AFROX

AFRICAN OXYGEN LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS **2006**

- **Revenue from industrial operations up 19% to R4 billion**
- **Operating profit from industrial operations up 15% to R684 million**
- **Total normal dividend per share up 10% to 88 cents per share**
- **Special dividend of 60 cents per share**
- **Basic earnings per share up 21% at 141.6 cents**

AFROX Stainshield® AFROX PortaPak® AFROX Vitemax® AFROX AfroxPac AFROX Cryospeed

AFROX shield® AFROX Propellants AFROX Refrigerants AFROX Safety AFROX Alushield® A Custor

AFROX Refrigerants AFROX Handigas AFROX Gas & Gear AFROX Argoshield AFROX Elite

AFROX ligas AFROX Roboshield AFROX Medical AFROX Handigas AFROX Argoshield Heavy Gas

AFROX Safety AFROX Hospitality AFROX Handigas AFROX Argoshield Universal AFROX Ferroloid®

AFROX ligas® AFROX Saffire® AFROX Refrigerants AFROX Handigas® AFROX Argoshield Light A Equip

AFROX Scientific AFROX Superweld® AFROX Hospitality Services AFROX Argoshield 5 AFRO Refrigeran

AFROX ldmaster® AFROX Suremix AFROX Hospitality AFROX Shieldmaster® AFROX AutoGas® AF Medica

AFROX Special Products AFROX Sureserve™ AFROX CustomerFirst AFROX Copashield® AFROX Foodgrade CO_2

AFROX shield AFROX TIGshield® AFROX Handigas AFROX Specshield AFROX Transcast® AF Refrige

AFROX Speedcraft® AFROX Transarc® AFROX Industrial AFROX AFROX Vitemax®

AFROX ntage AFROX Coremax® AFROX Safety AFROX Refrigerants AFROX Afrox AFR PGS

AFROX Afrolux® AFROX Medical AFROX Gas & Gear AFROX Gas & Gear AFROX Transarc

AFROX xPac AFROX Cryospeed AFROX Vitemax® AFROX Safety AFROX Argoshield Light Equip

AFROX Alushield® AFROX CustomerFirst AFROX Lasermix® AFROX Afrolux® AFROX Medical

AFROX shield AFROX Elite AFROX Gas & Gear AFROX Argoshield AFROX Gas & Gear AFI Trans

AFROX Argoshield 5 AFROX Refrigerants AFROX Medical AFROX Argoshield Universal AFROX Ferroloid®

AFROX shield Heavy AFROX Gas & Gear AFROX Safety AFROX Vitemax® AFROX Gas & Gear

AFROX Argoshield Light AFROX Equipment AFROX Handigas AFROX AFROX Vitemax®

AFROX d Universal AFROX Ferroloid® AFROX CustomerFirst AFROX Afrox AFROX PGS

AFROX AutoGas® AFROX Medical AFROX Partigas AFROX Hospitality AFROX Copashield®

AFROX shield® AFROX Foodgrade CO_2 AFROX Hospitality AFROX Copashield® AFROX Transcast® A Refrig

AFROX Transcast® AFROX Refrigerants AFROX Vitemax® AFROX Transcast® AFROX Refrigerants

AFROX x AFROX PGS AFROX Gas & Gear AFROX Transarc AFROX Copashield® AF Foodgra

Contents

***Suremix,** a carbon-dioxide nitrogen blend, is used for dispensing almost every draught beer in South Africa.*

Front cover photo

The 1800-ton capacity LPG carrier, Gas Crystal docked at Saldanha, Western Cape to off-load product directly into Afrox tankers. From the dockside, Afrox delivered the gas directly to customers in order to alleviate the shortage of LPG experienced during the winter months.

The shortage was caused by several refineries experiencing production problems and for the first time ever Afrox had to import product to keep customers supplied.

Financial highlights

For the financial year ended 30 September 2006

	2006	2005
Group*		
Revenue (R'm)	**3 914**	5 754
Operating profit (R'm)	**754**	923
Profit on sale of investment (R'm)	**362**	1 085
Net profit for the year (R'm)	**858**	1 350
Basic earnings per share (cents)	**278.1**	403.6
Headline earnings per share (cents)	**191.4**	127.9

	2006	2005	% change
Industrial**			
Revenue (R'm)	**3 914**	3 279	+19
Operating profit (R'm)	**684**	597	+15
Net profit for the year (R'm)	**437**	391	+12
Basic earnings per share (cents)	**141.6**	117.0	+21
Headline earnings per share (cents)***	**141.6**	118.9	+19

* *Includes:*
Afrox Healthcare Limited fully consolidated for six months of 2005
Life Healthcare Group equity accounted for six months of 2005
Life Healthcare Group equity accounted for 2006

** *Ongoing industrial business*

*** *Industrial headline earnings of 141,6 cents per share will be the base off which Afrox will measure itself in future.*

Cash dividends for the year	**2006**	2005
Interim (cents)	**48.0**	40.0
Final (cents)	**40.0**	40.0
Special from sale of remaining interest in Healthcare (cents)	**60.0**	415.0
Total dividend for the year (cents)	**148.0**	495.0

Gearing

The low gearing at 3,3 percent gives substantial capacity for growth

Balance sheet

Balance sheet remains strong

Credit rating

The Global Credit Rating remains unchanged for the second consecutive year.

