

# 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 long-term value. The improvements made to the Integrated Annual Report 2016 (the report), specifically the granularity of the process and output of the material issues determination, the clearer link between strategy, risk, and stakeholders and the material issues, the longer-term outlook provided in the assessment of strategic performance outlined in the CEO's report, and the greater conciseness of the report, substantiate this intention.

## 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. From the 2017 financial year, the newly created Logistics (Imperial Logistics) and Vehicles (Motus Holdings) divisions will be reported on as single entities.

## MATERIALITY DETERMINATION

The group's material issues reflect the most important considerations in the board's deliberations and management's thinking in managing and positioning the group to deliver growth and focused value creation for its stakeholders. In turn, the material issues are the key themes for the report, and each division goes further in

emphasising those issues that are critical to their respective operating contexts, stakeholders and strategies. Further detail on the material issues that relate most closely to sustainable development is provided in the Sustainable Development Report online. The material issues, how they were determined, the associated strategic responses and relevant management actions and performance, as well as where stakeholders can find further information in both the Integrated Annual Report and the Sustainable Development Report, are set out on pages 26 to 33.

## 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.

In particular, the significant organisational renewal underway at Imperial, which is aimed at positioning the group for stronger growth, returns and sustainability in relation to the structural and systemic changes in the business environment, is in essence an exercise in integrated thinking. As our report explains, this renewal is entailing

focused investment in the assets and enablers that underpin the group's ability to create long-term value for its stakeholders. Most notable in this regard has been the accelerated investment in our human capital management capabilities and IT systems as the foundation for organisational effectiveness. In tandem with the renewal, the group's focus on its 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 Integrated Annual 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

## FEEDBACK

We welcome the feedback of our stakeholders in improving our reporting. Any questions relating to our reports can be directed to:

Esha Mansingh, group investor relations manager – emansingh@ih.co.za



## 1 OPERATING CONTEXT AND STRATEGY

**Imperial's businesses operate in diverse geographies, industries and markets** with different socio-economic, 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

**Imperial subscribes to the principles of good governance as defined in King III, and complies with all relevant laws and regulations.**

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 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.

 [www.imperial.co.za](http://www.imperial.co.za).

*The board continually assesses its governance practices and procedures against King III and makes adjustments where necessary. A register of the group's application of the 75 principles of King III is available online.*

## 3

**BOARD AND COMMITTEES****BOARD**

The group has a unitary board comprising ten non-executive directors (of whom eight are independent) and five executive directors.

**Board of directors****Non-executive directors**

SP Kana\* (chairman)  
 A Tugendhaft (deputy chairman)  
 P Cooper\*  
 GW Dempster\*  
 T Dingaan\*  
 RM Kgosana\*  
 P Langeni\*  
 MV Moosa  
 RJA Sparks (lead independent director)\*  
 Y Waja\*

**Executive directors**

MJ Lamberti (CEO)  
 OS Arbee (CFO)  
 MP de Canha  
 PB Michaux  
 M Swanepoel

\* Independent.

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. 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 board charter outlines a clear balance of power and authority within the board so as 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 required by legislation.

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

An independently facilitated review was performed in the year.

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 since their appointment or re-election.

Directors standing for re-election were appraised by the board and their re-election is recommended by the board. This year, Messrs MJ Lamberti, PB Michaux, RJA Sparks and A Tugendhaft, and Ms P Langeni, will retire by rotation and are standing for re-election at the AGM to be held on 1 November 2016.

Mr MJ Leeming retired from the board on 31 August 2015. Mr RM Kgosana has been appointed as a director and chairman of the audit committee with effect from 1 September 2015. Mr M Akoojee was appointed in an executive position in the Logistics Africa division and resigned from the board with effect from 30 September 2015. Mr JJ Strydom, the previous CEO of Regent, resigned from the board with effect from 4 November 2015.

Mr TS Gcabashe retired as a director and as chairman at the annual general meeting on 3 November 2015. He was succeeded as chairman by Dr SP Kana, who was appointed as a director of the company on 1 September 2015.

*The table on page 75 outlines attendance at board and committee meetings during the year.*



### 3 BOARD AND COMMITTEES CONTINUED

#### 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 has 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 separated from that of the CEO through the provisions in 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, as well as participating in the succession planning of executive directors.



