

# Our value creation process continued

## Our business model

We apply an integrated approach to value creation to ensure long-term value provision to all our stakeholders, while maintaining business productivity, profitability and sustainability.

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**External environment:** Afrox operates in an environment with a range of factors that may have an impact on its operations. Examples include regulatory requirements, macroeconomic conditions, external risks and the needs and expectations of various stakeholders. Refer to our material matters on page 22 for additional information.

Inputs	Financial capital	Manufactured capital	Intellectual capital	Human capital	Social and relationship capital	Natural capital
Refer to capital capabilities on page 10 for more detailed information.	<ul style="list-style-type: none"> <li>Cash-generative operations</li> <li>Capital-intensive business supported by capital investment programmes</li> <li>Appropriate funding</li> </ul>	<ul style="list-style-type: none"> <li>Manufacturing sites in South Africa and Emerging Africa, close to established markets</li> <li>National customer service centre and warehouse</li> <li>Established and efficient transport fleet with logistics management</li> </ul>	<ul style="list-style-type: none"> <li>Access to The Linde Group technology and expertise</li> <li>Various patents and internally developed systems</li> <li>Customer-centric product and service offerings with innovative solutions</li> <li>A dynamic Board and management structure with a range of skills and expertise</li> </ul>	<ul style="list-style-type: none"> <li>2 142 employees</li> <li>Training and development opportunities to further enhance effectiveness</li> <li>Code of Ethics and SHEQ-based safety culture promote safe and ethical operations</li> </ul>	<ul style="list-style-type: none"> <li>Social licence to operate supports business sustainability, and regular engagements allow Afrox to understand the needs and interest of its key stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Primarily electricity, water and fuel consumption</li> </ul>

## Business segments

Core business processes

What we do in each segment and how we do it	Atmospheric Gases	LPG	Hard Goods	Emerging Africa
	<p>Gaseous oxygen, nitrogen and argon are Atmospheric Gases that are produced by cryogenic distillation of air at Afrox-owned ASUs. In their gaseous form, these products are supplied to large industrial users through a direct pipeline. A portion of the output may be liquefied and either stored at the ASU for use in the event of a shortage to manage supply and demand, or directly transported in bulk by cryogenic tankers to storage facilities on customer premises. The product is also transported to Afrox filling sites where it is stored and later vaporised back into gas, compressed, and used to fill cylinders.</p> <p>CO<sub>2</sub> is produced from various sources, including the combustion of hydrocarbons, fermentation of alcohol, production of ethanol and from other agricultural output (e.g. fertilisers and sugars). Depending on the concentration of CO<sub>2</sub> liberated by these processes, it becomes commercially viable for Afrox to recover, purify and liquefy CO<sub>2</sub> through Afrox-owned production facilities.</p> <p>CO<sub>2</sub> and Atmospheric Gas cylinders are dispatched directly to the customer or to Afrox Gas &amp; Gear outlets, where it is sold directly to the end-user. Empty cylinders are collected and/or returned to filling sites for maintenance and refilling.</p>	<p>LPG is produced as a by-product from the fuel refining processes. It is a mixture of hydrocarbons, which are vapour at room temperature but can be liquefied by compression. Afrox purchases LPG from local refineries and imports from global merchants to mitigate the impact of capacity constraints from local refineries. Bulk LPG is collected from the source and transported in road tankers or by rail tank cars. The product can be delivered directly to bulk end-users or to bulk storage tanks at the Afrox filling sites.</p> <p>LPG is packaged into 9 kg, 19 kg and 48 kg cylinders at the filling sites. The cylinders are delivered by road to end-users and retail outlets. Empty cylinders are collected and returned to the filling sites for maintenance. Only authorised Afrox Handigas dealers may fill Afrox-owned LPG cylinders, which carry the brand name Handigas and the Afrox Red Seal of Safety.</p> <p>The Department of Energy (DoE), which controls all energy matters in South Africa, regulates certain selling prices that affect the retail consumer, in particular, setting the maximum selling price for 9 kg cylinders of LPG at the refinery gate (maximum refinery gate price).</p>	<p>Three supply streams are used to source Hard Goods products:</p> <ul style="list-style-type: none"> <li>manufacturing from Afrox-owned facilities;</li> <li>procurement from local suppliers; and</li> <li>imports.</li> </ul> <p>These supply streams are centralised at our national warehouse from which the customer demand is supplied.</p> <p>Products are distributed globally through our exports division, while national demand is distributed through our direct Afrox-supplied offer or through strategically located indirect channels to end-users. Our direct channel is supported by our national footprint of plants, Gas &amp; Gear outlets and sales force. The indirect channel includes national retailers, distributors and partners conveniently situated close to the market.</p>	<p>A combination of all other segment products (Atmospheric Gases, LPG and Hard Goods businesses) are manufactured in the host country or supplied from South Africa to the rest of Emerging Africa.</p>

