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Material matters

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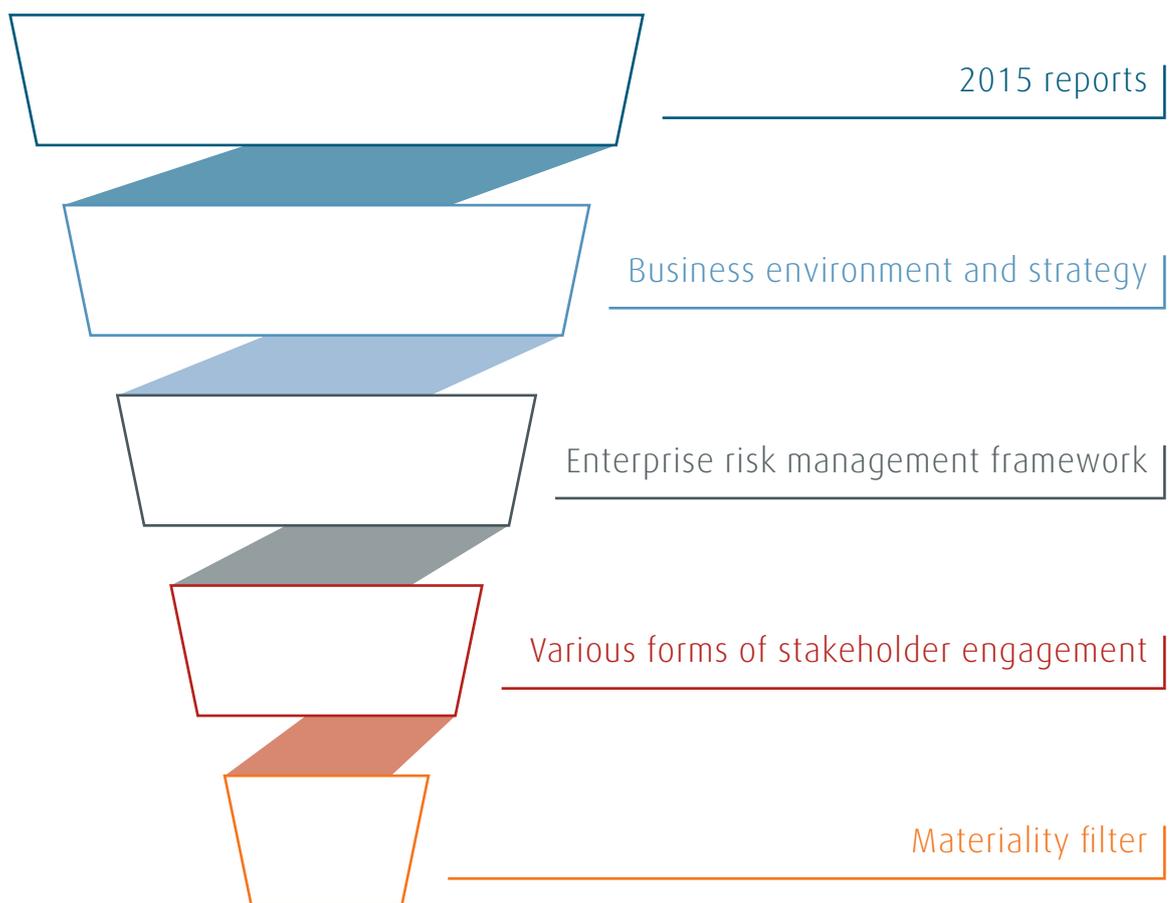
Material matters determination process

Afrox defines a material matter as a matter that substantially affects its ability to create and sustain value over the short, medium and long term.

The Company refined the material matters identified in the 2015 integrated report through an externally facilitated workshop. The process tested the validity of the material matters and ensured alignment to the business's integrated thinking approach and, in turn, our integrated report.