## GOVERNANCE &gt; CORPORATE GOVERNANCE REPORT

## BOARD AND COMMITTEE ATTENDANCE

	Board meetings		Committee meetings								
	Meetings (including one special meeting)	Annual strategy meeting	Executive committee	Social and ethics committee	Assets and liabilities committee	Nomination committee	Risk committee	Audit committee	Remuneration committee	Investment committee	
Non-executive directors	SP Kana (chairman) <sup>1*</sup>	4/4	1/1		3/3		2/2			2/2	3/3
	P Cooper	2/2	1/1								3/3
	GW Dempster	2/2	1/1			4/4			3/3		3/3
	T Dingaen	5/5	1/1						4/4		
	TS Gcabashe <sup>**</sup>	1/1			3/4		4/4			2/2	
	RM Kgosana <sup>**</sup>	3/3	1/1					3/3	3/3		
	P Langeni	4/5	1/1				5/6		4/4	4/4	
	MJ Leeming <sup>**</sup>	1/1				1/1		1/1			
	MV Moosa <sup>3</sup>	5/5	1/1		4/4						
	RJA Sparks <sup>4</sup>	5/5	1/1				6/6		4/4	4/4	3/3
A Tugendhaft	5/5	1/1		4/4		6/6			4/4		
Y Waja <sup>5</sup>	5/5	1/1					4/4	4/4			
Executive directors	MJ Lamberti <sup>6</sup>	5/5	1/1	15/15	4/4	4/4		3/4			3/3
	OS Arbee <sup>7</sup>	5/5	1/1	15/15	4/4	4/4		4/4			3/3
	M Akoojee <sup>**</sup>	1/1		3/3							2/3
	MP de Canha	5/5	1/1	14/15							
	PB Michaux	5/5		14/15							
	JJ Strydom <sup>**</sup>	2/2		4/4		2/2					
	M Swanepoel	5/5	1/1	14/15		4/4					3/3

\* Appointed during the year.

\*\* Resigned or retired during the year.

1 Nomination committee chairman.

2 Audit committee chairman.

3 Social and ethics committee chairman.

4 Remuneration committee chairman.

5 Risk committee chairman.

6 Executive committee chairman.

7 Assets and liabilities committee chairman.

## 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 bring judgement to bear, 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.

Ms P Langeni and Mr Y Waja have served on the board for over nine years. An internal 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 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 JSE Listings Requirements, the board of directors must consider the competence, qualifications and experience of the company secretary annually. King III 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. After conducting a formal review that formed part of the annual board evaluation process, 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.

The competence and performance of the company secretary was reviewed based on interviews with all board members, which formed part of the board review, the results of which is considered by the board as a whole.

The board confirmed that the company secretary is adequately qualified and experienced and has effectively performed and carried out his duties during the year.

## GOVERNANCE &gt; CORPORATE GOVERNANCE REPORT

## 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 table below outlines the board committees at the time of publication. The rest of this governance report outlines the committee memberships and activities during the year to 30 June 2016.

<b>EXECUTIVE COMMITTEE</b>	<b>AUDIT COMMITTEE</b>	<b>RISK COMMITTEE</b>	<b>REMUNERATION COMMITTEE</b>	<b>SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE</b>	<b>ASSETS AND LIABILITIES COMMITTEE</b>	<b>INVESTMENT COMMITTEE</b>
MJ Lamberti (chairman)	RM Kgosana (chairman)	Y Waja (chairman)	RJA Sparks (chairman)	MV Moosa (chairman)	OS Arbee (chairman)	P Cooper (chairman)
OS Arbee (CFO)	GW Dempster	MJ Lamberti (CEO)	SP Kana	MJ Lamberti (CEO)	MJ Lamberti	MJ Lamberti (CEO)
MP de Canha	T Dinga	N Bell	P Langeni	OS Arbee (CFO)	GW Dempster	M Akoojee
K Cassel	P Langeni	OS Arbee (CFO)	A Tugendhaft	N Bell	R Mumford	OS Arbee (CFO)
BJ Francis	RJA Sparks	BJ Francis	<b>NOMINATION COMMITTEE</b>	T Dinga	WF Reitsma	GW Dempster
T Marcus	Y Waja	O Janse v Rensburg		BJ Francis	C Shaw	SP Kana
PB Michaux		RM Kgosana		SP Kana	M Swanepoel	G Nakos
G Nakos		F Seedat		(Chairman)	R Levin	RJA Sparks
C Shaw		A Tennick		P Langeni	L Maluleke	C Shaw
M Swanepoel				RJA Sparks	MR Sharfuddin	M Swanepoel
				A Tugendhaft	A Tugendhaft	
				RA Venter		
<b>GROUP INTERNAL AUDIT EXECUTIVE</b>	<b>GROUP TREASURER</b>	<b>GROUP LEGAL ADVISOR AND COMPANY SECRETARY</b>	<b>GROUP RISK EXECUTIVE</b>	<b>GROUP HEAD OF SUSTAINABILITY</b>		
G Nzalo BCom, CA(SA), CIA	WF Reitsma BTech Banking, MCom, FIBSA, FIFM	RA Venter BCom, LLB, LLM	BJ Francis BCompt (Hons), MBA (IE), CIA	MR Sharfuddin BBA, IMP (Insead)		

