

- OUR STRATEGY -

for value creation

STRATEGIES

Shape the portfolio

Imperial's businesses must benefit from its ownership. The acid test of this principle is that any business that is more valuable as a stand-alone entity or under different owners must be disposed of.

The growth and evolution of Imperial has led to a large complex international asset base, with deep expertise and capabilities within various sectors related to the mobility of people and goods. Competitiveness, organisational efficiency and financial returns are heavily dependent on Imperial's choice of sectors and how it is structured and functions between and within these sectors.

The holding company's first obligation is therefore to agglomerate and structure businesses to benefit from the resources and capabilities of Imperial or each other.

Allocate capital

The ultimate veracity of Imperial's strategic choices will be returns on invested capital superior to peers in similar sectors and businesses.

As the provider of capital, the holding company's second obligation is to source, allocate and control capital to achieve this objective.

Ensure strategic clarity in subsidiaries

The sustainable performance of any client-facing organisation is determined by its strategic choices on where to compete and how to win. Incorrect strategic choices confuse stakeholders, divert management attention, and diminish returns.

As the entity held to account for the performance of its underlying businesses, the holding company must define the strategic parameters within which subsidiaries operate and it must interrogate and approve their strategic choices.

Develop executive capability

The size and complexity of Imperial's operations requires executives of considerable expertise, experience and diversity, relative to the worldwide talent pool.

By virtue of its objective understanding of the executive capabilities and challenges in every business, the holding company must intervene to ensure the recruitment, development and deployment of executive talent in the best long-term interests of Imperial and individuals' careers.

Deploy technology for control, efficiency and innovation

The increasing rate of development in information, communications and telecommunications technologies presents opportunity and threat to every Imperial business.

As the competitiveness, efficiency, returns, risks and ultimately the value of any business can so easily be diminished by technology errors of omission and commission, the holding company must stimulate and monitor the deployment of technologies that enable control, efficiency and innovation that creates value for stakeholders.

OBJECTIVES

- > Determine which resources, competencies and capabilities constitute competitive advantage and scale in their sectors and value chains.
- > Determine where scarce managerial effort is wasted or can be better deployed to maximum advantage.
- > Analyse the current portfolio with reference to its sectors, value chains, competitors and value drivers.
- > Identify businesses whose similarity of supply chains, counterparties and capabilities enable performance enhancement from integration, collaboration and common management.

- > Evaluate the return on invested capital (ROIC) at a granular level for each business and operating asset.
- > Knowledge of debt and equity capital market conditions and pricing.
- > Determine short-, medium- and long-term capital requirements in support of subsidiary strategy implementation.

- > Provide guidelines on desired sectors and available capital.

- > Metrics on demographics, tenure, experience, qualifications, performance, potential, compensation and succession of the 200 most senior executives.
- > Requirements to align executive resources and capabilities with strategy execution and new structure.
- > Direct and indirect costs of executive total compensation relative to market peers.

- > Knowledge of status and risks of Imperial's current ICT technologies.
- > Intelligence on ICT developments that can enhance transactional efficiency and value propositions to stakeholders.

ACTIVITIES

- > Exit (Acquire) businesses that do not enhance (do enhance) competitive advantage in their value chains or whose value is not enhanced (is enhanced) by Imperial's ownership.
- > Dispose of businesses with low return on effort.
- > Establish the dominant sectors in which Imperial is best able to compete.
- > Group similar businesses as defined, and restructure the organisation to allocate management responsibility and optimise the deployment of expertise and capabilities.

- > Selected disposals and acquisitions based on their ability to achieve ROIC greater than the weighted average cost of capital (WACC).
- > Frequent exchange of relevant information with rating agencies and providers of debt and equity.
- > Bottom-up cash forecasts resulting from strategy implementation.

- > Detailed review of strategies and three-year forecasts by executive committee and board.

- > Establish systems and processes for group-wide collection and analysis of executive talent pool.
- > Evaluated enterprise architecture to determine reporting lines and levels of decision-making authority and accountability.
- > Annual PwC survey.

- > Appointed chief information officers (CIOs) in all major business units.
- > Created the CIO forum as part of group risk committee.
- > Accelerated development of digital interfaces with counterparties.

Imperial functions on the simple strategic premise that groups do not compete; only subsidiaries do. As the parent of business units that compete in the marketplace for goods and services, Imperial Holdings exists to enhance their competitiveness and returns in excess of the costs of doing so. As a listed entity, Imperial Holdings' legitimacy and value is assured only by a proven ability to nurture businesses and diversify in a way its shareholders cannot. As a holding company or parent, we therefore create value through five major strategies.

PROGRESS IN 2016

- > 37 businesses disposed; 18 businesses acquired (including Palletways) to create a narrower portfolio of businesses.
- > A higher return on managerial capability and effort.
- > Decision to focus exclusively on the Logistics and Vehicles supply chains.
- > Decision to operate as Imperial Logistics and Motus Holdings from 1 July 2016.

CEO's report on pages 40 to 43.

- > Value creation for shareholders and reduced future capital intensity of portfolio.
- > Working capital up due to rand weakness.
- > Competitively priced debt.
- > Improving rating.
- > Prudent three-year, long/short, fixed/variable, local/foreign, debt arrangements within approved 60% to 80% debt to equity ratio.

CEO's report on pages 40 to 43.

- > Competitive, portfolio and financial strategies to focus subsidiary execution and guide stakeholders.

How our subsidiaries create value is set out on pages 14 to 17.

- > Data collected manually for top 100 executives.
- > Group-wide human resources (HR) system under evaluation.
- > Changes to the roles or reporting lines of 26 senior executives for the next three years.
- > Competitive compensation.

Our material issues on pages 26 to 33.

- > Improved insight and decision-making on selection, procurement, maintenance and adequacy of systems.
- > Although still far from optimal, improvement in efficiencies, client interaction and online sales generation.

Our material issues on pages 26 to 33.

ENABLING FOCUSED VALUE CREATION

The renewal of the group is entailing focused investment in, and active management of, the relevant resources and relationships (or capitals) that are pivotal to creating and sustaining long-term value for stakeholders. Besides the value-adding intervention in its subsidiaries, which defines the group's business model, group leadership sets the appropriate policies, approval frameworks and related oversight processes that give effect to superior governance, transparency, disclosure and communication.

FINANCIAL AND MANUFACTURED CAPITAL

The group has well-developed structures and processes in place to ensure disciplined capital allocation and effective balance sheet management. The reorganisation of the group is focused on the optimal utilisation of the group's assets, to drive growth, returns and sustainability, and hence value creation for all stakeholders.

HUMAN AND INTELLECTUAL CAPITAL

The group's HR capability is moving from a transactional to a transformational approach, recognising that people and culture are the foundation of organisational effectiveness. Significant progress has been made in implementing the talent management practices and related HR architecture to ensure performance, succession and diversity. More broadly, the group invests in systems and technology to realise efficiencies, new growth opportunities and competitive advantage.

SOCIAL AND RELATIONSHIP CAPITAL

Stakeholder expectations and priorities are integrated into strategic and operational decision-making to ensure strong commercial relationships and to protect our licence to operate, which depends on our societal relevance and legitimacy. The group continues to invest and participate in initiatives that respond to critical societal concerns.

NATURAL CAPITAL

The group's businesses focus on measuring and managing their respective environmental impacts, according to what is material to the nature of their operations. The group's sustainability management system provides the basis for ensuring that these initiatives deliver a meaningful consolidated impact across the group.