Long term AA-

Short term A1+

JSE index

Socially Responsible Investment Index (SRI)

(for third consecutive year)

All businesses recorded increased sales and profits

Particularly good performances from:

Bulk gases

Industrial products

Handigas

Special gases and refrigerants

Propellant gases

Black economic empowerment

Empowerdex, the economic empowerment rating agency, awarded the company a BB rating. This rating equates to a 26 percent legal BEE ownership and 16,7 percent BEE control. The company was particularly highly rated for preferential procurement and skills development. In addition, Afrox was placed the 57th most empowered company in the Empowerdex/Financial Mail survey on black economic empowerment.

Board of directors

Executive	Non-executive (Linde/BOC)	Independent non-executive
Rick Hogben – *managing director & chief executive*	Kent Masters – *chairman*	David Lawrence
Cor van Zyl – *financial director*	James Cullens	Lindsay MacNair
	Alan Ferguson	Khotso Mokhele
	Jim Ford	Sipho Pityana
	Daniel Shook *(alternate)*	Louis van Niekerk

The Linde Group is African Oxygen Limited's holding company with 50.47 percent of the shares.

Kent Masters (45) (American)
Chairman
Board Committees: Governance and Nomination, Transformation
Kent Masters is a member of the Executive Board of The Linde Group. He was appointed to the BOC executive management board in December 2002 and to the board of BOC in March 2005. He joined BOC in 1985 and held positions of increasing responsibility in engineering, marketing and general management, most recently a chief executive, Industrial and Special Products. He holds an engineering degree from the Georgia Institute of Technology and an MBA from New York University.

Rick Hogben (61)
Executive, appointed managing director of African Oxygen Limited in October 2001
The CE attends all Board Committees by invitation
Rick Hogben is the managing director and chief executive of African Oxygen Limited (Afrox). He joined the healthcare division of Afrox in 1994 as business manager, Healthcare Services, and then became general manager, Healthcare Services, where he was responsible for non-hospital healthcare businesses. He was appointed managing director of Afrox Healthcare in January 1999 before joining Afrox as MD in 2001.

James Cullens (43) British
Non-executive, appointed to the board in April 2005
Board Committees: Management Resources, Transformation
James Cullens is Group HR director for The Linde Group. He was appointed to the BOC executive management board in April 2005 having joined BOC in July 2003. Prior to joining BOC, he held a variety of senior, international HR roles in organisations including Mars Incorporated, Asda and PA Consulting Group. He has an MA from Cambridge University, an MLitt from Otago University, New Zealand, and an MSc from Thames Valley University.

Alan Ferguson (48) (British)
Non-executive, appointed to the board in October 2005
Board Committees: Audit
Alan Ferguson was appointed an executive director of BOC in September 2005. Prior to joining BOC as group finance director, he held a similar role with Inchcape plc, which he joined in 1982 having qualified as a chartered accountant with KPMG. He has a business economics degree from Southampton University.

Jim Ford (58) (British)
Non-executive, appointed to the board in April 2005
Jim Ford joined BOC in 1973 and most recently has been managing director, ISP Europe. Prior to that he held various senior management positions within BOC. Jim holds an honours degree in mechanical engineering from the University of Strathclyde.

David Lawrence (55)
Independent non-executive, appointed to the board in December 2005
Board Committees: Governance and Nomination
David's early career was spent as an economist at the Chamber of Mines, subsequently working for the office of the economic advisor to the Prime Minister. He joined Citibank in 1977 becoming chairman and managing director. In 1987 First National Bank acquired Citibank's business and it became FirstCorp Merchant Bank where David held the position of managing director. He joined Investec in 1996 as managing director, Corporate Investment Banking and is currently deputy chairman of Investec Bank Ltd. He holds a number of directorships, is a member of the group's executive management team, and holds group-wide responsibility for Banking and Institutions. He obtained a BA (Econ) (Hons) and MCom at the University of Witwatersrand.

Lindsay MacNair (68)
Independent non-executive, appointed to the board in 1989
Board Committees: Audit and Management Resources
Lindsay MacNair trained as a chartered accountant and has an in-depth knowledge of Afrox, having been a senior executive of the company for over three decades. During his time at Afrox, Lindsay headed finance, the welding and cylinder gas business, and the bulk gas business. He retired from Afrox ten years ago.

Dr Khotso Mokhele (51)
Independent non-executive, appointed to the board in December 2005
Board Committees: Governance and Nomination, Transformation
Dr Khotso Mokhele was on the teaching and research staff of the Universities of Fort Hare and Cape Town between 1986 and 1992. He was vice-president and president of the National Research Foundation. He also served on the Council for Higher Education, the National Advisory Council on Innovation, and the National Skills Authority, and was also the founder President of the Academy of Science of South Africa.

