INTEGRATED REPORT 2018

AFROX
A Member of The Linde Group

Contents

ONLINE REFERENCE ICON:

Afrox website: www.afrox.co.za

Afrox /// At a glance

Who is Afrox?

African Oxygen Limited (Afrox) was founded in 1927 and is southern Africa's market leader in industrial gases, Liquefied Petroleum Gas (LPG) and welding products.

We operate in South Africa and seven other African countries. We have an associate company in Mauritius and manage various operations in five other African countries on behalf of Linde PLC[1] – our global gases, engineering and technology parent company. Refer to page 136 for our corporate information.

Key market differentiators and core competencies

- Afrox serves many industries in South Africa, and its Logistics division delivers its LPG and welding goods into Africa, focusing on the Southern African Development Community (SADC).
- We have the strongest footprint among industrial gas companies in Africa, especially within the SADC.
- We manage our business according to The Linde Group's global best practice, and we have access to its technology, innovation, engineering and plant capabilities.
- Our enabling functions include logistics and planning to distribute our products across more than 26 million kilometres locally and throughout Africa.

- Afrox's brands include Arcmate, Handigas, Saffire® and Vitemax®.
- Our portfolio is diverse and less cyclical. We realise pockets of growth despite a strained economy.
- We use world-class innovations, such as the Linde Integrated Valve (LIV®) for Medical Gases.
- Our digital innovations include telematic safety systems for our truck drivers and a centralised e-commerce platform where customers can shop online and set up automatic monthly orders.
- Through our enterprise development initiative we invested in the ED Action Fund, we support Level 1 Broad-Based Black Economic Empowerment (BBBEE) suppliers in various ways to deliver our products into informal settlements.

- Afrox's product offerings are integrated with a wide range of industrial gas and hard goods products, supply options and solutions.
- We segment our customer base to give bespoke offerings to individual customers, and sales representatives focus on customers who require advice.
- We tailor product packages for specific industries and give expert engineering advice on welding, fabrication and process solutions so customers achieve productivity and quality targets cost-effectively.
- We provide customers with training and advice on health, safety and environmental compliance relating to our products.
- We supply our customers' LPG needs in full due to efficient local supply and large-scale import agreements.

- Afrox's combined product offerings, stable operating model and well-adjusted cost base keep us agile and able to recover cost inflation. We continuously measure our cost base for appropriateness in relation to revenue generated. Based on this leading key performance indicator (KPI), the Company decided to embark on a restructuring process to ensure a fit-for-purpose fixed cost base in 2019.
- Our operating model supports our strategy: 'Get healthier, Get stronger, Get business', which means we keep our costs low, optimise our processes and position Afrox for growth.

- We are profitable with a strong balance sheet and an attractive dividend policy.
- We recognise opportunities for growth in government spend and private business, and we have the cash resources to invest accordingly.

[1] The merged entity of The Linde Group AG and Praxair – note that for this report we will refer to The Linde Group, as it was known in 2018.

Salient features

Revenue up
6.2% to R6 047 million
(2017: R5 693 million)

EBIT before restructure costs and impairments down
17.8% to R703 million
(2017: R855 million)

ROCE[1] down
520bps to 18.5%
(2017: 23.7%)

[1] ROCE figures before impairments and restructuring costs

The Afrox product reference manual contains its comprehensive range of products and is available on our website:

http://www.afrox.co.za/en/customer_service/publications/product_reference_manual/index.html.

Print and digital versions are available on request from www.afrox.co.za/en/investor_relations.

Chapter 1

About this report

Useful terms

Average capital employed	Equity (including non-controlling interests) + financial debt + liabilities from finance leases – cash and cash equivalents and receivables from finance leases
EPS	Earnings per share: The net income after tax for the period attributable to Afrox shareholders/number of shares in issue excluding treasury shares
EBIT	Earnings before interest and tax
EBITDA	EBIT before non-recurring items adjusted for amortisation of intangible assets and depreciation of tangible assets
e-channel	Afrox's centralised customer service system and database for customer profiles, preferences and online purchases
GPADE	Gross profit after distribution expenses
HEPS	Headline earnings per share: the net income after tax for the period before non-trading items, attributable to Afrox shareholders/number of shares in issue excluding treasury shares
LIV®	Linde Integrated Valve: A new cylinder regulator that can adjust the pressure at which gas is released and measure the amount of gas in a cylinder (refer to page 13)
LTIR	Lost-time injury rate: A measure of the rate at which employees are unable to work due to injuries, using a base of 1 000 000 hours
Organisational health	The activities and projects that optimise Afrox's efficiency, reduce its costs and align the Company with its strategic objectives
ROCE	Return on capital employed, calculated as EBIT/average capital employed

This report is intended for key stakeholders, being providers of financial capital, employees, government, industry regulators, current and prospective customers, among others. In this report, 'Afrox', 'Company', 'the Group', 'us', 'our' and 'we' refer to African Oxygen Limited and/or its management.

This integrated report presents the holistic performance of African Oxygen Limited for the financial year ended 31 December 2018.

Reporting approach

Basis for reporting

Our integrated report is based on material matters that substantively influence Afrox's ability to create value:

1. Economic strain and persistent lower demand
2. Reliability of plants and supply chain
3. Scarce skills and talent
4. Digital innovations and cyber risk
5. Safety and security
6. Compliance with laws, government policies and regulations
7. Liquefied Petroleum Gas (LPG) market growth

Refer to page 34 for detailed information regarding Afrox's material matters.

Frameworks and guidelines

The information provided in this integrated report is based on local and international requirements and frameworks. These include the:

- International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework (<IR> Framework);
- King IV Report on Corporate Governance™ for South Africa, 2016 (King IV[1]);
- International Financial Reporting Standards (IFRS);
- Companies Act of South Africa, 71 of 2008, as amended (Companies Act); and
- Listings requirements of the JSE Limited (JSE Listings Requirements).

The report also includes selected disclosures referenced from the GRI 102: General Disclosures standard and other sustainability frameworks to provide enhanced sustainability disclosures.

[1] Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.

Chapter 1 /// About this report continued

Reporting suite

This integrated report is our primary communication to our stakeholders. It describes our value creation, strategy, performance and prospects. The summarised consolidated audited financial statements included are derived from the audited consolidated financial statements for the year ended 31 December 2018.

The following reports and supplementary documents to our integrated report are available at

www.afrox.co.za/en/investor_relations:

Reports and supplementary documents	Purpose and basis of preparation	Assurance over content
Audited Group annual financial statements for the year ended 31 December 2018	Full financial statements in accordance with IFRS and Companies Act requirements	• Internal controls • Internal audit • Management and governance oversight • External audit opinion
King IV™ disclosure guide	Afrox discloses its compliance and application of the King IV™ principles supporting the detailed disclosures included in this integrated report	• Internal controls • Management and governance oversight
Leadership supplementary report	A list of qualifications, experience and other positions held by our Board and executive management	• Internal controls • Management and governance oversight

Scope and boundary

Afrox publishes an integrated report annually. The report relates to Afrox and its consolidated entities' performance. The report includes our subsidiaries and operations across Africa. Notes 4 and 34 to the audited Group annual financial statements give details on our associate and subsidiaries. We report on the real and potential impacts of stakeholders who substantially impact our business and value chain.

Afrox's previous integrated report for the year ended 31 December 2017 reported on Emerging Africa as a distinct business segment. In this report, the Company incorporates Emerging Africa into the Hard Goods, Atmospheric Gases and LPG segments' reporting. EBIT replaces GPADE as the reported profit number. The new reporting segments meet the aggregation requirements as per IFRS 8. This report does not show comparatives as restatements when numbers have changed because of this change in classification. We indicate restatements only where a number has changed due to a change in its calculation. There have been no restatements to comparatives unless otherwise stated in the relevant section.

Assurance

Afrox has a combined assurance model with three lines of defence which ensures the integrity and validity of the integrated report. This includes line management and managerial controls, functional areas and independent, objective internal and external assurance providers (refer to page 88).

Afrox does not obtain external assurance on sustainability data; rather assurance is obtained through management and governance oversight.

The summarised audited consolidated financial statements contained in this report are a summary of the audited and consolidated financial statements for the year ended 31 December 2018, on which KPMG Inc. has expressed an unmodified audit opinion.

Board responsibility

Afrox's Board and its sub-committees are ultimately responsible for the integrity and completeness of this integrated report. The Board applied its collective mind to the preparation and presentation of this report. The Board considered the accuracy and completeness of the material matters determined by executive management and deems these to be satisfactory according to the IIRC <IR> Framework.

The Board has evaluated the reporting frameworks used and the reliability of all data and information presented and is satisfied that the information contained in this integrated report is correct and adheres to the chosen frameworks.

The Board approved the 2018 integrated report on 28 March 2019.

Bernd Eulitz
Chairman

Schalk Venter
Managing Director

Matthias Vogt
Group Financial Director

Forward-looking statements

Opinions in this report are, by nature, subject to known and unknown risks and uncertainties. Changing information or circumstances may cause the actual results, plans and objectives of Afrox to differ materially from those expressed or implied in any forward-looking statements. Undue reliance should not be placed on such opinions, forecasts or data.

No representation is made on the completeness or correctness of opinions, forecasts or data in this report. Neither Afrox nor any of its affiliates, advisors or representatives accept any responsibility for any loss arising from the use of any opinions expressed, forecast or data in this report. Forward-looking statements apply only as of the date on which they are made, and Afrox does not undertake any obligation to publicly update or revise any of its opinions or forward-looking statements, whether to reflect new data or future events or circumstances.

The financial information on which the forward-looking statements are based has not been audited or reported on by Afrox's independent external auditors.

Feedback

We welcome your feedback to help improve our reporting. Please send your queries and comments to corporate communications at investor.relations@afrox.linde.com.

Chapter 2

Our business

SALIENT HIGHLIGHTS

- Properly resourced our e-channel. The electronic channel keeps a database of customer preferences and purchase history and allows customers more control over their purchases.
- We are rolling out the Linde Integrated Valve (LIV®) which is a state-of-the-art medical cylinder regulator that accurately indicates how much product is in a cylinder.
- We continued executing our SWIFT programme and organisational health initiatives to optimise our business.
- Launched a mobile pricing tool for sales representatives for quicker custom prices approval.

Chapter 2 /// Our business continued

How we are structured to do business

The Linde Group (owns 50.47% of Afrox)

The Linde Group is a global gases, engineering and technology solutions company.

Corporate and enabling functions

Our business segments are supported by:

- our enabling functions – finance and safety, health, environment and quality (SHEQ); information systems; communications, procurement; and human resources;
- the South African-based support services, channels to market (marketing, sales and distribution), customer services, strategy and risk, and performance transformation; and

Atmospheric Gases

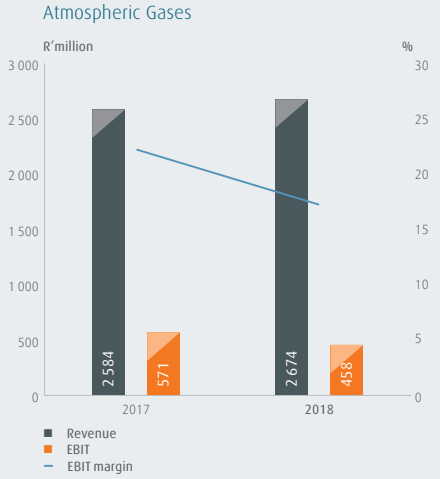
Products and services: Atmospheric Gases are gaseous oxygen, nitrogen and argon supplied from our air separation units (ASUs) and various feed gas providers. We obtain CO_2 from a limited pool of local feed gas suppliers. We refine and purify CO_2 to make it fit for customers' use and end-user consumption.

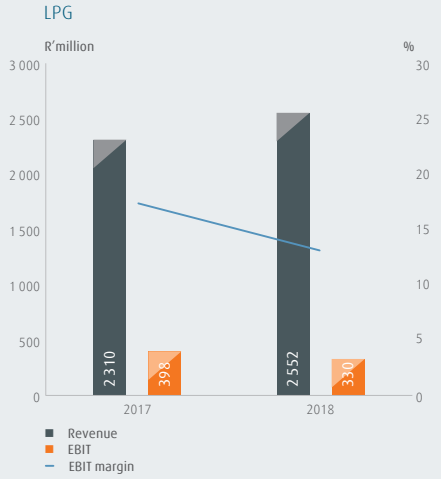
Distribution channels: For Atmospheric Gases and CO_2, we use bulk liquid tanker distribution or dispatch cylinders via road freight to merchant consumers. Our Gas & Gear outlets sell products directly to the end-user. We often serve larger industrial customers through pipelines linked directly to our ASUs. Our centralised e-channel allows customers to order products online for collection or delivery.

Markets served: Industrial, medical, hospitality and specialty.

Product range

- **PGP:** These are gas products compressed into cylinders and distributed to smaller end-users and retailers. For example, nitrogen, oxygen, argon and speciality gas mixtures.
- **Tonnage:** Gas products are sent via pipeline to significant or anchor customers through a process that Afrox describes as 'Tonnage'. Products typically supplied include oxygen and nitrogen.
- **Bulk:** Liquefied gases are distributed by cryogenic road tankers to customers across various sectors, including healthcare. Customers supplied with bulk products often have lower demand than Tonnage customers and require products that can be delivered by road and stored practically on-site. Oxygen, nitrogen, argon and CO_2 are examples of gases supplied in bulk.
- **Hospitality:** Beverage dispensing and balloon gas.
- **Special Gases:** Refrigerants, chemicals and scientific gases.





Afrox

Afrox operates in South Africa and in seven other African countries, permanently employing 2 035 people across sub-Saharan Africa. We operate and report according to the three business segments shown below

- our Merchant and Packaged Gases (MPG) business manages our supply chain, warehousing and distribution needs for Hard Goods, sale of Liquefied Petroleum Gas (LPG) and the regional sales infrastructure. LPG and filling plants are managed within the MPG structure.

Liquefied Petroleum Gas

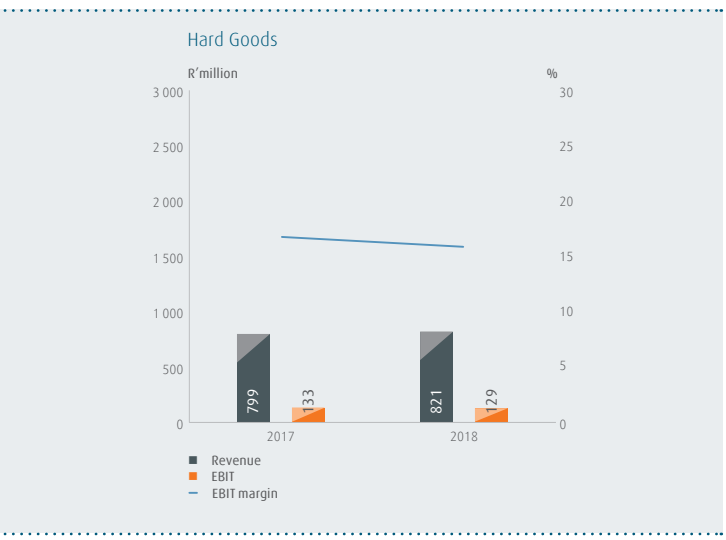
Product and services: LPG is an inexpensive source of energy consumed in small and large scales. We supply packaged LPG, branded as 'Handigas', in smaller cylinders for lower volumes; and meet higher demand with larger cylinders or direct delivery to bulk end-users.

Distribution channels: We obtain LPG from local refineries and through imports and transport them by cylinder or in bulk. Our logistics department manages distribution. Our centralised e-channel allows customers to order products online for collection or delivery.

Markets served: Our smaller LPG cylinders are versatile sources of energy and useful in all major sectors of the economy. Our larger bulk options are primarily used in manufacturing, larger commercial activities, retail and hospitality.

Product range

- **Liquefied petroleum gas:** Packaged LPG in a range of cylinder sizes.
- **Bulk supplies:** Major industrial and hospitality users.



Hard Goods

Products and services: Hard Goods include arc equipment, gas equipment, welding consumables and a range of other products. Brands include Vitemax® and Saffire®.

Distribution channels: We sell manufactured and imported products through direct and indirect Afrox sales infrastructure to small-scale and bulk customers. We sell products in African countries other than South Africa through direct in-country sales channels and through our network of partners who export from South Africa. Our Gas & Gear outlets retail our products. Our centralised e-channel allows customers to order products online for collection or delivery.

Markets served: Any industry where welding or component products are used. This includes light industry, manufacturing, mining, power generation and construction.

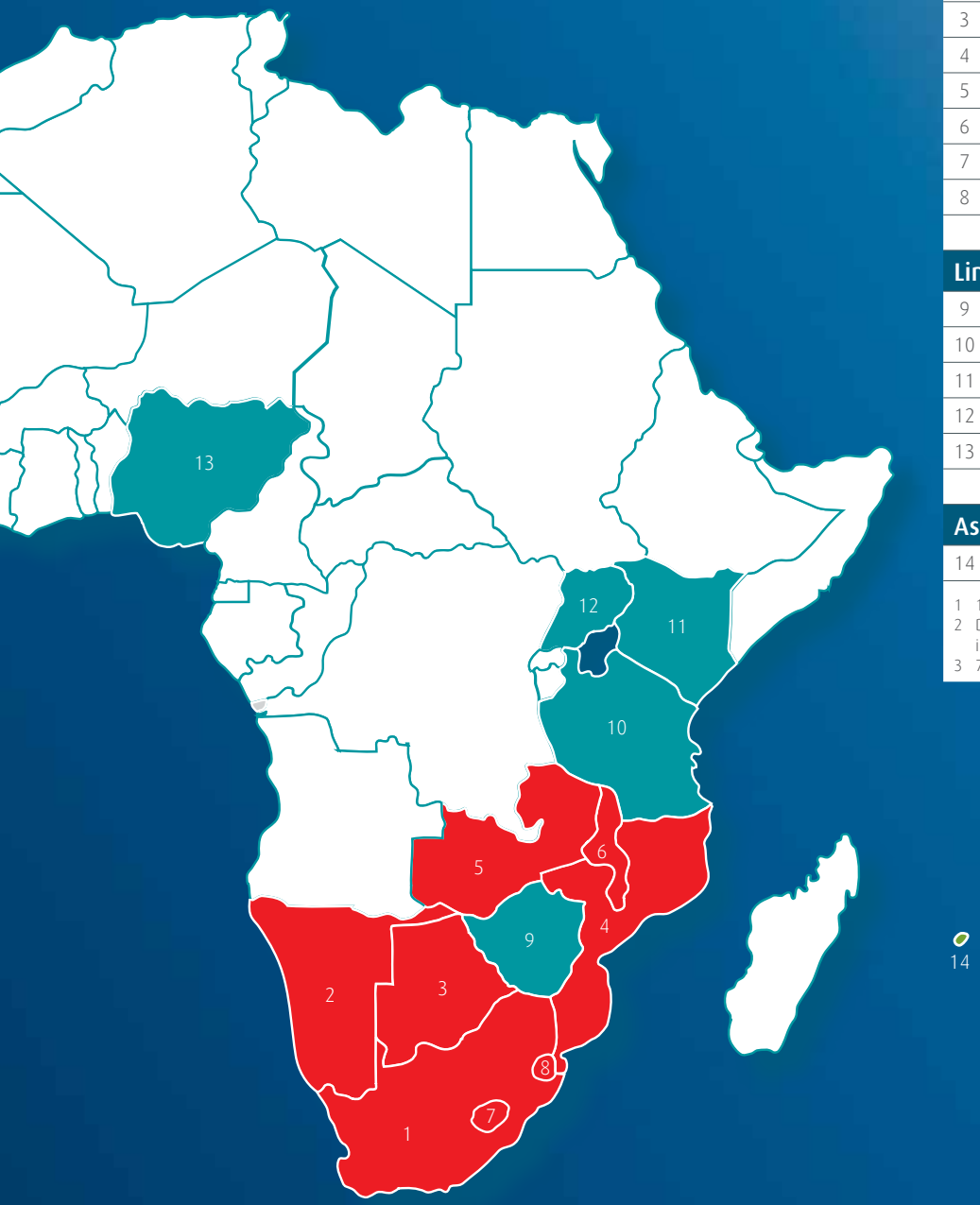
Product range

- **Filler materials:** Filler materials for manual metal arc (MMA), metal inert gas (MIG), tungsten electrode inert gas (TIG) and brazing, as well as fluxes and gouging carbon rods.
- **Arc equipment**: Arc accessories and MIG, MMA and TIG equipment.
- **AfroxPac:** This self-contained self-rescuer is an emergency breathing apparatus provided to underground mineworkers to escape from oxygen-deficient or toxic air in the event of an emergency[1].
- Regulators.
- Safety equipment.
- LIV®.

[1] The AfroxPac is compact and lightweight comprising a breathing apparatus contained in a robust, protective body-worn container and can generate oxygen for 30 minutes from a chemical oxygen source while completely isolating the user from the toxic atmosphere. Afrox provides on-site testing and monitoring of 40 000 self-rescuers each month, repairs devices if necessary and provides on-site training to customers on their use and maintenance.

Chapter 2 /// Our business continued

OUR GEOGRAPHIC FOOTPRINT



Afrox-owned	
1	South Africa
2	Namibia[1]
3	Botswana[1]
4	Mozambique[1]
5	Zambia[1,2]
6	Malawi[3]
7	Lesotho[1]
8	Swaziland[1]

Linde-owned, managed by Afrox	
9	Zimbabwe
10	Tanzania
11	Kenya
12	Uganda
13	Nigeria

Associate company	
14	Mauritius (Afrox shareholding 38%)

1 100% subsidiary.
2 During the year, Afrox acquired the remaining 30% equity in Afrox Zambia.
3 78% shareholding.

Country	% of total revenue 2018	% of total revenue 2017	Revenue R'million 2018	Revenue R'million 2017
South Africa	83.9	83.5	5 076	4 751
Namibia	4.4	4.6	268	264
Botswana	3.1	3.3	189	187
Mozambique	0.8	0.8	51	43
Malawi	1.5	1.4	92	80
Zambia	2.8	3.2	171	181
Lesotho	1.7	1.4	103	82
Swaziland	1.6	1.8	97	104

South African operations industries and sectors serviced	% change	2018 R'000	2017 R'000
Chemistry and energy	8.6	543 383	500 273
Food and beverages	9.0	746 780	684 978
Retail trade	11.8	990 442	886 135
Healthcare	5.7	398 018	376 562
Manufacturing industry	0.6	1 273 503	1 265 980
Metallurgy and glass	4.9	789 390	752 742
Other industries	11.9	556 427	497 107
Consolidation adjustment		(221 730)	(212 655)
Total	6.8	5 076 195	4 751 122

Increased volumes in LPG due to improved product availability

Volume decline in LPG due to reduced demand from lower economic activity

Lower LPG sales volume increased logistics costs and lower margins

Increased sales volumes to customers in the growing Tete region

Improved volumes across multiple products

LPG pricing reduced during the year, improved volumes for Hard Goods and Packaged Industrial Gases

Improved LPG volumes

Volume declined, mainly in LPG

Changes to our organisation and supply chain

Year on year, the Company had no significant changes to the size of the business, its structure, nor share capital or other capital information.

Our supply chain includes a range of businesses from various socio-economic backgrounds to support the concept of inclusive growth in South Africa.

Chapter 2 /// Our business continued

Our value creation process

Value creation for Afrox is the sustainable and effective delivery of products and services to add value for its customers in a profitable manner.

Our Board considers the role of our risks, opportunities, strategy, business model, performance and sustainable development in this process. Review our key market differentiators and core competencies on page 1 for examples of our value creation ability.

Capital capabilities and strategic trade-offs

Capability	Strategic trade-offs in 2018
FINANCIAL CAPITAL	
Afrox is a capital-intensive and cash flow-generative business. Cash from operations is generally 85% of EBITDA. These funds replace assets, pay dividends, finance business costs and pay tax. Afrox maintains dividend cover at 50% of headline earnings per share (HEPS). Working capital management is crucial to remaining cash-generative. We have significant cash holdings reserved for any future growth opportunity with a sound business case. We manage gearing within financial covenants, which require that net interest-bearing borrowings do not exceed two-and-a-half times EBITDA and that the EBITDA interest cover ratio is not less than four times. Refer to page 16 for details of our financial performance.	• Fully resourced our e-channel to better serve customers (intellectual capital). • Invested resources and capabilities into Level 1 Broad-Based Black Economic Empowerment (BBBEE) suppliers, via the ED Action Fund, as part of our Enterprise and Supplier Development programme and to distribute products into informal settlements. These suppliers use our premises in Cape Town free of charge as a base of operations to distribute our products (human, social and relationship capital).
HUMAN, SOCIAL AND RELATIONSHIP CAPITAL	
Our employees are our most important resource. We consider scarcity of skills and talent a material matter (refer to page 36). We need to have appropriately skilled people who internalise our SWIFT behaviours (being agile, collaborative, accountable, engaged and caring) in the optimal positions to run our business efficiently and cost-effectively. We have 2 035 (2017: 2 092) permanent employees with an annual cost of R837 million (2017: R779 million). We spent R44 million (2017: R33 million) on training and R2.1 million (2017: R2.1 million) on employee health and wellness programmes. The average employment period for the Company remains nine years (2017: nine years), and we have succession programmes to keep and/or replace skills and expertise as part of our Business Continuity Management (BCM) programme (refer to page 28). We capitalise on improvement opportunities and embed a high- performance culture through our organisational health initiatives and SWIFT programme. Afrox adopted the Linde Group's Code of Ethics, and it underpins all our engagements (refer to page 79). We have corporate social investment (CSI) activities, supplier support and preferential procurement practices to aid previously disadvantaged individuals (refer to page 76).	• As part of our drive to be more customer-centric, our e-commerce offerings **(intellectual capital)** enable employees to be more productive with less administration and less chance of human error. • As part of our organisational health initiatives, we are reviewing our middle and senior management roles to identify where efficiencies can be gained **(human, social and relationship capital)**. • We leveraged our supply chain to reach a Level 3 BBBEE status **(human, social and relationship capital)**.

Capability	Strategic trade-offs in 2018

INTELLECTUAL CAPITAL

Our intellectual capital is the key to understanding our customers, processes and employees. We continuously study customer processes to optimise our processes and provide unique product service offerings with improved delivery, lower failure rates and higher returns. Consequently, we are involved in green energy (predominantly with welding solutions) and food refrigeration. As part of The Linde Group, we have access to state-of-the-art technologies and research, such as the Linde Integrated Valve (LIV®).

Customers use our 24/7 centralised digital customer service network to make informed purchases with delivery options suited to their needs, and Afrox uses this data to serve them more appropriately. We launched a mobile pricing tool for sales representatives to calculate approved minimum prices on products within a strictly controlled pricing structure.

Our brands are well known, and we capitalise on our supply chain strengths through our international distribution network.

- Increased income from rental business

MANUFACTURED CAPITAL

46 (2017: 48) sites manufacture and fill our gases and other products. Some of these host more than one operating unit. We have a national network of strategically located Gas & Gear retail outlets and a central warehouse in Gauteng. The central scheduling centre facilitates over 20 000 deliveries per month. Our distribution capabilities include liquefied bulk deliveries throughout Africa and customer-specific on-site plants.

This supply chain network is capable of sourcing, manufacturing and delivering over 3 000 products and gases in 973 000 high-pressure cylinders and 3 million LPG cylinders throughout South Africa.

The Company's transport fleet covers more than 26 million kilometres per year locally and our Africa operations offer similar distribution excellence, speed and safety.

- Nationwide LPG supply security achieved

NATURAL CAPITAL

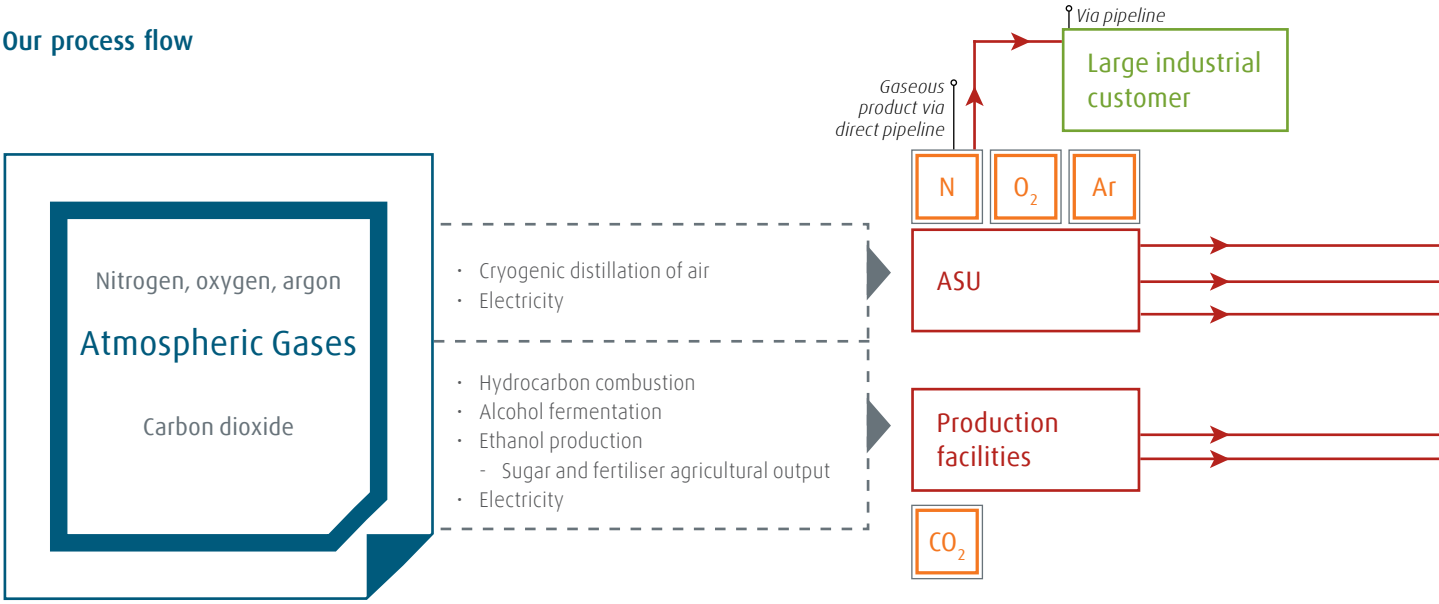
Afrox's operations do not directly affect the environment other than our consumption of electricity, water and fuel. We have programmes to conserve these resources and reduce greenhouse gases, while staying commercially relevant.

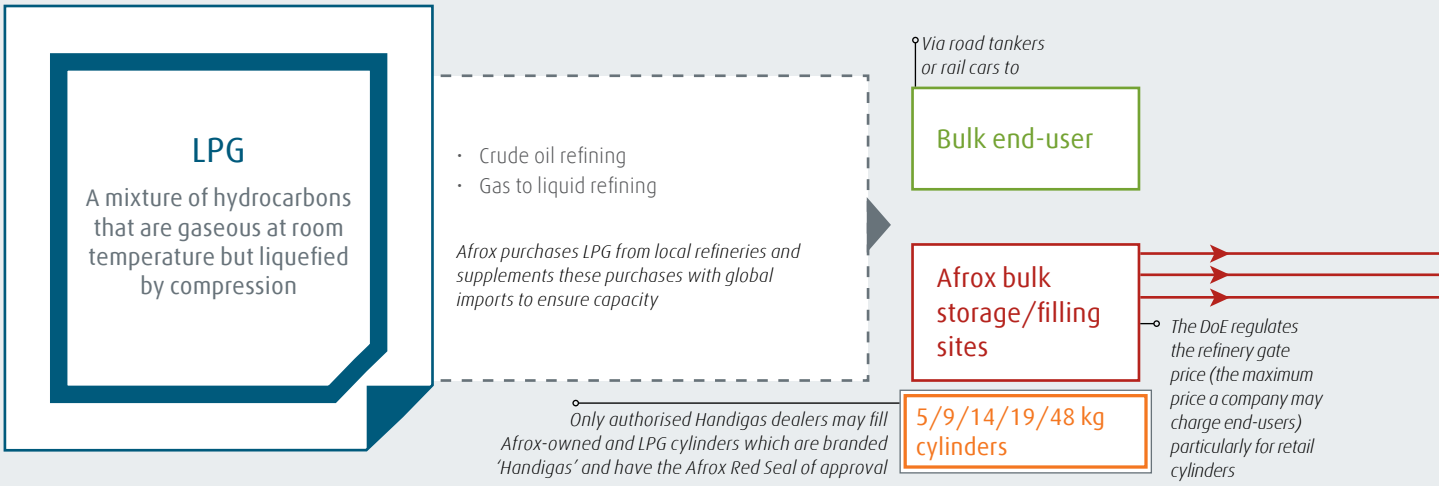
Our products are geared towards customers' environmental compliance and keeping their impact to a minimum. Refer to page 61 for our environmental impact in 2018.

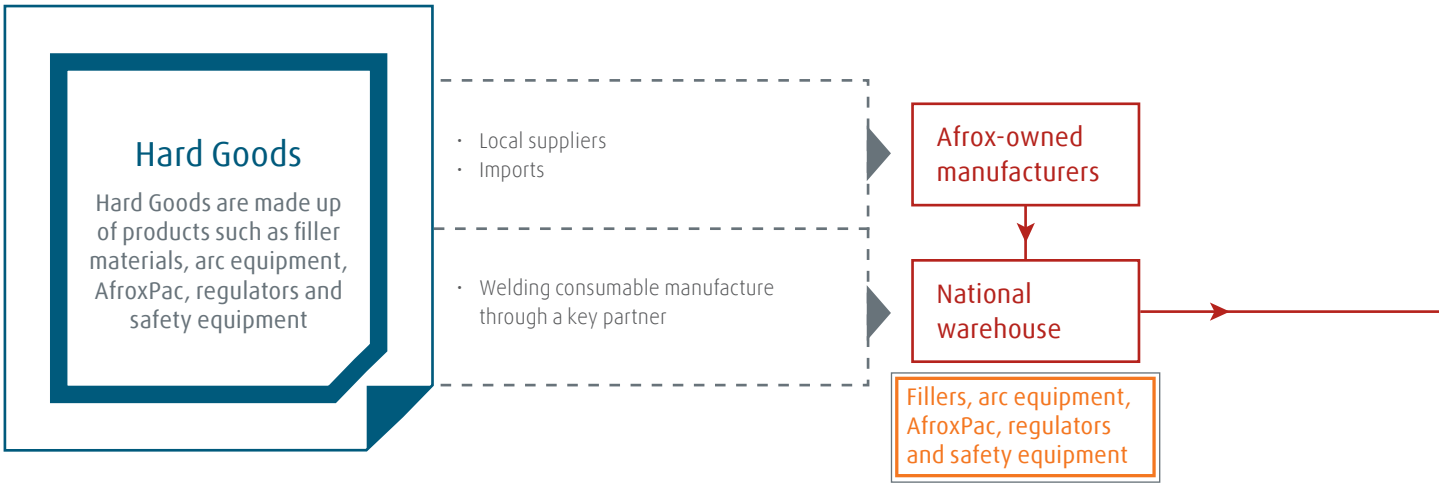
We supply liquid nitrogen to the FMCG industry to freeze food and cool transport vehicles. This off sets the customer's need for electricity and diesel-based cooling systems.

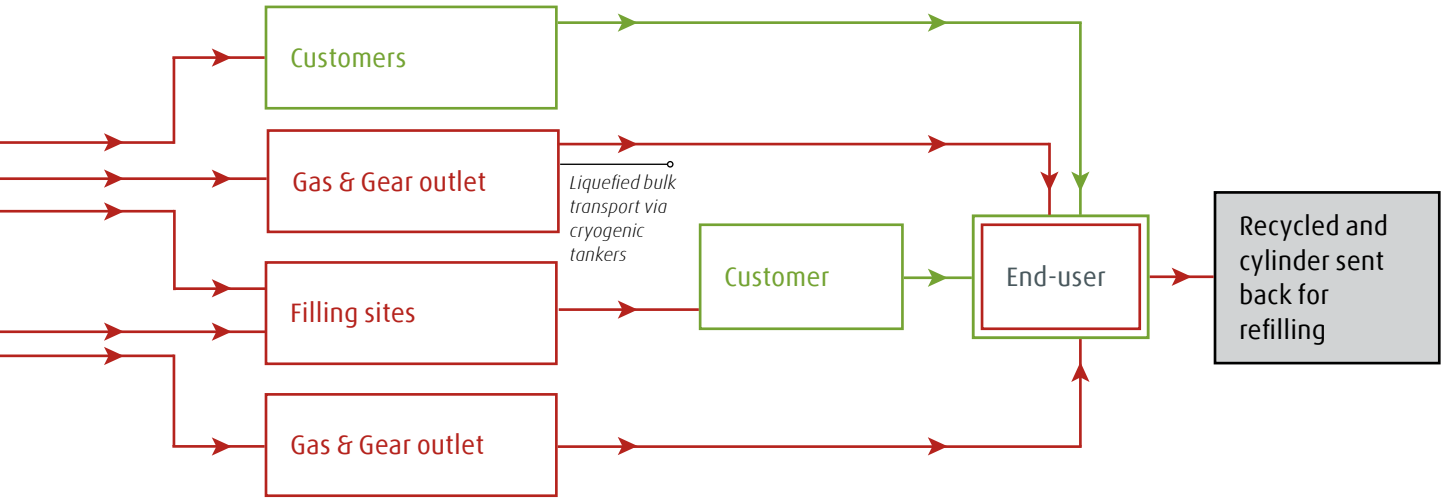
- There was no significant strategic trade-off during 2018 related to natural capital.

