



GOVERNANCE

Corporate governance report

Accounting to our stakeholders

Our intention is to continually improve our reporting, as a function of our accountability to our stakeholders, and in providing the assessments by leadership that stakeholders require to evaluate the group's ability to create sustainable value. The 2017 Integrated Annual Report (the report) includes, for the first time, a business model that sets out how the group creates value for its stakeholders through strategic clarity, organisational simplicity and disciplined capital management, and thereby enhancing the sustainable competitive position and growth potential of its subsidiaries.

Scope and boundary

The report covers the group's subsidiaries over which it has operational control, including those outside South Africa. Leased facilities are treated as group-owned for reporting purposes. The report focuses on the group's continuing operations, unless otherwise specified. Entities that are not operationally controlled, including assets that are owned but not operated by the group, are not included in the scope of the report. However, more broadly, the risks, opportunities and outcomes associated with stakeholders outside the financial reporting boundary are dealt with in so far as they materially affect the group's ability to create value over time. The group's operating divisions, Imperial Logistics and Motus, are reported on as single entities.

Stakeholders are advised to read the Sustainable Development Report (SDR) (available online) with the report for a comprehensive view of the group's value creation story.

Materiality determination

The group's material issues are the priorities and concerns most important to the leadership of Imperial Holdings Limited and its operating divisions. By successfully addressing these material issues, Imperial will create value for its stakeholders. While

the material issues reflect the progress that has been made in the renewal of Imperial in recent years, they are also forward looking and incorporate factors within and beyond leadership's control. The divisional reviews emphasise those issues that are critical to their respective operating contexts, stakeholders and strategies. The sustainable development priorities that relate to the material issues are discussed in detail in the SDR online. An overview of the material issues, how they were determined and the associated management priorities are set out on page 16 of the report.

The detailed material issues, which include strategic responses to the management priorities, are available online, allowing stakeholders to assess the materiality of information included in the report, and the supplementary reports available online (set out in our reporting inside the cover flap of the report).

Integrated thinking at Imperial

As an employer, supplier, client, taxpayer and investment, Imperial ranks among South Africa's larger companies, with a direct or indirect impact on tens of thousands of lives in our operations around the world. Our performance and progress is founded on the provision of competitively priced products and services of high quality, conducted within all laws and regulations, and to high ethical standards. But there are additional responsibilities attached to a corporation of Imperial's size and reach. Among the most important of these is the demonstration of our societal relevance, not through redistribution as a charitable donor, but in the businesses we operate. We are mindful that the effects of our commercial activities on broader society are potentially significant and as fiduciaries we strive at all times to exercise due care in our dealings with stakeholders. We understand that the creation of shareholder value is a necessary but insufficient condition for sustainability, and we therefore subscribe to the view that corporate sustainability is

founded on accountability for decisions that have economic, social and environmental impacts in the long term.

The consolidation of our operating divisions into single entities, with each division having an operational board and single leadership team, is aimed at positioning the group for stronger growth, returns and sustainability in relation to the structural and systemic changes in the business environment. In essence, the renewal of the group is an exercise in integrated thinking as it is entailing focused investment in the assets and enablers that underpin the group's ability to create long-term value for its stakeholders. We have continued to evolve our human capital management capabilities and are investing in technology as the foundation for organisational effectiveness. Our social and environmental initiatives, which respond to critical social concerns, continue to receive focus in line with their material importance to the group's home base of South Africa and also to our respective operations around the world.

Approval

The board acknowledges its responsibility to ensure the integrity of the report. The audit committee is responsible for the content of this report and recommended it to the board for its approval. In the board's opinion, the report addresses all material issues and matters, and fairly presents the group's integrated performance.



SURESH P KANA
Chairman



MARK J LAMBERTI
Chief executive officer



1 | OPERATING CONTEXT AND STRATEGY

Imperial's businesses operate in diverse geographies, industries and markets with different socioeconomic, political, regulatory and technological profiles. The complex interplay of opportunities and threats within these environments must be closely monitored and addressed with strategies that ensure robust competitive positions.

Formal and informal scanning of the environment is an everyday executive responsibility, and the Imperial board is regularly apprised of developments that could have a bearing on the performance and sustainability of the group. Similarly, executive management responds tactically to everyday shifts in the operating context. The board annually approves the strategies necessary to remain competitive and create focused value for stakeholders over the long term.

