We are WACO international

Integrated Report 2016

Waco International is a diversified equipment rental and industrial services business with operations in South Africa, other sub-Saharan Africa, Australasia (Australia and New Zealand), the UK and Chile.

We are

WACO

international

CONTENTS

ABOUT THIS REPORT

Waco International is pleased to present its 2016 integrated report. The Group views integrated reporting as a means of communicating with its stakeholders and providing an insight into the Group's governance, strategy, performance and future prospects.

This is the third integrated report that Waco International has prepared in accordance with the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework (<IR> Framework). Each year, the Group reports on matters that are material to its value creation process and is committed to continually improving its reporting.

REPORTING BOUNDARY

This integrated report covers the operations of Waco International Holdings Proprietary Limited (Waco International, Waco or the Group) for the period 1 July 2015 to 30 June 2016. Subsequent developments considered relevant between 1 July 2016 and the date of the publication of this report have been included in this report.

All monetary amounts reflected in the report are expressed in South African rand (ZAR), Australian dollars (AU$) or British sterling (£). Financial information is provided on a consolidated basis in South African rand unless otherwise stated.

REPORTING APPROACH

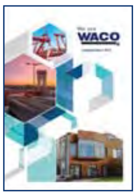
The principle of materiality was applied to determine the content of this report. Material matters are defined as those that, in the board's opinion, have the potential to substantively affect the Group's ability to create and sustain value over the short, medium and long term. The business model and strategy illustrate Waco International's responses to material risks and opportunities in its operating environment, including stakeholders' expectations.

Detail regarding the Group's materiality determination process is provided on page 26, together with a discussion about its primary material matters.

ASSURANCE

The summarised consolidated financial statements provided in this integrated report were extracted from the full audited statutory annual financial statements. In addition, limited assurance on selected financial and non-financial information was obtained from the external auditors. These items have been marked with a ✔. Waco International is confident that other data which has not been externally audited, accurately reflects the business's performance and position, based on the combined assurance process indicated in the reporting suite table.

This integrated report should be read in conjunction with the sustainability overview and annual financial statements included in the suite of reports:

	Integrated report	Sustainability overview	Annual financial statements
Contents	• Concise overview of the Group's material matters, business model, strategy, performance and prospects • Corporate governance report • Remuneration report • Summarised consolidated financial statements • Independent assurance report • Independent auditor's report	• Greater detail on the six material social and environmental sustainability elements addressed in the integrated report: o Safety and health o Human resources (HR) o Transformation o Environment o Corporate citizenship o Innovation	• Full consolidated financial statements for the year ended 30 June 2016 • Directors' report • Statement of corporate governance • Audit and risk committee report
Frameworks and guidelines applied	• IIRC International Integrated Reporting Framework V1.0 • King Code of Governance Principles for South Africa 2009 (King III)	• Group social and ethics committee charter	• International Financial Reporting Standards (IFRS) • Companies Act of South Africa, 71 of 2008 (as amended) (Companies Act)
Assurance	• Independent auditor's report on the summarised consolidated financial statements • Limited assurance on selected financial and non-financial information • Group executive management oversight • Audit and risk committee oversight • Board oversight and approval	• Limited assurance on selected financial and non-financial information • Group executive management oversight • Social and ethics committee oversight • Board oversight and approval	• Independent auditor's report on the consolidated and separate annual financial statements • Group executive management oversight • Audit and risk committee oversight • Board oversight and approval
Available	Online at www.wacointernational.co.za Print reports are available upon request 	Online at www.wacointernational.co.za 	Online at www.wacointernational.co.za 

REPORTING SUITE

About this report (continued)

The diagram below demonstrates how the social and environmental matters dealt with in the sustainability overview are inextricably linked with the material issues, strategy and performance of the Group dealt with in the integrated report.

Integrated report

Performance report back	Chairman's report CEO's report CFO's report	CEO's report	CEO's report Governance	CEO's report CFO's report	CEO's report CFO's report	Chairman's report
Strategy	Maintaining order book quality and contract delivery	Retaining and developing skilled human capital	Driving meaningful transformation	Identifying and targeting new growth initiatives	Identifying and targeting new growth initiatives	Identifying and targeting new growth initiatives
Material matter	Safety and health Contract execution	Accessing and retaining skills Labour stability in South Africa	Transformation in South Africa			Government effectiveness in South Africa

Sustainability overview

Focus chapter	Safety and health	Human resources	Transformation	Environment	Innovation	Corporate citizenship

FORWARD LOOKING STATEMENTS

Certain statements in this document may constitute ‘forward looking statements’. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Waco International Holdings Proprietary Limited and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements. The company undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. These have not been reviewed or reported on by the Group’s auditors.

END-USER MARKETS

Certain information relating to Waco’s end-user markets, including but not limited to the percentage of the Group’s revenues attributable to particular end-user markets, is based primarily on information collated by Waco’s branches, including input from customers concerning Waco’s products. To ensure end-user markets reflect the drivers of Waco’s business, such information is assessed and adjusted by management in consultation with Waco’s business units. Waco, however, is not able to independently verify such information. Senior management has no reason to believe that this information is incorrect. The actual composition of Waco’s end-user markets may differ from the information presented in this integrated report.

ADJUSTED EBITDA

In this integrated report, Waco has included certain measures that are not defined by IFRS and which are used to assess the financial performance of its business. These measures include adjusted earnings before interest and tax (EBIT), adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA), net operating cash flow (NOCF) and return on net assets managed (RONAM). The Group’s definitions of these measures can be found in the useful terms on pages 92 and 93. All reference to EBIT and EBITDA relate to adjusted EBIT and adjusted EBITDA respectively.

MARKET LEADERSHIP

Based on senior management’s estimates, the Group is an established leader in forming, shoring and scaffolding and portable sanitation in South Africa and in access scaffolding in Australasia, and it has the second-largest relocatable and modular building hire fleet in South Africa. It has a niche position in relocatable and modular building in the United Kingdom (UK) and a small but growing share of South Africa’s integrated hygiene services market. Senior management views the size, quality and reach of the Group’s hire fleet as a competitive strength.

BOARD RESPONSIBILITY AND APPROVAL STATEMENT

The board, with the assistance of the audit and risk committee, is responsible for the integrity of the integrated report. The board applied its collective mind to the preparation and presentation of the integrated report and is satisfied that the report is a fair and accurate representation of Waco International’s performance and prospects in accordance with the IIRC <IR> Framework.

This integrated report was approved by the board and signed on its behalf by:

Royden Vice
Chairman

8 December 2016

REQUEST FOR FEEDBACK

Waco International welcomes feedback on the contents and presentation of the 2016 integrated report, as it will assist the Group in improving the quality and relevance of future reports. Stakeholders are invited to contact Eben le Roux (Chief Financial Officer) at ebenlr@wacoint.co.za.

NAVIGATION

A list of useful industry terms and a glossary is provided in the annexures at the end of this report.

Cross-references to information contained in this and other reports are indicated with this icon.

PERFORMANCE HIGHLIGHTS

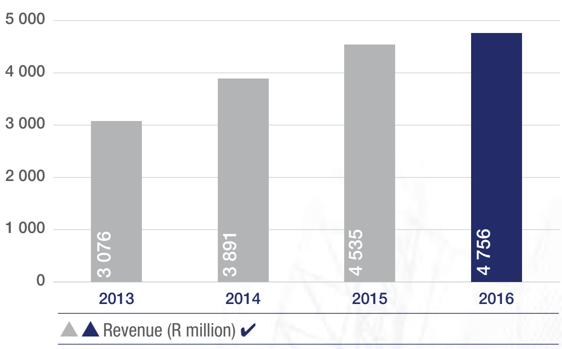
Waco International continued to deliver growth – a result of the strategic focus on the optimisation of the international operations and the traction gained by certain growth initiatives throughout the business.

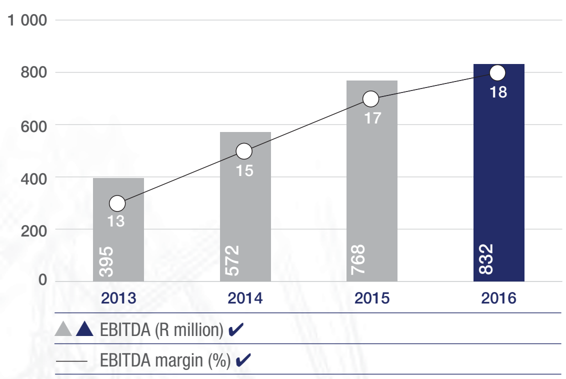
Growth	**Revenue compound annual growth rate (CAGR)** of 16% ✔ to R4.8 billion ✔ (2013 – 2016)[1] **EBITDA CAGR** of 28% ✔ to R832 million ✔ (2013 – 2016)
Continued investment in fleet	**Net fleet investment** R1 042 million ✔ (2013 – 2016) R167 million ✔ spent on bolt-on acquisitions (2013 – 2016)
Substantial cash generated strengthening the balance sheet	**Net operating cash flow** R1 180 million (2013 – 2016) Low gearing 39% ✔ debt to equity and 0.93 ✔ times EBITDA
Delivering excellent returns	**RONAM** at 24% ✔ Economic value add (EVA) of R325 million

[1] (2013 – 2016) indicates four years' performance data for the period 1 July 2012 to 30 June 2016.

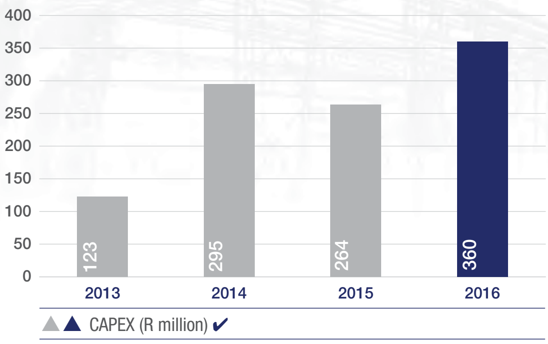
OVERALL PERFORMANCE

Growth

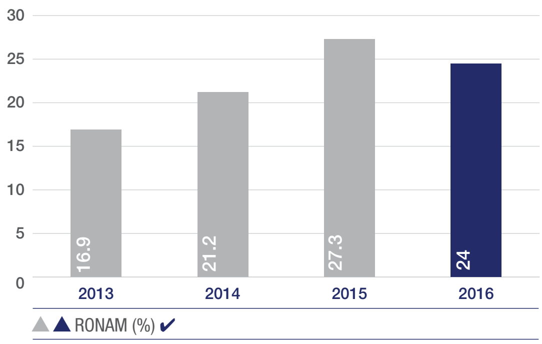




Continued investment in fleet R1.1 billion over four years



Return on asset investment



OPTIMISE, DEFEND AND EXTEND

Business optimisation

- Premier Modular in the UK maintained positive EVA and produced positive EBITDA of £4.5 million ✔ for the year, an improvement of 45%
- The Australasian operations benefited from an extensive rightsizing exercise and the introduction of formwork, and delivered EBITDA of AU$14.5 million ✔, an improvement of 51% on the prior year, with a positive EBIT at AU$10.7 million ✔, an improvement of 82%

Employee safety

- Lost-time injury frequency rate (LTIFR) of 0.42 (2015: 0.85) ✔

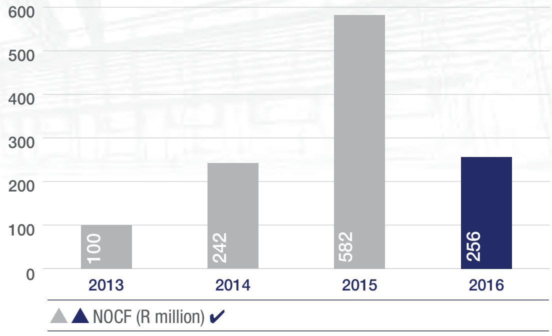
Employee development

- 48 historically disadvantaged South Africans (HDSAs) enrolled on the Waco Africa Cadet Scheme, seven promoted to branch managers
- In excess of 210 branch managers and co-ordinators on Business Leaders Development Programme (BLDP)
- 25 staff members attended an Executive Development Programme (EDP) at GIBS

Transformation

Waco Africa is rated as a level 2 broad-based black economic empowerment (B-BBEE) contributor under the existing codes, with ongoing efforts to improve in key areas in preparation for the new codes

Solid cash generation



EXPANSION AND GROWTH

Other sub-Saharan African growth

- Four new branches opened in 2016, including a first branch in Botswana, bringing the total to 20 branches in nine countries

Acquisitions

- R167 million ✔ allocated to acquisitions over the past four years, including the acquisition of SkyJacks in January 2015

New products and services

- Alternative Building Technology modular building product that is durable, quickly assembled, fire-rated and thermally insulated (Abacus)
- Continued expansion into integrated hygiene services including cleaning, servicing and pest control (Sanitech)
- New informal concept (NIC) toilet for underground mining and informal settlement use (Sanitech)
- Portable wastewater treatment plants (Sanitech)
- Small plant rental offering (Form-Scaff)
- Build Own Operate camps (Abacus)
- VIP Retro-fit toilet (Sanitech)
- Formwork in Australia and New Zealand (Kwikform Group)
- Introduction of rope access (SGB-Cape; Kwikform Group)
- Aerial working platforms (SkyJacks)

GRANULARITY OF GROWTH

The growth agenda of Waco International is based on the Alchemy of Growth strategic framework adopted in 2011.

In 2017, we will refine and extend the Alchemy of Growth framework and performance indicators by introducing the Granularity of Growth concept to enable a more fine-grained vision of the sources of future growth.

Read more about the Granularity of Growth in the strategy section, page 38.

ORGANISATIONAL OVERVIEW

PROFILE

Waco International is a diversified equipment rental and industrial services business with operations in South Africa, other sub-Saharan Africa, Australasia (Australia and New Zealand), the UK and Chile.

KEY FACTS

Footprint	**Five** principal geographies **14** countries Over **100** branches Over **14 000** customers Approximately **107 000** tons of scaffolding Approximately **48 000** tons of formwork Approximately **26 000** portable toilets Over **4 400** relocatable modular buildings
People	**3 411** contracted employees **3 727** permanent employees
Transformation	**B-BBEE level 2** (Level 4 as at 1 December 2016 per the new B-BBEE codes)
Principal activities	Forming, shoring and scaffolding Suspended and aerial work platforms Rope access Insulation, painting and blasting Relocatable modular buildings Portable sanitation Integrated hygiene services Portable wastewater treatment plants
Principal industries	Industrial maintenance – power, utility and other Infrastructure Mining and resources Construction and engineering Healthcare Education Events
Principal markets by geography	South Africa Other sub-Saharan Africa (nine countries) Australasia United Kingdom Chile

BUSINESS PRINCIPLES

Waco's business principles are the primary tools used to achieve a high performance culture. The principles, known as TAP the Best Team, are integrated into the day-to-day management of the business and are summarised as follows:

TRANSPARENCY

All employees are appropriately informed about Waco International's performance, current challenges and risk areas. Managers and employees are encouraged to highlight any problems encountered so that these can be resolved at an early stage.

ACCOUNTABILITY

Waco International holds its regional managers and employees accountable for their actions, within clear lines of responsibility. The Group places a high level of reliance on regional management in the running of the business, as demonstrated by the relatively small head office complement.

PERFORMANCE

The performance management process starts with managers and employees jointly agreeing performance objectives for the year. In the context of the business plan, these objectives are set using the balanced scorecard approach. This approach ensures that financial and non-financial targets are set and formally assessed.

BEST PRACTICE

Waco International strives to be the best at what it does. The principle is applicable to the products and services it offers its customers and its internal controls and processes. To achieve this, the Group mandates a number of local and global peer groups to identify areas of excellence (internal and external) and to promote these practices throughout the Group. Waco International's Continuous Improvement ethos is a key contributor towards achieving this objective.

TEAMWORK

Waco International recognises that teamwork results in superior performance. The operating businesses learn from one another, provide support when required, share opportunities and optimise the resource base.

More information on the principles and organisational culture is provided in the sustainability overview, available online.

Organisational overview (continued)

PORTFOLIO OVERVIEW

Waco Africa

form-scaff Africa	SGB-CAPE Africa	abacus SPACE SOLUTIONS Africa	Sanitech Africa	SkyJacks Africa
Branches per country: South Africa (27) Ghana (1) Mauritius (1) Mozambique (1) Namibia (2) Swaziland (1) Zambia (2) Tanzania (1)	**Branches per country:** South Africa (9) Namibia (2) Ghana (1) Mozambique (1) Zambia (1) Offshore/marine (1) Democratic Republic of Congo (1)	**Branches per country:** South Africa (10) Namibia (1) Zambia (1)	**Branches per country:** South Africa (18) Zambia (2) Botswana (1)	**Branches per country:** South Africa (4) Botswana (1)
				
Established in 1963	Established in 1945	Established in 1995 Acquired in 2006	Established in 1982 Acquired in 2007	Established in 1978 Acquired in 2015
• Hire and sale of forming, shoring and scaffolding and associated services to a wide range of industries • Manufacturing, design, technical advice and support • Special projects requiring bespoke solutions	• All-in-one service provider of access scaffolding, industrial painting, industrial corrosion protection and thermal insulation and cladding • Asbestos removal service and safety assessments • Marine scaffolding and offshore personnel supply (Men on boats) • Seating, platform and related products for events • Rope access	• Hire and sale of modular building solutions • Creating space to live, work and learn, including accommodation, ablution facilities and communal buildings – from site offices to three-storey office complexes – and providing learners with attractive, safe and high-quality surrounds • Turnkey hospitality camp solutions (contractor accommodation)	• Hire of portable chemical toilets • Regular servicing of portable toilets as well as septic tank pumping • Integrated hygiene services, including rental and servicing of sanitisers, wipes, toilet tissue dispensers, sanitary bins and hand washing and drying components, as well as contract cleaning and pest control services • Portable wastewater treatment plants	• Specialist access systems providing suspended and aerial work platforms and access scaffolding systems • Design, installation, maintenance and after-sales services to the construction, mining, building and maintenance industries, sporting arenas, the film industry and open-air spectaculars
1 Market leader	1 Market leader	2 In rental market	1 Market leader	1 Market leader in suspended platforms
18%✓ Group revenue share	**19%**✓ Group revenue share	**3%**✓ Group revenue share	**10%**✓ Group revenue share	**2%**✓ Group revenue share
R858 million✓ Revenue	**R912 million**✓ Revenue	**R133 million**✓ Revenue	**R468 million**✓ Revenue	**R77 million**✓ Revenue
1 042✓ Employees	**3 554**✓ Employees	**153**✓ Employees	**1 529**✓ Employees	**172**✓ Employees

More information on the operating businesses is provided in the performance review and outlook section beginning on page 48..

Waco Kwikform Group

WACO Australia	HIRE WEST Australia	WACO APL New Zealand	UNITED SCAFFOLDING GROUP New Zealand
Branches per country: Australia (15)	**Branches per country:** Australia (1)	**Branches per country:** New Zealand (2)	**Branches per country:** New Zealand (5)
Established in 1987	Established in 1985 Acquired in 2006	Established in 1999 Acquired in 2005	Established in 1972 Acquired in 2012
• All-in-one access scaffolding service provider and hire of forming, shoring and scaffolding and associated services to a wide range of industries • Rope access • Industrial labour • Design, technical advice and support	• Scaffolding, portable toilets, materials site sheds and materials hoists servicing the low-rise housing construction market in Western Australia • Associated services including erection and transport	• All-in-one access scaffolding service provider and hire of forming, shoring and scaffolding and associated services to a wide range of industries • Design, technical advice and support	• All-in-one access scaffolding service provider and hire of forming, shoring and scaffolding and associated services to a wide range of industries • Design, technical advice and support

1

Market leader

29%✓
Group revenue share

Australia		WACO APL New Zealand	UNITED New Zealand
R1 091 million✓ Revenue		**R111 million**✓ Revenue	**R164 million**✓ Revenue
264✓ Employees		**48**✓ Employees	**128**✓ Employees

Premier Modular

Premier MODULAR EXCELLENCE UK United Kingdom (1)	Acquired in 1989	• Hire and sale of relocatable modular buildings • Manufacturing, design and technical support • Local team focused on research and development into product innovation	Niche – growing	**19%**✓ Group revenue share **R895 million**✓ Revenue **207**✓ Employees

Form-Scaff Chile

form-scaff Chile Chile (1)	Established in 1996	• Hire and sale of forming, shoring and scaffolding and associated services	Small	**1%**✓ Group revenue share **R48 million**✓ Revenue **29**✓ Employees

OUR HISTORY

1952

Waco International is founded and lists on the Johannesburg Stock Exchange (JSE). The Group develops into an international conglomerate with operations in South Africa and abroad.

2000

The Group is acquired by a private equity consortium led by Ethos Private Equity and delisted. It restructures its portfolio in the early 2000s to focus on the primary businesses of forming, shoring and scaffolding and relocatable modular buildings.

2002

New management is appointed to drive the optimisation of financial and operational performance. Aspects of the strategy include diversifying the customer mix, expansion into new geographies and extending products and services into adjacent fields. Compound EBITDA growth of 23% is achieved for the period 2000 to 2005.

2005

Waco International is acquired by private equity shareholders based in Hong Kong and London. The global financial crisis, combined with excessive gearing, hinders its ability to fund growth.

2011

The successful relocatable modular buildings business in Australia and New Zealand, Ausco, is sold in a substantial transaction. This frees up the balance sheet and enables Waco International to refocus on growth. Initiatives and targets are identified from branch level throughout the organisation, underpinned by the Alchemy of Growth and Continuous Improvement ethos aimed at the constant pursuit of excellence.

2012

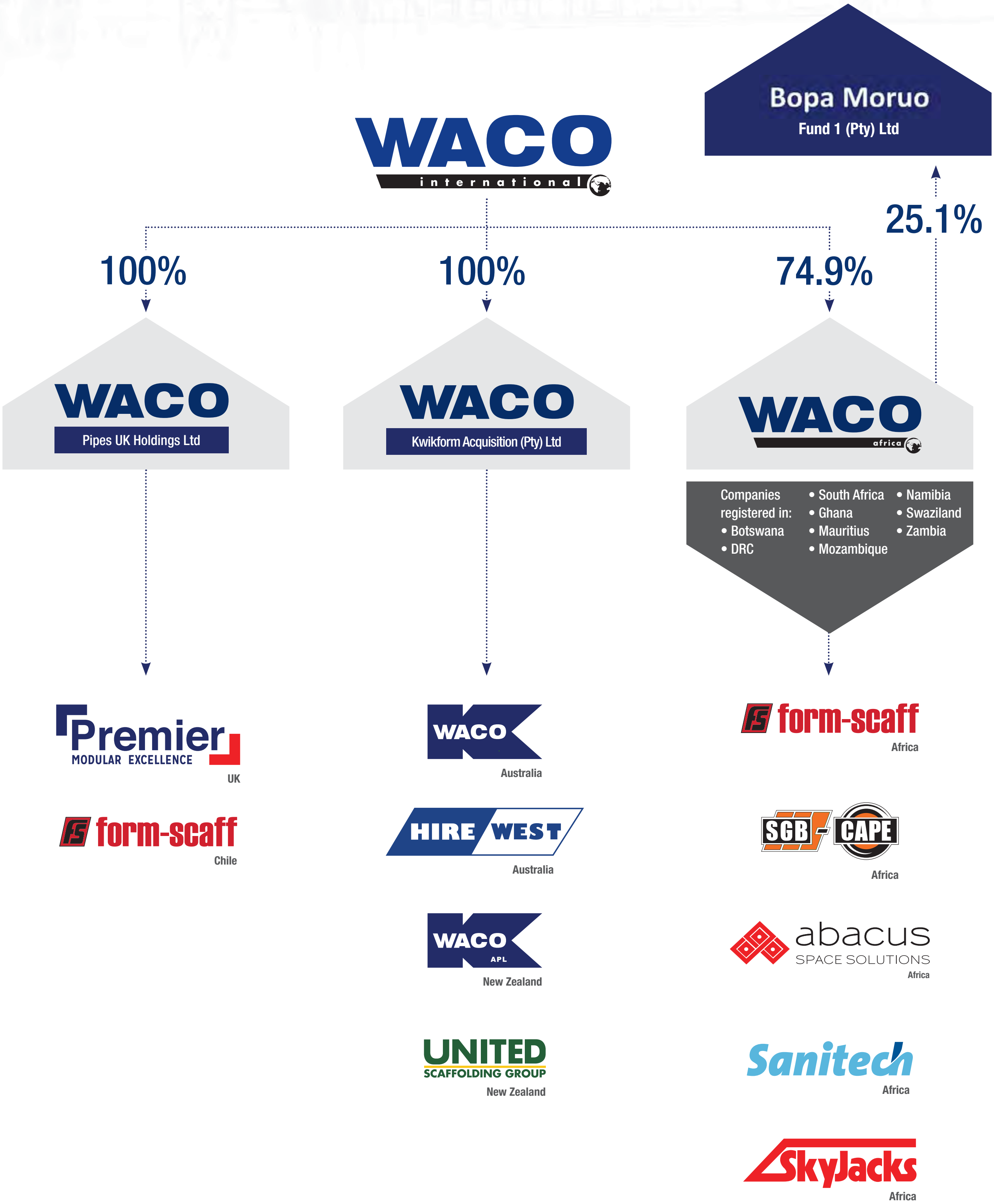
The ownership structure changes when a consortium of equity shareholders, led by Ethos Private Equity, RMB Ventures, Standard Bank and management shareholders, acquires Waco International. The new shareholders continue to invest in the business, supporting the growth agenda.