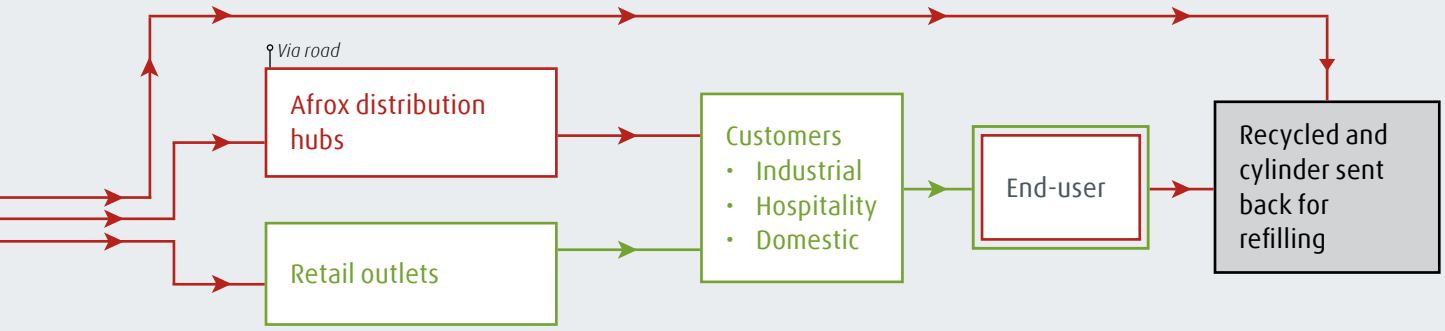
Our process flow

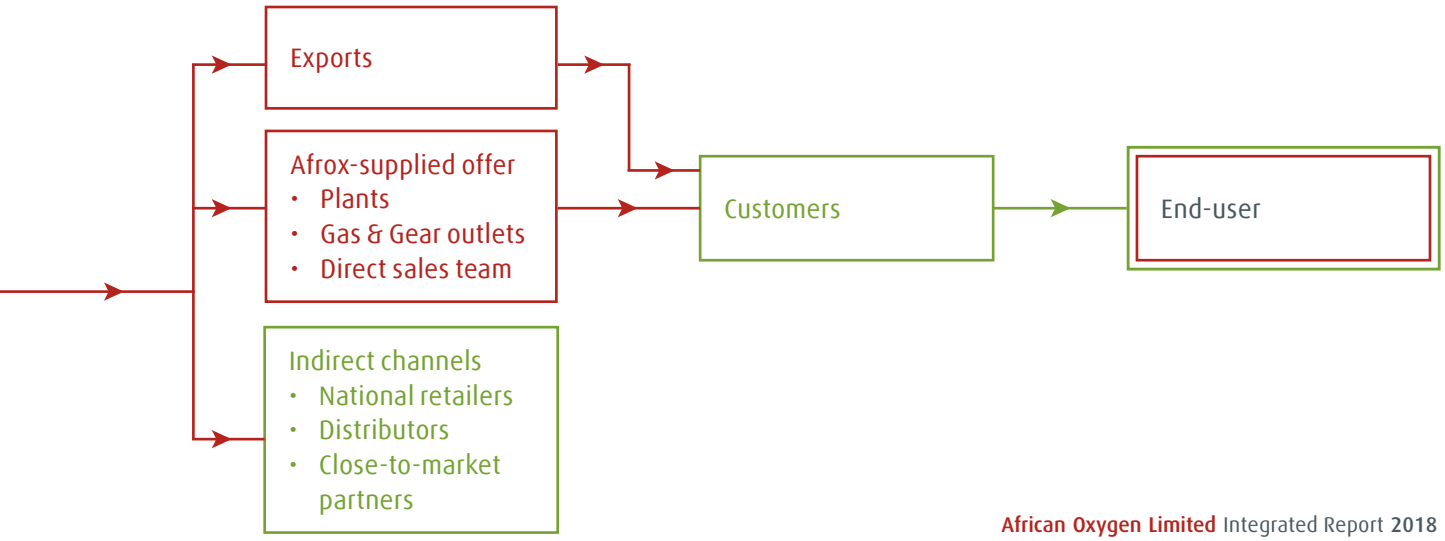







Afrox facilities
Customers and end users
Afrox product
Primary inputs into value chain
Customers
Gas & Gear outlet
Liquefied bulk transport via cryogenic tankers
Filling sites
Gas & Gear outlet
Customer
End-user
Recycled and cylinder sent back for refilling


Via road
Afrox distribution hubs
Retail outlets
Customers
• Industrial
• Hospitality
• Domestic
End-user
Recycled and cylinder sent back for refilling


Exports
Afrox-supplied offer
• Plants
• Gas & Gear outlets
• Direct sales team
Indirect channels
• National retailers
• Distributors
• Close-to-market partners
Customers
End-user

Chapter 2 /// Our business continued

Our business model

Afrox's operations are affected by several external factors, including regulatory requirements, macroeconomic conditions, external risks and the needs and expectations of various stakeholders. For more information, refer to page 26 for our external environment, page 34 for our material matters and below for our capital inputs and capabilities.

Our mission	We provide engineering services and a focused range of performance-enhancing Atmospheric Gases, welding and safety products and LPG to valued customers, through excellence in operations, customer service, product delivery, and investment in infrastructure, employees and technology for the benefit of all stakeholders.
Our vision	We will be the leading gases and welding product company, admired for our employees by any measure.
Our principles	Safety, integrity, sustainability and respect.

INPUT

Financial capital	Manufactured capital	Intellectual capital
• Cash-generative operations • Capital-intensive business supported by capital investment programmes • Appropriate funding	• Manufacturing sites close to established markets • National customer service centre and warehouse • Established and efficient transport fleet with logistics management	• Access to The Linde Group's technology and expertise • Various patents and internally developed systems • Customer-centric product and service offerings with innovative solutions • A dynamic Board and management structure with a range of skills and expertise

BUSINESS PROCESSES AND OUTPUTS

Afrox's products are widely used in industries such as healthcare services, production of iron and steel, fabrication and assembly of motor vehicles,

OUTCOMES

Financial capital	Manufactured capital	Intellectual capital
• 6.2% increase in revenue • EBIT of R 703 million (before impairments and restructuring costs) • Cash of R1 153 million • EBITDA interest cover maintained	• Increased investment in maintaining and developing operational sites • Efficient logistics and distribution network • Maintained security of supply of various products for customers through efficient strategies such as imports or storage agreements	• Over 85% role coverage for critical roles in the Company • Provision of unique sector-specific product solutions • Streamlined production process for some Hard Goods through intellectual capital sharing • New product offerings, digital applications, improved electronic interfaces and telematics systems

Our values	· Passion to excel · Innovating for customers · Empowering employees · Thriving through diversity
SWIFT behaviours	Agility, collaboration, accountability, being engaged and caring.
Strategic objectives	· Maintain and grow profitability and operating performance · Ensure sustainable growth while enhancing competitiveness · Embed advanced performance in areas of safety, health, environment and quality (SHEQ) · Build a performance culture

Human capital	Social and relationship capital	Natural capital
· 2 035 committed, value-driven employees · Training and development opportunities to further enhance effectiveness · Code of Ethics and SHEQ-based safety culture promote safe and ethical operations	· Social licence to operate supports business sustainability, and regular engagements allow Afrox to understand the needs and interests of its key stakeholders	· Primarily air (oxygen, nitrogen and small quantities of argon) in the air separations process of our Atmospheric Gases activities · Electricity, water and fuel consumption

industrial ceramics, food preservation and water treatment. We illustrate our value chain and products (outputs) in our process flow on page 14.

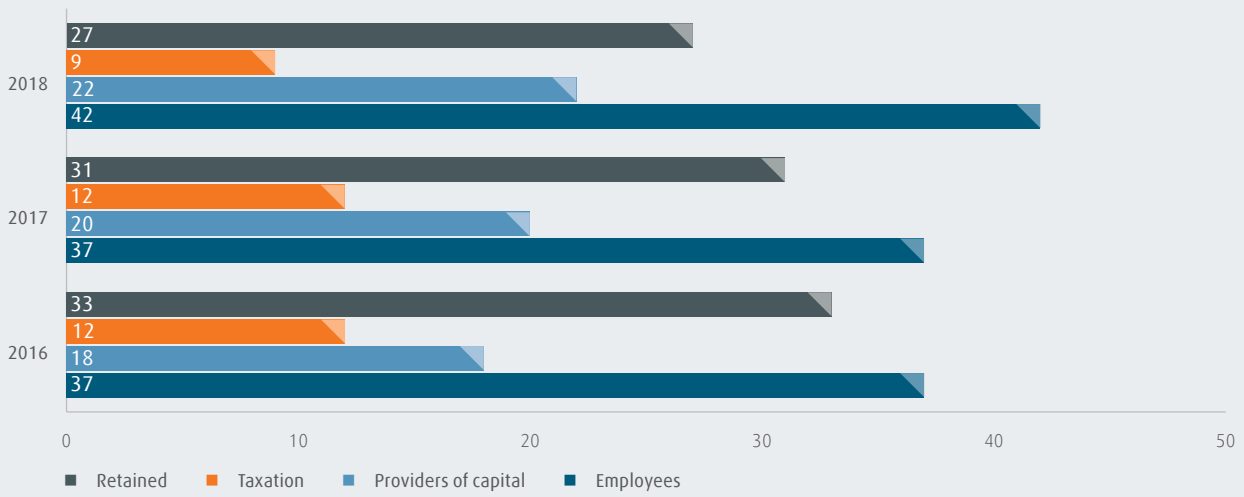
Human capital	Social and relationship capital	Natural capital
· Improved leadership roles in safety and improved safety and driving training programmes · Embedded training and succession programmes · Numerous leader and employee training programmes · Positive employee engagement supported by extensive benefit options · Improved understanding of safety culture following DuPont™ Safety Perception Survey™	· Increased internal and external awareness of CSI initiatives · Activities that have positively impacted over 2 000 children · Positive interaction with unions and community-based organisations · Focus on business support for previously disadvantaged suppliers	· 58 194 m^3 increase in water used. · 5.6% decrease in scope 1 and 2 carbon emissions · 0.75% increase in electricity usage

Financial value-added statement

This statement is a measure of the wealth created by the Group through its various business activities. The statement and charts show the total wealth created, how it was distributed and retained.

Country	2018 R'million	2018 %	2017 R'million	2017 %
Wealth created				
Revenue	6 047		5 693	
Cost of goods and services	(4 184)		(3 730)	
Value added	1 863		1 963	
Finance income	152		133	
Income from investments	–		–	
	2 015		2 096	
Wealth distributed and retained				
Employees				
Salaries	837	42	779	37
Community				
Donations	2	0	1	0
Providers of capital	449	22	433	20
Finance costs	111	6	108	5
Non-controlling interest	10	0	10	0
Ordinary dividends	327	16	315	15
Taxation	180	9	242	12
Retained in Group activities	547	27	641	31
Depreciation and amortisation	429	21	328	16
Retained income	120	6	313	15
	2 015	100	2 096	100
Value added ratios				
Number of employees	2 102		2 211	
Permanent	2 035		2 092	
Short-term contractors	67		119	
Revenue per average permanent employee (R'000)	2 931		2 689	
Value added per average permanent employee (R'000)	977		990	

Wealth distributed and retained (%)



Chapter 3

Strategy overview

SALIENT HIGHLIGHTS

- No material changes to the Afrox strategy.
- E-commerce strategy is gaining traction.
- Achieved Level 3 Broad-Based Black Economic Empowerment (BBBEE).

Chapter 3 /// Strategy overview

Our ongoing strategy

Afrox has three strategic pillars that evolved from the SWIFT behaviours programme (the SWIFT pillars) used to improve its organisational health in recent years. All three pillars apply to the Company on an ongoing basis and support the achievement of our four strategic objectives.

Strategic pillars

Our vision is to be the leading gases and welding product company, admired for our employees by any measure. We aim to achieve this by being an investment option of choice, and an employer of choice.

Pillar 1: Get healthier	Pillar 2: Get stronger	Pillar 3: Get business
• Continually improve organisational efficiency • Use assets more efficiently • Focus on cost containment and margin management • Improve the effectiveness of procurement processes • Improve supply chain efficiency • Best commercial practice (BCP) pricing composition and contracting We aimed to again reduce our cost in 2018.	• Improve our customer-centric operating model and customer interaction • Refine the go-to-market approach • Improve the effectiveness and efficiency of traditional business channels • Enhance e-commerce and electronic data interface • Improve business segment management • Exercise BCP price cost recovery We aimed to again improve our process efficiencies in 2018.	• Leverage Healthcare growth opportunity from additional remaining four regions of the South African public hospital business • Focus on LPG growth into domestic markets with focus on black empowered partnerships and leveraging existing internal filling capacities and distribution network We are internally positioned to grow.

Supported by people, organisations, processes and systems

• Instil a 'winning culture' by subscribing to our SWIFT behaviours (refer to page 17) • Continuously develop and improve our efforts to be an agile and flexible organisation • Keep full-time employees' numbers below target • Improve BBBEE score	• Streamline end-to-end processes • Further develop responsible, accountable, consulted and informed decision-making for major processes • Improve and realign processes to our operating model and provide system support • Improve processes and systems reliability – SWIFT is an ongoing process

The long-term sustainability of our business was considered at length in developing this strategy, in addition to external environment factors outlined in the material matters section on page 34. The strategy considers all material matters in our value creation process.

2018 progress

Against a backdrop of subdued economic growth during the past two years, which we believe will prevail in the medium term, we reviewed our operating model to enable sustainable growth in earnings.

The following areas have been targeted to extract further efficiencies:

- Refined go-to-market approach
- Continued centralisation of support functions
- Continued integration of production and distribution
- Optimised supply and distribution networks

In executing the Company's ongoing restructuring, we will strengthen Afrox's operating model, further reduce our fixed cost base and allocate resources to areas of future volume growth. The primary objective of the restructure is to further improve Afrox's organisational effectiveness, customer satisfaction and the need for integrated solutions across sub-Saharan Africa. Refer to the organisational health focus areas detailed on page 71.

Progress against our 2018 focus areas as reported last year is as follows:

Area and core activity	Intended actions	Progress
Enhance customer experience: *increase routes to market*	Improve the Company's operating model and regain market presence	Our customer-centric e-commerce model has made purchases easier and more convenient and is available 24/7. Afrox won the state healthcare tender for all nine South African provinces.
Building future business: *increase growth*	Drive new initiatives in South Africa, develop opportunities for Africa and increase our exports	We are developing Level 1 BBBEE suppliers in South Africa who extend our reach into informal settlements. We developed a smaller 5 kg LPG cylinder as a more suited delivery mechanism for this market. We also work with distributors in Africa. For example, we are investigating supplying products into the Democratic Republic of the Congo from our operations in Zambia.
Improve operational efficiency: *decrease fixed costs*	Deliver R140 million in cost savings and further enhance our continuous improvement culture	As part of our organisational health initiatives, we began outsourcing our customer service to a global service provider and continued evaluating middle and senior management positions to identify where efficiencies can be realised. Realised R112 million in cost savings in 2018.

E-COMMERCE

Afrox has a three-step e-commerce strategy:

1. ***Convert** existing smaller Afrox customers to e-commerce.*
2. ***Attract** new customers and regain lost customers.*
3. ***Grow** selling and technical self-service capabilities.*

In 2014, we launched our e-channel, which forms part of our multi-sales channel strategy and is our fastest growing channel. This year we appointed an e-commerce manager, digital marketing manager, catalogue manager and a support team and we are steadily converting our existing smaller customers to the e-channel.

The e-channel is customer-centric since it is available after hours through various integrated platforms, including social media, organic Google searches and our call centres, all of which direct customers to our e-commerce platform. Customers can:

- *collect their products from an outlet and check their statements, invoices or delivery notes;*
- *speak to sales representatives for advice, or navigate our catalogues which direct them to products based on the required functionality; and*
- *watch explanatory videos for the different products.*

The system remembers customer preferences and many of Afrox's typical purchases are now automated to process orders every month or year as needed. This allows procurement to focus on strategic acquisitions.

Our year-on-year e-channel sales growth increased by 21%.

Our aim for the future is to reach R1 billion in annual revenue, become smarter through chat bots, voice recognition orders, smart systems that anticipate customer requirements and augmented reality.

Chapter 3 /// Strategy overview continued

Strategic objectives

Afrox's four strategic objectives remained consistent with prior years.

Examples of our strategy in action

Maintain and grow profitability and operating performance

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

Related KPIs
- ROCE[1] of 18.5% (2017: 23.7%)
- EBIT of R703 million (2017: R855 million)

- We continuously review our customers and suppliers for the right products to reach their destinations timeously. Customer service is a key element in protecting Afrox's sustainability.
- We pursue growth opportunities in consumer-led markets such as gas for fast-food retailers or soft drink carbonation. Our product range includes recent additions which extend the shelf life of packaged goods.
- We launched a mobile pricing tool for sales representatives to get minimum price approval within minutes. This has contributed to our substantially improved pricing and price strategy.
- We were awarded the state healthcare tender in all nine provinces and are rolling out the Linde Integrated Valve (LIV®) (refer to page 77).
- We are growing our e-commerce channel (refer to page 27) and introduced customer e-grievance systems.

Ensure sustainable growth while enhancing competitiveness

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

Related KPIs
- Revenue of R6 047 million (2017: R5 693 million)
- BBBEE Level 3 (2017: Level 7)

- We invest in maintenance and infrastructure upgrades to improve Afrox's existing facilities, and we optimise our plants for multiple purposes.
- We secured LPG supply through strategic import agreements (refer to page 55). The impact of the volatile Rand necessitated a Rand-based price ex-tank.
- We reached Level 3 BBBEE status under the new BBBEE Codes of Good Practice (BBBEE Codes), from Level 8 in 2016.
- As an agile organisation, we continuously develop, improve and optimise our size, composition, supplier agreements and hierarchy.
- We reached a record 93.83% (2017: 91.33%) 'delivery in full, on time' for the year.

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

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.

Related KPI
- MIRs of 8 (2017: 16[2])

- Afrox applies a best practice approach to safety, personalised in its SHEQ Golden Rules of Safety (refer to page 62). We will transition these to The Linde Group's *Life Saving Rules* in March 2019.
- Our leaders drive a safety culture, but each employee remains responsible for acting safely and supporting their peers.
- We are a total solutions provider to some customers. We provide training for both customers and end-users in, among others, product safety where necessary.
- We use telematics technology and internal data to improve the safety of our employees, contractors and assets.

Build a performance culture

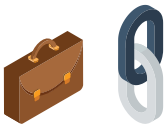
Develop our leaders and empower our employees in a way that promotes behaviour resulting in excellent performance, adding customer value and providing business profitability.

Related KPI
- Training spend of R44 million (2017: R33 million)

- We annually evaluate and provide training to our Board members in areas relevant to their duties. Our strong corporate governance base sets the tone for ethical and sustainable business operation.
- We finance studies for 170 BBBEE learners and have 35 apprentices who act as a pipeline to supplement our experienced employees. Refer to page 74 for a case study on how we develop employees.
- We spend R44 million on training for employees to enhance their performance and further align them with our SWIFT behaviours (refer to page 12).
- The Company is committed to transparent communication with stakeholders through a range of channels (refer to page 31).
- We develop our suppliers, and through them, increase our reach into informal settlements (refer to page 12).

[1] Before impact of restructuring and impairments.
[2] Restated.

2019 focus areas

Area and core activity	Intended actions	Link to strategy
Performance improvement	Cost management - We aim to continue our realignment of human capital. - We will focus on capex optimisation and continue our relentless efforts in driving cost efficiencies. Portfolio optimisation - Our focus will mainly be in embedding the new operating segment model. - Specifically, we will manage Hard Goods and LPG from a Group-wide perspective. - Already our optimised go-to-market model yielded results and we will continue to focus on levers to further enhance our model. - A key focus will be our cluster-based model focused on optimal sales density and key markets to strengthen our distribution network.	Get healthier, get stronger, get business 
Quality growth	- We want to focus on growing our Healthcare business in the four newly awarded provinces. - We plan on introducing value-creating products to public hospitals such as the IVR integrated valves. - We aim to further market entry into the South African domestic household market via solid black empowerment – reseller models.	Get business, get stronger 
Value creation	- Focus on continued growth in earnings. - Improve ROCE via better working capital management and higher profitability.	Get healthier 

Chapter 4

Matters that impact our value creation

SALIENT HIGHLIGHTS

- Digital innovations and cyber risk and Liquefied Petroleum Gas (LPG) market growth are two new material matters impacting Afrox' value creation.
- Transformation, including BBBEE and employment equity, is no longer a material matter as we reached our target of being a Level 3 contributor.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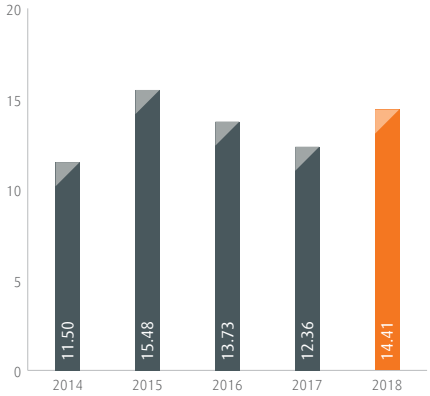
Chapter 4 /// Matters that impact our value creation

The Company annually undertakes an externally facilitated workshop to assist in identifying Afrox's material matters. This year's workshop was held in November 2018. We reviewed the previous year's material matters considering our external environment, strategy, risks and stakeholders. We refined, changed and added matters as required (refer to page 34).

The Board evaluated and approved the process and the final material matters.

External environment overview

The table below gives a broad overview of Afrox external environment:

	Context
Political 	South Africa has lost political stability in recent years. The contributing factors include: • corruption scandals; • sovereign credibility; • leadership shifts; • land reform policies; and • governance problems in state-owned enterprises. Consequently, business in South Africa is complicated; investors are less enthusiastic about our prospects, and skilled citizens might look for opportunities abroad.
Economic 	The South African economy flows from its political context. Executive decisions tangibly impact our currency strength and ratings agencies pay close attention to our policies. Low investments and ratings downgrades have constrained the economy, which might affect our large customers' going concern statuses. Customers are also more cautious about starting large projects. Rand to Dollar annual exchange rate 
Socio-cultural 	The political and economic environments affect citizens tangibly. Desperate people might cause civil unrest or turn to crime. Criminals are a threat to our assets and our outsourced security personnel (refer to page 36). Our employees are also affected: • Line managers deal with a dynamic and changing workforce. • Social and economic issues affect performance; our Independent Counselling and Advisory Service (ICAS) system recognises a correlation between employees' personal issues and performance. • It is challenging to source talent when public schooling is underfunded, and when talent might opt for opportunities abroad.

Technological 	Technology is disrupting traditional business. Afrox keeps abreast of new offerings, for example the Linde Integrated Valve® (LIV®) and its e-commerce channel, and we leverage The Linde Group's research and development (refer to pages 52 and 33 respectively). Our information infrastructure, while protected, might be targeted by cyberattacks.
Legal 	Afrox operates in nearly all sectors of the economy and across multiple countries. We are subject to many laws and regulations. We need to stay abreast of and adhere to these legal requirements to avoid fines or other penalties.
Environmental 	Climate change brings about droughts and abnormal weather affecting our customers and our operations. Corporations have a responsibility to consider the environment.

Refer to the Chairman's review on page 39 for further information.

Risk management

The Afrox Board and Audit Committee are, inter alia, responsible for governing risk. Afrox outsources its risk management to an external service provider who developed and implemented risk management throughout the Company. This is monitored on an ongoing basis. Our risk management strategy proactively considers risks and opportunities. This also has an impact on reducing the gap between our market and intrinsic values.

Our enterprise risk management (ERM) encompasses five major risk categories, which filter through our Risk Appetite and Tolerance framework. The ERM categories are:

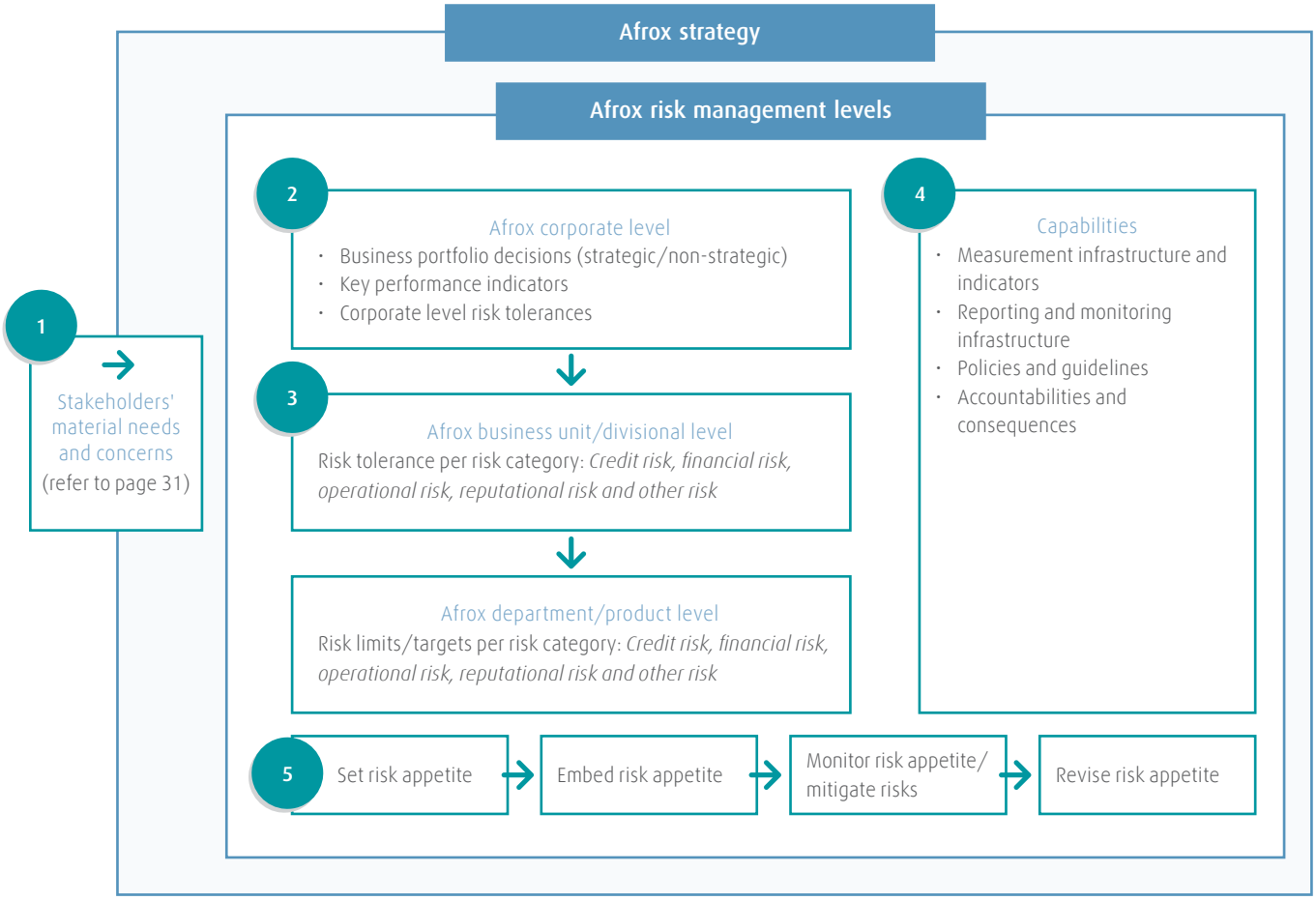
1. strategic risk;
2. financial risk;
3. operational risk;
4. reputational risk; and
5. other risks.

Risk management and assessment process

We have developed and implemented a risk management policy and framework, as well as the following Board-approved frameworks:

- Risk Appetite and Tolerance framework; and
- Business Continuity Management (BCM) framework.

Regarding the Risk Appetite and Tolerance framework, the diagram below depicts the risk methodology used in setting the Company's risk appetite and tolerance:



As mentioned above, Afrox has a team of independent consultants that tests the effectiveness of risk management, and then reports to the Executive Committee, Audit Committee and Board.

Regarding the BCM framework, we wish to highlight the following:

BCM is a reactive process in the risk management cycle and outlines the actions to take in a crisis to protect life and property and to contain the event (including fall-out). BCM aims to:

- minimise the impact of a major disruption to normal operations;
- restore critical assets; and
- restore normality to Afrox's business as soon as possible after a crisis or disruptive incident.

Afrox's BCM framework is essential in fortifying the critical business processes. The framework informs the response to and recovery from disruptive incidents.

The development of business continuity plans (BCPs) is the beginning of assuring the resiliency of Afrox, and the value it brings includes, inter alia:

- ***Improved resilience:*** *BCPs improve Afrox's resilience by preparing for major interruptions and encourage a culture of resiliency in the business.*
- ***Capacity to recover quickly:*** *The business impact analysis (BIA) process helps develop Afrox business continuity parameters, i.e. recovery time objectives for the critical business processes within Afrox (reassuring customers that business will continue as soon as possible after an interruption).*
- ***Brand and reputation:*** *BCPs are part of the overall strategy to protect the Afrox brand and reputation.*
- ***Deeper knowledge of business:*** *Creating or developing a BCP provides an opportunity to gain a deeper knowledge of Afrox's critical business activities.*
- ***Knowledge capture:*** *Creating a BCP is an opportunity to capture deeper knowledge and to make it available to the entire business.*

Risk management process

Risk management is essential to the Company's strategy and, by extension, the value creation process.

Afrox has incorporated material risks that could significantly impact the execution of the Company's strategy and its value creation goals into the decision-making process. Risks are elevated to the appropriate decision makers and ultimately to the Board when they require strategic action.

Refer to page 88 for our combined assurance model.

During 2018, the following activities were priorities in executing risk management processes:

- The escalation, monitoring and reporting of risks which is evident through governance structures and meetings; and
- Rolling out a BCM programme in South Africa (the Company developed and tested 28 BCPs throughout the South African business units and sites).

Managing SHEQ risks

The Board monitors the effectiveness and efficiency of the SHEQ process. The SHEQ department is responsible for the SHEQ policy and ensures that Afrox is proactive in its risk assessment and professional in its remediation. We measure our commitments to safe operations through the SHEQ Golden Rules of Safety (refer to page 62).

The Executive Committee regularly review the SHEQ policy to improve monitoring techniques, investigation and controls. Afrox is committed to comply with all external regulations, including ISO 9001, ISO 14001 and OHS 18001. For more on our SHEQ activities, refer to page 62.

Our top three risks

The infographic below outlines Afrox's top three risks. These are all incorporated into the material matters that follow on page 34.

Two of our top three risks are new, which is to be expected given South Africa's economic downturn and the increasing geopolitical and social issues in South Africa and the world at large. The political landscape fuelled uncertainty mainly with consumer and investor confidence limiting domestic demand and private investment. South Africa's failure to respond to expectations on unemployment, poverty and service delivery is a significant driver of social instability. Infrastructure constraints' negative impact has remained constant since 2017. The economy made no real significant upswing, growth remained stagnant, and government has not deployed state infrastructure contracts and is only likely to do so after the 2019 elections.

We did not take any risks outside of risk tolerance levels.

Top three risks	2018 Impact (out of 5)	2018 Probability (out of 5)	2017 Rankings	2016 Rankings	Strategic objectives impacted
Utilities supply The reliability of electricity supply and the quality of water are critical to Afrox's operations.	4	3	New	New	· Maintain and grow profitability and operating performance
South Africa's infrastructure constraints negatively impacting the value chain South Africa and Afrox's value chains are lagging in infrastructure development, and maintaining ageing equipment and facilities is becoming more expensive. Afrox's business and expansion capital follows customers' demands, but they are limiting their investments in expansion capital and growth which reduces growth opportunities. Based on this lack of growth, and, as we are equipped to service existing demand, we thoroughly vet any expansion projects.	4	3	2	4	· Maintain and grow profitability and operating performance · Ensure sustainable growth while enhancing competitiveness
Socio-economic factors affecting operations South Africa's socio-economic challenges are daily considerations in Afrox's business. Political unrest, deteriorating services, and increasing crime levels are business concerns as it increases the security risk in our daily operations.	4	3	New	New	· Embed advanced performance in areas of SHEQ · Maintain and grow profitability and operating performance

Future focus areas for risk management

Risk management enables better decisions, from Afrox setting corporate strategy, to operational decision making. The following will be risk management future focus areas:

- Better performance against long-term objectives through the Risk and Opportunity Management framework
- Evaluate and improve on the newly introduced risk appetite levels
- Roll out of BCM programme to operations in Africa

Stakeholder engagement

We include our stakeholders in every value creation process. We are mindful of these relationships in all our activities, always acting with integrity, honesty and equality.

Stakeholder groups

Stakeholders are identified based on their impact on Afrox's sustainability. This includes stakeholders that impact our ability to remain a responsible corporate citizen. We classify stakeholders according to the following groupings:

1. **Shareholders, lenders and market analysts** as they provide, or impact access to, financial capital.
2. **Customers** – meeting and exceeding customer requirements is key to our future sustainability.
3. **Business partners** are part of the driving force behind the development and delivery of products, technologies and support services we provide.
4. **Employees** are integral to our ability to provide product offerings and customer-specific solutions.
5. **Trade unions** support our employees.
6. **Government and regulators** are providers of Afrox's legal licence to operate and regulate LPG prices.
7. **Communities and non-governmental organisations (NGOs)** are providers of Afrox's social licence to operate.

Managing and engaging with stakeholders

Afrox delegates stakeholder engagement to employees and business units who have the expertise to engage constructively. We base our stakeholder engagement and management principles on positive partnerships, engagement, consultation and teamwork to achieve common goals.

Through the various functional disciplines, structured and robust processes are in place to monitor stakeholder engagement, including:

- Investor input and feedback through investor roadshows
- Formalised customer feedback (e.g. Rant and Rave online feedback platform and voice of the customer survey)
- A dedicated customer service centre that monitors customer service levels
- A community involvement and union relationship monitoring mechanism provided through the human resources (HR) department

Any areas of concern and opportunities to improve are escalated to the responsible senior executive, and to the Board where required.

PUBLIC AND SHAREHOLDER COMMUNICATIONS AND TREATMENT OF STAKEHOLDERS

When communicating with the public and shareholders, we practise the principles of balanced reporting, clarity and openness. We disclose positive and negative financial and material non-financial information. We maintain an active dialogue with our key financial audiences, including institutional shareholders, investment analysts and our funding community. Our policy is to present to investors, fund managers and analysts twice a year after the release of the Company's results.

The Board actively considers how to treat shareholders and other stakeholders fairly, and it continually challenges business decisions and judgments to the benefit of all stakeholders, particularly minority interests.

Focus areas

Our focus during 2018:

- We sought opportunities to better collaborate with our suppliers, especially with our Enterprise and Supplier Development. This comprises a formal programme of funding, coaching and monitoring small businesses that are integral to our value chain.
- We engage investors electronically and through roadshows and investor presentation days.

Going forward we will focus on improving our relationships with community-based organisations.

Stakeholder needs and concerns

The frequency of engagement with each stakeholder is stakeholder-specific and determined by the individual or business unit responsible for engagement. This can include, inter alia, our annual and interim reporting suite, results presentations, SENS announcements, investor roadshows, press releases, one-on-one meetings/interviews, email communication, newsletters and publications, corporate website, etc.

Positive stakeholder engagement is ongoing, and we aim to address our stakeholders' need for transparency, appropriate information and effective communication. No activities were specifically undertaken as part of the report process.

The following tables highlight the material needs and concerns of our key stakeholders grouped into key stakeholder themes:

Financial results and Afrox' future sustainability and growth

Stakeholders who share this concern	Response through related material matters
· Shareholders, lenders and market analysts · Customers · Business partners · Employees · Trade unions · Government and regulators · Communities and NGOs	· Economic strain and persistent lower demand · Reliability of plant and supply chain · Scarce skills and talent · Digital innovations and cyber risk · Safety and security · LPG market growth Also refer to our Managing Director and Group Financial Director's reviews starting on page 42.

Key statistics

Five-year CAGR[1] in dividends declared: 26.3%	Five-year CAGR[1] in HEPS: 33.7%	Five-year CAGR[1] in return on capital employed: 29.5%
2014: 24 cents per share	2014: 36.2 cents per share	2014: 4.7%
2018: 77 cents per share	**2018: 154.9 cents per share**	**2018: 17.3%**

Transformation and BBBEE compliance

Stakeholders who share this concern	Response through related material matters
· Shareholders, lenders and market analysts · Customers · Business partners · Employees · Trade unions · Government and regulators	· Scarce skills and talent · Compliance with laws, government policies, and regulations Also refer to our BBBEE requirements overview on page 75.

Key statistics

2018: BBBEE Level 3 versus 2016: BBBEE Level 8 (new codes)

65% overall black management representation

R619 million spent on preferential procurement from black women-owned entities

Safety for employees, contractors and customers

Stakeholders who share this concern	Response through related material matters
· Customers · Employees · Trade unions · Communities and NGOs	· Safety and security · Compliance with laws, government policies and regulations

Key statistics

5-year increase in MIRs: 33.3%

2014: 6 MIRs

2018: 8 MIRs

Fatal workplace accidents involving employees over the past five years: 0 (contractors:1).

[1] Compound Annual Growth Rate

Employment security, fair pay, incentive structures and employee development

Stakeholders who share this concern	Response through related material matters
· Employees · Trade unions · Communities and NGOs	· Economic strain and persistent lower demand · Scarce skills and talent Also refer to HR on page 70 and our remuneration report on page 94.

Key statistics

R837 million spent on salaries and wages

Industrial action: 0 (2017: 0)

R25 million spent on learnerships and apprenticeships

Innovation and product development

Stakeholders who share this concern	Response through related material matters
· Customers · Business partners	· Economic strain and persistent lower demand · Digital innovations and cyber risk

Key statistics

R1.6 million spent on research and development

Customer value creation, service levels and the level of pricing/price increases

Stakeholders who share this concern	Response through related material matters
· Customers · Business partners	· Economic strain and persistent lower demand · Reliability of plant and supply chain · LPG market growth

Key statistics

Customer perception at each touch point of the customer journey (as at December 2018). Score out of 5:

Pre-sale: 4.52; Enquiries: 1; Quotation: 5; Order: 4.7;

Delivery: 3.7; Query management: 4.3

Customer profile and engagement

Afrox divides its customers into four distinct customer profiles to deliver products and services effectively. Afrox's sales and marketing function uses its customer-driven solutions and excellent service to attend to the unique needs of each customer profile, regardless of geographical location.

Large customers	Special markets	Bulk gases process industries	Light industries and retail
These 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.	These are growth markets such as hospitality, refrigerants, propellant and helium customers.	These customers traditionally use bulk gases in a manufacturing process. They receive process solutions and unique product package options.	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.

