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Strategy overview

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Strategic objectives

The four strategic objectives maintained by Afrox are:



Maintain and grow profitability and operating performance

Remain profitable and continue to deliver efficiencies by focusing on ROCE, EBITDA and free cash flow.



Ensure sustainable growth while enhancing competitiveness

Enhance operational effectiveness to maintain competitive edge. Consumer-led growth opportunities (food and beverage, hospitality and healthcare) and maintain stable supply of LPG in all markets.



Embed advanced performance in areas of safety, health, environment and quality

Further advance our safety culture to the point where it is fully integrated into every aspect of the way we do business and is reflected in reduced major incidents reported (MIRs). Maintain and improve quality while mitigating our environmental impacts.



Build a performance culture

Develop our leaders and empower our employees in a way that promotes behaviour that results in excellent performance, adding customer value and providing business profitability.

These strategic objectives ensured that the business has improved profitability and stability after the restructure programme and is in a position to maintain performance in the presence of significant economic headwinds. The long-term sustainability of our business was considered at length in developing this strategy, in addition to external environment factors which are outlined in the Chairperson's review on page 32. Refer to page 25 for details on our top five risks and page 22 for our material matters. The strategy considers all material matters in our value creation process.

Turnaround Plan

To support these strategic objectives, Afrox has a roadmap for success, referred to as the Turnaround Plan. This plan details progression markers to confirm that the strategy is being realised, and was first implemented in 2015 as part of the business restructure, which is now complete.

The plan started with a comprehensive review of all aspects of our South African business and now guides our path to success. To date, the Turnaround Plan has resulted in a streamlined and capable workforce, improved financial performance and a renewed quality and customer-focused approach to business.

Turnaround Plan continued

Turnaround Plan status

1. Get healthy	2. Get strong	3. Get business
Complete	In progress	In progress
<ul style="list-style-type: none"> • Introduce a leaner organisation • Right-size operations¹ • Use assets more efficiently¹ • Focus on cost containment and margin management¹ • Outsource non-core operations • Create a more effective procurement process¹ • Best commercial practice (BCP) pricing composition • Closure of the gas equipment factory to rationalise our Hard Goods segment 	<ul style="list-style-type: none"> • New customer-centric operating model and customer interaction • Refine the go-to-market approach • Improve flexibility of Hard Goods supply chain • Increase effectiveness and efficiency of traditional business channels and reduce supply chain cost • Introduction of e-commerce and electronic data interface (EDI) • Improve business segment management • BCP price cost recovery 	<ul style="list-style-type: none"> • Grow Emerging Africa by attaining critical mass in each country while strengthening corporate governance structures. This will be bolstered by achieving an optimal investment structure for further growth. • Focus on growth areas and products such as LPG, CO₂ and Special Gases (medical gases, propellants and refrigerants).
	Link to strategy	
<ul style="list-style-type: none">  Ensure sustainable growth while enhancing competitiveness  Maintain and grow profitability and operating performance 	<ul style="list-style-type: none">  Ensure sustainable growth while enhancing competitiveness  Embed advanced performance in areas of safety, health, environment and quality  Build a performance culture 	<ul style="list-style-type: none">  Ensure sustainable growth while enhancing competitiveness  Build a performance culture

Our strategy in action

Examples of how our strategic objectives mitigate risks, seize opportunities and address the matters deemed most material to our business are as follows:



Maintain and grow profitability and operating performance

- New markets and product diversification is continuously monitored to ensure the future sustainability of Afrox as a whole.
- Afrox identified growth opportunities and reduced volatility by focusing on consumer-led markets that are less dependent on commodities. For example, gas for fast-food retailers or soft drink carbonation. The Company will focus on diversifying from traditional commercially driven markets to focus on consumer-oriented sectors.
- Afrox seeks to achieve a step change in the LPG sector through improved storage and supply to meet demand. We frequently interact with the DoE on market-related matters. The Company is monitoring the LPG market inquiry. We are cooperative and provide written submissions when requested to do so. More detail is available on page 25.