2013 ▼ 2015

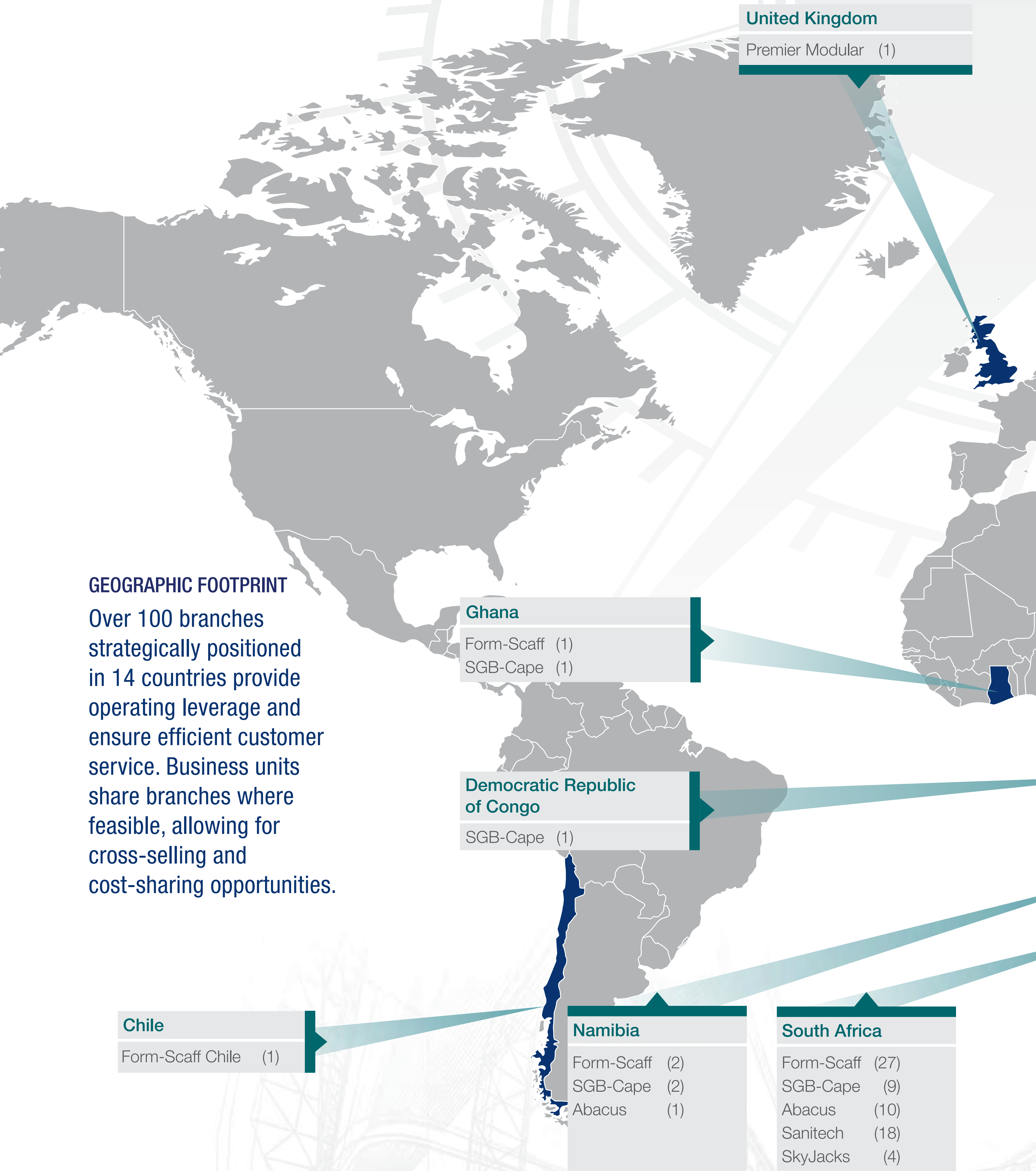
Net CAPEX of over R1.2 billion on the hire fleet over four years, including investment in bolt-on acquisitions, contribute to performance. The investment activity is a fundamental aspect of the Group's well-executed optimisation and expansion strategy, which has returned the international operations to acceptable levels of profitability, expanded operations into sub-Saharan Africa and produced a diverse and defensive portfolio of businesses able to outperform the market and achieve robust financial returns.

GROUP STRUCTURE

The following diagram is a simplified representation of the operating companies of Waco International and excludes non-material and dormant entities.



Organisational overview (continued)



GEOGRAPHIC FOOTPRINT

Over 100 branches strategically positioned in 14 countries provide operating leverage and ensure efficient customer service. Business units share branches where feasible, allowing for cross-selling and cost-sharing opportunities.

For a detailed breakdown of Waco's branch footprint please refer to pages 10 and 11 of this report

BUSINESS MODEL

OPERATING CONTEXT

The Group and its businesses are exposed to a range of dynamic challenges and opportunities unique to its diverse operating environments. The management of Waco International has a proven track record of navigating these with a rigorous strategic risk management process and authority matrix in a framework of sound and ethical corporate governance.

The scale, diversity and quality of the hire fleet is one of the Group's greatest assets and provides a competitive advantage. The Group is able to selectively pursue contracts in locations where conditions favour its product and service offering, and deploy resources from underperforming operations to areas of growth. It invests in research and development in new products, services and ways of operating to ensure it continually optimises, expands and innovates to attract new customers and markets.

United Kingdom

Uncertain trading conditions – Trading conditions in the UK commercial and residential construction industry have been relatively resilient. The decision by the UK to exit the European Union (EU) has impacted the British currency and reduced business confidence in the short term, creating uncertainty.

Growth in urban centres – Major urban centres, London in particular, have experienced elevated construction activity spurred by increasing returns in real estate development across all property sectors.

Chile

Growth opportunities – While the sustained downturn in commodity and oil prices adversely impacted Latin American economies and exacerbated problems in Brazil, Chile continued to grow over the past decade, largely as a result of a growing copper mining industry. The economy lost some momentum during the commodities and mining downturn, but is expected to recover as private sector investment increases.

Market competition – A handful of large competitors control a large share of the market, limiting the access of smaller players.

South Africa

Infrastructure development – Infrastructure development is one of the Group's principal industries and major infrastructure development contracts account for a large proportion of the Group's revenue. Policy uncertainty has delayed the long-awaited implementation of the South African government's large infrastructure development programme, though some development is taking place, particularly in transport infrastructure and smaller municipal projects. The economic impact of the delay has been exacerbated by the cancellation or postponement of private sector infrastructure development projects, largely in the mining and related transport sectors, which have been impacted by the sustained downturn in commodity prices.

Transformation – The introduction of new B-BBEE codes in April 2016 increased the pressure on South African businesses to align their employee representation and ownership with the demographics of the country. Waco International's current B-BBEE rating of level 2 is likely to decline to level 4 under the revised codes in line with the experience of many other South African businesses. This represents a risk to businesses that tender for large public sector and other contracts which include transformation requirements. Waco continues to look at initiatives to improve its B-BBEE rating.

Labour relations – High levels of unemployment, rising costs of living, inadequate education and poor service delivery in South Africa have created a disenfranchised and marginalised working class. Organised labour unions are the intermediary between businesses and employees, and high wage demands are becoming a characteristic of wage negotiations. This often increases the severity of industry-wide labour unrest.

Low business confidence – Rising social and economic challenges, compounded by political rhetoric and policy uncertainty, contributed to a decline in business confidence to its lowest levels since the global financial crisis in 2008, and continue to impact South Africa's prospects as an investment destination. However, the domestic economy is still viewed by the World Bank as having growth potential if job creation improves, and it offers a stepping stone into Africa for international companies looking for expansion opportunities on the continent.

Education – South Africa's education system is under-resourced. There is a shortage of classrooms and other facilities at schools, while universities have experienced rapid growth in student enrolment without commensurate increases in government funding. This creates an opportunity for the provision of quick-installation building products that are fire and safety compliant and fulfil the same function as bricks-and-mortar buildings, as well as sanitation products to service the needs of schools, particularly in rural and informal contexts.

Water and power supply – Future projections anticipate growing challenges as a result of steady population growth and urbanisation, which will require increasing levels of investment in power generation and water infrastructure. While government continues to invest in increasing power generation, water and related wastewater treatment infrastructure is under-maintained, which presents an opportunity for the private sector to offer solutions.

Urbanisation and the growth of informal settlements – Under-development and overpopulation in many peri-urban regions around major South African cities resulted in a deepening crisis of basic service delivery in informal settlements. This growth outstripped government resources and capacity, creating the opportunity for the private sector to develop safe, environmentally sustainable solutions.

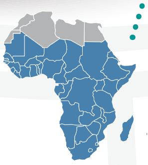
Group

Market competition – The Group operates in sectors where barriers to entry tend to be high and access to capital is an advantage. It is well positioned as the established market leader in key sectors in a number of geographies and focuses on protecting the market share of its core businesses and expanding its share in new markets.

Global economy – The wide geographic footprint of Waco International exposes the Group to global economic cycles. Prolonged global economic volatility and the downturn in commodity prices impacts a number of the sectors the Group serves, including infrastructure development, mining and construction. It mitigates this impact by diversifying and expanding geographically and targeting areas of growth in new and established markets.

Regulatory requirements – Each industry and geographic jurisdiction is governed by regulatory requirements in financial management, health and safety and labour, including country-specific laws. Compliance with these requirements is mandatory to maintain the business's legal licence to operate.

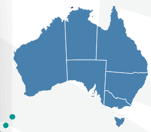
Natural resource availability – The supply of water, food, fuel and energy to growing global populations is becoming increasingly uncertain. Large-scale industrial development and related infrastructure projects to address shortages and supply constraints will comprise a significant portion of government spend in future, particularly in developing nations.



Australia

Construction sector – Key commercial and residential markets have shown improvement over the last few years, especially in high density residential markets in larger urban centres such as Sydney and Brisbane.

Resources sector – While the Australian mining and resources sector remains weak, there is a gradual shift from investment to output as new plants move towards the commencement of operations. This will create new opportunities in industrial maintenance for Waco International's Australian business.



Other sub-Saharan Africa

Growth opportunities – The prolonged weakness in commodity and oil prices and the subdued global economy slowed the rapid pace of growth experienced by African economies in recent years. However, the region continues to offer potential for economic expansion as a result of the large demographic dividend and increasing demand for infrastructure development and power from a growing middle class.

Unpredictable political climates – Socio-economic and political challenges and opportunities vary across each African country, requiring extensive market research and experience in order to understand the dynamics of local business environments.

Operating obstacles – The challenges of successfully doing business on the continent range from the historic levels of under-investment in infrastructure experienced in many African economies and difficulty in sourcing and retaining quality local employees, to limitations in freight, transport, basic services and telecommunications. This is further compounded by the need to navigate and avoid fraud and corruption in political and business environments.

New Zealand

Growth opportunities – The New Zealand economy remained robust and offers solid trading conditions across commercial and residential construction and industrial maintenance markets. The extensive programme of rebuilding Christchurch after the earthquake in 2011 has not yet peaked, and there are additional opportunities as the country continues to respond to net migration, which is driving growth in the construction and related markets.

Business model (continued)

CORE BUSINESS ACTIVITIES

Formwork, shoring and scaffolding and related services

Rental, sales, products and services related to formwork, shoring and scaffolding, suspended and aerial platforms, rope access and related services, including personnel supply, technical support services, insulation cladding, painting and blasting.

Market differentiators

- Well-established brands
- Size and quality of hire fleet
- Geographic footprint
- Industry experience and expertise, particularly on large, bespoke projects

Relocatable modular buildings

Rental and services related to relocatable modular buildings in which to live, work or learn, including technical support and project management. The buildings consist of modules or sections that can be linked together on site to form temporary or permanent structures.

Market differentiators

- Successful product innovation track record into niche market
- Ongoing investment in research and development
- Well-established brands

Sanitation and integrated hygiene solutions

Rental and servicing of portable sanitation products (portable chemical toilets rental and servicing, septic tank pumping and portable wastewater treatment plants) and integrated hygiene services (sanitisers, wipes, toilet tissue dispensers, sanitary bins and hand washing and drying components, as well as contract cleaning and pest control services).

Market differentiators

- Well-established brand
- Size, quality and diversity of hire fleet
- Innovation track record into new products and service, including integrated hygiene solutions, water-saving toilets and portable wastewater treatment plants

CORE BUSINESS PROCESSES

Group support services

- Strategy development
- Financial reporting and taxation
- Internal audit and risk management
- HR
- Compliance, legal and governance
- Treasury and corporate finance

Operational management

- Environmental management
- Sales and marketing
- Operational risk management
- Fleet management
- Safety and health management
- Procurement and logistics management
- HR
- Compliance and legal

STRATEGY

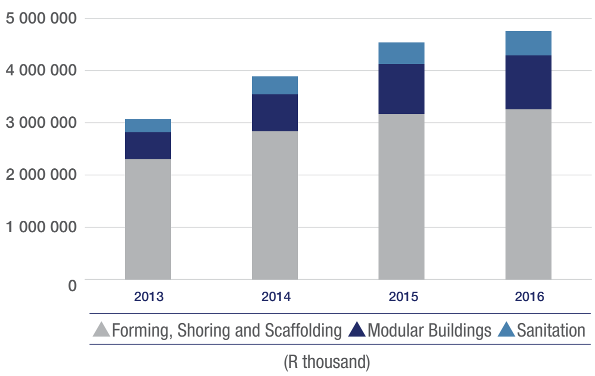
Strategic focus areas	Strategic objectives
Optimise, defend and extend	• Maintaining and growing profitability by managing pricing and cost to serve • Optimising return on capital – existing fleet and new investment • Maintaining order book quality and contract execution • Retaining and developing skilled human capital • Driving meaningful transformation • Plan B*
Expansion and growth	• Diversifying and expanding geographically • Identifying and targeting new growth initiatives
Granularity of growth	• Introducing a new strategic concept to enhance the Alchemy of Growth framework and accelerate growth by enabling a more granular understanding of opportunities within each business

* Additional information on Plan B can be found on pages 43 and 92.

OUTPUTS

Outputs are defined as the products, services, by-products and waste that result from the businesses activities. Waco International provides equipment for rental and services across a number of principal industries, including mining and resources, oil and gas, power generation, infrastructure, construction and engineering, industrial maintenance, education, healthcare and events. Through the activities of the company and the execution of the strategy, Waco has been able to achieve the following:

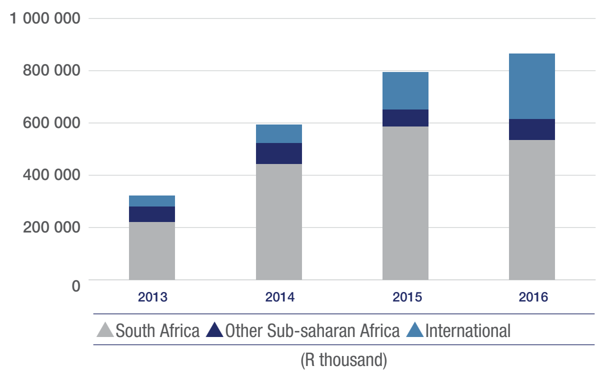
Diversification ✓



Revenue	2013	2014	2015	2016
▲ Forming, Shoring and Scaffolding	2 305 012	2 832 327	3 168 256	3 260 960
▲ Modular Buildings	509 396	714 778	958 099	1 027 480
▲ Sanitation	262 025	344 005	409 042	467 996

International exposure

Profitable African operations with a growing contribution from international exposure



EBITDA	2013	2014	2015	2016
▲ South Africa	220 867	443 001	586 315	535 595
▲ Other sub-Saharan Africa	58 241	80 309	63 719	78 475
▲ International	43 895	70 365	144 003	251 885

Business model (continued)

CREATING VALUE

An effective business model relies on the utilisation and transformation of resources (capital inputs) through the activities of the business to achieve optimal results (outputs and outcomes) for stakeholders. The business model of Waco International illustrates the Group's strategic ability to be agile and dynamic in an ever-changing external environment by leveraging its diverse geographic footprint and product and service offering.

The tangible and intangible capitals or resources used and impacted by the business in the value creation process are outlined below.

FINANCIAL CAPITAL

In order to achieve 15% growth, the Group requires access to capital to enable investment in the fleet and acquisitions. This is coupled with a rigorous approach to cost management and operating efficiencies in the day-to-day running of the business, and leveraging the well-established branch network.

A demonstrable track record of growth indicates the ability of the business to outperform the market and deliver robust financial returns.

MANUFACTURED CAPITAL

The scale, quality and geographic reach of the hire fleet provides an operating advantage and market access.

Access to an extensive branch network enables the effective delivery of products to customers across the Group's geographic footprint.

Waco International's extensive branch footprint ensures the Group is geographically close to customers and high utilisation levels are sustained.

HUMAN CAPITAL

Retaining and developing a pipeline of skilled and experienced individuals who are incentivised to sustain high levels of performance is critical to long-term growth. Waco International promotes this through the provision of an Employee Wellness Programme, engagement, development and performance management and a focus on safety in the workplace.

	Financial capital	Manufactured capital	Human capital
Inputs	• Access to capital is a competitive advantage and will be a key driver of future growth • Capital of R1 209 million invested in the Group over the past four years, of which: o R1 042 million invested in fleet and fixed assets o R167 million invested in acquisitions	• Hire fleet: Scaffolding equipment, formwork equipment, suspended and aerial work platforms, relocatable modular buildings and portable toilets • Logistics: The businesses collectively own or lease more than 600 trucks and vehicles and use a number of subcontractors for this service • Branch footprint • Information technology (IT): Investment in hardware and software upgrades	• 7 138 employees • Management owns 11.8% of the Group's ordinary shares, ensuring their continued alignment with the business's prospects
Outcomes	• 16% three-year CAGR in revenue • 39.2% gross profit margin • R832 million EBITDA • RONAM 24% • 10% EBITDA three-year CAGR growth in sub-Saharan Africa businesses	• Hire fleet o Approximately 107 000 tons of scaffolding o Approximately 48 000 tons of framework o Over 26 000 portable toilets o Over 4 400 relocatable modular buildings • Branch footprint: Reduced overheads and cost to serve • Strengthened IT capability: Improves functionality, reduces risk and supports the growth requirements of each business	• 1 500 employees with access to the Employee Wellness Programme • Investment in training R12.7 million • Short-term and long-term incentive coverage • Zero fatalities; 51% reduction in LTIFR to 0.42
Activities to enhance outcomes	• The Group increased its funding flexibility to pursue continued investment in organic and acquisitive expansion opportunities • Operational leverage of well-established branch network • Successful integration of bolt-on acquisitions contributing to the profitability of the Group	• Leveraging the branch footprint, shared customers and a shared supply chain, including branch yards and logistics, provides benefits to different operations thereby reducing overheads and cost to serve	• Joint performance management framework to ensure that talented employees are retained by recognising and appropriately rewarding performance • Balanced scorecard • Employee engagement forums and Toolbox talks • Talent management framework and employee development o Adult basic education and training (ABET) o Waco Africa Scheme (offered to HDSAs) o The BLDP o EDP in partnership with the GIBS o Senior executive development (IMD)
	• CEO's report page 50 • CFO's report page 56	• CEO's report page 50 • CFO's report page 56	• CEO's report page 50 • Sustainability overview report page 14

SOCIAL AND RELATIONSHIP CAPITAL

Engagement with all stakeholders contributes to the sustainability of the business, as their expectations and support impact the Group's strategy and performance.

Waco International is committed to supporting South Africa's transformation agenda, which is driven through various initiatives, and invests through operating companies in social upliftment projects.

INTELLECTUAL CAPITAL

The principles of the Alchemy of Growth strategy, which underpins the Group's growth agenda, have instilled a culture of continually identifying and exploiting growth opportunities in existing and new markets.

Waco International leverages its track record of operating successfully in highly technical industries and invests in research and development of new products to grow its product portfolio.

NATURAL CAPITAL

Waco International has a relatively low impact on the environment as a hire business with a fleet that requires replacing and refurbishing only after long intervals. However, the Group endeavours to minimise its impact on natural resources through ongoing monitoring, incident reporting and identifying more efficient ways of operating.

	Social and relationship capital	Intellectual capital	Natural capital
Inputs	• Positive engagement with employees, labour broker employees and their representatives • Building the confidence of our investors and financiers • Ensuring quality contract execution by formalised engagement with contractors, suppliers and service providers • Collaborating with small, micro and medium enterprises (SMMEs) • Positive relationships with governments, regulatory and industry bodies • Supporting local communities	• Ongoing research and development into new products, particularly in sectors with high innovation potential • Contract and order book management • Inventory and logistics management	• The major natural resources the Group acquires and uses are fuel and steel commodities. The business uses them responsibly. • Waste is disposed of in a responsible manner and each business investigates methods to recycle or reduce waste.
Outcomes	• CSI spend R6.2 million • B-BBEE level 2 (valid until October 2016) • Bopa Moruo 25.1% equity ownership of Waco Africa • Tax contribution R111 million	• Business longevity and market position: the portfolio includes long-standing and established brands. Their strong leadership position is a competitive advantage for customer decision-making, particularly on large projects o Market leaders: Form-Scaff, SGB-Cape, Sanitech, SkyJacks, Waco Kwikform Group	• No environmental incidents during the year • Installation of two wastewater treatment plants
Activities to enhance outcomes	• The development and promotion of HDSAs through the Waco Africa Cadet Scheme and ABET programme • Bopa Moruo equity partnership • Joint ventures and SMME partnerships develop shared enterprise and assist both parties in bidding for contracts • The Waco International Charitable Foundation • Social upliftment projects	• The Continuous Improvement ethos entrenched in the business is built on the belief that better ways of working are waiting to be identified and implemented. This ethos has been a fundamental driver of the Group's growth trajectory and will continue to inform the way in which it strives to achieve strategic objectives.	• Self-directed environmental audits • Resource management: Air, water, noise and waste management programmes • A major focus of innovation in the businesses is identifying opportunities to enable the responsible use of resources, for example low-water-use hygiene and sanitation products and portable wastewater treatment plants designed to have a minimal impact on the environment
	• Sustainability overview report page 32	• Portfolio overview page 10 • CEO's report page 50 • Group strategy page 37 • Sustainability overview report page 30	• CEO's report page 50 • Sustainability overview report page 26

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INVESTMENT CASE

MARKET LEADER WITH ESTABLISHED BRANDS

- A portfolio of long-standing and well-established brands
- South Africa's market leader in forming, shoring and scaffolding and sanitation services (toilet hire)
- Leading supplier of scaffolding in Australia and New Zealand

Business model – page 17

SCALE AND GEOGRAPHIC REACH

- The scale, diversity and quality of the hire fleet provide a strong competitive advantage, including the ability to win and support major projects
- Extensive geographic network of over 100 branches enables the Group to service long-standing, established customers in key sectors
- Ability to leverage off existing branch infrastructure for growth
- Group management actively monitors fleet utilisation and profitability across regions and regularly redeploys hire equipment to more lucrative markets

Business model – pages 16 and 17

DIVERSIFIED BUSINESS MODEL WITH MULTIPLE GROWTH DRIVERS

- Balanced and diversified across product, geography and end market, providing earnings stability through economic cycles
- Exposure to infrastructure spend without main contract risk
- Proven ability to move fleet between geographies to optimise return
- Scalable business model
- Growth drivers:
  - Operational expertise and efficiency
  - Revenue visibility as a result of long-term contracts
  - Predictable revenue from rental model
  - Proven ability to innovate

Group strategy – page 37

DEMONSTRABLE TRACK RECORD OF FINANCIAL PERFORMANCE

- Four-year CAGR of 16% ✔ in revenues and 28% ✔ in EBITDA
- Steady growth in gross margin reflecting the positive impact of strategic interventions to improve efficiencies
- Turnaround in the financial performances of the UK and Australasian businesses
- Continued investment in the hire fleet and expanding branch network
- Diversified earnings across several geographies and currencies
- Delivering RONAM of 24% ✔

Performance review and outlook – page 48

ESTABLISHED AND EXPERIENCED MANAGEMENT TEAM

- Senior management has a proven track record of leading numerous organic and acquisitive growth initiatives, both locally and offshore
- Well-established management development programmes and leadership development pipeline
- Senior management owns 11.8% ✔ of the ordinary shares of the business
- Balanced scorecard and Waco Growth Appreciation Rights Scheme (WGAR Scheme) incentivise high performance and growth

Business model – page 20

ESTABLISHED PRESENCE IN CURRENT AND FUTURE GROWTH MARKETS

- Organic growth driven by opportunities across geographies:
  - South Africa: Growth in construction and infrastructure spend
  - Other sub-Saharan Africa: Growing economies with potential development in infrastructure (power and sanitation), mining, oil and gas
  - Australia: Growth in industrial maintenance with the resources sector moving from investment to output phase, complemented by a recovery in certain high-density residential construction markets
  - New Zealand: Solid growth in commercial and residential construction and industrial maintenance markets as well as the Christchurch rebuild
  - UK: Improved conditions in the construction sector (particularly London) with additional opportunities for relocatable modular building products in certain other industries
- Potential for further mergers and acquisitions – continued consolidation and expansion into new markets
- Ongoing focus on research and development of new products and services

Waco International's business model in context – pages 16 and 17

Waco International's diversified business model offers a compelling investment proposition with an attractive combination of resilience and growth exposure.

MATERIAL MATTERS

Waco International's definition of materiality is informed by the IIRC <IR> Framework. Material matters are defined as those that have the potential to substantively affect the Group's ability to create and sustain value over the short, medium and long term.