Cor van Zyl, Kent Masters and Rick Hogben

Ria Sanz, Lindsay MacNair and Louis van Niekerk

David Lawrence, Sipho Pityana and Dr Khotso Mokhele

Jim Ford, Daniel Shook, Alan Ferguson and James Cullens

He is the recipient of six honorary doctorates from South African higher education institutions and one honorary doctorate from Rutgers University in New Jersey (USA). In addition Dr Mokhele is a director of several South African companies.

Sipho Pityana (47)
Independent non-executive, appointed to the board in December 2005
Board Committees: Transformation, Management Resources
Sipho Pityana has an MSc (London) and a BA Hons (Essex). He is a high profile South African with excellent political credentials and a successful track record in running large government departments. He chairs the Izingwe Capital (Pty) Limited board and is a non-executive director of Aberdare Cables, Bytes Technology Group, Riscura Solutions, Onelogix Group Limited and Munich Reinsurance Company of Africa Limited.

Louis van Niekerk (56)
Independent non-executive, appointed to the board in February 2005
Board Committees: Audit, Governance and Nomination
Louis van Niekerk, who retired from Iscor (now Mittal SA) towards the end of 2004, held the position of chief executive and then non-executive deputy chairman. He joined Iscor in 1991 and was appointed as executive director finance in 1993. He became managing director of Iscor Steel later that year and chief executive of Iscor Limited in 2001. He is chairman of Foskor and is also the chief operating officer of Transnet. Louis van Niekerk is a chartered accountant (SA).

Cor van Zyl (59)
Executive director and financial director, appointed to the board in February 2004
Cor van Zyl is a Chartered Accountant (SA) and was a partner at Coopers & Lybrand, (a predecessor of PricewaterhouseCoopers), for 21 years before joining PresMed in 1996 as joint managing director. With the merger of PresMed and Afrox Healthcare, he was appointed a director of Afrox Healthcare Limited. He was chairman of the SA Institute of Chartered Accountants (Public Sector) for three years and also chaired the Centurion Chamber of Commerce from 1991 to 1992.

Daniel Shook (39) American
Non-executive, appointed as an alternate director of the board in April 2005
Daniel Shook has held a number of finance and commercial roles within BOC's US operation, and in 2000 he transferred to the UK to take up the position of group treasurer for BOC. He holds an MBA from The Wharton School and has a degree in economics and mathematics from Colgate University in Hamilton, New York.

Ria Sanz (41)
General legal counsel and company secretary
Ria Sanz joined Afrox in May 1998 as general counsel, legal and commercial and was appointed as company secretary in January 2004.

Company profile

African Oxygen Limited (Afrox) is listed on the JSE and is sub-Saharan Africa's market leader in gases and welding products, with 3 200 employees. We have a market capitalisation of around R10 billion.

Since 1927, the year the company was founded, Afrox has prospered by constantly meeting the needs of customers and developing solutions that add value to customers' applications. Afrox has an inherent ability to respond and adapt to change, and a determination to meet world standards in product and service.

Following the sale of our entire shareholding in Afrox Healthcare Limited (now re-named Life Healthcare) to a BEE consortium led by Mvelaphanda and Brimstone, the company now focuses on our core business of industrial gases and related products.

Afrox is a customer-centric supplier of gas, welding and related products and services operating in South Africa and in 16 other countries. We provide solutions and services to meet the needs of customers, and package product and service offerings to targeted market segments.

Afrox businesses comprise:

- Large gas supply schemes, (bulk and tonnage business)
- Cylinder gases and welding products
- Liquefied petroleum gas
- Medical gases and products
- Scientific gases, refrigerants, packaged chemicals and helium
- Hospitality, gases and services
- Safety products and services

Afrox operates in South Africa and in 16 other African countries

THE LINDE GROUP

In September this year, The Linde Group of Germany acquired the entire shareholding in The BOC Group. As a result, Afrox became a subsidiary of Linde. The Linde Group is a world leading industrial gases and engineering company with more than 53 000 employees working in 70 countries worldwide. Following the acquisition, The Linde Group now has sales of approximately €12.7 billion. The strategy of The Linde Group is geared towards earnings-based growth and focuses on the expansion of its international business with forward-looking products and services.

Being part of an even larger international organisation gives Afrox an edge in engineering standards, product research and development, best operating and commercial practices, as well as information and information technology.

Afrox has a long and proud financial growth record.

On 12 December 1963 Afrox listed on the JSE Limited at an issue price of 115 cents per share. Up until that time the company had been a wholly owned subsidiary of The British Oxygen Company. Sixteen million shares were listed with 30 percent of the issued share capital made available to shareholders other than BOC. The issue was over-subscribed 32 times – a record that stood for many years.

An investor committing R1 000 and remaining invested has been well served by Afrox in the intervening 42 years ending 30 September 2006. At that date, the original R1 000 would have grown to capital value of R385 000 and cumulative dividends would have amounted to R168 000. Therefore, the total investment value would have grown from R1 000 to R553 000 or a 553 fold return in four decades. The total compound annual growth rate of this investment equals 16 percent with the share price alone appreciating at a compound annual rate of 15 percent.

This financial standing has given Afrox high credit worthiness.

This year, the Global Credit Rating Company, rated Afrox as A1+ for short term and as AA- for long term. This high credit rating has now been awarded for two consecutive years.