2 | GOVERNANCE

Ultimate responsibility for governance rests with the Imperial board, which comprises a majority of independent non-executive directors, and its sub-committees, which are constituted with the requisite expertise and experience.

Authority, responsibility and accountability for the group's ethics, performance and sustainability is held at board level, which the board formally delegates to the chief executive officer (CEO) and in turn to his direct reports and sequentially throughout the organisation. The diversity of Imperial's operations necessitates differences in the nature, structure and processes of delegation, excepting financial expenditure for which authority limits are consistent across the group.

The leaders of Imperial are mindful that entrepreneurial creativity and responsiveness is a competitive advantage and every effort is made to integrate governance processes in the least bureaucratic way possible.

Given the non-static nature of governance and the application of best governance practices, the board continually assesses the group's governance practices and procedures and makes adjustments where necessary.

This is evident in this year's governance report in which we have endeavoured to apply the recommended practices set out in fourth King Report on Corporate Governance for South Africa (King IV). The JSE Listings Requirements require listed companies to apply King IV in all documents published after 1 October 2017 and encourages early implementation. Imperial subscribes to and applies the 16 principles of good governance contained in King IV and, where appropriate, King IV's recommended practices have been considered and implemented.

A register of the group's application of the 16 principles of King IV is available online.

3 | BOARD AND COMMITTEES

Imperial Holdings board

The group has a unitary board comprising ten non-executive directors, seven of whom are independent, and four executive directors.

BOARD OF DIRECTORS

Non-executive directors

SP Kana* (chairman)
 A Tugendhaft (deputy chairman)
 RJA Sparks (lead independent director)*
 P Cooper*
 MP de Canha
 GW Dempster*
 T Skweyiya (Dingaan)*
 P Langeni*
 MV Moosa
 Y Waja*

* Independent.

Executive directors

MJ Lamberti (group CEO)
 M Akoojee (chief financial officer (CFO))
 OS Arbee (Motus CEO)
 M Swanepoel (Imperial Logistics CEO)

Directors are appointed based on their skills, experience and expected level of contribution to, and impact on, the activities of the group. The board decides on the appointment of directors based on recommendations from the nomination committee.

During the year, the board adopted a formal board diversity policy to strengthen Imperial's legitimacy among its stakeholders and which embraces the benefits of having a diverse board with differences in skill, regional and industry experience, background, race and gender. Following a review of the board's composition, it was determined that although Imperial has a diverse board, there are opportunities to increase gender diversity. The board has therefore set a voluntary target to increase the representation of women by at least one member and will give preference to a female appointment when considering candidates for a future vacancy.

New directors are formally inducted to facilitate their understanding of the group.

The board establishes strategic objectives and sets key policies to determine the direction of the group. Board meetings are held at least quarterly, with additional meetings called when necessary. The quorum for meetings is a majority of directors. In addition to directors, other senior executives are invited to attend

meetings, as required, to ensure comprehensive reporting to the board.

The responsibilities of the board are clearly defined in a written charter. The charter outlines a clear balance of power and authority within the board to ensure that no single director has unfettered powers of decision making. The board has also adopted, and regularly reviews, a written policy governing the authority delegated to group management and matters reserved for decision by the board.

The responsibilities of the board include issues of strategic direction, business plans and annual budgets, major acquisitions and disposals, changes to the board and other matters that have a material effect on the group or are required by legislation.

The board regularly performs assessments of its performance and the performance of individual directors, including the chairman.

The 2016 independently facilitated board review included a written questionnaire and individual interviews. For the 2017 reporting year, the board elected to conduct a questionnaire-based review only which was administered by an independent third party. The board and the nominations committee considered the results of the review in detail and will address the areas highlighted for improvement. The lowest ranking issue arising from the review was gender representation on the board which is being addressed by the board diversity policy and gender target.

At least one third of directors retire by rotation each year and may stand for re-election at the annual general meeting (AGM) in accordance with the Memorandum of Incorporation (MOI). Directors who retire are selected in accordance with a rotational register and are those who have been in office the longest based on the date of their appointment or re-election.

