Pr

Performance reviews

Atmospheric Gases

Key highlights

- CO_2 demand increases year-on-year
- Increase in bulk volumes despite product shortages
- Commissioned the new Durban filling plant
- Cost reductions through site consolidations and significant plant cost savings
- Significant supplier settlement led to additional revenue

Key challenges

- Extended shutdown of a key supplier resulted in unplanned CO_2 shortages
- Lower-than-desired reliability of bulk production with a high cost burden
- Risk of electricity and water shortages affecting plants

Performance review

Key performance indicators (KPIs)

KPI	Unit	2016 target	2016	2015
Revenue	R'm	2 194	2 319	2 110
GPADE	R'm	795	868	681
Margin	%	36.2	37.4	32.3
Run-out efficiency	Rate	0.5	0.29	0.39
CAPEX[1]/revenue	%	10.1	12.2	12.2
Reliability of plant ASU/CO_2	%	98.5/98.5	98/98	99/98
DIFOT[3]	%	95	89	91

Revenue is up 9.9% at R2 319 million (2015: R2 110 million) as a result of the litigation settlement and growth in certain sectors.

The business continues to experience growth in certain sectors benefiting from its diversification. However, poor economic conditions, particularly in the first quarter, CO_2 supply constraints, and the closure of a significant customer's steel plant led to reduced volumes.

Improved due to the litigation settlement and efficiencies from restructure activities in 2015.

Relatively consistent performance year-on-year for plant running time and reliability. Feedgas[2] availability as a result of a major supplier shutdown had an impact on plant reliability.

The Atmospheric Gases segment consists of three significant business streams:

Stream	Explanation	
Packaged Gas Products (PGP)	These products are distributed to smaller end-users such as retailers and filling stations through cylinder transports.	Through the year, volume levels fluctuated for various business streams, affecting each segment differently. Volume impacts per stream can be found in the relevant performance discussion.
Gas	Gas products are sent via pipeline to significant or anchor customers through a process that Afrox describes as tonnage.	
Liquid	These gases are distributed by truck to three different customers types, namely bulk, medical and cylinder customers.	

Refer to page 12 for details and other product processes and distribution.

PGP

The PGP business stream is a low-volume business with a significant revenue impact. PGP contributed 38.6% of Atmospheric Gases revenue and 46.2% to GPADE.

Volumes were impacted by a decline in market demand. This was caused by economic difficulty resulting in market shrinkage and customer closures leading to overcapacity of products in traditional markets (e.g. iron, steel and welding industries). Current market conditions are expected to persist and may adversely affect revenue growth and make margin improvement a challenge in future.

Gas

A risk area remains infrastructure, specifically electricity and water shortages that have the potential to adversely affect plants and production. Disruption to this portion of the business could cause chain reaction issues within the rest of the business. The resolution of a R165 million settlement with AMSA resulted in the tonnage portion of the segment exceeding planned revenue by 95.1% year-on-year.

[1] Capital expenditure (CAPEX) refers to spending by Afrox in order to acquire or maintain fixed assets.
[2] Feedgas refers to essential gas stock inputs required to create products.
[3] Delivered in full and on time (DIFOT) is a measure of product delivery efficiency.

Atmospheric Gases continued

Liquid

Bulk gases

The segment ended the year well, even though volumes are only marginally higher year-on-year (2% increase from prior year).

The development of new markets for our products, particularly in process industries, allows us to grow our customer base in new ways. An example is individually quick-frozen (IQF) food, for which Afrox is a market leader, providing unique resourcing opportunities through the Linde Freezerpool agreement (refer below for more information). The high-quality IQF process created a broader base for operations by offering a sought after product with excellent preservation technology.

The high fixed costs of operating plants that were formerly contracted to large supply schemes led to an increased cost burden on the bulk business. In addition, the overall reliability of bulk production facilities did not meet our expectations due to direct reliance on supplier manufacturing processes.

There continues to be high levels of demand for CO_2 as a by-product of various refinery processes by suppliers. Afrox's primary CO_2 feedgas supplier performs a statutory shutdown every four years for maintenance purposes. One such shutdown occurred in 2016 and continued for longer than anticipated, resulting in more unforeseen CO_2 shortages. It caused a significant shortfall against the Company's 2016 forecasts and proved to be irrecoverable. Despite this significant event, the bulk gases business was able to capitalise on various ad hoc projects to reduce the overall impact and was aided by the robust pipeline of opportunities developed through focused business development and optimisation of existing facilities. This will be supported by a strong drive to develop new product sources in Africa through an ability to liquefy and transport bulk products in large volumes.

The Linde Freezerpool rental agreement

The Linde Freezerpool agreement allows Afrox to import and use industrial-sized Linde freezers on demand for flexible time periods. This reduces the high capital outlay initially required by customers in previous years, where Afrox built freezers on an ad hoc basis for individual customers. The availability of freezers for all Linde-owned businesses reduced risk for Afrox and improved flexibility and convenience for customers.

Medical gases[1]

As a result of the increasing disease burden globally, the healthcare industry continues to grow in spite of adverse economic conditions. Many private hospitals continue to expand, increasing the number of patient beds and in turn, the demand for medical gases. This market is characterised by strong bargaining from private and state hospitals aiming for greater cost efficiencies.

Our healthcare segment and medical gas products performed well due to a state contract extension and growth in the medical gases pipeline portion of our market. An improvement in our Swaziland sales contributed positively to sales volumes (1.8% year-on-year), as did the number of first-time medical installation sales in South Africa.

A significant contract was extended in the year and positive negotiations continue. We remain focused on working with partners to improve the medical gases reticulation systems.

Afrox developed a unique cylinder called an integrated valve regulator (IVR) in 2015 to provide customers with an integrated cylinder and valve regulator product to provide additional value. Despite the closure of the gas equipment factory (GEF), IVR supply continued with minimal interruption in the year due to a supply agreement with a partner. Afrox secured an additional IVR supplier, providing improved security of supply and further opportunity for growth.

Hospitality and special gases

Hospitality gases (excluding LPG)

Afrox strives to ensure steady supply of products to retail franchises and hospitality based businesses as these were identified as a significant growth area for the business due to consistent demand, regardless of economic conditions. Examples include tourism markets, fast-food franchises and shopping centres. Hospitality gas volumes decreased by 10.1% year-on-year.

Special gases

Refrigerants, helium and aerosol gas products are examples of special gases. The 10.3% volume increase was mainly attributable to the positive movement of bulk chemicals and helium. Afrox is reviewing the higher costs incurred for products like helium in order to improve performance for the next financial year.

[1] *Although not strictly atmospheric in nature, manufactured medical gases are included and reported as part of atmospheric gases.*

Historic helium and natural gas agreement

Afrox recently entered into a milestone agreement with alternative energy company Renergen Limited, through its subsidiary TETRA 4 Proprietary Limited. The agreement will allow for commercialisation of the Free State helium and natural gas (NG) field.

The 187 000 hectare helium/NG field in Virginia, near Welkom, has 25 billion cubic feet of proven NG and helium reserves that Afrox will market and distribute through an exclusive offtake agreement. This is the first and only onshore reserve of its kind in South Africa, allowing Afrox to supply these products to numerous specialised and industrial markets instead of relying on imports for helium.

