



Chairman's letter to stakeholders

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Creating a sustainable Imperial

The past year has been pivotal for Imperial. The implementation of far-reaching decisions, to secure the group's ability to deliver focused growth and superior returns long into the future, has proceeded at pace.

These decisions are the outcome of the difficult questions, crucial to the sustainability of the group, that the leadership of Imperial has asked in the last three years. The interests of stakeholders, particularly the owners of the group, have been deeply considered in finding the most prudent answers.

Profound changes have been made to unlock intrinsic value within the group.

A seamless transition to a significantly refreshed and younger leadership team at group and subsidiary level has been achieved, creating a propensity for change and innovation. Assets that do not fit the group's strategy, and which generated insufficient returns on executive effort, have been sold. Those that do, and which strengthen the core linkages between markets, sectors, assets and capabilities within the group's divisions have been acquired, in line with the group's investment thesis. This substantial portfolio reconfiguration is nearing completion.

The separation of the portfolio into two increasingly self-sufficient and sustainable multinational divisions is well advanced and each of them is restructuring internally to maximise their potential to create value. A thorough consideration of the cyclical and structural dynamics, specifically the disruptive technology-driven change that will redefine their core markets, is informing the work being done to position the divisions clearly and strongly within the logistics and vehicles sectors.

The internal separation has necessitated a realignment of the group's governance structure with two strong divisional operating boards established in the year. Supported by the overlap in membership between the group and divisional boards, the new governance structure ensures group board oversight of strategy development, capital management, leadership succession and exemplary governance standards within each division.

The divisional operating boards consist of group executives, operational executives, and independent non-executive directors of the group board. In each case, the divisional boards have the relevant mix of professional and industry expertise to provide the strategic stewardship and oversight to safeguard each division's ability to compete and win in its respective markets, and deliver targeted returns on the capital invested by the group.

Despite the impact of the potentially disruptive changes that have touched every part of the organisation – and very much because of the clarity, simplification and focus they have brought to its structure, strategies and value propositions – the group achieved its strategic, operational and financial objectives for the year. The board is confident that prospects for a sustainable improvement in performance in the years ahead are positive.



The group and divisional performance and prospects are reviewed in detail, in relation to the macroeconomic and socio-political context, in the CEO's report starting on page 21, and the divisional reviews starting on page 40.

Investing in the enablers of sustainable value creation

Fundamental to each division's value proposition to its customers and employees, and to the strategic business partners it requires to be competitive, is the investment being made in the primary enablers of growth, returns and sustainability – the 'capitals' on which value creation depends. As such, the renewal of the group and its expression in the competitive strategies of the divisions, is essentially an exercise in integrated thinking as the premise for sustainable value creation.

Evidence of this investment is provided throughout the Integrated Annual Report, and the supplementary Sustainable Development Report (SDR). I will therefore confine my attention to the enablers of organisational effectiveness and resilience – people, systems and innovation – and further, key initiatives that underpin the group's reputation as an ethical corporate citizen.

The success of each division in implementing its strategy relies heavily on its people. Given the importance of leadership to strategic delivery, the group oversees the governance aspects of human capital management and, together with divisional leadership, manages talent and succession at the top three levels of the organisation. These functions have been devolved into the divisions for lower management levels and other positions, giving them the flexibility to respond to their unique talent needs at those levels.

Integrated, best-of-breed people practices, supported by new systems, are being implemented within each division. They will ensure more strategic people-related decisions and mitigate the associated risk, while aligning remuneration and incentives to performance and value creation targets. Employees can expect more focused learning and career development, and an environment that empowers them to give of their best, especially in delivering to customers.

Customer experience is a crucial differentiator, particularly in difficult economic conditions and with the constant threat of new, technologically advanced competitors and disintermediation within the value chains of each division. Increased digitisation through the systematic overhaul and, where appropriate, the standardisation of IT systems within the divisions is improving operational efficiency and process leadership, and the management of complex supply chains. This is enabling solutions that are more cost-effective and optimise the total value added to their customers.

The development of data and analytics capabilities, together with formalised monitoring of disruptive change in our industries, is internalising innovation at Imperial. In each of the divisions, specific business units have been tasked with developing innovative solutions and leveraging them across the rest of the businesses.



More information on human capital management and IT is available in the divisional reviews starting on page 40.



Human capital management is comprehensively covered in the SDR, available online.

Embedding an ethical culture

The renewal of the group has created an opportunity to reinforce a groupwide culture that aligns productivity and performance with ethical practices and social consciousness, which protect its commercial and social legitimacy. This is consistent with the intent of King IV, which once again has put South Africa at the forefront of global governance best practice.

As an international group based in South Africa, and with an extensive African presence, the group operates in an increasingly poor ethical climate. Our approach is to ensure that our own house is in order, a complex task across a multinational operating base with over 49 000 employees and an extensive supply chain. More broadly, we aim to leave no room within our sphere of influence for corrupt and unethical conduct is an antidote to its proliferation.

The group operates within a clear ethics framework, aligned to its values, which includes a code of ethics and related policies, and we take a zero-tolerance approach to corruption and collusion. The group code of conduct was finalised in the year and an ethics and fraud prevention framework is being developed. Ongoing ethics training among employees and a formal process requiring senior leaders to confirm their understanding of the group's policies and their ethical conduct, provide constant reinforcement.

