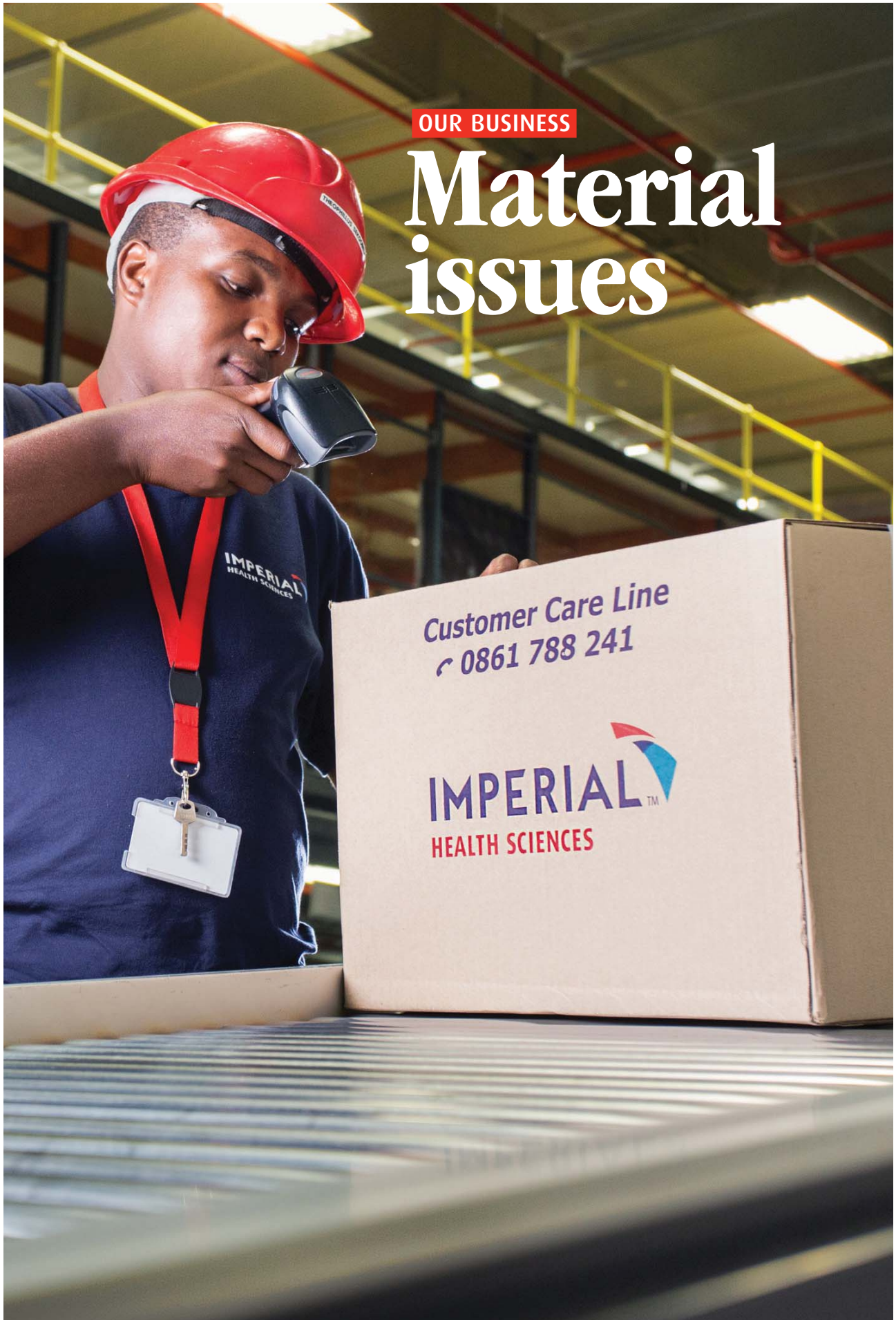


OUR BUSINESS

Material issues



Material issues

Our material issues are the priorities and concerns most important to the leadership of the group and its operating divisions, Imperial Logistics and Motus.

By successfully addressing these material issues, we will create value for our stakeholders.

Although our material issues reflect the progress that has been made in the renewal of Imperial in recent years, they are forward looking and incorporate factors within and beyond leadership’s control.

The process of defining the group’s material issues in 2017 included the following direct inputs:

- > Dialogue with and counsel from the Imperial Holdings board of directors and its sub-committees.
- > Engagement with share owners.
- > Interviews to elicit the concerns of stakeholders at group and divisional levels.
- > Reference to the Imperial board’s meeting minutes for the year.
- > Group and divisional risk registers.
- > Key issues raised by the media.
- > Input from and approval of the material issues by group and divisional leadership.