Core competencies

The company continues to appraise our core competencies – our strong Afrox brand and access to customers across Africa, our innovative design and manufacturing expertise, our strong management philosophy – and to identify every opportunity to evolve these into competitive advantages.

Some critical components make Afrox a preferred employer. While it is more important to be doing the right things than acquiring recognition, the company has been the recipient of several accolades.

SRI Index

For the third consecutive year, Afrox has been selected by the JSE as one of the companies that qualify for the Socially Responsible Investment (SRI) Index. Fifty-eight of the top 150 companies were judged on their economic, environmental and social sustainability strategies and operations, and qualified for this index following an independent assurance audit, conducted by the auditing firm KPMG. The index, the first of its kind in an emerging market, started trading on the JSE on 20 May 2004.

Recognition

Afrox received special and singular recognition in the Deloitte 2006 Good Governance Awards. The company was a finalist in three of the four categories, namely:

- Board Effectiveness,
- Ethics & Integrity and
- Sustainable Development

We were also the only company to receive a Special Recognition Award for sustained contribution to good corporate governance. In addition, Afrox was named a finalist in the Mail & Guardian Investing in the Future Award.

Our vision

We are passionate about our business and our brand. We are dedicated to customer service and believe in the quality of our people.

We are determined to be the leaders in the businesses we operate, activities we undertake and services we provide, while operating within a value system that supports the highest standards of ethics and integrity.

We will achieve this by being:

No 1 at safety, health, environmental management and quality
No 1 at delivering superior customer service
No 1 at providing consistent growth and superior shareholder value
No 1 at identifying and commercialising innovative growth opportunities
No 1 at attracting and retaining high performing people
No 1 at operating excellence
No 1 at nation building commitments and social responsibility

Our mission

At Afrox we believe in values above rules.
Our values are based on the principles of:

- Ethics and integrity
- Safety of all our stakeholders
- Customer satisfaction
- Performance excellence
- Concern for our environment
- Commitment to our community
- A fundamental belief that our people make the difference

KEY COMPANY DATA	
Full name	**African Oxygen Limited**
Registration number	**1927/000089/06**
Year end	**30 September**
JSE abbreviated or common usage name	**Afrox**
JSE Code	**AFX**
NSX code	**AOX**
ISIN	**ZAE000067120**
Sector	**Chemicals**
Index	**Socially Responsible Investment (SRI) Index**
Formed	**1927**
Listed JSE	**1963**
Listed NSX	**1995**
Shares in issue	**343 million**
No of shareholders	**7 906**
Market capitalisation	**R10.1 billion**
Employees	**3 200**
Website	**www.afrox.co.za** **www.afrox.com**

Strategic objectives

- We will achieve sustainable and superior growth, and exceed shareholder expectations. We will drive our growth by becoming a customer-centric organisation.
- We will do this through the delivery of a tailored range of Product Service Offers, using the industry's strongest brand, and most comprehensive and efficient distribution network.
- We will continue to develop and drive a growth agenda, defending existing markets and entering new ones.
- We will sustain an investment in plants to meet current and future demand, and maintain a clear focus on our customers.
- We will grow profits at a rate which represents a premium to CPI+GDP.

Afrox sets out to achieve the strategic objectives through seven critical success factors (CSFs):

Our operating principles

Afrox's operating principles are based on ten behavioural competencies aligned to the acronym ACTS:

ACCOUNTABILITY
- Strategy delivery
- Performance through people

COLLABORATION
- Partnership building
- Influencing
- Customer intimacy

TRANSPARENCY
- Information sharing
- Visible leadership

STRETCH
- Growth drive
- Capability development
- Change leadership

Our integration values

Since the Linde acquisition of BOC, integration values have been designed to take the enlarged group forward. Afrox subscribes wholeheartedly to these values.

Pragmatic
We pursue practical solutions and are pragmatic in our approach.

Fast
We get things done quickly and manage the integration process tightly.

Optimised
We learn from each other and combine the best of both companies.

Courageous
We take new approaches and stretch beyond the obvious.

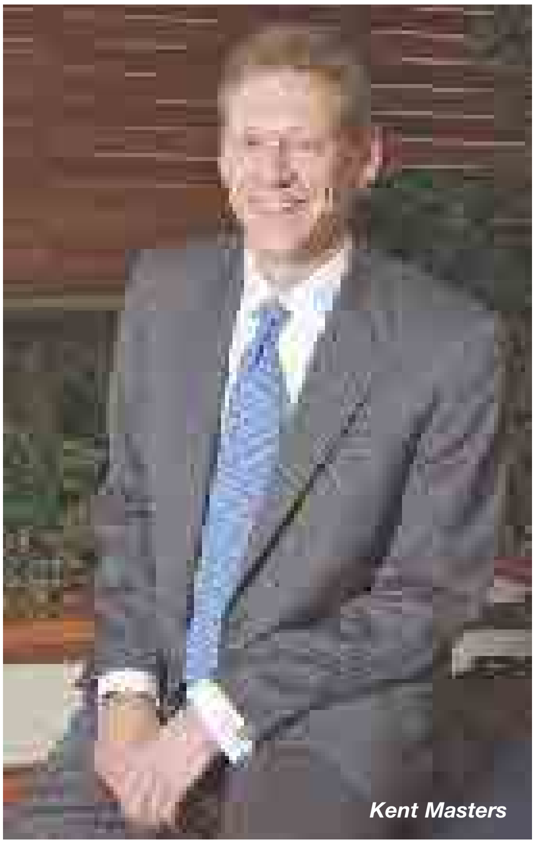
Fair
We are objective and honest in our dealings with people.