The group's legal compliance programme ensures compliance with the complex range of laws and regulations across the group's jurisdictions. Divisional operating boards and risk committees oversee compliance and report quarterly to the group's audit and risk committees. Legal and compliance units manage and monitor systems and controls within the divisions, and internal audits are undertaken in all operations to assess their effectiveness. Where required, external compliance assessments are undertaken.

Legislative developments are monitored on an ongoing basis and group leadership proactively engages with regulators through several industry bodies and business associations. This not only provides the opportunity to advocate for effective policies,

but also to inform a common interpretation of requirements and therefore the controls needed to comply.

Within the divisions, ethical people practices including health and safety, ensuring the integrity of supply chain partners, meeting diversity and inclusion requirements, and environmental performance – all components of ethical corporate citizenship – are commercial imperatives. Clients, principals and original equipment manufacturer (OEMs), as well as other strategic partners like health ministries and donor organisations, expect high standards in these areas. Each division is making the necessary investments to not only comply, but achieve competitive advantage in this respect.



Environmental management within each division, according to their specific impacts, and the group's social initiatives, including road safety, education and access to primary healthcare, are reviewed in full in the SDR, available online.

Accelerating diversity and inclusion

Diversity and inclusion is a crucial component of ethical corporate citizenship, specifically in our home base of South Africa. The board acknowledges the urgent need to improve the transformation credentials of our South African operations, particularly in the representation of black executives and senior management. We are cognisant that there are no easy solutions, particularly in a low-growth environment that curtails job growth and given the shortage of candidates with the specialised skills and experience our businesses require.

The group's approach is to go beyond compliance, to creating a culture that encourages and harnesses the benefits of diversity. A diversity programme was introduced during the year to provide leaders with a safe environment in which to have honest conversations on how to accelerate transformation effectively. Collaboration with other companies that have made substantial progress in transforming their workforces, to learn from their experiences, is also being encouraged.

Several initiatives are in place to accelerate transformation. A standardised reporting process was introduced to enable the group to report a full broad-based black economic

empowerment (BBBEE) scorecard from October 2017. The scorecard will help to focus attention on the most pressing challenges, expected to be in the enterprise and supplier and socioeconomic development pillars. As the BBBEE reporting process is streamlined, the focus will be to restore the ratings of the South African businesses under the revised dti Codes to those achieved under the old scorecard.

Imperial Logistics is one of South Africa's largest employers and a leading logistics provider across the entire value chain. The process of introducing a direct 30% BBBEE and black women-owned shareholding into the business is underway, which will increase the effective black ownership of Imperial Logistics South Africa to over 50%. In Motus, joint ventures with BBBEE partners are being sought to strengthen its competitiveness, and a strategic BBBEE partner for the newly established fleet business is being secured.

The talent programmes in our South African businesses are designed to accelerate the progress of black candidates into senior roles. Black representation at senior and middle management level are incorporated into executive incentives, overseen by the remuneration committee. Going forward, incentives will be based on divisional BBBEE scorecards. Furthermore, the enterprise development and preferential procurement activities of the divisions aim to achieve meaningful participation of black South Africans in their supply chains.

In our European operations, where gender requirements are in effect, initiatives to increase the number of women in senior positions are in place.

Board matters

Our ability to maintain exemplary governance standards and legitimacy among stakeholders is upheld through the leadership of an experienced board, with a balance of the relevant professional, functional and industry expertise.

In the year, the board assessed its effectiveness by questionnaire, administered by an independent third party. Gender representation was cited as requiring attention, which led to a formal board diversity policy being adopted. A voluntary target was set to increase female

representation by at least one member, and preference will be given to a female director when the next vacancy arises.

The board conducted a King IV readiness assessment, which showed that the group already materially applies its principles. Practices that are not formally or fully applied, together with additional disclosure requirements, are being implemented. These included reconstituting the risk committee and social, ethics and sustainability committee to comprise a majority of non-executive directors. Also, an additional non-executive director has been elected to the assets and liabilities committee and an independent non-executive chairman appointed for that committee. The terms of reference of the social, ethics and sustainability committee have also been aligned to the recommendations of King IV, and were approved by the board.

The restructuring of the group executive as part of the leadership refresh included Osman Arbee resigning as group chief financial officer, with effect from 1 March 2017, to take up the position of chief executive officer at Motus. Osman remains a member of the board. Mohammed Akoojee succeeded Osman as group chief financial officer, and was consequently appointed to the board from 1 March 2017. In line with changes in his executive responsibilities at Motus, Philip Michaux resigned from the board on 21 August 2017, and Manny de Canha will resign from the board on 31 October 2017 and will retire on 31 January 2018.

Roboijane (Moses) Kgosana resigned from the board with effect from 8 September 2017.



The directors of the Imperial Holdings board are set out on page 36, and of the divisional operating boards in the respective divisional reviews, starting on page 40.

Appreciation

I extend my appreciation to all our stakeholders for their loyalty and support during a year of substantial change. I am particularly indebted to my fellow board members for their foresight and counsel as we set the foundations for a sustainable Imperial.