This workshop focused on:

- the business environment;
- Afrox's strategy and opportunities;
- relevant concerns raised by stakeholders; and
- key risks.



Our material matters

The names and definition for each material matter are on page 28.

Risk management

The Board, assisted by the Audit Committee, is responsible for risk management. The Afrox management team takes responsibility for the day-to-day design and implementation of risk management processes and systems. They are guided by the risk management policy, the enterprise-wide risk management framework and the risk management plan, which are reviewed regularly.

As part of their audit, information is provided to our external auditors to assess the effectiveness of the Company's risk management processes. The internal audit function reviews risk management practices as part of the internal audit cycle.

Risk management and assessment process

With the completion of our restructure programme, the Company applies a refreshed approach to risk management.



Management of SHEQ risks

The responsibility for managing the effectiveness and efficiency of the SHEQ process rests with the Board. Our SHEQ department ensures that a policy is in place, and that the Company is proactive in its risk assessment and professional in its remediation. The most significant tool to measure our commitment to safe operations are the Company SHEQ Golden Rules.

To ensure relevance and proactive steps to the Company-wide policy and strategy, executive managers review the SHEQ policy regularly for

improvements in monitoring techniques, investigation and controls. The policy states that Afrox will develop its SHEQ capabilities to world-class standards by manufacturing, marketing and supplying quality products that are safe and do not pose a risk to employees, customers or to the environment. The Company is committed to compliance with all external regulations, including ISO 9001, ISO 14001 and OHS 18001.

For more information on our SHEQ activities and strategy, refer to page 53.

SHEQ performance is governed by self-regulation, communication and adhering to safe practices.

Our top-five risks

The table below outlines Afrox's top-five risks. These are all incorporated into the material matters that follows on page 28.

Top five risks	2015 ranking	Impact (out of 5)	Probability (out of 5)
1. No significant recovery in volume demand Subdued economic growth leading to reduced demand for products and a risk of reduced revenue growth. Such conditions lead to increased competition for markets that are stagnant. This may lead to profit margin contraction in certain areas of the business.	1	3	4
2. Adverse outcome of LPG market inquiry Afrox's LPG operations constitute a significant part of the business (32.5% of revenue) and can potentially be adversely affected by the outcomes and recommendations of the Competition Commission's market inquiry into LPG market prices. Refer to page 48.	New	3	3
3. High exposure to commodity price cycles The Emerging Africa countries in which Afrox operates are highly exposed to commodity pricing and commodity cycles, which in turn influence currency strength and product demand. This impacts Afrox's revenue growth and margins.	New	2	5
4. South Africa's infrastructure constraints negatively impact operations Infrastructure constraints such as periodic lack of water and/or electricity have the potential to negatively impact Afrox's plant and manufacturing capabilities, leading to reduced productivity and reliability in product supply.	5	4	4
5. CO₂ source Afrox obtains CO ₂ from a limited amount of local suppliers for Emerging Africa. Any disruption to product supply or lack of capacity to meet demand may lead to supply chain constraints.	2	2	2

Year-on-year movement in our key risks

Risk number three from the 2015 integrated report, *security of LPG supply*, is no longer considered a key risk. Through various efforts, such as storage improvements at Bidvest Tanker Terminals and an increase in Afrox logistics capabilities, filling infrastructure and vehicle network growth, Afrox is in a secure position with the capacity to meet South Africa's needs and sustain growth in Emerging Africa for the medium to long term. Refer to page 48 for more details.

Healthcare, risk number four from the 2015 integrated report, also diminished owing to improved relationships with business and partners, yet remains on our operational risk register.

Stakeholder engagement

Afrox operates in an environment that is inextricably linked to our stakeholders. We strive to be cognisant of these relationships in all our activities, acting with integrity, honesty and equality at all times. This is based on the understanding that our decisions and activities may have an impact on the stakeholders and environment in which we operate.