Chapter 4 /// Matters that impact our value creation continued

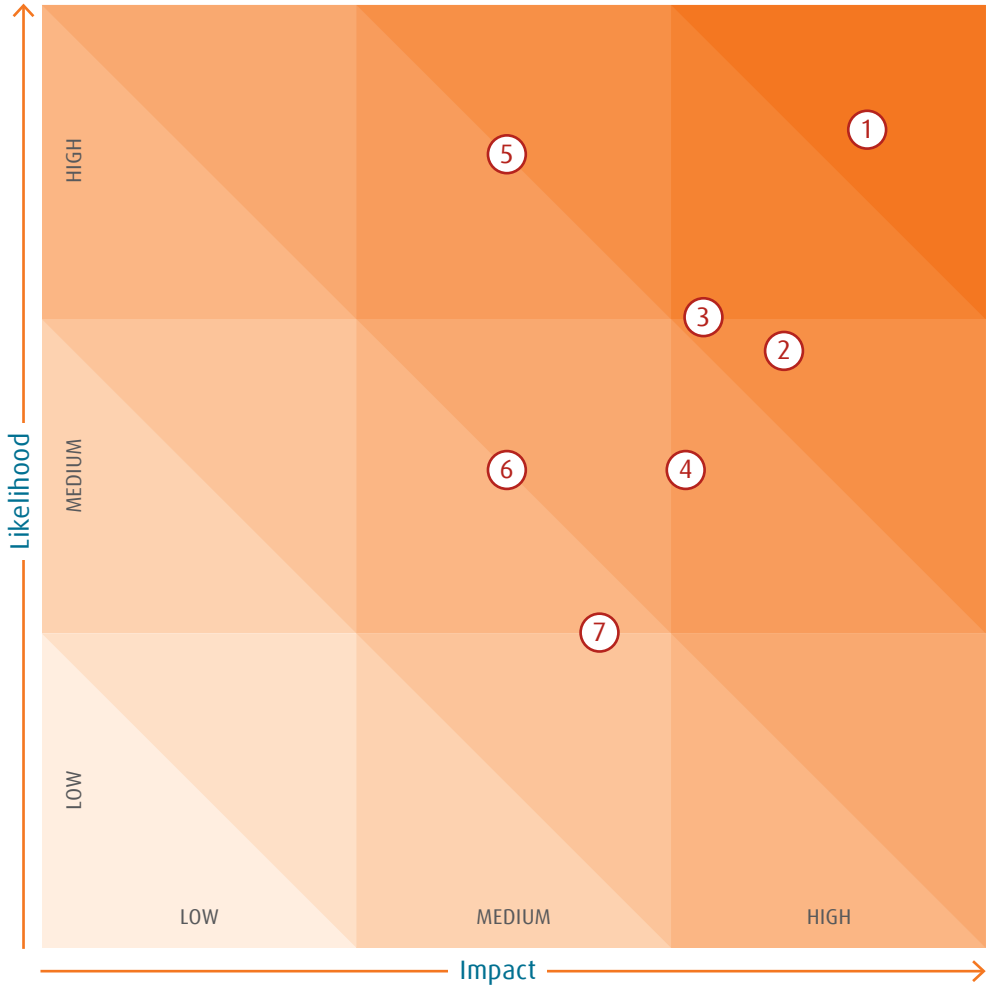
Material matters

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 discussed on page 22.

The following are the key changes compared to 2017:

- Though Afrox and its stakeholders always keep transformation in mind, it is no longer a material matter as we improved our BBBEE level significantly.
- Digital innovations and cyber risk is a new material matter, as digital innovations can drastically improve our business, and our external environment analysis showed the critical impact cyberattacks could have.
- Legal compliance and sound corporate governance material matter merged with the government policy and regulation matter.
- LPG growth has become material as its growth prospects have significantly increased.

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



Impact on value creation compared to 2017

Increasing relevance | Relevance unchanged | Decreasing relevance

	Material matter and contextualisation	Strategic alignment
1	**Economic strain and persistent lower demand** • South Africa's economic environment remains strained with volatile exchange rates, low gross domestic product (GDP) growth, and high unemployment. Tough economic conditions result in increased crime and civil unrest, reduced sales volume growth, increased competition due to a shrinking pool of customers and pressure on Afrox to absorb product cost increases. A portion of the LPG price is government-regulated which further impacts margins. The economy therefore affects our pricing structure and thereby our relationships with customers and business partners. • Government infrastructure is deteriorating, and Afrox anticipates government infrastructure spend in the medium term to address service delivery in the country, provided state debt levels can be kept balanced. We are well positioned to support infrastructure projects with our product and service offering. The immediate government demand lies within the healthcare sector where Afrox secured the state healthcare tender in all nine provinces. • The immediate outlook for infrastructure and plant expansion is weak due to poor economic conditions and a lack of investor confidence. If our customers cannot expand their markets, we cannot follow consumer demand into those markets, limiting our own expansion. • Political uncertainties, social unrest, and public and private industries corporate governance failures erode investor confidence and in turn place customer projects on hold until more stable conditions present themselves. • Afrox structures its operations to meet its customers' demands, as we are part of their value chain. If they are hesitant to spend, our business is impacted. • Erosion of trade agreements and increased geopolitical risk affect our customers' export ability which directly impacts Afrox's sales volumes. • Afrox's long-term growth ambitions beyond South Africa focus on southern Africa. These countries' populations are growing, and we can serve their eventual healthcare and energy needs. • Africa's growth opportunities link to economic stability and improvement. If Africa's GDP rates grow concurrently with its population, Afrox's prospects in consumer-led and healthcare industries increase significantly. Africa's lack of infrastructure development and dependency on fluctuating commodity prices remain a risk. We are aware of currency volatility, inconsistent product supply and political policies as risks. We continue reviewing appropriate expansion opportunities in Africa.	
2	**Reliability of plant and supply chain** • Afrox needs to supply its markets adequately and consistently to remain competitive. Our supply could be hampered by: - poor supply from our LPG supplier base; - cyberattacks and/or data breaches; - loss of key personnel; - equipment failure; - unplanned information technology (IT) and telecommunication outages; - industrial actions; and/or - larger events outside of our control such as electricity shortages. • To this end, we increased LPG imports to adequately supply our markets, and we have a set of approved suppliers with whom to do business. • BCM is key to ensure Afrox can survive supply chain, occupational health and safety, and/or other incidents. Our BCM plans also address security eventualities at our sites. • Some key customers depend on our Witbank pipeline to be operational at all times. Disruptions could have significant impacts on their and our business. See our safety and security material matter for more detail.	

Chapter 4 /// Matters that impact our value creation continued

	Material matter and contextualisation	Strategic alignment
3	**Scarce skills and talent** • Afrox needs excellent employees to obtain and retain market share, innovate new products and services, and ultimately deliver the exceptional customer service that sets us apart from our competitors. • Our employee base is competent with a low churn rate. However, their skills are scarce, and many of them are ageing. Losing key personnel to resignation or retirement could hamper our business. Our long-term succession planning includes development programmes and support initiatives. • We expect our employees to exhibit the 'agility' SWIFT value in their daily work to keep productivity high. We began 'double hatting' where a manager or executive performs multiple functions, following the practice's success abroad.	
4	**Digital innovations and cyber risk (new)** • Digitisation holds significant opportunities in application of big data, the optimising of business processes, robotics and the Internet of Things. • Afrox follows The Linde Group's best practice regarding information systems, and it invests in protecting its data and digital assets, as cyberattacks or data breaches could significantly affect the business. We have contingency plans for unplanned IT and telecommunication outages and can redeploy teams in minutes to ensure downtime is kept to a minimum. • E-commerce platforms allow bespoke channels through which our customers can transact, ensuring faster orders, preventing unnecessary call-outs to customers and translating into increased sales volumes through scheduled and automated ordering.	
5	**Safety and security** • Afrox ensures that safety is a way of life, our leaders lead by example and promote zero harm. • Crime- and safety-related incidents may prove fatal to our employees, damage resources or affect our supply chain. • Difficult economic conditions have led to increased crime incidents and Afrox products and property have been targets of such crimes in the past. Illegal filling of Afrox's cylinders may cause harm to consumers. • Afrox invests significant capital into addressing security issues, e.g. the use of technology such as smart cameras to help protect security personnel, and telematics and driver training to prevent road accidents. • Safety is always material; the Company has managed it effectively and kept incidents low and on a consistent downward trend. See our major incident reports (MIRs) graph on page 63 for more detail.	

	Material matter and contextualisation	Strategic alignment
6	**Compliance with laws, government policies and regulations (expanded)** • Compliance with all relevant laws and regulations is essential to our licence to operate, and failure to comply could result in fines and reputational damage. • Policy uncertainty and irregular response times from government departments create planning difficulty, leading to a loss of opportunities and cost implications for policy alignment. • In the consumer business (unlike the Bulk segment), a portion of the LPG market is regulated and priced with reference to the diesel price. Thus, exchange rate fluctuations and crude oil prices have significant impacts on the LPG input cost and a corresponding impact on sales prices. Afrox mitigates the effects of these fluctuations on corresponding sales prices with hedging activities, where appropriate. • Recent corporate governance irregularities among South African companies have lowered investor confidence, diminished social trust and created anti-establishment sentiment. Afrox recognises all stakeholders will judge any new ethics or policy breaches against this backdrop. Afrox was a respondent in an investigation by the Competition Commission of South Africa with respect to price fixing in the LPG sector. Afrox fully cooperated with the Commission's investigation and received no administrative penalties. • Afrox capitalises on the opportunities created by legislation, for example, we supply mines with products and train them on the related safety laws and regulations as a total solutions provider.	
7	**LPG market growth (new)** • LPG provides cost-effective power compared to conventional electricity. In mature markets, it offers a cleaner alternative to high-carbon fossil fuels for heating and transport at a competitive cost. In emerging markets, LPG offers improved quality of life by removing hazardous wood and charcoal cooking fuels. Overall it is a scalable low-carbon solution for power, heat and transport. • Globally policymakers have set carbon reduction targets in various jurisdictions and LPG serves as a perfect decarbonisation agent.	

Strategic objective key

- **Maintain and grow profitability and operating performance**
- **Ensure sustainable growth while enhancing competitiveness**
- **Embed advanced performance in areas of safety, health, environment and quality (SHEQ)**
- **Build a performance culture**

Chapter 5

Leadership reviews

Afrox delivers competitive products and services cost effectively, that meets our customer requirements and underpins shareholder value.

Bernd Eulitz
Chairman

Chairman's review

For the past few years I had the privilege of guiding, encouraging and experiencing purposeful change within Afrox. Today, my considered opinion is we have a company capable of making the right decisions, timeously, for the right reasons.

Afrox's tight fiscal approach, continuous improvements in governance and day-to-day operations, backed by full price cost recovery and stringent risk management activities, reflect a management team confident in its understanding of what is needed to successfully operate in today's challenging economic environment.

Hence, the restructure measures announced in December 2018, with full implementation in 2019, were unanimously endorsed by the Afrox Board as necessary to protect hard-won shareholder value and drive further growth in earnings opportunities.

The Board expects the gross domestic product (GDP) growth trends in South Africa to continue in 2019 and the medium term, as reflected in 2017 (GDP 1.3%) and 2018 (GDP 0.7%). This triggered management to accelerate measures to further streamline fixed costs, support and management structures.

This is a prudent decision and in line with The Linde Group's global model, which requires senior leadership to shoulder more responsibility and, where practical, to identify and flatten the management structure to significantly drive efficiencies and cost optimisation. The transfer of knowledge, best practices and latest product offers from The Linde Group to Afrox will continue.

Refer to the Managing Director's review and Group Financial Director's review for further details.

Operating environment review

Our results for the 12 months ended 31 December 2018 reflect the subdued trading in our key markets in South Africa. With the political landscape being the determining risk and growth factors for the country, the economy contracted 2.6% in Q1 with agriculture, mining and manufacturing the main contributors.

This was followed by a further 0.4% contraction in Q2, a result of a fall-off in activity in the agriculture, transport, trade, government and manufacturing industries; the sharpest quarter-on-quarter contraction rate in nine years.

By June 2018, 69 000 jobs were lost due to the economy. The mining and trade industries shed 2 000 jobs, while the manufacturing industry lost 13 000 jobs, according to Statistics SA. Quarterly figures released in December 2018 showed South Africa lost a further 16 000 jobs in Q3 in manufacturing, construction and transport.

Further, a rise in value added tax (VAT) and interest rates, a volatile currency, high fuel and electricity prices, the state capture commission, land reform and the return of load shedding combined to generally dampen business and investor confidence in 2018.

In early 2019, uncertainty on all fronts continues to overshadow the economy as South Africa's general elections loom large and the urgent need for clarity on various government policies, which impact investment and the economy in general, remain unfulfilled.

In mitigating this and the possible negative effects the global trade downturn could have on emerging economies, Afrox will further reduce operating costs and drive efficiencies in 2019 while investing in growth opportunities in renewable energy, healthcare, hospitality, food and beverage, and special gases markets. Refer to the Group Financial Director's review on page 44 for further details.

A continued risk-based sharp focus on safety in 2018 yielded a mixed set of results. Despite a distressing contractor fatality, and two third-party fatalities arising from poor third-party driving behaviour, the business managed to finish the year with several positive improvements, notably a record low for total recordable injuries, representing a rate reduction of over 50% within the last two years (refer to page 63).

Strategy overview

Our four strategic objectives remain unchanged and are structured as follows:

- Maintain and grow profitability and operating performance
- Ensure sustainable growth while enhancing competitiveness
- Embed advanced performance in areas of safety, health, environment and quality (SHEQ)
- Build a performance culture

These objectives continue to guide business decisions and, with a team-based approach to value creation, act as a matrix to embed a culture and mindset of agility, collaboration, accountability, and being engaged and caring.

Afrox will continue searching for new ways to do business, and for new markets, while ensuring fixed assets run at optimum levels to maintain and grow margins against input costs. Exploiting technologies, like the successful e-commerce platform and the Tag 'n Trace Individual Cylinder Control (ICC) programme (expected to be complete by February 2019), will continue.

The Company remains confident its integrated offer around applications, products and services, coupled with a stable and efficient operating model, will lead to growth opportunities in the medium term. Our focus remains on strengthening the industrial gases and Hard Goods businesses, growing bulk Atmospheric Gases and improving asset utilisation.

On the Liquefied Petroleum Gas (LPG) front, active measures have been taken to ensure security of supply, investment in cylinders and new partnerships with selected Broad-Based Black Economic Empowerment (BBBEE) distributors to unlocked growth in the domestic and hospitality markets.

More opportunities are offered by the state healthcare tender clinched in 2018 and due to run until 2022. As the sole service provider, Afrox will supply Medical Gases to more than 400 state hospitals and 1 600 clinics across South Africa. This also positions Afrox favourably regarding new product offerings driven by The Linde Group's research and innovation, and its global investments in healthcare.

Governance

Adhering to and pursing good governance is essential when doing business these days and integral to all aspects of a company's operations. Afrox has always placed this at the heart of our business, as an employer and a socially responsible corporate citizen. This is backed by a regime of continuous learning and refresher courses for all our employees in the areas of governance, ethics, anti-corruption and business partner compliance.

Under the Committee Chairman and lead independent director, Dr Khotso Mokhele, Afrox's Social, Ethics and Transformation (SET) Committee continues to deliver progress on our non-financial agenda. The SET Committee has driven efforts to achieve a Level 3 BBBEE rating two years ahead of plan. This rating is crucial when it comes to clinching government and government-linked contracts in South Africa (refer to page 70).

On 18 October 2018, the Competition Commission announced it had referred the findings of its investigation into a complaint over refundable deposit fees for LPG cylinders to the Competition Tribunal of South Africa for adjudication. Afrox has cooperated fully during the Commission's investigation and remains committed to doing so. The Commission has confirmed no administrative penalty is sought against Afrox and we await the findings of the Competition Tribunal (refer to page 54). Compliance with all applicable laws and regulations is one of the Company's core values and the critical work of management awareness and compliance training in Competition Law remains a continuing priority (refer to page 54).

Outlook

Our timely restructure of Afrox in 2015 and the acceleration of measures to further streamline fixed costs, support and management structures in 2018/2019, will enable Afrox to deliver competitive services and products cost-effectively, that meet customer needs and underpin shareholder value.

With GDP growth forecasts for South Africa ranging from 1.3% to 1.9%, the state of the economy in 2019 remains unclear. Operations in Africa continue to be robust and will be more effective under the new management structures and integrated solutions model (refer to page 8).

Despite the local political, economic and investment uncertainty and the 'unknowns' likely to emanate from the global stage, our year-on-year commitment to enhance customer experience, improve operational efficiency and build our future business remains core.

Gratitude

I would like to extend my gratitude to my fellow Board members for their support and guidance, and our management team, employees and suppliers for their dedication and commitment. Most importantly, I thank our customers without whom we would not exist.

Bernd Eulitz
Chairman

Afrox is positioned for growth. The new healthcare business supports our goal of sustainable growth in earnings.

Schalk Venter
Managing Director

Managing Director's review

Key highlights

- A record low for total recordable injuries
- Achieved a Level 3 BBBEE rating
- State healthcare tender
- E-commerce platform continues to grow

Key challenges

- Contractor fatality and two third-party fatalities
- Disappointing economic performance in South Africa continues
- Regulatory and policy uncertainty continues

Atmospheric Gases	*Hard Goods*
Revenue: R2 674 million	*Revenue: R821 million*
Full segment report: Page 51	*Full segment report: Page 57*
LPG	*SHEQ*
Revenue: R2 552 million	*Major incidents reported: 8*
Full segment report: Page 54	*Full SHEQ report: Page 59*

Performance

It was distressing to have a contractor fatality and two third-party fatalities arising from poor third-party driving behaviour in 2018. Nevertheless, safety is clearly becoming embedded as a line management responsibility. The year ended with several positive improvements being implemented (refer to our SHEQ report on page 59 for more details).

Due to South Africa's turbulent economic performance in 2018, management's primary focus was on protecting existing market share while driving safety, pricing, efficiencies, reducing the cost base, and ensuring managers took on more responsibility in line with the Linde global model.

Our determination to position Afrox for sustainable earnings culminated in the restructure announcement in December 2018. I consider this action to be prudent in terms of executing management's promise to shareholders in 2015 to create a sustainable business and achieve 20%+ ROCE. Today, Afrox is both profitable and sustainable and has substantially improved pricing and price strategy for that all-important competitive edge. Our continuous improvement programme enables us to use resources, especially our people, more efficiently, with a focus on rapidly reducing activities and processes not contributing to value creation and install new processes where needed.

We can now attract more business opportunities as we received a Level 3 BBBEE rating in 2018, two years ahead of plan. This was a major factor in winning the South African state healthcare tender, which provides a step-out opportunity to drive Medical Gases volumes in 2019, introduce the latest integrated medical valve technology and ramp up our service offering to the wider healthcare sector.

Unexpected plant maintenance and breakdowns frustrated our efforts in the year under review and we launched a programme with Linde Engineering to look at process safety and sustainability of our air separation units (ASUs); deriving benefits almost immediately.

We continue pursuing digital solutions, increasing the ease of doing business with Afrox, and allowing for a centralised acquisition centre, which provides more control around governance in procurement. e-Shop increased its average order size significantly, extended its reach and repeat customers, and is taking an expanding proportion of our sales orders. Digitalisation and customer segmentation, serving customers according to their requirements, form the backbone of our go-to-market model, which we will continue refining. Tight, focused management allowed Afrox to retain a strong balance sheet, and to continue meeting its stakeholder promises and win important new business in 2018 (refer to page 51).

Outlook

South Africa's economy is likely to remain subdued for the short to medium term, hampered by continued regulatory and government policy uncertainty around dangerously indebted state-owned enterprises, growing unemployment, and a host of other issues combining to dampen business confidence and discourage/delay much-needed investment in most of the sectors Afrox serves.

To maintain a stable and sustainable business and grow shareholder returns, it is imperative that the Company remains lean, agile and responsive to the ongoing low-to-no-growth, politically turbulent environment gripping many countries where we operate today. To ensure this, we are applying our proven programme of continuous improvement: Get healthy, to reduce costs further; get strong, to make processes even more efficient; and get business, to capitalise on our positioning to continue growing. Doing business in sub-Saharan Africa is high risk and unpredictable, but when viewed in its entirety, footprint, people, governance and strategy, I am confident that Afrox is well positioned for growth with the main constraint on its capabilities being a becalmed economy and lack of capital investment in its key markets in South Africa.

Gratitude

I extend my sincere thanks to our customers, suppliers, employees, members of the Board and my Afrox colleagues for their unwavering commitment. Only through this support can Afrox achieve sustainable long-term growth yielding positive returns.

Schalk Venter
Managing Director

OUR APPROACH TO SUSTAINABILITY

Afrox is fully aligned with the governance, ethics, processes and compliance guidelines of The Linde Group to benefit from best practice of this larger organisation. This means there are only two targets relevant to driving behaviours and sustainability in Afrox:

- *Zero tolerance of non-conformity to ethics, corruption, environmental policies, product stewardship and the safety of our people, suppliers, customers and the communities in which we operate*
- *100% compliance regarding our business behaviours, practices, dedication to customer service excellence and commitment to all aspects of sustainable growth*

Solid operational performance with lower earnings from stronger than expected headwinds.

Matthias Vogt
Group Financial Director

Group Financial Director's review

Key highlights

	2017 R'million	2018 reported R'million	2018 comparable R'million	YoY reported %	YoY comparable %
Revenue	5 693	6 047	5 826[1]	6.2	2.3
Operating profit (earnings before interest and taxation (EBIT))	855	596	703[2]	(30.3)	(17.8)
Operating margin (%)	15.0	9.9	12.1	(510 bps)	(290 bps)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	1 183	1 077	1 077	(9.0)	(9.0)
Operating cash flow	997	897	897	(10.0)	(10.0)
Headline earnings per share (EPS)	201.0	154.9	171.7[2]	(22.9)	(14.6)
EPS	203.6	144.8	179.5[2]	(28.8)	(11.8)
Return on capital employed (ROCE) (%)	23.7	15.7	18.5[2]	(800 bps)	(520 bps)

[1] Excluding positive effect from LPG market prices (+R221 million).
[2] Excluding non-recurring items: restructuring (-R52 million) and impairment (-R55 million) costs.

Income statement analysis

	2018 R'million	2017 R'million	Variance %
Revenue	6 047	5 693	6.2
Operating expenses (excluding restructuring costs)	(4 970)	(4 510)	(10.2)
EBITDA impairments	1 077	1 183	(8.9)
EBIT before non-recurring items	703[2]	855	(17.8)
Impairments	(55)	–	
Restructuring	(52)	–	
EBIT	596	855	(30.3)
Net finance income/(expense)	41	25	64.0
Profit before taxation	637	880	(27.6)
Taxation	(180)	(242)	(25.6)
Non-controlling interests	(10)	(10)	–
Attributable earnings	447	628	(28.8)
Adjustments	31	(8)	
Headline earnings	478	620	(22.9)
Number of shares in issue (millions)	308.567	308.567	
Basic EPS – cents	144.8	203.6	(28.8)
Headline EPS – cents	154.9	201.0	(22.9)

Trading performance

The 2018 reporting period resulted in top-line growth with good underlying operational results from all operating segments. Afrox's earnings have been impacted by stronger than expected headwinds; the requirement to provide for a restructure in 2019; and impact from impairments of non-profitable assets (non-recurring items[1]) becoming effective during the fourth quarter of the 2018 financial year.

During 2018, Afrox decided to change its operating segments from four to three into Atmospheric Gases, Liquefied Petroleum Gas (LPG) and Hard Goods, with our subsidiaries fully incorporated into the new segments by product group. All three segments report EBIT or operating profit instead of gross profit. Operating profit has become our key measurement for operational performance of each segment and the Group. Afrox's corporate costs are disclosed separately. This new disclosure will provide investors with a better understanding of the operational and financial performance of each respective segment and does allow for comparisons against various peers in the market.

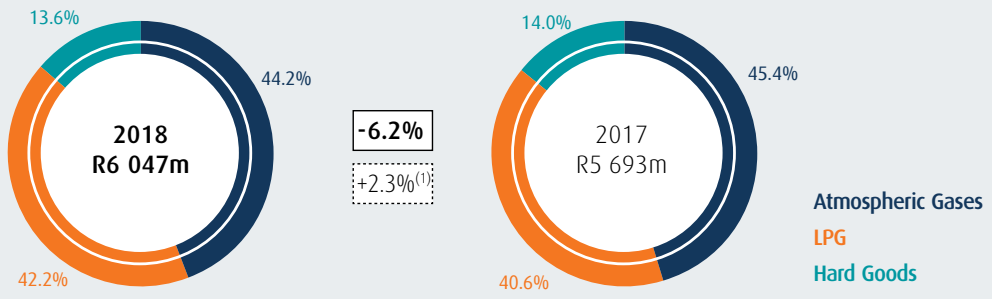
Afrox's revenue of R6 047 million increased by 6.2% from higher volumes in our Atmospheric Gases operating segment in most market sectors, LPG market price changes supporting growth in the LPG operating segment and good price management across all segments to recover cost increases from inflation. On a comparable basis, Group revenue increased by 2.3%, adjusted for pass-through effect from LPG[1] market price changes. EBIT as reported declined by R259 million to R596 million. Adjusted for non-recurring items[2] Group EBIT declined by 17.8% or R152 million to R703 million. On a pro-forma basis and adjusted for total headwinds of more than R215 million, i.e. unplanned plant outages at one of our major Atmospheric Gases plants, the product on-cost for LPG from stock revaluation and the one-month inability to pass on LPG market price changes to customers as a result of market intervention from government during September 2018, EBIT would have increased by 7.3% versus the prior year.

[1] Excluding positive effect from LPG market prices (+R221 million).
[2] Excluding non-recurring items: restructuring (-R52 million) and impairment (-R55 million) costs.

Performance by operating segment

Atmospheric Gases – Revenue increased by 3.5% to R2 674 million from better performance across all four areas of business. In On-site, Bulk and Medical, volumes increased from higher demand in most market sectors, e.g. petrochemicals, Healthcare and other industrial gas customers. Our Cylinder business revenue increased by 4% mainly from better pricing to recover inflationary cost increases, e.g. electricity and fuel. EBIT of R458 million declined by 19.7% (R113 million) (2017: R571 million) due to an unplanned plant shut down at one of our major production sites (circa (c.) R61 million) and the impairment of underperforming production assets (R55 million).

Revenue (in % share by operating segment)



LPG – Good growth in strategic markets was offset by lower industrial volumes from less demand in the automotive and manufacturing industry. If adjusting LPG revenue for the positive change in the LPG market price, total revenue would have increased by 0.9% to R2 518 million from underlying growth in cylinder volumes (c. 2%) into the domestic household market, compensating for the reduction in volumes in the industrial sector. This anticipated growth in the sub-Saharan LPG market follows continued investments into cylinders in combination with new business partnerships with selected BBBEE distributors in South Africa. By the end of 2018, Afrox's direct LPG imports accounted for more than 33% of our total volumes sold (c. 158 000 tons per annum) versus the local refinery off-take (representing c. 53% of our total volumes sold). EBIT for the 2018 reporting period declined by 17.1% to R330 million from non-trading effects (c. R35 million), i.e. LPG inventory revaluation, and non-adjustment of the market reference price for one month during the third quarter of 2018.

EBIT (in % share by operating segment)

[1] Excluding positive effect from LPG market prices (+R221 million).
[2] Excluding non-recurring items: restructuring (-R52 million) and impairment (-R55 million) costs.

Hard Goods – Revenue increased by 2.8% to R821 million across the Afrox Group from price adjustments for cost inflation for raw materials in our factories and underlying volume growth from our subsidiaries and exports into countries of affiliated businesses. We saw overall lower volumes as a result of continued decline in demand from key market sectors like the sugar and automotive industry. Despite business gains in mining and the supply of statutory maintenance cycles within the petrochemical industry, our EBIT of this operating segment declined by 3.3% to R129 million.

Total EBIT for our operating segments was R917 million in 2018, before Afrox's corporate costs of R321 million (2017: R247 million). The R74 million increase in corporate costs was mainly as a result of the 2018 provision for restructuring (R52 million).

[1] Excluding positive effect from LPG market prices (+R221 million).
[2] Excluding non-recurring items: restructuring (-R52 million) and impairment (-R55 million) costs.

Depreciation

During 2018, depreciation increased by R48 million from investments into Healthcare (R150 million) and upgrades at major plants (R61 million).

EBITDA

The decrease in EBITDA of 9% or R106 million, from R1 183 million to R1 077 million, was as a result of higher than expected costs from operations and the provision for restructuring of R52 million.

Headline earnings

Headline EPS decreased by 22.9% to 154.9 cents (2017: 201.0 cents) and basic EPS decreased by 28.8% to 144.8 cents (2017: 203.6 cents). Diluted EPS decreased by 28.6% to 144 cents (2017: 201.8 cents). Adjusted for non-recurring items[2] normalised headline EPS decreased by 16.9% to 167 cents and EPS decreased by 11.8% to 169.8 cents.

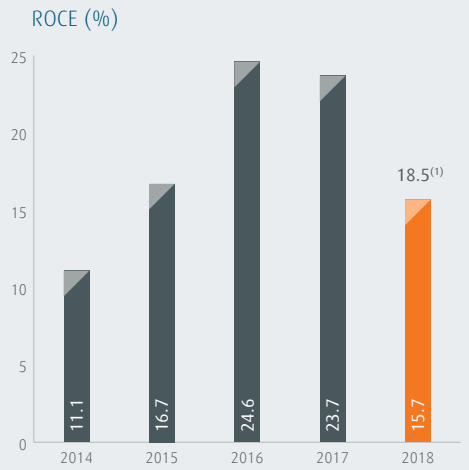
Cash flow analysis

	2018 R'million	2017 R'million
Operating cash flow	897	997
Net finance income	(37)	(31)
Taxation paid	(173)	(235)
Dividends received	–	1
Cash available from operating activities	687	732
Dividends paid to owners of the Company	(327)	(315)
Dividends paid to non-controlling interests	(5)	(3)
Operating cash flow before investments	355	414
Additions to property, plant and equipment	(491)	(350)
Proceeds from disposal of property, plant and equipment	19	106
Acquisition of non-controlling interest	(41)	–
Other investing activities	(33)	21
Net cash outflow from investing activities	(191)	191
Cash and cash equivalents at the beginning of the year	1 344	1 153
Cash and cash equivalents at the end of the year	1 153	1 344

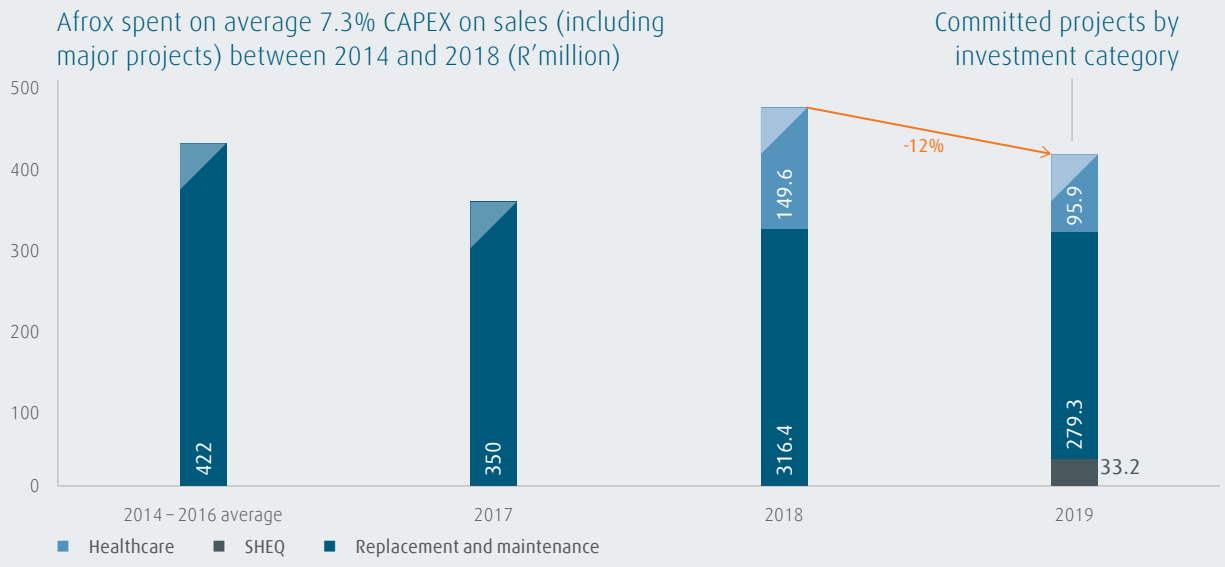
Operating cash flow

Operating cash flow decreased by R100 million to R897 million (2017: R997 million) from lower earnings. Increased capital expenditure of R150 million related to investments in the Healthcare business because of the state tender award. Plant upgrades of R61 million, additional cash utilised in acquiring shares in respect of the share incentive scheme of R57 million (2017: R7 million) and the acquisition of the remaining 30% of the equity in Afrox Zambia Proprietary Limited of R41 million, resulted in a net cash position of R1 153 million (December 2017: R1 344 million).

ROCE reduced by 800 bps to 15.7% (2017: 23.7%). Adjusted for non-recurring items, ROCE reduced by 520 bps to 18.5%. The Group's long-term guidance of ROCE remains at > 20%.



[1] Excluding positive effect from LPG market prices (+R221 million).
[2] Excluding non-recurring items: restructuring (-R52 million) and impairment (-R55 million) costs.



Dividend payment

Years	South African cents	Strategic action/comments
2016	94	Non-recurring settlement increased dividend by 18 cents per share
2017	100	Improvement in volumes in certain segments coupled with improved cost recoveries
2018	77	Restructuring provision decreased dividend by 12 cents per share

Our credit rating

	Rating class	Rating scale	Rating	Rating outlook
2018 Long-term Short-term		National National	A(ZA) A(ZA)	Stable
2017 Long-term Short-term		National National	A-(ZA) A1-(ZA)	Positive
2016 Long-term Short-term		National National	A-(ZA) A1-(ZA)	Stable

2019 outlook

Despite reported indications of low growth in 2019, Afrox will continue seeking profitable growth opportunities and maintain adequate levels of cost, while continuing its productivity initiatives. Afrox will focus to realise benefits from the South African state Healthcare tender, LPG growth in domestic markets across sub-Sahara Africa and to achieve expected additional total savings of c. R140 million from the 2019 restructure and its performance improvement programme, SWIFT.

Gratitude

I would like to extend my sincere gratitude to our shareholders for their confidence in our leadership and supporting our strategy. Thank you to all stakeholders, our leadership teams and all employees within the Afrox Group. Finally, I would like to thank the Afrox Board for its continued guidance and stewardship throughout the year.

[1] Excluding positive effect from LPG market prices (+R221 million).
[2] Excluding non-recurring items: restructuring (-R52 million) and impairment (-R55 million) costs.

Chapter 6

Performance reviews

SALIENT HIGHLIGHTS

- Atmospheric Gases with growth in revenue of 3.5% from better volumes and pricing.
- LPG revenue grew by 10.5% from higher volumes and change in LPG market price.
- Hard Goods revenue grew by 2.7% with improved profitability from efficiencies and price.
- Other than passenger and light vehicle (PLV) incidents, Afrox's safety performance improved.

Atmospheric Gases

Key highlights

- Robust volumes compared to prior year, despite slowdown in key economic sectors (mining, agriculture and manufacturing)
- State healthcare tender awarded
- Continued national deployment for Tag 'n Trace
- Growth supported by continued demand for gas applications across all industries from food and beverage to iron and steel

Key challenges

- Customers delaying decisions to implement projects to increase their output (refurbishments and new capacity), including longer lead times on tender awards
- Central cluster air separation unit (ASU) plant reliability – supply chain and physical infrastructure challenges

Performance review

Key performance indicators (KPIs)

KPI	Unit	2018 Target	2018	2017
Revenue	R'million	2 768	2 674	2 584
EBIT	R'million	621	458	571
Margin	%	22.4	17.1	22.1
CAPEX[1]/revenue	%	13.2	12.6	8.5
Reliability of plant ASU/CO_2	%	98.7/98.5	97.8/98.7	98.1/99.6
DIFOT[2]	%	95	94	93

[1] Capital expenditure (CAPEX) refers to spending by Afrox to acquire or maintain fixed assets.
[2] Delivered in full and on time is a measure of product delivery efficiency.

Overview

Atmospheric Gases revenue increased by 3.5% to R2 674 million (2017: R2 584 million) despite 2018 being an especially difficult year. Extraordinary movements in exchange rates impacted input costs, such as fuel prices, which affected product costs. These costs could not be fully absorbed and necessitated pricing adjustments across our customer base.

Revenue grew primarily from price cost recovery and additional volume demand from healthcare and bulk products. Our Industrial Gases (acetylene, oxygen, nitrogen and argon) had relatively flat demand. Bulk products had improved performance compared to 2017, and we increased volumes at several key customers which off-set decreases from customer closures and/or slow down.

Demand for Medical Gases continued to increase as access to healthcare continued to improve in the private and public sectors in South Africa and a number of other countries within the region. Afrox was awarded the state healthcare tender in all nine South African provinces. However, competitive pricing during the tender process eroded margins. We opened several filling and test sites to execute on the contract and we continue installing over 50 new bulk facilities and deploying over 50 000 cylinders into 2019. This five-year contract is estimated to generate approximately R1 billion in revenue. Afrox secured a contract to supply Maputo Hospital in Mozambique with bulk oxygen. We continue pursuing opportunities in the public healthcare sectors in countries like Namibia and Botswana as we believe we are the industry leaders in supplying medical gases and services.

During the year, Afrox and the Linde Engineering experts undertook a joint in-depth review of Afrox's key gases production plants to ensure continued safe operation at its facilities. We identified improvements to reduce operational safety risks and improve reliability and, therefore, our ability to meet customers' demands.