Tag ’n Trace

Afrox developed a class-leading individual cylinder control (ICC) solution to the business in recent years. The ICC is also referred to as Tag ’n Trace Individual Cylinder programme. Good progress was made in 2016 and the ICC will further reinforce our compressed value proposition by providing data on cylinder use to improve cylinder utilisation. The customer response to the solution has been positive and the rollout was extended to 2017. The ICC led to reduced cylinder holdings disputes, thus improving debt collection and providing a competitive advantage. This value-adding offering applies to all high-pressure cylinder-driven portions of our business.

A case study of biogas in energy progression

The availability of NG will impact LPG volumes in the long term. Afrox is seeking new opportunities to market and distribute clean energy products. We recently partnered with bio-tech start-up, New Horizons Energy, to turn organic waste destined for landfills into usable products for South African industries.

New Horizons Energy will turn organic waste into usable bio-methane at purity levels of over 90%. Although the methane-derived gas is not of a medical standard, its applications and purity levels make it ideal for a range of uses, including heating applications in food production, metal fabrication, and generating electricity.

Currently, South Africa is reliant on methane supplied from Mozambique, but New Horizons Energy plans to supply local bio-methane to businesses across South Africa. Afrox has plans to roll out more anaerobic digestion plants to other provinces in future, leveraging off our extensive supply chain and gases expertise.

Schalk Venter, Managing Director of Afrox, speaking at the Athlone New Horizon’s Energy (Waste-to-Energy) launch on 25 January 2017.

One of the many WasteMart waste removal vehicles that will transport organic waste for sorting and digestion.

Future focus areas

- Afrox foresees the future base load coming from the bulk portion of the business as opposed to the tonnage side as traditionally experienced. We intend to continue our focus on developing applications to aid the food and beverage industry, as well as environmental processes to address the trend of volume decline we have experienced over the last three years. Traditional applications for gold recovery will also be prioritised and we will review a multichannel approach to serve our customers better. The development and rollout of ICC solution will further assist this focus, as will improved pricing performance in the next year.
- From a medical gases perspective, Afrox will focus on retaining current customers and negotiating for increased business. We will seek to cement relationships with key stakeholders and increase the percentage of contracted private businesses customers that we serve.
- In addition to pursuing more cost-saving initiatives on site, Afrox embarked on an analysis of our ASU plant footprint to optimise production requirements.
- Our customer service level was identified as an area for further improvement. In response, our specialised sales and marketing teams are engaging well with customers in this highly specialised technology-driven environment, harnessing knowledge of product and distribution to provide improved solutions for customer needs.

LPG

Key highlights

- Increased LPG import agreements reduced supply chain costs and dependence on unreliable sources, leading to improved customer service levels
- Price discipline ensuring recovery of cost movements
- Afrox supported peak demand during winter through proactive solutions
- Operating margin improvements through efficiency initiatives

Key challenges

- Supply constraints from local refineries during peak demand periods
- Initial draft recommendations from the Competition Commission remain a concern
- Ongoing concern over illegal cylinder-filling operations

Performance review

Key performance indicators

KPI	Unit	2016 target	2016	2015
Revenue	R'm	1 991	1 797	1 820
GPADE	R'm	385	369	321
Margin	%	19.3	20.5	17.6
Run-out efficiency	Rate	0.5	0.48	0.33
CAPEX/revenue	%	4.0	3.4	3.9
DIFOT	%	95	88	88

Margins were positively impacted by the LPG market price development locally, despite an overall decline of 3.8% in pricing year-on-year.

The 1.3% reduction in revenue was mainly due to the constrained market supply from local refineries in the first quarter.

Volumes were below expectation due to constrained supply experienced in the first quarter. Our core customer base has solidified in 2016.

GPADE improved by 15%. This is a result of operational efficiencies from the restructure programme, new import capability and lowered supply chain costs. The increased focus on this segment led to improvements in pricing discipline, ensuring cost increases are recovered through greater efficiencies, surcharges and favourable import deals.

More than one prominent LPG supplier experienced lower production or erratic supply in the year. Another ceased production altogether. These shortages were managed through our import agreements.

Afrox is confident that continued interaction and provision of information will aid the DoE to support the industry and address pricing concerns in the future.

Achieving security of supply

LPG supply is significantly impacted by refinery production. With import supply agreements concluded for Richards Bay and the Western Cape in mid-2016, Afrox is in a position to meet the bulk of demand for the South African market. This includes increased demand in Emerging Africa, which allows for improved volume growth.

The Richards Bay import facility will ensure regular import parcels are scheduled as storage space becomes available, thereby securing supply. This was previously imported on an ad hoc basis, depending on product shortages, which caused additional strain on Afrox resources, logistics and in turn, increased risk levels. These agreements now allow the business to receive LPG on a monthly basis, ensuring consistency. The new agreement will supplement LPG supply from local producers and ensure uninterrupted supply during planned maintenance shutdowns at suppliers and peak demand during winter months.

LPG accounts for 32% of the Afrox turnover and 21% of GPADE.

This security of supply established in the segment has allowed for improved planning across the business, leading to enhanced customer service levels while reducing the costs and risks associated with short-term supply interventions as required in previous years. We moved our focus to margin management and efficiencies to successfully reduce certain cost elements. With more volume available through filling plants, efficiencies improved while our fixed costs base reduced. We are tracking import costs and the associated logistics costs carefully while recouping these through surcharges levied on customers.

With such import agreements in place, the business is well positioned to capitalise on growth opportunities. Afrox will use the import solution on an ongoing basis, engaging in new and larger agreements to secure future supply. Imports accounted for 28% of supply in 2016, and we foresee this growing to beyond 35% in the coming year.

In terms of securing demand and market share, our sales and marketing teams have dedicated LPG sales members who identify cost, pricing, growth areas and strategic market opportunities while considering logistics. These employees liaise daily with logistics and distribution teams to optimise supply across operations and customers. This approach provided strategic business solutions during shortages and is now being redirected towards establishing long-term relationships.

Competition Commission market inquiry

Afrox made several submissions to the Competition Commission market inquiry into the LPG sector in response to the initial report issued on 10 May 2016. Information to support our submissions was obtained from the World LPG Association (WLPGA) and its various members.

The final report from the Competition Commission is expected to be published in March 2017. The inquiry began in September 2014, and Afrox will continue to monitor developments and evaluate the possible market impacts to ensure an appropriate response.

Illegal cylinder filling

A significant threat to safety is the continued operation of rogue operators and illegal LPG fillers who also contribute to competition in the sector. Such operations refill LPG cylinders regardless of brand and fail to comply with safety regulations in the process. As no industry-driven initiatives are in place, Afrox takes legal action where possible to halt such operations and potentially reduce ownership liability on the cylinders in the event of an incident. We provide customer and employee training on safe operation procedures pertaining to cylinders, in an attempt to reduce LPG-related incidents.