Stakeholder groupings

We classify stakeholders according to the following groupings:

1. **Shareholders, lenders and market analysts** are key as they provide financial capital.
2. **Customers** – meeting and exceeding customer requirements are key to our future sustainability.
3. **Business partners** form part of the driving force behind the development and delivery of products, technologies and support services we provide.

4. **Employees** are key to our ability to provide product offerings and customer-specific solutions.
5. **Trade unions** support our employees.
6. **Government and regulators** provide Afrox’s legal licence to operate and regulate pricing of LPG.
7. **Communities and non-governmental organisations (NGOs)** provide Afrox’s social licence to operate.

Stakeholder mapping

Afrox takes the legitimate needs and concerns of stakeholders into account when considering our value creation process. We mapped our stakeholders according to these concerns, with a corresponding response through our material matters. We achieved this by applying a process that assessed stakeholder concerns and expectations, and grouped these into categories of similar nature before refining them to create a list of material concerns.

Material concern	Future sustainability and growth	Financial results, including total shareholder return, HEPS and cash generation	Transformation, BBBEE compliance and the impact of the new BBBEE Codes
Affected stakeholders	<ul style="list-style-type: none"> Shareholders, lenders and market analysts Customers Business partners Employees Trade unions Government and regulators Communities and NGOs 	<ul style="list-style-type: none"> Shareholders, lenders and market analysts 	<ul style="list-style-type: none"> Shareholders, lenders and market analysts Customers Business partners Employees Trade unions Government and regulators
Response through related material matters	1 to 10	1 to 10	7 and 9
Stakeholder engagement methods	<ul style="list-style-type: none"> Formal results presentations Email communications from executives 	<ul style="list-style-type: none"> SENS announcements Integrated report Annual financial statements 	<ul style="list-style-type: none"> Ongoing interactions with shareholders, lenders and market analysts Direct contact/community meetings and correspondence with communities

Legend

No	Material matter	No	Material matter
1	Persistent low demand leading to a lack of growth in the mining, iron, steel and general fabrication sectors in the South African market	6	Attracting, developing and retaining talent
2	South African economic environment	7	Transformation including BBBEE and employment equity
3	Emerging Africa* growth	8	Safety performance and culture
4	Customer value creation	9	Government regulation
5	Supply chain reliability, efficiency and cost base	10	Competition challenges

* Emerging Africa is defined as all of Afrox’s operations excluding South Africa, Lesotho and Swaziland.

Safety for employees, contractors and customers	Employment security, fair pay, incentive structures and employee development	Transparency, appropriate information and effective communication	Innovation and product development	Customer value creation, service levels and the level of pricing/price increases
<ul style="list-style-type: none"> • Customers • Employees • Trade unions • Communities and NGOs 	<ul style="list-style-type: none"> • Employees • Trade unions 	<ul style="list-style-type: none"> • Shareholders, lenders and market analysts • Customers • Business partners • Employees • Trade unions • Government and regulators • Communities and NGOs 	<ul style="list-style-type: none"> • Customers • Business partners 	<ul style="list-style-type: none"> • Customers • Business partners
8	6	1 to 4	3, 4 and 10	4 and 10
<ul style="list-style-type: none"> • Internal newsletters and publications, and a DVD news programme • One-on-one meetings 	<ul style="list-style-type: none"> • Specialist media publications • Quarterly meetings with trade unions 	<ul style="list-style-type: none"> • Customer surveys • Direct contact with our current and prospective customers 	<ul style="list-style-type: none"> • Monthly site shop steward meetings and regular shop floor talks • Afrox's website, electronic product brochures, product manuals and CDs 	<ul style="list-style-type: none"> • Annual rating agency assessment of creditworthiness • Supplementary media releases covering internal developments

Customer-centric go-to-market model

Competitive pressure is increasing and the market growth in South Africa, Afrox's largest geography, will remain subdued and possibly negative. Our ability to combine offers for LPG, Hard Goods and industrial gases will continue to provide customers with value-added integrated offers.