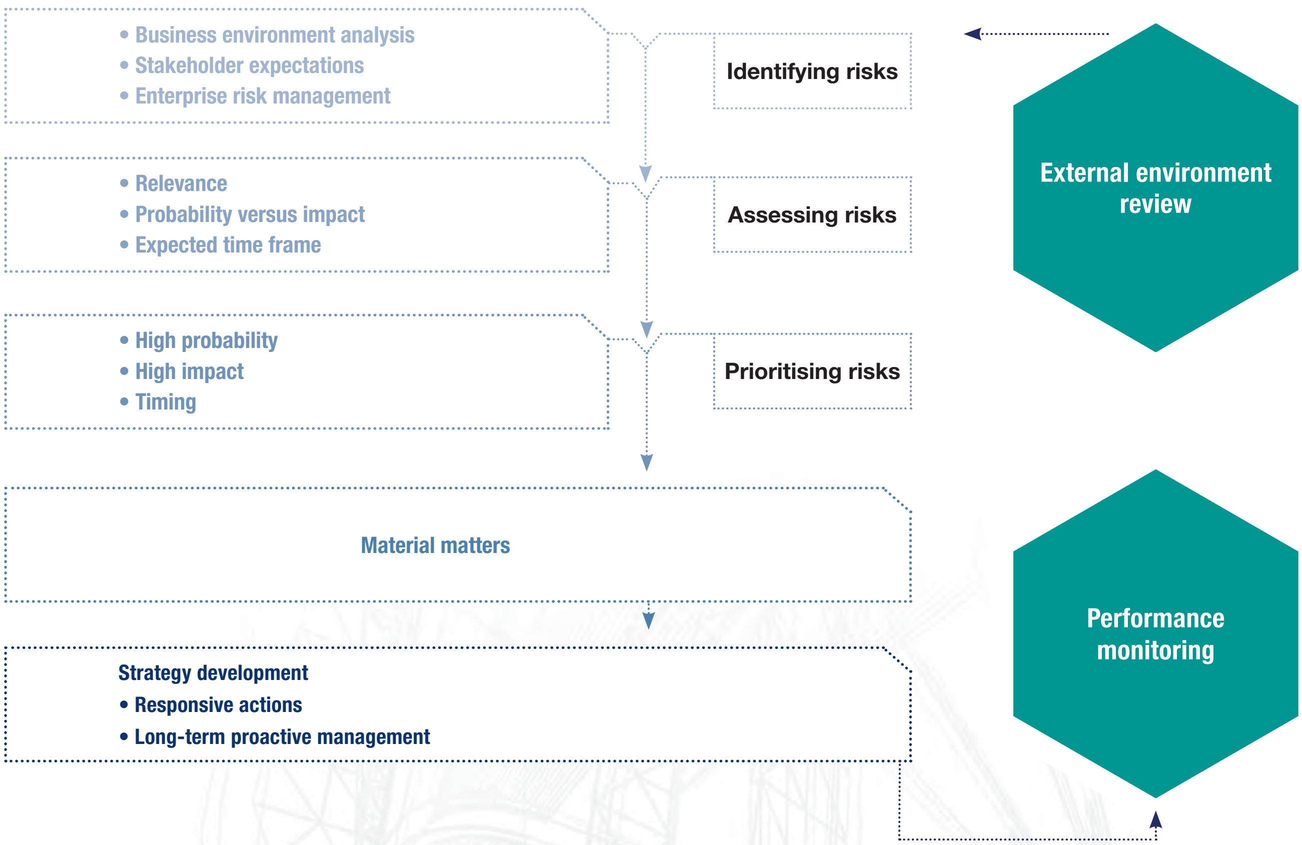
MATERIALITY DETERMINATION PROCESS

The determination and assessment of material matters is an ongoing process that assumes organisations operate in dynamic environments. A successful business model is achieved when material matters (risks, opportunities and stakeholder expectations) inform the strategy (how the business is responding). Therefore, the determination of material matters is critical to the ability of the business to create value as the conditions in its external environment change over time.

Waco International conducts an annual risk assessment at each business and combines the results to produce a comprehensive list of strategic, financial, reporting, IT, compliance, reputational and operational risks with a rating of low, medium or high assigned to each. This database is measured from the perspective of the Group as a whole, considering both stakeholder expectations and conditions in the external environment, and plotted against strategic targets and objectives.

The process of prioritisation involves considering the risk and opportunity likelihood and potential impact within the quantitative and qualitative parameters set by the business, and reasonable time frame to ascertain the most material matters affecting the Group. These matters form the foundation for the Group's future materiality assessments as management seeks to align its strategic approach with the most critical factors in its operating environment over time.

The relationship between Waco International's risk management, material matters and strategy development is illustrated in the diagram below.



STAKEHOLDER OVERVIEW

The expectations, support and concerns of stakeholders impact Waco International's ability to optimise and grow its business; therefore, proactive engagement with stakeholders contributes to the way the Group operates. Waco is committed to strengthening its existing relationships and collaborating with a widening network of role-players through regular and meaningful engagement.

An overview of the Group's stakeholders is provided in the table below and a detailed discussion of the Group's material matters is provided in the following pages.

Stakeholder category and profile	Nature of engagement and status	Impact	Key expectations	Related material matters
Customers Customers range from small businesses to global companies, municipalities and governments. This relationship attracts the capital which allows the business to continue operating at sustainable levels.	Engagement takes place through the customer relationship management function at each business. All contracts involve interaction before, during and after completion to maintain a sound relationship and ensure customer satisfaction.	Customer satisfaction with service enhances the Group's professional reputation. This increases the Group's prospect of renewing contracts, expanding its service offering and attracting new business.	• Fair product and service cost • High product and service quality • Safe and responsible business practices • Responsible and reliable labour practices • Expert technical support and experience • Ability to provide solutions	• Contract execution • Contract quality • Contract renewal • Reliance on key customers
Employees Employees provide labour on a full-time, long-term or short-term contract basis. Leadership, including branch and middle management, and executive leadership, make decisions to determine how the business is conducted.	Engagement takes place in the daily operations of the business, with formalised structures to ensure fair remuneration and incentivise performance aligned with the Group's strategy. The Waco Foundation is a vehicle of social investment. The Foundation provides bursaries for dependants of certain permanent, full-time employees to study at tertiary education level.	The delivery of high-quality service to customers ensures the sustainability of the business. The Group strives to maintain an ethical, non-discriminatory and safe working environment and provides opportunities for employees to develop their professional skills and advance within the organisation.	• Fair remuneration • Performance recognition and reward • Safe, comfortable working environment • Skills development and advancement opportunities • Long-term well-being • Effective two-way communication • Job security • Long-term employment prospects	• Contract execution • Effectiveness of growth initiatives • Transformation in South Africa • Labour stability in South Africa • Accessing and retaining skills • Safety and health

Material matters (continued)

STAKEHOLDER OVERVIEW (continued)

Stakeholder category and profile	Nature of engagement and status	Impact	Key expectations	Related material matters
Labour sourcing partners The business is involved in large-scale labour-intensive industries. Labour brokers are employed due to the variable location, scale and duration of certain projects.	Waco Africa is a major employer in South Africa and depends on responsible labour sourcing partners. SGB-Cape and Kwikform Group have established relationships with responsible labour sourcing partners. As a contractor, SGB-Cape uses the services of these partners regularly when projects require additional short-term resources from nearby local communities. Regular audits are conducted to ensure adherence to ethical practices and standards in accordance with formalised partnership agreements.	Waco Africa's sustainability depends on its ability to achieve a balance between variable labour costs and developing a pool of skilled, motivated labour. The business pursues and maintains relationships built on responsible practices that are legally compliant. Waco International does not outsource its responsibility as an employer and all labour broker employees receive fair and equal treatment in line with other employees.	• Return business and fair treatment • Long-term relationships • Fair remuneration	• Contract execution • Accessing and retaining skills • Labour stability in South Africa
Trade unions The most prominent trade unions in South Africa are NUMSA, NUM, UASA, AMCU and Solidarity.	In addition to the formal recognition agreements and dispute resolution processes in place, the Group proactively and regularly engages with its employees and their representatives. Industrial relations co-ordinators are embedded in the South African businesses and weekly workplace forums identify and resolve issues that arise.	The Group respects and supports its employees' right to collective bargaining. It facilitates a mutually value-adding relationship which provides stable employment and supports the delivery of a high-quality service. Trade unions are able to shape employee perceptions about their work, and consequently play a critical role in their productivity and morale.	• Fair remuneration practices for members • Safe and comfortable working environment for members • Non-discriminatory working environment for members • Meaningful shop steward capacity and leadership • Evidence of employment equity initiatives	• Contract execution • Transformation in South Africa • Labour stability in South Africa • Accessing and retaining skills • Safety and health

Stakeholder category and profile	Nature of engagement and status	Impact	Key expectations	Related material matters
Investors and financiers The Group's shares are held by private equity shareholders (Ethos, RMB, Standard Bank) and senior management.	Extensive engagement with shareholders to communicate the business model and emphasise its value and future potential.	Investors provide the capital that funds business growth. An understanding of the business model, including risks, opportunities and growth potential enhances these relationships and improves the prospect of securing future capital.	• Strategic progress • Sustainable profit growth • Responsible governance • Regulatory compliance • Safety and health record • Social development • Demonstrable transformation	• Effectiveness of growth initiatives • African expansion • Safety and health • Liquidity risk
Small, micro and medium enterprises The South African businesses enter into appropriate joint ventures with black-owned SMMEs.	Certain contracts require the participation of B-BBEE partners. These are best approached in partnership with SMMEs whose status adds credibility to that of the Group. The Group has established long-term, value-adding relationships with a number of its SMME partners. Engagements take place according to the requirements of each contract.	The joint venture relationship is mutually beneficial as the Group provides equipment and expertise, while the corporate resources and labour are provided by the partner business.	• Long-term partnership • Safe and responsible business practices • Expert technical support and experience	• Transformation in South Africa • Contract execution • Contract quality • Contract renewal
Contractors, suppliers and service providers The services of contractors, suppliers and service providers are employed at various stages of the supply chain.	Engagements take place during the course of business, with formalised interaction in the scoping, evaluation and contract structuring phases.	Parallel products and services are often required to deliver products and services according to customer requirements. These relationships vary from long-standing business partnerships to project-by-project collaborations.	• Product and service cost • Product and service quality • Punctual and reliable payment process • Return business • SMME business development	• Contract execution • Contract quality • Effectiveness of growth initiatives

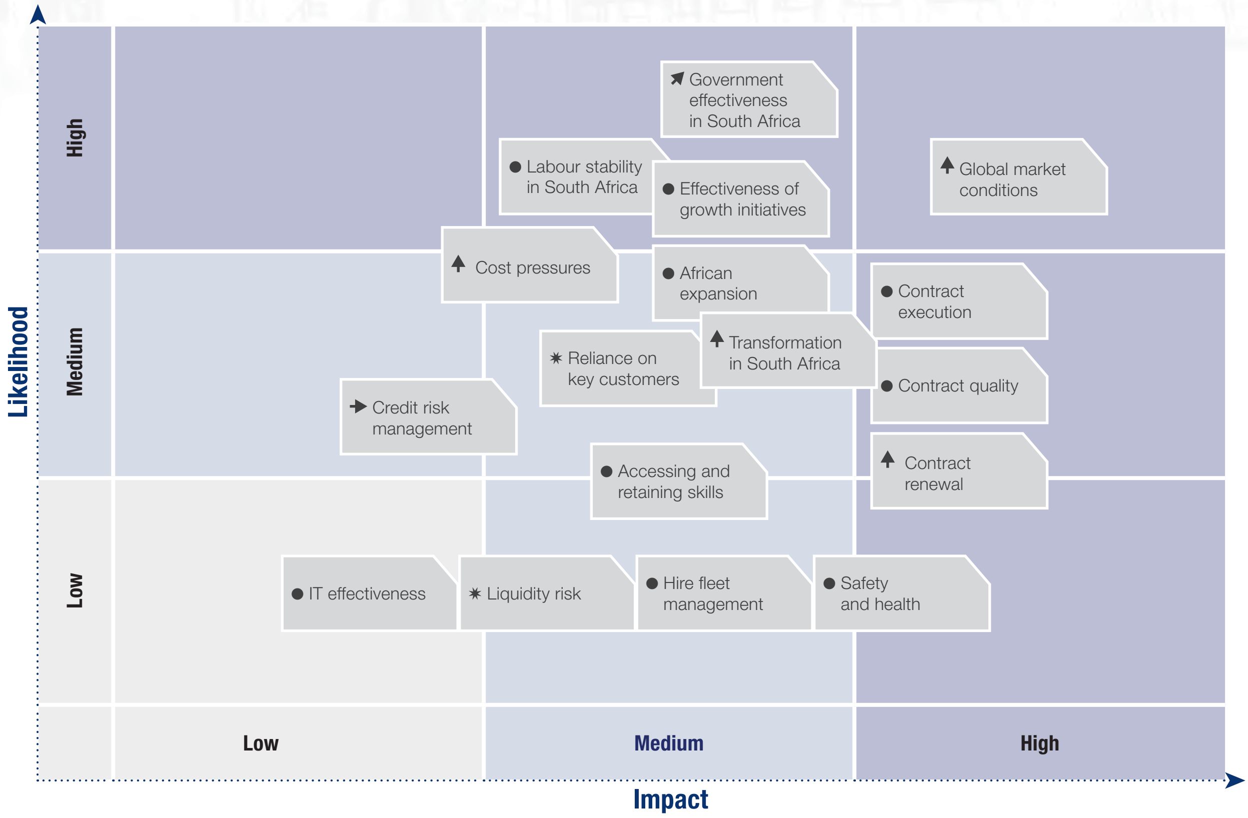
Material matters (continued)

STAKEHOLDER OVERVIEW (continued)

Stakeholder category and profile	Nature of engagement and status	Impact	Key expectations	Related material matters
Governments The Group has operations in 14 countries.	Government representatives are engaged on public sector projects and the Group complies with applicable legislation in order to maintain its licence to operate. Certain sanitation and housing products assist in the provision of basic services, education and healthcare at municipal, provincial and national government level in South Africa.	Government represents a key customer grouping as public sector infrastructure projects account for a major portion of current and future business. The Group is committed to complying with local legislation, particularly as it strives to achieve greater transformation.	• Regulatory compliance • Responsible governance • Sound safety and health record • Social development • Strengthening of employment equity and transformation in South Africa	• Transformation in South Africa • Labour stability in South Africa • Accessing and retaining skills • Government effectiveness in South Africa
Regulatory and industry bodies Industry-specific regulations determine the boundaries within which the business is permitted to operate.	Regulations are applied to financial management, safety and health, product quality and labour practices. The Group undergoes the necessary accreditation processes to remain compliant.	Participation in the relevant forums creates the opportunity to contribute to and influence the regulatory process. The Group benchmarks and shares knowledge with industry peers, particularly with regard to safety and health.	• Regulatory compliance • Knowledge sharing	• Safety and health • Transformation in South Africa
Communities The Group relies on the support of communities in close proximity to its projects across its operating footprint.	Labour is sourced from local communities through responsible labour sourcing partners and promising individuals are identified for longer-term employment. The Group is committed to social upliftment and each business, at branch level, provides corporate social investment support for the community in which it operates.	Local communities offer a source of labour in remote or new locations and the Group relies on their skill, support and local knowledge to execute its contractual commitments. Some of the core products in the portfolio, including portable toilets and modular buildings, provide benefits to disadvantaged communities.	• Employment opportunities • Long-term support • Employee community satisfaction and involvement • Return business • Engaging employees at all levels to ensure a positive contribution is made to the community	• Accessing and retaining skills
Media Industry publications, customer publications and the general print media represent the channels with the highest potential impact on the business.	The Group interacts regularly with relevant media channels through its corporate communication function. The concept of “We are Waco” strengthens the Group’s brand equity by presenting a unified identity among its brands.	Negative reports about the business can cause long-lasting reputational damage if not managed responsibly, thereby affecting investor confidence and the Group’s ability to attract and retain customers. Building positive relationships with the media mitigates this impact.	• Transparency and accountability • Knowledge sharing • Access to information and personnel	• Effectiveness of growth initiatives • Contract execution • Safety and health

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
▲ **Global market conditions** Volatile global economic dynamics and commodity cycles have an impact on local markets.	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. The likelihood of this material matter increased due to the sustained weakness in global 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.	The increased likelihood of this material matter is managed and mitigated by: • Expanding geographically • Diversifying across multiple market segments, products and customers • Identifying and targeting new growth initiatives Additional responses: • Value driver analyses conducted as required • Increased focus on resizing businesses to match changes in demand

Material matters (continued)

MATERIAL MATTERS OVERVIEW (continued)

Material matter	Specific risks, opportunities and impact	Strategic response
➚ **Government effectiveness in South Africa** Ineffective leadership and delayed spending are stalling economic growth.	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. 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. 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.	The increased impact of this material matter is managed and mitigated by: • Identifying and targeting new growth initiatives • Diversifying and expanding geographically • Complying with B-BBEE requirements in South Africa Additional responses: • Increased focus on resizing businesses to match changes in demand
● **Contract execution** The quality of the work performed on a contract impacts the Group's reputation and ability to attract and retain business.	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. 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.	The impact of this material matter is unchanged and is controlled by: • Retaining and developing skilled human capital • Maintaining and growing profitability by managing pricing and cost to serve • Maintaining order book quality and contract delivery
● **Contract quality** The effective scoping, planning and structuring of contracts has a direct impact on the profitability of projects.	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. 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. 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.	The impact of this material matter is unchanged and is controlled by: • Retaining and developing skilled project and commercial human capital • Maintaining and growing profitability by managing pricing and cost to serve • Maintaining order book quality and contract delivery • Diversifying and expanding geographically

Material matter	Specific risks, opportunities and impact	Strategic response
↑ **Contract renewal** Certain contracts contribute significantly to Group revenue and are subject to renewal processes at the end of the agreed contract period.	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. 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. 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.	The increased likelihood of this material matter is managed and mitigated by: • Maintaining order book quality and contract delivery • Complying with B-BBEE requirements in South Africa • Diversifying and expanding geographically • Identifying and targeting new growth initiatives Additional responses: • Increased focus on resizing businesses to match changes in demand
● **Effectiveness of growth initiatives** The effective execution against each identified initiative will determine the Group's ability to sustain its growth trajectory.	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.	This material matter remains unchanged and is managed by: • Retaining and developing skilled human capital • Diversifying and expanding geographically • Identifying and targeting new growth initiatives • Introducing Granularity of Growth
● **African expansion** As the site of major industrial activity and infrastructural development, the African continent offers growth opportunities over the short, medium and long term.	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. 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.	This material matter remains unchanged and is managed by: • Retaining and developing skilled human capital • Diversifying and expanding geographically • Identifying and targeting new growth initiatives

Material matters (continued)

MATERIAL MATTERS OVERVIEW (continued)

Material matter	Specific risks, opportunities and impact	Strategic response
▲ **Transformation in South Africa** Transformation is a social and economic imperative for all South African businesses.	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. 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. 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.	The increased likelihood of this material matter is managed and mitigated by: • Optimising B-BBEE rating • Employing, retaining and developing skilled BEE human capital • Driving meaningful transformation
● **Labour stability in South Africa** Union rivalry and disputes over conditions of employment jeopardise positive labour relations.	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. 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.	This material matter remains unchanged and is managed by: • Retaining and developing skilled human capital • Driving meaningful transformation Additional responses: • Continue to engage regularly with employees
● **Safety and health** The Group's operations are labour intensive and often involve high-risk activities.	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. 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.	This material matter remains unchanged and is managed by: • Retaining and developing skilled human capital • Maintaining order book quality and contract delivery

Material matter	Specific risks, opportunities and impact	Strategic response
● **Accessing and retaining skills** The successful execution of contracts hinges on employees effectively contributing their expertise at each stage of the work process.	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. 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. The future sustainability of the business depends on a pipeline of competent and committed leaders at operational level.	This material matter remains unchanged and is managed by: • Retaining and developing skilled human capital • Maintaining order book quality and contract delivery • Driving meaningful transformation Additional responses: • Reassessing the long-term incentive scheme
▲ **Cost pressures** Healthy operating margins are achieved when returns are carefully balanced with fluctuating input costs.	The impact of this material matter increased due to increasing costs. 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. 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.	The increased impact of this material matter is managed and mitigated by: • Increased focus on resizing businesses to match changes in demand • Maintaining and growing profitability by managing pricing and cost to serve • Optimising return on capital of existing fleet and new investment
✷ **Reliance on key customers** A number of major projects are undertaken for key customers. Non-renewal of these projects could potentially impact the Group's revenue.	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. 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. 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.	This is a new material issue and is controlled by: • Diversifying across multiple sectors and geographies • Identifying and targeting new growth initiatives • Maintaining robust relationships with customers Additional responses: • Complying with BEE requirements and entering into joint ventures with value-adding BEE partners

Material matters (continued)

MATERIAL MATTERS OVERVIEW (continued)

Material matter	Specific risks, opportunities and impact	Strategic response
➔ **Credit risk management** Reliance on sectors in distress potentially exposes the Group to concentrated credit and commercial risks.	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. 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.	The impact of this material matter has increased and is managed and mitigated by: • Diversifying across multiple sectors and geographies • Identifying and targeting new growth initiatives • Maintaining robust relationships with customers Additional responses: • Proactive credit management
● **Hire fleet management** The size and quality of the hire fleet gives the Group its operating advantage.	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.	This material matter remains unchanged and is managed by: • Maintaining and growing profitability by managing pricing and cost to serve • Diversifying and expanding geographically • Optimising return on capital of existing fleet and new investment
✴ **Liquidity risk** The Group requires capital to fund its growth strategy.	Waco International maintains a strong balance sheet to ensure that it has sufficient flexibility to fund its strategy without resorting to excessive leverage.	This is a new material issue and is controlled by: • Managing cash flow • Maintaining a healthy balance sheet
● **IT effectiveness** The size and diversity of the Group increases its reliance on IT infrastructure.	In order for our global operations to communicate timeously and operate harmoniously, we require effective IT systems. 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.	This material matter remains unchanged and is managed by: • Diversifying and expanding geographically • Maintaining and developing human capital Additional responses: • Investing in new IT systems

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

GROUP STRATEGY

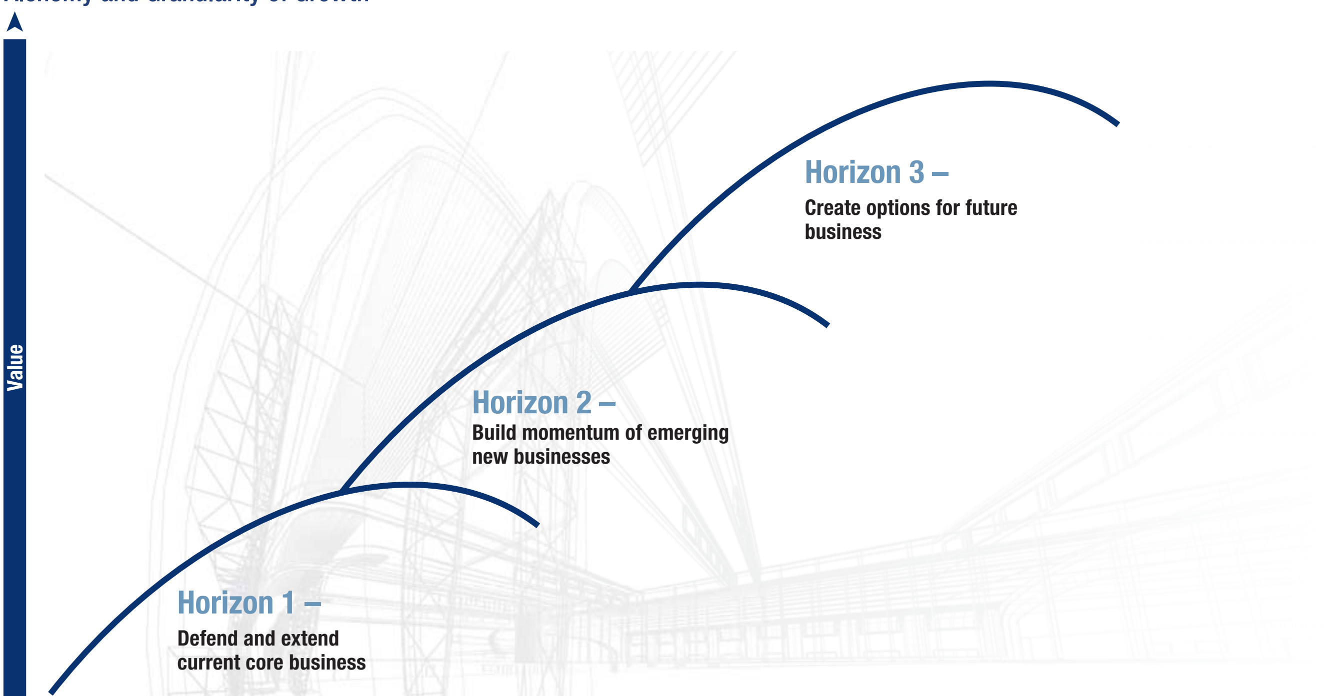
STRATEGY DEVELOPMENT

The predominant strategic objective of Waco International is to diversify and grow as a leading equipment rental and industrial services business. The Group will achieve this by capitalising on opportunities in established and new markets where barriers to entry are high and access to capital is an advantage.

Strategic focus areas and initiatives applied throughout the business support the achievement of this objective.

The board, together with management, regularly assesses the appropriateness and effectiveness of the strategy against challenges and opportunities in the external environment, and allocates required resources to sustain and grow profitability. Group and operational executive management report to the board on material matters impacting performance and the execution of the strategy.

Alchemy and Granularity of Growth



Shift your resources to your best growth opportunities	Invest in markets you do not currently serve	Step out into white space to build new businesses	**Portfolio momentum**
Pursue fill-in acquisitions and divest slow-growth businesses	Bolt on acquisitions or mergers to consolidate or diversify	Diversify into growth areas through small acquisitions	**M&A**
Drive commercial and operation excellence	Refresh your proposition and/or delivery model	Reinvent or disrupt your business model	**Share gain**

Time

ALCHEMY OF GROWTH

The growth strategy of Waco International is encapsulated in the Alchemy of Growth framework adopted in 2011. The framework, developed by McKinsey & Company, is based on the belief that growth is an inherently positive and value-adding process that creates wealth and employment, and stimulates a sense of purpose at work.

Stages of growth are defined in three horizons for business optimisation and creation to take place, in order to ensure that initiatives are being developed on an ongoing basis as a pipeline rather than a static set of targets.

Horizon 1

Defend and extend current core business

Businesses which are critical for near-term performance. The cash generated and the skills nurtured provide resources for growth.

Horizon 2

Build momentum of emerging new businesses

Businesses on the rise – fast-moving, entrepreneurial ventures in which a concept is taking root or growth is accelerating. In a few years, such initiatives should complement or replace a company's current core businesses.

Horizon 3

Create options for future business

Businesses which contain the seeds of tomorrow's businesses, including research projects, test-market pilots, alliances and minority stakes that mark the first steps towards actual businesses.

Each horizon provides a framework for growth and asks a number of questions to which an organisation must develop strategic responses in order to sustain the momentum of growth. Waco International responded to the framework of horizon 1, to defend and extend current core businesses, by optimising the performance, utilisation, market share and reach of established businesses. This stage of growth also required solutions for underperforming businesses to take advantage of latent market potential.

While it continues to manage the objectives of horizon 1, Waco International's growth objectives have required a shift in focus to horizons 2 and 3, to build new businesses with new revenue streams. The Group has extended existing core offerings to new customers, markets and geographies, while introducing new products and services to existing customers, markets and geographies. The emphasis has been on investment in the hire fleet and the development of a number of growth initiatives.

Opportunities for future businesses under horizon 3 are constantly and actively explored. These include strategic alliances and partnerships, the creation of new sales channels, and bolt-on acquisitions that complement existing offerings or larger strategic acquisitions of adjacent or new businesses.

GRANULARITY OF GROWTH

Waco International introduced the Granularity of Growth concept in June 2016, to extend and refine the Alchemy of Growth strategy. The Granularity of Growth concept, also developed by McKinsey & Company, is founded on the belief that companies should base their growth strategies on more detailed views of their markets to identify growth opportunities. The concept will be implemented throughout the Group in 2017, to enable a deeper understanding of growth opportunities within the customer base and sectors of each of the businesses. This will position the Group to capitalise on new opportunities and achieve its ambitious growth objectives over the next three to five years.