## 3 BOARD AND COMMITTEES CONTINUED

### 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 is shown in the audit committee report.

### Risk committee

The risk committee sets the group 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 met four times during the year.

### Remuneration committee

Details of the workings of the committee and attendance of meetings are contained in the comprehensive remuneration report on pages 86 to 103.

### Nomination committee

The committee provided the board with advice and guidance regarding:

- > the development and implementation of formal succession plans for the board, CEO and senior management
- > the establishment of 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 year, the committee met a number of times to identify and approve for recommendation to the board, a new chairman following the resignation of TS Gcabashe as chairman of the group.

The committee considered and approved new divisional boards and governance structures following the decision to combine the logistics divisions and to combine the various motor divisions. This included succession in these structures to 2018.

The group chairman chairs the committee in accordance with the recommendations of King III.



*The table on page 75 outlines attendance of committee meetings during the year.*

### 3 BOARD AND COMMITTEES CONTINUED

#### 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 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 III.
- > 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 division-specific BBBEE plans.
- > Environmental commitments, as described in Imperial's environmental policy framework.
- > Socio-economic development (SED) commitments, as described in Imperial's SED policy.
- > Imperial's code of ethics and corporate values.

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

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

- > SED, including the company's standing in terms of the goals and purposes of the ten principles set out in the United Nations Global Compact Principles, the Organisation for Economic Cooperation and Development (OECD) recommendations regarding corruption, the Employment Equity Act and the BBBEE Act.
- > Good corporate citizenship, including the company's promotion of equality, prevention of unfair discrimination and reduction of corruption, its 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 company's activities and of its products or services.
- > Consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws.
- > Labour and employment, including the company's standing in terms of the International Labour Organisation (ILO) Protocol on decent work and working conditions, as well as the company's employment relationships and its contribution towards the educational development of its employees.

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

#### Assets and liabilities committee

The assets and liabilities committee (ALCO) 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 group restructuring as well as significant disposals and acquisitions.



*The table on page 75 outlines attendance of committee meetings during the year.*

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## MANAGEMENT COMMITTEES

**The size and diversity of Imperial's operations has led to all significant entities** being managed through divisional boards and executive committees.

While the Imperial board of directors delegates authority through the group CEO to his direct reports and in turn to theirs, the group executive committee and the subsidiary boards exercise statutory oversight of assets and control of performance within the bounds of Imperial's board-approved strategies and budgets, with executive committees controlling day-to-day operating performance within the parameters set by the group delegation of authority policy.

### Executive committee

The group's executive committee is responsible for:

- > devising group strategy for recommendation to the board of directors and implementing the strategies and policies approved by the board
- > managing the day-to-day business and affairs of the group.

The members of the executive committee are appointed by the board. The committee consists of nine members and meets at least once a month.

Mr M Akoojee was appointed in an executive position in the Logistics Africa division and resigned from the committee with effect from 30 September 2015. Mr JJ Strydom, the previous CEO of Regent, resigned from the committee with effect from 4 November 2015. Mr C Taucke, the CEO of the Logistics International division, resigned from the committee with effect from 1 July 2016, following the decision to combine the Africa and International Logistics businesses.