Afrox revised its sales and marketing function during the restructure and instilled a focus on customer-driven solutions and excellent service. We have specialist teams in place to offer bespoke solutions according to customer segments, regardless of geographical location.

Large customers

Provide 80% of Afrox's revenue and are subdivided according to sectors such as food and beverage, energy and fabrication. Each sector has a dedicated team.

Special markets

Growth markets such as hospitality, refrigerants, propellant and helium customers.

Bulk gases process industries

Customers that traditionally use bulk gases in a manufacturing process receive process solutions and unique product package options.

Light industries and retail

More than 70% of our customer base falls into this category. These customers are not classified as 'large customers' and spend R500 000 or less on Afrox products annually.

Material matters definitions

Our material matters are defined in the table below, featuring risks and opportunities related to each. We linked these to the Company's related strategic objectives that are discussed on page 19.

No	Material matter	Contextualisation of risks and opportunities	Strategic objective	Term impact
1	Persistent low demand leading to a lack of growth in the mining, iron, steel and general fabrication sectors in the South African market	<ul style="list-style-type: none"> Stagflation has the potential to affect customer demand levels of Afrox products widely used in the manufacturing industry. Economic difficulty may lead to a reduction in customer market sizes and an increase in competition. This may cause Afrox to absorb product costs to limit passing these on to consumers (the exception is the LPG sector, where a portion of the pricing is government regulated) and negatively impact margins and revenue growth. Opportunities persist through consumer-led markets such as retail. See the Emerging Africa growth material matter for further contextualisation. 	 Maintain and grow profitability and operating performance  Ensure sustainable growth while enhancing competitiveness	S, M
2	South African economic environment	<ul style="list-style-type: none"> The South African economic environment is characterised by high interest rates, unemployment and inflation, which directly impact our customers. The political environment influences the operating environment through policy and legislation causing various socioeconomic impacts. Macroeconomic weakening and the lack of investment are exacerbated by potential credit rating downgrades that erode investor confidence. Infrastructure constraints such as electricity and water shortages persist, leading to supply chain volatility. Industrial action is predominantly linked to wage negotiations in South Africa and may affect Afrox customers and, in turn, product demand. In terms of opportunities, Afrox has a healthy balance sheet that enables management of risk exposure and provides a degree of flexibility. 	 Maintain and grow profitability and operating performance  Ensure sustainable growth while enhancing competitiveness	S, M
3	Emerging Africa ¹ growth	<ul style="list-style-type: none"> The collapse in commodity prices resulting from the slowdown in Chinese demand continues to have serious effects on commodity exporters in Emerging Africa. This leads to substantially reduced export revenues and an adverse impact on countries' trade balances. The net effect is often an increase in interest rates by central banks while governments cut spending and raise taxes, creating additional strain on the African consumer. The growth of the middle-class segment of economies throughout the continent provides an opportunity to develop through consumer-led growth. In addition, the lack of electricity in certain areas continues to spur demand for alternative energy, often in the form of LPG. The healthcare sector, light manufacturing and CO₂ speciality markets in Emerging Africa continue to grow, requiring a slight shift in service offerings to appropriately serve these markets. The Company experienced improved volume demand in the Emerging Africa geographies. Afrox is still considering appropriate opportunities to expand operations into Emerging Africa. 	 Maintain and grow profitability and operating performance  Ensure sustainable growth while enhancing competitiveness	M, L

S – Short term (2017); M – Medium term (2018 to 2020); L – Long term (Beyond 2020).

¹ Emerging Africa is defined as all of Afrox's operations excluding South Africa, Lesotho and Swaziland.