This year, Messrs OS Arbee, GW Dempster, SP Kana, MV Moosa and Y Waja will retire by rotation and are standing for re-election at the AGM to be held on 31 October 2017. These directors have been appraised by the board and their re-election is recommended.

Mr M Akoojee was appointed CFO and a member of the board with effect from

3 | BOARD AND COMMITTEES continued

1 March 2017. His appointment will be tabled for confirmation at the AGM to be held on 31 October 2017.

Mr PB Michaux resigned from the board on 21 August 2017, in line with changes in his executive responsibilities. Mr MP de Canha, who will retire on 31 January 2018, will serve on the board until 31 October 2017.

Mr OS Arbee resigned as CFO with effect from 1 March 2017 and was appointed as the CEO of Motus. He remains a member of the Imperial board.

Mr RM Kgosana resigned as a member of the board and of the Logistics divisional board with effect from 8 September 2017.

The chairman

The chairman's role is to set the ethical tone of the board and to ensure that the board remains efficient, focused and operates as a unit. The board continued to operate under the guidance of Dr SP Kana in this reporting period. Dr Kana is an independent non-executive chairman and his role is clearly defined and separate from that of the CEO through the provisions of the board charter.

The chairman provides overall leadership to the board without limiting the principle of collective responsibility for board decisions.

While the board may delegate authority to the CEO in terms of the board charter, the separation of responsibilities is designed to ensure that no single person or group can have unrestricted powers and that appropriate balances of power and authority exist on the board. Through membership of the remuneration and nomination committees, the chairman is also responsible for the annual appraisal of the CEO's performance and participates in the succession planning of executive directors.

The board has elected Mr A Tugendhaft as deputy chairman and Mr RJA Sparks as lead independent director to assist the chairman and to fulfil the duties of the chairman should he temporarily not be able to do so.

Board and committee attendance

	Board meetings		Committee meetings							
	Meetings (including one special meeting)	Annual strategy meeting	Executive committee	Social, ethics and sustainability committee	Assets and liabilities committee	Nomination committee	Risk committee	Audit committee	Remuneration committee	Investment committee
Total meetings:	4	1	14	4	4	3	4	4	3	3
Non-executive directors										
SP Kana (chairman)	4/4	1/1		3/3		3/3			3/3	3/3
P Cooper	4/4	1/1								3/3
GW Dempster	4/4	1/1			4/4			3/3		3/3
T Skweyiya (Dingaana)	4/4	1/1						4/4		
RM Kgosana ¹	4/4	1/1					4/4	4/4		
P Langeni	4/4	1/1				2/3		4/4	2/3	
MV Moosa	4/4	1/1		4/4						
RJA Sparks	4/4	1/1				3/3		4/4	3/3	2/3
A Tugendhaft	4/4	1/1		4/4		3/3			3/3	
Y Waja	4/4	1/1					4/4	4/4		
Executive directors										
MJ Lamberti	4/4	1/1	14/14	3/4	3/4		4/4			3/3
OS Arbee	4/4	1/1	14/14	4/4	4/4		4/4			3/3
M Akoojee ²	1/1	1/1	4/4		1/1					1/1
MP de Canha	4/4	1/1	14/14							
PB Michaux ³	4/4	1/1	13/14							
M Swanepoel	4/4	1/1	14/14		4/4					3/3

¹ Resigned from the board on 8 September 2017.

² Appointed during the year.

³ Resigned from the board on 21 August 2017.

3 | BOARD AND COMMITTEES continued

Non-executive directors

The group's non-executive directors are individuals of high calibre and credibility who contribute to the board's deliberations and decisions. Their diverse backgrounds ensure a wide range of experience in commerce, finance, law, industry and engineering. They have the necessary skills and experience to make judgements, independent of management, on areas such as strategy, performance, business development, transformation, diversity, ethics and environmental management.

Non-executive directors are required to devote sufficient time to the affairs of the group. While no limitations are imposed by the board charter, or otherwise, on the number of other appointments directors may accept, approval from the chairman must be obtained prior to acceptance of additional commitments which may affect the time directors can devote to the group.

The independence of all independent non-executive directors was considered and confirmed by the nominations committee in accordance with King IV's recommended guidelines.

Ms P Langeni and Messrs RJA Sparks and Y Waja have served on the board for over nine years. A formal evaluation of their independence, character and judgement was performed and the assessment confirmed them to have remained independent.