STRATEGY OVERVIEW

Progress to date

Having substantively executed the strategy formulated in 2011 to grow, diversify and optimise its businesses, enabling the Group to take advantage of opportunities in all economic cycles, Waco International developed a new set of strategic goals and targets from a 2015 baseline year. Progress against each objective is measured and monitored against a set of clearly articulated performance indicators. Changes to initiatives are made as appropriate. The contribution of new growth initiatives to Group revenue and Group EBITDA is measured separately for the first two years after inception to track the return on investment. Thereafter, they are accounted for as business as usual.

An overview of the core Group objectives is provided in the table below, including progress against the objectives and focus areas going forward. These are expanded on in the pages which follow.

Strategic goals and targets	Progress	Future focus areas
Minimum sustainable EBITDA growth rate of 15% per annum to June 2018	✓ EBITDA CAGR of 28% ✓ achieved from 2013 – 2016	Restore growth trajectory in difficult market conditions
Achieve by:		
• Growing other sub-Saharan Africa sustainably, delivering a CAGR EBITDA of 25% per annum to June 2018	✓ Target is considered achievable	• Grow market share in existing countries of operation and open new branches
• Achieving positive EVA for Kwikform	✓ Target is considered achievable by June 2018 ✓ New Zealand continues to achieve positive EVA	• Continue to grow formwork and new products (rope access, small plant hire)
• Achieving positive EVA for Form-Scaff Chile	✓ Target is considered achievable by June 2018	• Strengthen sales force and target new customers
• Defending and extending core business while executing growth initiatives	✓ Geographic and product diversification ✓ Development of new growth initiatives	• Realise value from new initiatives
Diversifying the industrial services business across a number of industries and geographies	✓ Range of new products and services developed and offered to existing customers ✓ Expansion of existing products and services to new customers and markets	Realise value from newly developed products, services and branches
Enhancing Waco Africa's B-BBEE status	✓ Level 2 B-BBEE certified	Improve employment equity and procurement scores, with a target of achieving level 4 or better under new codes

✓ Achieved.

Summary of objectives

The strategic objectives of the two overarching strategic focus areas and their relationship to the three horizons of the Alchemy of Growth framework are represented below. Specific initiatives are described in the pages which follow, along with cross-references to where more information is disclosed in the report. The initiatives have been addressed to provide insight into the financial and non-financial performance indicators against which the Group measures its performance.

Alchemy of Growth	Strategic focus	Strategic objectives
Horizon 1 Defend and extend current core business	**Optimise, defend and extend**	• Maintaining and growing profitability by managing pricing and cost to serve • Optimising return on capital – existing fleet and new investment • Maintaining order book quality and contract execution • Retaining and developing skilled human capital • Driving meaningful transformation • Plan B/restructure
Horizon 2 Build momentum of emerging new businesses **Horizon 3** Create options for future business	**Expansion and growth**	• Diversifying and expanding geographically • Identifying and targeting new growth initiatives

Group strategy (continued)

OPTIMISE, DEFEND AND EXTEND

Maintaining and growing profitability by managing pricing and cost to serve

Rightsizing and growth of branch footprint and structure to market demand

- Monthly assessments of all branches, measuring current EVA against current market conditions
- Where overheads are disproportionate to returns, branches are closed, restructured, relocated or consolidated
- Equipment and personnel can be redeployed to respond to more favourable market conditions

Leveraging operational efficiencies and synergies between businesses

- Taking advantage of the Group's agility by sharing yards and resources, thereby improving overheads
- Increased integration improves fleet utilisation and allows for cross-selling opportunities between the businesses

Working capital management

- Efficient turnaround of contract receivables and subcontractor payables supported by skilled management of sales and procurement activities
- Streamlined billing processes and contract structuring to ensure inflows and outflows are co-ordinated to reduce debtors days

Key performance indicators

Reported

- Revenue
- Profitability
- RONAM and EVA
- Gross margin
- Fleet investment and utilisation
- NOCF
- Debtors days

Used internally

- Revenue per ton/unit
- Payback period
- Hire/labour/transport margins
- Cost saving on redeployment vs new investment
- Project margins: bid/actual percentage
- Inventory days, creditors days and net working capital days

Optimising return on capital – existing fleet and new investment

Hire fleet management and pricing

- Building on experience in the careful balancing of utilisation, maintenance and pricing
- Annual capital expenditure budget allocation and regular reassessment to respond to new opportunities
- Maintaining the quality of the hire fleet according to a well-established refurbishment policy

Strategic allocation and relocation of hire fleet across operating geographies

- Equipment and personnel can be moved within the Group's global network to participate in high-return, high-margin contracts and markets
- Scale, quality and diversity of the hire fleet, combined with depth of customer relationships, provides operational leverage

Investing in scalable and efficient IT systems to support geographic expansion

- Increased focus on IT as a key enabler of growth through enhanced reporting and communication capability
- Software upgrades, new systems and centralised servers were implemented in the operating businesses and outdated hardware was replaced with superior technology

Key performance indicators

Reported

- Revenue
- Profitability
- RONAM and EVA
- Fleet utilisation

Used internally

- Revenue per ton/unit
- Payback in years
- Cost saving on redeployment vs new investment
- Project margins: bid/actual percentage

Maintaining order book quality and contract execution

Contract selection

- Only contracts which do not exceed the risk appetite and will generate sustainable profit margins are pursued
- Project evaluation is based on a contract approval authority matrix, which involves several rounds of assessment from operational to board level, depending on scale and risk
- Balance win rates and project pipelines with the requirement for safe and compliant projects at sustainable margins

Contract structuring with appropriate risk and pricing thresholds

- Formalisation of commercial manager role and operational contract managers, where necessary, to improve contract quality and ensure terms and conditions of commercial contracts are suitable and executed or adhered to
- Contracts structured to include appropriate risk and pricing thresholds, and built-in opportunity costs for project overruns

Post-contract assessment process

- Formalised post-contract debrief process assesses and consolidates key learnings to improve procedures
- Delivery on schedule, on specification and on budget included in project execution key performance indicator (KPI)

Key performance indicators

Reported

- Order book
- Gross profit
- Debtors days
- Safety indicators*
- B-BBEE rating

Used internally

- Contract win rate
- Margins: bid/actual percentage
- Project delivery KPIs

*Discussed in detail in the sustainability overview, available online.

Group strategy (continued)

OPTIMISE, DEFEND AND EXTEND (continued)

Retaining and developing skilled human capital

Joint performance management framework

- Ensuring a pipeline of talented employees through appropriate recognition and reward structures
- The primary mechanism, the balanced scorecard, considers key financial performance indicators (75%) as well as personalised goals (25%) as the basis for remuneration
- Implementation of a long-term retention scheme (WGARs)
- Management owns 11.8% of the business

Training and development programmes

- Employee development programmes are available at every level of the organisation
- Internal candidates are preferred for promotion to available positions to encourage commitment and performance and sustain the organisational culture
- Health and safety training

Safety and health

- Significant resources allocated to management of safety and health, with weekly engagement (Toolbox talks) to raise employee awareness on site
- Collaborative learning about performance, procedures and practices takes place between Waco businesses and in industry forums to share knowledge and improve practices
- Safety and health objectives are incorporated in the balanced scorecard remuneration process to incentivise individual focus on this indicator

Innovation and execution-focused culture

- The Alchemy of Growth framework and the Continuous Improvement ethos promote a culture of innovation and performance necessary in challenging economic conditions
- Employees are encouraged to contribute towards the innovation of products and/or processes; a number of promising ideas have given rise to the new products and services in which the Group is investing for future growth
- Research and development is ongoing
- Co-operation throughout the Group to share know-how, save costs and sweat assets, leading to higher utilisation rates and RONAM

Employee engagement

- Employee engagement takes place in various forms at different levels throughout the business
- The Employee Wellness Programme offers support to employees with personal or professional concerns
- Employee engagement contributes to healthy industrial relations and ensures employees and their representatives are satisfied with their terms and conditions of employment
- Toolbox talks, workplace forums and industrial relations co-ordinators maintain regular and productive engagement with employees

Key performance indicators

Reported

- Short-term and long-term incentive coverage
- Number of participants per programme*
- Staff turnover rates*
- Employee Wellness Programme uptake*

Used internally

- Number of promotions of trained staff
- Employee satisfaction surveys

*Discussed in detail in the sustainability overview, available online.

Driving meaningful transformation

B-BBEE ownership

- Empowerment transaction with 100% black-owned Bopa Moruo with a 25.1% stake in Waco Africa
- Level 2 B-BBEE rating (under current codes)

Skills development programmes

- HDSA employees of Waco Africa are given the opportunity to improve their skills through the Cadet Scheme and compete for more senior roles
- ABET is provided to employees to improve literacy and numeracy skills, and empower individuals from historically disadvantaged backgrounds

Pursuing appropriate empowerment relationships through mutually value-adding joint ventures

- Select joint ventures with suitable empowerment partners to strengthen the Group's ability to win contracts and support local enterprises in South Africa
- The Group provides the equipment and expertise on projects, as well as development and upskilling opportunities for the personnel employed in the partner businesses

Key performance indicators

Reported

- B-BBEE rating*

Used internally

- Number of promotions of trained employees
- Revenue and EBITDA from joint ventures

*Discussed in detail in the sustainability overview, available online.

Update on Plan B turnaround

A number of the "optimise, defend and extend" strategic initiatives were incorporated in the Plan B turnaround for the international businesses which are at various stages of fulfilment. Premier Modular achieved positive EVA in 2015, supported by a focus on sustaining increased utilisation and investing in its fleet in order to grow rental profits. Waco Kwikform continued to achieve positive EVA in New Zealand with the support of a resistant market environment and expansion of its industrial services offering. The Australian operation, which has grown market share in the local formwork market and strengthened commercial capacity to improve returns in the scaffolding operations, is expected to achieve positive EVA in 2018. The performance of Form-Scaff Chile is focused on growing market share and increasing utilisation to achieve its targeted RONAM.

Group strategy (continued)

EXPANSION AND GROWTH

Diversifying and expanding geographically

Other sub-Saharan Africa expansion plan

- The African continent represents a large growth opportunity for South African businesses
- The established sub-Saharan operations of Form-Scaff and SGB-Cape have provided a platform for the strategic introduction of Sanitech, Abacus and SkyJacks products to receptive markets
- Country-specific business plans are developed in response to risks and opportunities unique to each, with a focus on expanding in existing countries
- Key leadership roles are filled by Waco employees, with investment in establishing local teams to drive operational excellence
- Designated role to drive major projects with engineering, procurement and construction companies
- Board oversight of the Africa governance working group of the audit and risk committee with the assistance of external advisors to ensure the necessary financial resources and compliance mechanisms are in place

Ability to move skills and fleet to markets/geographies to leverage optimal returns

- Operational leverage provided by the scale and diversity of the hire fleet, spread across a range of geographies, enabling the movement of skills and equipment between businesses, markets and locations
- Ongoing monitoring of fleet utilisation and profitability across regions to strategically redeploy hire equipment to more lucrative markets, particularly hotspots

Key performance indicators

Reported

- Revenue
- EBITDA/EBIT
- Capital expenditure by country

Used internally

- Cost savings on redeployment vs new investment
- RONAM/EVA by country

Identifying and targeting new growth initiatives

Acquisitions – pursuing appropriate targets

- Build on good track record of value-adding bolt-on acquisitions that complement the existing offering and support the Group's positioning as a diversified industrial services business
- The Group remains alert to acquisition opportunities into adjacent and new businesses that align with its stated objectives and organisational culture

Access new products and customers through active research, development and innovation in each business

Abacus
- Build Own Operate camps: A flexible accommodation product, ideal for large construction projects requiring personnel accommodation over long periods
- Alternative Building Technology: A hybrid product between modular and bricks and mortar that is durable, quickly assembled, fire-rated and thermally insulated
- EzeeSpace: A unique, technically advanced modular building product that is scalable and flexible

Sanitech
- Integrated hygiene services: Washroom solutions, deep cleaning, daily cleaning, pest control and septic tank pumping
- Steam clean toilet: The steam clean toilet uses steam and a rotating bowl, thereby saving water and bypassing the need for water infrastructure
- NIC toilet: Suited to underground mining and informal settlement applications, the NIC uses nanotechnology to keep the bowl clean and minimise water usage
- Retro-fit kit: A standalone, flushable latrine with expandable bladder that can be fitted to existing latrines with minimal environmental impact
- Portable wastewater treatment plants: Modular, containerised plant, designed to respond to lack of existing infrastructure in this area and reduce Sanitech's transport and dumping costs

SGB-Cape
- QuikDeck: A suspended access platform product for which the Group has obtained sole distribution rights in Africa
- Rope access: Providing access inspection, non-destructive testing and work-at-height maintenance solutions where scaffolding and suspended aerial work platforms cannot reach effectively

Form-Scaff
- Various new and improved formwork systems
- Small plant hire: Smaller, easily transported construction tools for rental, using the existing branch footprint and customer relationships

SkyJacks
- Aerial working platforms: Expansion of this offering as an extension of the suspended access platform offering

Kwikform
- Introduction of formwork
- Rope access
- Industrial labour

Premier Modular
- Reengineering fleet
- Housing project

Form-Scaff Chile
- Improve mix of equipment to access infrastructure market

Key performance indicators

Reported
- Revenue and EBITDA from growth initiatives
- Capital expenditure invested
- NOCF

Used internally
- Research and development spend
- Return on investment from acquisitions

We are WACO international

M1 Katherine Bridge Johannesburg

CHAIRMAN'S STATEMENT

"The performance of Waco International in 2016 bears testimony to the Group's ability to develop a growth strategy and execute it successfully – even in the most difficult of times."

Royden Vice
Chairman

The performance of Waco International in 2016 bears testimony to the Group's ability to develop a growth strategy and execute it successfully – even in the most difficult of times.

The ability of Waco International to develop and successfully execute a growth strategy is reflected not only in the exceptional performances of our international businesses but also the resilience displayed by our domestic operations and the innovative thinking behind the growth opportunities that will enable the Group to maintain acceptable levels of growth in future.

The international businesses in Australia, New Zealand and the UK achieved combined EBITDA growth in excess of 50% in markets that were generally subdued in line with the global economy.

The New Zealand business benefited from the country's relatively robust economic growth and maintained its strong growth trend. The Australian and UK businesses responded well to decisive strategic interventions that have transformed them into leaner, more efficient operations, able to access and realise growth opportunities and contribute to the Group's profitability.

The South African operations experienced difficult conditions which are taking a severe toll on many businesses in our sectors – and this contributed to the slower overall EBITDA growth achieved. Despite this, the operations have remained profitable due to the continuous measures we apply to protect revenue streams and optimise financial performance, coupled with capital investment and the constant pursuit of new opportunities for growth.

For many of our South African businesses, opportunities lie further north of South Africa, in other sub-Saharan countries where the Group continues to respond to demand for the diversified equipment rental and industrial products and services it offers.

Our decision to cancel the JSE listing of Waco International in October 2015 was a great disappointment for all of our people who worked hard to prepare the Group for this quantum leap. It was, however, the appropriate response to the collapse of the M1 bridge in Sandton on 14 October 2015. We extend our condolences to the families of the two people who died in this tragic incident and to the 23 others who were injured, and await the conclusions of the Department of Labour's enquiry into the incident.

OPERATING CONTEXT

Slower growth in China and the prolonged commodities downturn maintained downward pressure on the global economy. This is contributing to ongoing weakness in the resources and energy sectors in South Africa and Australia. Current global events such as the migration of Syrian refugees and Brexit threaten to worsen the economic outlook for Europe and the UK. Our Australian business benefited from growth in the local construction sectors, but the mining, resources and industrial sectors remained subdued. Growth in the London building market supported the UK business during the year. In South Africa, slow economic growth and delays in public sector infrastructure investment were compounded by unsupportive political decision-making, a volatile labour market and a culture of corruption that pervades our society. While these global and domestic trends impacted the markets we serve, our strategy to diversify and grow mitigated the impacts of economic cycles and major events. You will find evidence throughout this integrated report of the resilience we have built into our businesses to protect them from economic and market cyclicality.

STRATEGY

We continue to implement the Alchemy of Growth strategy to optimise and defend our core businesses while pursuing new opportunities to diversify, expand and innovate. But, it is clear that in current market conditions, achievement of the Group's growth objectives requires a more targeted approach to resource allocation. In turn, this requires a more detailed exploration of exactly where growth opportunities are and how they can be accessed and maximised, using our existing capabilities and assets. This, and our culture of Continuous Improvement, led to the introduction of the Granularity of Growth strategy which, like the Alchemy of Growth, encourages our people to apply strategic concepts to their own businesses as they seek new growth.

GOVERNANCE

Governance provides the framework and processes intended to achieve our strategic objectives. Failures of governance globally in recent times taught us that it represents much more than these mechanisms. Good governance is participatory, transparent and accountable. It encompasses all aspects of our business and it should ensure that we execute our strategic objectives effectively and ethically in the markets and communities in which we operate.

Although Waco International is not listed, it largely fulfils the governance requirements of a listed company and is aligned with the majority of the principles of the King IV Report on Corporate Governance, released for comment in March 2016. Executive management is accountable to the board for performance and progress against stated objectives. The directors are responsible for the oversight of compliance and assurance practices in the Group and ensure that engagement with stakeholders builds and strengthens key relationships. Subcommittees of the board have mandates for the governance of the board's major areas of responsibility, including audit and financial controls, risk, strategy development, remuneration, transformation and safety.

The pursuit of our strategic objectives requires hard work and dedication from our people and it is our responsibility to ensure that they are able to develop and work in environments that do not expose them to harm. Safety is a key focus of governance. We continuously work to achieve safer working environments through incident reporting, knowledge sharing, and weekly safety awareness discussions on site. It is pleasing to report that these measures have contributed to the achievement of zero fatalities and an improvement in the LTIFR from 0.85 in 2015 to 0.42.

While we embrace the need to transform our South African workforce in line with the requirements of B-BBEE, we also aim for demographic representation in the other jurisdictions in which we operate. We seek to achieve our transformation goals through a sustainable approach in which human capital is developed and promoted within the Group. Historically disadvantaged South Africans benefit from mentorship and learnership programmes through the Waco Africa Cadet Scheme, while ABET empowers individuals with core skills that improve their employment opportunities. The Group currently has a level 2 B-BBEE contributor status and is implementing measures to achieve a level 4 status under the revised codes. Driving meaningful transformation is a strategic objective for the Group.

OUTLOOK

The economic outlook in the markets in which we operate is mixed. While we anticipate that growth will remain subdued in South Africa, other sub-Saharan African countries in which we have a presence offer good opportunities, despite the impact of the sustained commodities downturn on the continent. Australia is experiencing growth in sectors such as social infrastructure and residential building, while the New Zealand economy remains relatively buoyant, with strong growth in some of the industrial maintenance sectors we serve.

We commenced the new financial year with a strong pipeline of projects and intend to continue pursuing our strategy to diversify across multiple geographies, sectors and products. A number of growth initiatives are starting to realise their potential and are expected to contribute to future growth.

APPRECIATION

2016 has been a challenging year that required a deep level of commitment to our Group. I would like to thank the board for the wise counsel I have received from them, and particularly the representatives of our shareholders who added much value to the Group. I commend Stephen Goodburn and his management team for their unwavering dedication to the strategic initiatives that will continue to contribute to the growth of our businesses and the creation of value for our stakeholders.

Royden Vice
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

"A key feature of the Alchemy of Growth strategy demonstrated in the 2016 operational performance is the extent to which Waco International has maintained growth by ensuring that its businesses are resilient and therefore sustainable."

Stephen Goodburn
Chief Executive Officer

The successful execution of our strategy to create sustainable businesses enabled Waco International to deliver a satisfactory performance in difficult operating conditions. The Group continued to extend and defend its existing businesses while making progress in the development of innovative initiatives geared to enable the achievement of growth targets.

The performance of Waco Africa slowed as weakness in the South African economy, compounded by an unsupportive political environment, impacted the sectors served by the Group's domestic businesses, resulting in a 6% decline in EBITDA. This was mitigated by strong performances from the international businesses in Australia, New Zealand and the UK, which delivered combined EBITDA growth in excess of 50% after a period of intensive restructuring. The UK operation became EVA positive in 2015, and the Australian operation is expected to achieve the target in 2018. The New Zealand operation continues to achieve the strategic target of positive EVA.

Expansion into other markets in sub-Saharan Africa also gathered momentum during the year, while a number of innovative growth initiatives intended to sustain the Group's growth trajectory in the longer term started to contribute to revenue and earnings.

Overall, Waco International reported slower EBITDA growth of 8% ✔ for the year to 30 June 2016, and a CAGR of 28% ✔ over the past three years.

STRATEGIC PROGRESS

Waco International successfully executed key strategic initiatives over the past four years that have resulted in improvements in operational and financial performance.

During this period, we invested over R1 billion of capital expenditure to maintain and expand our hire fleet and extend the branch network in South Africa and other markets in sub-Saharan Africa. We acquired businesses to strengthen our market share in key targeted market sectors in New Zealand and South Africa. The Group also implemented the turnaround plans in the UK and Australasian operations that have contributed to a 5% increase in the revenue of Waco International and an 8% increase in EBITDA in 2016.

Generating value and maintaining growth in the current global economic environment is difficult and requires an innovative and dynamic approach to strategy. The broad objective of the Alchemy of Growth strategy implemented in 2011 is to ensure that the established core businesses maintain leading market positions and continue to generate value. This value enables us to fund future growth through the development of innovative new products and expansion into new sectors that represent new revenue streams and will, in time, become part of the core businesses.

As demonstrated in the 2016 operational performance, Waco International maintained growth by ensuring its businesses are resilient and therefore sustainable, confirming the effectiveness of the Alchemy of Growth strategy. By increasing annuity-type income, growing the exposure of businesses to non-cyclical sectors such as industrial maintenance, power generation and municipal infrastructure development, and diversifying products and services across multiple sectors and geographies, the Group has become more resilient to cyclical trends and able to grow during economic downturns.

While all of the elements of the Alchemy of Growth strategy continue to be implemented and the turnaround plans are near completion, there has been increased emphasis on horizons 2 and 3 of the expansion and growth focus area.

In support of this, we introduced a new strategic concept called the Granularity of Growth to deepen our understanding of where rapid growth is generated and how returns can be maximised by leveraging existing assets and customer bases in the sectors served by the various operating businesses. This will strengthen our ability to capitalise on new opportunities and achieve ambitious growth objectives over the next three to five years. The Granularity of Growth concept was introduced to the top management team, comprising 50 executives across Waco International, at the annual conference in June 2016, and will be further articulated and then adopted throughout the Group, from the operational branch level to senior management.

Waco International focused on a number of key strategic objectives intended to drive growth and value creation. Progress in executing these objectives is discussed below.

Achieve sustainable EBITDA growth rate of 15% per annum

To achieve the overriding objective of a minimal sustainable EBITDA growth rate of 15% per annum, it is necessary for Waco International to protect the revenue growth of its core business activities in subdued trading conditions and continue investing capital in future growth opportunities. While the Group did not achieve this target during the year, it made considerable progress in a number of strategic initiatives that are contributing to its achievement and has achieved well above this growth rate in the last three years.

Achieve sustainable CAGR in EBITDA of 25% in sub-Saharan Africa

One of the key contributors is a longer-term target to achieve 25% CAGR in EBITDA in other markets in the sub-Saharan Africa region. Waco Africa has a diverse portfolio, comprising the more established core businesses, Form-Scaff and SGB-Cape which operate across sub-Saharan Africa and the defensive South African businesses, Sanitech, Abacus and SkyJacks which are in varying stages of expansion into other markets in sub-Saharan Africa.

> "Waco International successfully executed key strategic initiatives over the past four years that have resulted in improvements in operational and financial performance."

The strategy to expand further in the region began in 2012, and was led by Form-Scaff and SGB-Cape, which had a presence in some markets north of South Africa, including Namibia and Mauritius. Since then, Abacus and Sanitech have opened branches in Namibia, Zambia and Botswana and the Group has grown its footprint to 20 branches in nine sub-Saharan Africa countries.

In the next year, the focus will be on opening new branches in other growing African economies to mitigate the Group's exposure to the cyclical construction industry in South Africa, while leveraging the investments made in 2015 and 2016. A key focus area will be introducing the South African product suite of Abacus, Sanitech and SkyJacks to the branches in sub-Saharan Africa. Abacus is established in Namibia and Zambia, where it has built two private schools and three training facilities for a donor fund. SGB-Cape has a R10 billion pipeline of potential opportunity, including the Moropule Power Station in Botswana where SkyJacks, Abacus and Sanitech have all secured work on a related refurbishment project. SGB-Cape's projects are, however, reliant on international funding which results in long lead times for project start-ups.

Chief Executive Officer's report (continued)

Achieve positive EVA for Kwikform and Form-Scaff Chile
The Kwikform Group delivered a strong performance following restructuring in the 2015 financial year.

Although the Australian operation has not yet achieved positive EVA, the New Zealand operation has achieved this target.

The introduction of formwork and industrial labour to the Australian operation's core offering of scaffolding added value to existing customers and increased growth in market share in the relatively more resilient markets of Brisbane and Sydney. The on-site training of customers in the Tifa range of formwork products secured a number of new customers who are also hiring scaffolding. The strategy of cross-selling an increasing number of new products and services through the Group's extensive 22 branch network and customer base strengthens profit margins as it does not require high additional overhead cost. The introduction of the rope access service offering to Kwikform in Australia during 2016 is further evidence of this strategy in action.

The New Zealand operation delivered an exceptional performance as it realised the benefits of a diverse range of offerings, including formwork, and leveraged the track record it established in the industrial maintenance sector on the South Island by expanding into this sector on the North Island through a new branch in Wellington.

Management expertise gained from the successful turnaround of the UK and Australian operations continues to be applied to the Form-Scaff operation in Chile, which offers future long-term potential for expansion in South America.

Having achieved positive EVA in 2015, Premier Modular in the UK is now delivering RONAM at satisfying levels as it realises the benefits of reengineering its core modular products, introducing new products and entering new geographic markets, all of which have diversified its geographic, customer and product exposure. Premier Modular secured the first order to supply site accommodation and administration buildings for the Hinkley Point 3.2 Megawatt Power Station in Somerset, which contributed to a healthy order book for 2017, and offers the potential of additional work on the project.

