

# How we allocate capital

*The group strives to create long-term value for stakeholders through strategic clarity, financial discipline, operational excellence and strictly defined capital allocation principles.*

**We will release capital and sharpen executive focus, by disposing of non-core, strategically misaligned, underperforming or low return on effort assets.**



Disposals of non-strategic businesses and properties during the year generated proceeds of R3,0 billion.

**We will invest capital in South Africa to maintain the quality of our assets and our market leadership in our logistics and motor vehicles businesses.**



Acquisitions of 55% of Itumele Bus Lines for R147 million, 70% of Sasfin Premier Logistics for R38 million and the remaining 10% of Midas for R87,5 million.

**We will invest capital in the African Regions primarily to achieve our 2020 objective for the revenue and profits generated in that region to equal that of our South African logistics business, and secondarily to expand our vehicles and related businesses in the region.**



Acquisition of 70% of Surgipharm in Kenya for R470 million, and expanded Imperial Managed Logistics in Nigeria and Ghana.

**We will invest the cash generated from operations and divestments to grow our businesses beyond the continent, but with an emphasis on logistics.**



Acquisition of 95% in Palletways for R3,0 billion.

**The development and sustainability of Imperial will be underpinned by our investment in human capital and information systems.**



Groupwide capital expenditure in human capital development and information systems of R371 million.



CEO's report on page 21.

# Where we are

The group employs over 49 000 people in 33 mainly African and Eurozone countries, and operates exclusively in the logistics and vehicle sectors.

## Global context:

Heightened uncertainty, characterised by:

- > Rising geopolitical tensions and policy shifts to local protectionism.
- > Economic uncertainty driven by low growth forecasts, global reflation and currency volatility.
- > Acceleration in technological interconnectedness and rising cybercrime events.

## South Africa

**(57% revenue; 63% operating profit)**

- > Lower than expected economic growth, declining into a technical recession.
- > Currency volatility following sovereign downgrades.
- > Fragile consumer health depressing personal income expenditure and consumer goods volumes.
- > Rising unemployment levels.
- > Heightened political and social tensions and low business confidence.
- > National vehicle sales down 7%, per NAAMSA.