The material issues provide the themes for the group’s Integrated Annual and Sustainable Development reports, and associated management priorities are covered throughout both reports and in the pages that follow here.

OVERVIEW

01 | Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders

- > Refine the business and asset portfolios of each division, to further leverage scale, relationships, expertise and shared activities within their chosen sectors.
- > Define and implement deep value propositions as the essence of client centricity.
- > Use ROIC to assess and enhance the performance and potential of businesses, products and clients.
- > Respond to the impact of digitisation and disruptive technologies on the businesses, customers, value chains and markets in each division.

02 | Manage capital effectively

- > Delink the capital interdependence of the divisions.
- > Source, allocate and control capital to maximise sustainable risk-adjusted ROIC in each division.
- > Establish equity and debt structures to optimise growth potential and return on equity in each division.

03 | Limit currency risk

- > Anticipate the effects of currency movements on acquisitions, foreign operations, imports, competitiveness, asset and liability values, and profitability.
- > Hedge currency movements whenever appropriate and possible.
- > Ensure full compliance with forex policy regarding forward cover and the use of hedging instruments.

04 | Ensure organisational effectiveness

- > Flatten structures to focus management, simplify communication, delegate accountability, ensure control, enable collaboration and empower leaders.
- > Employ and develop executives who can lead the continual change necessary for progress and performance.
- > Implement human capital policies and practices to enhance productivity, diversity and succession.
- > Leverage technology for efficiency and competitive advantage.

05 | Strengthen legitimacy

- > Ensure exemplary ethical practices and governance standards.
- > Measure, develop and publicise the economic footprint and societal value of Imperial Logistics and Motus.
- > Ensure local relevance, including black economic empowerment in South Africa and diversity and inclusiveness requirements in other markets.
- > Maintain regulatory compliance and policy advocacy.

01 Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders

PRIORITIES IN SUPPORT OF THE MATERIAL ISSUE

1.1 | Refine the business and asset portfolios of each division, to further leverage scale, relationships, expertise and shared activities within their chosen sectors.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Board approval of divisional strategies for organic and acquisitive growth and oversight of implementation, consequent capital allocation and performance. > Clear M&A framework focused on unlocking intrinsic value, supporting divisional strategies, generating sustainable risk-adjusted returns, decoupling the impact of the Rand, mitigating cyclical and structural impacts, and responding to disruptive threats. 	<ul style="list-style-type: none"> > Integrate, consolidate and leverage recent acquisitions to drive focused growth. > Finalise the disposal of non-strategic, underperforming businesses and properties. > Acquire asset-light businesses that support core linkages between markets, sectors, assets and capabilities. > Grow pharmaceutical and consumer packaged goods distribution businesses in the African Regions, including through further acquisitions of complementary businesses. > Refine the International business portfolio to penetrate growing niches, focus on more sustainable industries and improve returns. 	<ul style="list-style-type: none"> > Finalise the disposal of non-strategic, low return on effort businesses, brands and properties. > Optimise the dealership network, ensuring strategically located quality dealerships and capital efficiency. > Develop shared and smaller dealerships consistent with the requirements and online behaviour of consumers. > Selectively acquire businesses that support further penetration of the vehicle value chain beyond South Africa.

1.2 | Define and implement deep value propositions as the essence of client centricity.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Interrogate the competitiveness of divisional strategies, specifically in offering value-enhancing propositions to clients and customers. 	<ul style="list-style-type: none"> > Continually improve integrated and customised services to clients and principals, offering unique end-to-end solutions. > Leverage scale and capabilities to defend and grow market share in South Africa. 	<ul style="list-style-type: none"> > Enhance profitable penetration of the vehicle value chain through relevant value propositions to customers. > Enhance customer loyalty through innovative financial services offerings. > Defend and grow market share of established brands.
<ul style="list-style-type: none"> > Support the divisions in establishing and maintaining critical business and other key stakeholder partnerships for competitive advantage. > Ensure business partnerships align to the group's exemplary ethical standards. 	<ul style="list-style-type: none"> > Select and represent reputable and defensible brands, products and services relative to the needs of clients, principals and customers in each market. > Build new and strengthen existing supplier, principal and client relationships to enhance competitiveness and market share. > Leverage efficiencies in the supply chain to support margins. > Establish partnerships with transport providers that provide flexible capacity, as part of the transition to an 'asset-right' model. > Conclude a BBBEE transaction in Logistics South Africa. 	<ul style="list-style-type: none"> > Leverage divisional scale to strengthen relationships with banking partners. > Consider strategic BBBEE partnerships to improve the competitiveness of specific businesses.