"The Kwikform Group delivered a strong performance following restructuring in the 2015 financial year."

Defending and extending core businesses while executing growth initiatives
Waco International has solid, established businesses in South Africa and Australasia, where the scale of its operations is more extensive than those of its competitors, and a niche position in the UK. The Group focuses on growing its profitability in these markets by optimising the size and location of its branch network, leveraging operational efficiencies and managing the cost to serve.

Each business across each region in which Waco International operates implements the elements of the strategy necessary for it to achieve organisational objectives. The Group continues to conduct monthly EVA assessments at branch level to monitor returns relevant to assets under management and, where necessary, devise plans to optimise the cost to serve, while metrics to measure the performance of the Continuous Improvement programme are part of monthly reporting.

This approach enables the Group to respond swiftly and decisively with remedial actions when areas of underperformance are identified, as demonstrated by the following examples.

Rightsizing and aligning activities with market demand
Although SGB-Cape maintained its position as the market leader in its industrial access market, the business experienced no revenue growth in 2016, due to a reduction in industrial maintenance work in South Africa and the lack of major contract awards in sub-Saharan Africa. However, SGB-Cape maintained its EBITDA performance by managing overheads in line with market demand. Form-Scaff, which is materially dependent on the construction sector, limited the decline in its EBITDA performance and outperformed the construction sector by aligning its activities with small to medium sized contractors that benefited from growth in municipal contracts in smaller social infrastructure projects, such as wastewater treatment, reservoir and bridge building sectors.

Leveraging operational efficiencies and synergies between businesses
The focus on cost to serve was heightened during 2016 as a result of the challenging trading conditions, and specific initiatives were launched to ensure the most efficient use of all resources. One of these involves the development of a centralised hub to serve the transport needs of the five South African businesses which currently own approximately 600 delivery and service vehicles. Once tested and refined, the initiative will be implemented in 2017, and the benefit of improved cost efficiency will be realised from the final quarter of the 2017 financial year. This approach is consistent with the considerable operational leverage a well-maintained and mobile hire fleet and geographically diverse customer base affords the Group. Higher levels of efficiency and synergy are achieved by sharing resources or relocating them across its footprint to markets that offer the most value. It also enables the Group to generate rapid profitability from new products by cross-selling to an existing customer base.

Major contracts are subject to an extensive risk assessment process which considers the operational risk of each project. The Group selects contracts that generate sustainable profit margins without exceeding its risk profile. Capacity is reviewed routinely to ensure the necessary expertise and skills base to execute major projects effectively. Commercial capacity was strengthened and this contributed to an improvement in the quality of project selection and the delivery of projects at tendered margins, particularly in the international operations.

Mitigating risk of contract renewal by sourcing additional revenue streams
A number of major contracts were completed and renegotiated. Our largest single contract remains the Kusile Power Station project where over 2 000 Waco International employees work on site. The Group tendered for the three-year insulation contract on boiler units 3, 4 and 5 to counter the eventual completion

of insulation and scaffolding contracts on units 1 and 2 and is awaiting the outcome of negotiations to renew a contract to supply sanitation services to the Kusile project. The contract to supply sanitation services to the Ekurhuleni Municipality was renewed for a further two years. The Eskom maintenance contract was extended to December 2016, due to delays caused by legal processes associated with the tender award. Waco International has a difference of opinion with Eskom regarding the award and the Group is engaging with Eskom to clarify any misunderstanding. We expect the contract to be extended pending the outcome of this process. Given the revenue value of the contract, which is between R200 million and R250 million per annum, the uncertainty surrounding the award represents a risk to the Group and we are attempting to mitigate the risk by sourcing additional revenue. A three-year contract to build schools for the Gauteng Department of Education was not awarded due to funding being allocated to meet other educational needs and is expected to be awarded in 2017.

Retaining and developing skilled human capital

Waco International is heavily reliant on human capital to maintain its good reputation by delivering on customer expectations and executing all contracts safely and on specification. This is supported by a performance-driven culture founded on a balanced scorecard approach, which incentivises employees to contribute to the Group's overall success while rewarding the fulfilment of personalised growth plans. The Group has stable, long-serving leadership and management teams and favours internal candidates for promotion when positions become available. This achieves commitment, targeted skills development and acceptance within the Group.

Employee development programmes offered at different levels of the organisation and structured to achieve specific outcomes, contribute to the development of a pipeline of talent to meet the Group's management and leadership succession requirements. BLDPs and EDPs have been customised to contribute to the Group's business development planning processes and many innovative growth initiatives have emerged from ideas and business plans developed during these programmes.

Waco International employs 7 138 people in its business operations and invested R12.7 million in training to develop core and specific skills and ensure that its businesses are more representative of the demographics in the markets within which they operate. It is pleasing to note that 58% of our junior management, 31% of our senior management and 18% of our executives are of colour as a result of this focus. A key focus on safety and healthcare awareness ensures that all employees understand the risks inherent in our industry and their role in maintaining safer working environments. The Group manages safety through incident reporting, knowledge sharing, international peer group monitoring and pursuit of the ultimate goal of zero harm. The benefits of these interventions are reflected in a record safety performance in which the Group achieved its target of zero fatalities and reduced its LTIFR from 0.85 to 0.42.

Executing growth initiatives

A combination of persistent economic and political challenges in South Africa and the limited growth potential of core businesses in mature domestic markets made the pursuit of growth in other geographic and sectoral markets a strategic imperative for Waco Africa. Several new growth initiatives are being developed and a number of them are starting to contribute to the Group's revenue and profit.

Sanitech experienced robust growth as a result of its expansion into integrated hygiene services through the toilet rental structure 18 months ago. The new business operates in a domestic market that generates estimated annual revenue of over R4.5 billion. It is expected to become an important contributor to growth as it extends its focus to larger industrial customers and negotiates longer-term contracts.

Sanitech's introduction of the innovative NIC toilet in 2015 boosted its growth in the mining sector, where it has distributed over 600 units to mines in South Africa and Botswana. The NIC toilet is safe, healthy and environmentally sound with low water usage.

As South Africa and sub-Saharan Africa become increasingly water-stressed, Sanitech is capitalising on the opportunity to develop environmentally sound solutions to this social problem.

With a rental stock of over 25 000 toilets in remote mining and industrial project sites, Sanitech incurs considerable cost to transport and dump the waste. To reduce this logistical cost, the business is developing a series of portable wastewater treatment plants to enable it to treat waste on site. The concept was piloted at Waco Village just outside the Kendal Power Station. An expert in environmental systems was appointed to co-ordinate the marketing of the plant which, in addition to saving costs, will also provide potential new revenue streams, particularly in the public water treatment sectors in South Africa and sub-Saharan Africa where wastewater treatment facilities are under-maintained.

Abacus became a leader in the modular building solutions market after increasing its rental fleet with the introduction of the new EZeeSpace product in 2014. This investment reduced its exposure to the public sector in South Africa.

Since the acquisition of SkyJacks in 2015, Waco has strengthened its management team. SkyJacks has more than doubled its capacity in aerial work platforms to 120 machines, and further increases in SkyJacks' capacity are planned to support growth in this lucrative market.

Sanitech, Abacus and SkyJacks plan to increase their market share by opening new branches and continuing to build their existing branches in South Africa, while pursuing growth in other sub-Saharan Africa markets.

In a logical extension of the strategy to sell additional products and services through the Group's existing footprint, Form-Scaff entered the small plant hire market in South Africa, which generates estimated annual revenue of R500 million. By hiring out small concrete-related equipment to existing customers through its branch network, Form-Scaff's cost to serve is competitively low and the business is gaining traction in its first outlet in Elandsfontein.

Chief Executive Officer's report (continued)

> "Australian and UK businesses have 'earned their right to grow' following their successful turnaround."

The introduction of formwork to the Australian operation's existing branch provides Kwikform with access to the commercial building and infrastructure investment market and offers growth in a hire market valued at approximately AU$230 million per annum. In 2017, newly recruited sales staff and draftsmen will accelerate the roll-out of formwork products.

Rope access services, which are being introduced to customers in South Africa and Australia, represent one of the Group's largest future growth opportunities. In both markets, there is demand for the product, which provides customers in key sectors with an additional access solution. By offering rope access services to its existing customer base, the Group was able to generate a return from existing and new customers within a few months of the introduction of a greenfields operation. In South Africa, the market potential of rope access is estimated at over R1 billion, with an additional R1 billion estimated in other sub-Saharan markets and offshore. SGB-Cape successfully completed one rope access contract and secured additional contracts on the Kusile Power Station project and offshore.

Form-Scaff's small plant hire initiative and SGB-Cape's rope access division both have the ability to become sizeable product offerings.

Sustaining Waco International's targeted levels of growth could require capital expenditure up to R400 million in 2017. By allocating 44% of the 2017 capital expenditure to the international businesses, the Group is signalling a clear shift from investment in optimisation to the funding of future growth for the Australian and UK businesses which have "earned their right to grow" following their successful turnaround.

The capital expenditure will be invested in new segments and new products, but also in enhancing the existing asset base. Scaling up the market share of Premier Modular, Abacus and SkyJacks to position the latter two as market leaders in Africa will also require capital expenditure.

Over the past four years, Waco invested R167 million in strategic acquisitions, including the acquisitions of United Scaffolding in New Zealand and SkyJacks in South Africa. Acquisitions will continue to play a key role in increasing market share and accelerating the implementation of new growth initiatives. The Group is considering a number of acquisitions in the small and mid-tier categories.

Enhancing Waco Africa's B-BBEE status

Waco currently has a level 2 B-BBEE contributor status and is targeting a level 4 status under the revised codes. The organic approach to promotion strengthened the Group's employment equity score in middle and branch management. For example, 60% of Form-Scaff's branch managers are BEE candidates promoted from within the Group. The long-term nature of this approach and the relative stability of the executive leadership team has, however, contributed to a shortcoming at that level, partially mitigated by the promotion of two BEE candidates to the Waco Africa executive committee (exco). This increases the number of BEE executives to five (one woman, four men), or 18% of the Waco Africa executive management team.

While the Group supports the need to transform its South African workforce, it also aims for demographic representation in the other jurisdictions in which it conducts business. Operations in sub-Saharan Africa employ only local people up to branch manager level and if a non-local branch manager is employed, it is for a maximum of two to three years during which a local successor is trained. Waco Africa's 25.1% empowerment partner, Bopa Moruo, and the Group's partnerships with appropriate black-owned SMMEs in joint ventures enable a high ownership score and the partners all add value to the business.

OUTLOOK

Waco International achieved remarkable growth in the past four years. The Group executed its strategy to return its international operations to acceptable levels of profitability, expand operations into sub-Saharan Africa and create a diverse and defensive portfolio of businesses able to outperform the market and achieve robust financial returns throughout economic cycles.

The Group expects to achieve a higher level of EBITDA growth, based on the assumption that the core businesses retain market share; investment in sub-Saharan Africa yields the anticipated higher levels of growth in the region; and the international businesses gain further momentum.

As conditions in the South African market deteriorate, the benefits of having a portfolio of businesses beyond our domestic market has become increasingly evident and we will continue to invest in the growth of these businesses with the aim of balancing their profit contribution with that of the African businesses.

Growing demand for power generation offers future growth potential in our markets in Africa and the UK. The Group's diversified industrial services offering is well positioned to serve sectors requiring infrastructural development, including mining and resources, power generation and oil and gas when market conditions improve.

We have developed a number of innovative new growth initiatives which are starting to realise their potential and should contribute increasingly to our revenue and EBITDA in future.

Our growth targets are ambitious, particularly given the subdued external market outlook, but I firmly believe that the staff of Waco International are well equipped and sufficiently motivated to achieve our strategic objectives.

Stephen Goodburn
Chief Executive Officer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CHIEF FINANCIAL OFFICER'S REPORT

"Since 2013, the Group has invested over R1 billion in the business to grow the hire fleet, fund growth initiatives and strengthen profitability by continuously improving efficiencies."

Eben le Roux
Chief Financial Officer

Waco International's positive growth trend over the past four years and its ability to maintain growth in challenging operating environments is the outcome of the Group's strategy to sustain returns from the existing businesses, while continuously pursuing new opportunities to grow and create value. After three years of CAGR of 16% in revenue and 28% in EBITDA, the growth of Waco International slowed in 2016.

A substantial improvement in the profitability of the international operations was, to some extent offset by lower profitability in the African operations as a result of difficult operating conditions in South Africa. The Group however maintained the momentum of its various growth initiatives while continuing to improve operational efficiencies and managing cost to serve which led to an improvement in gross margins and continued growth in profitability.

Group revenue grew by 5% over the prior year to R4.8 billion, (which included a currency gain of R270 million during the year) while marginal growth in revenue generated by the international operations offset by a decline in Waco Africa. Revenue remained well diversified across the Group, with no single business contributing more than 25% to the total. The main contributors to revenue growth were Kwikform in Australasia and Sanitech and SkyJacks in Africa, while a decline in the revenue of SGB-Cape and Abacus were the main contributors to slower Group revenue growth.

The overall gross margin increased by 1.5% to 39.2% on a 9% increase in gross profit to R1.9 billion, reflecting the positive impact of strategic interventions to improve efficiencies in the international operations and disciplined execution of major projects by SGB-Cape in Waco Africa.

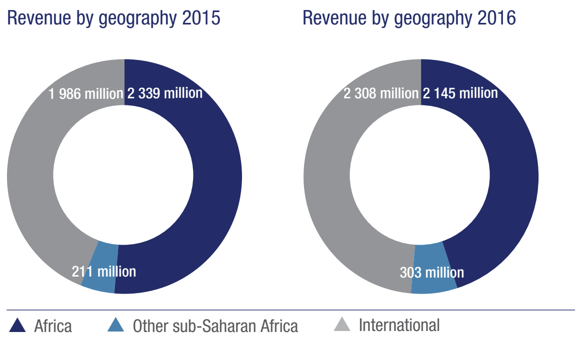
Revenue growth of 5% combined with the 1.5% increase in the gross margin delivered EBITDA growth of 8% to R832 million (or 4% growth to R801 million in constant currency), driven largely by the international businesses which achieved combined EBITDA growth of 75% (53% in constant currency) as the positive impact

HIGHLIGHTS

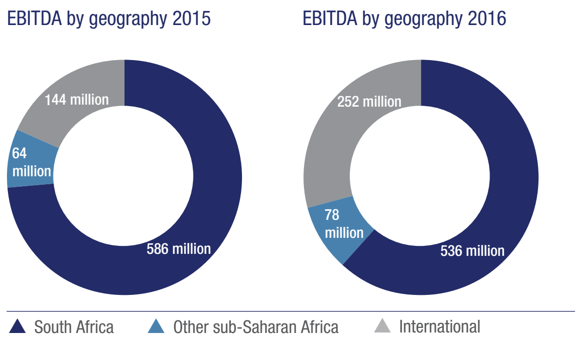
	Group 2016	% change	2015	2014	2013
Revenue ✔	**R4 756 million**	5	R4 535 million	R3 891 million	R3 076 million
Gross profit	**R1 863 million**	9	R1 711 million	R1 445 million	R1 127 million
Gross profit margin ✔	**39.2%**	4	37.7%	37.0%	36.6%
Total overheads ✔	**R1 336 million[1]**	17[2]	R1 144 million	R1 005 million	R957 million
EBITDA ✔	**R832 million**	8	R768 million	R572 million	R395 million
EBITDA CAGR ✔	**28%**				
EBIT ✔	**R638 million**	3	R617 million	R451 million	R305 million
EBIT as percentage of turnover ✔	**13%**	(7)	14%	12%	10%
CAPEX ✔	**R360 million**	36	R264 million	R295 million	R123 million
NOCF ✔	**R256 million**	(56)	R582 million	R242 million	R100 million
RONAM ✔	**24%**	(11)	27%	21%	17%
EVA ✔	**R325 million**	(6)	R346 million	R196 million	R88 million
Days sales outstanding (DSO) ✔	**70**	3	68	77	78
Net debt ✔	**R772 million**	300	R193 million	R480 million	R576 million

1 Includes circa R48 million for the proposed listing of the group, circa R33 million in non-recurring legal fees and claim settlements, and circa R25 million in restructure and branch closure costs.
2 The variance was particularly caused by a R66 million currency effect due to fluctuations in the exchange rate and circa R45 million of costs relating to the restructure of the Australian business (redundancies and onerous leases etc.).

of the extensive turnaround exercises materialised. This was partially offset by a decline in the EBITDA of the African operations, which were impacted by difficult operating conditions in the South African market. While the African businesses continue to account for the bulk of EBITDA (74% or R614 million), the contribution of the international businesses increased, moving the Group closer to a more balanced geographic earnings profile. EBIT grew by 3% to R638 million (1% to R612 million in constant currency) which is lower than the growth in EBITDA mainly as a result of increased depreciation associated with higher levels of net capital expenditure (CAPEX), which is expected to deliver a return in 2017 and beyond.



Revenue growth in other SSA and marginal revenue growth in the International businesses are offset by a decline in revenue in SA.



Improved profitability in the International businesses and other SSA ensured a more balanced geographical earnings profile.

Chief Financial Officer's report (continued)

WACO AFRICA

	2016	% change	2015	2014	2013
Revenue ✔	**R2 448 million**	(4)	R2 550 million	R2 097 million	R1 682 million
Gross profit ✔	**R1 150 million**	(2)	R1 171 million	R995 million	R769 million
Gross profit (%) ✔	**47**	2	46	47	46
EBITDA[1] ✔	**R614 million**	(6)	R650 million	R523 million	R355 million
CAPEX ✔	**R193 million**	9	R177 million	R241 million	R99 million
NOCF ✔	**R228 million**	(54)	R498 million	R246 million	R152 million

[1] Excludes administration and eliminations

The revenue of Waco Africa declined by 4% to R2.4 billion and EBITDA declined by 6% to R614 million. Sanitech and SkyJacks showed improvement over the prior year. Sanitech maintained the momentum of its growth trend by achieving 14% growth in revenue to R468 million and continued growth in EBITDA as demand for its sanitation products and newly launched integrated hygiene services continued to grow. SkyJacks, reporting for a full year compared to six months following its acquisition in 2015, reported 118% growth in revenue to R77 million and a solid improvement in EBITDA as a result of growth in its aerial work platforms business and the opening of a new branch in Cape Town.

The decline in revenue was largely attributable to SGB-Cape, which experienced a 14% decline to R912 million due to the completion of several large projects. This was, to some extent, offset by increased work on the Kusile scaffolding project with a joint venture partner (which is equity accounted and therefore not reflected in revenue). SGB-Cape therefore only experienced a marginal decline in its EBITDA by reducing overheads in line with demand, while disciplined execution of major projects supported commendable growth in its gross margin.

Form-Scaff reported marginally lower revenue of R858 million and a decline in EBITDA due to the general slowdown in construction and infrastructure post December, and the impact of a substantial once-off sale in the prior year.

The revenue of Abacus declined by 22% to R133 million and EBITDA declined due to a lack of orders for schools by the Gauteng Department of Education and was partially offset by ongoing investment in the hire fleet to achieve longer-term economies of scale and mitigate exposure to the public sector.

The combined African businesses contributed 51% (2015: 56%) to the Group's revenue and 74% (2015: 85%) to its EBITDA.

INTERNATIONAL

International businesses	2016	% change	2015	2014	2013
Revenue ✔	**R2 308 million**	16	R1 986 million	R1 794 million	R1 394 million
Gross profit ✔	**R713 million**	32	R541 million	R450 million	R359 million
Gross profit (%) ✔	**31**	15	27	25	26
EBITDA[1] ✔	**R252 million**	75	R144 million	R70 million	R44 million
CAPEX ✔	**R167 million**	96	R85 million	R55 million	R42 million
NOCF ✔	**R102 million**	–	R102 million	R23 million	(R80 million)

[1] Excludes administration and eliminations

The international business achieved 75% growth (50% in constant currency) in EBITDA to R252 million on 16% growth in revenue to R2.3 billion. All of the international businesses contributed positively to EBITDA growth. Kwikform Australia delivered strong growth in EBITDA, on the back of 18% growth in revenue as well as of the closure or consolidation of loss-making branches, improved pricing and margins and the introduction of formwork to its core scaffolding offering. Kwikform New Zealand maintained its strong profit trend, delivering solid growth in EBITDA, as its range of offerings benefited from a more resilient local economy and it expanded its industrial maintenance activities to the North Island.

The growth of the Premier Modular hire fleet, combined with an increase in utilisation and margins and improved execution of sales led to strong growth, with EBITDA increasing 82% on the back of a small improvement in revenue to R895 million. Premier Modular was awarded a major project to supply site buildings for the Hinkley Point 3.2 Megawatt Power Station in Somerset, which will contribute to 2017 should the project go ahead.

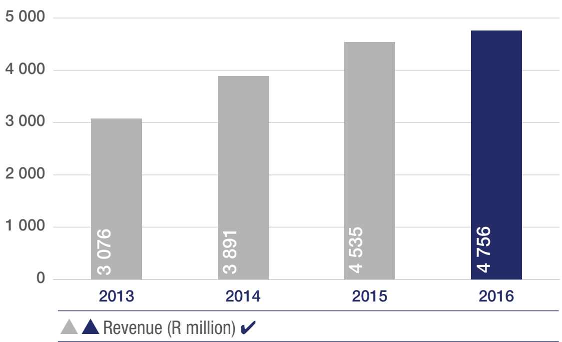
The formwork, shoring and scaffolding operation in Chile increased revenue by 40% to R48 million more than doubled its EBITDA, but remains a small contributor. Although initiatives to grow market share (currently 2%) and broadening of the customer base continues we are assessing our future options for the business.

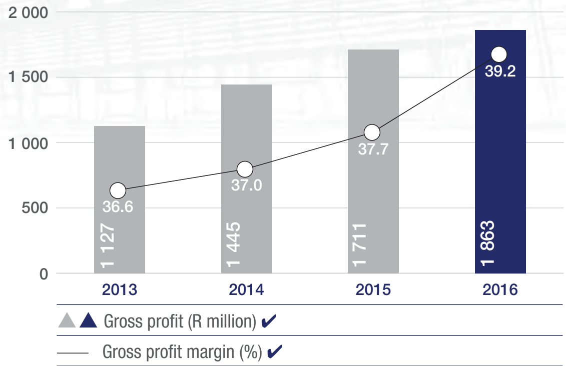
The combined gross profit margin of the international businesses improved from 27% to 31%, demonstrating the positive effect of strengthening commercial skills to improve the quality of project selection and ensure projects are executed at tendered margins.

STRATEGIC PROGRESS

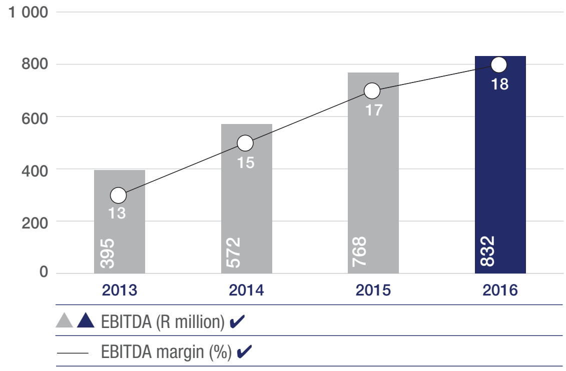
Achieve sustainable EBITDA growth rate of 15% per annum

Since 2013, the Group invested over R1 billion in the business to grow the hire fleet, fund growth initiatives and strengthen profitability by continuously improving efficiencies. The CAGR in EBITDA of 28% on CAGR in revenue of 16% demonstrates the operational leverage that is achieved through the branch network by sharing overheads across different business units, redeploying underutilised assets and managing the cost to serve. This, combined with improvements in gross margin has driven improved profitability.





Although growth in EBITDA slowed in response to the subdued environment in some of the markets in South Africa, this was mitigated by continued growth in EBITDA of the international businesses and other markets in sub-Saharan Africa.



Maintaining this growth trend will require a strong focus on the growth initiatives, which will mitigate the impact of limited growth in the mature businesses on overall growth.

Achieve sustainable CAGR in EBITDA of 25% in sub-Saharan Africa

Business operations in sub-Saharan Africa markets, excluding South Africa, contributed 6% to the Group's revenue and 9% to EBITDA and produced growth in EBITDA of 23%. While this represents further progress, it also reflects operating losses of R16 million to establish branches opened in the last two years which will benefit the Group in the long term.

Achieve positive EVA for Kwikform and Form-Scaff Chile

Waco International has successfully executed Plan B strategies to turn around and strengthen the financial performance of its international operations, as demonstrated by their combined achievement of EBITDA growth in excess of 50% and strong growth in the combined profit margin.

The Australian business benefited from a range of measures to position their branches to respond more effectively to market challenges and opportunities. The management team and commercial capacity were strengthened, underperforming branches were closed or consolidated with more effective branches, excess equipment was deployed to other markets offering higher levels of opportunity, overheads were reduced and new products, including formwork and rope access, were added to the existing product suite. These measures contributed to the exceptional growth in EBITDA and an improvement in the gross profit margin.

Chief Financial Officer's report (continued)

The New Zealand business continued to achieve growth in a more buoyant New Zealand economy, delivering a solid return on the asset base. The Australian business has not yet achieved target and is expected to do so in 2018.

The EBITDA of Form-Scaff Chile grew by 124% to R5 million and we are assessing our future options for the business.

Premier Modular in the UK achieved positive EVA in 2015 and again in 2016. The business increased EBITDA despite a decline in revenue. Measures to reengineer its core modular products and expand into new products and geographic locations, combined with an increase in utilisation and margins and improved sales execution, contributed to an improvement in gross profit margins the growth in EBITDA. Premier Modular enters the new financial year with a strong order book.

The international businesses have "earned the right to grow" following their turnaround and strong performances and were allocated higher levels of capital expenditure. This trend is budgeted to be maintained in 2017.

Defending and extending core businesses

Strategic actions by the established core businesses to rightsize the footprint, optimise the cost base and improve margins have increased their resilience in challenging markets. The sustainability of the core businesses is supported by the mobility of the Group's equipment, combined with its extensive footprint, which allows for the sharing of resources among businesses to optimise the use of capital and maintain a low cost to serve operating model.