## African Regions

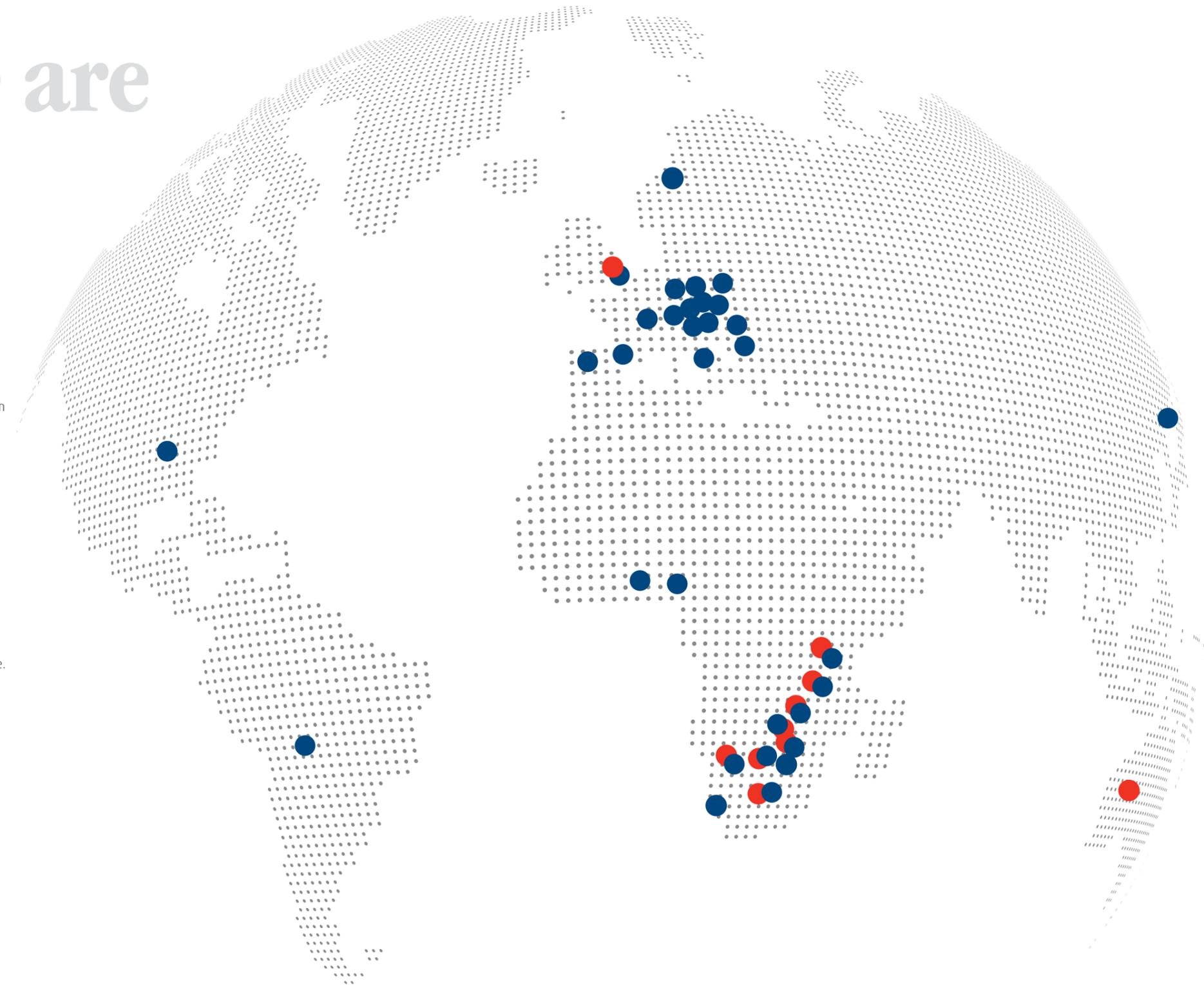
**(10% revenue; 13% operating profit)**

- > Increased currency volatility following repricing of economies, particularly the devaluation of the Naira (41% on average) and Metical (37% on average).
- > Slowing GDP growth rates.
- > Rising inflation and interest costs.
- > Lower consumer demand.

## Eurozone, UK and Australia

**(33% revenue; 24% operating profit)**

- > Improving EU consumer confidence, buoyed by a solid German economy and the outcome of the French presidential election.
- > Steady UK economy supporting logistics and vehicles businesses.
- > Lowest water levels on Rhine in 80 years.
- > Lower demand and pricing pressures in steel, energy, commodities and construction sectors in Germany.
- > Volatile Rand effect on translation value of foreign operations.
- > Tough labour market conditions, particularly in Germany.



### LOGISTICS

SOUTH AFRICA

### AFRICAN REGIONS

BOTSWANA

GHANA

KENYA

MALAWI

MOZAMBIQUE

NAMIBIA

NIGERIA

SWAZILAND

TANZANIA

ZAMBIA

ZIMBABWE

### INTERNATIONAL

AUSTRIA

BELGIUM

BULGARIA

CHINA

CZECH REPUBLIC

FINLAND

FRANCE

GERMANY

HUNGARY

ITALY

LUXEMBOURG

NETHERLANDS

PARAGUAY

PORTUGAL

POLAND

SPAIN

SWEDEN

SWITZERLAND

UK

USA

### MOTUS

SOUTH AFRICA

AUSTRALIA

BOTSWANA

KENYA

MALAWI

NAMIBIA

TANZANIA

UK

ZAMBIA

ZIMBABWE

## Map key

● LOGISTICS ● MOTUS



Divisional reviews starting on page 40.

# Investing in sustainable value creation

*Groups do not compete, subsidiaries do. As the custodian of strategy, capital, succession and governance, the group exists to enhance the sustainable competitive position and growth potential of its subsidiaries.*

Besides the value-adding intervention in its operating divisions, which defines the group’s business model, group leadership sets the policies, approval frameworks and related oversight processes that give effect to superior governance, transparency, disclosure and communication. In addition to a well-constituted group board and governance structures aligned to best practice, the divisions have strong operating boards that comprise group and operational executives and independent non-executive directors of the Imperial Holdings board, with a mix of relevant professional and industry expertise. The group creates value through three strategic pillars (reflected below), and the investment it is making in the primary enablers of growth, returns and sustainability – the ‘capitals’ on which sustainable value creation depends – is fundamental to the ability of its subsidiaries to create sustainable value.