*The table on page 75 outlines attendance of executive committee meetings during the year.*

## 5 PEOPLE, PROCESSES, REMUNERATION AND TECHNOLOGY



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

Industry, technical and subject matter expertise is necessary 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 ethics.

### CODE OF ETHICS

*Imperial is committed to acting with uncompromising honesty and integrity. The code of ethics provides guidance to all group and divisional employees on adhering to this commitment, while recognising that no single code can address every situation individuals are likely to encounter. This code is therefore not a substitute for employees' responsibility and accountability to exercise good judgement and obtain guidance on appropriate business conduct.*

*Ethics content is included in training and induction programmes.*

#### The code of ethics requires employees to adhere to the following behaviours:

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 clients or suppliers beyond a token value.
6. Not divulge any confidential information to any party, or improperly use company and client 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 clients.
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 critical** to ensure that governance strategy is aligned with implementation in the group.

To achieve this, processes are integrated at all levels. Processes 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.

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## PEOPLE, PROCESSES REMUNERATION AND TECHNOLOGY CONTINUED

### TECHNOLOGY

Most aspects of governance rely on underlying management information systems and information technology (IT). Conversely, the investments and risks of information systems require dedicated oversight and judgement.

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

Aligned to the group's decentralised management model, Imperial has implemented an umbrella IT governance framework. The framework was 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 objective of the standardised IT governance framework is to:

- > provide guidance to divisional and operational IT functions
- > set a standard measure of IT maturity within the group
- > align with King III.

**The five principles of the Imperial operational IT governance framework are:**

- |   |  |
|---|--|
| <b>1. Business alignment and enablement</b>     | <ul style="list-style-type: none"> <li>&gt; People capacity and development.</li> <li>&gt; Internal processes and measures.</li> </ul>       |
| <b>2. Operational performance</b>               | <ul style="list-style-type: none"> <li>&gt; People capacity and development.</li> <li>&gt; Internal processes and measures.</li> </ul>       |
| <b>3. Supplier performance management</b>       | <ul style="list-style-type: none"> <li>&gt; Formalised service level agreements.</li> <li>&gt; Structured commercial agreements.</li> </ul>  |
| <b>4. Business continuity/disaster recovery</b> | <ul style="list-style-type: none"> <li>&gt; Business impact analysis.</li> <li>&gt; Testing of back-up and recovery.</li> </ul>              |
| <b>5. Compliance and security</b>               | <ul style="list-style-type: none"> <li>&gt; Data privacy, security and access control.</li> <li>&gt; Internal control monitoring.</li> </ul> |

## 6 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, depending on its risk profile and industry, employs legal officers and in some cases dedicated compliance officers. Divisions regularly conduct assessments to highlight the impact of legislation on their businesses and to ensure that operational controls have been implemented.

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

**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
- > where applicable, **coordinate** group responses to draft legislation requiring comments.

### CONTRACT COMPLIANCE

Divisions have dedicated legal functions to review contract terms and conditions, and 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 to act in the best interests of the company, 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, 2008 (the Act), and to account to the company for any advantages gained in discharging their duties on behalf of the company.

### 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 until interim results reporting date and the 1st of July until full-year results reporting date. In addition, the group has adopted a policy requiring directors, executive committee members, 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 board adopted a comprehensive anti-bribery and corruption policy governing the relationship with customers, service providers, contractors, suppliers and government. The policy applies to all employees and covers all operating businesses in the group.

### 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.

## 7 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 of 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, and particularly reports of significant process failings or weaknesses
- > considered if the necessary action is being taken timeously to rectify any significant failings or weaknesses
- > considered whether results from the review process indicate that more extensive monitoring is required.

## 7 RISK MANAGEMENT CONTINUED

### KEY GROUP RISKS

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

The group strives to realise opportunities through the manner in which it addresses each risk. The risk categories are presented on pages 22 to 25, 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.

### 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 executive committee and quarterly to the board. Each division prepares detailed monthly management accounts, as well as budgets and a three-year plan that are approved by the board. Performance against budget is monitored and variances analysed. Profit and cash flow forecasts are reviewed, which include an analysis of material changes. A comprehensive system enables management to monitor trends and measure 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. The internal audit executive 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 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 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 came 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 its internal audit work 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, which confirmed that it 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.