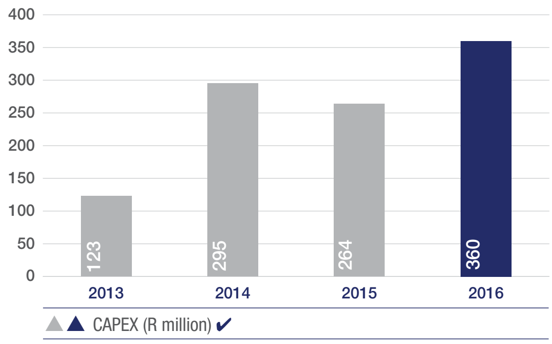
Investment in hire fleet

The hire fleet is the Group's main asset and its key differentiator. With an estimated replacement value of R5 billion, the hire fleet provides the Group with a high barrier to entry into its markets. Replacement CAPEX to maintain the existing fleet is estimated at an average cost of between R130 million and R150 million per annum.

The Group continued to invest in the business, allocating R360 million during the year. Waco Africa was allocated R193 million to fund a range of maintenance and growth initiatives across the businesses, including growing the hire fleet, continued African expansion and new services and products.

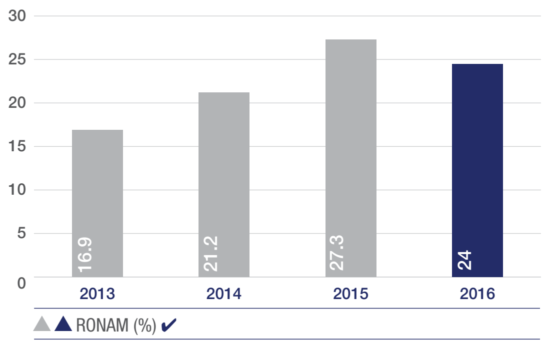
The international businesses were allocated R167 million, a 96% increase over the prior year. This was used to fund, among other initiatives, expansion of the Premier Modular hire fleet and formwork in Australia and New Zealand.

Continued investment in fleet R1.1 billion over four years



Return on net assets managed

The Group's ongoing optimisation of the return on its capital investment in the hire fleet and all other assets on the balance sheet, together with other investments and the successful execution of strategy, delivered an overall RONAM of 24% in 2016 (2015: 27%).



The investment in capital expenditure in the past two years will take some time to deliver the appropriate returns. In addition, the depreciation of the rand has contributed to a lower RONAM due to the high asset base and lower returns experienced in Australia.

Working capital management

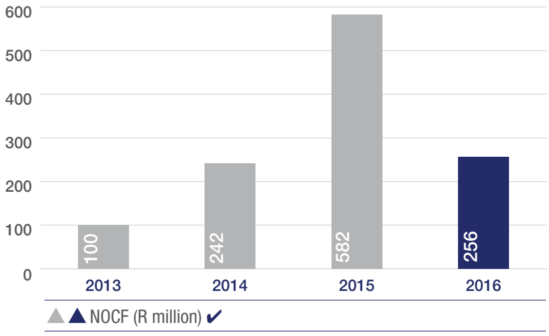
Following a R141 million inflow of working capital in 2015, the Group experienced a net cash outflow from working capital of R116 million, largely a result of an outflow of R174 million from Waco Africa due to tougher trading conditions for Form-Scaff in South Africa, the structuring of a large joint venture contract undertaken by SGB-Cape (which led to an inflow in 2015) and increased levels of trading in sub-Saharan Africa where

DSO tend to be higher. This was partially offset by an inflow of R59 million in the international businesses due to good cash management by the Kwikform Group and Premier Modular.

Group DSO moved out to 70 days in 2016 after the substantial improvement from 77 days in 2014 to 68 days in 2015.

Net operating cash flow

NOCF of R256 million (2015: R582 million) was 56% below the prior year as a result of large working capital inflows relating to upfront payments for some major projects in 2015. Strong cash flow management resulted in positive cash flows in the international and sub-Saharan Africa operations, but these were offset by the investment in CAPEX of R360 million.



Abnormal expenses and income

Once-off abnormal expenses which are not recoverable were incurred during the year, including R48 million for costs associated with the intended JSE listing and a R19 million payment of an insurance claim associated with a legacy contract in the UK. This was, to some extent, offset by abnormal income of R63 million received from the sale of the Elandsfontein property.

Executing growth initiatives

Capital expenditure

Capital expenditure is allocated annually to meet the Group's growth objectives while maintaining the existing assets.

Acquisitions

The Group did not conclude any material acquisitions during 2016. However, acquisitions remain an important element in the strategy to expand and diversify across different geographies, sectors and products.

Gearing and ability to fund growth

The Group increased net debt to R1 billion at the end of September 2015, prior to the proposed listing. This decreased to R772 million by June 2016, resulting in an increase in the debt:equity ratio of 39% (2015: 10%). Net assets managed increased to R2.8 billion (2015: R2.3 billion) due to continued investment in hire equipment and the effect of currency depreciation.

Waco International uses internally generated cash to fund capital expenditure and acquisitions. Net debt is at less than one times EBITDA, with additional acquisition facilities of R300 million available, should it be required.

OUTLOOK

Disciplined execution of the Alchemy of Growth strategy, gross margin improvements and cost management enabled Waco International to maintain EBITDA growth in challenging market conditions.

We expect external operating conditions to continue to put pressure on our domestic operations. The growth in our international operations is expected to continue following the restructure, expansion of the hire fleet and introduction of new products.

However, it will be the continued execution of our strategy, including further expansion in sub-Saharan Africa and the execution of current and new growth initiatives that will ultimately determine our ability to achieve our growth objectives in the year ahead.

The Group maintains a strong balance sheet to ensure that it has sufficient flexibility to fund its growth strategy without resorting to excessive leverage.

Eben le Roux
Chief Financial Officer

REMUNERATION REPORT

REMUNERATION PHILOSOPHY

The realisation of Waco International's strategic vision of growth and sustainable value creation relies on the quality and depth of its human capital, both currently and into the future. Many of the Group's primary operating environments, most notably South Africa, are characterised by challenging labour conditions in terms of stability and access to skills, and attracting and retaining the required expertise at all levels is key to remaining competitive in the market.

It is therefore vital to the Group's ability to retain talented individuals at every level that remuneration practices effectively reward and further incentivise performance and commitment. The board is ultimately responsible for ensuring that this takes place, with specific accountability assigned to the remuneration committee. The committee aims to foster a performance-driven culture, supported by remuneration practices which are:

- market-related;
- well-structured and balanced; and
- transparent and fair.

Remuneration is benchmarked to the market annually, using local and international market data. Salary and wage increases are awarded in line with this data, which in the current year has slightly lagged inflation. The board is comfortable that at the rates of remuneration offered or paid, the Group is able to attract and retain the appropriate skills for the business. In our UK business, temporary contract skills are in short supply, especially in the London area, but pressure is expected to ease given the slowdown in the market due to Brexit.

Retention of senior and middle management is high, with little turnover experienced over the reporting period. However, high staff turnover is a concern in some categories of Sanitech's staff. Management has reviewed the root cause and plans are in place to manage it downwards. Executives are currently effectively retained by means of the management share scheme, but it is a concern of the board. The issue will have to be reviewed if there is a sale of the business, as management shares will be sold. A new arrangement for executive managers will be required if ownership changes.

Pay rates for wage earners are governed by the outcomes of wage negotiations with unions and bargaining councils. Individual wage rates based on individual performance are not possible due to the environment, and branch-based negotiations are the preferred route when negotiating with unions as the Group is better able to remove the influences of third party agendas. However, this is increasingly difficult to achieve and our wage rates are agreed upon by industry bargaining councils. High wage rate demands are the norm in South Africa and the Group has had to enter into a number of labour disputes in our attempt to keep actual wage rates at acceptable levels.

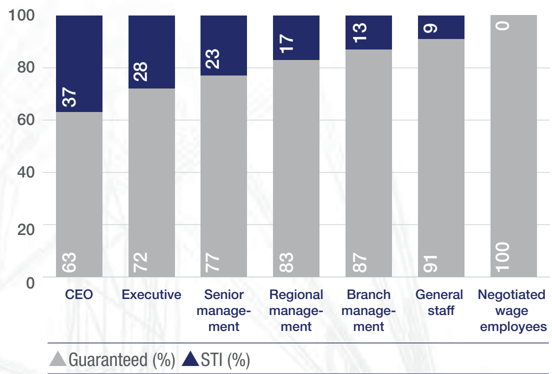
REMUNERATION POLICY AND STRUCTURE

Waco International's remuneration policy is linked to the availability of the talent pool, and the weighting mix of the reward elements is determined according to seniority. Remuneration packages comprise a fixed element and variable incentive elements. All incentive schemes are self-funded; in other words, the cost of the reward is provided in the calculations of the financial targets to be met. An employee's total package is made up of three reward elements:

- guaranteed total cost to company (TCTC) (fixed pay)
- annual short-term incentive (bonus) (risk pay)
- a long-term incentive/retention scheme (cash settled) (risk pay)

Seniority determines the percentage on-target mix between fixed and variable pay. The actual percentage split depends on performance against budget and agreed personal KPIs and growth in EVA above set hurdle rates.

The more senior the individual, as per the Hay grading system, the greater the percentage of risk pay. The following diagrams show the ranges between the guaranteed and the on-target short-term incentive (STI).



On-target total compensation (guaranteed and risk) is benchmarked to the market at the 75th percentile for total compensation, while guaranteed pay is benchmarked to the market at the 50th percentile. Total compensation comparisons exclude long-term reward data. Actual percentages will vary depending on performance.

Fixed pay

Guaranteed TCTC comprises monthly salary and other benefits, the quantum of which is determined by skills, seniority (grading) and personal performance. Fees paid to non-executive directors are recommended by the remuneration committee for approval by the board.

The table below provides a summary of the fixed element of the total remuneration package.

	Guaranteed total cost to company		
	Monthly salary	**Benefits**	**Non-executive directors' fees**
Purpose	Fixed monthly earnings to provide for everyday living expenses, proportionate to the skills, seniority (grading) and performance of the individual	Cost of benefits are included in the cost to company fixed portion	Fees paid to non-executive members of the board for their time and participation, including board and committee meetings
Applicable to	All employees	All permanent employees	Non-executive directors
Commentary	Individual performance, market movements and compa-ratio are the key elements in determining an individual's pay Pay rates for employees covered by a union recognition agreement and/or bargaining council agreements are subject to annual negotiations with the relevant parties	Benefits include: • Retirement funding • Medical aid • Car allowance (if applicable) Labour broker employees receive benefits from their respective employers	Going forward, shareholders will vote on the proposed directors' remuneration at the annual general meeting

Benefits vs cash

The guaranteed pay elements for salaried employees are based on a fixed TCTC. The actual cost of benefits received, such as medical aid, are paid by the company but taken into account when calculating an employee's cash salary. This structure affords employees some flexibility in determining their retirement funding salary (between 100% and 60% of TCTC) and the level of medical aid cover received. Both elements are compulsory.

Wage rate employees receive a fixed wage per hour worked as negotiated with their representative union and/or bargaining council. Employees in South Africa are also members of a retirement fund, for which the company makes an additional contribution ranging between 7.1% and 8%, depending on the fund to which they belong. Wage earners in Australia are members of their respective state-run funds.

Incentive pay

The balanced scorecard remains the primary short-term incentive mechanism and is a critical underpin of the Group's approach to performance and talent management. It is structured to encourage individuals to contribute to specific initiatives that support the Group's overall growth and profitability, and has been highly successful in benefiting high-performing individuals throughout the business.

The management share purchase scheme and the long-term incentive structure, the WGAR Scheme, have had a positive impact on the retention of management over the last three years and are expected to continue to do so.

	Incentive schemes		
	Short-term incentive	**Long-term incentives**	
	Balanced scorecard	**WGAR Scheme**	**Management co-investment trust**
Summary of terms	Applicable to all salaried employees not on a commission or sales incentive scheme Clear line of sight to ensure demonstrable contribution to the Group's strategic initiatives in that the KPIs are directly linked to the budgets set by the board	Applicable to certain members of senior and middle management When growth in the appreciation measure (EVA) is achieved, the participant is rewarded according to a predetermined allocated percentile for their seniority level	Management investment structures were available to senior management in their capacity as shareholders in the private equity structure

Remuneration report (continued)

	Incentive schemes		
	Short-term incentive	**Long-term incentives**	
	Balanced scorecard	**WGAR Scheme**	**Management co-investment trust**
Summary of terms (continued)	At risk annual bonus calculated according to rating scale of general financial and individualised non-financial performance indicators 75% financial KPIs – delivery against targets for key financial measures at operating business level 25% personal goals – delivery according to a set of predetermined non-financial measures explicitly linked to the role played by the employee in achieving specific strategic growth objectives The Group has a number of sales incentives and commission schemes. These are restricted to direct sales employees and are self-funding in that the employee's cost of employment plus a contribution to overheads must be recovered before commissions are paid	Vesting of the appreciation rights is staggered over a period of four years with partial vesting (one-third) after two and three years to encourage long-term retention Rights are allocated at a new strike price on an annual basis	Senior management invested directly in the business via a co-investment trust, holding 11.8% direct ordinary equity in the Group

Short-term incentives: balanced scorecard

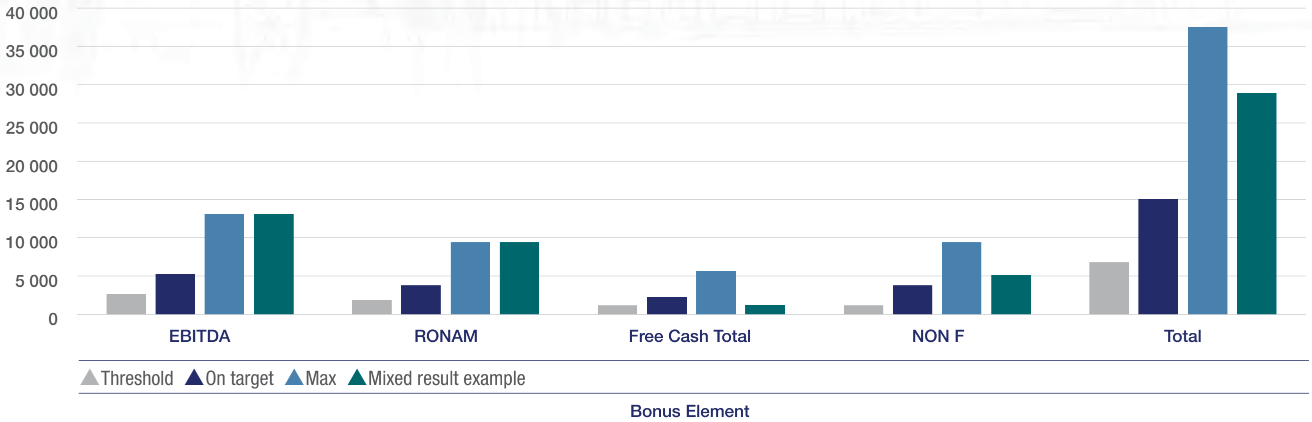
Participating employees enter into a performance contract with the company, which sets out a number of financial and non-financial KPIs. An on-target bonus is agreed, expressed as a percentage of guaranteed TCTC. The level of on-target bonus is based on seniority.

In addition, maximum and threshold performance levels for bonus payments are set, in other words, bonuses are capped. The maximum bonus level is 2.5x the on-target percentage for achievement of 120%+ of budget and 0.5x of the on-target percentage for achievement of 90% of budget respectively. If less than 90% of budget is achieved, no bonus will be due. See the table below:

Level	Threshold % of guaranteed TCTC at 90% of budget	On target % of guaranteed TCTC at 100% of budget	Maximum % of guaranteed TCTC at 120+% of budget
CEO	30%	60%	150%
Executive	20%	40%	100%
Senior management	15%	30%	75%
Regional management	10%	20%	50%
Branch management	7.5%	15%	37.5%
General staff (salaried)	5%	10%	25%

Each KPI is weighted differently and calculated discreetly, then added to determine the total bonus due, as demonstrated in the example below:

Balanced scorecard



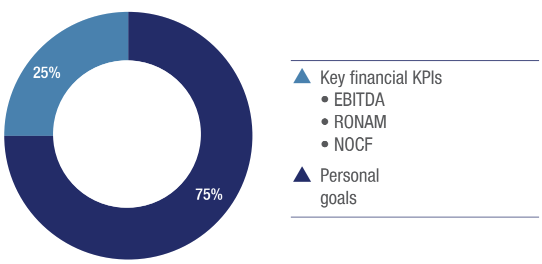
	EBITDA	RONAM	Free cash	Non-financial	Total
Threshold	2 625	1 875	1 125	1 125	6 750
On target	5 250	3 750	2 250	3 750	15 000
Max	13 125	9 375	5 625	9 375	37 500
Mixed result example	13 125	9 375	1 129	5 156	28 875

A typical short-term balanced scorecard weighting is as follows:

- EBITDA/EBIT: 35%
- RONAM: 25%
- Cash: 25%
- Personal: 25%

Most employees have split EBITDA/EBIT targets, which are normally 90% own business and 10% for one up business level, i.e. 90% branch and 10% region (branch manager) or 90% region and 10% business (regional manager).

Balanced scorecard rating scale



Long-term incentives – Waco Growth Appreciation Rights

Participating employees are defined as employees whom the board believes have the ability to influence the long-term profitability of the Group, or employees for whom some form of retention is appropriate due to their specialised skills and/or knowledge. Participants are awarded Waco Growth Appreciation Rights (WGARs) units at a strike price equal to a financial measure (KPI) that the board believes is representative of long-term sustainable growth (currently EVA). These units vest over a period of four years, at which time any underlying improvement in the set KPI will result in a cash bonus payment for the participant.

WGARs are allocated using an outcomes-based methodology, which means that a long-term incentive bonus payment is made to the participant at the end of the vesting period given an acceptable level of Group performance over that period. On-target long-term incentive bonus payments (% of guaranteed TCTC) are based on seniority and the percentage used for the short-term incentive scheme, as demonstrated in the table above.

Executive managers who have a substantial holding in the Waco International Management Co Investment Trust have not participated in the WGAR Scheme.

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Remuneration report (continued)

REMUNERATION IN PRACTICE

Salary increases, directors' remuneration, bonus payments and long-term incentive awards are reviewed and approved annually by the remuneration committee. Wage increases are subject to the applicable bargaining council agreement or direct negotiations with the relevant union representatives.

Salary increases

Key salary review elements are:

- Market conditions in each geography
- Overall proposed increase by business unit
- Year-on-year increase, taking into account increases and decreases in head count
- Increase awarded to the top ten earners and bottom ten earners
- Increases to the direct reports of the managing directors
- Performance rating spread for each business unit
- Ratio of salaries paid to turnover and EBITDA

Performance management framework

Waco International has a results-driven approach to performance management, underpinned by the acknowledgement that work is performed by individuals and, therefore, should be managed and rewarded on an individualised basis. To facilitate this, a number of interactions take place at key points in the annual performance management cycle:

- Goal setting
- Support
- Review and assessment

At the end of the cycle, the manager is required to rate the employee on a five-point scale, which is used in part to determine the appropriate financial reward.

History of salary increases awarded and financial ratios

The table below indicates salaries as at 1 July as a percentage of EBITDA and turnover since 2013. The year-on-year increase indicates the overall increase in payroll from 1 July the previous year, taking increases or decreases in headcount and employee mix into account.

	Year	Employees	Increase %	Year-on-year increase %	EBITDA ratio %	Turnover ratio %
Kwikform	**2016**	**129**	**2.85**	**(0.15)**	**87.88**	**9.51**
	2015	128	2.90	(6.56)	124.05	10.17
	2014	143	2.71	5.44	508.37	11.73
	2013	144	2.99	9.47	473.65	11.80
Premier Modular	**2016**	**91**	**3.09**	**13.59**	**109.14**	**10.62**
	2015	81	2.44	11.19	131.54	9.35
	2014	73	2.21	8.19	212.51	9.31
	2013	68	1.99	(19.42)	3 133.55	10.81
Waco Africa[1]	**2016**	**544**	**6.08**	**17.83**	**50.98**	**12.74**
	2015	473	6.19	18.63	42.30	10.14
	2014	418	6.57	19.85	45.01	10.40
	2013	366	7.28	12.25	48.88	10.46
Sanitech	**2016**	**247**	**5.69**	**9.31**	**42.44**	**13.03**
	2015	233	5.83	24.12	41.44	13.82
	2014	196	6.80	11.76	43.69	13.37
	2013	190	8.06	20.64	55.51	16.06

[1] For the period 2013 to 2015, this consisted of Form-Scaff and SGB-Cape data only.

	Year	Employees	Increase %	Year-on-year increase %	EBITDA ratio %	Turnover ratio %
Abacus	**2016**	**50**	**5.83**	**6.26**	**193.19**	**17.34**
	2015	50	6.48	14.12	115.67	12.64
	2014	43	6.28	29.62	154.07	14.93
	2013	35	6.35	26.15	110.86	11.62
SkyJacks	**2016**	**41**	**5.79**	**1.36**	**55.57**	**16.10**
	2015	48	5.39	–	106.82	40.99

Directors' remuneration

The table below provides details of the remuneration of directors during the 2016 financial year, with information pertaining to individual directors provided on page 59 of the annual financial statements.

	Remuneration (Rand)		
	Executive	Non-Executive	Total
Salaries ✔	5 549 328	–	5 549 328
Fees ✔	–	1 117 500	1 117 500
Benefits ✔	333 600	–	333 600
Short-term ✔	8 256 065	–	8 256 065
Long-term ✔	–	–	–
Pension ✔	1 431 787	–	1 431 787
Medical aid ✔	91 410	–	91 410
Total	**15 662 190**	**1 117 500**	**16 779 690**

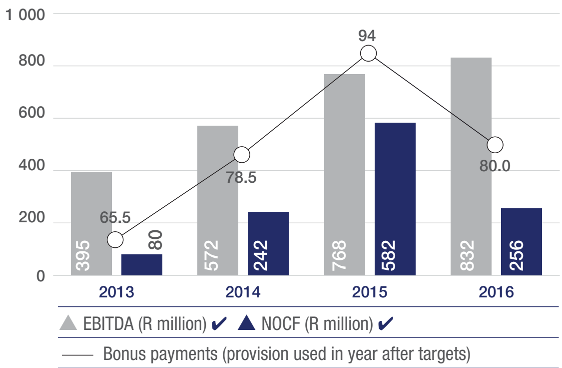
Bonus payments

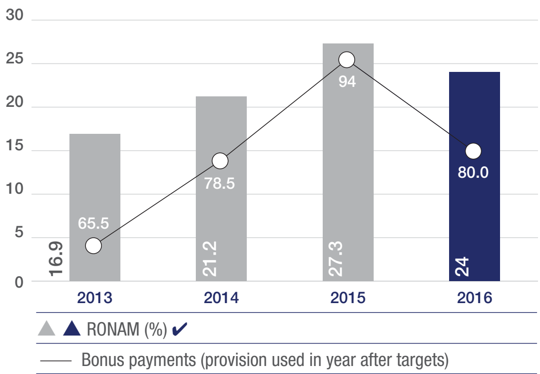
Key bonus review elements are:

- Balanced scorecard weighted measures
- Performance of the individual and the bonus scheme level of the individual

Given the business results and individual performance, there is complete transparency regarding the bonus amount due to an individual. Bonuses due are calculated according to a predetermined sliding scale and, as a result, can be calculated by the individual once the results are published. This achieves the desired line of sight, thereby aligning employee performance with the Group's strategic objectives.

Bonuses awarded for 2016 were based on the EBITDA, RONAM, free cash flow and EVA results of the different operating businesses, and lower level region or branch results were used when applicable. Total bonuses amounted to R80 million.





Remuneration report (continued)

Using historical constant currency, bonuses are 68% of what was paid last year, i.e. R54.5 million versus R82.5 million. In year-end actual exchange rates, the cost of the bonuses in rand is R66.9 million. Total provisions held are R73 million.

Summary of proposed bonus payments (Rand)	2016	% change	2015	2014	2013
Waco International	**7 077 741**	(41)	12 085 987	8 995 924	8 946 548
Waco Africa	**21 058 682**	(43)	36 812 396	34 543 192	30 304 201
Sanitech	**4 555 459**	(28)	6 370 293	8 581 827	8 496 692
Abacus	**1 806 528**	(61)	4 594 033	3 564 037	4 599 786
Kwikform	**11 759 629**	(21)	14 925 185	2 152 695	3 649 052
Premier Modular	**8 375 698**	24	6 779 696	5 444 766	1 080 252
Form-Scaff Chile	**–**	–	–	–	251 952
SkyJacks	**1 723 348**	91	902 863	–	–
Total	**56 357 085**	(32)	82 470 454	63 282 441	57 328 482

History of bonus payments as a percentage of TCTC for that bonus period:

	Year	Bonus paid (local currency)	% bonus to salary
Kwikform	**2016**	**1 585 344**	**13.0**
	2015	2 186 690	17.9
	2014	355 911	2.7
	2013	529 501	4.3
Premier Modular	**2016**	**712 931**	**16.5**
	2015	577 081	15.1
	2014	463 453	13.5
	2013	91 950	2.9
Waco Africa[1]	**2016**	**21 058 682**	**10.0**
	2015	36 812 396	20.6
	2014	34 543 192	23.0
	2013	30 304 201	24.3
Sanitech	**2016**	**4 555 459**	**7.8**
	2015	6 370 293	12.0
	2014	8 581 827	20.3
	2013	8 496 692	22.7
Abacus	**2016**	**1 806 528**	**8.5**
	2015	4 594 033	23.1
	2014	3 564 037	20.5
	2013	4 599 786	34.2
SkyJacks	**2016**	**1 723 348**	**14.4**
	2015	902 863	7.6
Chile	**2016**	**–**	**–**
	2015	–	–
	2014	–	–
	2013	15 496 397	2.8

[1] For the period 2013 to 2015, this consisted of Form-Scaff and SGB-Cape data only.

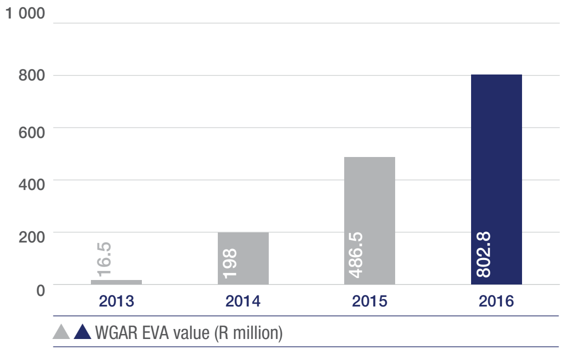
Long-term incentive awards

Waco Growth Appreciation Rights Scheme

Due to the withdrawal of the Initial Public Offering (IPO), 17 945 WGARs for the 2015 financial year were allocated to 204 participants in February with an effective allocation date of 1 September 2015. The number of WGARs allocated to each participant (on average) was lower than in previous years. This is as a consequence of the superior growth rates in EVA achieved resulting in a recalibration of number of WGARs needed to achieve the desired target outcome.