The chief executive officer

The board defines the group's levels of authority, reserving specific powers for the board while delegating others to management. The collective responsibility for the executive management of the company's operations vests with the group CEO, Mr MJ Lamberti, who reports to the board on the group's objectives and strategy. Mr Lamberti plays a critical role in the operations and success of the company. The CEO is accountable to the board and consistently strives to achieve the group's goals within the framework of delegated authority.

The company secretary

The company secretary, Mr RA Venter, holds BCom, LLB and LLM degrees and is an admitted attorney.

Directors have unlimited access to the services of the company secretary, who is responsible to the board for ensuring that proper corporate governance principles are adhered to.

In terms of the JSE Listings Requirements, the board of directors must consider the competence, qualifications and experience of the company secretary annually. King IV also recommends that the company secretary should maintain an arm's-length relationship with the board and that he should ideally not be a director.

A formal review of the company secretary is undertaken as part of the annual board evaluation process. Following this review, the board concluded that there were no direct or indirect relationships between the company secretary and any of the board members which could compromise an arm's-length relationship with the board of directors. The company secretary is not a director of the company. In addition, the competence and performance of the company secretary was reviewed based on interviews with all board members and the results were considered collectively by the board. The board confirmed that the company secretary is adequately qualified and experienced and has effectively performed and carried out his duties during the year.

Divisional boards and committees

The board has established a number of sub-committees, including statutory committees, all of which operate within written terms of reference. The performance of each committee is regularly assessed in accordance with their terms of reference. No instances of non-compliance were noted.

The size and diversity of Imperial's operations has led to the establishment of two primary operating divisions, Imperial Logistics and Motus, with each division governed by a newly constituted divisional board. Within these operating divisions, all significant entities are managed through their own entity boards and executive committees.

While the Imperial Holdings board delegates authority through the group CEO to his direct reports and they in turn to theirs, the divisional boards and the entity boards exercise oversight of assets and control performance within the bounds of Imperial's board-approved strategies and budgets. Various divisional executive committees control day-to-day operating performance within the parameters set by the group delegation of authority policy.

The authority previously delegated to the group executive committee was formally delegated from the Imperial Holdings board to the divisional boards at year end and the group executive committee was disbanded. The divisional boards consist of group and operational executives, as well as independent non-executive directors of the Imperial Holdings board.

In line with King IV's recommended practices, the risk committee and the social, ethics and sustainability committee were re-constituted to comprise a majority of non-executive directors. Operational management attend these meetings as invitees. An additional non-executive member was elected to and an independent non-executive chairman appointed for the assets and liabilities committee.

3 | BOARD AND COMMITTEES
continued

The table below outlines the board committees and their memberships at the time of publication.

Audit committee	Risk committee	Remuneration committee	Social, ethics and sustainability committee	Assets and liabilities committee	Investment committee	Logistics divisional board	Motus divisional board
RJA Sparks (chairman) GW Dempster T Skweyiya (Dingaen) P Langeni Y Waja SP Kana* A Tugendhaft* MJ Lamberti* M Akoojee* G Nzalo* R Mumford* BJ Francis* G de Beer* O Janse van Rensburg*	Y Waja (chairman) M Akoojee SP Kana MJ Lamberti BJ Francis* G Nzalo* F Seedat* N Bell*	RJA Sparks (chairman) SP Kana P Langeni A Tugendhaft MJ Lamberti* M Akoojee* Nomination committee SP Kana (chairman) P Langeni RJA Sparks A Tugendhaft	MV Moosa (chairman) T Skweyiya (Dingaen) SP Kana MJ Lamberti A Tugendhaft BJ Francis* O Janse van Rensburg* R Levin* L Maluleke* MR Sharfuddin* RA Venter*	GW Dempster (chairman) MJ Lamberti M Akoojee OS Arbee R Mumford* WF Reitsma* C Shaw RJA Sparks M Swanepoel	P Cooper (chairman) MJ Lamberti M Akoojee OS Arbee GW Dempster SP Kana G Nakos* RJA Sparks C Shaw* M Swanepoel	MJ Lamberti (chairman) M Swanepoel (CEO) M Akoojee OS Arbee G de Beer (CFO) GW Dempster M Lutjann** G Nakos C Rossouw C Tauccke** N van der Westhuizen	MJ Lamberti (chairman) OS Arbee (CEO) M Akoojee K Cassell MP de Canha P Langeni O Janse van Rensburg (CFO) M Swanepoel Y Waja

* Invitees.
** German.