Future focus areas

- Defend existing market share through ongoing investments and efficiency improvements. This includes remaining agile and cost-effective through the use of imports and developing this solution further to support larger and longer-term imports
- Leverage our current strengths and brand equity to capitalise on new growth opportunities locally and in Emerging Africa
- Improve profitability through the application of best commercial practice principles, ongoing focus on asset utilisation and ROCE

Hard Goods

Key highlights

- Portfolio optimisation and product rationalisation delivered cost savings and improved investment in working capital
- Improved flexibility of workforce negotiated at production sites in order to meet current production volumes
- Outsourced production and partnerships provide agility and ability to adapt to volume changes
- Improved sales and marketing structure to better link customers and opportunities

Key challenges

- Key customers such as distribution, mining, energy and fabrication sectors have deferred expansion plans and all non-essential maintenance, leading to a difficult trading environment
- Competitive environment with lower volumes led to pressure on margins for a variety of products
- Loss of some technical skills primarily due to attrition

Performance review

Key performance indicators

KPI	Unit	2016 target	2016	2015
Revenue	R'm	835	666	788
GPADE	R'm	344	232	272
Margin	%	41.2	34.8	34.5
CAPEX/revenue	%	0.1	0.2	0.5
DIFOT	%	95	88	92

Segmental revenue declined by 15.5% compared to 2015 as a result of lower volumes. A contributor to the volume reduction was the purposeful release of low-margin business, due in part to a rationalisation of the number of stock-keeping units. Lower steel and mining sector demand also contributed, leading to reduced demand.

GPADE was negatively impacted by volume reduction and the limited ability to increase pricing in a competitive contracting market. The decision to close the GEF and enter into a supplier contract for these products has enabled the business to better cope with the volume requirements.

Overview

Hard Goods provides welding solutions and offers long-term partnerships to improve our customers' cost base by being a complete product provider for all their welding needs. Through strategic partnerships with key original equipment manufacturers worldwide (typically leaders in their areas for partner productions), we are able to meet such needs timeously.

Due to the nature of Hard Goods products and their use, the performance of the segment is directly related to economic activity. The decline in the local economic performance led to a reduction in customer purchases – mainly from the distribution, mining, energy and fabrication sectors. This is reflected in the 9% reduction in volumes year-on-year for the gas equipment division and a 10% reduction in units sold in our self rescue division. Consumables volumes remained flat year-on-year.

Optimising the product range allowed us to focus on the key revenue products, while releasing working capital to focus on new products for targeted sectors. As part of our restructure programme, Hard Goods streamlined its business to focus on agile and specialised sectors with significant opportunities for growth and operational stability. The disposal of the GEF was completed in 2016, and we are addressing initial teething problems that occurred as a result of the supply of product as part of the disposal agreement. The closure, as a result of the disposal agreement, had an adverse effect on our sales of gas equipment in the short term, exacerbated by the low demand in the mining sector due to economic strain.

The rationalisation of the Hard Goods segment was another step taken in on our path towards getting stronger.

The right-sizing of the business has enhanced the agility and speed of this segment, bolstered by the support of our direct and indirect partners. A small element of transition still exists, but we are now fully aligned to our business strategy in terms of product delivery. New products and service offers in the pipeline for 2017 will ensure we address the needs of our evolving customer base. A new product example is a popular Afrox-patented general purpose welding electrode that is both efficient and cost-effective.

We focused on selected countries to develop the Arcmate brand and offer base products to the market. Our dedicated sales team ensured we retained our key customer base during the restructure and regained others lost in the past.

Future focus areas

- The focus for 2016 was on understanding the changed Hard Goods landscape and appointing strategic distributors, partners and agents in selected areas to maximise our footprint to gain new business. This will continue in 2017.
- The new embedded sales and marketing structure has enabled the Hard Goods business to better interact and gain closer proximity to strategic segments with improved exposure to light industry segments, understanding their needs to provide value-adding solutions. We intend to defend and grow our customer base in key segments by providing solutions that improve their efficiencies. This will be achieved through customer engagement to create customised product service offerings and intelligent pricing initiatives.
- Focused growth in light industry markets with tailored offers delivered through our partners, Gas & Gear outlets, and national resellers to gain additional market share.
- Invest in resource development and upskilling of our sales and marketing team to enhance our growth opportunities and sell effective solutions knowledgeably.
- Continue to position Afrox appropriately for infrastructure requirements in respect of green energy initiatives such as wind and concentrated solar power.

Emerging Africa

Key highlights

- Revenue growth remained flat year-on-year in a difficult economic environment
- Commissioned more micro plants and additional bulk LPG storage facilities
- Relocated operations in Mozambique to Afrox-owned property from leased land
- Improved governance, compliance and processes across our geographies

Key challenges

- Depressed commodity prices resulting in a slowdown of major sectors, such as mining
- Inflationary pressure caused by the devaluation of local currencies
- Constrained LPG and CO_2 supply from South Africa due to refinery and production plant shutdowns
- Electricity volatility and an instance of plant reliability challenges in Zambia

Performance review

Key performance indicators

KPI	Unit	2016 target	2016	2015
Revenue	R'm	849	755	755
GPADE	R'm	348	306	311
Margin	%	41	40.5	41.1
CAPEX/revenue	%	5.2	2.2	6.1
Reliability of plant	%	95	44	77

Revenue remained flat, including adjustment for currency effects and LPG price changes. Packaged air gases and acetylene volumes decreased in the year. The reminder of our products increased or remained flat year-on-year.

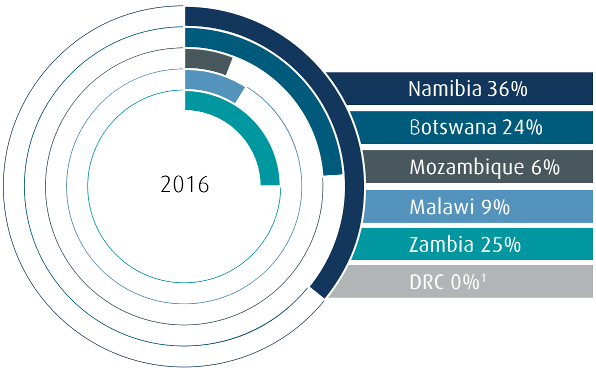
The business was impacted by LPG and CO_2 shortages from South Africa. However, alternative supply sources were obtained to maintain service levels until LPG supply improved in the second half of the year. The high dependency on one key source for CO_2 remains a key risk.

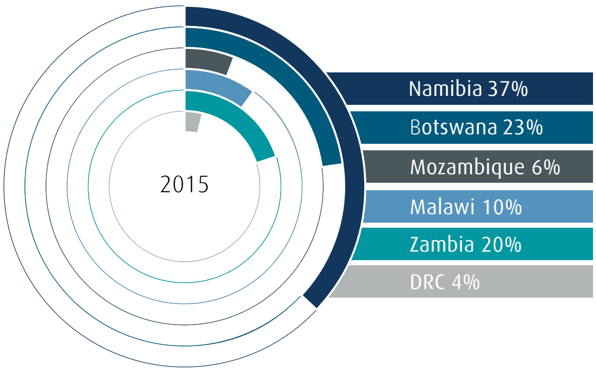
GPADE reduced by 1.6%. This was an adjustment from the one-time effects from the exit from Angola and changes to stock provisions. This reduction reflects the increased supply chain costs linked to the LPG and CO_2 shortages which were not fully recoverable from customers. Quality of LPG from a local refinery in Zambia was below specification, which resulted in an increased reliance on imports from South Africa and lower margins due to increased supply chain costs.

The ASU plant reliability in Zambia was a significant challenge. The plant was down for most of the first quarter due to a leak in the ASU cold box which was subsequently addressed.

Capital expenditure as a percentage of revenue decreased due to the limited growth opportunities as a result of the economic environment.

Revenue per country





Overview

At its current level of profitability, Emerging Africa achieves appropriate returns to warrant the higher risks associated with the countries in which we operate.

