel consumed.

Key indicators

- > Total Scope 1 emissions reduced by 10,45% from the prior year due to the reorganisation of Logistics entities; reduction of Logistics fleet due to downturn of commodity cycle and lower consumer goods volumes; and sustainability efficiencies achieved through constant driver training and monitoring and more efficient utilisation of vehicle management systems.

» Ensure accurate measurement of social and environmental performance to inform decision-making.

Key actions

- The group's sustainability management system collates, processes and tracks data globally. The focus is now on ensuring the completeness and quality of data to inform business decisions and set achievable targets. Measurement systems for other non-financial aspects are being enhanced, such as implementing the new human resources management system.

Key indicators

- > Assurance of key indicators was expanded from four indicators in 2015 to nine indicators in 2016.