Collaborative
We act as one team and work together effectively.

International
We have a global mindset.

In the first quarter of the 2007 calendar year, Afrox will commission a new MIG welding wire plant at its factory in Brits.

Chairman's statement



Kent Masters

Dear shareholder

I am pleased to report that African Oxygen Limited (Afrox) has again produced good financial results, sustaining a track record of consistent delivery.

The South African economy was generally buoyant, although not uniformly so. The tertiary and secondary sectors of the economy outperformed the primary sector by a significant margin.

The October through April period of the financial year was characterised by relative strength in the currency and the lowest nominal interest rates in a quarter of a century. This was followed in the May through September period by sharp currency depreciation and commencement of an upward phase of the interest rate cycle. The manufacturing economy and mining gained noticeable relief from an exchange rate adjusting to fundamental imbalances in the economy. Capital formation-linked demand continued to strengthen.

Overall demand for our product range was healthy. Our capacity utilisation was at record levels, underscoring the timeliness of the group's capital expansion initiatives, coupled with investment in human capital.

In the period 1 October 2005 through 30 September 2006, nominal GDP in the South African economy grew at a rate of 9 percent, whereas Afrox's industrial businesses recorded nominal profit growth of 15 percent. On a continuing basis, revenue grew by 19 percent to R3.9 billion and operating profits of R684 million were recorded, versus R597 million in the prior year.

Our results for the year are prepared in full accordance with International Financial Reporting Standards. Total group headline earnings grew by 38 percent to R591 million and headline earnings per share grew by 50 percent to 191.4 cents per share. Excluding the disposal effects of the now discontinued Healthcare interests, continuing headline earnings grew by 10 percent to R437 million and headline earnings per share grew by 19 percent to 141.6 cents per share. This is the base from which Afrox will measure itself in the coming year. Return on capital employed for the industrial business is at 32 percent and the balance sheet remains strong.

Some margin compression resulted from two factors: a change in the operational mix that favoured higher growth but less fixed asset-intensive businesses such as safety, and the knock-on effect of higher prices for liquefied petroleum gas combined with supply shortages and higher distribution costs. Costs were well contained.

The R665 million buy-back of 10 percent of outstanding shares in the prior year, at an average price of R19 per share, has realised substantial value for shareholders in view of the 60 percent capital appreciation in the intervening period.

Dividends to shareholders

Afrox paid an interim cash dividend of 48 cents per share, an increase of 20 percent. On review of the full year results, and with due consideration for our capital expenditure requirements, the board has declared a final cash dividend of 40 cents per share, giving a total of 88 cents per share for the year, which is covered 2.2 times by earnings. In addition, a special dividend of 60 cents per share is declared from the proceeds of the sale of the remaining shareholding in Life Healthcare.

Healthcare

In my 2005 review I referred to the retention of a 20.1 percent share in Life Healthcare Group (formerly Afrox Healthcare). Effective 29 September 2006, this residual interest was sold to the BEE consortium for a cash consideration of R850 million, resulting in a net profit of R362 million. In total, R3.2 billion in sale proceeds and R1.5 billion in profits have been realised for shareholders from the sale of the Healthcare interests.

Black empowerment

Afrox takes its responsibilities and obligations seriously regarding upliftment of less privileged South Africans. A detailed BEE report is included on page 42. We continue our transformation initiatives within the organisation and have, in Life Healthcare, facilitated one of the largest empowerment transactions ever undertaken in the industrial sector. Empowerdex ranks Afrox the 57th most empowered company in South Africa.

Governance

Good corporate governance has far reaching benefits – in areas such as our reputation as a good corporate citizen, customer retention and attraction, staff morale, stock market rating, cost of capital, internal controls and processes and minimisation of risk. Equally important are safety, health, environment and quality policies and practices. You will find our detailed safety and governance reviews, beginning on pages 48 and 56 respectively.

The Deloitte Good Governance Awards provide objective recognition of our commitment to best practice in corporate governance. World-class South African companies are scored annually in the categories of 'Board Effectiveness', 'Remuneration Practices', 'Ethics and Integrity' and 'Sustainable Development'.

Afrox received a 'Special Recognition' citation in the 2005/06 Deloitte Good Governance Awards – the first time such an honour has been awarded – and in addition Afrox was a finalist in the Board Effectiveness, Ethics and Integrity, and Sustainable Development categories. Afrox won the overall Good Governance Award in 2003 and in 2004 featured in the final three in two of the four categories.

Strategic imperatives

Afrox's strategic imperative is to achieve our stretch targets whatever the prevailing economic environment. Where risks are identified, we mitigate them; where opportunities occur, we embrace them.