Despite adverse economic conditions, Emerging Africa volumes and revenue remained flat. We continued to experience an increase in demand for consumer-led products such as CO_2 and LPG. Volumes differed by product sector, often impacted by commodity prices and demand, but collectively, volume levels for Emerging Africa remained flat year-on-year. Revenue remained flat at R755 million. We foresee consumer-led demand trends continuing and we will capitalise on these further though our improved security of supply agreements through imports and various South African sources.

Emerging Africa experienced high currency devaluations that pushed up the cost inflation on imported products. Although the frequency of sales price adjustments was increased, we were unable to recover all the historic costs of inflation from customers. Additional strain was experienced from stretched and changing payment terms from customers seeking to manage cash flows and reduce their own costs, especially in Zambia.

[1] *Afrox exited the Democratic Republic of Congo as part of the restructure programme.*

Emerging Africa continued

Market impacts in the year

The first half of 2016 was negatively impacted by constrained bulk LPG and CO_2 supply from South Africa. In the second half of the year, LPG shortages were largely resolved while CO_2 challenges persisted. This was a direct result of refinery and CO_2 production plant shutdowns. However, alternate supply sources enabled Afrox to largely maintain customer service levels, the increased logistics costs were not all recoverable from customers due to contractual pricing arrangements. The agreement established through the Richards Bay terminal allows for increased throughput for improved LPG volumes into Emerging Africa, providing scope to further grow market share. Refer to page 48 for further information.

The business continues to invest in small mobile filling plants in various African countries. This reduces the reliance on imported products and reduces the level of currency risk in this business. Due to the current commodity price cycle, no large tonnage opportunities have materialised as yet. However, Afrox remains open to opportunities in this area and engages with stakeholders when such opportunities arise.

Electricity supply shortages pose a continuous challenge to our operations, especially in Zambia. To reduce volatility, we negotiated with the local electricity supplier, ZESCO, who is installing a dedicated 11 kVA cable from its depot to the substation that services Afrox Zambia. The arrangement will provide our facilities with a dedicated and continuous electricity supply. As part of the agreement, the facility will operate for only three weeks each month. This will not adversely impacted our operations, rather the electricity consistency will allow the plant to run more effectively over a continuous period as opposed to the strain caused from erratic stop and start in production previously.

For more country-specific highlights and developments, refer to page 9.

Governance

During the restructure, significant focus was placed on improving the governance culture and applying clear, consistent policies in geographies. Internal Control Steering Committees are now in place in all our operating countries to ensure that internal controls are adequate to safeguard the income and assets of Afrox, and that operation takes place according to standard. The committees also oversee and facilitate the closure of internal audit findings on a continuous basis.

> Multinational customers expect a seamless extension of the Afrox South Africa product service offering.

The adherence to good corporate governance is strengthened by a local Board of directors in the majority of our operating countries and includes a number of independent non-executive directors. In most instances, these representatives chair various committees, most notably the Audit Committee.

Future focus areas

- Our strategy for this segment remains unaltered. Difficult economic conditions, driven by low international commodity and oil prices, are expected to persist in the short to medium term. Therefore, Emerging Africa's focus for 2017 will remain on consumer demand-driven growth areas such as healthcare, CO_2, LPG and special gases.
- Productivity and efficiency improvement initiatives remain important to ensure profitability is maintained and enhanced to act as a buffer to offset economic and currency headwinds.
- Efforts to standardise Emerging Africa country structures under the functional discipline model of The Linde Group Blueprint for small countries is underway. This model is well suited to the country-specific operations of Emerging Africa and provide a fit-for-purpose structure to weather the expected economic conditions of the future. Completion is targeted for early 2017.
- We will look to improve our sales pricing, including full cost recovery.
- Programmes are in place to continue building a performance culture in the sales and marketing teams across all Emerging Africa countries. These programmes will upskill sales teams to increase sales effectiveness and to be better equipped to identify and deliver tailored solutions that add value to customers doing business with Afrox.

Zambia micro-fill plant

Afrox Zambia Limited sells approximately 420 tons of compressed oxygen annually, 120 tonnes of which is transported to the southern region where Lusaka is located. A decline in volumes from our Ndola-based filling facility (320 km from Lusaka) due to inconsistent supply and long lead times for delivery developed into a challenge for us to resolve. The new location in Lusaka optimised the supply chain, reducing the need to transport cylinders over great distances and helped secure our market share in an oxygen sector full of opportunity, despite prevalent economic difficulty. Our improved customer service has resulted in increased sales revenue as a result of more competitive pricing and reduced distribution costs. There is less pressure on our cylinder population, reduced transport risk and improved customer retention.

Maputo development

The property purchase transaction has been completed and operations relocated to the new site at the end of 2016. The construction of the sales centre is nearing completion. This Afrox-owned property reduced the significant foreign currency exposure we experienced with the historical lease agreement. It will allow for scaleable expansion of operations and allows for increased strategic storage of bulk products.

Safety, health, environment and quality

Key highlights

- Significant decrease in the numbers of serious passenger incidents
- Risk-based behavioural focus on safety is leading to an interdependent culture
- Injury-free opening of the new Durban (Riverhorse) operations site
- Continued and new accreditation of certain ISO standards

Key challenges

- Safe contractor management remains a risk area and SHEQ priority
- Total number of recordable injuries remained relatively flat with a marked increase in the number of manual handling incidents
- Light vehicle and commercial truck incidents remain high on the agenda for further reduction
- Ensuring appropriate management competence for SHEQ following the restructure

The Golden Rules

To embed our safety culture, we encourage employees to remember that rules should not be blindly followed, but should be viewed as risk-based enforcements that protect us and our colleagues. We believe all incidents are preventable and continuously strive to attain zero harm.

Safety is not merely a key element in the Afrox value chain – it is a way of life.

The Golden Rules provide a roadmap to zero harm and are derived from The Linde Group's global safety standards within the Linde integrated management system and standards (LiMSS).

Golden Rule	Focus areas
Personal ownership for safety We will consistently demonstrate personal ownership and accountability for safety through actions and behaviours.	• Leadership development in the SHEQ programme • LeadSafe engagements, coaching and site visits to promote an understanding and application of personal ownership for safety. Personal responsibility is deemed critical and foremost in our risk assessments for achieving zero harm as it is a high-likelihood, critical severity risk
Driving vehicles We will operate our vehicles safely and responsibly at all times, and use the safety equipment provided.	• Transport and passenger car safety plans and programmes
Permit-to-work We will use the permit-to-work system where necessary to ensure hazards and risks are understood and controlled.	• Focused audit programme and review • Site visits
Working at height We will only work at height when the required safety measures to prevent falls are in place.	• Focused campaign, particularly customer engineering services (CES)[1] • Revisit ActSafe[2] for CES
Lifting operations We will ensure lifting operations using cranes or other lifting devices are carried out safely.	• Focused campaign, particularly CES • Revisit ActSafe[2] for CES
Contractor management We will select and manage our contractors so that they meet The Linde Group's safety requirements.	• Focused audit programme and review, including procurement • Site visits
Engineering management of change We will only proceed with technical changes to process plants and process equipment when an engineering management of change process addressing the safety risks has been completed.	• Focused audit programme and review • Site visits
Incident reporting We will report and investigate incidents so that the causes can be identified and corrected, and learning shared.	• Senior-level incident reviews • Training

To ensure that the Golden Rules are accessible and understood, the rules will be translated into a number of local South African languages in 2017.