Special Gases plant

Afrox continued investing in upgrades to the Special Products facilities at the Roodekop and Germiston facilities, including the capability to treat propellants for the fast-moving personal-care goods market. Afrox is finalising the detailed engineering required to build a new special mixes plant; this will allow the Company to meet the need for highly complex gas mixtures required, for example, as calibration or analytical gases in the research, petrochemical and mining industries. Afrox foresees, as in other parts of the world, an increased demand for gases to assist government agencies and private sectors in environmental monitoring (water treatment, air emissions and product contaminants).

Linde Integrated Valve (LIV®)

The LIV®, locally known as the integrated valve regulator, is a combination cylinder and valve regulator. State hospitals cannot measure the amount of oxygen in a cylinder and need to dispose of them before they are empty, to ensure patients have enough supply. The LIV® enables medical employees to control gas releases more accurately, and to measure the amount of oxygen in the cylinder.

We plan to roll the LIV® out to state hospitals in Q1 2019, renting the LIV® to around 600 hospitals and over 1 500 clinics throughout the year, and aiming for 50 000 LIVs® to be distributed by the end of 2019.

Market overview

Sector	Revenue R'million 2018	2017
Food and beverages	300	304
Petrochemical	204	194
Manufacturing	119	121
Iron and steel industry	590	575
Mining	199	204
Healthcare	379	372
Automotive	90	84
Retail and trade	621	569
Other	172	161
Total	2 674	2 584

As a consumer-led sector, food and beverages will continue providing growth opportunities, especially when coupled with the gas applications technologies available via Linde Plc. Customers value the applications solutions available to help them improve their product quality and process efficiency.

The petrochemical sector is dominated by the refineries. The maintenance shutdowns during 2018 helped increase the demand for gases.

Manufacturing continues to show a year-on-year decline. However, new growth is becoming evident in customers looking to export markets for opportunities.

This sector remains challenging, but there have been more enquiries into the Linde Group's technology solutions to help customers debottleneck their processes and improve efficiencies. Afrox is well positioned to provide the gas and the gas application technology to this key sector via solutions such as Oxygon and Rebox, etc.

The continued decline in, for example, gold mining output has presented opportunities to sell oxygen to improve recovery rates in customers' downstream processes.

Consumers have longer life expectancies due to modern medicine and require more healthcare as a result. Demand in South Africa is mostly from primary healthcare, which requires oxygen.

We managed to gain top-line growth from various industrial customers due to higher demand and inflation adjustments.

Projects

Project	Progress
Tag 'n Trace	Afrox's Individual Cylinder Control (ICC) solution is being rolled out. The ICC programme, known internally as Tag 'n Trace, is a first in South Africa. This programme requires all high-pressure cylinders to be barcoded to enhance the audit trail of each cylinder and its life cycle. We currently manage 95% of our individual cylinders in our industrial cylinder holdings (2017: 65%). ICC supplies time-stamped data on cylinder movements at each scan point, which improves customer cylinder holdings' accuracy and asset use towards our objective of improving our control over the location and method of our assets' deployment. The improved accuracy increases revenue where holdings are understated, helps resolve cylinder holdings disputes, assists debt collection and improves customer confidence in Afrox's ability to manage cylinders. Afrox has the unique ability to do detailed analyses of cylinders to enhance asset management. This value-adding offering applies to all portions of our business concerned with industrial high-pressure cylinders. Customers have responded positively to ICC due to fewer disputes and more accurate billing.
Renewable energy update	Afrox partners with New Horizons Energy to recycle organic waste into usable products such as biomethane with over 90% purity. Difficulties were experienced with the waste stream and the project has been delayed over the short term.
Significant capex projects	We have an extensive footprint of air separation units, and we leverage Linde Engineering's expertise to grow markets.
Developing new markets	We aim to grow new markets for product supply that supports new customer revenue growth. We call this process applications, and we leverage The Linde Group's capabilities to this end. We had good traction during the year in all aspects of the process, from food freezing to state-of-the-art burner technology for the steel sector. We are exploring options for our Special Gases portfolio in the agricultural sector.

Future focus areas and outlook

The Company will continue developing new markets for product supply that support new customer revenue growth. We are specifically focusing on enhancing value for our customers and communities and smaller pockets of opportunities which need a different approach. Our e-commerce system, which also assists with customer relationship management, is fully deployed, and we invested in training sales employees, which should yield results in 2019.

Chapter 6 /// Performance reviews continued

Liquefied Petroleum Gas (LPG)

Key highlights

- Supply security
- Growth in consumer demand

Key challenges

- Regulated pricing environment
- Strain on logistics during peak winter demand
- Planning and forecasting challenges based on unreliable refinery supply

Performance review

KPIs

KPI	Unit	2018 Target	2018	2017
Revenue	R'million	2 621	2 552	2 310
EBIT	R'million	450	330	398
Margin	%	17.2	12.9	17.2
CAPEX[1]/revenue	%	6.3	4.3	4.7
DIFOT[2]	%	95	94	92

[1] Capital expenditure (CAPEX) refers to spending by Afrox to acquire or maintain fixed assets.
[2] Delivered in full and on time is a measure of product delivery efficiency.

Overview

Revenue increased by 10.5% to R2 552 million (2017: R2 310 million) or 0.9% on a comparable basis (adjusted for the change in LPG market prices). Afrox built economies of scale on higher volumes, and improved supply and cylinder management.

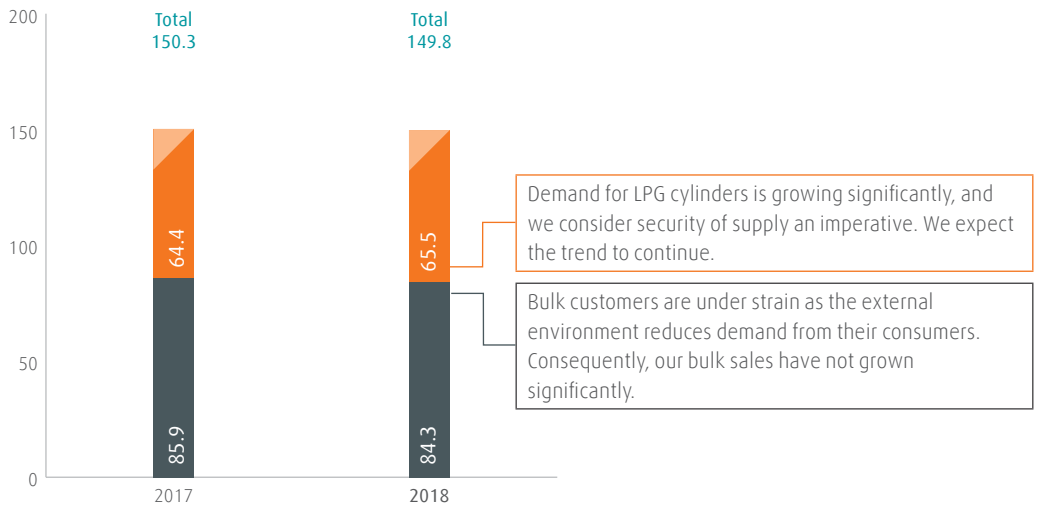
Local refineries' production was lower than the prior year, and we imported approximately 32% (2017: 22%) of our supply to ensure consistent, adequate supply. We built on our business partnerships with selected Level 1 BBBEE suppliers to unlock growth in the domestic and hospitality markets (refer to page 40).

LPG has been successful in Malawi and Zambia. Government policy is generally to reduce charcoal energy, which favours LPG. People are gaining more disposable income, and LPG is more reliable in rural areas where electricity either does not reach or is frequently disrupted.

For information on the Competition Commission's inquiry into the LPG sector, refer to the official press release at http://www.compcom.co.za/wp-content/uploads/2018/01/LPG-Cylinder-Press-Release.pdf.

No administrative penalty has been levied against Afrox.

Market overview – Volumes (kT)



PRICE REGULATIONS

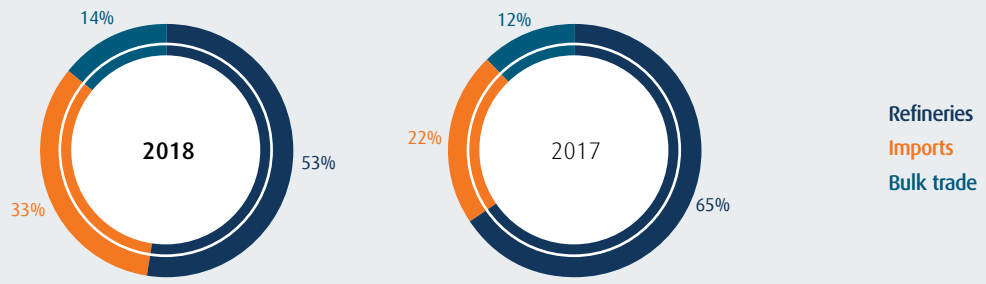
The Department of Energy regulates LPG pricing in South Africa. This presents a challenge as we import a significant portion of our product; however, regulated prices are linked to local refinery pricing rather than import or global costs. We are members of a sub-committee within the South African Petroleum Industry Association to facilitate dialogue on the matter.

Security of supply

The market has come to depend on imports to meet the growth in demand in southern Africa, especially during winter and/or power outages. We signed long-term import agreements on the East and West coasts which resolved our supply chain difficulties, despite local interruptions, and served to make import costs more competitive.

Import versus local refineries (%)

Volumes purchased



Volumes sold

The Richards Bay third-party facility remains our primary import hub. Demand in the Western Cape exceeds supply from local refineries. Thus, the balance is imported via the two import terminals at Saldanha Bay. Afrox made consistent use of these terminals to sustain uninterrupted supply to the customer base.

Geographic footprint of refineries and import terminals

Projects

Project	Progress
Optimise transport and distribution expenses	Afrox explores and implements distribution efficiencies such as: • optimising scheduling and deliveries using technology; • replaced 22 tonne bulk road tankers with 27 tonne bulk road tankers; and • replacing palletised cylinder vehicles with flatbeds for more efficient payloads.
Customised offers to lower-income market	Afrox identified lower-income markets as opportunities for growth. Custom offers such as a 5 kg cylinder with an improved valve had successful trial runs. We plan to expand the offerings in 2019. We distribute these products through Level 1 BBBEE suppliers (refer to page 40).
Long-term strategic alliances with upstream partners	Afrox formed strategic alliances with upstream partners who will undertake the required investments in major upstream infrastructure such as import terminal development. This allows Afrox to focus on its core business – being the last mile to the customer. These agreements are generally three-year agreements with the option of extension.

Illegal cylinder filling

Illegal fillers threaten public safety with dangerous products. These fillers operate as formal businesses and are highly competitive; however, proper safety standards are not adhered to. For example:

- paraffin is added to cylinders to lower prices;
- water is added to cylinders to increase weight; and
- cylinders are overfilled which could cause a rupture.

Public awareness of this risk is still lacking. Afrox enlists industry participants and the Department of Labour to address the challenge through public awareness campaigns. We actively pursue legal action to protect public safety and our assets, brand and reputation.

LPG into Africa

There are significant pockets of demand in Africa. These opportunities necessitate significant capital investments, and some of the markets do not have the regulations to protect our assets. Our focus for the year has been on Botswana and Namibia.

Future focus areas

- Increase penetration of the South African domestic and hospitality markets
- Improve efficiencies relating to imports
- Enhance logistics and filling capacity to meet future demand and enhance logistics capacity to meet winter demand
- Growth into Africa
- Search for partners with whom to investigate biogas, green energy, etc.
- Expect a gradual recovery and medium- to long-term opportunities, following improving performance in Namibia
- Expect prices to normalise soon in Botswana where market dynamics are changing

Hard Goods

Key highlights

- Once-off export orders improved sales beyond projections in the second half of the year.
- Large order received in the mining sector

Key challenges

- Proliferation of low-cost welding electrodes and wires resulting in reduced volumes for these products
- Delay in launch of Arcmate gas equipment due to technical issues, which have now been resolved
- High cost increases of local and imported goods due to large increases in raw material prices such as steel and rutile
- European suppliers are increasing prices due to higher demand in Europe

Performance review

KPIs

KPI	Unit	2018 Target	2018	2017
Revenue	R'million	890	821	799
EBIT	R'million	145	129	133
Margin	%	16.3	15.7	16.6
CAPEX[1]/revenue	%	0.6	1.6	1.0
DIFOT[2]	%	95	93	89

[1] Capital expenditure (CAPEX) refers to spending by Afrox to acquire or maintain fixed assets.
[2] Delivered in full and on time is a measure of product delivery efficiency.

Overview

Revenue was above the prior year at R821 million (2017: R799 million). The second half of the year had improved volumes and cost recovery after a difficult first half where the persistent slowdown in mining, iron and steel manufacturing hampered volumes across the business. Overall volumes are below the prior year following reduced business activity in the South African gold and platinum mining sectors, price constraints for low-volume customers, lower than prior year production and no new projects in the manufacturing and energy industries. This year, new export deals were realised, mainly to India, New Zeeland and Portugal.

Despite the overall negative trend in the related sectors of the economy, revenue was supported by good cost recovery, good exports and inflationary price increases. We facilitate our exports through our internal channel, through distributors and through buying houses who purchase our products and export them.

Afrox is exploring various options to strengthen supply, production and logistics. Continued focus on cost containment, efficiencies in our factories and improved, just-in-time price management assisted in mitigating the negative market trends. Mining activity is still depressed, but Afrox secured a R70 million contract with a mining client for 24 000 AfroxPac 35i units over the next 12 to 20 months.

EBIT decreased by 3% to R129 million (2017: R133 million). The reduction in margin is mainly as a result from lower output from our factories resulting in increased unit costs, this was however mitigated by improved price cost recovery and long-term import contracts with global suppliers.

PRODUCT DELIVERY

The issues experienced with the delivery of gas equipment from our new source in Italy were resolved and deliveries are now received timeously. This was achieved through numerous interactions between product development, purchasing and the supplier to resolve issues and gain an in-depth understanding of each party's requirements and capabilities.

Market overview

Sector	Revenue R'million 2018	2017
Food and beverages	24	29
Petrochemical	61	55
Steel industry	144	134
Mining	119	115
Retail trade	154	152
Automotive	36	38
Construction	41	46
Manufacturing	41	41
Other	200	189
Total	821	799

- Reduction in volumes from the sugar industry.
- Growth stimulated due to major customer planned maintenance shutdown.
- Slight improvement from once-off projects.
- Shaft closures in the gold and platinum sectors where high costs affect income and cash flow. These were offset by some once-off projects in the iron ore and coal sectors.
- Effective price management to recover costs and some significant orders in retail products.
- Increased competition on welding wire being sourced from China.
- Reduced demand from power projects nearing completion and negative impact due to delays in signing new renewable contracts for wind and solar.
- Higher volumes from some key customers lead to slight increase in demand.
- An increase due to a focused distributor model.

Projects

Project	Progress
Growth opportunities in the light industry retail market	We had promising results in the retail market – large retailers placed large bulk orders for electrodes.
Arcmate 6013	Afrox established a source to supply the low-end general-purpose electrode market with an adequate quality product at the correct price. We now supply this product, called Arcmate 6013, to selected customers and wholesalers.
Oil and gas sector opportunities	Afrox gained new business from the petrochemical sector on flux cored wire after testing products to agreed requirements. In addition, the customer had a major shutdown during the year and Afrox supplied the hard goods it needed during this downtime.
Arcmate range of gas equipment	The Arcmate range of gas equipment was launched to the market in the last quarter of 2018. It was slightly delayed due to minor technical issues. Large retailers and distributors have been targeted to sell this product range.
Equipment rental and safety solutions	The equipment rental offer had good success in 2018 with a rental contract for engine-driven welding machines exported to Botswana.
Multi-User Panel (MUP)	Afrox will launch a new product into its rental offer called an MUP with its roll out expected before the end of the first quarter of 2019. It supplies gas to welders who are working at heights, and as a result, they do not need to take heavy gas cylinders up onto scaffolding or walkways. The MUP supplies up to eight welders from a manifold pack which remains on the ground. This is ideal for contractors working at refineries and power stations during maintenance shutdowns.

Future focus areas

- Arcmate 6013 electrode product sales growth
- Grow the flux core range
- Improve sales in Africa

Safety, Health, Environment And Quality (SHEQ)

Our guiding principles for responsible corporate behaviour

Stakeholders, particularly customers and investors, are becoming increasingly concerned with sustainability. We adopted the Linde Group's Code of Ethics, which extends beyond our own sustainability approach as Afrox is also required to provide evidence of sustainability principles in the Company's supply chain.

As a proud corporate citizen, Afrox's business strategy includes sustainable social, ethical, environmental and transformation considerations. As in previous years, we have continuously driven our corporate responsibility focus areas which are aligned with the Afrox strategy outlined below:

Corporate responsibility focus areas

Sustainable economic growth
- Competitive market presence
- Support stakeholder requirements
- Continuously strive to create shared value

Social environment (page 60)
- Ensure sustainable social investments
- Protect the rights of individuals
- Citizenship is core to our values

Sustainable workplace (page 70)
- Competent and engaged employees
- Excellent employee health and wellbeing
- Sustainable transformation

Ethics and compliance (page 79)
- Ethical performance
- Corporate governance in all processes
- Compliance to legislative requirements

Environment (page 66)
- Sustainable use of resources
- Providing sustainable product and services
- Incorporating SHEQ as a life value

Sustainability governance structure

We use the three-level sustainability governance structure to enable faster decision making and enhance accountability. As illustrated in the matrix below, each committee fulfils its mandate according to the applicable regulations, such as various codes of good practice and the Companies Act of South Africa, 71 of 2008, as amended.

Collective accountability and responsibility are key to our philosophy. Our leaders drive Afrox's SHEQ agendas and philosophy. Line managers, supported by the SHEQ department, oversee the communication of the policy, demonstrate safe behaviour and create the appropriate conditions for continual improvement.

Afrox Board

The Linde Group

Linde Business Unit Heads

Afrox's Managing Director is responsible for the Company's overall sustainability performance. He uses the Afrox corporate responsibility policy to delegate authority to executive management who preside over economic, social, environmental and employee sustainability performance.

African Oxygen Limited

Social, Ethics and Transformation (SET) Committee

The SET Committee regularly reviews governance and management. The Committee provides the Board with reports, presentations and information on the Company's sustainability compliance, and high-level risks to keep them informed of such matters.

Afrox executive management

Executive management executes governance directives through the management level Corporate Responsibility and Transformation Committee. The Committee provides a platform for identifying opportunities, taking action and sharing learnings within and outside the Company. The Committee also tracks progress on agreed projects.

Effective sustainability governance

SHEQ Committee

SET Committee

Scope of matters
- Companies Act
- Employment Equity Act
- Broad-based Black Economic Empowerment Act
- National Environmental Management Act
- Occupational Health and Safety Act
- Consumer Protection Act
- Labour Relations Act
- JSE Listings Requirements
- UNGC principles
- OECD guidelines on corruption
- The International Labour Organization Protocol
- King IV
- GRI
- ISOs
- Occupational Health and Safety Assessment Series (OHSAS)
- JSE Socially Responsible Investment (SRI) Index
- Linde integrated management system and standards (LiMSS)
- SHEQ policy

Audit Committee

NGMR Committee

Underpinned by

Precautionary principle

Our strategy, planning and decision-making processes keep the environmental, social and economic implications of our decisions and activities top of mind.

Our key commitment areas are:

- preventing harm to people, our business, customers, local communities and society at large;
- protecting the environment;
- mitigating climate change; and
- responsible use of resources.

Our environmental management controls are well developed and fully integrated into our SHEQ system. Environmental standards ensure that specific impacts applicable to water, air, waste, industrial effluent and hazardous chemicals are responsibly managed.

SHEQ management system

An executive manager oversees Afrox's SHEQ department. He ensures that Afrox's policies are proactive in assessing and thereby mitigating risks.

Our SHEQ management system ensures compliance with industrial requirements, local and national legislation, and operational best practice. Our sites operate within this system guided by OHSAS 18001, ISO 14001 and ISO 9001. The system facilitates integrated SHEQ audits, risk assessments and management reviews, and considers The Linde Group and Afrox's requirements, and various legislative requirements. We regularly assess risks at key sites and review the outcomes to implement mitigation measures where necessary. Relevant standards are stored within the Integrated Management System and Standards (IMSS) library.

We established each year's focus areas after assessing the performance of our SHEQ leading and lagging indicators. We continually assess the following focus areas:

- Leadership's knowledge of and accountability for SHEQ and management line of sight
- Risk management
- Maintaining the quality of accreditations achieved throughout the Company
- Environmental impacts (carbon emissions, energy, waste, water and accreditations at high-impact strategic sites)
- Behavioural and vehicle safety
- Occupational health (including manual handling)
- Incident management

KPIs

Key performance area	KPI	Unit	**2018**	2017	2016
Safety and health	Lost-time injuries (LTIs)	Number	**7**	10	15
	LTIs	Lost days	**74**	162[1]	116
	Commercial vehicle (CMV) incidents (severity 1 and 2)	Number	**4**	7	3
	PLV (severity 1 and 2)	Number	**4**	3	1
	Third-party fatalities	Number	**3**	5	6
	Major incident reports (MIRs)	Number	**8**	16[1]	9
	Total recordable injuries	Number	**12**	18	25
	LeadSafe[2] engagements	Number	**1 227**	1 917	1 154
Environmental	Water consumption	m^2	**861 595**	803 401	808 673
	Total carbon emissions[3]	tCO_2e	**460 639**	488 259	475 647
	Waste	Tonnes	**1 787**	2 293	2 088
	Electricity consumption (purchased)	MWh	**431 251**	437 792[1]	454 531
	Electricity consumption (backup power generation)[4]	MWh	**9 783**	–	–
	Adherence to quality standards in particular for regulated products	%	**100**	100	100
Accreditation	Sites certified to ISO 9001	%	**100**	100	100
	Sites certified to ISO 14001	%	**100**	100	100
	Sites certified to ISO 18001	%	**100**	100	100

1 Restated.
2 LeadSafe engagements are leadership-driven safety interventions.
3 Includes direct and indirect emissions.
4 New performance metric introduced in 2018.

More detailed statistics are included in Appendix A, page 124.

Other than passenger and light vehicle (PLV) incidents, Afrox's safety performance improved as follows:

- LTIs, recordable injuries and MIRs are at historically low levels
- Commercial vehicle (CMV) incidents decreased (PLV incidents have increased mostly due to third-party behaviour)
- Manual handling injuries, though slightly higher than the prior year, remain low and within our target range, and we have robust programmes to contain them

We have transitioned our relevant sites to ISO 14001 and are extending registration to our major South African operating sites (Germiston Gases Operation Centre (GOC) and Roodekop).

Afrox used 0.75% more electricity and had a 5.6% decrease in its overall carbon footprint. Water usage increased, and the Company recycled 30% more waste than in 2017.

Safety and health

We continuously evolve our safety culture towards achieving zero harm, guided by input and recommendations from our employees, leading practices, laws and regulations.

We manage safety and employee wellness in an integrated manner using realistic and measurable targets. At major sites, we have dedicated SHEQ committees to address SHEQ-related matters in line with the requirements of the Occupational Health and Safety Act, 181 of 1993. Senior management supports each committee in discharging its duties. All line managers have access to appropriate knowledge and tools to improve their competence in discharging their SHEQ duties. This cultivates and embeds an effective SHEQ performance culture.

The eight Golden Rules provide a framework to achieve zero harm and cover elements such as ownership, vehicle safety, permits, contractor management, incident reports, etc. They were adopted from The Linde Group's global safety standards within the LiMSS. Going forward, we will change our Golden Rules to match The Linde Group's *Life Saving Rules*.

Behavioural safety

We believe that the Golden Rules of safety promote positive behavioural changes within the Company and improve SHEQ performance. Afrox is considering a site supervisor rotation policy to keep employees engaged with safety processes. To curb significant and serious vehicle incidents, Afrox provides its drivers with training to prevent vehicles rolling over (roll-over training) and continued the behavioural ActSafe and DriveSafe programmes at an additional 13 operational sites.

We are steadily increasing leadership participation in our SHEQ programme. Our managers and business leaders use the LeadSafe behavioural assessment tool to demonstrate visible leadership by identifying unsafe behaviours, logging these for mitigation actions and rectifying them.

LeadSafe engagements

Our visible leadership concept is a central element to driving safety in the Company. The LeadSafe engagement process encourages line managers to intervene when hazardous acts or behaviour are witnessed. Information on potential hazards can be logged remotely through the Company's mobile application.

LeadSafe engagements are trending well at 1 227 engagements in 2018. We record these interventions and analyse the trends to improve and potentially eradicate the risks.

ACTSAFE AND DRIVESAFE BEHAVIOURAL PROGRAMMES

ActSafe is a behavioural safety programme for truck drivers, site operators and customer engineering service (CES) contractors. DriveSafe is a behavioural safety programme for PLV drivers. The programmes aim to:

- *enhance our understanding of the factors which influence our drivers, operators and CES contractors' behaviour;*
- *eliminate incidents and injuries through a culture of interdependence; and*
- *understand how unsafe behaviour can be modified to reduce risk and occupational injuries.*

The programmes necessitate better employee-manager interactions and behaviour checklist assessments.

Key safety leading indicators

We review our leading indicators annually to identify actual versus desired performance in various areas and influence behavioural change to pursue targets. This includes the number of auditing findings issued, investigations and corrective actions agreed.

We maintained consistently low overdue audit findings. In doing this, we better manage our operations and apply due diligence. In 2018 we focused on properly closing all open findings and preventing repeat findings. Our identified areas of improvement include the need to reintroduce competency assessments and focus on near-miss reporting and investigations.

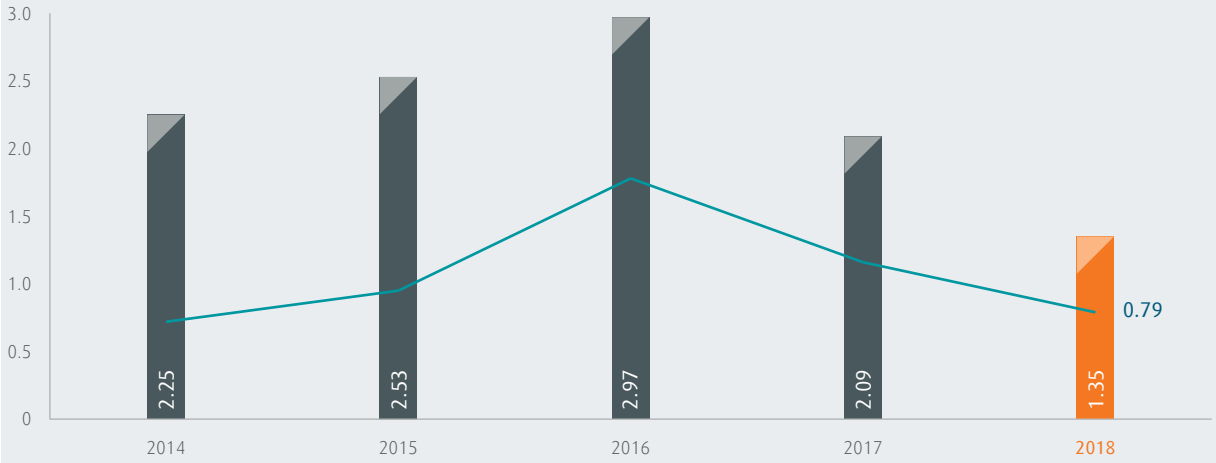
Safety trends

We measure safety performance over a specific time and track events by reviewing lagging indicators. This includes potential severe injury and fatality (pSIF) incidents, lost-time and total recordable injuries, vehicle incident rates, total recordable injuries caused by manual handling activities and major incidents.

Total recordable injuries (lost-time and medical treatment)

Afrox's total recordable incidents decreased to 12 (2017: 18), and LTIs reduced to seven (2017: 10). We are on-target for LTIs and outperformed our targets for total recordable injuries. In accordance with our Golden Rules, we measure our contractor safety in line with that of employees. The table opposite refers to employees and contractors as single figures.

Total recordable injury rate (lost-time and medical treatment)



Unfortunately, one contractor passed away while working on-site during a weekend, when safety processes were neglected.

MIRs

Major incident reports (MIRs) are trending downward, and we have a historically low rate this year. Total MIRs reduced to eight (2017: 16): two MIRs were PLV-related (2017: none), three related to CMV incidents (2017: six), two were security-related (2017: seven) and one operations-related (2017: three).

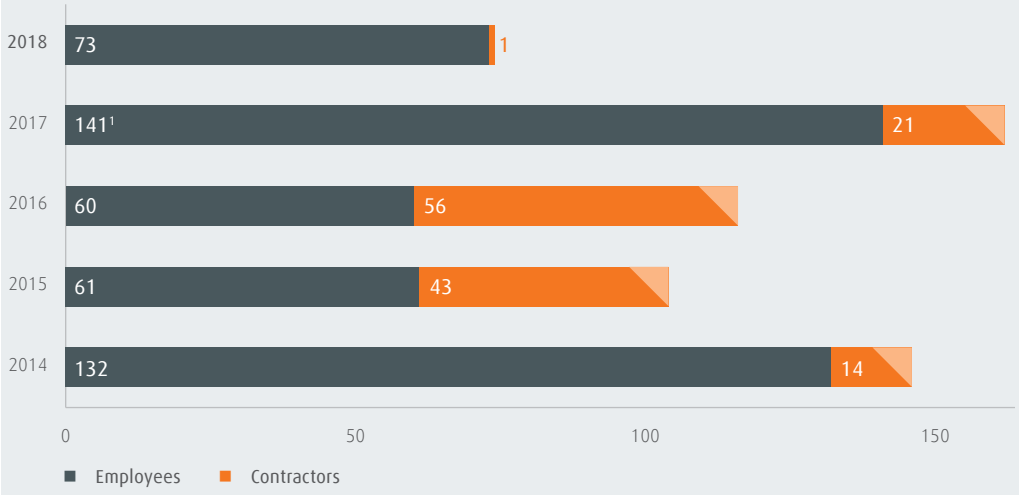
Security incidents relate to public unrest and criminal activity. Our LPG has a relatively high street value, and criminals target our filling sites and Gas & Gear outlets. We are addressing the threat to our products and our security contractors' lives with technology. The project to install centralised security facilities at larger filling and distribution sites has commenced, with a planned completion date of September 2019.These will have bulletproof windows, steel doors, cement roofs and smart cameras that respond to any movement on the premises. Our security spend in 2018 was R55.2 million (2017: R46.8 million).

Manual handling

Afrox recorded 10 manual handling incidents (2017: 15). Four of these injuries required medical treatment, another four first aid and the other resulted in no injuries, representing a decrease of five incidents compared to the previous year. The manual handling taskforce is drawn from all areas of the business to review solutions to manual handling issues covering all aspects of safety, including behaviour, technology and engineering.

Two employee Safety Days and one Quality Day were held, with support from executive management. One Safety Day focused on Golden Rules of Safety and Dynamic Risk Assessment, and the other on contractor management. The Quality Day was a first for Afrox, and the Company followed up on the proceedings of the day to generate feedback reports. These reports are site-specific and managed appropriately at the relevant site.

Work days lost



[1] Restatements.

Afrox's work days lost were significantly lower than in previous years. Manual handling incidents contribute significantly to the number of work days lost. The number of work days lost depends on the type and severity of the injury and what is prescribed by the treating doctor. Through consistent management effort and accountability, we aim to provide robust incident investigation processes, improve incident management, and improve the implementation of effective responses.

Transport and passenger car safety

All vehicle incidents are accounted for when measuring vehicle performance, providing a holistic view of performance.

		Performance improvement target		2018		2017	
Lagging indicators		Rate	Number	**Rate**	**Number**	Rate	Number
PLV incidents	**Total**	–	–	3.10	50	2.96	37
	Severity level 1 and 2	0.00	0	0.25	4	0.24	3
	Severity level 3	–	–	0.56	9	0.40	5
	Severity level 4	–	–	2.29	37	2.32	29
	Total safe kilometres	–	–	–	322 739	–	337 686
	Severity level 1 and 2 safe kilometres	–	–	–	4 034 232	–	4 164 788
CMV incidents	**Total**	–	–	2.16	59	2.72	72
	Severity level 1 and 2	0.08	2	0.15	4	0.26	7
	Severity level 3	–	–	0.33	9	0.30	8
	Severity level 4	–	–	1.69	46	2.15	57
	Total safe kilometres	–	–	–	462 051	–	368 093
	Severity level 1 and 2 safe kilometres	–	–	–	6 815 259	–	3 786 101

The number of PLV incidents increased to 50 (2017: 37).

Our CMV incidents decreased to 59 (2017: 72) with two third-party fatalities. These incidents occurred due to unsafe driving behaviour by third parties involved. Afrox remains focused on reducing the number of significant vehicle incidents. The logistics team monitors routes constantly while vehicles are en route to delivery points. Live assessments and feedback of any risks enable the team to direct any deviations if required.

We will focus on these areas and continue with safety programmes such as:

- operational excellence tools such as the new driver risk profiling, drive-cam, lane assist and fatigue monitoring telematic technologies;
- continuous training in our various truck and passenger car safety standards;
- enhanced transport contractor management focus, including a contractor safety day; and
- various other training, awareness campaigns, audits, engagements, etc.

Our transport supervisors' KPIs include a short-term incentive plan element linked to monthly vehicle inspections to verify roadworthiness and behaviour.

Following our efforts, our high-risk category drivers have decreased by 72.5% from 2017, against a target of 20%.

BUSINESS-WIDE FOCUS ON DRIVER FATIGUE

Drivers are encouraged to voice their concerns of fatigue or inability to work to Afrox management. Afrox maintains a driver risk profile system which assesses and monitors driver performance, compliance and fatigue. The system has safety metrics such as incident rate and fatigue levels to target improvements.

Due to the vast distances which our sales and marketing teams cover, they are limited to 14 hours of work per day, including driving. As a control against fatigue, employees are required to lodge/sleep over at the destination before continuing their journey in instances where the hours exceed this limit.

Our profile system allows us to take note of and assist employees who might be too tired to drive safely.

Learning management system

Competency levels for required learning have decreased slightly from 77% in 2017 to 76%.

Afrox creates learning profiles for employees using the TRACCESS system. This database is linked to LiMSS. The system determines which learning programme is relevant to the employee. This ensures that the appropriate training is provided for competency areas that are required to complete a task.

Contractors are expected to be competent and operationally excellent. To this end, we provide suitable required learning competency profiles.

Safety training activities

The Afrox Safety Solutions programme is unique in South Africa. It aims to increase our end-user's practical product knowledge and safety awareness. We implement the programme in the mining industry where we can train customers and move towards being a total solutions provider. Afrox is also pursuing the provision of the Safety Solutions programme in medical industries. This will assist hospital and ground employees to store, use and handle gas cylinders in a safe manner.

We offer welding and safety training using content accredited by the Chemical Industries Education and Training Authority (CHIETA) and the Quality Council for Trades and Occupations (QCTO). Afrox is currently working with the Southern African Institute of Welding (SAIW) to develop and design the first QCTO-accredited safety course in South Africa. This will be a six-day training course where individuals will earn credits for these institutions upon completion.

Major hazard installations

As a South African Department of Labour Approved Inspection Authority (AIA), we may conduct major hazard installation (MHI) studies. We are also an accredited inspection body for the risk assessments on MHIs in line with international standard ISO/IEC 17020:2012 from the South African National Accreditation System (SANAS).

The Major Hazard Review programme (MHRP) is a Linde Group internal programme that classifies and assesses high-hazard sites according to volumes of hazardous materials and the potentially affected surrounding communities. This programme proactively mitigates and manages major risks that could arise from installation disasters. The MHRP is aligned to the European SEVESO II Directives, USA OSHA Process Safety and the South African Occupational Health and Safety Act.

We are updating our standards to match The Linde Group's licensing requirements.

Process safety management

Process safety management relates to high-severity/low-frequency events. We recognise the severe, albeit unlikely, impact these events can have on our business. We endorse high levels of discipline through our process safety awareness workshops, training, and our Golden Rules (e.g. permit-to-work). Integrated audits throughout the year take note of any non-conformance.

We commenced project Vula along with Linde Engineering to review, identify, analyse and catalogue process hazards, focusing on improving adherence and compliance with standard operating procedures and to source critical safety instrumentation. The programme's first stage is complete, and the second phase will assess plant safety and reliability to recommend improvements. Once the programme is complete, a full-time Afrox Process Engineer will ensure its sustainability.

The Chairman of our Nominations, Governance and Management of Resources (NGMR) Committee visited our Highveld and Pretoria sites and gave feedback on change management and safety practices to the Board.

Health and occupational hygiene

The Company's Occupational Health programme assists in minimising major risks in the workplace (such as noise exposure, manual handling and hazardous chemical exposure). To prevent occupational illnesses and diseases, we continue integrating this programme with our management system.

We value the wellbeing of our employees and aim for high health standards. Afrox employs qualified medical practitioners and support employees at seven sites in South Africa and at most of the Company's major sites, including those in other African countries. The Company's smaller sites have access to mobile occupational health clinics.

Afrox monitors employees' health

Noise exposure	Our Hearing Conservation programme focuses on: • medical surveillance; • completing noise surveys; • site noise exposure risk; • issuing appropriate personal protective equipment; and • providing related training.
Nitrous oxide (N_2O) exposure	We monitor N_2O through gas detectors and the medical surveillance programmes. N_2O exposure was maintained at legal and acceptable levels at our sole plant and filling operation, the Germiston Gases Operation Centre (GOC).
Silica exposure	At one of our factories where some employees could be exposed to crystalline silica, we operate a Medical Surveillance programme to monitor the health and wellbeing of employees who handle this hazardous substance. The Company conducts exposure surveys, submitting an annual report to the Department of Labour in line with regulatory requirements. The 2018 site survey indicated no exposure concerns.

For detailed statistics on occupational health and safety, refer to Appendix B, page 125.

DuPont™ Safety Perception Survey™

We carried out a DuPont™ Safety Perception Survey™ to gauge employees' perceptions of our safety culture and to benchmark our safety against other companies. More than 2 000 employees (around 70% of the workforce) responded in the survey, and we received 620 individual comments from all parts of the business.