1.3 | Use ROIC to assess and enhance the performance and potential of businesses, products and clients.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Allocate capital to organic and acquisitive growth strategies that achieve the targeted return (ROIC > regional WACC + appropriate hurdle rate). 	<ul style="list-style-type: none"> > Assess end-to-end profitability within different capabilities, sectors and contract types, to facilitate focused capital allocation. 	<ul style="list-style-type: none"> > Deploy available capital more effectively in areas of high growth potential, including annuity income streams.

1.4 | Respond to the impact of digitisation and disruptive technologies on the businesses, customers, value chains and markets in each division.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Proactively monitor disruptive trends and oversee investments in innovation to ensure the impact on divisional value creation is managed effectively. 	<ul style="list-style-type: none"> > Increase digitisation to improve client engagement, process visibility and supply chain integration. 	<ul style="list-style-type: none"> > Drive innovation and collaboration with technology partners through Motus Financial Services.
	<ul style="list-style-type: none"> > Drive client-centric innovation and establish relevant partnerships through innovation hub in Berlin. 	<ul style="list-style-type: none"> > Monitor and act on disruptive trends, including loyalty programme enhancements.
	<ul style="list-style-type: none"> > Continue to assess the impacts of digitisation on customer service and operations, and adapt divisional strategies to mitigate threats and maximise opportunities as an incumbent. 	



02

Manage capital effectively

PRIORITIES IN SUPPORT OF THE MATERIAL ISSUE

2.1 | Delink the capital interdependence of the divisions.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Achieve separate, self-sustaining balance sheets for Imperial Logistics and Motus over time. 	<ul style="list-style-type: none"> > Deliver appropriate levels of profitability and returns on capital. > Achieve 'asset-right' growth across the portfolio. 	<ul style="list-style-type: none"> > Deploy cashflows generated to fund dividend payments and growth outside South Africa, while maintaining optimal gearing levels. > Efficiently manage inventory levels to improve working capital management in a low-growth market.

2.2 | Source, allocate and control capital to maximise sustainable risk-adjusted ROIC in each division.

GROUP
<ul style="list-style-type: none"> > Secure appropriate funding at competitive rates to provide cost-effective funding for divisional growth strategies.
<ul style="list-style-type: none"> > Maintain an investment grade credit rating (international scale) that facilitates access to a broad range of funders and investors and an optimal cost of capital for the group. > Engage proactively with investment community and rating agencies, as well as banks and other funding partners.
<ul style="list-style-type: none"> > Effectively manage liquidity, interest rate and foreign exchange risk through the relevant governance structure: <ul style="list-style-type: none"> – The group asset and liability committee (ALCO). – Group and divisional treasury committees, International ALCO and foreign exchange committees at management level (South Africa, African Regions, Germany and Netherlands).
<ul style="list-style-type: none"> > Monitor key debt, working capital and invested capital metrics through monthly divisional dashboards to meet internally and externally imposed capital requirements on funding facilities as required.
<ul style="list-style-type: none"> > Reduce capital intensity across the divisions.
<ul style="list-style-type: none"> > Preserve working capital in Motus by ensuring realistic OEM expectations of volume and efficient management of inventory levels relative to changing demand, through excellent systems, best practice planning and collaboration with suppliers.

2.3 | Establish equity and debt structures to optimise growth potential and ROIC in each division

GROUP
<ul style="list-style-type: none"> > Strive to maintain an optimal capital structure for the group (targeted net debt to equity ratio of between 60% to 80%).
<ul style="list-style-type: none"> > Access short- and long-term funding through domestic and offshore facilities to ensure a strong liquidity profile and achieve an optimal mix of debt (fixed versus variable, and short-term versus long-term).
<ul style="list-style-type: none"> > Ensure appropriate capital allocation to the divisions in a manner that enables their competitiveness and delivers sustainable risk-adjusted returns (target: ROIC > regional WACC + appropriate hurdle rate).
<ul style="list-style-type: none"> > Recapitalise the Imperial Logistics balance sheet over time.

03 Limit currency risk

PRIORITIES IN SUPPORT OF THE MATERIAL ISSUE

3.1 | Anticipate the effects of currency movements on acquisitions, foreign operations, imports, competitiveness, asset and liability values, and profitability.