[1] *Afrox provides the services of a dedicated CES department for gas reticulation equipment installations.*
[2] *ActSafe is a behavioural programme focused on developing safe action by employees.*

SHEQ KPIs are a unique indicator of business health, profitability and sustainability

Evolving our safety mentality

By training employees to view safety as a priority, we assist them to shift their behaviour, and in turn the behaviour of their teams and the Company as a whole.

Stage 1: Personal safety	Step 2: A team mentality	Step 3: Organisational safety
	Current stage of activity	
At Afrox, safety starts with the individual. When an individual ensures that his/her acts and work are safe, he/she can aid co-workers to act safely. A shift from a dependent culture (being instructed on rules and viewing them as regulatory) to an independent culture ("I know and understand the rules") takes place here.	This stage marks a departure from seeing safety as a set of rules to understanding risks and knowing that rules guide safe behaviour for positive outcomes. There is movement to interdependence in safety mentality by applying a team approach to safety. All levels of management and employees are responsible for applying safe behaviour and considering the safety of others. Deploying leadership responsibility in the operations to aid line-of-sight support for safety, with continued focus on discipline and holding employees accountable for their actions.	Safety has become embedded as a way of life to protect everyone and attain zero harm, firm in the knowledge that all incidents are avoidable. Employees provide input and safety recommendations that Afrox considers for the business environment and implements where ideal to continue our safety evolution.

Performance review

Key performance indicators

Key performance area	KPI	Unit	2016 Target	2016	2015	2014
Safety and health	Lost-time injuries (LTIs)	Number	6	15	9	7
	LTIs	Lost days	0	116	104	146
	Commercial vehicle incidents (severity 1 and 2)[1]	Number	4	3	6	0
	Passenger and light vehicle incidents (severity 1 and 2)[1]	Number	5	1	8	0
	Third party fatalities	Number	0	6	4	2
	MIR	Number	0	9	8	6
	Total recordable injuries[1]	Number	20	25	24	22
	LeadSafe[3] engagements	Number	–	1 154	4 154	5 971
Environmental	Water consumption	m^2	792 499	808 673	882 110*	840 818
	Total carbon emissions[2]	tCO_2e	466 134	475 647	460 556*	391 890
	Waste	Tonnes	2 046	2 088	3 408*	3 723
	Electricity consumption	MWh	445 440	454 531	441 103*	401 187
	Adherence to quality standards, in particular for regulated products	%	100	100	100	100
Quality	Sites certified to ISO 9001	%	100	100	100	100
	Sites certified to ISO 14001	%	100	100	100	100
	Sites certified to ISO 18001	%	100	100	100	100

* *Restated*
[1] *In 2015, Afrox began recording all vehicle incidents, instead of only avoidable vehicle incidents.*
[2] *Includes direct and indirect emissions.*
[3] *LeadSafe engagements are leadership-driven safety interventions.*

Our total recordable injuries increased by a single unit, predominantly due to incidents involving manual handling. We had nine major incidents (five of which were security-related). As one of our Golden Rules, contractor safety performance shows room for improvement, which will be guided by our safe contractor management approach that outlines how they are selected, assessed and inducted. Overall, our safety performance held a positive line throughout our recent restructure programme and we continue to focus on activities that pose the highest risk to our business.

Safety and health

Total recordable injuries (lost time and medical treatment)

We experienced a significant increase in the number of LTIs and a slight increase in the number of lost working days of 116 (2015: 104), equally spread across employees and contractors. Five incidents were related to manual handling activities and the majority of these injuries point to unsafe behaviour by operators and drivers, and in some cases, a hindered management line of sight. The total recordable incidents were marginally higher from the previous year at 25 (2015: 24). We measure the recordable injuries of contractors in the same way as our own employees and the totals refer to both employees and contractors.

To raise awareness on manual handling risks, our internal standard was updated to include incident reporting and investigation guidelines. A training and assessment task was assigned to all employees, and a business-wide team stand-down programme was initiated to collect ideas from employees on how to improve performance.

Incidents

Transport safety is a significant component of our operations as Afrox distributes products across over 25 million kilometres every year. We strive to attain a target of no vehicle accidents and empower our drivers to operate vehicles safely. KPIs in vehicle safety rates are based on 1 000 000 kilometres and cover the entire business (including rental cars and any incidents that occurred during the performance of Company business in Company or personal vehicles). Considerable management attention was directed at reducing the number of significant and serious vehicle incidents compared to 2015.

Poor driver judgement resulted in our first roll-over incident[1] since 2013. A combination of physical implements called hard controls (these are drive-cams, driver and fatigue monitoring equipment) and behavioural programmes called soft controls help mitigate such incidents.

To promote transport safety, we continue to press the use of ActSafe training and apply DriveSafe behavioural safety training for passenger car safety. Refer to our online SHEQ supplementary report for further detail.

Potential severe injuries and fatalities

Potential severe injuries and fatalities are comparable with 2015 figures. Our approach to these incidents is to analyse and investigate events with the same rigour as major incidents to identify improvements and potentially save a life.

Visible leadership is a significant safety driver for our business. Through our LeadSafe engagement process, line managers are encouraged to intervene when unsafe acts or behaviour are witnessed. Interventions are logged and the trends analysed for preventive action. Afrox has evolved the process to include a mobile application which will facilitate remote logging of information.

We have not recorded an employee or contractor fatality since 2010. However, six unfortunate third party fatalities occurred this year. Five of these were vehicle incident-related, of which four occurred from a single incident involving third party passenger car collision with an Afrox truck. The incident occurred in February 2016, when the third party passenger vehicle departed from its lane and veered into an Afrox truck travelling in the opposite direction.

Partnering to enhance safety

Afrox recently partnered with Arrive Alive to promote safe driving awareness and exercise our social responsibility. Both parties share information on safe vehicle operation and use the Arrive Alive website and social media networks to provide the public with access to such data.

Process safety management

Process safety management refers to the management of major accident hazards at our plants. It remains a key focus area, as these low frequency safety risks could have potentially high impacts on our business. Our Golden Rules (e.g. permit-to-work) and process safety awareness workshops promote high levels of discipline and conformance. Deviations from protocol are revealed during the Company-wide integrated internal audits performed annually.

Environment

Afrox is committed to legal environmental compliance, such as ISO 14001 environmental accreditation, and will be paying increased attention to its carbon footprint going forward. As a manufacturing intensive business with a significant logistics component, carbon emissions, water usage and waste need to be managed effectively in line with sustainable operation.

We measure these parameters annually against improvement performance targets and experienced the following changes year-on-year:

- Purchased electricity increased by 3%.
- Carbon emissions increased by 3.5%.
- Water usage decreased by 9%.
- Total waste decreased by 39%.

[1] *A vehicular incident that leads to the vehicle overturning.*

Safety, health, environment and quality continued

Quality

FSSC ISO 22000 accreditations continued at our CO_2 plants. Afrox remains a market leader in South Africa for this food safety system accreditation. The new Port Elizabeth ASU obtained an ISO 14001:2015 accreditation as required by legislation. The ISO 9001 accreditations were aligned to our new operating model and the planned transition to the new 2015 version of this standard in 2017 at strategic sites will benefit from increased leadership and a risk-based approach to safety.