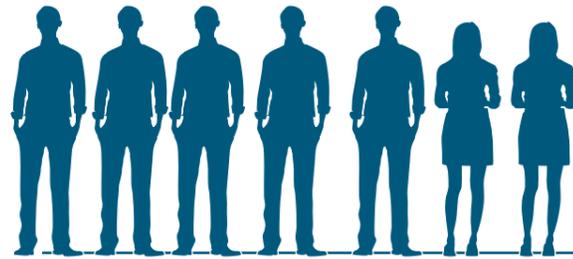
Output

Afrox products are widely used in industries such as healthcare services, production of iron and steel, fabrication and assembly of motor vehicles, industrial ceramics, food preservation, and water treatment	<ul style="list-style-type: none"> <li><b>Industrial gases:</b> These include dissolved acetylene, oxygen, nitrogen, argon and CO<sub>2</sub></li> <li><b>Special gases:</b> Refrigerants, chemicals and scientific gases</li> <li><b>Medical gases:</b> Include packaged medical gases and respiratory therapy equipment</li> <li><b>Hospitality gases:</b> Includes beverage dispensing and balloon gas</li> </ul>	<ul style="list-style-type: none"> <li><b>LPG:</b> Includes packaged LPG in a range of cylinder sizes</li> <li><b>Bulk supplies</b> to major industrial and hospitality users</li> </ul>	<ul style="list-style-type: none"> <li><b>Filler materials:</b> Include filler materials for manual metal arc (MMA), metal inert gas (MIG), tungsten electrode inert gas (TIG) and brazing, as well as fluxes and gouging carbons</li> <li><b>Arc equipment:</b> Includes arc accessories and MIG, MMA, and TIG equipment</li> <li>Rescue packs</li> <li>Regulators</li> <li>Safety equipment</li> </ul>	<ul style="list-style-type: none"> <li>All products listed for Atmospheric Gases, LPG and Hard Goods</li> </ul>
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Outcomes	Financial capital	Manufactured capital	Intellectual capital	Human capital	Social and relationship capital	Natural capital
Resultant impacts of transforming the capitals	<ul style="list-style-type: none"> <li>1.2% increase in revenue</li> <li>GPADE of R1.775 billion</li> <li>Improved financial stability reflected in net cash of R153 million</li> <li>EBITDA interest cover maintained in 2016 at not less than four times</li> </ul>	<ul style="list-style-type: none"> <li>Increased operational sites</li> <li>Improved logistics and distribution network</li> <li>Enhanced security of LPG supply through imports</li> </ul>	<ul style="list-style-type: none"> <li>Provision of unique sector-specific product solutions</li> <li>Over 85% coverage for critical roles in the Company</li> </ul>	<ul style="list-style-type: none"> <li>Improved leadership roles in safety</li> <li>Embedded training and succession programmes</li> </ul>	<ul style="list-style-type: none"> <li>Positively affected over 30 000 individuals through CSI initiatives</li> <li>Positive interaction with unions</li> </ul>	<ul style="list-style-type: none"> <li>73 437 m<sup>3</sup> of water saved</li> <li>3% increase in carbon footprint</li> <li>3% increase in electricity usage</li> </ul>

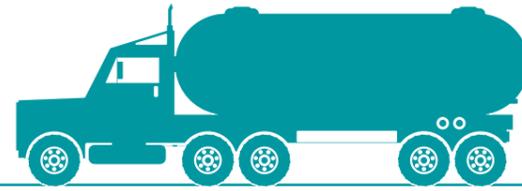
Keys to success Elements that guide our path	Strategic objectives	<ul style="list-style-type: none"> <li>Maintain and grow profitability and operating performance</li> <li>Ensure sustainable growth while enhancing competitiveness</li> <li>Embed advanced performance in areas of safety, health, environment and quality</li> <li>Build a performance culture</li> </ul>	Our vision We will be the leading gases and welding product company, admired for our employees by any measure.
	Our mission	We provide engineering services and a focused range of performance-enhancing Atmospheric Gases, welding and safety products and LPG to valued customers, through excellence in operations, customer service, product delivery, and investment in infrastructure, employees and technology for the benefit of all stakeholders.	
	Our values	<ul style="list-style-type: none"> <li>Passion to excel</li> <li>Innovating for customers</li> </ul>	

## Our value creation process continued

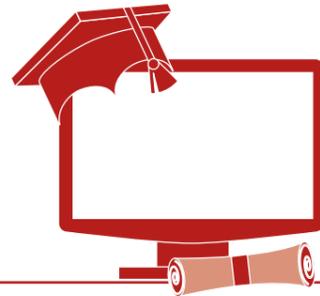


**79.4%**  
of our employees  
are black.

**24.1%**  
of our employees  
are female.



Transport fleet travels over  
**25 million**  
kilometres annually, delivering products to where  
they are needed most.



**R31 million**  
spent on training including bursaries.



**126 353 metric tonnes**  
of LPG distributed in 2016 to a range of markets,  
including manufacturing, hospitality and retail.



An increase of  
**8 877**  
customers using our  
e-commerce platforms.



**20%**  
improvement in LPG capacity to reduce the impact  
of shortages for customers.

Refer to the business model on page 14 for more outputs and outcomes of our value creation process.