The curriculum vitae of the Imperial Holdings board can be found on page 36 and of the divisional leadership on pages 51 and 60 of the Imperial Logistics and Motus reviews respectively of the Integrated Annual Report.

AUDIT COMMITTEE

The group audit committee comprises non-executive directors, one of whom is appointed as chairman. The membership of the committee will be tabled at the next AGM for approval by shareholders. The committee meets at least four times a year. Attendance of audit committee meetings can be found in the audit committee report.

RISK COMMITTEE

The risk committee sets the group’s risk culture, framework and strategy and ensures that a robust risk management process is in place. The committee comprises both non-executive and executive members and is chaired by a non-executive director. The committee meets four times a year.

REMUNERATION COMMITTEE

The role of the remuneration committee, its membership and meeting attendance are discussed in the comprehensive remuneration report in the Integrated Annual Report.

NOMINATION COMMITTEE

The nomination committee is chaired by the group chairman and provided the board with advice and guidance regarding:

- > Formal succession plans for the board, CEO and senior management.
- > Formal processes and policies for the appointment of directors, the identification of suitable members for the board and gender diversity of the board.
- > Induction and ongoing training and development of directors.

During the reporting year, the committee considered and approved the newly constituted divisional boards and the governance structures implemented within Imperial Logistics and Motus divisions.

SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

The role of the social, ethics and sustainability committee encompasses all aspects of sustainability. The committee performs

statutory duties, as set out in the Companies Act, No 71 of 2008 (the Companies Act), for the group and on behalf of subsidiary companies. In addition to its statutory duties, it assists the group in discharging its social, ethics and sustainability responsibilities and implementing practices consistent with good corporate citizenship, with particular focus on the following:

- > King IV.
- > Imperial’s sustainability commitments.
- > Broad-based black economic empowerment (BBBEE) requirements, as described in the Department of Trade and Industry’s Combined Generic Scorecard (excluding ownership targets) and associated Codes of Good Practice.
- > Imperial’s transformation commitments, as described in the group’s transformation strategy and divisional BBBEE plans.
- > Environmental commitments, as described in Imperial’s environmental policy framework.

3 | BOARD AND COMMITTEES continued

- > Socioeconomic development (SED) commitments, as described in Imperial's SED policy.
- > Imperial's corporate values, code of conduct and code of ethics.

Transformation remains a key focus area and the committee will continue to guide Imperial in its goal of increasingly reflecting the local population demographics of South Africa.

During the year, the committee discharged its statutory duties to monitor activities relating to the following:

- > SED, including the group's standing in terms of the goals and purposes of the ten United Nations Global Compact principles, the Organisation for Economic Cooperation and Development recommendations regarding corruption, the Employment Equity Act and the BBBEE Act.

- > Good corporate citizenship, including the group's promotion of equality, prevention of unfair discrimination and corruption, and contribution to the development of the communities in which it operates or within which its products or services are marketed and where it undertakes sponsorship, donations and charitable giving.
- > The environment, health and public safety, including the impact of the group's activities, products and services.
- > Consumer relationships, including the group's advertising, public relations and compliance with consumer protection laws.
- > Labour and employment, including the group's standing in terms of the International Labour Organisation Protocol on decent work and working conditions, as well as its employment relationships and contribution towards the training and development of its employees.

The committee comprises non-executive directors, executive directors and other members of management, and is chaired by a non-executive director.

ASSETS AND LIABILITIES COMMITTEE

The assets and liabilities committee is responsible for implementing best practice asset and liability risk management policies. Its primary objective is to manage the liquidity, debt levels, interest rate and exchange rate risk of the group within an acceptable risk profile.

INVESTMENT COMMITTEE

The investment committee is responsible for reviewing significant transactions and matters of a strategic nature. It meets on an ad hoc basis.

During the year, the committee considered the restructuring of the group, including significant disposals and acquisitions.