Our long-term plan is a Company accreditation which will assist alignment and process efficiency throughout Afrox, and we continue to explore this vision and develop a roadmap to guide our direction. Key stakeholders from our process chain engage through The Afrox Quality Council to create and improve quality programmes and construct action plans.

All our actions are driven by the needs of our customers. Quality is no different. Our desire to consistently add value is integrated into the sales and marketing team, who receives rigorous product training. In addition to undergoing customer audits for vital quality feedback, our quality improvement circles (consisting of customers and Afrox employees) collaborate to find solutions to quality performance issues while feedback mechanisms, such as Rant and Rave, provide a platform for direct customer input.

The electronic Rant and Rave platform allows customers to comment on and rate our service and products or air their discomfort, safe in the knowledge that they will receive feedback on negative posts within two hours. Updates can be viewed instantly by The Linde Group and Afrox.

Future focus areas

- The SHEQ roadmap will continue to be a focus area towards 2020. This performance review tool details standards and behaviour needed to reach zero harm and is integral to the SHEQ strategy. This includes quality, driver and vehicle safety, health and safety, environmental elements and our leadership and safety culture
- Further understanding the cost impacts of not reaching our quality targets
- Improving our safety culture across all areas of the business by driving interdependent behaviour and embedding required SHEQ behaviour and values at all levels. This includes occupational health and process safety
- Introducing risk management and associated training as a business discipline. We are aware that 100% right behaviour 100% of the time will make us a leading company, provided we retain our focus on customers, safety, collaboration and cooperation
- Our employees can help us find innovative solutions to new problems and safer ways of operating – provided we give them the platform to do so. Improving such engagements will be a priority
- From an environmental perspective, we will continue to focus on maintaining accreditations and compliance to our minimum standards throughout the business.

Human resources (HR)

Key highlights

- Successful business restructure programme
- Implemented improved talent management systems
- Sharper focus on organisational performance through individual and team alignment
- Reviewed and started the implementation of the BBBEE strategy
- Implemented more suitable HR policies
- Implemented a new sales incentive plan to enable focused growth

Key challenges

- Retention of critical skills
- Development of appropriate skills to ensure that our employees meet our business objectives
- Addressing the negative impact of the restructure programme on employee morale
- Embedding Company-wide adherence to HR policies

Performance review

Key performance indicators

Key performance area	KPI	Unit	2016 target	2016	2015	2014
Employee development and leadership capability	Leadership developments	Number	150	164	15	387
	Learners, apprentices, bursars and graduates	Number	60	123	65	52
Diversity and transformation	BBBEE level	Overall scorecard rating	7	8	3	3
	Employment equity				(see table on page 58)	
Employee retention	Employee turnover total	%	7	5	29	15

Afrox focused on the development of our employees as reflected in the year-on-year improvements. We are reviewing our transformation efforts and creating an HR infrastructure with good governance and compliance to achieve organisational discipline. The advantages of working with a global organisation are reflected in our HR developments, specifically through access to global best practice and the ability to leverage the support of The Linde Group's global HR management and planning systems.

Our HR journey

Afrox started this journey to engage, develop, promote and retain our best employees to create a strong pipeline of technical and leadership talent to deliver on our business plans now and in the future. This will ensure that employees are supported to become the best they can be, adding value to the Company and feeling valued in the process.

We will be the leading gases and welding products Company, admired for our employees by any measure.

Emphasis was placed on addressing legacy issues that existed as result of inconsistent HR policies and practices to support our drive for high performance and improve the ease of doing business with Afrox.

Human resources continued

Operational strategy stages	Get healthy	Get strong	Get business
From an HR perspective	What will make us successful?	How will we become a high-performing organisation with a high level of employee engagement?	
		Current stage of activity	
Core actions	• Business restructuring began which included right-sizing and retrenchments • Sales and marketing structures revamped • Operational structures reassessed and regrading of all roles completed • Rationalised aspects of distribution, finance and HR through outsourcing	• HR policy refinements • Building a centralised HR infrastructure • Accelerating organisational discipline • Streamlining allowances to achieve consistency, compliance and cost-effectiveness • Integrated talent management strategy created	• Re-introducing core HR processes such as succession planning and leadership development • Implementing employee-friendly policies and benefits to aid retention • Focus on enhancing employee engagement and productive work relations • Drive further organisational efficiencies
What changed?	Although difficult, the process ensured that we now have the right employees to develop and take the business forward.	We refined policies and created a centralised user-friendly tool to promote consistent application across our geographies. This created a platform for better compliance while aiding the resetting of the business's cost base to more competitive and sustainable levels. We know our employees better, thanks to improved talent analytics.	We are making an effort to let our employees know they are valued and are worth investing in (see page 60 for details of our development programmes, page 60 for succession planning and page 61 for our wellness activities). We achieved savings through HR-led initiatives since 2015. We now have an HR infrastructure with policies and a strategy to enable our future goals.

The remuneration philosophy was reviewed and communicated to the business, with plans for full implementation during 2017 (refer to page 84 for details).

A revised sales incentive plan was implemented with the aim of driving improvement in sales performance. The performance of sales representatives on an individual and team basis are now used to benchmark incentives as opposed to the broad Company-wide approach used previously. Key measures are margin, pricing, inventory and debtors of the Company and 240 sales employees are being assessed. The plan is aligned to the sales budget and business growth strategy. This provides an improved line of sight for enhanced sales and budget targeting.

Employee retention

Analysis of leavers		2016	2015	2014
Total number of voluntary and non-voluntary leavers	FTE[1]	348	751	424
Average length of service	Years	9.00	9.50	9.10

Overall, Afrox has a healthy retention rate and is gaining further stability post completion of the restructure. Various development, wellness and employee engagement initiatives are in progress to positively impact retention levels. To help make Afrox a better place to work, we record the reasons why employees leave and prioritise relevant improvement opportunities through our HR strategy.

Diversity and transformation

Employment equity

Employee level	Equity target (%)	2016 (%)	2015 (%)	2014 (%)
Top management (Managing and Financial Directors)	0	0	0	0
Senior management	50	47	30	33
Professionally qualified middle management	57	50	50	51
Skilled middle and junior management	68	68	65	64
Semi-skilled junior management	85	92	92	75
Unskilled and defined decision-making	58	98	99	99

[1] *Full-time employees.*

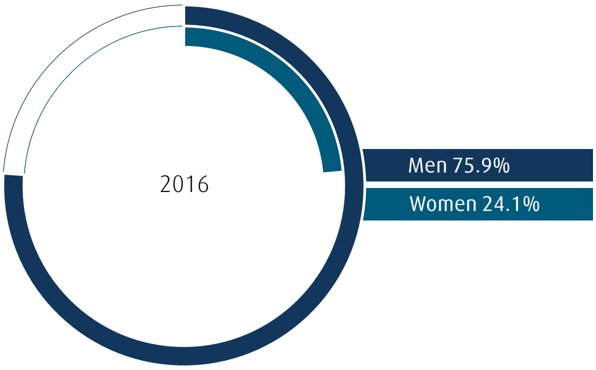
Afrox's diversity improved by 17% in the senior management representation to 47%. This is below target, but indicative of renewed efforts to improve employment equity. The Company's employment equity plan is under review to ensure that we continue to close identified gaps and improve representation across all levels.