Afrox scored an overall total of 72% (2017: 63%). This is encouraging as 80% is 'world class', and our improvement shows that employees believe in independent thinking and personal voluntary commitment to safety.

We ranked 'close to benchmark best' as follows:

- *Presence of safety values*
- *Extent that safety is built in to our organisation*
- *Quality of safety rules*
- *Influence of safety values*
- *Thoroughness of investigations of injuries and incidents*

The survey ranked 'examples on items that require some improvement to get close to benchmark best' as follows:

- *Priority individuals give to safety*
- *Extent that safety rules are enforced*
- *Involvement in safety activities*
- *Extent that safety rules are obeyed*
- *Extent individuals feel empowered to take action in safety*

The survey ranked 'examples of perceptions that require significant improvement to get close to benchmark best' as follows:

- *Belief that injuries can be prevented*
- *Recognition for safety achievements*
- *Priority respondents think others give to safety*
- *Extent of safety training and frequency of safety meetings*
- *The presence of off the job safety programmes*

The results indicated that Afrox has the correct safety rules but may lack in the following areas: consistency of discipline/consequence management, and accountability.

Following the survey, we scheduled focused workshops for each department, a structured communications plan on SHEQ monthly themes, and a SHEQ training plan. We will consider a new set of site-leading indicators, including performance management of key SHEQ themes. We will refresh leadership training in terms of the Linde Life Saving Rules to teach safety as a value, rather than a priority.

We will continue risk assessments, develop strategies for more involvement of front-line employees, revive the reward and recognition subject relating to SHEQ, and begin each meeting with an S, H, E, or Q conversation or safety moment.

Our goal is to reach 'leading/world-class' by 2021.

Environment

We annually measure performance against improvement targets. Our year-on-year performance was as follows:

- Purchased electricity usage decreased by 1.5% (2017: 3.7% decrease).
- Carbon emissions decreased by 5.66% (2017: 2.6% increase).
- Water usage increased by 7.2% (2017: 0.65% decrease).
- Total waste decreased by 22.1% (2017: 9.8% increase).

Afrox minimises fuel consumption and emissions through scheduling and driver training. Truck scheduling maximises each trip's productivity through logistics and distance considerations. Driver training supports this with braking, acceleration and general driving techniques to minimise fuel consumption. Transportation remains a relatively small element of the Company's overall emissions, contributing 5.3% to total annual emissions.

Energy

Afrox's individual sites differ significantly from one another, and use their own metrics for energy, rather than a Group-wide standard. We use a credit 360 survey to collate the key performance indicator (KPI) data for each site, and we base our action planning on the results.

Internal audits analyse the energy efficiency of our air separation units (ASUs) according to our energy strategy and energy management system. These plants make up a significant portion of our consumption, and we aim to minimise their impact.

Our 2018 energy consumption (and carbon footprint) decreased due to more efficient operational activity. An annual target will be set for 2019 after analysing 2018 data.

Climate change

We annually analyse, record and evaluate emissions from our business activities. The consolidated findings are submitted to The Linde Group and thereafter to the CDP. Afrox considers the Greenhouse Gas Protocol when accounting for greenhouse gases (GHGs).

Carbon footprint	Unit	2018	2017	2016
Direct GHG emissions (scope 1)				
CO_2 emissions	t	16 186	14 546	10 276
Afrox transport fleet	tCO_2e	24 693	23 972	24 008
Other GHGs	tCO_2e	11.2	12	27
Total scope 1	t	40 890	38 548	34 311
Indirect GHG emissions (scope 2)				
CO_2 emissions	t	419 749	449 711	441 336
of which by air separation plants	t	379 919	406 232	379 778
Total scope 1 and 2	tCO_2e	460 639	488 259	475 647

Purchased electricity consumption decreased by 1.5%. ASUs produce nitrogen, oxygen and argon, which are major contributors of our indirect CO_2 emissions. Indirect CO_2 emissions decreased by 9.6% due to the decrease in purchased electricity. Overall, direct and indirect CO_2 emissions decreased by 5.7%.

We acknowledge that indirect emissions from purchased electricity are a major contributor to our carbon footprint. We set annual reduction targets to reduce purchased electricity. The Linde Group seeks to reduce CO_2 emissions by 6 million tonnes by 2020. The target includes a reduction of 4.8 million tonnes in air separation units (scope 2 emissions).

NOx, SOx, and other significant air emissions

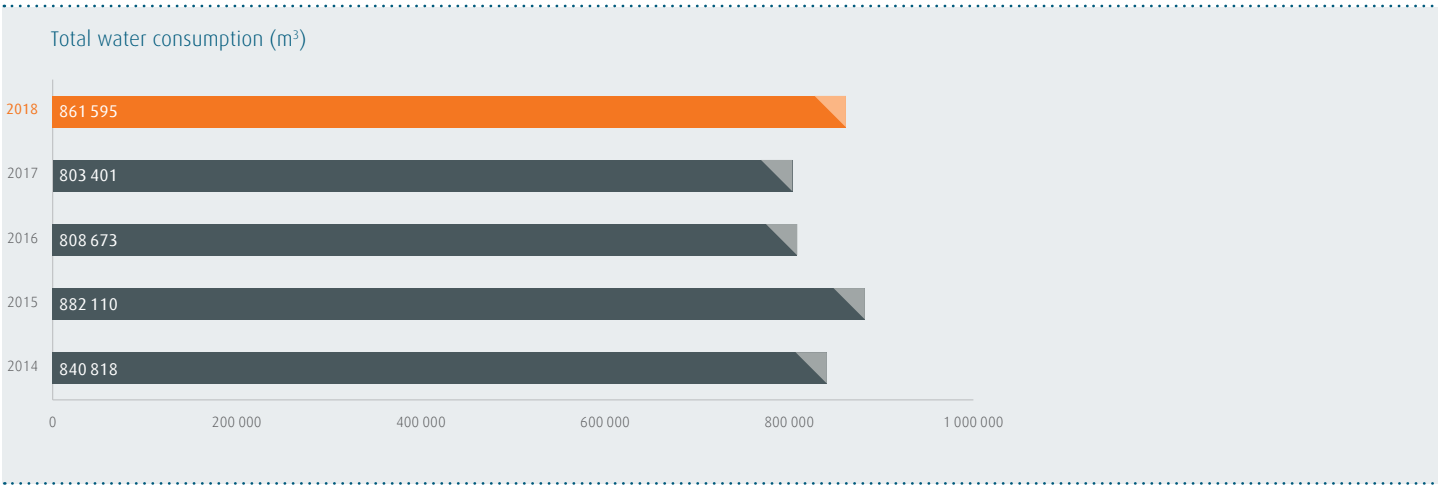
We are committed to phasing out hydrochlorofluorocarbons (HCFCs) in the market and monitoring emissions of air pollutants with GHG emissions. Afrox's dissolved acetylene plants have air emissions licences in compliance with the National Environmental Management: Air Quality Act, 39 of 1994.

Water

Afrox's sites monitor and report water consumption to facilitate analysis to identify improvement areas. Our water is supplied by municipalities or regional utilities. Numerous sites rely on boreholes for gardening purposes.

Our primary water uses are:

- manufacturing of specific gases (such as acetylene and nitrous oxide);
- hydrostatic testing of vessels and cylinders;
- cooling systems;
- emergency deluge systems; and
- office purposes.



Our activities do not significantly destroy any water source, natural habitat or related ecosystems. We operate a tactical water plan in response to water security and our water affordability risk. Afrox continues increasing water-saving awareness among its employees and implements mechanisms such as water harvesting to save water.

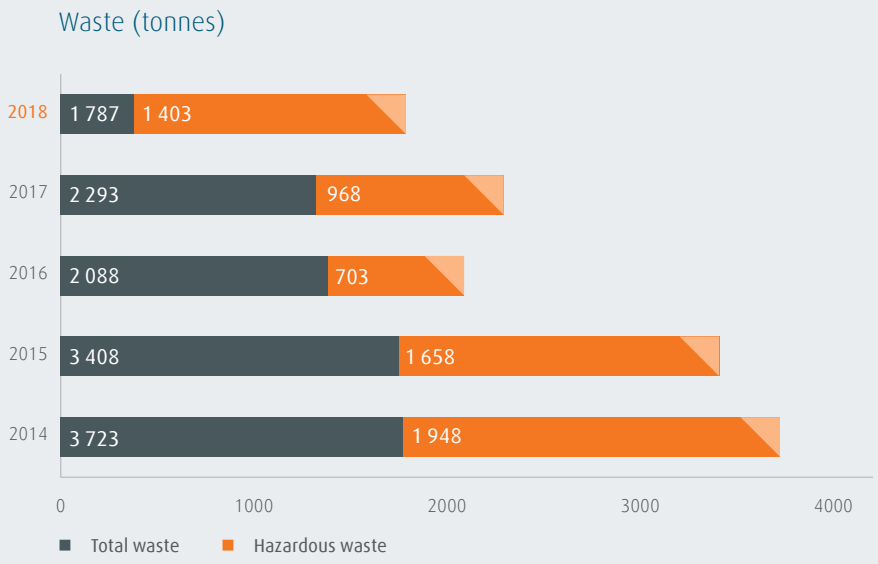
Emissions to water	Afrox adheres to local regulatory requirements by reporting emissions data for all its sites. No permit contraventions or significant spills were reported this year.
Waste water	Our waste water is directed to on-site effluent treatment or municipal plants for purification. Where necessary, we have site permits to discharge industrial effluent into municipal sewer systems. Local authorities have issued permits to 16 sites that regularly monitor the quality of the effluent.

Waste

Afrox is committed to avoiding, reducing and recycling waste where possible. We adhere to local regulations and national legislation when disposing of waste, and we distinguish between hazardous and non-hazardous waste.

Our waste management standard ensures legal and ethically responsible action. It outlines the responsible handling and legal storage, and disposal of waste streams. We dispose of scrap cylinders, chemical containers, carbide sludge, empty waste oil, asbestos and spent fluorescent tubes. Where possible, we recycle hazardous waste (such as oil, empty chemical containers, used solvents, paint-related waste and asbestos) or safely dispose of it at licensed facilities.

Afrox's SHEQ department regularly audits and verifies all contractors who transport and dispose of hazardous waste. Our sites comply with SHEQ and legal requirements by conducting regular inspection of waste areas and using waste inventories. We ensure that waste assembly and storage areas are maintained.



Hazardous waste	Hazardous waste increased by 45% (2017: 37.7% increase) because of refurbishment and maintenance activities.
Asbestos	The Company's phase-out plan for asbestos in dissolved acetylene cylinder massing activities is progressing. An annual external audit was conducted, and the findings submitted to the Department of Environmental Affairs.
Environmental expenses	No fines related to environmental legislative compliance were received. Afrox continues to monitor and assess new pertinent environmental legislation.
Biodiversity	Afrox's Environmental Management programme requires the Company to examine the potential impact of its activities on biodiversity in operation and in new site planning. A significant portion of our sites are in industrial or commercial zones. We ensure minimal negative environmental impact to any habitats located near our sites.

Quality and product stewardship

In South Africa, we are implementing the FSSC ISO 22000 accreditation where required. This year, our CO_2 plants continued adopting the accreditation. In line with our operating model and the planned transition, we continued adopting the 2015 version of ISO 9001 accreditations at all sites.

The Afrox Quality Council convenes twice a month and creates an agenda for managing quality and customer programmes across the business. It includes reviewing major customer incident reports, customer complaints, audit reports, certifications, among others. We integrated our African subsidiaries into the Afrox Quality Council's agenda.

Common issues pertaining to faulty cylinder returns, incorrect invoicing, long queues, stop supply, faulty equipment, delayed pricing, late ordering of stock and poor communication, were noted. The Quality Council will address these issues going forward.

We equip our sales and marketing team adequately through robust product training. We conduct customer audits and receive direct customer feedback through mechanisms such as 'Rant and Rave', an online feedback platform and our 'voice of the customer' surveys. We pledge to provide feedback on negative posts within two hours. We believe this information is vital for quality improvement, and The Linde Group and Afrox actively monitor updates.

Our quality management system ensures that our products and services comply with international, national and Company standards. The online LiMSS library houses these standards and determines the testing frequency, required minimum standards, and the test equipment that ensures products and services are compliant.

Certifications

We recertified all our CO_2 sites to comply with FSSC 22000:2010 requirements, which is a major requirement of some of our significant customers. SANAS accredited our GOC test shop for ISO 17020 requirements. Our welding consumables factory continues to comply with EN 13479 by TÜV Rheinland AG, a global provider of technical, safety and certification services.

Product stewardship

Afrox believes that product stewardship means it ethically manages its products and their packaging at all stages of their life cycles, to minimise health, safety, environmental and social impacts.

Our ethical environmental stewardship transcends our legislative obligation. We audit first-time buyers to assess and train them on how to use Afrox's products safely, and the Company periodically audits customers to raise awareness around hazardous products. We encourage our stakeholders in the extended life cycle of products to also be responsible. This decreases the likelihood of negative impacts associated with the production, delivery, use and end-of-life disposal of Afrox's products.

Future focus areas

- Update our SHEQ strategy towards our 2021 goal to be an industry leader
- Roll out smart security
- Action the focus areas identified in the DuPont™ Survey (page 66), refresh and deploy our Safe Driving policy and improve PLV performance
- Fully extend ISO 14001 certification to Roodekop and GOC
- Finalise project Vula

Human Resources (HR)

Afrox aims to:

- *be an employer of choice;*
- *have the right employee in the right position;*
- *drive innovation and enhance customer solutions;*
- *learn, adapt and improve continuously;*
- *provide attractive careers;*
- *develop management and leadership capabilities;*
- *support line managers and their ability to lead employees; and*
- *manage and reward performance.*

Key highlights

- Level 3 BBBEE rating, up from Level 4 in 2017
- BBBEE procurement spend at R913 million (2017: R410 million)
- Low turnover and stable executive team
- Remuneration philosophy fully embedded and aligned with our talent management approach
- Performance management and incentives emphasise SHEQ and finance
- Rolled out updated remuneration policy

Key challenges

- Difficult operating environment requires intensive HR efficiency
- Socio-economic issues and the correlation to employee wellness and behaviour
- Radical changes to the line manager's methodology in managing employees given the nature of employee issues and community social aspects
- Dismissal of a number of employees due to misconduct

KPIs

Key performance area	KPI	Unit	2018 Target	2018	2017
Employee development and leadership capability	Leadership developments	Number	100	134	195
	Learners, apprentices,bursars and graduates	Number	120	181	77
Diversity and transformation	BBBEE level	Overall	3	3	4
	Employment equity	Number	See table on page 73		–
Employee retention	% employee turnover	%	3	3	–

Afrox's HR structure and function remained constant, and we again reviewed our policies against market benchmarks to ensure they remain relevant. We continue leveraging The Linde Group's global HR management and planning systems to improve our:

- talent, performance and remuneration management systems;
- global training programmes;
- data management and reporting;
- global best practice; and
- global visibility.

Afrox's HR journey

Afrox's HR function has clearly defined metrics and targets in line with its strategy. Our results largely owe to HR's focus on internal efficiencies, Company structure and statutory and legal requirements.

During the year we embedded our long-term incentive schemes rules and emphasised financial performance in short-term incentive schemes. We continued with our sales incentive plan, which carries a 70% financial component. Refer to page 94 for our remuneration report.

We stringently measure our employees' performance to assess whether they have the required competencies and/or incentives to effectively execute their duties. We observed a worrying trend of negligence among suitably qualified employees, ultimately resulting in the fatality mentioned on page 42. The Company adopted a zero-tolerance approach and responded with dismissals for those found negligent. Our Independent

[1] SAP SE is a German software corporation that develops enterprise software to manage business operations and customer relations.

Counselling and Advisory Service (ICAS) support system for employees' personal issues noted a correlation between negligence and personal concerns; 2018 was a difficult year, which affected employees, communities and contractors, and their behaviour.

It is worth noting that the economy affects our hierarchy. Line managers need to be highly agile to adapt to increasing regulations and a changing workforce with shifting needs and desires, in a company that evolves in line with its external environment.

To adapt to the external environment, we began digitising our HR function with e-recruitment and e-leave processes. We also increased our focus on operational efficiencies through, among others, our training initiatives, which include SHEQ, driver, sales and SAP[1] training, and our organisational health initiatives.

Organisational health

Organisational health refers to our initiatives to optimise our business and align with our strategic objectives and business strategy. It focuses on middle to senior manager roles. We continuously review our Company structure in line with the organisational elements set out below:

- **Right number of people:** Certain areas may need more or fewer resources.
- **Span of control:** We are optimising the ratio between employees and their line managers towards The Linde Group's benchmark of 1.6
- **Layers:** We reviewed our hierarchical levels in the Company and its various functions. Too many layers could result in a lack of ownership, delayed decision-making, too many processes, longer communication channels, and cumbersome administration. Ideally, we would have four to six levels.
- **Work activities that are not required and/or can be performed elsewhere:** We look at optimally delegating work to employees, which might involve another department or employee, outsourcing, labour brokers or contractors, etc. This also serves to remove duplication.
- **Effectiveness and efficiency of organisational structure:** We review our organisational structure for inefficiencies.
- **Excessive travel:** We look at how to best distribute work with distances between employees and/or operations/customers in mind.
- **Cost base:** We consider how to keep our cost base competitive.

One of our initiatives in this regard is outsourcing Afrox's Customer Service Centre to a global outsourcing company. The project aligns with the customer segmentation model and go-to-market strategy. It will increase revenue and margin opportunities, improve sales, focus on customer needs and reduce fixed costs.

HR performance overview

Our employment policy aims to create a workforce that reflects principles of equality and fairness and takes South Africa's demographics into account. Afrox recruits employees based on their ability to perform or exceed desired levels. Our Code of Conduct (refer to page 80) promotes sensitivity and tolerance between a diverse group of employees. We aim to eliminate any discrimination based on race, creed, culture, nationality, gender, sexual orientation or marital status in the workplace.

We use labour brokers when necessary but will review the practice considering new laws. Our total employment figures reduced following our organisational health overview.

Employee and contractor statistics	Unit	2018	2017
Total number of employees and contractors	Number	2 190	2 276*
Percentage of employees and contractors operating in South Africa	%	82	82
Percentage of employees who are deemed historically disadvantaged South Africans (HDSAs)	%	82	81
Percentage of management deemed HDSA	%	65	63
Total number of person hours worked	Number	555 075	575 775
Total number of employees trained, including internal and external training interventions – skills development	Number	450	510
Percentage of employees trained in South Africa	%	25	27
Rand value of employee training spend	R'million	44	33
Percentage of revenue training spend in South Africa	%	0.7	0.5
Total number of person days lost due to absenteeism	Number	7 030	8 732
Percentage of total person days lost due to absenteeism	%	1.2	1.5
Total number of person days lost due to industrial action	Number	0	0

Employment types

Type of employees	2018 total	2018 male	2018 female	2017 total
Permanent	2 035	1 559	476	2 092
Temporary	67	58	9	119

We have 1 559 male and 476 female full-time employees. Afrox employs 58 male and 11 female part-time employees. Of our 2 035 permanent employees, 82.5% are in South Africa and the remaining 17.5% are employed in other African countries. Of our 67 temporary employees, 83.6% are in South Africa. Afrox outsources a minimal amount of its activities to its 88 contractors. This often relates to work of a project based nature.

* Restated.

Employee retention

Analysis of leavers	Unit	2018	2017	2016
Total number of voluntary and non-voluntary leavers	FTE[1]	332	286	348
Average length of service for all employees	Years	9	9	9

[1] Full-time employee.

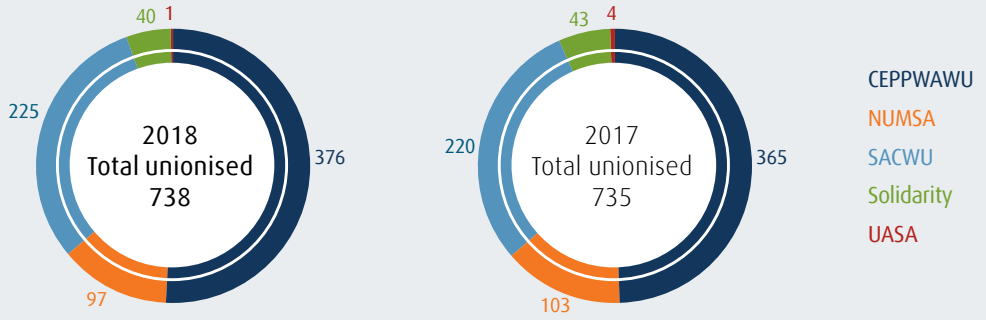
Afrox maintained a stable employee retention rate for the past three years. This is due to the positive effects of our employee engagement and employee development. We maintain a record of the reasons why employees leave and respond accordingly through our HR strategy.

Unionisation

Our relationship with our employees depends on employee and union engagements. We consider, respect and take our stakeholder relations seriously. We hold regular forums that allow deliberation and sharing of opinions ahead of decision making.

In line with fair labour practices, Afrox's employees have the right to join any organisation, forum or trade union. We respect the role unions play in protecting employee interests in South Africa and appreciate their efforts in this regard. All our employees have access to grievance procedures and disciplinary processes if required.

Number of unionised employees



The total union membership remained fairly unchanged, and we had no significant industrial action. We have positive relationships with the various unions and signed a two-year wage agreement in 2017, which is valid until 2019. We negotiate with our unionised employees through our membership to the Chemical Bargaining Council.

Diversity and transformation

Afrox aims to build a workforce that represents South Africa's demographics. We value equality and fair treatment in all our operations and interactions with employees.

We oblige our managers and consultative forums to be familiar with the Employment Equity Act. The Social, Ethics and Transformation (SET) Committee and consultative forums manage employment equity and legislative compliance matters. They collaborate to establish numerical equity targets; which senior management must work towards.

We are notified of all discriminatory acts, and we stringently review and address these. No claims of discrimination were made for 2018 (2017: none).

Employment equity (%)

Employee level	2018 equity target	2018	2017
Top management (Managing Director and Group Financial Director)	0	0	0
Senior management	48	46	47
Professionally qualified middle management	50	49	48
Skilled middle and junior management	73	75	72
Semi-skilled junior management	93	95	93
Unskilled and defined decision making	98	98	98

Afrox has 65% overall black management representation. The representation of equity candidates in our senior management remains unchanged and representation at semi-skilled junior management level has improved. We prepare managers for succession through various leadership development initiatives to enable them to move to the next levels of responsibility in the Company.

"I started my career at Afrox Klerksdorp in 2011. I was a forklift driver for two years before I went for my Code 14 licence (EC), which Afrox paid for, and I later went for driver training. I then began a development process, which took me three years. This included being a relief driver to develop my driving skills. I am currently employed as a heavy-duty driver, and I am studying towards my Diploma in Road Transport Management at the University of Johannesburg – also funded by the Company.

I went for SAP and distribution training in 2018 to learn the Distribution System Function. I act as a distribution supervisor on a regular basis as part of my development plan. I am looking forward to developing my skills to move forward in the Company. I want to thank Afrox for the opportunity and would also like to advise everyone that you as an employee of Afrox can make a difference in the Company. I would also like to thank my colleagues, Afrox Klerksdorp management and my family for their support."

– William Moyo

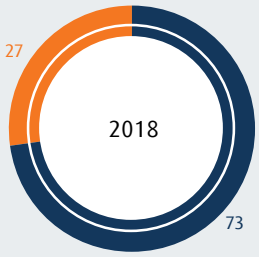
BBBEE profile (South Africa only)

Afrox subscribes to the principle of equal opportunity for all and strives to attain an employee composition that reflects the demographics of South Africa.

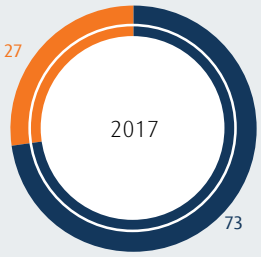
	Male employees (number)				Female employees (number)			
	2018		2017		**2018**		2017	
Employee level	**Black**	**White**	Black	White	**Black**	**White**	Black	White
Senior management	12	18	5	15	5	3	2	1
Professional skilled	95	106	115	115	35	29	41	31
Skilled	243	72	419	80	126	51	219	78
Semi-skilled	352	11	450	12	76	15	34	
Unskilled	361	2	140	2	57	6	4	
Total	1 063	209	1 129	224	299	104	300	110

Our employment equity strategy is integral to the annual strategic planning process and is reported and reviewed quarterly at executive management meetings, chaired by the Managing Director. Afrox's overall black representation in South Africa improved to 82% (2017: 81%) and includes 27% (2017: 27%) female representation.

Employee gender analysis



Female 2018 target 30%



Male
Female

Our female representation remained constant in 2018. Special dispensation is provided by the Head of HR or Managing Director for recruitment as and when required.

We include skills development initiatives and learnerships as part of our employment equity plan. This develops a pipeline of female learners and employees to improve female representation in the medium to long term.

Succession planning and employee development

Our succession plan fills a high percentage of vacancies internally rather than through recruitment. More than 61% of our talent pool comprises employment equity employees and our coverage rate for critical roles in the business remains at 85% (2017: 85%).

Afrox uses formal in-person training and online training platforms such as LiMSS, which holds an easily accessible library of procedures, standards and global business reference material. The system[1] includes an individual learning management system[1] and audit manager.

Employee training and talent pipeline

We increased spending in training, including bursaries, to R44 million (2017: R33 million). We financed development for 181 (2017: 195) new learners through apprenticeship, learnership and internship programmes.

Employee and employee dependant bursaries	Afrox spent R1.8 million (2017: R1.47 million) on employee bursaries. We also offered recognition of prior learning to help existing employees complete trade qualifications. We provided R4.2 million to 144 of our employees' children. These dependants could further their studies in any field of their choice at tertiary institutions (2017: R2.8 million for 84 children).
Management development and training	All first and second-line managers participate in a leadership development programme to improve their leadership capabilities. We believe that the recognition and consequences management portion of the training is a valuable tool, and training is ongoing. Senior leaders are also afforded the opportunity to attend The Linde Group's global leadership programmes annually.
Graduate training scheme	Afrox's 24-month graduate training scheme provides graduates with skills in mechanical, chemical and industrial engineering, as well as marketing and econometrics. In 2018, 7 (2017: 8) graduates participated in the scheme.
Learnerships and apprenticeships	Afrox spent R25 million (2017: R19 million) on learnerships and apprenticeships. • Our various trade learnerships and apprenticeships comprised 78 men and 103 women (2017: 24 men and 16 women). • 29 learners enrolled in the Customer Service Centre NQF 2 learnership programme. • The programme in Business Administration NQF 3 and NQF 4 had 33 learners. • 8 learners participated in Wholesale and Retail NQF 3 learnerships and 25 female learners with disabilities in the Jewellery Manufacturing NQF 2 and NQF 3 learnerships who have moved to NQF 3 and 4 respectively. • We support 181 BBBEE students, including 34 apprentices who act as a useful pipeline to supplement our more experienced employees.

Performance management

Afrox grades employees' performance through an annual performance management cycle. This process considers an employee's contribution to the Company's objectives and the extent to which they display The Linde Group's behavioural competencies in reaching these outcomes. Afrox cascades objectives from Company to individual level to ensure alignment. Each employee has individual development plans used for guidance in career growth targets and training.

Employee wellness

Afrox's employees have access to ICAS. ICAS services include workplace productivity improvement, personal empowerment services and resilience development. Of Afrox's employees, 28.1% (2017: 38.8%) use the services offered, compared to the ICAS average of 17.9% (2017: 16.9%). Afrox regularly engages with employees on health and wellness via internal communication. Careways will take over as wellness service provider before the end of the first quarter in 2019.

We now offer employees the option of switching to the Bonitas medical scheme or remain on Discovery Health if they should feel one of these new scheme options could better serve their needs.

Afrox held wellness days at 20 sites nationally, attended by 1 300 employees. This included various health days that provided employees with the opportunity to have vital health assessments performed on-site and free of charge.

Afrox offers various forms of additional support to its employees, such as home-owner's support, pension and provident fund, and tertiary education assistance for the children of employees.

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

The Company's employees are encouraged to participate on Bumbanani Day. This corporate social investment (CSI) initiative promotes teamwork to benefit previously disadvantaged communities and facilities (refer to page 76).

BBBEE requirements

Afrox was classified as a Level 8 BBBEE contributor at the start of 2017 under the new BBBEE Codes. Since then we have improved to a Level 3 contributor by applying our BBBEE strategy. Details of this ongoing strategy are captured below:

Focus area	Action	Progress
Build	• Focus on Enterprise and Supplier Development (ESD)	Afrox continuously seeks to include black owned Qualifying Small Enterprises (QSEs) and Exempted Micro-Enterprises (ESEs) in our value chain as suppliers goods and services, and distributors of our products.
Improve	• Target management control, including employment equity • Utilise skills development • Effectively apply preferential procurement	Our revised procurement strategy focuses on empowering black-owned suppliers and enterprises – particularly those that are black women-owned. Our revised procurement strategy focuses on suppliers and enterprises – participating in our strategic business process that include transporting of bulk gases and reselling of LPG to the domestic market.
Maintain	• Socio-economic capital	• We continued our support to various community- based initiatives relating to early childhood development, welding skills, and people with disabilities. • Continued with our skills development initiatives. The number of the learners, apprentices, bursars and graduates supported exceeded our target. 22 of learners in Afrox-related skills training programmes were absorbed into various roles within the Company.

Afrox improved the quality and depth of its black supplier base. We spent R913 million (2017: R583.4 million) on black-owned suppliers and enterprises. This supports our transformation journey, our commitment to economic development and promotion of positive and sustainable social change in South Africa.

Where commercially viable, we provide preferential support to previously disadvantaged individuals through our value chain. This contributes towards:

- job creation;
- promotion of black ownership and equity;
- diversification of supply chains;
- improved competency of smaller enterprises; and
- increased number of black-owned/black women-owned businesses in the economy.

Afrox spent R619 million (2017: R279.1 million) on preferential procurement from black women-owned entities. Black-owned and black women-owned businesses are involved in strategic supplies for Afrox and are not limited to its discretionary spend.

Future focus areas

- Continue building our HR infrastructure to support the Company, focus on our organisation's health and our employees' wellness
- Continue driving improvements in our BBBEE scorecard
- Our focus on leadership and management development is a long-term imperative and succession planning will remain a focus area
- Embed our new HR initiatives and improve on our digital HR applications

CORPORATE SOCIAL INVESTMENT (CSI)

Afrox has a strong culture of corporate responsibility and is committed to uplifting society. We spent R4.5 million[1] (2017: R4.1 million) on CSI activities.

CSI governance

The SET Committee oversees Afrox's sustainability governance structure, and the Managing Director is responsible for Afrox's CSI initiatives. This includes managing responsible corporate citizenship. Good governance principles guide community engagements to ensure ethical and responsible conduct. We have a five-year BBBEE strategic plan with targets to measure our performance.

The SET Committee has endorsed Afrox's policies for CSI investments. The Committee provides relevant CSI feedback through reports and presentations on sustainability compliance, and high-level risks to the Board. A donations policy outlines the procedures for any donations. Afrox defines a donation as a sum of money or non-cash benefit awarded to an organisation without any attached obligations. We select beneficiaries according to criteria that are regularly reviewed to reflect our CSI goals. As in prior years, no donations were made to any political parties.

Overview

The Company administers socio-economic and ESD initiatives in service training, learnerships, internships, apprenticeships and early childhood development programmes, among others. We believe that secondary and tertiary learning institutions are integral to a sustainable future for our communities. These institutions further aid the alleviation of skills shortages and unemployment in the country.

We have four objectives that categorise our funding contributions:

	2018 R'million	2017 R'million
Support of welding capability	1.50	2.03
Enterprise development	1.04	4.34
Supplier development	4.95	8.67
Post-tax profits invested in community initiatives	4.50	4.10

Afrox made a further investment in the ED Action Fund during 2018. The ED Action Fund is administered by Edge Growth, a supplier and enterprise business development support firm. Edge Growth thoroughly reviews and assesses the beneficiary applications through its own independent governance framework. Beneficiaries who meet all the criteria are awarded funding to further their businesses at favourable terms in line with the BBBEE 2013 Codes of Good Practice. The Company invested R4 million in the fund (2017: R7.4 million) and continued providing various support grants through the LEAP Proprietary Limited programme.

BUMBANANI DAY

Employees from various Afrox branches come together to assist children's homes in nearby communities. They complete infrastructure upgrades, donate LPG or host events. In 2018 Afrox volunteers interacted with more than 2 000 underprivileged children. The Company has spent more than 10 000 hours interacting with children at 43 facilities to date.

DONATIONS, SUPPORT AND SPONSORSHIPS

Afrox donates products, such as gas deliveries for heating and cooking, and actively engages with non-governmental organisations (NGOs) and charities. This includes support for 45 crèches and feeding schemes that in turn reach 10 000 children and destitute people.

ESD

The Company spent R6 million (2017: R13 million) supporting various suppliers and enterprises through the LEAP Proprietary Limited programme.

[1] In line with our target of donating at least 1% of our previous year's net profit after tax to social investment initiatives.

WESTERN CAPE LOW-INCOME HOUSING PROJECT

As part of our ED initiatives, we launched the low-income housing project alongside Level 1 BBBEE suppliers in the Western Cape. We support the suppliers with logistics, premises and capital. They distribute our products to smaller hospitality customers who fall beyond our traditional offerings and who might need deliveries after hours.

We introduced a smaller, 5 kg cylinder for the project to better suit the informal settlements. We expect significant volume growth over the long term, and have rolled out the model to other areas, including Durban, Soweto and Pretoria. All our suppliers in this project are Level 1 or 2 BBBEE businesses.

TERTIARY EDUCATION SPONSORSHIP AND SKILLS DEVELOPMENT

Afrox supports skills development through various partnerships, particularly for welding, providing 181 (2017: 195) learners, graduates, interns and apprentices with learning opportunities in the year. The Company supports 13 secondary schools and two tertiary level welding schools. Refer to page 74 for details on tertiary education sponsorship for employees' children.

LIV WELDING ACADEMY

The Welding Academy is a custom container-based welding school developed by Afrox in partnership with LIV Village and the Southern African Institute of Welding (SAIW), launched in September 2017. The training programmes has Chemical Industries Education and Training Authority (CHIETA) and Quality Control for Trades and Occupations (QCTO) accreditation. Afrox provides welding equipment, consumables, gases and trained instructors.

12 learners are working towards a welding qualification with QCTO accreditation in 2019.

Future focus areas

- Education and skills development which result in employability and job creation
- Early childhood development
- Corporate volunteering programmes aimed at creating employee involvement in the communities in which they operate
- Bursary assistance to employees to finance tertiary education for qualifying dependants

Chapter 7

Governance

SALIENT HIGHLIGHTS

- 22% female directors
- 33% black directors
- Average Board member age is 55.2 years
- No changes to our Board members or structures
- The Board has an appropriate mix of knowledge, skills, experience, diversity and independence

EXECUTIVE SUMMARY

At Afrox we embed effective and ethical corporate governance in our organisational culture through our principles and policies.

Our Board is the focal point and custodian of corporate governance in the Company, and its members fulfil this role as members of statutory Board and sub-committees. The committees work with management, employees and external specialists to execute their mandates. Afrox's Social, Ethics and Transformation (SET) Committee oversees our ethics and governance.

Key governance initiatives during the year

Focus areas identified in previous year	Feedback on progress
Diversification of the business through organic growth and acquisitions	• 30% stake acquired in Afrox Zambia Limited • Various other strategic projects are ongoing
Cost containment	• Approved the 2019 budget
Internal business development and organisational efficiency	• The Board approved business transformation initiatives • Reviewed and approved major incident reports (MIRs) closures
Embedding the strategy further into all aspects of the Company to ensure robust application at all levels	• Approved 2019 SWIFT countermeasures, and further embedded SWIFT behaviours into the business • Approved occupational hygiene initiatives
Other key focus areas	• Strengthening the governance and control structure around significant business areas and African subsidiaries • Considering key legislative and regulatory changes and there potential impact on Afrox • Continuously embedding and reinforcing a mature risk management system and culture throughout the organisation

OUR APPROACH TO ETHICS

Ethics in action

Afrox adopted the Linde Group's Code of Ethics (the Code) which holds our directors accountable for ethical governance. The Code considers ethical action, honest communication, fair treatment, equal opportunities and a fundamental respect for human rights[1]. Executive management assists the Board in acting on these principles, and the Ethics and Compliance Committee monitors and helps manage ethics-related matters.

The Code guides Afrox's behaviour and ethics in dealing with customers, suppliers, operating markets, shareholders, employees, communities and society. It obliges the Company to obey in-country laws, policies and legislations. Afrox has zero tolerance for deviations from this Code. Executive management, and the Audit and SET Committees are authorised to receive reports on non-conformity or breaches of the code for remedial action.

The Code details the following:

1. Ethics and compliance requirements within Afrox	The Code applies to all employees, directors and officers. Its standards explain how we are expected to act in certain circumstances and ensure that our positive reputation is maintained and enhanced.
2. Appropriate use of the Integrity Line	Employees use the Integrity Line to report contraventions of the Code and to raise qualified concerns that cannot be appropriately addressed at line management level. Afrox provides electronic and telephonic access to full-fill this function.
3. Guidance for making ethical decisions	Company assets, Company time, government interaction, confidential information, insider dealing, communication, products and financial reporting are some of the topics detailed and outlined for employee guidance.

[1] Our human rights statement is available at www.afrox.co.za/en/corporate_responsibility/Index.html.

SUPPLIER CODE OF CONDUCT

Afrox requires its suppliers to conform to sustainable development and adopt our responsible practices. Our ethical-legal procurement principles together with The Linde Group's Code of Conduct for Suppliers outline the principles we expect suppliers to adhere to. The Linde Group's Board of Directors approved the Supplier Code of Conduct, and, since 2017, it has been incorporated into the General Terms and Conditions of Purchase and supply agreements.

The Supplier Code of Conduct details requirements for legal compliance, health and safety, human rights, labour laws and standards, integrity, environmental protection and supply chain matters. We have a specialised function in our procurement systems to detect conflicts of interest between employees, affiliates and suppliers.

