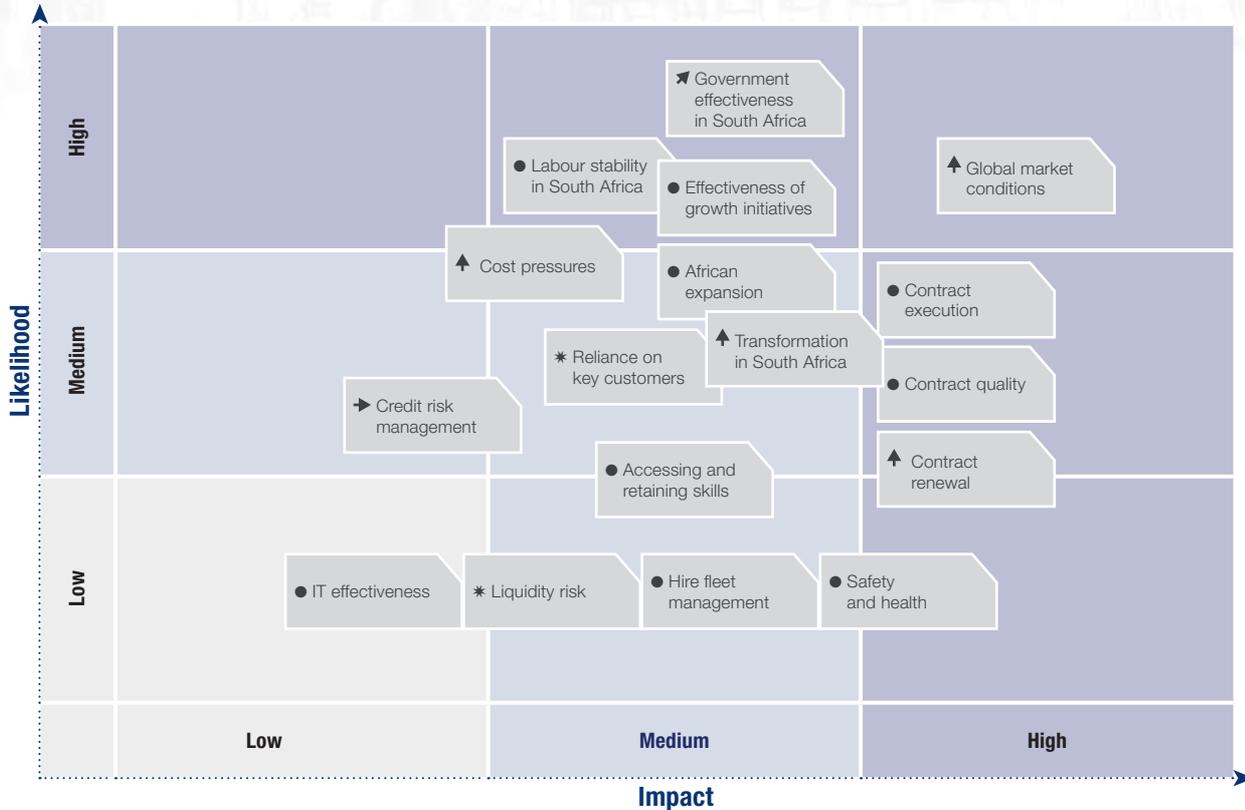


## MATERIAL MATTERS OVERVIEW

Waco International has identified the most significant risks and opportunities impacting the Group's ability to create sustainable value and execute its future growth objectives. The matrix below illustrates the prioritisation of material matters based on an assessment of the likelihood of a risk occurring or an opportunity materialising, and the impact it would have on the business. Each material matter is discussed in the table which follows.



