

REGULATORY COMPLIANCE

Imperial is subject to a wide range of legislation in a number of jurisdictions. Businesses within the group that offer financing and insurance on motor vehicles operate in a highly regulated financial services framework, and in the Logistics division our businesses must adhere to regulations relating to pharmaceuticals, and the transportation of food products and fuel. As a multinational we are also subject to the varying cash flow requirements of a number of tax authorities. Regulation that has the most material impact on the group in South Africa is that relating to competition, consumer protection, protection of private information, employment equity, income tax and broad-based black economic empowerment (BBBEE).

Instances of non-compliance could place our licence to operate at risk, result in fines or the detention of employees and may have adverse reputational consequences. In South Africa, our key regulators are the JSE Limited, the South African Revenue Service, the Financial Services Board, the Financial Intelligence Centre, the Ombudsman for Short-term Insurance and the Motor Industry Ombudsman.

OUR APPROACH

GOVERNING COMMITTEES AND COMPLIANCE OFFICERS



Divisional boards and risk committees are mandated to oversee compliance within their respective divisions, and report quarterly to the group's audit and risk committees. The executive committees of each division are accountable for ensuring compliance with legislation across all jurisdictions of operation. 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. Where required, external compliance assessments may also be undertaken. Developing and implementing audit models and trending methodology to meet the pace of regulatory change is a challenge.

To maximise synergies and cooperation, legal and compliance officers meet in a quarterly forum to report on regulatory matters and to formulate group plans to implement the requirements of new legislation. The forum also receives quarterly updates from each division on the actions taken by compliance officers on progress towards meeting compliance targets. Legal and compliance officers are either Imperial employees or outsourced resources.

Engaging with regulators

Our proactive engagement with regulators enables us to maintain compliance, discuss issues of mutual interest, and anticipate and assess the potential impact of upcoming regulatory changes on Imperial's operations. This allows for seamless workflow once the requirements take effect, reduces risk and creates a competitive advantage. It also allows us to share our industry expertise and contribute to policy development. Responses to draft legislation are coordinated at either a group or divisional level, depending on the extent of the potential impact, and are submitted to regulators through a number of industry associations.

KEY ISSUES RAISED THROUGH ENGAGEMENT

General compliance with legal and regulatory requirements, with a particular focus on consumer protection, cybersecurity and the protection of intangible assets.



PERFORMANCE AND INITIATIVES

> Our progress on these issues is discussed below.

Our performance

There were no instances of material non-compliance with legislation during the reporting year and no grievances relating to breaches of customer privacy and losses of customer data.

Following the detailed gap analysis against the requirements of the Protection of Personal Information (POPI) Act undertaken in 2014/2015, a number of aspects have been analysed. These include the identification of what is considered to be personal information; and the systems design, cybersecurity and governance structures required to ensure this information is protected. A data quality management programme, and policies covering privacy and data retention form part of the governance framework. The framework also covers the group's third parties. Once implemented, compliance with the requirements of the enacted sections of the POPI Act will be regularly monitored.

We also updated our anti-bribery and corruption policy during the year, and rolled out an online group compliance confirmation process to ensure that our senior employees are aware of Imperial's policies. The process also requires that these employees provide confirmation that they have not contravened any of our internal edicts. Staff were selected to participate by their divisions and included executive-level and sales employees. Going forward, this confirmation process will be required on an annual basis.

A total of 1 387 participants confirmed that they had read the anti-bribery and corruption policy and all participants confirmed that they had not been involved in any corrupt activity and were not aware of any specific activity which contravened the policy. In addition, 1 244 employees confirmed that they had not participated in any anti-competitive behaviour.

Our frameworks relating to customer complaint management, ombudsman processes and business continuity in terms of cybercrime and security, were also updated.

 *The approach to managing compliance at a divisional level is set out in more detail in the Logistics and Vehicles sections.*

ACCELERATING TRANSFORMATION PROGRESS IN SOUTH AFRICA

BBBEE is a national strategy that seeks to create an environment in which South Africa’s black majority can meaningfully participate in economic activity. Transformation of the South African economy will promote sustainable growth and social stability through black ownership and management control, employment equity, skills development, enterprise and supplier development and socioeconomic development. The slow pace of transformation in South Africa, and within Imperial, requires that we look at new ways of doing things to accelerate BBBEE.

OUR APPROACH

GOVERNING COMMITTEES AND MONITORING OF BEE TARGETS



Given our organisational structure, BEE is managed in a decentralised manner across the group, with certain elements monitored at a group level. Transformation committees at divisional level oversee transformation performance and report annually to the group on each division’s BEE contributor level.

Progress against annual targets for management control, employment equity and skills development is reviewed on a consolidated basis. Performance against these three areas is incorporated into executive incentives and overseen by the remuneration committee. Employment equity targets and performance are overseen by the social, ethics and sustainability committee.



UKHAMB HOLDINGS

Ukhamba Holdings (Ukhamba) share scheme structure

The Ukhamba share scheme is a vehicle through which Imperial’s black employees are able to participate in share ownership.

Established in 1998, with R15 million provided by Imperial as seed capital, the scheme provided Imperial’s black employees with the opportunity to generate wealth through the purchase of an interest in Ukhamba Holdings. In 2004, the partnership between Imperial’s shareholders and its black employees was

strengthened through the issue of 22,8 million deferred Imperial ordinary shares to Ukhamba, an effective 10,1% of Imperial’s share capital. The shares were issued at a par value of 4 cents, costing Imperial shareholders approximately R1,5 billion. In turn, Ukhamba Trust ‘B’ units were created and distributed at no cost to 15 575 black employees, allowing them to share in the dividend or other cash pay outs from Ukhamba’s investments.

Ukhamba is owned by the Ukhamba Trust (47,1%), the Imperial and Ukhamba

Community Development Trust (6,0%) and Imperial (46,9%).

In 2013, Ukhamba was restructured to enable beneficiaries to sell their investment and realise value. Ukhamba’s shares were split into A, B and C class shares, with the A class shares listed on the over-the-counter (OTC) trading platform. Ukhamba shares can only be bought and owned by black individuals or 100% black-owned companies.

Our performance

In 2016, the remuneration committee approved an increase in the weighting within the performance and remuneration incentive structure for growth in black representation at senior and middle management level, and performance against the BEE scorecard. This applies to all South African-based divisional and functional executive committee members and will take effect in the 2017 reporting year. We have also revised our transformation projects and divisional strategies in response