Corporate governance summary from page 61.

## Value creation pillars

STRATEGIC CLARITY	ORGANISATIONAL SIMPLICITY	DISCIPLINED CAPITAL MANAGEMENT
<ul style="list-style-type: none"> <li>&gt; Achieving the optimal portfolio of assets in each division, defined by complementary capabilities.</li> <li>&gt; Deepening the value propositions of the divisions for competitive advantage, growth and returns, defined by clear market, product and customer focus.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Ensuring strong leadership and succession planning within divisional operating boards and executive teams.</li> <li>&gt; Simplifying structures and removing complexity, duplication and cost within the divisions.</li> <li>&gt; Devolving relevant functions and services provided by the group to the divisions when appropriate.</li> <li>&gt; Rationalising legal entities and simplifying, separating and aligning local and international financial structures.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Assessing investments in acquisitions, organic growth or asset renewals according to targeted returns on invested capital.</li> <li>&gt; Ensuring tight working capital management.</li> <li>&gt; Achieving appropriately geared independent and self-sustaining balance sheets for each division.</li> </ul> <div style="text-align: right; margin-top: 10px;">  <p><i>Our top risks (page 10) and corporate governance summary (page 61).</i></p> </div>



For more on strategy, refer to the CEO’s report from page 21.



## Material capital inputs

### FINANCIAL AND MANUFACTURED CAPITAL

The group is the entry point for providers of equity and debt capital who wish to invest in the group’s investment proposition. Broadly, this relates to the profound organisational renewal in progress to secure the competitiveness of the group’s strategically distinct mobility businesses, and the optimal utilisation of their assets. Embedded governance structures and processes to ensure disciplined capital allocation and effective balance sheet management, for focused growth and targeted returns, underpin these objectives.

### HUMAN AND INTELLECTUAL CAPITAL

A significant investment is being made in human capital management, and the supporting systems. This recognises that people and culture are the foundation for the delivery of differentiated customer value propositions, organisational effectiveness and reputational integrity. The divisions are also investing in systems and technology for competitive advantage and efficiencies, as well as in innovative responses to the disruptive threats in their industries.

### SOCIAL AND RELATIONSHIP CAPITAL

Stakeholder expectations and priorities are integrated into strategic and operational decision-making to ensure strong commercial relationships and to protect the group’s licences to operate, which depends on its societal relevance and legitimacy. Ethical practices and regulatory compliance, including diversity and inclusion, are increasingly important to clients, principals, suppliers and business partners of the divisions. This extends to managing their material environmental impacts, according to the nature of their operations. The group continues to invest in initiatives that respond to critical societal concerns.



Details of our stakeholders, their key concerns and our response can be found online.

## Business activities

# Imperial Logistics

**Customised outsourced logistics solutions that ensure the relevance and competitiveness of its clients in the industry verticals and geographies in which it operates.**



Divisional review:  
Imperial Logistics from  
page 40.

### Value-add logistics

*Evolves from point services to the integrated management of transportation, warehousing and delivery operations on behalf of clients – thus acting as the lead logistics provider managing multiple supply chain functions.*

- > Warehousing management
- > Transportation management
- > International freight management
- > Distribution management
- > Value-add logistics solutions (lead logistics provider)

### Supply chain management

*Integrates clients' logistics functions into their end-to-end supply chain to reduce their time-to-market, improve their customer service and mitigate risk.*

- > Supply chain advisory
- > Supply chain technology
- > Managed services
- > Contract manufacturing
- > Contract logistics
- > Supply chain management solutions

### Routes-to-market

*Provides access to end-consumers through taking ownership of product inventory and provides integrated logistics and sales services.*

- > Demand activation
- > Merchandising
- > Sourcing and Procurement
- > Wholesaling
- > Distributorships
- > Route-to-market solutions

# Motus

**Importer, distributor, rental and retailer of vehicles and related products and services focused on creating value for customers across the vehicle value chain.**



Divisional review:  
Motus from page 52.