Key		
* New	● Unchanged	↑ Movement

Material matter	Specific risks, opportunities and impact	Strategic response
<p>↑ <b>Global market conditions</b></p> <p>Volatile global economic dynamics and commodity cycles have an impact on local markets.</p>	<p>Waco International operates across a diverse range of geographies and sectors which are impacted in different ways by global economic, social and political conditions and international investment flows, presenting the Group with a range of risks and opportunities. The scale, mobility and diversity of its hire fleet enables the Group to respond to these by pursuing higher-margin contracts with acceptable levels of operational risk, built on sound relationships with local customers.</p> <p>The likelihood of this material matter increased due to the sustained weakness in global economic conditions. Economic downturns, compounded by low commodity prices indirectly impact the Group by threatening the sustainability of key sectors, such as mining and construction, where rising costs and shrinking margins are delaying public and private sector investment in mining and infrastructure development. The Group is directly exposed to the inflationary pressures of steel market volatility, but this impact is limited as only a small portion of the hire fleet requires annual replacing.</p>	<p>The increased likelihood of this material matter is managed and mitigated by:</p> <ul style="list-style-type: none"> <li>Expanding geographically</li> <li>Diversifying across multiple market segments, products and customers</li> <li>Identifying and targeting new growth initiatives</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>Value driver analyses conducted as required</li> <li>Increased focus on resizing businesses to match changes in demand</li> </ul>

# Material matters (continued)

## MATERIAL MATTERS OVERVIEW (continued)

Material matter	Specific risks, opportunities and impact	Strategic response
<p>➤ <b>Government effectiveness in South Africa</b> Ineffective leadership and delayed spending are stalling economic growth.</p>	<p>Ineffective governance in South Africa is inhibiting expected economic growth and has led to a decline in the confidence of local and foreign investors. Policy uncertainty and a culture of corruption have an impact on tendering and contract renewal and a decline in investment is delaying the maintenance and development of critical infrastructure.</p> <p>The impact of this material matter increased due to unsound political decisions, including the firing of the finance minister in December 2015, the possible downgrade of the country's credit rating and pre-election rhetoric which compounded concerns about policy uncertainty.</p> <p>Waco International actively promotes an ethical business culture as enshrined in its code of conduct (the Code). It responds appropriately to any cases of fraud detected.</p>	<p>The increased impact of this material matter is managed and mitigated by:</p> <ul style="list-style-type: none"> <li>• Identifying and targeting new growth initiatives</li> <li>• Diversifying and expanding geographically</li> <li>• Complying with B-BBEE requirements in South Africa</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>• Increased focus on resizing businesses to match changes in demand</li> </ul>
<p>● <b>Contract execution</b> The quality of the work performed on a contract impacts the Group's reputation and ability to attract and retain business.</p>	<p>The successful execution of contracts requires effective collaboration among multiple role-players, including subcontractors, labour brokers and service providers, facilitated through competent and experienced project management. The extent to which the operational teams manage the controllable factors during a project impacts its outcome and therefore the relationship with the customer.</p> <p>Waco International applies rigorous quality assessments and monitoring over the lifetime of projects and conducts a post-mortem debrief where key learnings are identified and shared.</p>	<p>The impact of this material matter is unchanged and is controlled by:</p> <ul style="list-style-type: none"> <li>• Retaining and developing skilled human capital</li> <li>• Maintaining and growing profitability by managing pricing and cost to serve</li> <li>• Maintaining order book quality and contract delivery</li> </ul>
<p>● <b>Contract quality</b> The effective scoping, planning and structuring of contracts has a direct impact on the profitability of projects.</p>	<p>All projects present a unique set of challenges. Careful scoping and planning can ensure that all controllable matters are accounted for in the contractual and structuring arrangements. Major projects tend to be more complex, requiring the collaboration of multiple role-players and the reliable supply of critical materials.</p> <p>The quality of the contracting of technical requirements, access to resources, logistics, schedules and health and safety matters has a direct impact on profit margins.</p> <p>The Group applies a risk-based approach to project selection and contract structuring to mitigate the impact of disruptions. Resources are allocated to ensure the effective deployment of equipment and personnel. Waco International's products and services comprise a relatively small portion of the overall expense of large-scale projects, and the scale and quality of its hire fleet allows the Group to structure contracts to meet cost and quality requirements while adding value to the customer.</p>	<p>The impact of this material matter is unchanged and is controlled by:</p> <ul style="list-style-type: none"> <li>• Retaining and developing skilled project and commercial human capital</li> <li>• Maintaining and growing profitability by managing pricing and cost to serve</li> <li>• Maintaining order book quality and contract delivery</li> <li>• Diversifying and expanding geographically</li> </ul>