4 | PEOPLE, PROCESSES, REMUNERATION AND TECHNOLOGY

People

The successful implementation of the group's corporate governance initiatives relies on competent and ethical people at many levels of the organisation.

Industry, technical and subject matter expertise is required to translate general principles into everyday actions that ensure the protection of stakeholder interests. To this end, Imperial employs and invests in the development of suitably qualified and experienced individuals to implement and

sustain the requisite levels of governance throughout the group.

The start of a breakdown in governance is very often a relatively minor ethical infraction which occurs long before laws are broken or regulations transgressed. In recognising that successful governance relies on matters of character as much as structure and process, Imperial strives to establish and inculcate high ethical standards by means of its code of conduct and code of ethics.

Conduct and ethics

The Imperial Group Code of Conduct reflects our commitment to personal integrity and honesty, which we believe are important values that set the foundation for a successful company. We strive to build and maintain mutually beneficial relationships with our customers, investors and all employees. The group's growth and development will occur through constant adherence to our high ethical standards and values.

The group is committed to acting with uncompromising honesty and integrity. During the year, the group adopted a formal code of conduct, which serves as an overarching reference and aligns the various codes of ethics and conducts across the group. The code of conduct provides guidance on adhering to our ethics commitment to all staff, management and directors across all operations. We recognise that no single code can address every situation an individual is likely to encounter, therefore the codes are not a substitute for an employee's responsibility and accountability to exercise good judgement and obtain guidance on appropriate business conduct.

Ethics content is included in training and induction programmes.

4 | PEOPLE, PROCESSES, REMUNERATION AND TECHNOLOGY continued

Our commitment to uncompromising honesty and integrity requires that we:

1. Respect others and avoid any form of discrimination.
2. Abide by the laws of the country in which they operate and comply with the codes of conduct of all professional and industry bodies to which the group belongs.
3. Avoid any waste, damage and private use of company assets and resources (including time).
4. Neither give nor receive bribes.
5. At the earliest opportunity, disclose in writing, to the appropriate management, all gifts received from customers or suppliers beyond a token value.
6. Not divulge any confidential information to any party, or improperly use company and customer information.
7. Market the group's products and services accurately and charge the agreed fee or a fair fee where no fee was agreed.
8. Not seek to advance personal interests at the expense of the group or its customers.
9. Not engage in any activity, directly or indirectly, which results or might result in a conflict of individual interests with the interests of the group.
10. Not participate, or involve the group in any way, in any scheme that would cause embarrassment to the group or harm its reputation.

Processes

Processes are integrated at all levels to ensure that governance strategy is aligned with implementation in the group. These encompass governance and risk oversight policies and procedures, reporting and measurement, as well as decision-making processes. Based on the decentralised nature of the group, it does not regulate operational processes in divisions, although minimum standards are set.

Technology

Most aspects of governance rely on underlying management information systems and information technology (IT). The investments and risks associated with information systems require dedicated oversight and judgement.

The group's chief information officer (CIO) forum meets regularly and involves CIOs from operations. The forum aims to assess and agree group IT standards, and enhance cooperation and knowledge sharing across divisions. The forum submits reports to the group risk committee.

Given the group's decentralised management model, Imperial has implemented an overarching, standardised IT governance framework which has been developed and adopted by the divisions in respect of key

components and requirements set out in current best practice benchmarks. Each operation is therefore measured against the group minimum standard.

The objectives of the standardised IT governance framework are to:

- > Provide guidance to divisional and operational IT functions.
- > Set a standard measure of IT maturity within the group.
- > Align with King IV.

The five principles of the Imperial IT governance framework are:

- 1. Business alignment and enablement**
 - > People capacity and development.
 - > Internal processes and measures.
- 2. Operational performance**
 - > People capacity and development.
 - > Internal processes and measures.
- 3. Supplier performance management**
 - > Formalised service level agreements.
 - > Structured commercial agreements.
- 4. Business continuity/disaster recovery**
 - > Business impact analysis.
 - > Testing of back-up and recovery.
- 5. Compliance and security**
 - > Data privacy, security and access control.
 - > Internal control monitoring.



5 | COMPLIANCE

Legal compliance

As a multinational group, Imperial is subject to a wide range of legislation. It monitors legislative developments on an ongoing basis and has a legal compliance programme to increase awareness of, and enhance compliance with, applicable legislation.