### Distribution network

*Distributor and retailer of vehicles and related products and services in Southern Africa and selected international markets.*

- > Vehicle and parts import
- > Vehicle dealerships – independent and owned
- > Distributorships in African countries
- > Part distribution – resellers/specialised workshops
- > Car rental outlets (Europcar and Tempest)

### Products and services

*Provides services across all segments of the vehicle value chain for a range of the world's most respected vehicle brands, with an integrated offering that includes motor related financial products and services.*

- > Passenger and commercial vehicles
- > Aftermarket parts, servicing and repairs
- > Car rental
- > Service and warranty plans
- > Fleet management services/VAPS
- > Roadside assistance
- > Value-added products



## Outcomes in overview

- > The effective operation of the group's businesses contributes to efficient industry supply chains and affordable vehicle ownership, which support real economic activity and quality of life through the efficient movement of goods and people.
- > The separation of the group's portfolio into two increasingly self-sufficient businesses, and their ongoing internal restructuring, is aimed at maximising the group's ability to create value for

shareholders with a sustainable improvement in performance and returns expected from 2018.

- > The competitive strategies of the divisions aim to ensure sustainable profitable growth within the context of cyclical and structural shifts in their markets, and hence their ability to create value for all stakeholders.
- > An important outcome of the renewal of the group is to reinforce a culture of ethical corporate citizenship. This involves many aspects including fair

market practices, elimination of all forms of anti-competitive behaviour and corruption, appropriate remuneration practices that respond to income inequality in specific markets, diversity and inclusion including local hiring and skills development and training, as well as community development in chosen areas of contribution.

- > Environmental performance is fundamental to the divisions' proposition to clients, principals and strategic business partners.

# Our top risks

*The group has an embedded enterprise risk model to identify and assess existing and emerging risks and associated opportunities where effective risk management can be turned into a competitive advantage.*

Any risk taken is considered within the group's risk appetite and tolerance levels, which are updated on an annual basis.

The changes in risk exposures from last year demonstrate the progress that has been made in implementing the group and divisional strategies, as well as the dynamics in the group's operating context. In an ever-changing risk landscape, emerging risks are identified where the extent and nature of the risk and its potential impact on the group are uncertain. Emerging risks are monitored on an ongoing basis as their impact is typically understood over time. Emerging risk themes across the group that have been incorporated into divisional strategies include the impact of global economic conditions and geopolitical uncertainty; cyber vulnerabilities and disruptive innovation; customer and brand loyalty and related reputation management; business disruption from third-party reliance; and environmental factors like climate change.

**The group risk profile is determined by:**

- > Reviewing the divisional and operational risk registers.
- > Discussing and assessing risk profiles with relevant management.
- > Reviewing the current and future business environment in which we operate to identify emerging risks.
- > Reviewing and discussing identified risks with assurance providers (audit, compliance) to highlight key risk categories with a material inherent impact on the group and its operations.
- > Reviewing of benchmarks and current topical global developments.

 Further detail on the group's risk management approach is set out in the full corporate governance report available online.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
<p><b>Currency volatility in the markets in which we operate</b></p> 	<p>The significant aspects of this risk include: the impact of Rand volatility against major currencies on the pricing of new vehicles and therefore the competitiveness and profitability of the vehicle import business; the impact of local currency depreciation and the availability of hard currency to pay the suppliers of imported products in the African Regions; and the impact of foreign currency translations on the group's reported results, given the 33 countries in which it operates. The group operates in four major and 17 secondary currencies.</p> <p> CEO's report from page 21, CFO's report from page 25, Divisional reviews from page 40.</p>	<ul style="list-style-type: none"> <li>&gt; Active management of currency volatility through established hedging policy and governance structures, particularly in the vehicle import business.</li> <li>&gt; Negotiated, preferential pricing from Original equipment manufacturers (OEMs) to support margins and protect market share.</li> <li>&gt; Restructuring payment terms and sourcing funding in-country.</li> <li>&gt; Ability to reprice parts inventory and pharmaceuticals to mitigate the impact of weakening currencies.</li> <li>&gt; Diversification of the group's portfolio of businesses and geographies over time. Its African footprint allows for a spread of risk with regards to currency exposure.</li> </ul>	<p><i>Manage capital effectively</i></p> <p><i>Limit currency risk</i></p>