In our business planning, we are cognisant of the dynamic and changeable nature of the territories in which we operate and we adapt our strategy accordingly. The group is privileged to serve a wide array of customers and in the process we have earned leading market positions. Our business is unique in the South African context – we do not have listed competitors with which to compare; inevitably, we tend to be benchmarked against world norms in the gas sector.

Afrox is at the forefront of its markets and intends to remain there. This strength comes from consistent effort– we operate in a competitive landscape and maintaining leadership requires sensitivity to customer requirements, adaptability in our service offering, forward planning and technological excellence.

There are three key elements to our strategy:

- Defend and improve within the core, emphasising customer service effectiveness
- Develop identified growth opportunities within existing defined products and geographies
- Find step-out opportunities that push the boundaries of our business whilst remaining true to the core competencies our customer's value

We challenge ourselves at Afrox to grow at a rate equivalent to GDP+CPI, plus an appropriate premium, while sustaining a return on capital employed at 25 percent or greater.

We are five years into a process to make a step-change in the way Afrox operates. I wish to pause and reflect on what we have achieved, what remains to be achieved and how we view our prospects.

As part of our step-change journey we directed Healthcare to determine its own destiny – but in a manner recognising the socio-economic necessities of modern day South Africa. The now discontinued Healthcare operations were a feature in the life of Afrox for two decades from 1983. Today, Life Healthcare is a highly successful, fully black empowered hospital group that can stand scrutiny with the best anywhere in the world. Through divestment we not only achieved our BEE objectives but realised substantial value for our shareholders.

For the core industrial gases operations, we aspired to achieve beyond what many perceived we were capable of in a supposedly mature, indeed declining, phase of our business life cycle.

To achieve renewal, the following were non-negotiable prerequisites:

- a step-change in mindset, becoming predictive rather than reactive;
- complementary diversification, seeking new markets for new products;
- defence of strong market positions that could have been weakened;
- development of differentiated channels to market;
- smarter pricing;
- rigorous management of working capital and retention of cash for growth.

In the intervening period, we have achieved the following:

- developed opportunities within the existing customer base;
- added complementary products and new layers of customers;
- created markets;
- developed subordinate branding, such as 'Handigas' and 'Gas & Gear', whilst preserving the fundamental brand integrity of Afrox;
- sustained a successful export business despite a real strengthening of the currency;
- successfully preserved market shares and added market shares in growth markets.

It is, therefore, pleasing to record that Afrox not only met but exceeded the challenge.

During the past five years, our industrial businesses have grown operating profits at a compound rate of 15 percent and headline earnings per share by 24 percent. We generate an operating margin of approximately 18 percent and a return on capital employed of 30 percent. Some 15 percent of the R4 billion in revenue achieved today did not exist five years ago. Our so-called mature businesses have continued to show real growth. Our balance sheet has no gearing – and yet we have returned R3.5 billion to shareholders in the form of cash dividends and share buybacks.

Given that inflation in South Africa was last in double digits during 1992, and has shown a systematic decline to low single digits in the intervening years, our performance in real terms has improved.

Afrox has been ranked as one of the best governed companies in South Africa by Deloitte.

Our objectives to defend base line growth, improve existing capabilities to extract upside, and identify adjacent offerings for step-out growth have borne fruit. These are now being reinforced by substantial capex, comfortably funded from internal cash flows and borrowings, to accommodate our own initiatives and the burgeoning demand from a diverse range of customers.

Board of directors

David Lawrence, Sipho Pityana, and Dr Khotso Mokhele were appointed to the board as independent non-executive directors with effect from 1 December 2005. All three are adding value to our board deliberations commensurate with their considerable experience.

Rick Cottrell and Dr Conrad Strauss retired from the board as independent non-executive directors with effect from 28 February 2006. Afrox owes both of them a debt of gratitude.

Change of control

With effect from 5 September 2006, Linde AG acquired BOC to form The Linde Group. Accordingly, Afrox is now part of a world-leading industrial gases and engineering company with an annual *pro forma* turnover of approximately €12.7 billion, and approximately 53 000 employees worldwide. As befits the spirit of the merger, there is broadly equal representation from the two legacy companies at the highest management levels.

The Linde Group brings complementary competencies and minimal geographic overlap. Afrox was a significant contributor to BOC worldwide operating profits and will feature as an important contributor to the The Linde Group, given its strong African footprint. The benefit of the merger to Afrox is compelling, opening up access to new markets, territories, management systems and procedures, and technical know-how. This is therefore yet another exciting event in the evolution of Afrox. In 2007, the financial year-end will change from September to December, in line with The Linde Group's year-end.

Acknowledgments

My sincere thanks to my fellow directors and the Afrox team – the numbers we deliver are the result of the combined endeavours of over 3 000 dedicated people. To our many and highly valued customers, thank you for placing your business with us – Afrox will always strive to meet the expectations you have of us. To our suppliers and partners in business, my appreciation to you all for your contributions – they ensure collective commercial success.