Legal compliance is reported regularly to divisional boards and risk committees and quarterly to the group audit and risk committees.

Each division employs legal officers and dedicated compliance officers and assessments are regularly conducted to highlight the impact of legislation on their businesses and to ensure that operational controls are implemented.

To maximise synergies and cooperation, the legal and compliance officers meet in a quarterly forum.

The key objectives of the forum are to:

- > **Monitor and report** on emerging and key legislative and compliance matters.
- > **Ensure completeness** of compliance with the legislative universe.
- > **Formulate group plans** to facilitate the implementation of new legislation.
- > **Coordinate group responses** to draft legislation requiring comments, where applicable.

Contract compliance

Divisions have dedicated legal functions to review contract terms and conditions, and to monitor compliance with these on an ongoing basis. Existing contracts are monitored to ensure they are up to date and in line with legislative and commercial changes.

Conflicts of interest

The group has a formal conflicts of interest policy that guides directors on acting in the best interests of the group, with due care and diligence in discharging their responsibilities as directors. The policy requires directors to declare and avoid conflicts of interest in accordance with the Companies Act, and to account to the group for any advantages gained in discharging their duties on behalf of Imperial.

Insider trading

No group director or employee with inside information about the group may deal, directly or indirectly, in Imperial's securities, which include allocations of and dealings in the group's share incentive schemes. Imperial's closed periods are from the 1st of January to the interim results reporting date and the 1st of July to the full-year results reporting date. In addition, the group has adopted a policy that requires directors, executives, the company secretary and directors of major subsidiaries to obtain permission from designated individuals before trading in the group's securities.

No infringements were reported during the year.

Corruption

The group's detailed anti-bribery and corruption policy promotes the appropriate standards and behaviour required to prevent bribery, corruption and anti-competitive collusive practices in the various jurisdictions in which the group operates. We recognise the legal importance of complying with all anti-bribery, anti-corruption and anti-competitive collusive laws, regulations and/or policies. The policy applies to all employees and covers all operating businesses in the group.

The group's policy is to conduct all its business with transparency and integrity, enforcing a zero tolerance approach to bribery and corruption. The group is committed to performing with honesty and acting professionally in all its business dealings and relationships. Furthermore, it is dedicated to operating, implementing and enforcing effective systems to counter bribery and corruption. The nature of the group's business requires interaction with persons within various levels of governments, multinational client companies and third party service providers throughout Africa and the world. Imperial is committed to upholding all laws in the countries in which it does business, including South African and international anti-bribery laws, as well as the group's code of conduct, code of ethics and anti-bribery policy.

5 | COMPLIANCE
continued**Whistle-blowing hotlines and tip-offs**

Whistle-blowing hotlines are in place in all regions in which the group operates. This service, operated by independent service providers, enables all stakeholders to report concerns anonymously.

It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. Retaliation against whistle-blowers is not tolerated.

Internal audit coordinates all reported matters. Tip-offs are also sent to the CEOs of the respective divisions and investigated accordingly. Detailed feedback is given at the respective financial and risk review committees and group audit committee.

6 | RISK
MANAGEMENT**Risk management model**

In line with its policy of aligning group corporate governance with international best practice to safeguard the interests of stakeholders, Imperial has implemented an enterprise risk model to identify and assess relevant risks facing the group at strategic, business and operational levels. The group's risk model is based on ISO 31000:2009 – Risk Management Principles and Guidelines.

The risk assessment process also identifies areas of opportunity, for example, where effective risk management can be turned into a competitive advantage or where taking certain risks could result in reward for the group. Any risk taken is considered within the group's risk appetite and tolerance levels, which are updated annually.

The group's divisions have different market, operating and financial characteristics. Risk management responsibility and accountability, therefore, vests largely with divisional management structures. They report to the divisional finance and risk review committees, which are overseen by the group audit and risk committees. The group risk committee formalises, standardises and monitors this process, guiding management and assessing their effectiveness in implementing the approved risk management framework.

The board determines the level of acceptable risk and requires operations to manage and report on risk accordingly. Issues and

circumstances that could materially affect the group's reputation constitute unacceptable risk.