GROUP

- > Maintain governance structure and processes to effectively monitor and manage currency risk, including:
 - ALCO, which sets foreign exchange policy, authorises the use of financial market products and advises on risk appetite.
 - Imperial group treasury, which monitors hedging implementation and reports to ALCO quarterly, and manages the platform all Imperial companies use to execute their hedging requirements.
 - Africa and international treasury committee, which monitors foreign exchange exposure and specific currency hedges in-country in the African Regions, and Loigistics International.
 - Foreign exchange committee (FXCO), which reviews open exposures, considers hedging alternatives and guides hedging decisions.
 - Weekly vehicle importer meetings to identify changes in exposures and review new order pipelines, to update hedging requirements as required.

3.2 | Hedge currency movements whenever appropriate and possible.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Manage exposure to imports and foreign currency funding through effective purchasing planning and hedging strategies. > Ensure strong management expertise in managing forex exposure. 	<ul style="list-style-type: none"> > Effectively manage impact of currency volatility, devaluation and availability, particularly in African Regions, by: <ul style="list-style-type: none"> – Sourcing and settling foreign currency transactions immediately and, where foreign exchange contracts are available, hedging the risk within a 50% minimum. – Applying high dividend pay-out ratios in-country and maximising in-country funding. – Operations in 13 countries diversifies risk. 	<ul style="list-style-type: none"> > Manage the impact of currency fluctuations through appropriate use of hedging instruments: <ul style="list-style-type: none"> – All committed orders are hedged except for vehicle parts, which can be re-priced. – Forward cover up to an average of seven months on a rolling basis, depending on the brand of vehicle, currently taken. – More frequent vehicle orders of smaller quantities to allow ongoing forward cover refinements.

3.3 | Ensure full compliance with forex policy regarding forward cover and the use of hedging instruments.

GROUP

- > Provide clear policy guidance through a clearly defined foreign exchange policy approved by the group board, which is regularly reviewed for efficacy.
- > ALCO, Africa treasury committee, offshore treasury committee and FXCO monitor policy implementation on an ongoing basis to ensure effective mix of hedging instruments.



More detail on currency risk management can be found in the annual financial statements online.

04 Ensure organisational effectiveness

PRIORITIES IN SUPPORT OF THE MATERIAL ISSUE

4.1 | Flatten structures to focus management, simplify communication, delegate accountability, ensure control, enable collaboration and empower leaders.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Ensure an effective group and operating board structure with information flows that ensure oversight and control, and competencies aligned to value creation. 	<ul style="list-style-type: none"> > Authority formerly delegated to group executive committee, delegated to divisional operating boards. > Maintain strong divisional boards, comprising group and divisional executive and non-executive directors with strategic, financial and industry-specific competencies. 	
<ul style="list-style-type: none"> > Continue reducing complexity in divisional structures and the associated costs. 	<ul style="list-style-type: none"> > Minimise complexity and bureaucracy in the divisional structures and operations to achieve process and cost leadership. 	

4.2 | Employ and develop executives who can lead the continual change necessary for progress and performance.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Ensure executive compensation systems for long-term performance and retention. > Ensure succession depth at group and divisional leadership level. 	<ul style="list-style-type: none"> > Ensure appropriate remuneration for divisional executives, benchmarked relative to organisational size, level and complexity. > Prioritise leadership development and succession planning. > Accelerate the transformation of divisional leadership. 	

4.3 | Implement human capital policies and practices to enhance productivity, diversity and succession.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Devolve people management to the divisions to enable alignment with business specific needs and different market realities. 	<ul style="list-style-type: none"> > Ongoing implementation of a common framework for leading people management practices and processes based on reliable core data. > Implement a people and payroll solution designed to deliver improved business analytics and reporting capabilities, to support talent management and succession planning. 	<ul style="list-style-type: none"> > Following the bedding down of the new management structure, focus has shifted to improving people management practices and processes. > Key human capital initiatives underway including talent management, core data, human capital and payroll technology.
<ul style="list-style-type: none"> > Oversight of fair and responsible people policies and practices, including those related to transformation, diversity and reward and remuneration. 	<ul style="list-style-type: none"> > Formalise processes and policies that support change management, transformation and diversity and enhance organisational engagement. > Implement talent management at all levels to drive productivity, and build a robust succession pipeline for transformation and diversity. > Accelerate employment equity in South Africa and gender diversity in Germany. > Ensure that training and development initiatives support a skilled workforce as well as employment equity and diversity plans. 	

4.4 | Leverage technology for efficiency and competitive advantage.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Oversight of responsible IT practices and return on IT investments, by the CIO forum. 	<ul style="list-style-type: none"> > Invest in IT systems for transactional efficiency and the creation of innovative value for clients. > Systems overhauls and standardisation, where appropriate, underway across divisions. > Focus on ensuring IT reliability and security across businesses. > Leverage technology to ensure reliable core data for effective people management practices. 	