Special recognition

A few words of special recognition are owed to Rick Hogben. Rick, who will retire at the end of March 2007, has been managing director since October 2001 following a successful career in Healthcare. Rick paved the way for Healthcare to determine its own destiny as a black empowered hospital group, while simultaneously unlocking significant value for Afrox shareholders. Moreover, Rick has moved the core Industrial business to a higher level of operational attainment. Rick will leave behind a valuable legacy and I wish him well as he pursues his range of chosen interests in the future.

Kent Masters
Chairman

Managing director's review


Rick Hogben

The trading environment

African Oxygen Limited (Afrox), directly or indirectly, provides a service to all South Africans in a myriad of ways each and every day. The depth and breadth of our reach is such that the group is a reasonable gauge of the health of the domestic economy.

As a management team, we refine our strategic thinking by analysing the variety of ways different sectors of the economy influence our trading position. To this we add a vital ingredient – listening to what our customers are experiencing and what they require. Our competitors are ever alert to opportunities they may exploit at our expense. Our shareholders require the confidence that we not only understand and manage the external forces that bear down on us, but that we have the foresight to determine a successful future.

Afrox was fortunate to enjoy a favourable economic environment during the financial year, which in turn created favourable trading conditions. A recent strengthening in the manufacturing economy and acceleration in the rate of growth in fixed investment spending is proving to be especially fortuitous for the company.

For the trading period October 2005 through September 2006, the South African economy grew at a rate of 4.8 percent versus 4.7 percent for the corresponding period in the previous year. This marginal rise in the rate of expansion was due entirely to a 3.3 percent contraction in the primary sector of the economy compared to 1.4 percent growth previously; the secondary sector picked up strongly, expanding at a rate of 5.1 percent and the tertiary sector grew to 5.9 percent from 5.1 percent.

Manufacturing, which recorded real growth of 4.5 percent in fiscal 2005, expanded at a rate of 3.9 percent in 2006. Manufacturing is a key component of the secondary sector of the economy – accounting for 77 percent of the total, and followed in importance by construction and then electricity, gas and water. Construction growth continued, accelerating from 11.6 percent to 13.6 percent. Demand for steel products remained robust. Gross fixed capital formation maintained a growth rate of 8.8 percent.

Consumer price inflation was slightly higher during our trading year, up from 3.3 percent to 4.2 percent, and producer price inflation climbed sharply from 2.5 percent to 6.3 percent. After a period of minimal price inflation if not outright deflation, various domestic and international factors caused mild inflationary tendencies, but the overall picture remains benign.

The prime rate of interest bottomed out at 10.5 percent during the trading period, a level not seen in a quarter of a century, but was 100 basis points higher during the final quarter of the trading period. Although having no impact during 2006, we are alert to any negativities an upward phase of the interest rate cycle may bring.

The exchange rate of the South African rand against major trading currencies affects us in globally determined energy and metal prices in dollars, in our export competitiveness, in distribution costs and in translation of foreign currency denominated earnings. It also impacts on our customers.

During most of our trading period, the rand exhibited relative strength but depreciated sharply in May and June. However, energy and resource prices were at multi-year highs. Despite mitigating many of the worst effects of higher energy, steel, brass and distribution costs, we experienced slight erosion in our margins.

Overall, the relatively stable economic environment in South Africa is extremely positive for our business as it creates a degree of certainty in our planning.

Our performance in the markets we serve

Notwithstanding the relatively benign economic picture presented above, the micro aspects of day to day management of a complex group present a constant challenge. While our markets were mainly robust, we operate in a highly competitive environment that requires constant vigilance to ensure we exceed our customers' expectations and secure our strategic imperatives.

We are pleased that we are holding or improving our market share across the gases spectrum. Volume demand in the traditional industrial gas markets reached record highs; however, this has placed severe pressure on our logistics and facility capabilities in the short term.

In common with many South African businesses, several years of demand growth well ahead of previous norms meant Afrox reached capacity limits sooner than contemplated. This has already been vigorously addressed, with the 2006 trading year reflecting a timing difference between capex spend and the relief that will bring in years to follow.

Volume growth in liquefied petroleum gas was constrained to low single digits during 2006 as a result of supply disruptions caused by downtime at three refineries. In view of the fact we see continued increase in demand going forward and a likelihood of constrained domestic supply, direct importation will be necessary if market demand is to be met.

Afrox aligns with the call by government for LPG to be marketed actively as a safe replacement for paraffin, and as a substitute for electricity in less advantaged communities. We are unwavering in our policy of responsible and transparent pricing.

The bulk and tonnage markets are growing strongly, supported by contract wins that have led to the commissioning of six new plants at a total cost of approximately R350 million. We encountered extreme limits of production capacity utilisation in 2006. The new plants will result in capacity utilisation subsiding to a far more comfortable 80 percent and in a steadier supply position.

Welding markets are growing at a rapid rate – we have been hard pressed to supply sufficient electrodes and in particular metal inert gas (MIG) wire. MIG is increasingly superseding traditional 'stick' electrodes in the welding market. In this respect, the R50 million capacity expansion at our Brits factory, to replace imports, could not have come at a better time.

Gas & Gear, our 'shop window' to the world, is growing apace – with 19 outlets, in their colourful new livery, operational by year end.