Material matter	Specific risks, opportunities and impact	Strategic response
<p>▲ <b>Contract renewal</b>                      Certain contracts contribute significantly to Group revenue and are subject to renewal processes at the end of the agreed contract period.</p>	<p>The scale of certain projects, particularly in the industrial sector, involves longer-term contractual arrangements which require substantial resources and time. These are a source of predictable revenue for a lengthy period of time, but are limited to the finite duration as agreed in the contract. It is therefore important that the Group is able to renew large contracts or source alternative revenue streams to compensate.</p> <p>The likelihood of this material matter increased as a number of large contracts are in the process of being renewed or are coming up for renewal, which could be material to the profitability of the Group.</p> <p>Waco International is constantly seeking new customers, products and services to diversify the revenue mix and achieve growth, thereby mitigating the impact of existing large contracts not being renewed.</p>	<p>The increased likelihood of this material matter is managed and mitigated by:</p> <ul style="list-style-type: none"> <li>• Maintaining order book quality and contract delivery</li> <li>• Complying with B-BBEE requirements in South Africa</li> <li>• Diversifying and expanding geographically</li> <li>• Identifying and targeting new growth initiatives</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>• Increased focus on resizing businesses to match changes in demand</li> </ul>
<p>● <b>Effectiveness of growth initiatives</b>                      The effective execution against each identified initiative will determine the Group's ability to sustain its growth trajectory.</p>	<p>Waco International has maintained robust growth momentum in recent years through strategic initiatives implemented at all levels of its operations. The Group has successfully executed strategies to increase utilisation and expand margins, while effectively pursuing opportunities to grow the business through acquisition, geographic expansion and development of new products. Maintaining this growth culture and track record requires the successful execution of each initiative so that it contributes to growth. Worsening market conditions and the maturity of many core businesses have required more detailed thinking to identify new growth opportunities, resulting in the introduction of the Granularity of Growth concept in support of the Alchemy of Growth strategy.</p>	<p>This material matter remains unchanged and is managed by:</p> <ul style="list-style-type: none"> <li>• Retaining and developing skilled human capital</li> <li>• Diversifying and expanding geographically</li> <li>• Identifying and targeting new growth initiatives</li> <li>• Introducing Granularity of Growth</li> </ul>
<p>● <b>African expansion</b>                      As the site of major industrial activity and infrastructural development, the African continent offers growth opportunities over the short, medium and long term.</p>	<p>Although the pace of growth has slowed in Africa due to the prolonged commodities downturn, many countries in sub-Saharan Africa offer growth prospects as demand for infrastructure development increases in response to rapid population growth, urbanisation and a burgeoning middle class. The Group is leveraging opportunities in the region in accordance with its rigorous pursuit of higher-margin contracts at acceptable levels of risk with positive escalation potential. Waco International is establishing and growing a network of operations, building its reputation and leveraging off its existing footprint to capitalise on this opportunity.</p> <p>Each country presents unique challenges and the Group's approach to sourcing human capital by hiring local people and complementing them with existing resources from elsewhere has proved effective. Waco International operates in countries that are relatively stable – politically and economically – and complies with all regulatory requirements as part of its commitment to operating ethically at all times. Proactive, targeted interaction with key stakeholders including customers, communities, regulators and service providers takes place throughout the duration of contracts. This enables operational managers to understand the risks and opportunities and respond appropriately.</p>	<p>This material matter remains unchanged and is managed by:</p> <ul style="list-style-type: none"> <li>• Retaining and developing skilled human capital</li> <li>• Diversifying and expanding geographically</li> <li>• Identifying and targeting new growth initiatives</li> </ul>