05 Strengthen legitimacy

PRIORITIES IN SUPPORT OF THE MATERIAL ISSUE

5.1 | Ensure exemplary ethical practices and governance standards.

GROUP		
<ul style="list-style-type: none"> > Maintain an appropriately constituted group board, and governance structures that align with best practice. > Committee membership and the terms of reference for the social, ethics and sustainability committee have been aligned to King IV requirements. 		
<ul style="list-style-type: none"> > Protect the group’s reputation as an ethical corporate citizen, through: <ul style="list-style-type: none"> – Fair market practices and competitive pricing. – Executive compensation that is fair, defensible and transparent. – A new minimum wage for the South African businesses, above the prescribed national minimum, implemented in the year. – Consideration of all alternatives before implementing retrenchments. 		
<ul style="list-style-type: none"> > Consciously consider shareholder feedback. 		
GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Reinforce an ethical culture through the ethics framework and deal decisively with corruption and collusion. 	<ul style="list-style-type: none"> > Embed the new code of conduct and fraud prevention framework. > Embed ethical marketing practices using robust data and market intelligence. > Deliver ongoing training and awareness on ethics. 	
<ul style="list-style-type: none"> > Ensure responsiveness to the legitimate concerns of all stakeholders. 	<ul style="list-style-type: none"> > Guarantee the safe receipt, storage and distribution of goods. > Ensure the safety of employees, passengers and road users. > Manage effective labour relations. > Collaborate with supply chain partners to uphold Imperial’s operating standards. > Use technology and efficiency initiatives to reduce environmental footprint, particularly fuel consumption. 	<ul style="list-style-type: none"> > Ensure the quality and safety of goods and services. > Invest in water recycling plants and virtually waterless car washing systems at dealerships, depots and in manufacturing plants.

05 Strengthen legitimacy – *continued*

5.2 | Measure, develop and publicise the economic footprint and societal value of Imperial Logistics and Motus.

GROUP

- > Imperial Holdings is a responsible corporate citizen that employs over 49 000 people in 33 countries.
- > Significant contributor to local and foreign governments in countries of operation.



The value the group creates for society is illustrated in our value added statement in the integrated annual report.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Reputable, well-established businesses that facilitate real economic growth. 	<ul style="list-style-type: none"> > Significant contributor to the effective operation of industry supply chains. > Leading pharmaceuticals distributor in Africa. > Delivers medication to HIV/Aids programmes in 16 countries. 	<ul style="list-style-type: none"> > Significant contributor to the effective functioning of the new and used vehicles markets, mainly in South Africa where it has the second largest market share. > Supports a car parc of over 1,2 million vehicles.
<ul style="list-style-type: none"> > Investment in critical social and environmental concerns that align to national priorities. > The group invests in the Imperial Road Safety Programme through its leading Car Seats for Kids and Safe Scholar campaigns in South Africa. 	<ul style="list-style-type: none"> > Supports local community access to a quality, affordable healthcare service through the Unjani Clinics network, which assists over 250 000 patients across 31 clinics in South Africa and employs more than 90 people. 	<ul style="list-style-type: none"> > Key sponsor of the Imperial and Ukhamba Community Development Trust that reaches 29 000 learners daily in 27 fully resourced libraries in Johannesburg and employs 70 people.



SDR online.

5.3 | Ensure local relevance, including black economic empowerment in South Africa, and diversity and inclusiveness requirements in other markets.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Communicate wealth enhancement potential to Ukhamba shareholders who are either current or previous employees of the group. 		
<ul style="list-style-type: none"> > Report a group BBBEE scorecard. 	<ul style="list-style-type: none"> > Focus on ownership where appropriate, employment equity (with specific emphasis on African executives), preferential procurement and enterprise development. 	
<ul style="list-style-type: none"> > Ensure local relevance in each national operation. 	<ul style="list-style-type: none"> > Hire locally and leverage training and development programmes to create a pipeline of local talent. 	

5.4 | Maintain regulatory compliance and policy advocacy.

GROUP	IMPERIAL LOGISTICS	MOTUS
<ul style="list-style-type: none"> > Set and manage an effective compliance framework. 	<ul style="list-style-type: none"> > Manage and comply with legislation across multiple jurisdictions. > Prepare for the impact of emerging legislation. > Maintain regular compliance training. > Engage with regulators on impending legislation. 	
<ul style="list-style-type: none"> > Maintain advocacy role in South Africa through senior leadership's involvement in various, relevant business associations, including Business Leadership South Africa, National Business Initiative, Gordon Institute of Business Sciences' Ethics and Governance Think Tank, Free Market Foundation, Centre for Development and Enterprise, and Corruption Watch, among others. 		