¹ An activity deemed as integral to business success that will be continued or applied in each of the three stages.



Ensure sustainable growth while enhancing competitiveness

- The Company recently partnered with TETRA 4 in the Free State to provide helium from recently discovered gas reserves. Afrox will be the sole provider of this gas that was previously only available through import, and this gives us a distinct advantage in the industry. The gas is used in speciality medical functions such as X-rays. Refer to page 47 for more information.
- The Company traditionally used a small group of local suppliers to provide CO₂ to our South African and Emerging Africa operations. Demand for CO₂ is growing in the region, and security of supply is being addressed through increased storage opportunities and exploring the possibility of supply from sources outside South Africa to mitigate the high risk of shortage that has persisted for the last few years.
- The completion of the Riverhorse filling and engineering facility provides further production capabilities, namely filling and acting as an engineering hub.
- We are in the process of exploring rail transport to complement road freight inland. The prospect poses a reduced safety risk compared to tanker transport.
- Afrox concluded significant storage agreements to mitigate LPG shortages. Refer to page 48 for more details.
- The Company's BBBEE score decreased from level 3 to level 8 under the new BBBEE Codes of Good Practice (BBBEE Codes). Thus, the score and Company transformation levels are targeted for improvement. A process to manage each level of the BBBEE scorecard is underway, with internal capabilities being reviewed to ensure adequate management. Transformation is a Company-wide initiative; refer to page 59 for more information.
- The Company actively seeks to differentiate itself through product offerings and service excellence. Examples are the electronic customer engagement tool; e-channel; and the customer-centric go-to-market model on page 27. This has provided a platform for improved selling based on value and expertise that will enable Afrox to be a price leader and preferred provider.



Embed advanced performance in areas of safety, health, environment and quality

- Afrox applies a best-practice approach to safety. We continue to support training and safety awareness through a number of techniques and interventions that bolster a Company-wide culture of safety. We also strive to improve leadership capabilities so that a team focus on safety develops. Detail on the SHEQ strategy and our Golden Rules can be found on page 53.
- The Company seeks to safeguard all its stakeholders and participated in several engagements to train suppliers and end-users in the safe and correct use of our products. We see this as an enhancement of our social licence to operate and an opportunity to save lives and property while enhancing our reputation. Refer to page 55 for more on our partnership with the Road Accident Fund's (RAF) Arrive Alive campaign.
- The Company is exploring more efficient ways of securing sites, including technology and remote monitoring, which could be more cost-effective in the long term.



Build a performance culture

- Ensuring relevant, consistent, convenient and appropriately priced offerings to customers better positions the Company to retain and grow market share. Examples include expert advice, the Company's e-channel, and improved sales and marketing teams for customer engagements.
- The Company is committed to transparent communication with stakeholders through a range of channels. Refer to our stakeholder engagement section on page 26 for details.
- No industrial action occurred and we ascribe this to successful engagement with trade unions. A robust industrial action contingency plan is in place to ensure minimal disruption, should industrial action take place.
- The Company ensured a cover rate of over 85% for critical positions. Coaching and mentoring programmes are in place for adequate capability while enhancing career prospects and job security among employees. Read more on page 60.
- The Company secured a number of employment contract agreements with unions in Cape Town, Durban, Brits and the Gases Operation Centre so that workers are available during peak demand time, allowing them to be idle or on leave at reduced compensation during off-peak times – thus managing cost and productivity simultaneously.
- Development programmes at multiple employment levels ensure a holistic approach to improving our employees' capabilities, and our wellness activities help us remain an employer of choice. Personnel development is addressed on page 60. Employee wellness information can be found on page 61.
- Afrox prides itself in applying the Linde Group Code of Ethics consistently and maintains focus on developing a corporate culture with high ethical standards. The Company has a set of values that are promoted and considers best practice in all elements of governance and business operation.