# Material matters (continued)

## MATERIAL MATTERS OVERVIEW (continued)

Material matter	Specific risks, opportunities and impact	Strategic response
<p>▲ <b>Transformation in South Africa</b> Transformation is a social and economic imperative for all South African businesses.</p>	<p>The ability of a business to operate sustainably in South Africa is linked to its performance against government's B-BBEE targets, as these scores play an important role in the awarding of tender contracts.</p> <p>The likelihood of this material matter increased due to changes to the codes which were implemented in April 2016. These will adversely impact the Group's current level 2 rating. Waco International preferably promotes black economic empowerment (BEE) candidates to leadership positions, as appropriate, and enters into partnerships with black-owned businesses in mutually value-adding joint venture arrangements.</p> <p>The Group also offers skills development to HDSAs through the Waco Africa Cadet Scheme and the ABET programme as well as various other development programmes.</p>	<p>The increased likelihood of this material matter is managed and mitigated by:</p> <ul style="list-style-type: none"> <li>• Optimising B-BBEE rating</li> <li>• Employing, retaining and developing skilled BEE human capital</li> <li>• Driving meaningful transformation</li> </ul>
<p>● <b>Labour stability in South Africa</b> Union rivalry and disputes over conditions of employment jeopardise positive labour relations.</p>	<p>Labour relations in South Africa are politicised in nature and have led to a high incidence of industrial action in recent years, often taking place over a protracted period. Disruptive and sometimes violent labour unrest can cause costly delays to customer projects, while unsustainable expectations about wage increases further compress operating margins. This has an adverse impact on local and international investor confidence in the country's industrial and economic prospects.</p> <p>Waco International follows a proactive approach to maintaining positive labour relations through regular formal and informal interaction with employees and their representatives. The direct impact of disrupted projects on the Group is mitigated due to the nature of the hire service and appropriate contract structuring.</p>	<p>This material matter remains unchanged and is managed by:</p> <ul style="list-style-type: none"> <li>• Retaining and developing skilled human capital</li> <li>• Driving meaningful transformation</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>• Continue to engage regularly with employees</li> </ul>
<p>● <b>Safety and health</b> The Group's operations are labour intensive and often involve high-risk activities.</p>	<p>Waco International is responsible for ensuring that working conditions at its operations are conducive to the safety and health of employees, contractors and customers. This includes some of the Group's core industries which involve high-risk activities, such as working at heights and handling potentially hazardous waste material, where best practice safety measures, training and incident reporting are critical.</p> <p>Safety and health is a highly regulated and visible aspect of the business and could impact the Group's social and legal licences to operate. Incidents pose a risk to the Group's reputation and relationship with existing and potential customers, and have a negative impact on employee morale and productivity. The Group participates in peer reviews and benchmarking exercises to maintain and improve its track record for safety and health.</p>	<p>This material matter remains unchanged and is managed by:</p> <ul style="list-style-type: none"> <li>• Retaining and developing skilled human capital</li> <li>• Maintaining order book quality and contract delivery</li> </ul>

Material matter	Specific risks, opportunities and impact	Strategic response
<p>● <b>Accessing and retaining skills</b> The successful execution of contracts hinges on employees effectively contributing their expertise at each stage of the work process.</p>	<p>The Group's operations employ a dynamic workforce that is spread across multiple locations and industries, often for variable periods on a contract-by-contract basis. Sourcing human capital to deliver a high-quality service to customers involves collaborating with key role players, including labour brokers, and is managed in a sustainable and ethical manner.</p> <p>As the nature of the work is often highly technical, requiring scarce and sought-after specialised skillsets, Waco International conducts performance management, training and development initiatives to reward, upskill and empower existing employees and attract new talent.</p> <p>The future sustainability of the business depends on a pipeline of competent and committed leaders at operational level.</p>	<p>This material matter remains unchanged and is managed by:</p> <ul style="list-style-type: none"> <li>• Retaining and developing skilled human capital</li> <li>• Maintaining order book quality and contract delivery</li> <li>• Driving meaningful transformation</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>• Reassessing the long-term incentive scheme</li> </ul>
<p>▲ <b>Cost pressures</b> Healthy operating margins are achieved when returns are carefully balanced with fluctuating input costs.</p>	<p>The impact of this material matter increased due to increasing costs.</p> <p>Increasing labour expenses remain the primary contributor to increasing cost pressures. Unsustainable expectations of wage increases in a limited growth environment in South Africa compound this challenge.</p> <p>Waco International's secondary cost drivers are steel and logistics costs which are exposed to fluctuations in commodity cycles and inflation. The Group reinvests in the hire fleet on an ongoing basis and replaces a small portion annually to maintain quality standards. Logistics is an important component of the business, as the Group actively deploys its equipment to specific locations for optimal use. These costs are carefully managed to ensure profitable outcomes.</p>	<p>The increased impact of this material matter is managed and mitigated by:</p> <ul style="list-style-type: none"> <li>• Increased focus on resizing businesses to match changes in demand</li> <li>• Maintaining and growing profitability by managing pricing and cost to serve</li> <li>• Optimising return on capital of existing fleet and new investment</li> </ul>
<p>* <b>Reliance on key customers</b> A number of major projects are undertaken for key customers. Non-renewal of these projects could potentially impact the Group's revenue.</p>	<p>The scale of Waco International's hire fleet and the depth of the Group's experience position it favourably with key customers to execute major projects. In the domestic market, tendering for large projects is competitive and there is a strong emphasis on compliance with B-BBEE requirements.</p> <p>A number of the Group's major contracts were completed during the year. While some have been renewed, others remain under negotiation and the uncertainty surrounding their award represents a risk to the Group.</p> <p>Waco International mitigates this risk by engaging regularly with key customers to maintain sound relationships. In addition, the Group actively pursues opportunities to source additional revenue streams by diversifying across public and private sectors in South Africa and expanding beyond the domestic market.</p>	<p>This is a new material issue and is controlled by:</p> <ul style="list-style-type: none"> <li>• Diversifying across multiple sectors and geographies</li> <li>• Identifying and targeting new growth initiatives</li> <li>• Maintaining robust relationships with customers</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>• Complying with BEE requirements and entering into joint ventures with value-adding BEE partners</li> </ul>

