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.

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

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.

CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
Currency volatility in the markets in which we operate	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. *CEO's report from page 21, CFO's report from page 25, Divisional reviews from page 40.*	> Active management of currency volatility through established hedging policy and governance structures, particularly in the vehicle import business. > Negotiated, preferential pricing from Original equipment manufacturers (OEMs) to support margins and protect market share. > Restructuring payment terms and sourcing funding in-country. > Ability to reprice parts inventory and pharmaceuticals to mitigate the impact of weakening currencies. > 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.	*Manage capital effectively* *Limit currency risk*

* *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
Slow or negative growth in South Africa	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. *CEO's report from page 21, CFO's report from page 25, Divisional reviews from page 40.*	> Focus on niche products and services. > Service excellence and innovative client offerings, to support sustainable margins. > Agility in divisional operating models, particularly through asset-light capabilities. > Identify financial and operational synergies to extract efficiencies and manage costs. > Organic and acquisitive growth strategies focused on diversification across sectors and geographies.	*Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders* *Manage capital effectively*
Regulatory and compliance	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. 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. *Chairman's letter to stakeholders from page 18.* *SDR online: Our people.*	> Centralisation of selected specialist areas where compliance risk is high. > Proactive monitoring, input and operational implementation plans and frameworks on emerging legislation. > Increased resource allocation to legal and compliance units. > Ongoing review of compliance with group ethics framework and legal requirements. > Increased engagement with business leaders in South Africa to advocate for more effective policies. > Positioning businesses and products to maintain and increase market penetration. > 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.	*Strengthen legitimacy*

* *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
IT strategy and execution of architecture, systems and applications	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. *Divisional reviews from page 40.*	> Board oversight and monitoring of material IT projects. > Strategy alignment review done per division to ensure appropriate IT strategies. > Appointment of divisional level chief information officers (CIOs). > Divisional project management – within the CIO's office. > Cybersecurity minimum guidelines implemented. > Ongoing cyber risk assessments as part of the emerging risk landscape.	*Ensure organisational effectiveness*
Imperial business restructure	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. *CEO's report from page 21, Divisional reviews from page 40.* *SDR online: Our people*	> Board and executive management for divisions have been appointed and are working well. > New incumbents in key positions are supported and transfer of duties and processes responsibly managed. > 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.	*Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders* *Ensure organisational effectiveness* *Strengthen legitimacy*
Reliance on capital and asset intensive operations	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. *Divisional reviews from page 40.*	> Active management and investment in optimising inventory and fleet levels. > Strategic focus on lowering capital intensity in both divisions. > Enhanced governance oversight and active review and monitoring of the realisable value of assets. > Regular review and application of latest accounting and business principles. > ROIC is a key performance indicator and metric for the group.	*Manage capital effectively*

* *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
Acquisition and business integration	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. CEO's report from page 21.	> Clearly defined expansion areas have been identified. > Group mandate relating to investments in place. > Regular review of acquisition risks and criteria at executive level. > Clear acquisition guidelines defined and overseen by group investment committee. > Formal authority limits are adhered to. > Formal post-acquisition review process. > Retaining existing management to allow for knowledge transfer over the next three to five years and sufficient time for succession planning.	*Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders* *Manage capital effectively*
Labour and social disruptions	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. Chairman's letter to stakeholders from page 18. SDR online: Our people	> Active participation in industrial labour councils. > Agility and diversification of supply chain channels. > Review of operational labour plans to ensure continuity of services. > Diversify to spread risk of disruptions across industries and geographies. > Implemented internal minimum wage above prescribed level in South Africa. > Contractual arrangements with clients to ensure that, where appropriate, financial risk can be transferred or shared.	*Ensure organisational effectiveness* *Strengthen legitimacy*
Succession and talent management	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. Divisional reviews from page 40. SDR online: Our people.	> Implementation of best people practices, supported by the appropriate systems, in progress within the divisions. > Identification of key current and future skills and aligning these to talent management programmes. > Divisional and group training and development programmes, including specialist training academies. > Co-ordinated transformation policies and programmes focused on development and promotion of internal candidates, and recruitment of employment equity candidates.	*Ensure organisational effectiveness* *Strengthen legitimacy* *Strengthen legitimacy*

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CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
Credit extension and client affordability in the retail markets	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. *Divisional review: Motus from page 52.*	> Market assessment of client affordability. > Monitoring of bank appetite to extend credit. > Building alliances with multiple banks. > Growing annuity revenue streams. > Offering innovative products that provide value for consumers while maintaining growth in our revenue base. > 53% of revenue and 78% of operating profit in Motus is not vulnerable to vehicle sales.	*Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders*
Third-party dependence and reliance	Imperial Logistics manages a complex network of suppliers, including sub-contractors, that it relies on to deliver superior service to its clients. *Divisional reviews from page 40.*	> Ongoing oversight and monitoring of contract renewals and negotiations. > Signing long-term supply contracts, where appropriate. > Increased contract management oversight and support of suppliers. > Monitoring industry trends to ensure innovative service offerings.	*Strengthen legitimacy* *Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders*
Brand or sector dependence NEW TOP RISK	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. Within Logistics International, exposure to cyclical and declining industries may limit organic growth opportunities. *Divisional reviews from page 40.*	> Proactive engagement with OEMs as well as relationship and contract satisfaction management with key suppliers and clients. > Own the majority of the dealer network through which sales are generated. > Formalised and proactive management of service and product level expectations. > Presence in various sectors in Logistics to meet client's requirements. > Imperial Logistics is increasing its exposure to sustainable industry verticals and reducing its exposure to cyclical sectors. > Pursue regional or market expansion through focused acquisitions of complimentary capabilities.	*Increase the growth and returns of Imperial Logistics and Motus by delivering superior, defensible value to stakeholders*

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CHANGE IN RISK EXPOSURE*	CONTEXT	RESPONSE	LINK TO MATERIAL ISSUES
Broad-based black economic empowerment (BBBEE) status of South African-based operations NEW TOP RISK	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. *Divisional reviews from page 40.* *SDR online: Our people.*	> Active oversight of divisional scorecards. > Clear initiatives in place to meet employment equity targets. > Standardised reporting process implemented to report a full group BBBEE scorecard from October 2017. > 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%. > In Motus, joint ventures with strategic BBBEE partners are being secured in various sub-divisions.	*Strengthen legitimacy*

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