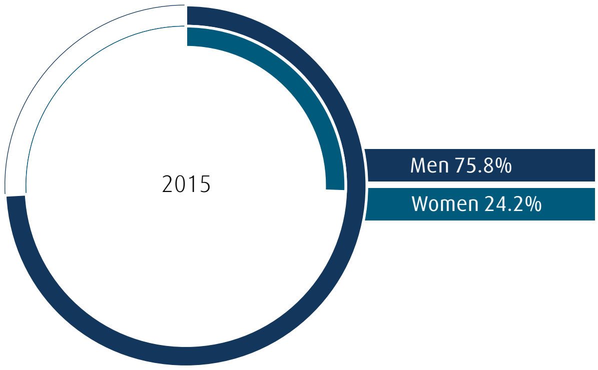
BBBEE profile (South Africa only)

Number of men	2016		2015		Number of women	2016		2015	
	Black	**White**	Black	White		**Black**	**White**	Black	White
Senior management	14	18	16	40	Senior management	6	3	4	6
Professional skilled	103	97	107	103	Professional skilled	38	33	39	39
Skilled	263	108	234	105	Skilled	113	62	111	78
Semi-skilled	409	11	509	22	Semi-skilled	121	28	145	31
Unskilled	318	2	376	2	Unskilled	22	1	28	1
Total	1 107	236	1 246	273	**Total**	300	127	329	158

Despite a change in employee numbers due to the restructure programme, the Company's overall black representation in South Africa improved to 79.4% (2015: 78.5%) and includes 24.1% (2015: 24.2%) female representation.

Employee gender analysis





A significant challenge remains the employment of more women across our operations. The Company applies a preferential recruitment approach to black individuals and females with special dispensation provided by the HR executive or the Managing Director as and when required. Our skills development initiatives and learnerships were integrated into this approach to support our employment equity plan and create a pipeline of learners and employees to improve female representation in the medium to long term.

BBBEE requirements

We developed a new strategy to improve the various elements of our BBBEE scorecard while considering the business strategy and customer requirements. The Company is regarded a level 8 contributor under the new BBBEE Codes (as compared to level 3 under the previous Codes). This position presents some contract risks for the Company, particularly for government-related contracts such as in the healthcare sector.

The strategy includes the following focus areas for 2016 and 2017:

Area	Action
Build	• Focus on enterprise and supplier development
Improve	• Target management control including employment equity • Utilise skills development • Effectively apply preferential procurement
Maintain	• Socioeconomic development

We will seek to engage further with businesses operated by previously disadvantaged individuals in our supplier value chain and focus on enterprise development. The Company has spent R6.2 million (2015: R6.0 million) to ensure we contribute towards significant empowerment of black-owned suppliers and enterprises.

Black-owned and Black women-owned

Our BBBEE strategy includes further integration of black-owned (BO) and black women-owned (BWO) spend and development. In addition to actively seeking the inclusion of BO and BWO suppliers where commercially viable and appropriate in our value chain, we increased our preferential procurement spend by R157 million to R357 million (2015: R200 million).

Unionisation

The Company believes in fair labour practices and ensured that these principles are reflected in our policies and processes. This includes the right of Afrox employees to join any organisation, forum or trade union.

Unionised employees

Trade union	2016	2015
CEPPWAWU	439	442
Metal Industries	1	1
NUMSA	116	152
SACWU	246	218
Solidarity	32	27
UASA	5	6
Total unionised	839	846

Afrox experienced no instances of industrial action during the year. Employee and trade union engagement take place regularly in forums that allow deliberation and sharing of opinions ahead of decision making. These include:

- **Formal bi-annual employee relations sessions:** Providing a platform for discussion of strategic issues while allowing the development of positive relationships between Afrox and unions.
- **Industrial relations forum meetings:** Such meetings take place three times a year to encourage and promote relationships between employee forums while providing an opportunity to exchange ideas, opinions and information.
- **Communication through various lines of business:** For example, monthly Shop Steward Committee meetings. These operational meetings provide a forum to discuss problems and improvements. Strategic interactions of a similar nature also take place throughout the Company.
- **Management communication sessions and employee education sessions:** Direct interaction with employees either individually or in groups.

All Afrox employees have access to grievance procedures and disciplinary processes.

Employee development and succession planning

Afrox conducts an annual review of its critical roles and possible successors through a defined process.

Succession planning process

Identify internal talent	→	Once data is verified and approved, transparent communication with employees begins	→	Key talent is identified
High-performing and high-potential individuals for possible career advancement and development	→	Individual development plan and career discussion between line management and the employee during annual performance management cycle	→	Employees are nominated for global roles within The Linde Group and upper levels of Afrox. This is discussed in a global talent review session with the Europe, Middle East and Africa (EMEA) top team

Afrox experienced significant success with the succession planning process. Our coverage rate for critical roles in the business is over 85%. The majority of our employee movement comprises internal promotions and our senior management teams primarily consist of long-standing Afrox employees. A higher number (approximately 70%) of Afrox's vacancies are filled from our succession pool rather than from external sources.

By considering diversity, our succession plans for future critical roles are largely populated by a diverse range of employees. This, in turn, has led to a larger number of leadership developments that positively impacts employment equity levels. Employment equity employees make up 61% of our talent pool.

Afrox continues to use various online training platforms to develop skills. LiMSS is such a system, placing procedures, standards and global business reference material at employees' fingertips. Individual learning management system[1] and an audit manager are incorporated in the system.

Employee training and talent pipeline

We provide our employees with opportunities to grow their scope of work and be exposed to a wider range of responsibilities. Training spend, including bursaries, increased to R31 million (2015: R26 million). In line with Afrox's skills development strategy, we employed 123 new learners on apprenticeship, learnership and internship programmes during 2016.

[1] *This system is a learning database linked to LiMSS called TRACCESS.*

A total of R1.7 million (2015: R1.1 million) was spent on employee bursaries and Afrox offered recognition of prior learning to aid existing employees in completing trade qualifications

Management development and training	First and second line managers take part in a leadership development programme focused on leadership capability improvement. We developed a recognition and consequences management training for the year to develop essential management tools for employees. The training is ongoing.
Adult education and training	During 2016, 20 (2015: 31) employees were enrolled for English literacy and computer training to bolster their capabilities.
Graduate training scheme	There were 13 (2015: 16) graduates from our 24-month graduate training scheme, which covers fields such as mechanical, chemical and industrial engineering, as well as marketing and econometrics.
Bursary scheme	The Company offers a bursary scheme for business-related areas of study, typically in the disciplines of metallurgical (physical), mechanical, chemical, industrial and electrical engineering (heavy current). Two (2015: three) black students benefited from the scheme, which allows financial assistance to second and final year students and gives them the opportunity to gain work experience at Afrox during the university holiday periods.
Learnerships and apprenticeships	Afrox spent approximately R15 million (2015: R6 million) on learnerships and apprenticeships. Afrox enrolled 14 men and 11 women (2015:13 men and 31 women) in various trade learnerships and apprenticeships. A total of 27 learners enrolled in the Customer Service Centre NQF 2 learnership programme and another 22 in Business Administration NQF 3. 20 learners participated in Wholesale and Retail NQF 3 learnerships and 25 female learners with disabilities in the Jewellery Manufacturing NQF 2 learnership.