\* Indicates management's assessment of the year-on-year change in residual exposure to the risk.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
<p><b>Slow or negative growth in South Africa</b></p> 	<p>With high market shares in the domestic businesses limiting acquisitive growth, their performance is linked to that of the broader economy. The outlook for economic growth in South Africa is poor and any further downgrades of the South African sovereign rating could adversely impact the group's credit rating, increasing its cost of capital.</p> <p> <i>CEO's report from page 21, CFO's report from page 25, Divisional reviews from page 40.</i></p>	<ul style="list-style-type: none"> <li>&gt; Focus on niche products and services.</li> <li>&gt; Service excellence and innovative client offerings, to support sustainable margins.</li> <li>&gt; Agility in divisional operating models, particularly through asset-light capabilities.</li> <li>&gt; Identify financial and operational synergies to extract efficiencies and manage costs.</li> <li>&gt; Organic and acquisitive growth strategies focused on diversification across sectors and geographies.</li> </ul>	<p><i>Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders</i></p> <p><i>Manage capital effectively</i></p>
<p><b>Regulatory and compliance</b></p> 	<p>As a multinational group, Imperial is subject to a wide range of legislation, which it monitors to ensure compliance. Any breach of compliance could result in fines or sanctions that affect the group's profitability and may have adverse reputational consequences.</p> <p>Monitoring the changes in legislative environments and interpretations of law is of key importance and may have uncertain consequences for our business model and operations, particularly in our African operations which are affected by political and regulatory uncertainty. In South Africa, political and policy uncertainty is impacting on investment and consumer spending.</p> <p> <i>Chairman's letter to stakeholders from page 18.</i></p> <p> <i>SDR online: Our people.</i></p>	<ul style="list-style-type: none"> <li>&gt; Centralisation of selected specialist areas where compliance risk is high.</li> <li>&gt; Proactive monitoring, input and operational implementation plans and frameworks on emerging legislation.</li> <li>&gt; Increased resource allocation to legal and compliance units.</li> <li>&gt; Ongoing review of compliance with group ethics framework and legal requirements.</li> <li>&gt; Increased engagement with business leaders in South Africa to advocate for more effective policies.</li> <li>&gt; Positioning businesses and products to maintain and increase market penetration.</li> <li>&gt; In-country operations and their business partners are well acquainted with the political and regulatory landscape allowing them to anticipate, manage and mitigate local risks to within risk appetite.</li> </ul>	<p><i>Strengthen legitimacy</i></p>

\* Indicates management's assessment of the year-on-year change in residual exposure to the risk.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
<p><b>IT strategy and execution of architecture, systems and applications</b></p> 	<p>The legacy of decentralised IT systems and infrastructure from the divisions' growth through acquisition makes it critical to reduce systems complexity through consolidation, while ensuring that cybersecurity and innovation are addressed. Divisional IT strategies need to be flexible and effective in meeting the requirements of internal and external customers, and delivering new IT solutions for competitive differentiation and operational effectiveness.</p> <p> <i>Divisional reviews from page 40.</i></p>	<ul style="list-style-type: none"> <li>&gt; Board oversight and monitoring of material IT projects.</li> <li>&gt; Strategy alignment review done per division to ensure appropriate IT strategies.</li> <li>&gt; Appointment of divisional level chief information officers (CIOs).</li> <li>&gt; Divisional project management – within the CIO's office.</li> <li>&gt; Cybersecurity minimum guidelines implemented.</li> <li>&gt; Ongoing cyber risk assessments as part of the emerging risk landscape.</li> </ul>	<p><i>Ensure organisational effectiveness</i></p>
<p><b>Imperial business restructure</b></p> 	<p>The consolidation of the group's two major divisions may undermine management's and employees' focus on growth and profitability, given the complexity and disruption of restructuring operating models and processes, and integrating different business cultures. At the same time, the increased attention on the underlying value chains of these sectors allows the divisions to capitalise on opportunities identified.</p> <p> <i>CEO's report from page 21, Divisional reviews from page 40.</i></p> <p> <i>SDR online: Our people</i></p>	<ul style="list-style-type: none"> <li>&gt; Board and executive management for divisions have been appointed and are working well.</li> <li>&gt; New incumbents in key positions are supported and transfer of duties and processes responsibly managed.</li> <li>&gt; Project committees for divisional consolidation include key group executives to ensure effective change management, and to enable divisional management to focus on day-to-day business.</li> </ul>	<p><i>Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders</i></p> <p><i>Ensure organisational effectiveness</i></p> <p><i>Strengthen legitimacy</i></p>
<p><b>Reliance on capital and asset intensive operations</b></p> 	<p>Returns may be affected when capital is inefficiently invested in fleet and inventory that is not being optimally utilised, increasing the risk of asset impairments and higher financing and operating costs. Furthermore, in low-growth conditions, operations are exposed to increasing costs in maintaining assets and the risk of these assets sitting idle.</p> <p> <i>Divisional reviews from page 40.</i></p>	<ul style="list-style-type: none"> <li>&gt; Active management and investment in optimising inventory and fleet levels.</li> <li>&gt; Strategic focus on lowering capital intensity in both divisions.</li> <li>&gt; Enhanced governance oversight and active review and monitoring of the realisable value of assets.</li> <li>&gt; Regular review and application of latest accounting and business principles.</li> <li>&gt; ROIC is a key performance indicator and metric for the group.</li> </ul>	<p><i>Manage capital effectively</i></p>