In September 2016, 18 155 were allocated to 212 participants at a strike price of R802.8 million.

The history of the EVA strike price is as follows:



The value of the EVA WGARs in play (vested and unvested):

	Number of WGARs	Allocation	Already vested	Value per WGAR at 30 September 2016
2012	17 933	105 participants allocated at an EVA strike price of R0.00	Fully vested September 2016	R14.4 million or R137 000 per participant on average
2013	31 792	146 participants allocated at an EVA strike price of R16.5 million	Two thirds at an allocation price of R16.5 million	R24.9 million or R171 000 per participant on average
2014	45 825	176 participants allocated at an EVA strike price of R198 million	One third at an allocation price of R198 million	R27.7 million or R157 000 per participant on average
2015	17 760	200 participants allocated at an EVA strike price of R486.5 million	Not vested	R5.6 million or R28 000 per participant on average
2016	18 155	212 participants allocated at an EVA strike price of R802.8 million	Not vested	Rnil

FUTURE FOCUS AREAS

Waco International's remuneration system has proven to be effective over a number of years and the Group does not anticipate fundamental changes under the current ownership structure. Going forward, Waco International will continue to monitor the market for shifts in best practices and market conditions, which will inform the structure and levels of reward accordingly.

Staff turnover for Sanitech is a concern and will be continually monitored. Focus on recruitment standards is paramount. Retention of key executives remains a focus of the board.

GOVERNANCE REPORT

The board of directors is responsible for the governance of Waco International. Ensuring that the Group's activities are conducted in a manner that is ethically sound, compliant within the relevant regulatory frameworks and considerate of stakeholder interests is vital to its sustainability. The achievement of the Group's strategic goals depends on effective decision-making processes with clear lines of authority and accountability.

GOVERNANCE ASSESSMENT

Waco International was a listed company until 2000. In the period since, the business retained its corporate memory and has been governed as far as possible according to the structures and procedures required of a public entity. The Group is committed to sound corporate governance and performed an internal review to assess areas where action could be taken to better align with King III practices.

The most significant steps identified as a result of the assessment are summarised below:

Dedicated internal audit function

The internal audit function is responsible for monitoring and reporting on significant risks and has a direct reporting line to the chairman of the Group, as well as the independent non-executive chairman of the risk and controls committee.

Board composition

The board of directors governed the Group effectively within the private equity structure for the past four years. The current composition of the board is not reflective of a public listed entity and will need to be reviewed, should the company embark on a listing.

Board committees

As provided for in the Group's memorandum of incorporation (MOI), the board is supported and assisted by four committees with clear mandates and oversight responsibility for various aspects of the business. Members of Group executive management participate in committee meetings by invitation to provide operational insights into matters arising.

LEADERSHIP

Board of directors

Non-executive directors

1. Royden T Vice (Chairman)
- Various qualifications, including CA(SA)
- CEO of Waco International from 2002 to 2011
- Appointed as Chairman in 2012
- Chairman of the remuneration committee and strategic committee

2. Geoff K Everingham (Independent)
- Various qualifications, including CA(SA)
- Emeritus Professor of Accounting at the University of Cape Town
- Appointed to the Waco International board in 2013
- Chairman of the risk and audit committee

3. Jonathan Matthews*
- Various qualifications, including CA(SA) and CFA
- Ethos Private Equity
- Appointed to the Waco International board in 2015

4. Cassim Motala*
- MBA and Associate in Management (AIM)
- RMB Ventures since 2007
- Appointed to the Waco International board in 2012

5. Jos T van Zyl
- Various qualifications, including CA(SA)
- Ethos Private Equity since 2006
- Appointed to the Waco International board in 2012
- Chairman of the social and ethics committee

6. Simon Murray
- BCom
- RMB Ventures since 2000
- Appointed to the Waco International board in 2016

Executive directors

1. Stephen J Goodburn (Chief Executive Officer)
- BCompt (Hons)
- Joined Waco International in 1990
- Held various positions throughout the Group, including CFO 1998 to 2011
- Appointed as Group CEO in 2011

2. Eben D le Roux (Chief Financial Officer)
- Various qualifications, including CA(SA)
- Joined Waco International as Corporate Finance Manager in 2004
- Finance Director for Australasia from 2007 to 2013
- Appointed as Group CFO in 2013

Group Treasurer and Company Secretary

1. Mark R Towler
- BCom
- Joined Waco International in 1993

Outgoing non-executive directors

1. Nick B Hudson
- Fellow of the Faculty of Actuaries (Edinburgh)
- RMB Ventures since 2005
- Appointed to the Waco International board in 2012
- Resigned from the Waco International board in 2015

* In preparation for the proposed listing, C Motala and JER Matthews resigned effective 6 August 2015, and three independent non-executive directors (A Schlesinger, T Abdool-Samad and M Sello) were appointed in their place. Upon postponement of the listing, the three independent non-executive directors resigned and C Motala and JER Matthews were reappointed, effective 2 November 2015.

Governance report (continued)

Executive management board

Group executive leadership

1. Stephen JM Goodburn (Chief Executive Officer)
- Joined Waco International in 1990

2. Eben D le Roux (Chief Financial Officer)
- Joined Waco International in 2004

3. Gregory J Hart (Group Human Resources Executive)
- BSocSci
- Joined Waco International in 2003 as Group HR executive

Operating businesses leadership

1. Eugenio de Sa (Managing Director of Premier Modular)
- CA(SA)
- Joined Premier Modular as Financial Director in 2000
- Appointed as Commercial and Operations Director in 2007
- Appointed as Managing Director in December 2008

2. Michael G Els (Chief Executive Officer of Waco Africa)
- BSc (Quantity Surveying)
- Appointed as CEO of Waco Africa in 2010

3. Robert Erasmus (Managing Director of Sanitech)
- MBA
- Joined Sanitech as Business Development Director in 2008
- Appointed as Managing Director in 2009

4. Rodney G Mill (Managing Director of Kwikform Group)
- Various qualifications, including BAppSc
- Joined Waco Kwikform in 1987
- Appointed as Executive General Manager in 2002
- Director of Waco Kwikform from 2006 to 2010
- Appointed as Managing Director in 2010

5. Alistair Bennett (Managing Director of SkyJacks)
- Higher National Diploma in Civil Engineering
- Joined SGB-Cape in 2006 and appointed as Divisional Director of SGB-Cape (Coastal Region) in June 2012
- Appointed as Managing Director of SkyJacks in May 2015

6. Mark Liquorish (Managing Director of Abacus)
- CA(SA)
- Joined Abacus as managing director in 2015

GOVERNANCE STRUCTURE

Board of directors

The board, as the highest governing body, has ultimate responsibility for the governance of the Group.

Board committees

The board is supported and assisted by various committees with clear mandates and oversight responsibility for various aspects of the business. Members of Group executive management participate in committee meetings by invitation to provide operational insights into matters arising.

Executive management board

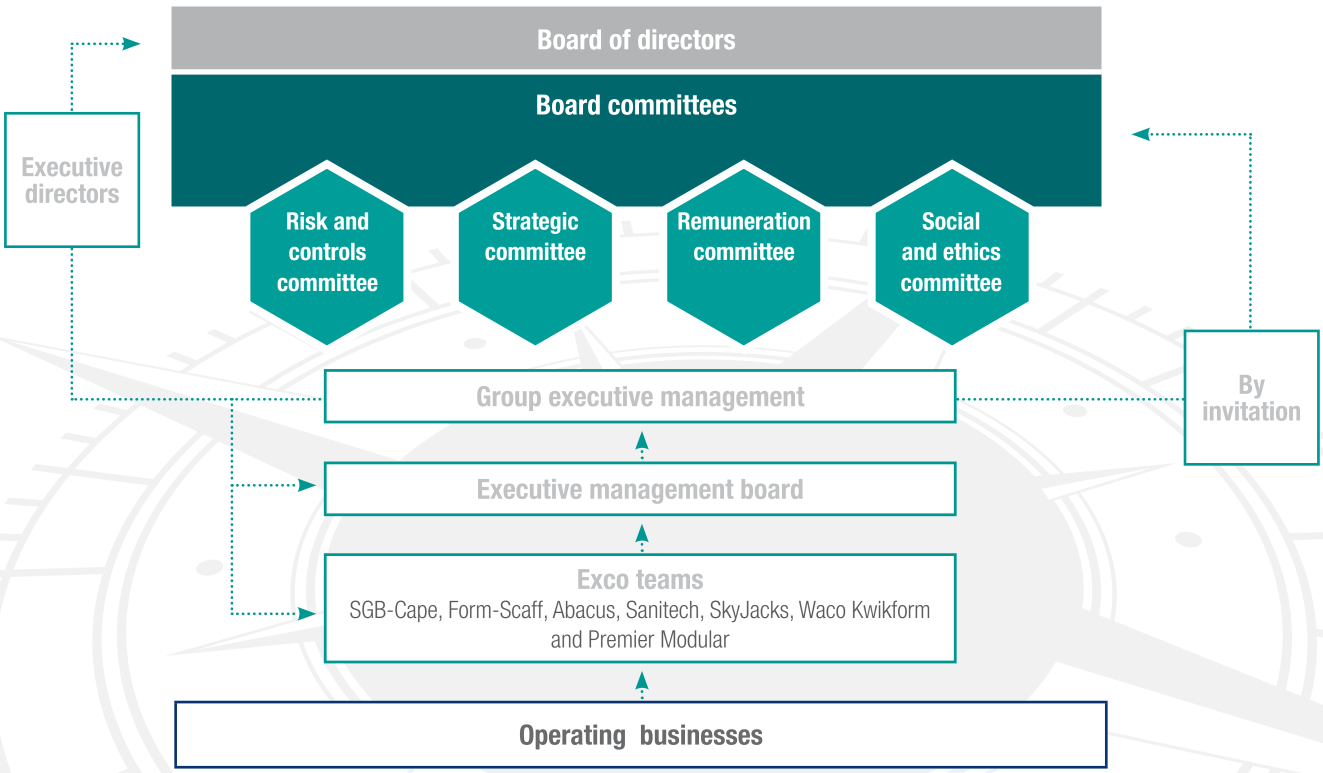
The executive management board is made up of the Group executive management team and the managing directors of the following business units: Waco Africa, Abacus, Sanitech, SkyJacks, Waco Kwikform and Premier Modular.

Executive committee teams

Exco teams comprise local management, divisional managing directors and Group executive management (CEO, CFO and HR executive), and are responsible for the day-to-day operations of the major business units.

Group support services

Waco International has a small head office of ten employees, including the Group CEO, CFO, HR Executive, Treasurer, Corporate Finance Manager, Finance Manager, Internal Audit Manager and support employees.



Governance report (continued)

BOARD COMMITTEE'S OVERVIEW

A summary of the mandate, along with members and attendance of meetings, for each of the board committees is provided in the table below. Current material focus areas and commentary on relevant changes to status going forward is also provided:

Committee	Mandate summary	Members and attendance	Focus areas and relevant commentary
Risk and audit committee	• Formulating and monitoring risk management policies and activities, including the annual Group-wide risk assessment • Assessing and monitoring health and safety reporting and performance • Ensuring governance compliance • Recommending the appointment of the external auditors, overseeing the external audit scope and process, and determining audit fees • Overseeing the scope and performance of internal audit	• Geoff Everingham* (3/3) • Cassim Motala (2/2) • Jos van Zyl (3/3) By invitation: • Royden Vice (3/3) • Stephen Goodburn (3/3) • Eben le Roux (3/3) • Greg Hart (3/3)	*Current material focus areas* • Africa governance working group, ensuring adherence to legislation, appropriate governance and leveraging off existing footprint • Assessment of feedback from support services, including tax advisers and external auditors • Assessment of the impact of new IFRS pertaining to revenue recognition and implementation of appropriate actions • Embedding designated internal audit process
Strategic committee	• Reviewing and approving the strategic plan developed by management • Monitoring the execution of the strategic plan by management • Reviewing, approving and submitting the annual budget to the board of directors	• Royden Vice* (5/5) • Stephen Goodburn (5/5) • Eben le Roux (5/5) • Cassim Motala (5/5) • Simon Murray (0/0) By invitation: • Julian Pienaar (5/5) • Jos van Zyl (5/5) • Jonathan Matthews (5/5)	*Current material focus areas* • Annual review of the progress of the strategy to date, review of the strategic objectives and identification of new initiatives • Ongoing focus on turnaround strategy for the Australian business and identification of key learnings from successful improvement in Premier Modular • Monitoring of conditions in the external environment to identify new regional and product market opportunities with an emphasis on Africa

* Indicates committee Chairperson.

Committee	Mandate summary	Members and attendance	Focus areas and relevant commentary
Remuneration committee	• Reviewing remuneration and bonus policies of directors and senior management • Reviewing overall annual salary increases of employees • Developing and reviewing executive director succession plans • Monitoring and approving allocations of grants to the Group long-term incentive scheme • Nominating new directors and overseeing their orientation and evaluation	Royden Vice* (2/3) Jos van Zyl (2/2) Simon Murray (1/1) By invitation: • Stephen Goodburn (2/2) • Greg Hart (2/2) • Cassim Motala (2/2) • Jonathan Matthews (2/2)	*Current material focus areas* • Assessment and benchmarking of remuneration practices for fairness and appropriateness • Phasing out of WGAR Scheme
Social and ethics committee	Monitoring compliance with relevant laws, regulations, and codes of business practice Engaging meaningfully with relevant internal and external stakeholders Identifying key sustainability and ethics risks and monitoring relevant indicators Ensuring effective employee training and development programmes are in place Overseeing corporate citizenship activities, including the Waco International Charitable Foundation Trust	• Jos van Zyl* (2/2) • Cassim Motala (2/2) • Mike Els (2/2) • Greg Hart (2/2) By invitation: • Royden Vice (2/2) • Stephen Goodburn (2/2) • Eben le Roux (2/2)	*Current material focus areas* • Extend Waco Foundation bursaries to school learners to increase impact of the available benefits • Pursue opportunities to mitigate impact of new B-BBEE codes

* Indicates committee Chairperson.

ETHICS

Ethics is an essential component of doing business and formal responsibility in this area is assigned to the social and ethics committee. The Code for the Group as a whole was developed in order to articulate the behaviours and practices which are required for the business to function ethically and sustainably. Every employee is required to sign acceptance of the Code.

In addition, a values-based summary of the Code is distributed to give all managers and employees a clear understanding of what the Code is aiming to achieve.

The values-based summary of the Code is provided in the sustainability overview, available online. The full Code is available on the corporate website www.wacointernational.co.za

Whistle-blowers line

To reinforce the Code, a whistle-blowers line is available to all employees, and all relevant communications are reported directly to management to identify appropriate responses. The line is managed by an external service provider according to a defined policy, which guarantees the anonymity of callers.

REGULATORY COMPLIANCE

The markets in which Waco International operates are subject to a broad spectrum of regulatory requirements, many of which are industry-specific and country-specific. Managing compliance in key areas, including finance, tax, product and manufacturing accreditation, labour, environment and health and safety, is a major focus for the Group as it determines its licence to operate.

Each operating business is responsible for monitoring the local regulatory environment in which it does business.

Operational management – with input from Group executive management – meets on a monthly basis to assess the impact of any material regulatory changes to determine how to align business practices accordingly and thereby maintain the necessary accreditation.

In terms of the other sub-Saharan African businesses, the responsibility for ensuring compliant practices is assigned to the Africa governance working group of the risk and controls committee. The committee was established in support of the Group's strategic drive into Africa, ensuring that it takes place in accordance with the financial and legal requirements relevant to each specific country. Other regulatory elements, such as labour practices and collective bargaining, are managed under the supervision of the social and ethics committee.

The Group participates in the appropriate industry bodies to remain abreast of the latest regulatory frameworks impacting its core industries, and contributes to the development of these frameworks wherever possible.

Assurance

The combined assurance process followed by the Group involves rigorous management controls and oversight responsibility at various authority levels, from operational executive management through to the board of Waco International. Risk management systems are embedded in each business, and are articulated in the relevant standard operating procedures and quality assurance processes, with KPIs assigned as appropriate.

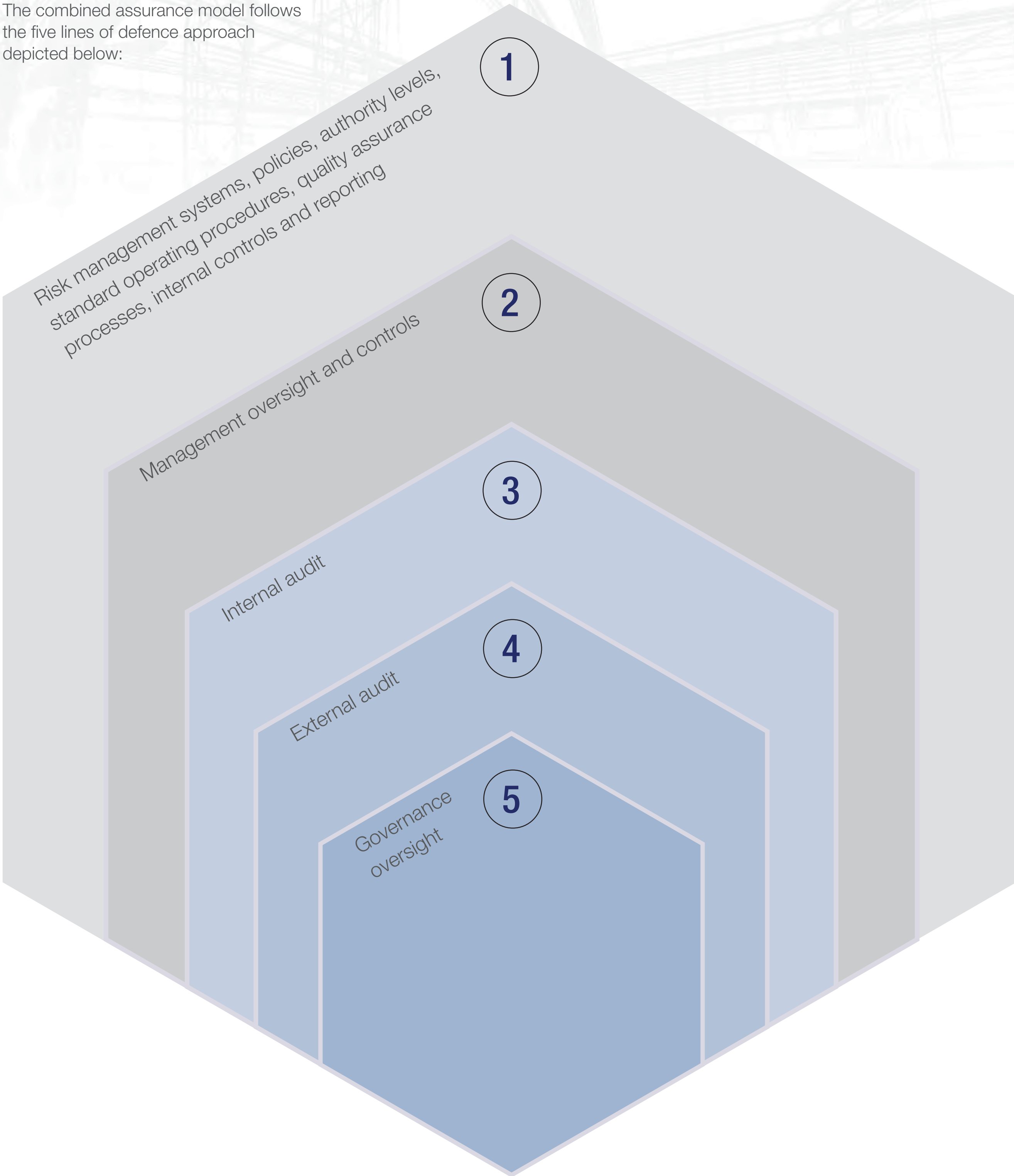
Branch meetings and branch reviews are conducted on a regular basis throughout the operating businesses. The exco of each operating business is responsible for monitoring performance, risks and progress of the strategic initiatives, and reports these on a monthly basis to Group executive management. The CEO reports to the board and shareholders on a monthly basis, and submits a comprehensive quarterly report to the board, including material matters requiring the attention of the appropriate board committees.

The internal audit function supports the risk and controls committee, board and the Group as a whole by being responsible for monitoring the effectiveness of internal controls and assessing the risk appetite of the Group. The internal audit has a direct reporting line to the Chairman of the Group as well as the independent non-executive Chairman of the risk and controls committee.

In accordance with the annual audit plan, the independent external auditors are contracted to conduct a full scope audit of the Group in accordance with International Standards on Auditing, which involves regular interaction, including planning and debrief, with the risk and controls committee.

Members of Group exco and the internal audit function were responsible for overseeing the integrated reporting process. The report was approved by the board upon assessing its contents and structure and upon recommendation from the risk and controls committee.

The combined assurance model follows the five lines of defence approach depicted below:



EXTRACT FROM THE DIRECTORS' REPORT

for the year ended 30 June 2016

OVERVIEW OF THE GROUP'S PERFORMANCE

The successful execution of the strategy to create sustainable businesses has enabled Waco International to deliver a satisfactory performance in difficult operating conditions. The performance of Waco Africa slowed as weakness in the South African economy, compounded by an unsupportive political environment, impacted the sectors served by the Group's domestic businesses, resulting in a 6% decline in earnings before interest, taxes, depreciation and amortisation (EBITDA). This was mitigated by strong performances from the international businesses in Australasia and the United Kingdom, which delivered combined EBITDA growth in excess of 50% after a period of intensive restructuring.

Waco International has successfully executed key strategic initiatives over the past four years that have resulted in significant improvements in its operation and financial performance. During this period, the Group has invested over R1 billion of capital expenditure to maintain and expand its hire fleet and extend its branch network in South Africa and other markets in sub-Saharan Africa, and acquired businesses to strengthen its market share in key targeted market sectors in New Zealand and South Africa. The Group has also implemented the turnaround plans in the United Kingdom and Australasian operations that have contributed to a 5% increase in the revenue of Waco International and a 8% increase in EBITDA in 2016.

Generating value and maintaining growth in the current global economic environment is difficult and requires an innovative and dynamic approach to strategy. The broad objective of the Alchemy of Growth strategy implemented by the Group in 2011 is to ensure that the established core businesses maintain leading market positions and continue to generate value. This value enables the Group to fund future growth through the development of innovative new products and expansion into new sectors that represent new revenue streams and will, in time, become part of the core businesses.

As demonstrated in the 2016 operational performance, Waco International has maintained growth by ensuring that its businesses are resilient and therefore sustainable, confirming the effectiveness of the Group strategy. By increasing annuity-type income, growing the exposure of its businesses to non-cyclical sectors such as industrial maintenance, power generation and municipal infrastructure development, and diversifying products and services across multiple sectors and geographies, the Group has become more resilient to cyclical trends and able to grow during economic downturns.

Management utilises adjusted EBITDA and adjusted EBIT as performance measures when evaluating the financial performance of the Group. These financial measures are non-IFRS measures. For a definition of adjusted EBITDA and adjusted EBIT please refer to page 94. The reconciliation of adjusted EBITDA and adjusted EBIT to profit is provided below.

R thousand	Group 2016	2015
Reconciliation of profit to adjusted EBIT and EBITDA		
Profit for the year	**452 324**	375 189
Adjusted for:		
Income tax	**104 374**	127 015
Net finance expense	**45 294**	67 890
Non-recurring expenses/(income)	**34 465**	45 423
Cost related to the acquisition of subsidiaries	**238**	883
Branch closure and retrenchment costs	**25 409**	22 144
Onerous leases	**–**	21 485
Expenses incurred on proposed listing	**48 175**	–
Settlement of legacy claim	**19 493**	–
Grayston bridge legal costs	**12 920**	–
Gain on distribution from trust	**(62 911)**	–
Profit on disposal of subsidiary	**(9 591)**	–
Reversal of impairment of loan	**(1 336)**	–
Other non-recurring expenses	**2 068**	911
Adjusted EBIT	**636 457**	615 517
Adjusted for:		
Depreciation	**194 060**	150 832
Amortisation	**1 164**	1 152
Adjusted EBITDA	**831 681**	767 501

As conditions in the South African market deteriorate, the benefits of having a portfolio of businesses beyond our domestic market has become increasingly evident and we will continue to invest in the growth of these businesses with the aim of balancing their profit contribution with that of the South African businesses.

Growing demand for power generation offers significant future growth potential in our markets in Africa and the United Kingdom. The Group's diversified industrial services offering is well positioned to serve sectors requiring significant infrastructural development, including mining and resources, power generation and oil and gas when market conditions improve.