Our suppliers are required to:

- *ensure that their suppliers comply with minimum sustainability requirements;*
- *adopt internationally agreed labour standards;*
- *preserve the environment to the best of their ability;*
- *comply with all applicable laws and regulations;*
- *refrain from engaging in any form of corruption or bribery; and*
- *meet adequate health and safety standards.*

Monitoring and action

We frequently monitor compliance and hold risk assessments, including internal control self-assessments.

At Afrox, each employee and executive is responsible for upholding ethical standards in their own capacity and we expect the following roles to be performed within the following ethics operating model:

- **The Board** sets the tone at the top level.
- **Executive management and senior managers** provide critical Company support.
- **Compliance officers** support the Company and provide legal advice.
- **The Linde Group compliance officers** work with the Company to support the core compliance team.
- **Internal audit, human resources (HR), legal, fraud and forensics, and other assurance function**s are considered in the combined assurance model.
- **Every Afrox employee** ensures that we conduct our operations with integrity.

With this model we disclose ethical breaches in a proper and complete manner which is monitored by the necessary independent assurance functions. Ethics in Afrox is a Company-wide responsibility and our employees have access to a dedicated compliance officer, the legal department and the Integrity Line. Employees may seek independent guidance on ethical matters and are encouraged to report potential violations or threats.

All material ethics-related incidents are investigated in detail and reported to the relevant committee. A root-cause analysis is conducted and recommendations to avoid re-occurrence of the incident are considered. The Afrox Forensics, Internal Controls and Security Manager provides the SET Committee with external ethical risks statistics.

The total cases reported were 122, down 1.6% from 124 in the prior year.

Afrox tracks leading ethics indicators through wellness service providers such as employees' financial distress and personal pressure caused by the external environment. Appropriate measures and controls proactively mitigate the root causes and the impact of potential ethical exposures. We have selected a new wellness service provider to consolidate employee wellness services going forward.

Afrox uses an electronic conflict of interest tool. The tool was effective in tracking any conflict of interest between Afrox employees and directors of supplier companies.

Training

We annually conduct various awareness and training initiatives with all major suppliers and customers, as well as with Board members and employees. This includes classroom-based training in various South African languages. All employees and suppliers are required to read the Code, and sign to confirm that they understand, and will seek to apply the Code. Afrox uses all available communication platforms to (i) alert employees to potential ethical risks and breaches and (ii) to remind employees of their ethical obligations and expected standards of conduct. Our ethics training is monitored by tracking security and fraud cases and employee behaviour trends.

We offer training on various other supporting policies, namely anti-corruption, business partner compliance guidance and our competition policy. This year, 1 182 training sessions were completed, and we believe this contributed to a consistent ethical culture. Employees were trained on several anti-corruption practices, and ethics-based conduct in the year.

Compliance training	Percentage of employees who completed the course %
Anti-corruption	100
Basic compliance/starter pack	98
Business partner compliance	100
Code of Ethics	99
Competition law	99
Data privacy	100
Healthcare	100
Insider law	100

Ethics focus areas in the year

- Afrox rolled out an integrated ethics management framework with detailed plans for employee relations, procurement, operational site security and fraud prevention.
- The Security and Governance Council, established in 2017, is a sub-committee of the executive management structure which received reports and closely monitored the implementation of security and the combined assurance plan.
- The SET Committee:
  - conducted intensive investigations into areas of potential ethical exposure;
  - assessed the trends of all dismissals, disciplinary hearings and grievances related to ethical breaches; and
  - oversaw Afrox's BBBEE audit.
- The Board reviewed the governance arrangements and the controls in place to address potential ethical risks relating to suppliers. The Company has centralised procurement practices that improve the transaction and strategy procurement risk. In addition, an executive management sub-committee (Afrox Tender Board) was established to objectively adjudicate tender awards and to ensure that the Company's BBBEE strategy is adhered to.

Chapter 7 /// Governance continued

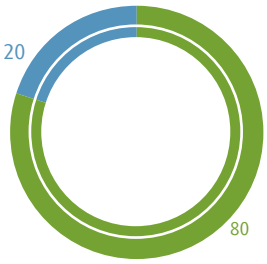
GOVERNANCE STRUCTURE AND PROFILE

Afrox's Board steers strategic direction, approves policy and planning, oversees and monitors strategy execution, and ensures accountability.

There were no changes to the Board in 2018, however from 1 April 2019 John Panikar will succeed Bernd Eulitz as Chairman of the Board. Afrox is satisfied that its Board's composition reflects an appropriate mix of knowledge, skills, experience, diversity and independence.

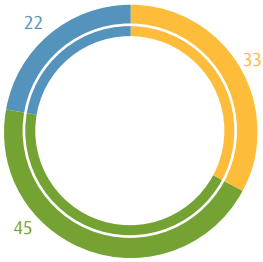
Refer to http://www.afrox.co.za/en/investor_relations/ir_governance/index.html for the curricula vitae of our Board and executive management members.

Gender



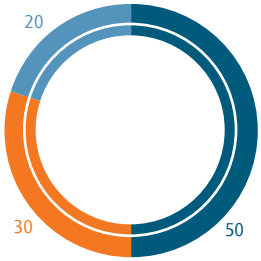
Male
Female

Tenure



> 2 years
2 – 5 years
< 5 years

Balance



INED
NED
ED

Dr Khotso Mokhele (63)
Lead Independent Director

Appointed December 2005.

Chris Wells (70)

Appointed November 2012.

Lean (GJ) Strauss (60)

Appointed February 2015.

Nomfundo Qangule (51)

Appointed July 2014.

Nolitha Fakude (54)

Appointed February 2017.

Bernd Eulitz (53)
Chairman

Re-appointed as Chairman in September 2017.

Matthias von Plotho (49)

Appointed May 2011.

Schalk Venter (52)
Managing Director

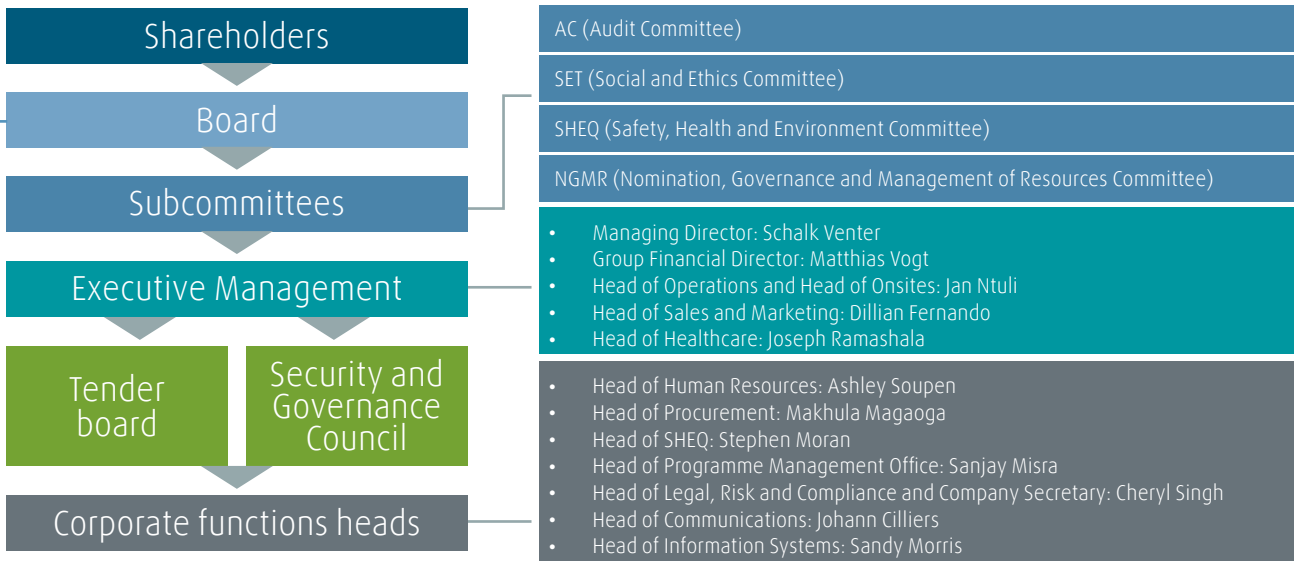
Appointed May 2015.

Matthias Vogt (44)
Group Financial Director

Appointed August 2017.

Skills

Management expertise	100%
Experience in top leadership positions	90%
Human capital development	30%
Transformation and diversity experience	30%
Financial expertise	50%
Operational expertise	100%
Supply chain knowledge	60%



Board charter

The Board charter, which is aligned with the King IV Report on Corporate Governance for South Africa, 2016(King IV) regulates the Board's conduct. The Board charter is based on sound corporate governance principles and enacted through applicable regulatory and best practice frameworks.

The Board charter is divided into three sections:

- Corporate governance matters in Afrox
- Matters reserved for the Board
- Director role profiles

Afrox annually reviews its Board charter to align with best practice and to incorporate changes from new legislation or significant changes in the business environment.

The Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the financial year. Furthermore, we believe that our governance structure, SWIFT behaviours and governance principles developed our ethical culture, supported good Company performance, improved Company control and enhanced our legitimacy.

Meetings and attendance

Directors receive the agenda and relevant documents before each meeting. All Directors have unrestricted access to all Company information and records. Video or teleconferencing facilities are available for meeting participation. Directors who are unable to attend a meeting submit comments on the agenda and general items to the Committee Chairman who raises these topics for discussion in the meeting. Regular and special ad hoc meetings are included in the attendance figures below:

Meeting attendance

Directors	Board	AC	SET	NGMR	SHEQ
Executive directors					
SM Venter – Managing Director (MD)	4/4	3/3^	3/3	4/4^	4/4
M Vogt – Group Financial Director (FD)	4/4	3/3^			
Non-executive directors (The Linde Group)					
B Eulitz – Chairman	4/4	1/3^		4/4	
M von Plotho	2/4	1/3^			
Independent non-executive directors					
Dr KDK Mokhele – lead independent director	4/4		3/3*	4/4	4/4*
CF Wells	4/4	3/3*			
NVL Qangule	3/4	3/3	3/3		
GJ Strauss	4/4	3/3		4/4*	4/4
N Fakude	3/4			2/4	

* Chairman
^ Invitee

Board activities

EVALUATION

Afrox's performance evaluation process may differ from year to year. It usually comprises a detailed questionnaire and personal interviews with individual directors.

- Board evaluations may be internally or independently facilitated at the Board's discretion. The Nominations, Governance and Management of Resources Committee agreed to a detailed action plan, which is endorsed by the Board.
- Board members undergo annual evaluations and receive training in areas relevant to their duties. Our strong corporate governance base sets the tone for ethical and sustainable business operations.
- The Board conducted an internal skills gap analysis to ensure a balanced mix of skills.
- The outcome of the 2017 internal evaluation performed in February 2018 was positive. The evaluation identified three areas of enhancement. Progress is detailed below:

Organisational succession planning:

The Board is satisfied that the measures taken have addressed this issue.

Bolstering the risk management function:

The Board is please with the performance of the risk management function with was recently assessed as Mature by KPMG.

Formalising stakeholder engagements

This matter will receive attention in 2019.

- Internal Board evaluations for 2018 will be conducted and reported to the Board in February 2019.

The Board is satisfied that the evaluation process is improving its performance and effectiveness.

TRAINING

All new Board members undergo detailed Board induction training and occasional site visits. These visits promote visible leadership, employee engagement and inform directors on site-specific information.

The latest director induction site visit took place in May 2017.

ROTATION

Director rotations will take place at the Company's annual general meeting (AGM) to be held on 30 May 2019.

The Board acknowledges that Dr Khotso Mokhele has been the lead independent director for 14 years. The Board believes Dr Mokhele's independence of character and judgement is in no way affected or impaired by his length of service. Dr Mokhele has served on the Afrox Board since 2005 and plays a critical role in ensuring continuity of knowledge and experience on the Afrox Board.

Dr Mokhele will retire from the Board in 2019.

SUCCESSION

Through a defined process based on The Linde Group model, we annually review our critical roles and identify possible successors (refer to page 74).

Through the NGMR Committee, the Board focuses on the succession plans for the Executive Committee and other positions deemed critical to business functions. Succession planning is a standing item on the NGMR Committee's calendar. The NGMR Committee seeks guidance from the SET Committee when approving succession plans.

Afrox has appropriate succession planning in place for leadership roles such as the MD, Group FD, etc. The MD has no other responsibilities or affiliations outside of Afrox.

Individual evaluations

The NGMR Committee and the Chairman evaluate the MD; and the Audit Committee evaluates the Group FD. Each committee is satisfied with the executives' performance.

Company secretary

Cheryl Singh has been Afrox's Company Secretary since January 2014. As Company Secretary, she guides the Board in discharging the directors' duties and responsibilities regarding legislation, regulation, governance procedures and requirements. The Company Secretary acts as secretary to all Board-appointed committees. She is not a member of the Board or a prescribed officer.

The Board has access to, and is aware of, the responsibilities and duties of the Company Secretary. The Board provides the Company Secretary with due support as and when required.

The Board assessed the Company Secretary's competence, qualifications and experience in line with the JSE Limited Listings Requirements. It concluded that the Company Secretary is competent ,qualified and experienced to execute her duties. The Board remains satisfied that an arm's length relationship exists between it and the Company Secretary. The Board is responsible for the appointment and removal of the Company Secretary.

Each committee and director has access to professional governance services and independent expert advice by request through the Company Secretary. This is conducted at the Company's expense where such advice is deemed necessary to enable the obligations imposed on the Committee or director. The Board believes that these arrangements involving the Company Secretary are effective.

Diversity

Three members or 33% of the Board are historically disadvantaged South Africans (HDSAs).

The Board's gender and race diversity policy came into effect in February 2017. The NGMR Committee considers the benefits and needs of all aspects of diversity, including, inter alia, gender and race, when recommending appointments to the Board for approval. As part of the Board evaluation process, the NGMR Committee will consider the balance and mix of skills, experience, independence, qualification and the diversity representation on the Board, among others, as factors relevant to its effectiveness. The NGMR Committee consults with the SET Committee on gender and race diversity at Board level when necessary.

The Board approved a 25% female diversity representation target in 2017 and is currently at 22%. We expect to meet our target in 2019.

The Company has considered, and is satisfied with ,the gender and race diversity representation within the Board and will continue to ensure that its gender and race diversity policy is considered and applied in the nomination and appointment of directors.

Distribution of authority

Delegation of authority

Afrox has a governance framework to appropriately and effectively delegate authority and duties, and another governance framework in conjunction with The Linde Group. The Board delegates authority to Board committees and individuals with clearly defined mandates that are reviewed annually. For the Board committees and their activities during the year, refer to pages 82 to 84. These committees discharge Board responsibilities in specific focus areas according to their relevant skills and expertise.

Any delegation by the Board of its responsibilities to a committee does not by all of its self constitute a discharge of the Board's accountability.

The Board delegates authority for day-to-day business to executive directors. Executive management assists the MD within (i) statutory parameters and (ii) the Board's limits on the delegation of authority to the MD. Afrox monitors and reviews delegated authorities annually. The delegation of authority is amended when necessary. Afrox is satisfied that its Delegation of Authority framework supports role clarity and the effective exercise of authority and responsibilities.

Chairman and MD

The Chairman is the overall leader of the Board and its committees. He is an executive of our controlling shareholder, The Linde Group, and the Chief Operating Officer of EMEA. Among his other roles, he collaborates with the NGMR Committee to evaluate the MD's performance in terms of our strategic and operational objectives.

Dr Khotso Mokhele is the lead independent director, as the Chairman is not independent. The lead independent director's roles and responsibilities are recorded in the Board charter, and include:

- presiding at all meetings of the Board at which the Chairman is not present or where the Chairman is conflicted, including any sessions of the independent directors;
- calling meetings of the independent directors where necessary;
- serving as principal liaison between the independent directors and the Chairman;
- performing all such functions that cannot be performed by the Chairman due to his/her absence or the existence of a conflict of interest;
- liaising with major shareholders if requested by the Board in circumstances or transactions in which the Chairman is conflicted;
- performing other duties that the Board may delegate from time to time;
- in the event of the Chairman's absence, the lead independent director serves in this capacity for as long as circumstances that caused the Chairman's absence, inability or conflict exist; and
- ensuring the independence of the Chairman at all times.

The Board recognises that the Chairman and MD need to have separate roles to keep a balance of power and to protect against unfettered or polarised decision making.

The Board acknowledges that Dr Khotso Mokhele has been Afrox's lead independent director for 14 years. The Board believes his independence of character and judgement have not been compromised by the length of his service. He will retire in 2019 and Mr Giullean Strauss will succeed him.

Committee Reports

Various Board-appointed committees support the discharge of the Board's duties. Each committee acts within agreed, written terms of reference, available on our website at http://www.afrox.co.za/en/investor_relations/ir_governance/index.html. At its meetings, the Board receives minutes of committee meetings and reports from the Chairman of each Board-appointed committee.

The Chairman of each committee is an independent non-executive director, and members are non-executive directors. The exceptions are the SHEQ and SET Committees, where the MD is an official member. Executive directors attend committee meetings by invitation.

Each Board committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference.

Audit Committee[1]

In addition to having specific statutory duties to the shareholders in terms of the Companies Act, No 71 of 2008, the Audit Committee (the Committee) assists the Board by advising and making submissions on financial reporting, overseeing the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the Company.

Chairman: CF Wells
Independent non-executive

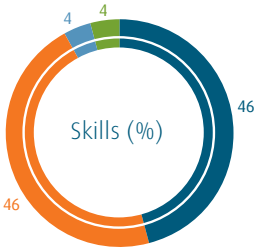
Membership as at 31 December 2018:

- CF Wells
- NVL Qangule
- GJ Strauss

Invitees

MD: SM Venter; Group FD: M Vogt; non-executive director: M von Plotho; Head of Group Finance and Reporting: C Pretorius; external auditors

Other attendees: Company Secretary: C Singh; Secretariat: J Heyerdahl; Head of Internal Audit: N Nakana



2018 value adding activities

- Deep dive assessment of risk and Business Continuity Management (BCM).
- Deep dive analysis of information technology (IT) governance and internal controls considering the appropriateness of current governance structures, using outsourced service providers, an independent review of current controls, risk management, necessary key changes, key projects and a digital roadmap.
- Interrogated financial results including considering appropriate provisions for organisational health and related approvals.
- Oversaw the integrated report process.
- Considered internal audit reports; interrogated the strength of the combined assurance model; and internal audit's resource capacity.
- Considered the external audit plan, auditors' remuneration, and audit scope increases following the Linde/Praxair merger.
- Investigated establishing an independent body to review Integrity Line complaints.
- Interrogated key risks identified through the enterprise risk management system.
- Considered legal and compliance matters such as the Competition Commission ruling and healthcare tender processes[2].
- Approved the going concern assessment, proposed dividends, financial results, SENS announcements and the process for approving non-audit services.
- Oversaw and reviewed IFRS 9 and IFRS 15 implementation.
- Approved the revised Audit Committee terms of reference after King IV™ alignment.

Link to strategic pillar

The Audit Committee focused on:

- Monitoring internal financial controls, given the restructuring process and merger activities
- The further development of the group wide risk assessment process and further development of our combined assurance model
- The adoption of IFRS 9 and 15 as well as the planning for the impact of the adoption of IFRS 16 in 2019.

Future focus areas

- Respond to findings from the Linde internal baseline audit once received.
- Overseeing finalisation of key IT projects (refer to page 90).
- Overseeing IFRS 16 implementation.

[1] The Audit Committee report is available on page 2 of the audited Group annual financial statements. This report includes the significant matters the Audit Committee has considered in relation to the annual financial statements, and how these were addressed by the Committee.

[2] See the Competition Commission's press release at http://www.compcom.co.za/wp-content/uploads/2018/01/LPG-Cylinder-Press-Release.pdf.

Technology and information

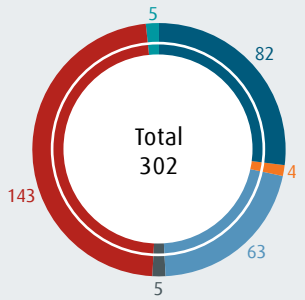
The Board is responsible for the governance of information technology (IT) and the various accompanying Information Services (IS).

Our governance structure is informed by the IT infrastructure library, which contains a set of detailed practices for IT service management that focusses on aligning IT services with the needs of business. The Head of IS provides the Board with a comprehensive presentation on the state of IT and information governance and associated risks annually.

The Company's IT and information security policies, and notable changes to them, are included in the Board pack for review and noting. Auditors perform independent annual reviews of the IT function as a further measure of compliance and good governance. Internal Linde Group-led audits are also performed and are based on system changes that may result in new risk formation or actions in response to high-risk areas.

Various actions are taken to monitor the effectiveness of IT management including reports to line management and the escalation of pertinent matters to Board level.

Cyber incident review (number)



Nature of incident:

- Potential phishing
- Ransom cryptolocker
- Malware infections
- Possible denial of service attack
- Antivirus alert
- Intrusion prevention

Activities in the year

- External auditors performed their annual independent reviews of IT controls.
- The Linde Group audit commenced in July 2018 and the appropriate response to findings will be considered in activities scheduled for 2019.
- A proactive vulnerability assessment was conducted and presented to the Audit Committee. All identified vulnerabilities for 2018 have been mitigated.
- Conducted a cybersecurity overview which included elements such as application security, information security, network security, disaster recovery, operational security and end-user education.
- Over the past year Afrox encountered 302 notable security incidents with the highest offenders being malware (virus) infections and phishing emails. There was one data mining attempt.

Element	Activity in 2018, ongoing monitoring in 2019
Application security	• Cybersecurity architecture reviews completed, and process updated. Project Access Risk Mitigation (ARM) deployed to manage access authorisation and segregation of duties.
Information security	• e-forms developed to reduce data capturing errors. Data management improved by providing end-users with access to data management tools and master data.
Network security	• Switches hardened with updates to middleware and configurations including alignment to The Linde Group's standard and port vulnerabilities addressed.
Operational security	• Improvements in bandwidth ensured patches are >80% up to date. Processes implemented to allow local security teams visibility to dashboards concerning antivirus incidents and threats. The USB locking process was initiated, and vulnerability scans were conducted across Africa.
Disaster recovery and business continuity	• Extended business continuity plans (BCPs) across Afrox, for all sites which have a BCP in place, were reviewed and aligned. The Linde Group's Information Systems Guideline was released, and our IS programmes were aligned with global guidelines.
End-user education	The Golden Rules were communicated. We extended security e-learning to system users and our phishing campaigns included simulations.

Future focus areas

Afrox intends to finalise key projects set out below:

- Update of telephony software and server hardware infrastructure via an outsourced service provider to ensure the sustainability of operations and alignment to global IS strategy.
- Network migration in line with global IS approvals to address local service provider challenges related to copper theft, bandwidth capacity constraints and vulnerable IOS on network hardware.
- Business case to test the feasibility of migrating our African operations outside of South Africa onto SAP.
- Ongoing deployment of Windows 10 across the African footprint to replace Windows 7 which reaches end of life at the end of 2019. This roll out is being managed in combination with the PC estate life cycle refresh.

Our combined assurance model

Our approach to assurance includes three lines of defence as outlined in the diagram below. The Board reviews and assesses the quality and effectiveness of this model on a regular basis.

Refer to page 3 for an overview of the assurance approach used in preparing this integrated report.

Regulations and compliance

Afrox has implemented a risk-based legal compliance framework designed to identify the Company's statutory obligations and monitor compliance with the applicable regulatory requirements. Legal compliance registers are in place for each business unit and are monitored and reviewed on an ongoing basis.

The legal department assesses legislative breaches or potential exposures, and robust mitigation actions are put in place. Material concerns are reported to the SET Committee. Afrox adopted The Linde Group Compliance framework to further strengthen our compliance culture. The Linde Group compliance management system was externally audited by KPMG and achieved Level 1 certification demonstrating that the system is adequately robust and effective. The compliance team is well resourced with subject matter experts who provide effective business guidance.

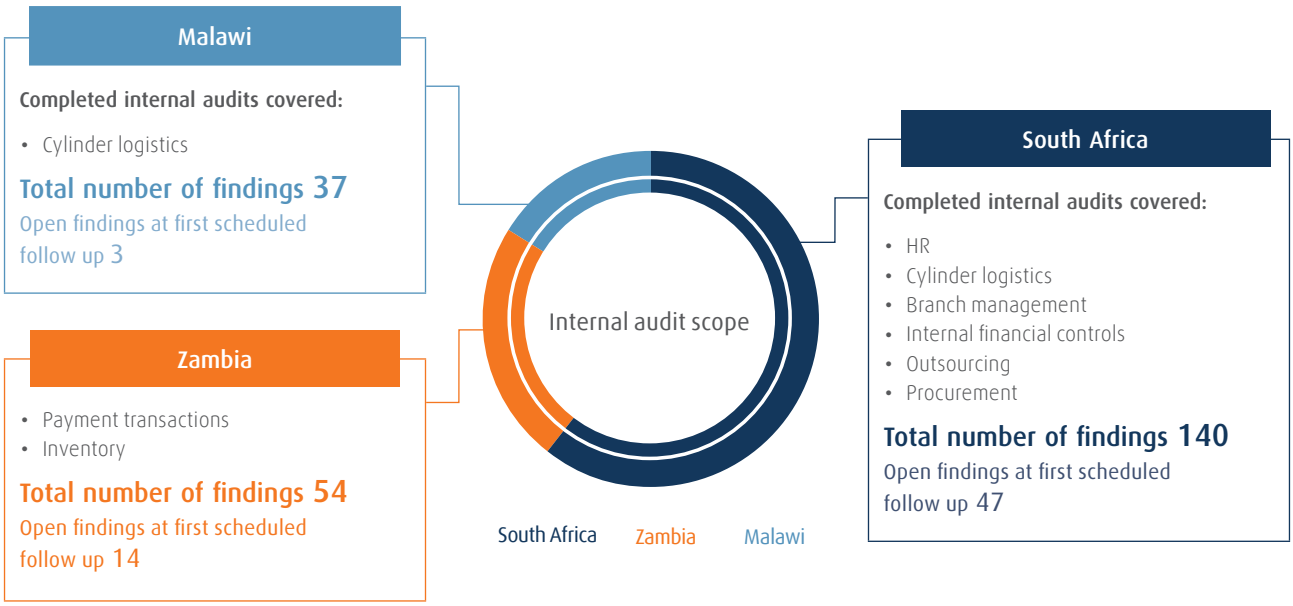
The key focus areas for compliance were conducting refresher training in competition law, and anti-corruption practices, amongst others, refer page 81.

Neither the Company nor any members of the Board experienced regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations (2017: none). The SHEQ Committee oversees monitoring and compliance inspections by environmental regulators, and reports non-compliance to the Board. There was no finding of non-compliance with environmental laws, or criminal sanctions or prosecutions for non-compliance (2017: none). For the Competition Commission matter, refer to page 54.

The primary compliance focus areas will be data privacy compliance, including employee training, and reviewing activities which involve processing personal information.

Internal audit

Internal audit (IA) runs an annual risk assessment for audit plan preparation on an IT system called Audimex. The internal audit plan is presented to an internal stakeholder group and then approved by the Audit Committee. Internal audit findings are monitored for follow-up twice a year and progress reported to the Audit Committee. The IA unit scope of work and results for 2018 can be summarised as follows:



NGMR Committee

The NGMR Committee has two core areas of responsibility, namely the management of resources, and nomination and corporate governance.

Chairman: GJ Strauss
Independent non-executive

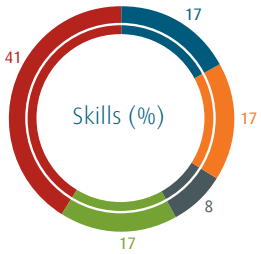
Membership as at 31 December 2018:

- GJ Strauss
- Dr KDK Mokhele
- B Eulitz
- N Fakude

Invitees

MD: SM Venter; Group FD: M Vogt; Head of HR: A Soupen; Linde EMEA HR: M Grimbs; Head of Group Finance and Reporting: C Pretorius

Other attendees: Company Secretary: C Singh; Secretariat: J Heyerdahl



2018 value adding activities

- Quarterly assessments of HR reporting including remuneration, organisational health, audit findings and any disciplinary proceeding oversight.
- Performed Board succession planning and evaluation considerations – these included formal evaluations of Board members and considerations of appropriate Board composition.
- Studied the HR implications and provisions required in terms of organisational health. The Committee reviewed the proposed timelines and full-time equivalents affected by the realignment. The Committee ensured that sufficient employee support processes are available during the s189 process.
- Reviewed the integrated report remuneration disclosures.
- Reviewed the approaches to remuneration in South Africa in deciding whether Afrox will move from a base pay to guaranteed pay salary structure.
- Approved the 2018 short-term incentive (STI) key performance indicators (KPIs) in line with Linde guidelines.
- Reviewed progress on HR internal audit findings covering areas such as confidentiality over payroll data, improved termination protocols, SAP HR access rights, HR function performance metrics, remuneration variations, employee debt levels and exceeded overtime hours. All findings were closed except as they relate to future focus areas.
- Approved the BBBEE policy and oversaw that HR policies are updated and recommunicated to employees.
- Approved the revised NGMR Committee terms of reference after King IV alignment.

Link to strategic pillar

Afrox strives to develop a highly skilled and motivated workforce that delivers results safely and adds superior value for all its stakeholders. During 2018 the NGMR committee continued to improve remuneration and incentive policies with a specific focus on the Long-Term Incentive Plan. Specific attention was also given to human resources administrative and governance structures to better support our strategic objectives and the needs of our employees

Future focus areas

- Approve draft HR delegation of authority.
- Conclude the pension and provident fund audits alongside the independent Principal Officer.
- Migrate remuneration to a total cost to company (TCTC) in line with best practice and on a cost-neutral basis to employees.
- Remuneration planning for 2019, namely:
  - aligning medical aid contributions to 2019 salary increases;
  - agreeing sales incentive plan KPIs for 2019;
  - addressing labour brokerage cost concerns and available options; and
  - LTIP allocation 2019 to follow STI formula and metrics.

SHEQ Committee

The SHEQ Committee ensures that the SHEQ management within Afrox is aligned with the overall business strategy, and is geared for compliance and fulfilment of its commitments and obligations in these fields.

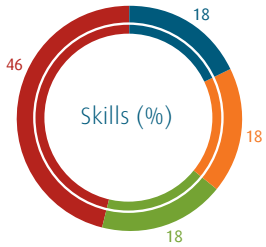
Chairman: Dr KDK Mokhele
Lead independent

Membership as at 31 December 2018:

- Dr KDK Mokhele
- GJ Strauss
- SM Venter

Invitees

Company Secretary: C Singh; Head of SHEQ: S Moran; Head of Operations: J Ntuli; Linde SHEQ: S Karavelioglu, Company Secretariat: J Heyerdahl



2018 value adding activities

- Oversaw SHEQ statistics, transport and passenger safety, process safety, security updates and SHEQ reporting to Linde.
- Considered the DuPont™ Safety Perception Survey™ (refer to page 66).
- Deep dives into process safety, transport and passenger car safety and updates on implementation of the security programme.
- Reviewed MIRs for closure by the Board.
- Consulted with competitors and peers on industry emergency services.
- Considered training and/or employing more African supervisors who can supervise African employees with greater cultural understanding.

Link to strategic pillar

The SHEQ Committee, during 2018, commended management of its progress with various SHEQ initiatives and performance indicator improvements. The Committee focused on a nationwide safety perception survey, the implementation of security technologies on sites, and transport and process safety.

Future focus areas

- Interrogate how to improve safety based on the DuPont™ findings and action improvements following DuPont™ survey.
- Consider and approve security proposals for larger sites (distribution and ASUs).
- Complete Remote Security Monitoring (RSM) for individual sites.
- Restructure SHEQ Golden Rules of Safety into *Life Saving Rules* (refer to page 22).
- Review and approve any changes to guidelines of scrutiny and reporting of SHEQ incidents due to the Linde merger.
- Continue monitoring the transport passenger car safety programme and process safety management.
- Update terms of reference for Board approval.

SET Committee

Other than its statutory duties, this Committee reports to shareholders at the AGM on a range of activities including social and economic development, good corporate citizenship, consumer relationships, labour and employment.

Chairman: Dr KDK Mokhele
Lead independent

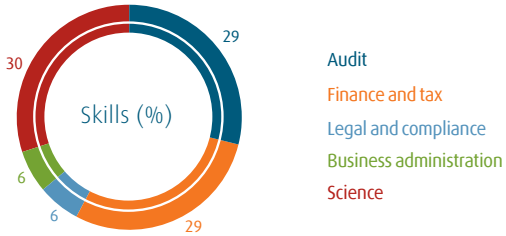
Membership as at 31 December 2018:

- Dr KDK Mokhele
- NVL Qangule
- SM Venter

Invitees

Company Secretary: C Singh; HR: A Soupen; Head of Procurement: M Magaoga; Head of Corporate Social Responsibility: N Mohabir; Linde EMEA Head of HR: M Grimbs

Other attendees: Secretariat: J Heyerdahl



2018 value adding activities	Link to strategic pillar
Reviewed corporate social responsibility (CSR) activities and major projects including Afrox Wellness and Bumbanani Day. Oversaw the BBBEE audit. Oversaw employee wellness trends noted by the ICAS programme. The top five areas include relationship issues, legal issues such as custody matters, stress, organisational issues, and child and family care. Considered the compliance status within Afrox and its alignment to Linde compliance programme. Topics covered included building a compliance culture, empowering employees through e-learning and compliance training, adoption of compliance targets in management performance metrics, compliance with mandatory compliance processes. Explored stretching the ESD initiatives to meet scorecard targets. Selected wellness service provider to integrate occupation hygiene and employee wellness under a single service provider to be more cost-effective, with preference to BBBEE suppliers. Reviewed Afrox's CSR communication plan. Approved the SET Committee terms of reference for submission to the Board.	During 2018, the SET Committee focused on transformation, ethics compliance programmes and employee wellness. The Afrox BBBEE compliance status improved to a Level 3 and the Committee will continue to focus on maintaining and enhancing this achievement.

Future focus areas

Stay abreast of BBBEE changes in regulations and the impact on Afrox.

Subject to a change in the Protection of Personal Information (POPI) Act's effective commencement date, Afrox's POPI compliance programme will run throughout 2019. A Governance Committee involving senior management will oversee the programme.

Oversee that conflicts of interest communication is distributed to all employees following the launch of a new policy.

Oversee improvement of Enterprise and Supplier Development still to be achieved.

Chapter 8

Remuneration report

SALIENT HIGHLIGHTS

- 99.87% positive vote on 2017 remuneration policy
- Bonus and share allocations for 2018

Chapter 8 /// Remuneration report

We aim to build a competitive, high-performance culture with fair and equitable reward levels that attract, retain, motivate, engage and recognise high-performing employees as a key enabler of the human resources (HR) strategy, which in turn supports our overall strategic objectives.

Background statement

The Nominations, Governance and Management of Resources (NGMR) Committee is mandated by the Board to independently oversee and approve remuneration policies and practices for the Company to ensure these are fair, consistent and reasonable. This remuneration chapter presents the key components of Afrox's remuneration philosophy. We review this philosophy annually to clearly articulate our stance on remuneration and employee rewards. Feedback reports on the decisions taken at Committee meetings are presented to the Board.

Afrox complies with the relevant remuneration governance codes and statutes that apply in the various jurisdictions within which we operate. All King IV remuneration principles are applied.

The remuneration philosophy has been presented to the NGMR Committee which is satisfied that the policy has achieved its stated objectives. The Committee meets four times a year (refer to page 83).

Remuneration influencers

Internal and external factors

The Company strives to remunerate employees competitively within the relevant occupational ranges benchmarked against the national and manufacturing industry standards by the size of the organisation. This aids us in establishing a market-related midpoint. Through our annual HR salary budget reviews, we consider employee performance, compa ratio (the relationship between base salary and the midpoint) and business affordability. This assists us in formulating appropriate remuneration.

To gauge customary practice among peers, Afrox compares its remuneration system with that of the manufacturing and industrial sector. Where this is not possible, other sector or internal data will be used.

To ensure that we remain competitive externally, Afrox positions its various remuneration components at the levels required to successfully compete for the right people and ensure that market-related packages are offered in the labour markets in which we compete and operate, which include:

- manufacturing industries;
- medium to large companies with several business units; and
- job families where the skills are defined as scarce and therefore attract premium remuneration.

Voting results

We received a 99.87% positive vote on our 2017 remuneration policy as well as implementation report at the annual general meeting (AGM) held on 17 May 2018. Afrox values the engagement with shareholders and their continued support.

Independent advice

Remuneration consultants have been used where required, and the NGMR Committee is satisfied that they were independent and objective. External specialist databases were consulted to ensure that remuneration provided to executive and non-executive directors and all other employees is internally fair and externally competitive. We use appropriate external market 50th percentile salary survey data in the defined peer group to benchmark our salaries against.

The Linde Group also provides significant input into Afrox's remuneration practices and several advisors are used to assist in tracking market trends where relevant.

Changes to our remuneration policy

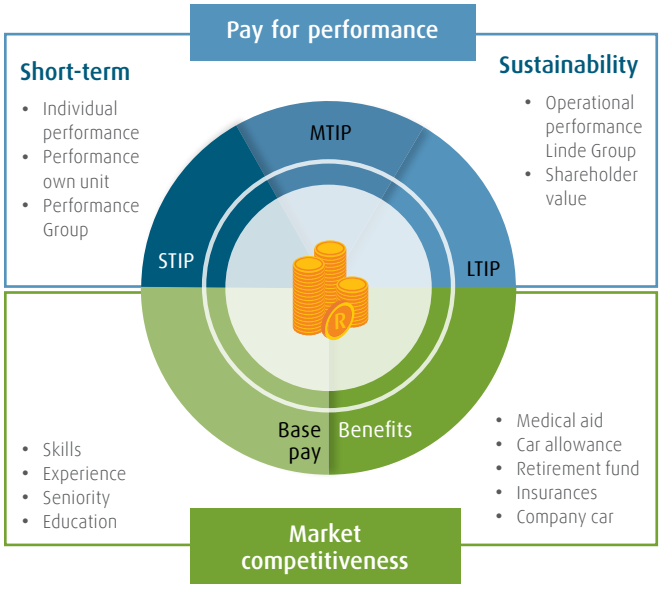
Following the annual review, there have been no significant changes to the remuneration policy since the previous integrated report.