Performance management

With the restructure complete, Afrox reinstated the normal performance management cycle using a process that is based on the outcome of an employees' contribution and display of The Linde Group's behavioural competencies in reaching these outcomes. The Company is applying greater emphasis to behaviour this year, as opposed to statistical achievements, to entrench a high performance culture. The use of individual development plans for each employee ensures a customised assessment of abilities by management before results are escalated to HR for guidance in career growth targets and training.

There is a greater focus on cascading targets to ensure that we remain focused on achieving the overall goals of the Company and not individually focused targets.

Recognition

Our annual long-service awards take place in November. In 2016, 30 recipients and their spouses were flown to Johannesburg for a centralised long-service award ceremony, acknowledging commitments from 15 to 30 years.

Employee wellness

We provide employees with access to the independent counselling and advisory service (ICAS) which assists employees to:

- enhance workplace productivity and performance;
- instil a corporate culture of wellness and caring;
- become empowered to take responsibility for their own wellbeing; and
- develop personal and organisational resilience.

The programme was relaunched in 2016 at all sites. To date Afrox's level of engagement with the service is 34% compared to the ICAS average of 18.6% usage. We conducted wellness days at five sites nationally, attended by 300 employees, and held health days where employees could have vital health checks performed on site at no charge. Our wellness programme was enhanced by incorporating wellness days and regular communications related to employee health.

Afrox employees are encouraged to participate in team building activities that positively impact our surrounding communities. Refer to page 63 for details on Bumbanani Day.

Remuneration

We updated our philosophy (refer to page 84 for details) to ensure that employees are fully aware that they are remunerated fairly on the basis of their capability, performance and behaviour. Our global performance management system allows managers to be assessed and remunerated according to a mix of target and performance-related statistics for the year. For details of variable remuneration structures, refer to page 85.

Human resources continued

Additional support

We made a significant effort to display our philosophy of growth and support through three main channels of social benefit:

Home owners support	Afrox successfully expanded opportunities to the existing home loan grant support for first-time home owners. The programme currently includes bond subsidies with a total allocation of R100 000 (2015: R25 000), showing improved support from the previous year. The subsidy is secured by the balance of retirement savings of the employee.
Tertiary education assistance	We continued to support the tertiary studies of employees' children, providing R4.8 million (2015: R4.3 million) for them to further their education in any field at tertiary level. Refer to page 63 for more information.
Pension and provident fund	All our employees belong to either the Afrox pension fund, our defined benefit fund; or the Afrox provident fund, our defined contribution fund. Both are administered by trustees and external service providers on behalf of Afrox with governance applied according to the terms of the Pension Funds Act, 24 of 1956. For more information, refer to note 6 of our full annual financial statements.

Such contributions are made in addition to our legally mandated benefits such as paid maternity leave, family responsibility leave and disability grants. There are a range of benefits offered to employees that aim to make a tangible development impact in their lives, and not just a monetary one. We continue to look at opportunities to enhance our employee experience in the Company and set us apart as an employer of choice.

Future focus areas

- Attention to organisational efficiency will ensure that we maintain a culture of continuous improvement at all levels.
- Our BBBEE scorecard has a significant impact on our licence to trade. The BBBEE strategy in place will target areas that meet our scorecard improvement criteria, customer requirements and provide value to stakeholders in our value chain.
- We will continue to enable and upskill our leaders through our leadership coaching programme, mentorship programme and future manager programme. The programmes will enhance abilities while ensuring a suitable pipeline of talent to support our succession plans.
- We will remain focused on developing talent. Our robust succession planning process ensures adequate business support as we move towards the future.

Corporate social investment

Afrox focuses more on engagement and partnerships to support socioeconomic development than on financial investment, in order to make a sustainable difference in the lives of others.

Closely connected to our own internal development are a number of corporate social investment (CSI) projects that allow us to positively influence our external environment, stakeholders and surrounding communities. Afrox aims to be involved in and pioneer programmes that support education, job creation and income generation to create self-sustainability.

Although active during the restructure programme, CSI activities were reduced to allow focus on internal improvements. In 2016, the CSI strategy was reviewed and further aligned to the current economic and social challenges required for development in the country. Some activities were relaunched while others, such as the welding schools, were given more attention to create a solid foundation for future CSI activities and socioeconomic development. We spent R3.4 million (2015: R1.9 million) on CSI activities and maintained our target of donating at least 1% of our previous year's net profit after tax to social investment initiatives.

Objective	2016 R'000	2015 R'000	2014 R'000
Support of welding capability	1 150	1 840	1 400
Enterprise development	4 200	4 500	6 000
Supplier development	2 000	750	600
Post-tax profits invested in community initiatives	3 400	7 100	8 000

All social investments and CSI activities are governed by policies and approved by the Social, Ethics and Transformation (SET) Committee. The SET Committee reports to the Board on CSI matters, our sustainability compliance and high-level risks. We strive to apply good governance in all our processes and maintain ethical and responsible conduct in all the relationships with the communities in which we operate. Donations made are in line with our donations policy. As has been the case in previous years, Afrox made no political donations in 2016.

Our activities can be grouped into four main areas:

Bumbanani Day	Bumbanani is a traditional Zulu word meaning "Let's build together". This programme allows employees from our larger branches to partner with children's homes in nearby communities and offer support. An example is our involvement in the Afrika Tikkun home where an Afrox-led committee interacts with 150 children, helping with painting and cultural events, and donating LPG gas in addition to assisting with ad hoc requirements. To date, we have spent 15 000 hours interacting with 482 children at nine facilities.
Donations, support and sponsorships	Afrox provides support for growth through welding schools and skills development by forming various partnerships. In total, the Group has supported 123 learners, apprentices, graduates and interns, apprentices through active learning at our facilities. We engage with the NGOs and charities we support while providing product donations, such as free gas deliveries for heating and cooking. Nationally, approximately 40 crèches and feeding schemes benefited from such initiatives, allowing them to feed over 30 000 children and destitute people.
Enterprise supplier development	We spent R6.2 million (2015: R750 000) to help enhance and develop the stakeholders we do business with, particularly those from previously disadvantaged backgrounds.
Tertiary education sponsorship	Through direct sponsorship, 138 children of our employees obtained a tertiary qualification in a wide range of fields, contributing to national skills development.

Corporate social investment continued

Afrox partnered with **Scaw Metals** to set up the **welding portion** of their production school in Germiston. We identified synergies to aid their programmes for **people with disabilities** and other technical skills development initiatives.

We partnered with **LIV** to set up a **welding training school** in Durban. The organisation provides holistic residential **care for orphaned and vulnerable children.**

In addition to participation, **Afrox was one of the sponsors** of the **Pop Up Welding Centre** that was officially launched in Pretoria during July 2016.

We **awarded two bursaries for learners** to obtain an international welding qualification with the South African Institute of Welders.

We support **socioeconomic development** and contribute to the realisation of our government's 2030 **New Development Plan** through CSI activities. A video clip detailing our projects is available at www.afrox.co.za.

We **sponsored numerous early childhood developments initiatives** with a reach of **30 000 children.**

Future focus areas

- We will continue our focus on finalising our enterprise development strategy to build more successes in our value chain and provide opportunities for entrepreneurs and existing suppliers.
- Increase the number of employees engaged in CSI activities through actively promoting participation.
- Afrox intends to continue growing the impact of community development initiatives and improve commitment from all stakeholders through effective interaction.
- Further develop and support welding schools. This includes skills related to welding and skills identified as key to community upliftment.