\* Indicates management's assessment of the year-on-year change in residual exposure to the risk.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
<p><b>Acquisition and business integration</b></p> 	<p>With any acquisition strategy, there is a risk of entering markets that are not well understood and the group may need to rely on outside partners. After businesses are acquired, their integration into the group requires stringent and pragmatic processes to ensure value is not impaired.</p> <p> <i>CEO's report from page 21.</i></p>	<ul style="list-style-type: none"> <li>&gt; Clearly defined expansion areas have been identified.</li> <li>&gt; Group mandate relating to investments in place.</li> <li>&gt; Regular review of acquisition risks and criteria at executive level.</li> <li>&gt; Clear acquisition guidelines defined and overseen by group investment committee.</li> <li>&gt; Formal authority limits are adhered to.</li> <li>&gt; Formal post-acquisition review process.</li> <li>&gt; Retaining existing management to allow for knowledge transfer over the next three to five years and sufficient time for succession planning.</li> </ul>	<p><i>Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders</i></p> <hr/> <p><i>Manage capital effectively</i></p>
<p><b>Labour and social disruptions</b></p> 	<p>Increasing social and labour disruptions, including unprotected strikes in South Africa, are having an adverse effect on the divisions' domestic operations and those of their clients, and increasing their costs.</p> <p> <i>Chairman's letter to stakeholders from page 18.</i></p> <p> <i>SDR online: Our people</i></p>	<ul style="list-style-type: none"> <li>&gt; Active participation in industrial labour councils.</li> <li>&gt; Agility and diversification of supply chain channels.</li> <li>&gt; Review of operational labour plans to ensure continuity of services.</li> <li>&gt; Diversify to spread risk of disruptions across industries and geographies.</li> <li>&gt; Implemented internal minimum wage above prescribed level in South Africa.</li> <li>&gt; Contractual arrangements with clients to ensure that, where appropriate, financial risk can be transferred or shared.</li> </ul>	<p><i>Ensure organisational effectiveness</i></p> <hr/> <p><i>Strengthen legitimacy</i></p>
<p><b>Succession and talent management</b></p> 	<p>The limited pool of qualified skills in South Africa, and the impact of an ageing skilled working population in both the South African and European businesses, are challenges in accessing the talent needed to resource the divisional growth strategies. Besides leadership skills, the group's businesses depend on specialised technical and customer-facing skills, which need to be developed and retained.</p> <p> <i>Divisional reviews from page 40.</i></p> <p> <i>SDR online: Our people.</i></p>	<ul style="list-style-type: none"> <li>&gt; Implementation of best people practices, supported by the appropriate systems, in progress within the divisions.</li> <li>&gt; Identification of key current and future skills and aligning these to talent management programmes.</li> <li>&gt; Divisional and group training and development programmes, including specialist training academies.</li> <li>&gt; Co-ordinated transformation policies and programmes focused on development and promotion of internal candidates, and recruitment of employment equity candidates.</li> </ul>	<p><i>Ensure organisational effectiveness</i></p> <hr/> <p><i>Strengthen legitimacy</i></p> <hr/> <p><i>Strengthen legitimacy</i></p>