Overview of remuneration policy

Fair and responsible payment

Remuneration is structured to support our strategy by attracting, motivating and retaining high-performing employees, by being competitive in the market. We encourage and reward employees who achieve or exceed the objectives and targets of the business as contained in our strategy and align the economic interests of employees with those of other stakeholders.

The remuneration system for the executive and non-executive directors is based on the amount and structure of the remuneration payable, the size of the Company, performance, as well as on customary remuneration practice among peers and the remuneration structure which applies elsewhere in the Company.



Remuneration packages for **executive directors** comprise a guaranteed component, short, medium and long-term incentives.

- Executive directors receive guaranteed remuneration in line with market levels, taking their responsibilities into account.
- The short-term incentives (STIs) are based on Company financial key performance indicators (KPIs). The split between Company and individual performance for all other employees is 80% and 20% and for executives the STI is 100% financials. The STI component is typically between 15% and 40% of base salary.
- The long-term incentive plan (LTIP) is an equity-settled long-term incentive scheme with a direct link to the Company performance through the share price. The NGMR Committee regularly reviews the LTIP to ensure alignment with our long-term objectives and any relevant changes in tax legislation and market practices.

Non-executive directors' remuneration includes a guaranteed component. The NGMR Committee annually reviews the fees and makes recommendations to the Board for consideration. Following recommendations from the Committee, the Board proposes the non-executive directors' fees for shareholder approval at the AGM. The Chairman of the Board is entitled to a fixed retainer and would not receive any other fees or retainer for attendance at Board or committee meetings. However, as the current Chairman holds this position by his executive position in The Linde Group, no retainer is currently payable.

Employees' remuneration packages comprise a guaranteed component and either a guaranteed bonus or short- and/or long-term incentives, depending on the individual's grade level in the Company. Annual increases are applied to the basic salary and determined in line with market movements and reflect individual performance.

Responsibility for governing emoluments and developing relevant policy

Final responsibility for the remuneration policy rests with the Board, which in turn appoints the NGMR Committee to aid it in fulfilling its duties. The NGMR Committee is primarily responsible for providing input into and approving the reward strategy where remuneration is concerned.

Policy components

Component	Non-executives	Executive directors	Executive management	Senior manager to middle management	Management/ professional	Junior management/ professional	Skilled and general workers
Base pay	Retainer and fee per meeting	Market-related base pay					Negotiated increases
Car allowance	Not applicable	30% of base salary				Not applicable	Not applicable
13th cheque	Not applicable					Where applicable	
Company car	Not applicable	Expatriate only	Not applicable			Job-specific due to operational requirements	
Allowances	Not applicable				Defined critical roles	• Job-specific • Operational requirements	
Benefits	Not applicable	• Retirement funds (defined contribution provident fund and closed defined benefit pension fund) • Death and disability insurance • Medical aid • Limited secured loan for buying or renovating a house • Mobile phone (job-specific and based on operational requirements)					
Variable bonus	Not applicable	• Global short-term incentive plan (STIP) • Medium-term incentive plan (MTIP) • Linde Transition Plan	• Global STIP • MTIP	Regional STIP/ sales incentive plan (SIP)	Regional STIP/ SIP	SIP	Not applicable
LTIP	Not applicable	Equity-settled forfeitable share plan (FSP)			Not applicable		

These are the salient features of each of the remuneration components:

Remuneration component	Policy principles	Eligibility and application
Total guaranteed pay (TGP)	Comprises: · base salary; · employer contributions to retirement fund; · guaranteed payments, i.e. 13th cheque and car allowance; and · mileage/fuel costs (where applicable).	· All permanent employees receive a base salary, employer contributions to retirement fund and medical aid. · Base salary is determined in line with market levels. · Employees who are not on a variable incentive programme receive a 13th cheque, equivalent to one month's base salary paid once in any leave cycle. · Management levels are permitted to structure a car allowance as part of their overall annual package.
Benefits	In addition to the benefits listed as part of TGP, the Company makes provision for a company car, mobile phone, death and disability cover as part of the retirement fund benefits and employer contribution to medical aid.	· A Company car is provided to technical employees who require one to perform their duties. · Death and disability cover is provided to all permanent employees. · A mobile phone, deemed a business tool, is provided to an eligible employee as part of a job's functional requirement. · A bond subsidy is paid monthly to eligible employees to assist in the repayments of their home loan (closed scheme).
STIP	· Global STIP is the annual STI scheme for all executives. · Regional STIP is the annual STI scheme for regional employees as defined by the regional business unit (RBU). · The variable cash emoluments for the STIP are based on an average of 80% financial and 20% individual target. These are typically between 15% and 40% of basic pay. · Financial targets are set at Group and own unit level, RBU. · There are generally three tiers measured by Group, RBU and individual targets. · Annual payments are made in April following Board approval. · The Board conducts regular reviews of the targets set and the calibration of the variable remuneration, including the performance hurdles, to prevent potential distortions.	STIP targets for 2018 include: Group · Operating profit, The Linde Group · ROCE, The Linde Group RBU · Operating segment, operating profit · Regional operating profit · Net sales · Levels of fixed costs · Net trade working capital · SHEQ (recordable incidents, compliance and driver risk profiling). · Individual targets consisting of financial targets or measures aligned with the position.
SIP	· The incentive is paid biannually on achievement of the sales objectives for the sales force · Based on both Company financial and non-financial KPIs and individual performance. These are typically up to 25% of base salary.	· SIP targets for 2018 included gross margin, stock cover days, debt recovery and pricing. · SHEQ is based on the measures for total recordable incidents, compliance and driver risk profiling.
Linde Transition Plan	In 2018 a new Executive Incentive plan replaced the MTIP. It is a plan with a performance period of one year only (2018), with a single and well-established KPI, profit margin, based on the approved 2018 budget.	· Executive management
LTIP	The LTIP comprises an equity-settled FSP.	· Executive management

STIP targets

The following table outlines the approved targets and weightings for the 2018 STIP measured over 12 months:

Tier	Targets	Weight %
Tier 1	**The Linde Group**	**10**
	ROCE – Group	5
	Operating profit – Group	5
Tier 2	**RBU**[1]	**80**
	Operating profit – OPS[2] (EMEA)	30
	Net sales – RBU (RAF[3])	10
	Fixed costs – RBU (RAF)	10
	Operating profit – RBU (RAF)	15
	TWC/net sales – RBU (RAF)	15
Tier 3	**Individual performance**	**10**
	SHEQ	10

[1] Regional Business Unit.
[2] Operating segment share.
[3] Region Africa.

LTIP

Executive directors and senior management participate in the Company's share-based LTIP. The Board approves allocations on recommendation of the NGMR Committee. The Committee believes that the LTIP is directly linked to sustained profitability and the Company's market-related performance based on the performance of our share price. The Committee believes the equity-settled schemes are an effective mechanism to attract and retain competent employees.

The total interest of executive directors who held office on 31 December 2018 is 48 000 SARS. This is granted at an average price of R15.95 per share.

FSP

Executive directors who held office on 31 December 2018 had an indirect interest in 151 329 forfeitable shares. The vesting of certain shares is conditional only upon the employee being employed by the Company at the vesting date and, for other shares granted, both on continued employment and on reaching predetermined performance conditions. All dividends paid accrue to the employee during the vesting period.

		Forfeitable Share Plan (FSP)	
FSP	Share Appreciation Rights (SARs) scheme	With performance conditions	Without performance conditions
2016 allocation	24 000	27 000	9 000
2017 allocation	24 000	27 000	9 000
2018 allocation	0	51 707	27 622

Review of the LTIP

The NGMR Committee reviews the LTIP regularly, considering relevant changes in tax legislation while ensuring alignment with long-term objectives. Following the review of the LTIP in 2017, the changes were approved by the Board and were implemented in 2018 with no further amendments.

In 2018 the LTIP continued to be a 100% equity-settled scheme and the shares purchased on the open market. The allocation of the FSP is subject to performance conditions (performance shares) with the bonus share which replaced the FSP with no performance conditions.

- The bonus share allocation was based on the previous year's STIP achievement percentage.
- The vesting period being three years from date of issue and the performance conditions measured once. Non-vested instruments will be forfeited if vesting conditions are not met.

The performance conditions in respect of the FSP and the terms of that performance is described in the table below:

Condition	Below threshold level 0% vesting	Threshold level 50% vesting	Target level 75% vesting	Stretch level 100% vesting	Weighting
HEPS	HEPS = GDP +1% real CAGR over vesting period	HEPS = GDP + 2% real CAGR over vesting period	HEPS = GDP + 3% real CAGR over vesting period	HEPS = GDP + 4% real CAGR over vesting period	50%
ROCE[1]	ROCE below 23.75%	ROCE at 24.0%	ROCE at 24.25%	ROCE at 24.5.0%	25%
Relative total shareholder return	Below 55th percentile	55th percentile	Straight-line allocation	80th percentile	25%

[1] Percentage will be reviewed annually.

Service contracts and termination benefits

Executive director service contracts with the Company have a notice period of three months that provides for compensation and benefits (excluding share-linked benefits vesting in terms of the applicable rules of the scheme). An exception may occur under mutual separation arrangements.

- The MD is required to give three calendar months' notice for termination and the Company may terminate employment for any lawful cause. Within the first five years of employment, should the Company choose to terminate the MD's employment, the MD will be entitled to 12 months' remuneration. Any personal debts to the Company will be deducted from the MD's remuneration upon termination.
- The Group FD's services are secured through an employment contract with The Linde Group. When the local contract is no longer in force, the Group FD will be offered a new employment contract with the Linde AG, Linde Gas division.
- Following organisational efficiency improvement, the Company consolidated the operations activities under the Head of Operations. This resulted in redundancy for position of the Head of On-sites and termination for operational requirements.

IMPLEMENTATION REPORT

There have been no deviations from the remuneration policy during the year.

Total emoluments for executive and non-executive directors

Independent non-executive directors' remuneration

The Chairman of the Board is entitled to a fixed retainer and does not receive any other fees or retainer for attendance at Board or committee meetings. However, as the current Chairman holds this position by virtue of his executive position in The Linde Group, no retainer is currently payable.

The emoluments of non-executive directors include a fixed retainer and a per-meeting attendance fee and amounted to R3.1 million (2017: R3.4 million). Of this amount, 100% related to fixed remuneration components which are not performance-related.

Fees payable to the independent non-executive directors

		2018		2019 proposed payment		
Category	Role	Retainer fee R	Fee per meeting R	Retainer fee R	Fee per meeting R	Fee per meeting increase %
	Lead independent director	428 204	12 741	449 614	13 378	5
Board	Director	245 350	12 741	257 618	13 378	5
Audit Committee	Chairman	165 495	12 741	173 770	13 378	5
	Member	82 169	12 741	86 277	13 378	5
NGMR Committee	Chairman	109 944	12 741	115 441	13 378	5
SHEQ Committee SET Committee	Member	55 550	12 741	58 328	13 378	5

Annual review

The Committee annually reviews the fees and makes recommendations to the Board for consideration. Based on the annual review, considering the market data presented and following recommendations from the Committee, the Board proposed the non-executive directors' fees for shareholder approval at the annual general meeting (AGM).

The recommended increase for 2019 as contained in the AGM notice is 5%.

2017 increase awarded	2018 increase awarded	2019 increase proposed
Retainer: 3%	6%	5%
Fee per meeting: 8%	6%	5%

Chapter 8 /// Remuneration report continued

Total emoluments of executive directors

Single total figure remuneration received and receivable at fair value (R'000) – 2018

Name	Months paid	Fees	Salary	Provident fund contributions
Executive directors			8 415	523
SM Venter	12	–	3 590	523
M Vogt	12	–	4 825	–
Non-executive directors		3 443	–	–
Dr KDK Mokhele~+>	12	1 036	–	–
GJ Strauss*~>	12	710	–	–
C Wells*	12	746	–	–
N Fakude	12	368	–	–
NVL Qangule*~+	12	583	–	–
Total		3 443	8 415	523

Single total figure remuneration (R'000) – 2017

Name	Months paid	Fees	Salary	Provident fund contributions
Executive directors			6 144	489
SM Venter	12	–	3 359	489
M Vogt#	5	–	2 202	–
Former director				
DKT Devers!@	7	–	583	–
Non-executive directors		3 014	–	–
Dr KDK Mokhele~+>	12	864	–	–
GJ Strauss*~>	12	706	–	–
C Wells*	12	580	–	–
N Fakude**	7	342	–	–
NVL Qangule*~+	12	522	–	–
Total		3 014	6 144	489

The non-executive directors from the Linde Group that serve on the board are not reflected in the above information as they do not receive emoluments from the Company.

* Audit committee member.
\+ Social, Ethics and Transformation Committee member.
** Appointed 1 March 2017
! Fees paid by BOC Holdings for services rendered to African Oxygen Limited
~ Nominations, Governance and Management of Resources Committee member.
> Safety, Health, Environment and Quality Committee members.
\# Appointed 1 August 2017
@ Resigned 9 May 2017
^ Other benefits include car allowances and use of a motor vehicle.

Cash incentive (Short-term incentive)	Cash-based (Long-term incentive)	Share-based (Long-term incentive)	Other benefits^	Total remuneration	*Less:* Amounts accrued but not yet settled	Total cash equivalent of remuneration
5 711	7 360	3 668	2 171	27 848	(3 668)	24 180
2 859	7 360	1 243	1 402	16 977	(1 243)	15 734
2 852	–	2 425	769	10 871	(2 425)	8 446
–	–	–	–	3 443	–	3 443
–	–	–	–	1 036	–	1 036
–	–	–	–	710	–	710
–	–	–	–	746	–	746
–	–	–	–	368	–	368
–	–	–	–	583	–	583
5 711	7 360	3 668	2 171	31 291	(3 668)	27 623

Cash incentive (Short-term incentive)	Cash-based (Long-term incentive)	Share-based (Long-term incentive)	Other benefits^	Total remuneration	*Less:* Amounts accrued but not yet settled	Total cash equivalent of remuneration
2 103	–	2 680	2 141	13 557	(2 680)	10 877
2 103	–	2 680	1 867	10 498	(2 680)	7 818
–	–	–	274	2 476	–	2 476
–	–	–	–	583	–	583
–	–	–	–	3 014	–	3 014
–	–	–	–	864	–	864
–	–	–	–	706	–	706
–	–	–	–	580	–	580
–	–	–	–	342	–	342
–	–	–	–	522	–	522
2 103	–	2 680	2 141	16 571	(2 680)	13 891

Potential impact of total executive management remuneration

Element	Total
Total number of executive management members	12
Annual total base pay	23 617 616
Annual TGP (base, car allowance, ER MA, ER RF)	31 796 400
SIP and STIP 100%	8 538 650
SIP and STIP 200%	17 077 300
LTIP	5 096 760
2018 bonus share allocation	3 686 647
2018 performance share allocation	1 410 114
Minimum	31 796 400
On target	45 431 810
Maximum	53 970 460

Share Appreciation Rights (SARs) scheme and FSPs granted during the year

			2017		
Grant date	Average strike price	Opening number	Granted	Vested	Closing number
SARs					
18 May 2015	13.97	32 000	–	–	32 000
18 April 2016	13.00	24 000	–	–	24 000
1 March 2017	18.90	–	24 000	–	24 000
Units					80 000
Proceeds received from sale of shares					
FSP with conditions	Fair value				
18 May 2015	13.20	61 000	–	–	61 000
18 April 2016	11.55	27 000	–	–	27 000
1 March 2017	12.91	–	27 000		27 000
1 March 2018	8.08	–	–	–	–
FSP without conditions					
18 May 2015	13.80	117 000	–	–	117 000
18 April 2016	17.98	9 000	–	–	9 000
1 March 2017	18.90	–	9 000		9 000
1 March 2018	28.53	–	–	–	–
Units		214 000	36 000	–	250 000
Process received from sales of shares					

	2018				
Proceeds received from sale of shares	Granted	Forfeited/ lapsed	Vested	Closing number	Proceeds received from sale of shares
–	–	790	31 210	–	500 293
–	–	–	–	24 000	–
–	–	–	–	24 000	–
–		790	31 210	48 000	
					500 293
–	–	1 507	59 493	–	1 784 790
–	–	–	–	27 000	–
	–	–	–	27 000	–
–	51 707	–	–	51 707	–
–	–	–	–	–	3 510 000
–	–	–	–	9 000	–
	–	–	–	9 000	–
–	27 622	–	–	27 622	–
	79 329	1 507	59 493	151 329	
–					5 294 790

Vested and non-vested number of rights[1]

Name	2018 Vested number of rights (exercisable)	2018 Non-vested number of rights (not yet exercisable)	2017 Vested number of rights (exercisable)	2017 Non-vested number of rights (not yet exercisable)
Executive directors				
SM Venter	–	199 329	55 000	275 000
M Vogt	–		–	–
Total vested and non-vested number of rights	–	199 329	55 000	275 000

[1] Includes FSP without performance conditions, FSP with performance conditions and SARs.

Shareholding of directors and executive management

Name	2018 Beneficial	2018 Non-beneficial	2017 Beneficial	2017 Non-beneficial
Executive directors				
SM Venter - Managing Director	–	–	–	–
M Vogt	–	–	–	–
Non-executive independent directors				
NVL Qangule*	–	–	–	–
GJ Strauss*~	–	–	–	–
Dr KDK Mokhele~+>	–	100	–	100
N Fakude~	–	–	–	–
C Wells*	100	–	100	–
NVL Qangule	–	100	–	–
Non-executive directors				
R Gearing>#	–	–	–	100
M von Plotho*	–	100	–	100

* Audit committee member.
\+ Social, Ethics and Transformation Committee member.
~ Nominations, Governance and Management of Resources Committee member.
> Safety, Health, Environment and Quality Committee members.
Resigned 18 February 2018.

Interest of directors in contracts

The directors have certified that they had no material personal interests in any transactions of any significance with the Company or any of its subsidiaries. Accordingly, no conflicts of interest regarding directors' interests in contracts exist. There was no change in directors' interests in contracts and shareholding in the period between the financial year-end and the date of signature of this report.

Chapter 9

Summarised audited consolidated financial statements

Chapter 9 /// Financial statements

Five-year financial review

Group	2018 R'm	2017 R'm	2016 R'm	2015 R'm	2014 R'm
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Non-current assets					
Property plant and equipment	3 006	2 964	2 952	2 988	3 166
Retirement benefit assets	472	484	406	538	475
Deferred taxation assets	10	13	15	19	15
Other non-current assets	103	106	124	141	163
Current assets (excluding cash and cash equivalents)	2 185	2 002	1 775	1 609	1 564
Borrowings (including cash and cash equivalents)	153	344	153	–	–
Assets held for sale	–	–	–	120	–
Total assets	5 929	5 913	5 425	5 415	5 383
Equity and liabilities					
Total equity attributable to the equity holders of the parent company	4 012	4 001	3 657	3 431	3 019
Non-controlling interests	11	33	27	37	28
Borrowings (including cash and cash equivalents)	–	–	–	148	503
Other long-term financial liability	45	20	26	–	–
Deferred taxation liabilities	579	591	553	518	512
Current liabilities (excluding borrowings)	1 282	1 268	1 162	1 281	1 321
Total equity and liabilities	5 929	5 913	5 425	5 415	5 383
SUMMARISED CONSOLIDATED INCOME STATEMENT					
Revenue	6 047	5 693	5 537	5 473	5 834
Operating expenses (excluding restructuring costs)	(4 970)	(4 510)	(4 300)	(4 469)	(5 016)
Earnings before interest, taxation, depreciation, amortisation and impairments (EBITDA)	1 077	1 183	1 237	1 004	818
Depreciation and amortisation	(374)	(328)	(379)	(390)	(381)
Impairment of tangible assets	(55)	–	(10)	(27)	(35)
Impairment of intangible assets	–	–	–	–	(17)
Earnings before interest and taxation (EBIT) before restructuring costs	648	855	848	587	385
Restructuring costs	(52)	–	–	(79)	(185)
Earnings before interest and taxation (EBIT)	596	855	848	508	200
Net finance income (expense)	41	25	14	(9)	(12)
Income from associate	–	–	2	1	1
Profit before taxation	637	880	864	500	189
Income taxation expense	(180)	(242)	(264)	(75)	(93)
Profit for the year	457	638	600	425	96
Owners of the company	447	628	597	414	83
Non-controlling interests	10	10	3	11	13
Owners of the company	447	628	597	414	83
Dividends declared	(327)	(315)	(275)	(56)	(136)
Retained income/(loss)	120	312	322	358	(53)
CASH FLOW SUMMARY					
Earnings before interest and taxation (EBIT)	596	855	848	508	200
Cash generated from operations	897	997	1 099	926	986
Total capital expenditure (tangible)	491	456	379	362	514
Acquisition of intangible assets	–	–	10	15	13
Change in funding requirements	100	(198)	(290)	(350)	(146)

Group	2018	2017	2016	2015	2014
STATISTICS					
Total number of shares in issue (excluding treasury shares) (millions)	308.5	308.5	308.5	308.5	308.5
Weighted average number of shares in issue (millions)	308.5	308.5	308.5	308.5	308.5
Ordinary share performance					
Basic earnings per share (cents)	144.8	203.6	193.3	134.2	26.8
Headline earnings per share (cents)	154.9	201.0	189.4	139.2	36.2
Dividends declared per share (cents)	77.0	100.0	94.0	69.0	24.0
Dividend cover – basic earnings (times)	1.9	2.0	2.1	1.9	1.1
Dividend cover – headline earnings (times)	2.0	2.0	2.0	2.0	1.5
Net asset value per share (cents)	1 350	1 344	1 245	1 159	1 158
Profitability and asset management					
EBITDA margin (%)	17.8	20.8	22.3	18.3	14.0
EBIT margin (%)	9.9	15.0	15.3	9.3	3.4
Return on net assets (%)	14.3	21.4	22.9	14.2	5.4
Net asset turn (times)	1.5	1.4	1.5	1.5	1.6
Return on shareholders' equity (%)	11.1	16.4	16.9	12.8	2.7
Return on capital employed (%)	15.7	23.7	24.6	16.7	4.7
Effective rate of taxation (%)	28.2	27.5	30.5	15.0	49.3
Liquidity and leverage					
Interest cover (times)	14.4	33.9	61.7	57.7	17.4
Liability ratio	0.5	0.5	0.5	0.6	0.7
Current ratio	1.7	1.6	3.4	0.7	1.2
Gearing (%)	(4.0)	(9.5)	(4.4)	3.6	12.4
Value added					
Number of permanent employees	2 035	2 092	2 142	2 336	2 856
Revenue per average permanent employee (R'000)	2 931	2 689	2 473	2 108	2 016
Profit before taxation per average permanent employee (R'000)	303	420	386	194	66

Shareholders' profile

for the year ended 31 December 2018

Shareholder spread

To the best knowledge of management and after reasonable enquiry, the spread of shareholders at 31 December (as defined in the Listings Requirements of the JSE Limited), was as follows:

	2018				2017			
	Number of shareholders	% of holders	Number of shares	% of issued share capital	Number of shareholders	% of holders	Number of shares	% of issued share capital
Distribution of shareholders								
Public companies	11	0.33	209 761 796	61.18	12	0.38	209 771 420	61.18
Insurance, investment and trust companies	200	5.98	85 942 012	25.07	143	4.58	67 961 007	19.82
Pension, provident funds and trusts	217	6.49	37 900 463	11.05	216	6.93	41 469 385	12.10
Banks and nominee companies	47	1.41	2 721 421	0.79	43	1.38	18 145 826	5.29
Individuals and deceased estates	2 747	82.20	4 151 188	1.21	2 583	82.82	4 216 646	1.23
Corporate bodies	68	2.03	1 447 019	0.42	70	2.24	963 662	0.28
Private companies	52	1.56	929 011	0.28	52	1.67	324 964	0.10
Total	3 342	100	342 852 910	100	3 119	100.00	342 852 910	100
Shareholder type								
Public shareholders	3 332	99.70	133 091 214	38.81	3 109	99.68	133 527 450	38.94
Non-public shareholders (within the Linde AG Group)	10	0.30	209 761 696	61.19	10	0.32	209 325 460	61.06
Strategic holdings (more than 10%)	1	0.03	173 046 413	50.47	1	0.03	173 046 413	50.47
Directors' holdings	4	0.12	400	0.00	4	0.13	400	0.00
Own holdings and share incentive scheme	5	0.15	36 714 883	10.72	5	0.16	36 278 647	10.59
Total	3 342	100	342 852 910	100	3 119	100.00	342 852 910	100

Major shareholders

The shareholders registered as holding 1% or more of the share capital of the company at 31 December 2018 were:

	2018		2017	
	Number of shares held	% of total	Number of shares held	% of total
Beneficial shareholdings of 1% or more				
BOC Holdings (wholly owned subsidiary of Linde AG)	173 046 413	50.47	173 046 413	50.47
Coronation fund managers	47 792 441	13.94	23 856 227	6.96
Afrox African Investments (Pty) Ltd (held as treasury shares)	34 285 308	10.00	34 285 308	10.00
Government Employees Pension Fund	17 467 624	5.09	18 785 540	5.48
Henderson Global Investors	9 785 997	2.85	7 864 537	2.29
Old Mutual Group	6 621 228	1.93	4 023 643	1.17
Nedbank Group	3 413 816	1.00	–	–
RBC Dexia (Custodian)	–	–	–	–
State Street Bank (Custodian)	–	–	9 561 365	2.81
Aberdeen Global Fund	–	–	6 786 087	1.97
Investec Asset Management	–	–	5 605 413	1.63
Stewart Investors	–	–	5 399 089	1.57
CitiGroup (Custodian)	–	–	4 945 797	1.44
Terra Partners Asset Management Limited	–	–	3 758 000	1.11
	292 412 827	85.28	297 917 419	86.91
Other shareholders	50 440 083	14.72	44 935 491	13.09
Total	342 852 910	100	342 852 910	100

Ratio definitions

Basic earnings per share	profit for the year attributable to equity holders of the parent company / weighted average number of ordinary shares in issue during the year
Headline earnings per share	profit for the year attributable to equity holders of the parent company, excluding impairment and profit or loss on disposal of property, plant and equipment (net of taxation) / weighted average number of ordinary shares in issue during the year
Dividend cover	profit for the year attributable to equity holders of the parent company / total dividends paid declared
Dividend declared per share	interim dividend per share paid plus final dividend per share declared
Net asset value per share	net asset value / number of ordinary shares in issue at year-end
EBITDA margin	EBITDA / revenue
EBIT margin	EBIT / revenue
Return on net assets	EBIT / average net assets
Net asset turn	revenue / average net assets
Net assets	total assets (excluding cash and cash equivalents, deferred taxation assets and retirement benefit assets) less current liabilities (excluding borrowings)
Return on shareholders' equity	profit for the year attributable to equity holders of the parent company / average shareholders' equity
Return on capital employed	EBIT / capital employed
Capital employed	Shareholders' equity, total borrowings, deferred taxation, and non-controlling interests
Borrowings	net debt, calculated as borrowings, plus bank overdraft, less cash and cash equivalents
Effective rate on taxation	taxation / profit before taxation
Interest cover	EBIT / net finance (expense)/income
Liability ratio	gross borrowings and current liabilities / total equity and liabilities (excluding borrowings and current liabilities)
Current ratio	current assets (excluding taxation and cash and cash equivalents) / current liabilities (excluding taxation and bank overdraft)
Gearing	borrowings / total capital employed
Revenue per employee	revenue for the year / average number of permanent employees
Profit before taxation per employee	profit before taxation / average number of permanent employees
Earnings yield	Basic earnings divided by closing share price
Ordinary dividend yield	Dividends declared per share divided by closing share price
Price: basic earnings ratio	Closing share price divided by basic earnings
Price: headline earnings ratio	Closing share price divided by headline earnings

Summarised consolidated statement of profit and loss

for the year ended

R'million	31 December 2018 Audited	31 December 2017 Audited
Revenue	6 047	5 693
Operating expenses	(4 963)	(4 510)
Earnings before interest, taxation, depreciation, amortisation and impairment loss on trade and other receivables	1 084	1 183
Impairment loss on trade and other receivables	(7)	–
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	1 077	1 183
Depreciation and amortisation	(374)	(328)
Impairment of property, plant and equipment	(55)	–
Earnings before interest and taxation (EBIT), before restructuring costs	648	2 038
Restructuring costs	(52)	–
Earnings before interest and taxation (EBIT)	596	855
Finance expense	(111)	(108)
Finance income	152	133
Profit before taxation	637	880
Taxation	(180)	(242)
Profit for the year	457	638
Attributable to:		
Owners of the company	447	628
Non-controlling interests	10	10
Profit for the year	457	638
Earnings per share – cents		
Basic earnings per ordinary share - cents	144.8	203.6
Diluted earnings per ordinary share - cents	144.0	201.8

Summarised consolidated statement of comprehensive income

as at

R'million	31 December 2018 Audited	31 December 2017 Audited
Profit for the year	457	638
Other comprehensive income net of taxation	(39)	45
Items that are or may be reclassified to profit or loss	1	9
Translation differences on foreign operations	5	9
Translation differences relating to non-controlling interests	(6)	(1)
Cash flow hedges – effective portion of changes in fair value	2	1
Items that will not be reclassified to profit or loss	(40)	36
Actuarial (losses)/gains on retirement benefit assets	(40)	36
Total comprehensive income for the year	418	683
Total comprehensive income attributable to:		
Owners of the company	414	674
Non-controlling interests	4	9
	418	683

Summarised consolidated statement of financial position

as at

R'million	Note	**31 December 2018 Audited**	31 December 2017 Audited
Assets			
Property, plant and equipment	4	3 006	2 964
Retirement benefits assets		472	484
Other non-current assets		49	39
Lease receivables		54	66
Deferred taxation assets		10	13
Non-current assets		3 591	3 566
Inventories		687	710
Trade and other receivables		1 271	1 094
Lease receivables		18	12
Derivative financial instruments		1	–
Receivables from fellow subsidiaries of holding company		172	130
Taxation receivable		36	57
Cash and cash equivalents		1 174	1 387
Current assets		3 359	3 390
Total assets		6 950	6 956
EQUITY AND LIABILITIES			
Shareholders' equity		4 012	4 001
Non-controlling interests		11	33
Total equity		4 023	4 034
Long-term borrowings		1 000	1 000
Other long-term financial liabilities and provisions		45	20
Deferred taxation liabilities		579	591
Non-current liabilities		1 624	1 611
Trade, other payables and provisions		1 176	1 126
Taxation payable		23	26
Payables to fellow subsidiaries of holding company		83	96
Derivative financial instruments		–	20
Bank overdrafts		21	43
Current liabilities		1 303	1 311
Total equity and liabilities		6 950	6 956

Summarised consolidated statement of cash flows

for the year ended

R'million	31 December 2018 Audited	31 December 2017* Audited
Earnings before interest and taxation (EBIT)	596	855
Adjustments for:		
Depreciation and amortisation	374	328
Impairment of property, plant and equipment	55	–
Restructuring costs	52	–
Movements in trade receivables and inventory allowances and provisions*	4	(58)
Movement in revaluation (gain)/ loss on derivative financial instruments*	(19)	11
Other non-cash movements*	(55)	(37)
Operating cash flows before working capital movements	1 005	1 099
Working capital movements	(108)	(102)
Cash generated from operations	897	997
Interest paid	(108)	(105)
Interest received	71	74
Taxation paid	(173)	(235)
Dividends received	–	1
Cash from operating activities	687	732
Dividends paid to owners of the company	(327)	(315)
Dividends paid to non-controlling interests	(5)	(3)
Net cash inflow from operating activities	355	414
Additions to property, plant and equipment	(491)	(350)
Proceeds from disposal of property, plant and equipment	19	106
Other investing activities	24	28
Net cash outflow from investing activities	(448)	(216)
Acquisition of non-controlling interest	(41)	–
Shares purchased – forfeitable share plan#	(57)	(7)
Net cash outflow from financing activities	(98)	(7)
Net (decrease)/increase in cash and cash equivalents	(191)	191
Cash and cash equivalents at the beginning of the year	1 344	1 153
Cash and cash equivalents at the end of the year	1 153	1 344

* Restated. Refer to note 10.1.
\# Shares purchased in respect of the employee share incentive scheme.

Summarised consolidated statement of change in equity

for the year ended 31 December 2018

R'million	Attributable to owners of the Company				
	Share capital and share premium	FCTR* and hedging reserves	Retained earnings	Non-controlling interests	Total equity
Balance at 1 January 2017	552	(97)	3 202	27	3 684
Total comprehensive income	–	10	664	9	683
Profit for the year	–	–	628	10	638
Other comprehensive income, net of taxation	–	10	36	(1)	45
Transactions with owners of the company					
Shares purchased – forfeitable share plan#	–	–	(7)	–	(7)
Share-based payments, net of taxation	–	–	(8)	–	(8)
Dividends	–	–	(315)	(3)	(318)
Balance at 31 December 2017	552	(87)	3 536	33	4 034
Balance at 1 January 2018, as previously reported**	552	(87)	3 536	33	4 034
Adjustment on initial application of IFRS 9 (net of taxation)	–	–	8	1	9
Adjusted balance at 1 January 2018	552	(87)	3 544	34	4 043
Total comprehensive income	–	7	407	4	418
Profit for the year	–	–	447	10	457
Other comprehensive income, net of taxation	–	7	(40)	(6)	(39)
Transactions with owners of the company					
Shares purchased – forfeitable share plan#	–	–	(57)	–	(57)
Transfer of NCI on acquisition of minority interest	–	(8)	(11)	(22)	(41)
Share-based payments, net of taxation	–	–	(8)	–	(8)
Dividends	–	–	(327)	(5)	(332)
Balance at 31 December 2018	552	(88)	3 548	11	4 023

* Foreign currency translation reserve

** The Group has adopted IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

Shares purchased in respect of the employee share incentive scheme.

Segmental report^

for the year ended 31 December 2018

Business segments are identified on the basis of internal reports that are regularly reviewed by the Group's and Company's chief operating decision making body, the Executive Directors, in order to allocate resources to the segments and assess its performance. The performance of the segments is managed and evaluated using revenue, operating expenses and earnings before interest, corporate expenses, restructuring costs and tax. Assets and liabilities are centrally managed at a corporate level and therefore not used in the decision to allocate resources to operating segments. Business segments have been determined based on: Atmospheric Gases, LPG and Hard Goods

R'million	**31 December 2018 Audited**	31 December 2017 Audited Restated*
Revenue*	6 047	5 693
Atmospheric Gases	2 674	2 584
LPG	2 552	2 310
Hard Goods	821	799
Operating expenses	(5 130)	(4 591)
Atmospheric Gases	(2 216)	(2 014)
LPG	(2 222)	(1 912)
Hard Goods	(692)	(665)
Earnings before interest and tax (EBIT), before corporate expenses and restructuring costs	917	1 102
Atmospheric Gases	458	571
LPG	330	398
Hard Goods	129	133
Corporate expenses	(269)	(247)
Restructuring costs	(52)	–
EBIT	596	855
Geographical representation		
Revenue	6 047	5 693
South Africa	5 276	4 937
Southern African Development Community (SADC) countries excluding South Africa**	771	756
Non-current assets	3 591	3 566
South Africa	3 321	3 311
SADC countries excluding South Africa**	270	255

^ Restated, refer to Note 10.2.
* Revenue from external customers. Restated, refer to Note 10.2.
** The revenue and non-current assets foreign country geographical split has been aggregated as SADC. The individual amounts are considered to be immaterial.

Statistics and ratios

for the year ended

	31 December 2018 Audited	31 December 2017 Audited
Average number of shares in issue during the year ('000)	308 568	308 568
Shares in issue ('000)	308 568	308 568
Dividends per share (cents)	77.0	100.0
Final	25.0	54.0
Interim	52.0	46.0
Ratios		
EBITDA margin (%)	18.0	20.8
Return on capital employed	15.7	23.7
Effective taxation rate (%)	28.2	27.5
Gearing (%)	(4.0)	(10.0)
Dividend cover on headline earnings (times)	2.0	2.0

Notes to the summarised consolidated financial statements

for the year ended 31 December 2018

African Oxygen Limited ("Afrox" or the "Company") is a South African registered company. The summarised consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

1 Basis of preparation

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listing Requirements for summary reports, and the requirements of the Companies Act of South Africa applicable to summary financial statements. The listing requirements require a summary to be prepared in accordance with the framework concepts and the measurements and recognition are consistent with those applied in the annual financial statements for the year ended 31 December 2017.

Emerging Africa has now been allocated to segments based on product categories and is no longer a separate segment. The group has restated its segment report in line with the above.

The summarised consolidated financial statements are prepared on the historical cost basis except for the following items which are measured using an alternative basis at each reporting date:

- Derivative financial instruments measured at fair value through other comprehensive income and profit and loss.
- Retirement benefit assets measured at the fair value of the planned assets less the present value of the defined benefit obligation.
- Share-based payment awards are measured at fair value. The fair value of the equity instruments granted is estimated using industry accepted techniques.

The directors take full responsibility for the preparation of the these summarised consolidated financial statements. The summarised consolidated financial statements were compiled under the supervision of Matthias Vogt, Group Financial Director, and were approved on 5 March 2019.

2 New accounting standards and related changes in significant accounting policies

The Group adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018:

- Foreign Currency Transactions and Advance Consideration (IFRIC 22);
- Clarifying Share-Based Payment Accounting (Amendment to IFRS 2);

The adoption of the amendments to standards listed above did not have a significant impact on the Group's summarised consolidated financial statements.

The Group also adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (1 January 2018). Accordingly, the information presented for 2017 has not been restated.

(i) Overall financial effect

When compared to IAS 18, there is no quantitative impact on the adoption of IFRS 15 on the statements of profit and loss, financial position, cash flows, changes in equity and the segmental analysis.

(ii) Disclosure effect regarding accounting policies

The adoption of IFRS 15 did not have a disclosure impact on the Group's summarised consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurements*.