A system of internal control is implemented in all key operations and is tailored to each business's characteristics. It provides reasonable, rather than absolute, assurance that the group's business objectives will be achieved within prescribed risk tolerance levels. The associated risk areas and control processes are monitored and reported on across the group. Internal audit aligns its procedures with the risks identified. Formal feedback is provided to both divisional finance and risk review committees, as well as at quarterly risk committee meetings.

The group also maintains a comprehensive insurance programme to ensure that material financial consequences relating to risk events do not result in undue financial impact on group businesses.

In reviewing risk management reports and internal controls, the board has:

- > Considered what the group's risks are and how they have been identified, evaluated and controlled.
- > Assessed the effectiveness of the related risk management process, particularly reports of significant process failures or weaknesses.
- > Considered if the necessary action is being taken timeously to rectify any significant failures or weaknesses.
- > Considered whether results from the review process indicate the need for more extensive monitoring.

Key group risks

Imperial has identified key group-level risk categories in addition to the business and industry-specific risks identified by the operating divisions.

The group strives to realise opportunities through the manner in which it addresses each risk. The risk categories are discussed in the Integrated Annual Report, together with key mitigating actions, and are linked to the group's material issues.

Internal controls

The board is:

- > Accountable for the process of risk management and the systems of internal control which are reviewed regularly for effectiveness.
- > Accountable for establishing appropriate risk and control policies and communicating these throughout the group.
- > Satisfied that there is an effective process in place for identifying, evaluating and managing the group's significant risks.
- > Satisfied that the system of internal control is effective and that group-wide strategies are in place to mitigate the consequences and impact of the group's significant risks to an acceptable level.

6 | RISK MANAGEMENT continued

Internal financial controls and financial reporting

The board acknowledges its responsibility for instituting internal control systems that provide reasonable assurance that:

- > Assets are safeguarded against material loss.
- > Transactions are properly authorised and recorded.
- > Proper accounting records are maintained to ensure reasonable reliability and integrity of financial and operational information, including the annual financial statements.

Internal controls also provide assurance that the group's resources are utilised efficiently and that the activities of the group comply with applicable laws and regulations.

Financial results are reported monthly to the divisional executive committees and quarterly to the divisional boards and the Imperial Holdings board. Each division prepares detailed monthly management accounts, as well as budgets and a three-year plan, which are approved by the board. Performance against budgets is monitored and variances analysed. Profit and cash flow forecasts are reviewed, and material changes analysed. A comprehensive system enables management to monitor trends and measure the productive use of capital. Accounting policies are disseminated throughout the group and monitored to ensure compliance.

Internal audit

The internal audit department's responsibilities are set out in a written charter approved by the board.

Internal audit is an independent, objective assurance and consulting activity established to support and improve the group's operations. It follows a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of risk management, control and governance processes.

The group internal audit executive, based at the group's corporate head office, coordinates internal audit activities and reports administratively to the CFO and functionally to the chairman of the audit committee, and has unrestricted access to the group CEO and audit committee chairman.

The group internal audit executive reports formally at all audit committee meetings during the year. The audit plan for the group and its divisions uses a risk-based approach and is approved by the group audit committee. The group internal audit executive also attends and coordinates the activities of all quarterly divisional finance and risk review committees and attends all group risk committee meetings.

Internal audit has confirmed that nothing has come to its attention to indicate that there was any material breakdown in the system of internal or financial control in the group during the year. This conclusion is based on the internal audit work it performed in terms of the approved combined internal audit plan

for the year, the scope of work, the results of evaluations and the overall audit opinion ratings for the audited areas, together with feedback on follow-up audits.

During the year, an independent review of the internal audit function was conducted by Deloitte & Touche, which confirmed that the function is operating effectively and comparable to similar functions in other leading listed entities.

The risk management maturity self-assessment conducted during the year at divisional and group level confirmed the sound implementation of risk management across the group, as well as the high degree to which management had embraced risk management.

Combined assurance

The group's combined assurance model ensures:

- > The completeness of the group-wide inherent risk profile.
- > That key mitigation factors and processes are documented and aligned to the group's risk management model.
- > An adequate level of assessment of the control environment by assurance providers, both internal and external.

The combined assurance model aligns with the group's integrated governance model, with key assurance provider roles overlapped, which strengthens the robustness of assurance across key elements.