No	Material matter	Contextualisation of risks and opportunities	Strategic objective	Term impact
4	Customer value creation	<ul style="list-style-type: none"> Afrox is exploring new methods of improving customer experiences and ensuring customer satisfaction. The Company intends to improve satisfaction levels through a focus on providing positive outcomes through a highly driven customer-centric performance culture and complete product solutions to meet customers' needs. Opportunities exist to improve customer interaction through the Company's e-channel. This digital platform allows users to customise their purchase experience and make payments electronically at their convenience. 	 Maintain and grow profitability and operating performance  Ensure sustainable growth while enhancing competitiveness	S, M
5	Supply chain reliability, efficiency and cost base	<ul style="list-style-type: none"> The risk of inadequately and inconsistently supplying products may result in a loss of customers and market share. This could be caused by poor supply from Afrox's supplier base, industrial action, lack of electricity or water, for example. Afrox obtains CO₂ from a limited number of local suppliers that may be unable to meet the future demand needs of the region. Additional suppliers are being sought to ensure security of supply. 	 Ensure sustainable growth while enhancing competitiveness	S, M
6	Attracting, developing and retaining talent	<ul style="list-style-type: none"> The Company continuously seeks to recruit, develop and retain the right employees to maintain and improve its high-performance culture and deliver on the Company's strategy while ensuring a reliable pipeline of appropriate talent. Appropriate talent aids us in obtaining and retaining market share, innovating to produce new products and services, and ultimately delivering exceptional customer service. 	 Maintain and grow profitability and operating performance  Build a performance culture	S, M, L
7	Transformation including BBBEE and employment equity	<ul style="list-style-type: none"> Afrox is required to comply with BBBEE legislation and sector charters. The Company's current level may adversely affect contract and government tender opportunities. Transformation levels in the Company will gain greater attention in the year ahead in order to further align to the demographics of South Africa. This will allow Afrox to further participate in developing the previously disadvantaged component of our society and align with the national agenda of job creation. 	 Maintain and grow profitability and operating performance	M
8	Safety performance and culture	<ul style="list-style-type: none"> Safety is a non-negotiable element of Afrox's operations. Unforeseen incidents and a lack of controls or appropriate procedure have the potential to negatively impact our business, employees, customers, the environment and the society we serve. 	 Maintain and grow profitability and operating performance  Embed advanced performance in areas of safety, health, environment and quality  Build a performance culture	M
9	Government regulation	<ul style="list-style-type: none"> The Company is required to comply with all relevant regulations and laws set by government to avoid penalties and fines, or risk our licence to operate. A portion of LPG costs are regulated and priced through reference to the crude oil price. Thus, exchange rate fluctuations and crude oil prices have significant impacts on the LPG input cost and a corresponding impact on sales prices. The ongoing Competition Commission market inquiry into the LPG sector has the potential to influence the market and/or pricing. 	 Maintain and grow profitability and operating performance	S, M, L
10	Competition challenges	<ul style="list-style-type: none"> Traditional and non-traditional competitors can challenge Afrox's market share. The environment is already characterised by low demand and a limited customer base. This is particularly true for the LPG market, which experienced an increase in smaller businesses challenging for market share. 	 Ensure sustainable growth while enhancing competitiveness	M

Material matters definitions continued

Year-on-year movement on our material matters

The restructure programme is no longer classified as a material matter, as the restructure of the business and various business segments is complete. Refer to the strategy overview chapter on page 18 for details on the business’s approach to value creation post-restructure.

Material matters hierarchy

A visual representation of where the material matters rank on a scale of impact and likelihood.

Impact	High	<ul style="list-style-type: none"> • Safety performance and culture • Customer value creation • Supply chain reliability, efficiency and cost base 	<ul style="list-style-type: none"> • Persistent low demand leading to a lack of growth • South African economic environment • Competition challenges 	
	Medium	<ul style="list-style-type: none"> • Attracting, developing and retaining talent • Government regulation 	<ul style="list-style-type: none"> • Transformation including BBBEE and employment equity 	
	Low		<ul style="list-style-type: none"> • Emerging Africa growth 	
		Low	Medium	High
Likelihood				