(i) Overall financial effect

The transition to IFRS 9 resulted in an increase to retained earnings and non-controlling interest as follows:

R'million	Retained earnings	Non-controlling interest
Recognition of expected credit losses under IFRS 9	11	2
Related tax	(3)	(1)
Impact at 1 January 2018	8	1

(ii) Effect of classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale assets. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Initial recognition

Under IFRS 9, on initial recognition, a financial asset is classified as measured at

- amortised cost;
- fair value through other comprehensive income ('FVOCI') – equity and debt investments;
- fair value through profit and loss ('FVTPL').

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows: and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investments at FVOCI

Debt investments are measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments

Equity investments that are not held for trading are measured at FVOCI.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI
These are subsequently measured at fair value. Interest income, foreign exchange gains and losses and impairment is recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI.

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

The effects of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the impairment requirements. The table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

R'million Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9	Difference
Trade receivables	Loans and receivables	Amortised cost	1 094	1 105	11
Receivables from fellow subsidiaries of holding company	Loans and receivables	Amortised cost	130	130	–

The adoption of IFRS 9 did not have an impact on the Group's derivative financial instruments.

(iii) Effect of impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Financial assets at amortised costs consist of trade receivables, receivables from fellow subsidiaries of holding company and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs:* there are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs:* these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to the lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition. The loss allowance for trade receivables is measured at an amount equal to the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

Current year loss allowance adjustments are not considered to be material.

Notes to the summarised consolidated financial statements continued

for the year ended 31 December 2018

Financial effect of the new impairment model

The Group has determined that the application of IFRS 9 impairment requirements as at 1 January 2018 has resulted in a decrease in the impairment allowance as follows:

R'million	
Loss allowance at 31 December 2017 under IAS 39	87
Decreased impairment recognised as at 1 January 2018 on:	
- Trade receivable as at 31 December 2017	(11)
Loss allowance at 1 January 2018 under IFRS 9	**76**

3 Forthcoming changes in accounting policies

IFRS 16 *Leases*

The Group has concluded its assessment of the potential impact of the adoption of IFRS 16 on the financial statements. Based on this assessment, the Group will recognise significant right of use assets and lease liabilities relating to current properties and vehicle operating leases. The Group is in the process of evaluating whether certain items of property, plant and equipment, that are not leased items in terms if IAS 17 and IFRIC 4, may qualify as leased items in terms of IFRS 16.

The Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. The cumulative effect of adopting IFRS 16 will therefore be recognised as an adjustment to the opening balance of retained earning at 1 January 2019, with no restatement of comparative information.

IFRIC 23 *Uncertainty over Income Tax Treatment*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about judgments made, assumptions and other estimates used; and the potential impact of uncertainties that are not reflected. No significant impact is expected on disclosures. IFRIC 23 applies for annual periods beginning on or after 1 January 2019.

This standard was not early adopted.

4 Property, plant and equipment

R'million	**31 December 2018 Audited**	31 December 2017 Audited
Opening carrying value	2 964	2 952
Additions, net of transfers from assets under construction	491	350
Disposals	(7)	(8)
Depreciation	(367)	(316)
Impairment	(55)	–
Translation effects and reclassifications	(20)	(14)
Closing carrying value	3 006	2 964

The Group's plant and equipment used in the Atmospheric Gases segment was impaired by R55m (2017: Rnil). The impairment relates to a plant that was impaired based on a value in use assessment and the impairment of plants that will no longer be used. For the value-in use assessment no terminal growth rate was applied as the remaining contractual period for one of plant's significant customers was used for the used for the assessment.

5 Fair value classification and measurement

The classification of each class of financial asset and liability measured at fair value

R'million	Fair value
31 December 2018	
Financial asset measured at fair value	
Derivative financial instruments	1
31 December 2017	
Financial liability measured at fair value	
Derivative financial instruments	(20)

The derivatives and forward exchange contracts, are level 2 measurement and the fair value of the derivative financial instruments is based on broker quotes. Similar contracts are traded in an active market and the quote reflect the actual transactions in similar instruments.

6 Earnings and headline earnings per share

Headline earnings per share is calculated on headline earnings of R478 million (2017: R620 million). A weighted average number of ordinary shares of 308 567 602 (2017: 308 567 602) in issue during the year was used to calculate headline earnings per share and 310 140 952 (2017: 311 275 880) for dilutive earning per share as 1 573 350 (2017: 2 708 278) shares had a dilutive impact.

Reconciliation between earnings and headline earnings

R'million	31 December 2018 Audited	31 December 2017 Audited
Profit for the year attributable to the owners of the company	447	628
Adjusted for the effects of:		
Profit on disposal of property, plant and equipment	(12)	(11)
Impairment of property, plant and equipment	55	–
Taxation	(12)	3
Headline earnings	478	620
Basic earnings per share – cents	144.8	203.6
Diluted earnings per share – cents	144.0	201.8
Headline earnings per share – cents	154.9	201.0
Diluted headline earnings per share – cents	154.1	199.2

7 Related party transactions

During the year, Afrox, in the ordinary course of business, entered into various sale, purchase and service transactions with associate, receivables from fellow subsidiaries of holding company, receivables from group companies, payables to fellow subsidiaries of holding company and payables to group companies.

8 Update on key litigation matters

Afrox was a respondent in an investigation by the Competition Commission of South Africa with respect to the LPG sector. Afrox fully cooperated with the Commission's investigation and received no administrative penalties. As at the date of this report, there is no other outstanding litigation of a material nature against the Group.

9 Subsequent events

Except for the dividend declared of 25 cents per share declared on 5 March 2019, the directors are not aware of any material matter or circumstance arising since the end of the year and up to the date of this report.

Notes to the summarised consolidated financial statements continued

for the year ended 31 December 2018

10 Restatements of prior periods

10.1 Statement of cash flows

The 31 December 2017 statement of cash flows was restated to separately disclose the following:

- Movements in trade receivables and inventory allowances and provisions;
- Movement in revaluation of derivative financial instruments; and
- Other non-cash movements.

The restatement did not have any impact on the summarised consolidated statement of cash flows for the year ended 31 December 2017.

10.2 Consolidated segmental revenue and EBIT

The 31 December 2017 segmental revenue and EBIT were restated to show 3 business segments instead of 4 business segments as previously reported. The following business segments will be disclosed henceforth:

- Atmospheric Gases,
- LPG; and
- Hard Goods.

11 Restructuring provision

The restructuring provision relates to the reduction in employee head count to adjust the Group and Company's fixed costs structure. The provision relates to severance packages to be paid to affected employees over the next 12 months.

12 Summarised consolidated financial statements

The summarised consolidated financial statements are extracted from audited consolidated financial statements, but is not itself audited. The consolidated financial statements were audited by KPMG Inc., LP Fourie, who expressed an unmodified opinion thereon. The audited consolidated financial statements and the auditor's report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of these summarised consolidated financial statements and that the financial information has been correctly extracted from the underlying annual financial statements.

Chapter 10

Additional information

Chapter 10 /// Additional information

Appendix A – SHEQ data

Data relating to Afrox's resource usage for the last five years, specifically energy, water, raw material usage, and emissions (gas emissions, emissions to air and to water) is outlined on a year-on-year basis in the tables below:

Category description	Unit	2018	2017	2016	2015	2014
1. Energy						
Electricity consumption	MWh	431 251	437 792[1,2]	454 531	441 103	401 187
Of which by air separation unit	MWh	389 748	391 3331[1]	390 225	385 485	346 582
Natural gas consumption	MWh	78 533	70 546	49 849	41 550	57 424
2. Water						
Water source						
Ground water	m^3	113 996	119 501	118 151	98 089	95 241
Municipal water	m^3	475 278	474 769	690 477	769 425	781 587
Total water consumption	m^3	861 594	803 401	808 673	882 110	840 818
Of which industrial and process water	m^3	388 135	378 842	410 738	688 310	593 458
Of which drinking water	m^3	465 388	412 689	383 029	182 114	247 360
3. Resources and material						
Raw materials and supplies	t	6 996.40	3 968.51	7 995.10	13 892.54	8 197.39
Packaging material	t	205.2	1 109.07	99.50	227.75	183.16
4. Emissions						
Direct greenhouse gas (GHG) emissions (scope 1)						
CO_2 emissions	t	16 186	14 546	10 276	8 633	11 987
Afrox transport fleet	tCO_2e	24 693	23 972	24 008	24 172	24 998
Other GHGs	tCO_2e	11.2	12	27	290.90	360.36
Total scope 1	t	40 890	38 548	34 311	33 096.50	37 345.46
Indirect GHG emissions (scope 2)						
CO_2 emissions	t	419 749	449 711	441 336	427 460	354 544
Of which by air separation plants	t	379 919	406 232	379 778	375 685	345 636
Total scope 1 and 2	tCO_2e	460 639	488 259	475 647	460 556	391 890
5. Emissions to air						
Emission of HFC	kg	14	12	27	203.46	360.36
6. Emissions to water						
Chemical oxygen demand (COD)	kg	30 182	28 239	3 179	14 662	16 126
Biochemical oxygen demand (BOD)	kg	10 350	10 050	1 064	6 461	6 301
Nitrates	kg	489	489	42	188	195
Phosphates	kg	29	29	8	90	27
7. Waste and recycling						
Total waste	t	3 190	2 293	2 088	3 408	3 723
Non-hazardous waste	t	1 787	1 325	1 384	1 749	1 775
Hazardous waste	t	1 403	968	703	1 658	1 948
Recycled waste	t	1 256	966	806	845	729
Landfill waste	t	899	1 313	988	2 434	2 844
Other disposal methods	t	1 122.5	171.8	282	116.41	136
8. Transport						
Distance driven by Afrox transport fleet	Per million km driven	27.3	26.5	26.5	26.7	27.6
Serious truck incident rate	Per million km driven	0.15	0.26	0.11	0.23[2]	0.00
9. Certified sites						
Sites certified to ISO 9001	%	100	100	100	100	100
Sites certified to ISO 14001	%	100	100	100	100[3]	100
Sites certified to ISO 18001	%	100	100	100	100	100
10. Environmental incidents						
Environmental complaints		0	0	0	0	2
Reportable environmental incidents		0	0	0	0	0

[1] Restated
[2] In 2015, Afrox started recording all vehicle incidents with no exceptions.
[3] Only sites that are required by customers to be certified.

Appendix B – Occupational health and safety

Category description	Unit	2018	2017	2016	2015	2014
Workplace accidents with at least one day of absence (employees) rate	Per million hours worked	1.11	1.48	1.28	1.11	0.86
Workplace accidents with at least one day of absence (contractors) rate	Per million hours worked	0.29	0.62	2.70	0.63	0.36
Workplace accidents of employees with at least one day of absence	Number	6	8	7	7	6
Workplace accidents of contractors with at least one day of absence	Number	1	2	8	2	1
Working days lost due to industrial accidents (employees)	Number	73	138	60	61	132
Working days lost due to industrial accidents (employees) rate	Per million hours worked	13.5	26.09[4]	10.97	9.66	18.88
Fatal workplace accidents involving employees	Number	0	0	0	0	0
Fatal workplace accidents involving contractors	Number	1	0	0	0	0

[4] Restated

Appendix C – Workplace statistics

Statistics	Unit	2018	2017
Number of fatalities (i.e. injuries on duty leading to death excluding the deaths of workers not occurring at work)	Number	1	0
Number of first aid cases (FACs) (i.e. injuries on duty leading to minor treatments, such as a plaster or a pain tablet)	Number	22	22
Number of medical treatment cases (MTCS) (i.e. injuries on duty leading to medical treatment, but no lost days)	Number	5	8
Fatal injury frequency rate (FIFR) (i.e. number of fatalities per 1 000 000 person hours worked)	%	0.11	0
Lost-time injury frequency rate (LTIFR) (i.e. number of LTIS per 1 000 000 person hours worked)	Rate	0.79	1.16
Total recordable injury frequency rate (TRIFR) – reported	Rate	1.35	2.09
Does the Company report an LTIFR and/or TRIFR target?	Yes/No	Yes	Yes

Glossary

Term	Definition
Afrox	African Oxygen Limited
AGM	Annual general meeting
Arcmate	Brand of Afrox
ASU	Air separation unit
BBBEE	Broad-Based Black Economic Empowerment
BBBEE Codes	BBBEE Codes of Good Practice
CAPEX	Capital expenditure
Companies Act	Companies Act of South Africa, 71 of 2008, as amended
CO^2	Carbon dioxide
EBIT	Earnings before interest and taxation
EBITDA	Earnings before interest, taxation, depreciation, amortisation and impairment losses
ESE	Exempted Micro Enterprises
FSSC	Food Safety Systems Certification
FSP	Forfeitable Share Plan
Gas & Gear	Gas & Gear outlets are Afrox-owned distributor sites located in nine different provinces, providing customers with direct product access
GPADE	Gross profit after distribution expenses
GRI	Global Reporting Initiative
Handigas	Brand of Afrox
HEPS	Headline earnings per share
ICAS	Independent Counselling and Advisory Service
ICC	Individual cylinder control
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IQF	Individually quick-frozen
<IR> Framework	The IIRC's Integrated Reporting Framework
IT	Information technology
JSE Listings Requirements	Listings requirements of the Johannesburg Stock Exchange Limited
King IV™	King Report on Governance for South Africa 2009
KPI	Key performance indicator
Linde PLC	The merged entity between The Linde Group and Praxair
LiMSS	Linde integrated management system and standards
LPG	Liquefied Petroleum Gas
LNG	Liquefied natural gas
LTI	Lost-time injury
LTIP	Long-term incentive plan
LTIR	Lost-time injury rate
MIRs	Major incidents reported
MMA	Manual metal arc
MPG	Merchant and packaged gases
NCSC	National Consumer Service Centre
NERSA	National Energy Regulator of South Africa
NG	Natural gas
NGMR	Nominations, Governance and Management of Resources
NGO	Non-governmental organisations

Term	Definition
PPE	Personal protective equipment
PSOs	Product service offerings
QSE	Qualifying Small Enterprises
ROCE	Return on capital employed
Saffire®	Brand of Afrox product
SARs scheme	Share Appreciation Rights scheme
SAP	SAP SE is a German software corporation that makes enterprise software to manage business operations and customer relations
SENS	Stock Exchange News Service
SET	Social, ethics and transformation
SHEQ	Safety, health, environment and quality
SIP	Share incentive plan
STIP	Short-term incentive plan
The Linde Group or Linde	Afrox's global gases, engineering and technology parent company
Vitemax®	Brand of Afrox product

Notice to shareholders

AFRICAN OXYGEN LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1927/000089/06)
(JSE share code: AFX)
(NSX share code: AOX)
(ISIN code: ZAE000067120)
(the Company)

Notice is hereby given that the 90th annual general meeting of the Company will be held in the boardroom of the Company, Afrox House, 23 Webber Street, Selby, Johannesburg, South Africa on Thursday, 30 May 2019 at 10:00 (AGM), at which the resolutions set out below will be considered and, if deemed fit, passed with or without modification.

This notice of the Company's AGM has been sent to shareholders of the Company who were recorded as such in the Company's securities register on Friday, 12 April 2019, being the notice record date used to determine which shareholders are entitled to receive the notice of AGM.

The record date on which shareholders of the Company must be registered as such in the Company's securities register to participate in and vote at the AGM is Friday, 24 May 2019. The last day to trade in the ordinary shares in order to be entitled to participate in and vote at the AGM will therefore be Tuesday, 21 May 2019.

In terms of section 63(1) of the Companies Act, 71 of 2008 (the Companies Act), any person attending or participating in the AGM must present reasonably satisfactory identification and the person presiding at the AGM must be reasonably satisfied that the right of any person to participate in and vote (whether as shareholder or as a representative or proxy for a shareholder) has been reasonably verified.

Social and Ethics Committee

In accordance with Regulation 43(5)(c) of the Companies Regulations, 2011 promulgated under the Companies Act, a member of the Social and Ethics Committee (the Committee) is required to report to shareholders on the matters within the mandate of the Committee. The Committee's report is contained on page 89 of the 2018 integrated report.

1. Ordinary resolution number 1

Adoption of the annual financial statements

"Resolved as an ordinary resolution that the annual consolidated and separate financial statements of the Company for the financial year ended 31 December 2018, including, inter alia, the directors' and independent auditor's report and the Audit Committee report therein, as contained in the 2018 integrated report, be and are hereby adopted. These financial statements are available on the Company's website: www.afrox.co.za."

2. Ordinary resolutions numbers 2.1 to 2.4

Re-election/confirmation of directors

To elect directors of the Company in accordance with the Companies Act and the Company's Memorandum of Incorporation (MOI), which provide that:

- at least one-third of the non-executive directors, being those longest in office at the date of the AGM, should retire, but that such directors may offer themselves for re-election; and
- any director appointments made by the board of directors (the Board) since the previous AGM require ratification.

KDK Mokhele retires by rotation and is not available for re-election. Accordingly, shareholders are requested to re-elect or confirm the appointment of the directors named below, by way of passing the following separate ordinary resolutions:

2.1 Ordinary resolution number 2.1

"Resolved that the appointment of JM Panikar as a director of the Company on 1 April 2019 is hereby confirmed."

2.2 Ordinary resolution number 2.2

"Resolved that VN Fakude, who retires by rotation and being eligible, and who offers herself for re-election as a director, be re-elected as a director."

2.3 Ordinary resolution number 2.3

"Resolved that CF Wells, who retires by rotation and being eligible, and who offers himself for re-election as a director, be re-elected as a director."

2.4 Ordinary resolution number 2.4

"Resolved that GJ Strauss, who retires by rotation and being eligible, and who offers himself for re-election as a director, be re-elected as a director."

A brief CV in respect of each director above appears on pages 134 and 135 of the 2018 integrated report.

3. Ordinary resolution number 3

Appointment of auditors

"Resolved that PricewaterhouseCoopers Inc. be appointed as the independent auditors of the Company, and Mr M Naidoo, a director of PricewaterhouseCoopers Inc., be appointed as the individual designated auditor, who will undertake the audit of the Company for the ensuing period, and that the Audit Committee be authorised to determine the terms of engagement and the auditors' fees and remuneration for the ensuing period."

4. Ordinary resolutions numbers 4.1 to 4.3

Appointment of Audit and Risk Committee members

By separate resolutions, each of which is on the candidacy of a single individual, the appointment of the following independent non–executive directors as members of the Audit Committee until the conclusion of the next AGM is hereby proposed:

4.1 Ordinary resolution number 4.1

"Resolved that CF Wells be and is hereby elected as a member of the Company's Audit Committee."*

4.2 Ordinary resolution number 4.2

"Resolved that GJ Strauss be and is hereby elected as a member of the Company's Audit Committee."*

4.3 Ordinary resolution number 4.3

"Resolved that NVL Qangule be and is hereby elected as a member of the Company's Audit Committee."

A brief CV in respect of each independent non-executive director above appears on pages 135 of the 2018 integrated report.

5. Ordinary resolution number 5

Non-binding vote on the remuneration policy

"Resolved to approve, through a non-binding advisory vote, the remuneration policy of the Company detailed on page 94 of the 2018 integrated report."

Explanation: *This ordinary resolution number 5 is required in terms of paragraph 3.84(k) of the JSE Limited Listings Requirements (Listings Requirements) and in accordance with the King Report on Corporate Governance™ for South Africa, 2016 (King IV)** recommendations that the Company obtain an advisory vote by its shareholders in a meeting on the remuneration policy applicable to all employees and directors of the Company and any of its subsidiaries or divisions. The vote is non-binding on the Company and excludes the remuneration of the non-executive directors. Should 25% or more of the votes exercised be cast against this resolution, the Company undertakes to invite shareholders to engage with the Company in this regard (including the manner and timing of such engagement).*

6. Ordinary resolution number 6

Non-binding vote on the remuneration implementation report

"Resolved to approve, through a non-binding advisory vote, the remuneration implementation report of the Company detailed on page 99 of the 2018 integrated report."

Explanation: *This ordinary resolution number 6 is required in terms of paragraph 3.84(k) of the Listings Requirements and in accordance with King IV recommendations that the Company obtain an advisory vote by its shareholders in a meeting on the remuneration implementation report applicable to all employees and directors of the Company and any of its subsidiaries or divisions. The vote is non-binding on the Company and excludes the remuneration of the non-executive directors. Should 25% or more of the votes exercised be cast against this resolution, the Company undertakes to invite shareholders to engage with the Company in this regard (including the manner and timing of such engagement).*

Notice to shareholders continued

7. Special resolution number 1

To approve the independent non-executive directors' fees

"Resolved that the fees paid to the independent non-executive directors serving on the Board and the various committees of the Board, be as follows with effect from 1 January 2019":

	Proposed* remuneration for the 12-month period from 1 January 2019 to 31 December 2019 R	Remuneration* for the 12-month period from 1 January 2018 to 31 December 2018 R	% increase
Board			
Independent lead director	449 614	428 204	
Independent director	257 617	245 350	5
Audit Committee			
Chairman	173 770	165 495	
Member	86 277	82 169	5
Other committees			
Chairman	115 441	109 944	
Member	58 327	55 550	5
	Per meeting fee	**Per meeting fee**	**% increase**
Meeting fee (including ad hoc meetings)	13 378	12 741	5

** Only applicable to independent non-executive directors as all other directors are appointed as a consequence of their function in the Linde Group.*

8. Special resolution number 2

General authority to repurchase shares

"Resolved that, subject to compliance with the Companies Act, the Company's MOI and the Listings Requirements from time to time, the Company and its subsidiaries be and are hereby authorised and granted a general authority to acquire from time to time the issued ordinary shares of the Company upon such terms and conditions and in such amounts as the Board may from time to time determine. The Listings Requirements currently provide, inter alia, that:

8.1 the Company and its subsidiaries must be enabled by its MOI or their memoranda of incorporation, as the case may be, to repurchase such shares;

8.2 the repurchase of shares shall be effected through the order book operated by the JSE trading system and be done without any prior understanding or arrangement between the Company and the counterparty;

8.3 such authorisation is valid only until the next AGM or for 15 (fifteen) months from the date of adoption of this special resolution number 2, whichever is the earlier date;

8.4 an announcement will be published giving such details as may be required in terms of the Listings Requirements when the Company and its subsidiaries have cumulatively repurchased 3% (three percent) of the initial number (the number of that class of share in issue at the time that the general authority is granted) of the relevant class of shares and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter;

8.5 at any one time the Company may only appoint one agent to effect any repurchase of shares on the Company's or its subsidiaries' behalf;

8.6 the repurchase of shares will not take place during a prohibited period (as defined in the Listings Requirements) unless the Board has in place a repurchase programme where the dates and quantities of shares to be traded during the relevant period are fixed (not subject to any variation) and details of the programme have been submitted to the JSE in writing prior to the commencement of the prohibited period. The Company must instruct an independent third party, which makes its investment decisions in relation to the shares independently of, and uninfluenced by, the Company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;

8.7 the repurchase of shares shall not, in aggregate, in any one financial year exceed 20% (twenty percent) of the Company's issued ordinary shares;

8.8 the repurchase of shares shall not, in aggregate, in any one financial year, exceed 10% (ten percent) of the Company's issued ordinary shares in the case of an acquisition of shares in the Company by a subsidiary of the Company;

8.9 the repurchase of shares may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the shares as determined over the 5 (five) business days immediately preceding the date on which the transaction is effected; and

8.10 a resolution must be passed by the Board that it has authorised the repurchase of shares, that the Company and, to the extent applicable, the relevant subsidiaries have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the group."

Explanation: *This special resolution number 2 authorises the Board, if it deems it appropriate and in the best interest of the Company, to repurchase the Company's shares by way of open market transactions on the JSE. This authority is subject to the Companies Act and the Listings Requirements. At the present time, the Board has no specific intention with regard to the utilisation of this authority, which will be used only if the Board deems fit and if the circumstances are appropriate. The Board undertakes to comply fully with the limitations and controls imposed from time to time by the Listings Requirements.*

Other disclosures required in terms of the Listings Requirements

In terms of the Listings Requirements, the following disclosures are required with reference to the repurchase of the Company's shares, as set out in special resolution number 2 above:

Working capital statement

The Board, after considering the effect of the maximum repurchase, is of the view that for a period of 12 (twelve) months after the date of this notice:

- the Company and the Group will be able, in the ordinary course of business, to pay its debts;
- the assets of the Company and the Group will be in excess of the liabilities of the Company and the Group, recognised and measured in accordance with the accounting policies used in the latest annual financial statements;
- the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes; and
- the working capital resources of the Company and the Group will be adequate for ordinary business purposes.

Directors' responsibility statement

The directors, whose names are given on pages 134 and 135 of the 2018 integrated report, collectively and individually, accept full responsibility for the accuracy of the information pertaining to the above special resolution number 2 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the above special resolution number 2 contains all information required.

Other disclosures contained in the 2018 integrated report in terms of paragraph 11.26 of the Listings Requirements

- Major shareholders of the Company (refer to page 108 of the 2018 integrated report).
- Share capital of the Company (refer to page 108 of the 2018 integrated report).
- Material change (refer to page 11 of the 2018 integrated report).

9. Special resolution number 3

General authority to provide financial assistance to related companies or inter-related companies

"Resolved that, subject to compliance with the Listings Requirements and with the Companies Act (specifically section 45), the Board be and is hereby empowered to authorise the Company to provide direct or indirect financial assistance to any related or inter-related company or corporation (wheresover incorporated) or to a person related to any such company or corporation, on the terms and conditions which the Board may determine, and when and as the Board deems fit and appropriate this authority will be in place for a period of two years commencing on the date of adoption of this special resolution number 3."

Explanation: *The reason and effect of this special resolution number 3 is to grant the Board the authority to cause the Company to provide financial assistance to any company or corporation which is related or inter-related to the Company or to a person related to any such company or corporation. It does not authorise the provision of financial assistance to any director or prescribed officer of the Company. The Board undertakes that prior to the Company providing any financial assistance as contemplated in special resolution number 3 above, the Company will have satisfied the solvency and liquidity test as set out in section 4 of the Companies Act.*

10. Special resolution number 4

Authority to provide financial assistance in connection with the purchase of Company securities

"Resolved that, as a special resolution contemplated by section 44(3)(a)(ii) of the Companies Act, the Board be and is hereby empowered to authorise the Company, at any time during the period of two years commencing on the date of adoption of this special resolution number 4, to provide any direct or indirect financial assistance to any third-party broker or subsidiary of the Company, on the terms and conditions which the Board may determine, and when and as the Board deems fit and appropriate, for the purpose of or in connection with the purchase of the Company's shares required for settlement under the share incentive plans operated by the Company and/or its subsidiaries from time to time, provided that the

Notice to shareholders continued

Board is satisfied that immediately after providing the particular financial assistance, the Company would satisfy the solvency and liquidity test set out in section 4 of the Companies Act."

Explanation: *The reason and effect of this special resolution number 4 is to grant the Board, pursuant to the requirements of section 44(3) of the Companies Act, the authority to cause the Company to provide financial assistance to third-party brokers and/or subsidiaries of the Company in connection with the purchase of the Company's shares, which shares are to be applied in settlement of the Company's obligations to deliver the Company's shares to executives and other Group employees under such share incentive plans as the Company and/or its subsidiaries may operate from time to time.*

Material changes

Other than the facts and developments reported on in the 2018 integrated report, there have been no material changes in the affairs, financial or trading position of the Group since the Company's last financial year-end and the signature date of the 2018 integrated report and the posting date thereof.

Voting and proxies

Certificated shareholders

Shareholders wishing to attend the AGM should ensure beforehand, with the transfer secretaries of the Company, Computershare Investor Services Proprietary Limited, that their shares are in fact registered in their name. Should the shares be registered in another name or in the name of a nominee company, it is incumbent on persons attending the meeting to make the necessary arrangement with that party to be able to attend and vote on its behalf.

A shareholder is entitled to attend, speak and vote at the AGM or to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the Company. For the convenience of shareholders of the Company, a form of proxy is enclosed herewith, containing detailed instructions in this regard.

Dematerialised/uncertificated shareholders

Holders of dematerialised shares who have elected "own name" registration may attend, speak and vote at the AGM or can appoint a proxy or proxies to attend, speak and vote in their stead. A proxy need not be a shareholder of the Company. For the convenience of shareholders of the Company, a form of proxy is enclosed herewith, containing detailed instructions in this regard.

Beneficial owners of dematerialised shares who have not elected "own name" registration and who wish to attend, speak and vote at the AGM require their Central Securities Depository Participant (CSDP) or broker to provide them with a letter of representation. Alternatively, they should provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. If they wish to attend, speak and vote at the AGM, they must ensure that their letters of representation from their CSDP or broker reach the transfer secretaries of the Company (acting on behalf of the Company), at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, South Africa, by not later than 10:00 on Tuesday, 28 May 2019, or are posted to the transfer secretaries (acting on behalf of the Company), at PO Box 61051, Marshalltown, 2107, South Africa, to be received by them by not later than 10:00 on Tuesday, 28 May 2019, provided that the chairperson of the meeting may, in his discretion, accept letters of representation so delivered after 10:00 on Tuesday, 28 May 2019, up until the time of commencement of the AGM, or handed to him immediately prior to the time of commencement of the AGM.

Proxies

The instrument appointing a proxy and the authority (if any) under which it is signed must reach the transfer secretaries (acting on behalf of the Company) by no later than 10:00 on Tuesday, 28 May 2019, provided that the Chairperson of the meeting may, in his discretion, accept forms of proxy so delivered after 10:00 on Tuesday, 28 May 2019, up until the time of commencement of the AGM, or handed to him immediately prior to the time of commencement of the AGM. On a poll, shareholders will have one vote in respect of each share held.

In terms of section 58 of the Companies Act, shareholders have rights to be represented by proxy as herewith stated. An extract of section 58 of the Companies Act is included in the form of proxy.

Electronic participation by shareholders

Should any shareholder (or a representative or proxy for a shareholder) wish to participate at the AGM by way of electronic participation, that shareholder should make an application in writing (including details as to how the shareholder can be contacted) to so participate, to the transfer secretaries at the address provided in this notice. The application is to be received by the transfer secretaries at least seven business days prior to the AGM in order for the transfer secretaries to arrange such participation for the shareholder for the purposes of section 63 of the Companies Act, and for the transfer secretaries to provide the shareholder with details as to how access to the AGM by means of electronic participation is to be made. Shareholders participating electronically will not be able to vote electronically and must follow the standard voting arrangement.

Percentage of voting rights required for resolutions

Special resolutions

The percentage of voting rights that will be required for the adoption of each special resolution is at least 75% (seventy-five percent) of the voting rights exercised on the resolution.

Ordinary resolutions

The percentage of voting rights that will be required for the adoption of each ordinary resolution is 50% + 1 (fifty percent plus one) vote of the voting rights exercised on the resolution.

Cheryl Singh
Company Secretary
28 March 2019

Board of directors

Non-executive directors

Bernd Eulitz (53)
Outgoing Chairperson

Bernd was re-appointed as Chairperson in 1 September 2017 after the resignation of Sue Graham Johnston, and he resigned effective 1 April 2019.

With the completion of the Linde-Praxair merger as of March 1st, 2019, Bernd has become EVP of Linde PLC, a member of the Management Committee and the President Americas. He also remains a member of the Linde AG Executive Board of directors, where he served as the head of The Linde Group's region Europe, Middle East and Africa until Feb 28th, 2019. Bernd brought a significant amount of international experience to the Afrox Board. He joined The Linde Group in 2004 and has since held a number of senior posts, including regional business head of the gases division South and East Asia (Singapore), Managing Director, Chief Executive Officer of PanGas AG (Switzerland), and Head of the gases division's sales region east (Germany). Bernd took responsibility for The Linde Group's Global Procurement in 2016 and the newly formed Global Centre of Excellence halfway through 2017.

John M. Panikar (50)
Incoming Chairperson

John was appointed Chairperson on 1 April 2019.

As a result of the Linde Praxair Merger, John has assumed the position of president region UK, Ireland and South Africa, Linde PLC.

John was previously president of Praxair Asia in 2014, responsible for the growth and profitability of Praxair's industrial gases business in China, India, South Korea, Taiwan, Thailand and the Middle East.

He joined Praxair in 1991 and held a variety of assignments in operations and project management in Praxair's electronics business before being appointed Asia Business Manager for electronics in 1999. He was named Director of Business Development for Praxair Asia in 2002, with additional responsibility for managing the helium, specialty gases, medical gases and carbon dioxide growth markets for Praxair India. He became Managing Director of Praxair India in 2004.

In 2008, he transferred back to the U.S. as Vice President: Product Management and Analysis, for Praxair's North American Industrial Gases business unit and was appointed Vice President: U.S. South Region in 2009. John was appointed President: Praxair Distribution Inc. in 2010. He was responsible for the growth, profitability and return on capital of Praxair's packaged-gases business in the U.S.

He holds a degree in chemical engineering from the University of Rochester. He completed the Advanced Management program at Harvard Business School in 2010.

Matthias von Plotho (49)
Non-executive director

Matthias was appointed to the Afrox Board in May 2011. As Programme Manager, he led the project on the merger with Praxair within The Linde Group. He joined Linde in 2001 and was responsible for implementing International Financial Reporting Standards (IFRS) for financial instruments. Since then he has held a number of senior posts, including Head of Mergers & Acquisitions. Prior to joining The Linde Group, he worked with KPMG and AGIV AG in Germany. He holds a masters degree in business administration from the University of Würzburg, Germany. Matthias attends Audit Committee meetings by invitation.

Independent non-executive directors

Dr Khotso Mokhele (63)
Lead independent non-executive director

Khotso was appointed to the Afrox Board in December 2005. He was on the teaching and research staff of the Universities of Fort Hare and Cape Town between 1986 and 1992. He was vice-president and then president of the Foundation for Research and Development from 1992 to 1999, and president of the National Research Foundation from 1999 to 2006. He served on the Council for Higher Education, the National Advisory Council on Innovation, and the National Skills Authority. Khotso was the founder and president of the Academy of Science of South Africa.

Khotso holds eight honorary doctorates from South African higher education institutions and one honorary doctorate from Rutgers University in New Jersey (USA). He currently serves as special advisor to the Minister of Science and Technology. He is the chairman of two South African-listed companies (Tiger Brands Limited and AECI Limited). Khotso chairs the SET and SHEQ committees at Afrox and is a member of the NGMR Committee.

Khotso holds the following qualifications: BSc agriculture (University of Fort Hare), and MS and PhD in microbiology (University of California Davis, USA).

Nomfundo Qangule (51)
Independent non-executive director

Nomfundo was appointed to the Afrox Board in July 2014. She was the chief financial officer of Harmony Gold Ltd between 2004 and 2007. She is currently director of Hans Merensky Holdings, Rebosis Ltd, and Nozala Investments (Pty) Ltd. She is both a CA(SA) and Certified Associate of the Institute of Bankers in South Africa. Nomfundo is a member of the Audit and SET committees.

Chris Wells (70)
Independent non-executive director

Chris was appointed to the Afrox Board in November 2012. Chris is chief executive officer of International Facilities Services Mauritius Limited, a company focused on providing facilities services in sub-Saharan Africa. He is a non-executive director of the Spar Group Limited where he chairs the audit and risk committees and is a member of its social, ethics and transformation committee. He has extensive experience in the retail and manufacturing sectors, having been both a CFO and CEO of various listed companies. He is a chartered accountant (South Africa) CA(SA). Chris chairs the Audit Committee.

Nolitha Fakude (54)
Independent non-executive director

Nolitha was appointed to the Afrox Board in March 2017 and bolsters our team with 27 years of experience across multiple organisations and diverse industries. Nolitha held a number of senior positions prior to joining Afrox, including that of vice-president and executive director at Sasol, chairperson of Sasol Mining, director and group executive member at Nedbank Limited, as well as managing director at the Black Management Forum. She previously served as a non-executive director on the board of Harmony Gold, was chairperson of Datacentrix Holdings and a non-executive director at Woolworths. In April 2017, she joined the board of Anglo American Plc. Nolitha is currently a non-executive director at the Johannesburg Stock Exchange Ltd as well as deputy chairperson of South African Airways. Nolitha holds a BA from the Walter Sisulu University and a BA honours degree, from the University of Fort Hare.

Nolitha is a member of the NGMR Committee.

Lean (GJ) Strauss (60)
Independent non-executive director

Lean was appointed to the Afrox Board in February 2015. He joined Sasol in 1982. He spent most of his career with Sasol Oil, where he held the positions of general manager, manufacturing and supply as well as general manager, marketing. He was appointed as general manager of Sasol Gas in 1997 and managing director of Sasol Nitro in 2002. In 2005, Lean was appointed as a member of the group executive committee and as group general manager responsible for Sasol's international energy portfolio. From January 2010 he took over the group's responsibility for Sasol Oil and Sasol Gas. In July 2010, he was promoted to senior group executive, responsible for the Group's total growth portfolio, Sasol's international energy cluster, Sasol new energy and Sasol technology. He was also a director and chairman of several companies in the Sasol group. Lean has a BCom and BCom honours degree from the University of Stellenbosch and an MCom business management degree from the Rand Afrikaans University (now University of Johannesburg). Lean chairs the NGMR Committee and is a member of the Audit and SHEQ committees.

Corporate information

African Oxygen Limited

(Incorporated in the Republic of South Africa)
Registration number: 1927/000089/86
ISIN: ZAE000067120
JSE code: AFX
NSX code: AOX

Registered office

Afrox House, 23 Webber Street, Selby, Johannesburg 2001
P O Box 5404, Johannesburg, 2000
Telephone +27 (0) 11 490 0400

Auditors

KPMG Inc.
KPMG Crescent, 85 Empire Road, Parktown, Johannesburg, 2193
Telephone +27 (0) 11 647 7111

Company Secretary

Cheryl Singh (BProc LLB MBA)
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Transfer Secretary

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Sponsor in South Africa

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Sponsor in Namibia

Namibia Equity Brokers Proprietary Limited

Directors

S Venter (Managing Director), M Vogt* (Group Financial Director),
B Eulitz* (Chairman), M von Plotho*, Dr KDK Mokhele, CF Wells**,
NVL Qangule, GJ Strauss, VN Fakude
*German **British

Website

www.afrox.co.za

Stakeholder enquiries

Stakeholder enquiries may be addressed per email to corporate.communication@afrox.linde.com

www.afrox.co.za