\* Indicates management's assessment of the year-on-year change in residual exposure to the risk.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
<p><b>Credit extension and client affordability in the retail markets</b></p> 	<p>The growth in Motus (including financial services) is dependent on the ability of customers to access credit and the appetite of banks to lend. The indebtedness of the South African consumer is therefore a cause for concern.</p> <p> <i>Divisional review: Motus from page 52.</i></p>	<ul style="list-style-type: none"> <li>&gt; Market assessment of client affordability.</li> <li>&gt; Monitoring of bank appetite to extend credit.</li> <li>&gt; Building alliances with multiple banks.</li> <li>&gt; Growing annuity revenue streams.</li> <li>&gt; Offering innovative products that provide value for consumers while maintaining growth in our revenue base.</li> <li>&gt; 53% of revenue and 78% of operating profit in Motus is not vulnerable to vehicle sales.</li> </ul>	<p><i>Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders</i></p>
<p><b>Third-party dependence and reliance</b></p> 	<p>Imperial Logistics manages a complex network of suppliers, including sub-contractors, that it relies on to deliver superior service to its clients.</p> <p> <i>Divisional reviews from page 40.</i></p>	<ul style="list-style-type: none"> <li>&gt; Ongoing oversight and monitoring of contract renewals and negotiations.</li> <li>&gt; Signing long-term supply contracts, where appropriate.</li> <li>&gt; Increased contract management oversight and support of suppliers.</li> <li>&gt; Monitoring industry trends to ensure innovative service offerings.</li> </ul>	<p><i>Strengthen legitimacy</i></p> <p><i>Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders</i></p>
<p><b>Brand or sector dependence</b></p> <p>NEW TOP RISK</p>	<p>Motus depends on its relationships with OEMs and must comply with the agreements it has with them in respect to items such as sales volumes and quality dealerships. Failure to meet the required standards may affect its status as an exclusive distributor and retailer of these global brands.</p> <p>Within Logistics International, exposure to cyclical and declining industries may limit organic growth opportunities.</p> <p> <i>Divisional reviews from page 40.</i></p>	<ul style="list-style-type: none"> <li>&gt; Proactive engagement with OEMs as well as relationship and contract satisfaction management with key suppliers and clients.</li> <li>&gt; Own the majority of the dealer network through which sales are generated.</li> <li>&gt; Formalised and proactive management of service and product level expectations.</li> <li>&gt; Presence in various sectors in Logistics to meet client's requirements.</li> <li>&gt; Imperial Logistics is increasing its exposure to sustainable industry verticals and reducing its exposure to cyclical sectors.</li> <li>&gt; Pursue regional or market expansion through focused acquisitions of complimentary capabilities.</li> </ul>	<p><i>Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders</i></p>

\* Indicates management's assessment of the year-on-year change in residual exposure to the risk.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
<p><b>Broad-based black economic empowerment (BBBEE) status of South African-based operations</b></p> <p>NEW TOP RISK</p>	<p>The changes to the BBBEE codes is requiring accelerated transformation, specifically higher levels of black ownership in the group’s South African businesses. Failure to achieve set targets may impact on their competitiveness and sustainability.</p> <p> <i>Divisional reviews from page 40.</i></p> <p> <i>SDR online: Our people.</i></p>	<ul style="list-style-type: none"> <li>&gt; Active oversight of divisional scorecards.</li> <li>&gt; Clear initiatives in place to meet employment equity targets.</li> <li>&gt; Standardised reporting process implemented to report a full group BBBEE scorecard from October 2017.</li> <li>&gt; Commenced transaction process to introduce direct 30% BBBEE shareholding, including black women, in Imperial Logistics South Africa, increasing the effective black ownership to over 50%.</li> <li>&gt; In Motus, joint ventures with strategic BBBEE partners are being secured in various sub-divisions.</li> </ul>	<p><i>Strengthen legitimacy</i></p>

\* Indicates management’s assessment of the year-on-year change in residual exposure to the risk.

# 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:

## DIRECT INPUTS

Dialogue with and counsel from the Imperial Holdings board of directors and its sub-committees.

Interviews to elicit the concerns of stakeholders at group and divisional levels.

Reference to the Imperial board's meeting minutes for the year.

Engagement with share owners.

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 Report and Sustainable Development Report, and associated management priorities are covered throughout both reports.

 More detail on each of the material issues, the associated management priorities and the relevant strategies and plans that pertain to them is provided in the detailed material issues available online.

## 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 ROIC 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.