# Material matters (continued)

## MATERIAL MATTERS OVERVIEW (continued)

Material matter	Specific risks, opportunities and impact	Strategic response
<p>➔ <b>Credit risk management</b> Reliance on sectors in distress potentially exposes the Group to concentrated credit and commercial risks.</p>	<p>The ability of many businesses in key sectors to manage operating risk and maintain sustainable levels of cash flow is threatened by a worsening economic environment.</p> <p>Waco International engages regularly with customers and applies sound contract structuring and commercial arrangements to mitigate exposure to credit risk. The Group operates across broad sectors and geographies and participates with a range of customers in a variety of market conditions, thereby reducing its exposure to specific sectors and customers in distress.</p>	<p>The impact of this material matter has increased and is managed and mitigated by:</p> <ul style="list-style-type: none"> <li>• Diversifying across multiple sectors and geographies</li> <li>• Identifying and targeting new growth initiatives</li> <li>• Maintaining robust relationships with customers</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>• Proactive credit management</li> </ul>
<p>● <b>Hire fleet management</b> The size and quality of the hire fleet gives the Group its operating advantage.</p>	<p>The vast fleet of non-serialised equipment can be mobilised at scale across various geographies, allowing the Group to capitalise on favourable market conditions. The Group prioritises the innovation of new products to respond to opportunities.</p>	<p>This material matter remains unchanged and is managed by:</p> <ul style="list-style-type: none"> <li>• Maintaining and growing profitability by managing pricing and cost to serve</li> <li>• Diversifying and expanding geographically</li> <li>• Optimising return on capital of existing fleet and new investment</li> </ul>
<p>* <b>Liquidity risk</b> The Group requires capital to fund its growth strategy.</p>	<p>Waco International maintains a strong balance sheet to ensure that it has sufficient flexibility to fund its strategy without resorting to excessive leverage.</p>	<p>This is a new material issue and is controlled by:</p> <ul style="list-style-type: none"> <li>• Managing cash flow</li> <li>• Maintaining a healthy balance sheet</li> </ul>
<p>● <b>IT effectiveness</b> The size and diversity of the Group increases its reliance on IT infrastructure.</p>	<p>In order for our global operations to communicate timeously and operate harmoniously, we require effective IT systems.</p> <p>To support Waco International's strategy that is underpinned by global growth objectives and accommodate the required increases in scale and complexity, the Group has invested in both hardware and software upgrades to strengthen the system. As a core business process that plays an integral role in the day-to-day operations of the Group, reliable and effective IT systems are a key enabler of the Group's strategy.</p>	<p>This material matter remains unchanged and is managed by:</p> <ul style="list-style-type: none"> <li>• Diversifying and expanding geographically</li> <li>• Maintaining and developing human capital</li> </ul> <p>Additional responses:</p> <ul style="list-style-type: none"> <li>• Investing in new IT systems</li> </ul>

Ongoing investment in the hire fleet and sanitation and water solutions were previously reported as material matters and continue to be key focus areas.