The Group has developed a number of innovative new growth initiatives which are starting to realise their potential and should contribute increasingly to revenue and EBITDA in future.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2016

R thousand	Note	Group 2016	2015
Revenue		4 756 436	4 535 397
Cost of sales		(2 893 451)	(2 823 536)
Gross profit		1 862 985	1 711 861
Other income	2	74 724	1 906
Distribution expenses		(819 550)	(768 273)
Administration expenses		(494 355)	(373 688)
Other operating expenses	3	(22 178)	(3 232)
Results from operating activities	4	601 626	568 574
Finance expense		(82 838)	(76 009)
Finance income		37 544	8 119
Net finance (expense)		(45 294)	(67 890)
Share of profit of equity-accounted investee		366	1 520
Profit before income tax		556 698	502 204
Income tax		(104 374)	(127 015)
Profit for the year		452 324	375 189
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences (net of tax)		183 899	(48 257)
Total comprehensive income for the year		636 223	326 932
Profit attributable to:			
Owners of the company		364 508	288 612
Non-controlling shareholders		87 816	86 577
		452 324	375 189
Total comprehensive income attributable to:			
Owners of the company		548 407	240 132
Non-controlling shareholders		87 816	86 800
		636 223	326 932
Earnings per share			
Basic and diluted earnings per share (Rand)		2.17	1.25
Headline earnings per share (Rand)		1.19	1.12

STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

R thousand	Note	Group 2016	2015
Assets			
Equipment for hire	5	2 400 134	2 038 657
Property, plant and equipment		160 602	133 053
Investment property		–	18 208
Goodwill		51 805	43 088
Intangible assets		1 239	2 153
Deferred tax assets		33 106	32 068
Equity-accounted investees		1 353	2 515
Other investments		16 787	–
Total non-current assets		2 665 026	2 269 742
Inventories		221 016	165 291
Trade and other receivables		983 929	882 106
Prepaid tax		15 236	18 053
Cash and cash equivalents		223 747	330 770
Total current assets		1 443 928	1 396 220
Total assets		4 108 954	3 665 962
Equity			
Stated ordinary share capital		1 141	1 142
Preference shareholder capital		965 176	1 499 163
Foreign currency translation reserve		365 106	181 207
Accumulated profits		353 081	105 567
Total equity attributable to equity holders of the Group		1 684 504	1 787 079
Non-controlling interest		282 751	195 517
Total equity		1 967 255	1 982 596
Interest-bearing borrowings		920 398	410 000
Other long-term liabilities		14 393	27 692
Deferred tax liabilities		75 842	80 568
Employee benefits		78 646	51 618
Provisions		11 874	20 143
Total non-current liabilities		1 101 153	590 021
Trade and other payables		817 982	820 542
Employee benefits		79 373	110 802
Provisions		27 058	14 246
Current portion of interest-bearing borrowings		75 000	113 365
Tax payable		41 133	34 390
Total current liabilities		1 040 546	1 093 345
Total liabilities		2 141 699	1 683 366
Total equity and liabilities		4 108 954	3 665 962

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

R thousand	Group Stated ordinary share capital	Preference shareholder capital	Foreign currency translation reserve	Accumu-lated profit	Total	Non-controlling interest	Total equity
Balance at 30 June 2014	1 142	1 353 635	229 687	(37 517)	1 546 947	108 717	1 655 664
Total comprehensive income for the year							
Profit for the year	–	–	–	288 612	288 612	86 577	375 189
Other comprehensive income							
Foreign currency translation differences (net of tax)	–	–	(48 480)	–	(48 480)	223	(48 257)
Total comprehensive income for the year	–	–	(48 480)	288 612	240 132	86 800	326 932
Transactions with owners recorded directly in equity							
Accumulated reserves attributable to preference shareholders	–	145 528	–	(145 528)	–	–	–
Balance at 30 June 2015	1 142	1 499 163	181 207	105 567	1 787 079	195 517	1 982 596
Total comprehensive income for the year							
Profit for the year	**–**	**–**	**–**	**364 508**	**364 508**	**87 816**	**452 324**
Other comprehensive income							
Foreign currency translation differences (net of tax)	**–**	**–**	**183 899**	**–**	**183 899**	**–**	**183 899**
Total comprehensive income for the year	**–**	**–**	**183 899**	**364 508**	**548 407**	**87 816**	**636 223**
Transactions with owners recorded directly in equity							
Treasury shares repurchased during the year	**(1)**	**–**	**–**	**(286)**	**(287)**	**–**	**(287)**
Preference shares repurchased during the year	**–**	**(650 695)**	**–**	**–**	**(650 695)**	**–**	**(650 695)**
Disposal of subsidiary with non-controlling interest	**–**	**–**	**–**	**–**	**–**	**(582)**	**(582)**
Accumulated reserves attributable to preference shareholders	**–**	**116 708**	**–**	**(116 708)**	**–**	**–**	**–**
Total contributions by and distributions to owners	**(1)**	**(533 987)**	**–**	**(116 994)**	**(650 982)**	**(582)**	**(651 564)**
Balance at 30 June 2016	**1 141**	**965 176**	**365 106**	**353 081**	**1 684 504**	**282 751**	**1 967 255**

STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

		Group	
R thousand	Note	2016	2015
Cash flows from operating activities			
Operating cash flow before working capital changes		731 945	705 194
Working capital changes	6	(115 608)	141 112
Finance costs paid		(78 356)	(50 617)
Finance income received		8 177	8 119
Income tax paid		(103 030)	(155 097)
Net cash from operating activities		443 128	648 711
Cash flows from investing activities			
Additions of property, plant and equipment		(55 960)	(60 270)
Additions of equipment for hire	5	(385 471)	(303 302)
Proceeds from disposal of property, plant and equipment		1 404	1 408
Proceeds from disposal of equipment for hire		79 979	97 853
Additions of intangible assets		(250)	–
Acquisition of subsidiaries		(2 098)	(94 270)
Disposal of subsidiaries		993	–
Dividends received		1 528	–
Net cash from investing activities		(359 875)	(358 581)
Cash flows from financing activities			
Interest-bearing borrowings repaid		(149 741)	(145 953)
Interest-bearing borrowings raised		613 724	85 000
Other long-term liabilities repaid		(12 165)	(14 410)
Repurchase of treasury shares		(287)	–
Repurchase of preference shares		(650 695)	–
Net cash from financing activities		(199 164)	(75 363)
Net (decrease)/increase in cash and cash equivalents		(115 911)	214 767
Cash and cash equivalents at 1 July		330 770	111 771
Effect of exchange rate fluctuations on cash held		8 888	4 232
Cash and cash equivalents at 30 June		223 747	330 770

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Significant accounting policies

1.1 Basis of preparation to the summarised consolidated financial statements

Waco International Holdings Proprietary Limited (the company) is a company incorporated and domiciled in South Africa. The summarised consolidated financial statements of the company as at and for the year ended 30 June 2016 comprise the company and its subsidiaries (together referred to as the Group and individually as Group entities). The summarised consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 8 December 2016.

The summarised consolidated financial statements are prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and presented in accordance with the minimum content, including disclosures, prescribed by IAS 34 Interim Financial Reporting applied to year-end reporting, and the requirements of the Companies Act of South Africa.

The accounting policies applied in the preparation of the audited consolidated and separate financial statements, from which the summarised consolidated financial statements were derived, have been applied consistently by all Group entities to all periods presented in these financial statements, except for the adoption of new or revised standards. The application of said standards has had no effect on the financial statements.

The summarised consolidated financial statements are presented in South African rand, which is the presentation currency of the Group. The functional currency of the holding company of the Group is South African rand. All the financial information presented in South African rand has been rounded to the nearest thousand unless indicated otherwise.

The summarised consolidated financial statements do not include all the statements, accounting policies and disclosures required in the consolidated and separate financial statements and should therefore be read in conjunction with the Group's audited consolidated and separate financial statements as at 30 June 2016 that are available on request from Eben le Roux at ebenlr@wacoint.co.za or for no charge at the company's registered offices during normal business hours. This report was compiled under the supervision of Mr Eben le Roux CA(SA), Chief Financial Officer, and Mr Dharishan Padiachy CA(SA), Group Financial Manager.

1.2 Estimations and judgements applied by management in applying accounting policies

The following estimations and judgements, which could have a significant effect on the 2016 financial statements, were made by management in applying the accounting policies at 30 June 2016.

Impairment of obsolete equipment for hire

Management identifies obsolete equipment for hire on a continuing basis. The identification is based on the age and condition of the specific items. Once identified, the equipment for hire is impaired to reflect the lower of cost and recoverable value. This estimate could, however, change based on market conditions.

Management has applied judgement when assessing the residual values and useful lives of equipment for hire.

Impairment of trade receivables

Management identifies impairment of trade receivables on a continuing basis. The estimation of the requirement for impairment is based on the current collectibility of the trade receivables, as well as taking into account the historical factors with regard to impairment of trade receivables. Management believes that the impairment is appropriate and there are no significant trade receivables that are doubtful and have not been provided for.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcomes of these matters are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

		Group	
	R thousand	2016	2015
2.	**Other income**		
	Insurance claim proceeds	778	1 868
	Profit on sale of investment	9 591	–
	Reversal of impairment of loan	1 336	–
	Gain on distribution from trust	62 911	–
	Other	108	38
		74 724	1 906
3.	**Other operating expenses**		
	Amortisation of intangible assets	(1 164)	(1 152)
	Acquisition of subsidiary costs	(238)	(883)
	Settlement of HMP Bure claim	(19 493)	–
	Other	(1 283)	(1 197)
		(22 178)	(3 232)
4.	**Results from operating activities**		
	The following items were charged/(credited) to results from operating activities:		
	Depreciation		
	– property, plant and equipment	31 630	21 367
	– investment property	356	556
	– equipment for hire	162 074	128 909
	Amortisation of intangible assets	1 164	1 152
	Loss/(profit) on disposal of:		
	– property, plant and equipment	502	(217)
	– equipment for hire	(23 978)	(26 607)
	– investment	(9 591)	–
	Operating lease expense	206 969	170 849
	(Reversal)/recognition of impairment loss on:		
	– property, plant and equipment	(30)	–
	– equipment for hire	(4 956)	1 740
	Research and development cost	162	2 479
	Professional fees	11 467	17 657
	Auditors remuneration	9 863	7 660
	Audit fee	7 150	5 745
	Tax services	2 713	1 915
	Other professional service fees	1 610	1 285
	Employee costs	1 571 442	1 510 200
	Salaries and wages	1 493 335	1 407 249
	Defined contribution expense	67 867	59 241
	Other long-term employee benefits	10 240	43 710
	Number of employees	7 138	6 539

5. Equipment for hire

R thousand	Group Total	Scaffolding, shoring and formwork	Modular buildings	Sanitation equipment	Motorised equipment
Cost					
Balance at 1 July 2014	2 047 460	1 734 026	222 018	91 416	–
Acquisition of business	72 857	–	–	3 307	69 550
Additions	303 302	162 681	98 803	38 980	2 838
Disposals	(85 036)	(80 576)	(4 001)	(459)	–
Effect of movements in exchange rates	(55 870)	(73 705)	17 835	–	–
Balance at 30 June 2015	2 282 713	1 742 426	334 655	133 244	72 388
Acquisition of business	**1 939**	**–**	**–**	**1 939**	**–**
Additions	**385 471**	**201 124**	**116 545**	**37 780**	**30 022**
Transfers (to)/from property, plant and equipment	**(5 419)**	**(7 545)**	**2 126**	**–**	**–**
Disposals	**(85 598)**	**(64 532)**	**(9 588)**	**(10 193)**	**(1 285)**
Effect of movements in exchange rates	**212 441**	**207 037**	**4 744**	**963**	**(303)**
Balance at 30 June 2016	**2 791 547**	**2 078 510**	**448 482**	**163 733**	**100 822**
Accumulated depreciation and impairment losses					
Balance at 30 June 2014	128 114	90 594	13 771	23 749	–
Depreciation for the year	128 909	70 583	29 943	24 635	3 748
Recognition of impairment losses	1 740	1 740	–	–	–
Disposals	(13 790)	(11 132)	(2 521)	(137)	–
Effect of movements in exchange rates	(917)	(5 290)	4 373	–	–
Balance at 30 June 2015	244 056	146 495	45 566	48 247	3 748
Depreciation for the year	**162 074**	**80 395**	**43 182**	**30 564**	**7 933**
Reversal of prior period impairment losses	**(4 956)**	**(4 956)**	**–**	**–**	**–**
Transfers (to)/from property, plant and equipment	**(2 959)**	**(4 565)**	**1 606**	**–**	**–**
Disposals	**(29 597)**	**(13 380)**	**(7 191)**	**(8 571)**	**(455)**
Effect of movements in exchange rates	**22 795**	**21 937**	**880**	**(2)**	**(20)**
Balance at 30 June 2016	**391 413**	**225 926**	**84 043**	**70 238**	**11 206**
Carrying amounts					
At 30 June 2015	2 038 657	1 595 931	289 089	84 997	68 640
At 30 June 2016	**2 400 134**	**1 852 584**	**364 439**	**93 495**	**89 616**

6. Working capital changes

R thousand	Group 2016	Group 2015
Increase in inventories	**(44 225)**	(4 075)
Increase in trade and other receivables	**(55 614)**	(44 845)
(Decrease)/increase in trade and other payables	**(15 769)**	190 032
	(115 608)	141 112

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

R thousand	Forming, shoring, scaffolding and related services International	Forming, shoring, scaffolding and related services Africa	Modular buildings, sanitation and related services International	Modular buildings, sanitation and related services Africa	Administration and eliminations	Total
7. Segmental information						
2016						
Revenue	**1 413 486**	**1 852 517**	**894 873**	**600 603**	**(5 043)**	**4 756 436**
Cost of sales	**(916 032)**	**(951 240)**	**(679 040)**	**(352 182)**	**5 043**	**(2 893 451)**
Gross profit	**497 454**	**901 277**	**215 833**	**248 421**	**–**	**1 862 985**
Adjusted EBITDA	**158 498**	**453 711**	**93 388**	**160 347**	**(34 263)**	**831 681**
Adjusted EBIT	**108 955**	**394 403**	**54 911**	**113 235**	**(35 047)**	**636 457**
Non-current assets	**1 216 252**	**1 985 112**	**480 895**	**528 028**	**(1 545 261)**	**2 665 026**
Current assets	**370 641**	**378 928**	**293 799**	**131 743**	**268 817**	**1 443 928**
Total assets	**1 586 893**	**2 364 040**	**774 694**	**659 771**	**(1 276 444)**	**4 108 954**
Non-current liabilities	**(155 063)**	**(186 913)**	**(35 821)**	**(53 646)**	**(669 710)**	**(1 101 153)**
Current liabilities	**(256 864)**	**(240 484)**	**(375 573)**	**(93 139)**	**(74 486)**	**(1 040 546)**
Total liabilities	**(411 927)**	**(427 397)**	**(411 394)**	**(146 785)**	**(744 196)**	**(2 141 699)**
Capital employed	**1 174 966**	**1 936 643**	**363 300**	**512 986**	**(2 020 640)**	**1 967 255**
2015						
Revenue	1 197 335	1 970 921	788 373	578 768	–	4 535 397
Cost of sales	(803 547)	(1 055 346)	(641 485)	(323 158)	–	(2 823 536)
Gross profit	393 788	915 575	146 888	255 610	–	1 711 861
Adjusted EBITDA	92 681	496 927	51 322	153 738	(27 167)	767 501
Adjusted EBIT	49 863	451 936	25 214	116 887	(28 383)	615 517
Non-current assets	983 145	1 784 064	409 073	443 138	(1 349 678)	2 269 742
Current assets	308 576	137 827	327 970	53 839	568 008	1 396 220
Total assets	1 291 721	1 921 891	737 043	496 977	(781 670)	3 665 962
Non-current liabilities	(145 675)	(136 299)	(35 650)	(11 690)	(260 707)	(590 021)
Current liabilities	(236 359)	(263 803)	(383 990)	(85 899)	(123 294)	(1 093 345)
Total liabilities	(382 034)	(400 102)	(419 640)	(97 589)	(384 001)	(1 683 366)
Capital employed	909 687	1 521 789	317 403	399 388	(1 165 671)	1 982 596

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INDEPENDENT AUDITOR'S REPORT ON THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Waco International Holdings Proprietary Limited

The accompanying summarised consolidated financial statements, which comprise the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of Waco International Holdings Proprietary Limited for the year ended 30 June 2016. We expressed an unmodified audit opinion on those financial statements in our report dated 7 September 2016.

The summarised consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the audited financial statements of Waco International Holdings Proprietary Limited. Reading the summarised consolidated financial statements, therefore, is not a substitute for reading the audited financial statements of Waco International Holdings Proprietary Limited.

Directors' responsibility for the summarised consolidated financial statements

The directors are responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in note 1.

Auditor's responsibility

Our responsibility is to express an opinion on the summarised consolidated financial statements of Waco International for the year ended 30 June 2016, based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*.

Opinion

In our opinion, the summarised consolidated financial statements derived from the audited financial statements of Waco International Holdings Proprietary Limited for the year ended 30 June 2016, are consistent, in all material respects, with those financial statements, in accordance with the basis described in note 1.

KPMG Inc.

Per M Hassan
Chartered Accountant (SA)
Registered Auditor
Director
8 December 2016

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INDEPENDENT ASSURANCE REPORT ON SELECTED FINANCIAL AND NON-FINANCIAL INFORMATION INCLUDED IN THE 2016 INTEGRATED REPORT

To the shareholders of Waco International Holdings Proprietary Limited

We have undertaken a limited assurance engagement on selected financial and non-financial information, as described below, and presented in the 2016 integrated report to stakeholders of Waco International Holdings Proprietary Limited (Waco International) for the year ended 30 June 2016 (the report). This engagement was conducted by a multidisciplinary team that included assurance specialists with extensive experience in integrated reporting as well as detailed knowledge of Waco International.

Subject matter and related assurance

We are required to provide limited assurance on the following financial and non-financial information, prepared in accordance with Waco International's internally developed guidelines, marked with a ✔ on the relevant pages in the report.

- Accuracy of financial ratios for the 2013 to 2016 financial periods
- Accuracy of 2013 to 2016 financial data
- Reportable segments and related disclosures ensuring compliance with IFRS 8
- Human resource information/indicators

Management responsibility

Management is responsible for the selection, preparation and presentation of the financial and non-financial information in accordance with Waco International's internally developed guidelines. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues for commitments with respect to performance, and for the design, implementation and maintenance of internal control relevant to the preparation of the report that is free from material misstatement, whether due to fraud or error.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

KPMG Services Proprietary Limited applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the selected financial and non-financial information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected financial and non-financial information is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 (Revised) involves assessing the suitability, in the circumstances, of Waco International's use of its internally developed guidelines as the basis of preparation for the selected financial and non-financial information, assessing the risks of material misstatement of the selected financial and non-financial information, whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected financial and non-financial information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included inquiries, observation of processes followed, inspection of documents and system reports, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

The following is a summary of the procedures we performed:

- recalculated the stated financial ratios for the 2013 to 2016 financial periods from the underlying audited financial data for those periods;
- agreed the human resources information stated in the report to the 2016 health and safety report; and
- verified the mathematical accuracy and internal consistencies of the report.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether Waco International's selected financial and non-financial information has been prepared, in all material respects, in accordance with its internally developed guidelines.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected financial and non-financial information as set out in the subject matter paragraph for the year ended 30 June 2016, are not prepared, in all material respects, in accordance with the entity's internally developed guidelines.

Other matter

Our report does not extend to any disclosures or assertions relating to future performance plans and/or strategies disclosed in the report.

Restriction of liability

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected financial and non-financial information to the directors of Waco International in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than Waco International for our work, for this report, or for the conclusion we have reached.

KPMG Services Proprietary Limited

Per M Hassan
Chartered Accountant (SA)
Registered Auditor
Director
8 December 2016

ANNEXURES

Useful terms

Operational definitions	
Alchemy of Growth	The Alchemy of Growth is a framework based on "three horizons" guiding companies on a strategy of sustainable growth through the management of current performance while maximising future opportunities. The Alchemy of Growth was written by Mehrdad Baghai, Stephen Coley and David White. Copyright 1999, 2000 by McKinsey & Company, Inc., United States.
Balanced scorecard	The fundamental mechanism driving the Group's joint performance management framework. The Waco International balanced scorecard considers key financial indicators (75%) as well as personalised individual growth targets (25%) as the basis for remuneration.
Basket hire contracts	Contracts that are based on a fixed price for a specific project. In certain cases, additional weekly rates are charged after the end of the contract period.
Fleet utilisation	Operational efficiency measurement of the utility Waco International derives from its assets/fleet. Measured by units of fleet on site over total units of fleet.
Forming	Formwork systems are primarily used in the in situ casting of concrete columns, walls and floor slabs in the construction of high-rise residential, commercial and industrial buildings as well as governmental infrastructure construction projects (such as bridges, dams and tunnels). Formwork systems consist of re-usable, standard fixtures and related accessories that are used to hold concrete in place while it sets. These fixtures define the shape of the concrete until it is self-supporting and vary in complexity, depending on the design composition of the structure being built.
Full-time employment equivalent (FTE) employees	Owing to the variability of the work, the majority of the workforce is employed on a contract-by-contract basis. Employee numbers are therefore calculated on an FTE basis; for example, two employees each working half a week's worth of payable hours are counted as one FTE employee.
Granularity of Growth	Waco International introduced the Granularity of Growth concept in June 2016 to extend and refine the Alchemy of Growth strategy. The concept, also developed by McKinsey & Company, is founded on the belief that companies should base their growth strategies on more detailed views of their markets to identify growth opportunities.
Hire fleet	The equipment which the Group offers to customers to hire, including forming, shoring and scaffolding equipment, relocatable modular buildings and portable toilets.
Hotspots	Large-scale diversified industrial projects and identified geographical locations that are expected to give rise to opportunities over the next few years for the Group to provide a range of products and services.
Hygiene services	Integrated hygiene services include the rental and servicing of sanitisers, wipes, toilet tissue dispensers, sanitary bins and hand washing and drying components, as well as contract cleaning and pest control services.
Limited duration contract (LDC) employees	Employees who are employed directly by Waco International on a contract that has an end date that normally coincides with the end of a specific commercial project for which they were employed.
Lost-time injury (LTI)	A lost-time injury (LTI) is defined as an incident that resulted in a fatality, permanent disability or time lost from work of one day/shift or more.
Lost-time injury frequency rate (LTIFR)	Lost-time injury frequency rate (LTIFR) is a measurement of the number of LTIs within a given period relative to the total number of hours worked in the same period. For ease of comparison across companies and industries, a standard rate of 1 LTI per 200 000 hours is assumed, i.e. LTIFR = (LTIs/actual man-hours worked) x 200 000.
Other sub-Saharan Africa	Sub-Saharan African countries excluding South Africa.
Plan B	Plan B is a specific turnaround plan implemented in the Group's underperforming businesses in order to move these businesses to sustainable profitability.

Operational definitions

Relocatable modular buildings	Modular buildings consist of modules or sections which are linked together on site to form temporary or permanent structures. Modules are manufactured in a controlled factory environment and, as a result, many of the time delays associated with traditional building methods (including inclement weather, material shortages, delivery problems or labour shortages) are minimised. Due to the factory controlled environment, safety and health can be closely monitored which minimises the probability of incidents. The buildings can be disassembled, relocated and used elsewhere.
Sanitation services	Sanitation services include the hire of portable chemical toilets, regular servicing of portable toilets as well as septic tank pumping.
Scaffolding	Scaffolding is a framework system usually used to facilitate temporary access. It entails the provision of safe, elevated access platforms for workers to carry out a range of tasks in the construction and maintenance of buildings, civil engineering structures, industrial facilities, ships, oil rigs and other structures. It is also used as a standalone system, such as temporary spectator seating or platforms for public entertainment events.
Shoring	Shoring (also referred to as falsework) refers to the use of scaffolding systems and other products to provide support at varying heights to horizontal formwork systems for casting floor slabs, bridge decks and other concrete structures.
Straight hire contracts	Projects in which billing is based on an agreed weekly rate.

Financial definitions

Adjusted EBIT/EBITDA	Adjusted EBIT/EBITDA for certain events that management believes are of a capital or non-recurring nature and not representative of Waco International's ongoing business, and which the Group eliminates for the purpose of providing investors with a measure of its financial performance, which is in line with certain measures that management considers important in evaluating Waco International's underlying performance, and which management relies upon in the day-to-day operation of the business.
Compound annual growth rate (CAGR)	Growth in key metrics over time.
Constant currency	A constant exchange rate that eliminates the effects of exchange rate fluctuations over different financial periods and is used to show financial performance numbers, excluding currency fluctuations.
Days sales outstanding (DSO)	Days sales outstanding is a measure of the average number of days that it takes to collect cash from a customer after a sale has been made.
EBIT	Earnings before interest and tax, as defined by IFRS.
EBITA	Earnings before interest, tax and amortisation.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Economic value add (EVA)	EVA is the operating profit earned by the business less the notional cost of financing the business's capital (12%). Waco International evaluates the EVA of an investment over a number of years to drive sustainable long-term growth in shareholder value. This is managed by incorporating EVA as a long-term incentive measure.
Net assets managed	Net assets managed is calculated as the sum of non-current assets (excluding goodwill and deffered tax assets), trade and other receivables and inventories less trade and other payables (inlcuding provisions, accruals and employee benefits).
Net capital expenditure (CAPEX)	Investment in expansion initiatives and maintenance requirements less proceeds from fleet sales.
Net operating cash flow (NOCF)	The amount of cash generated from the business operations, calculated by adjusting net income (pre-tax and interest) for depreciation, amortisation, changes to net working capital and net capital expenditure.
Net working capital	Net working capital represents the difference between current assets, inventory and trade and other receivables, and the current liabilities, trade and other payables, of the Group.
Return on net assets managed (RONAM)	EBIT as a percentage of the average net assets managed over the course of a reporting period.

ANNEXURES (continued)

Glossary

ABET	Adult basic education and training
B-BBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
BLDP	Business Leaders Development Programme
Board	The board of directors of Waco International Holdings Proprietary Limited
CAGR	Compound annual growth rate
CAPEX	Net capital expenditure
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Companies Act	Companies Act of South Africa, 71 of 2008 (as amended)
DSO	Days sales outstanding
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDP	Executive Development Programme
EU	European Union
EVA	Economic value add
Exco	Executive committee
FTE	Full-time equivalent employees
GIBS	Gordon Institute of Business Science
HR	Human resources
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
<IR> Framework	Integrated Reporting Framework
IT	Information technology
King III	The revised King Code of Governance Principles for South Africa
KPI	Key performance indicator
LDC	Limited duration contracts
LTI	Lost-time injury
LTIFR	Lost-time injury frequency rate
MOI	Memorandum of incorporation
NIC	New informal concept
NOCF	Net operating cash flow
NUM	National Union of Mineworkers
NUMSA	National Union of Metalworkers of South Africa
RMB	Rand Merchant Bank

RONAM	Return on net assets managed
SMME	Small, micro and medium enterprise
TAP the Best Team	Transparency, Accountability, Performance, Best practice and Teamwork (Waco International's business principles)
TCTC	Total cost to company
The Code	Code of conduct
UASA	United Association of South Africa
UK	United Kingdom
WGAR Scheme	Waco Growth Appreciation Rights Scheme
WSARs	Waco share appreciation rights

ANNEXURES (continued)

CURRENCY CONVERSION TABLE

	2016		2015		2014		2013		Constant currency
	Average	Closing	Average	Closing	Average	Closing	Average	Closing	rate
Australian dollar (AU$)	**10.62**	**11.13**	9.47	9.40	9.48	9.96	9.03	9.01	9.48
British sterling (GBP)	**21.47**	**20.10**	18.00	19.30	16.89	18.01	13.86	15.01	16.89
US dollar (USD)	**14.63**	**15.01**	–	–	10.37	10.58	8.86	9.87	10.37
New Zealand dollar (NZ$)	**9.79**	**10.64**	8.77	8.39	8.56	9.27	7.25	7.63	8.56

ADMINISTRATION

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