We are delighted with the progress being made by our young Afrox Safety business. Our strategic thinking assumes that workplace safety will increasingly become a key component of operating best practice and good citizenship, whilst also securing substantial commercial advantages.

In Afrox Safety, we have identified a market potentially worth R1.5 billion. Afrox's prioritisation of safety, health and environmental protection in its daily activities underpins this initiative, which is highly complementary to our gas, welding, and LPG businesses. Unlike our fixed asset intensive gas activities, Afrox Safety has a 'retail' profile – essentially a working capital business – and thus makes a lower margin but at a high return.

Afrox is privileged to be at the forefront of the medical gases and equipment market. This is a position that we reinforced during 2006 through our practice of continuous improvement in a safety-critical arena. We continue to experience real growth, in line with the healthcare market, but at a lower rate than for many of our other businesses. Defence of our strong position in the institutional market is a recurring theme, but we believe the home care market will continue to offer us a growth increment to the base load of business we earn.

The scientific and allied special gases business achieved a satisfactory result in 2006. In addition to solid demand for our instrument grade, high purity product by a discerning client base, we are growing strongly in the refrigerants market and expect this to be taken to a higher level through our acquisition of Refrigeration Equipment Corporation (Reco) from Danfoss.

Hospitality provides a conduit for our comprehensive product offering to customers in the growing hospitality trade and continues to make excellent progress in a growth market. Be it Handigas for cooking, Suremix for beer dispensing, Partigas for inflating party balloons, or carbon dioxide for soft drink dispensing, Hospitality has the unique logistics capabilities to ensure this important service sector of the economy is well served.

Afrox's African footprint outside South Africa provides a wealth of opportunity. We improved our profits by 22 percent to R118 million off a nine percent rise in revenue to R502 million. This very creditable result was bolstered by a first full year contribution by recently acquired Chemoxy in Malawi, and new facilities in the southern part of the Democratic Republic of Congo, and in Angola. Our presence in Zimbabwe is not consolidated; however, despite the desperate economic position and declining volumes our business remains very profitable. Getting product to customers remains a big challenge in all territories but it is has certainly become easier to operate due to improving governance in a number of countries. Our employees in the African operations are a credit to the organisation.

Safety, health, environment & quality

Afrox has made significant progress over the years in SHEQ (safety, health, environment and quality), which remains a fundamental tenet of our operating practice. Afrox is a leader by any measure but despite an excellent track record, we believe that further progress is required to move to a fully interdependent behavioural attitude to safety first.

Afrox in 2007

We will adopt a revised operating structure commensurate with our step-change attainments and revised growth aspiration of GDP+CPI, plus an appropriate percentage. Each and every manager with line function responsibility is challenged to deliver and is held accountable for delivery.

The old distinction between Industrial & Special Products and Process Gas Solutions falls away. Afrox is an integrated, interdependent, full-spectrum gases business. No one unit is able to stand alone in isolation from another. Synergy is not a word we glibly borrow from an MBA text book – we live it.

As of now we are simply a focused indistrial gases, welding and safety business. This business comprises Bulk and Tonnage, Industrial Products, Handigas, Medical, Scientific, Safety Products, and Hospitality. The group is managed on a matrix system that incorporates these line function business units, three domestic regions plus Africa operations, and three technical service units. Enabling functions provide for the needs of the entire group. There is an overarching consultative process that ensures symmetry in decision making and execution.

In combination with our capital spend to grow and modernise we have enhanced our skill levels, management capacity and supervision. Development plans are in place for staff and there will be an emphasis on flexibility in job execution wherever feasible.

Succession planning remains a priority – and not just at the highest levels of the organisation. We are challenged to balance a requirement for meritocracy against a transformation imperative for greater representation of previously disadvantaged people in positions of authority and individual responsibility. High quality management and technical skills are in critically short supply in South Africa, which represents both a challenge and an opportunity in a globalised world where skills are mobile. The South African operating environment presents challenges almost unique in a global context and most certainly from a developed country perspective.

Our recently introduced 'Behaviours in Afrox' is a code by which our managers live, and in turn, inspire and set examples for their teams.

The difference between winning and losing is the quality of people we retain and attract – Afrox is an employer of choice and we continually endeavour to remain so.

We enter 2007 as part of The Linde Group. Afrox will figure as an important contributor on the African continent and in turn reap substantial benefits that will underscore our growth agenda.

Our SAP programme, to upscale internal management information capabilities, is being rolled out with a view to completion in 2008.

We are placing further emphasis on improving our cylinder logistics and transportation capabilities.

Afrox has achieved ISO 9001 certification in every arena and in 2007 we are working towards ISO 14001 and OHS 18001 certification.

Our environmental scanning has led us to the conclusion that the economy will remain sound and will offer opportunity for us. I have alluded to a number of challenges that we need to surmount if our growth expectations are to be realised and remain confident that we have the systems, procedures, human capital, and strategic foresight in place to do so.

Domestic macro economic fundamentals are expected to remain solid, supported by continued strength in the world economy, but with a rebalancing of the economy in favour of production. Fixed investment growth will accelerate but probably not achieve expectations. We expect manufacturing and construction activity to boost further our operations at a time when the consumer economy could slow. Our export competitiveness is being enhanced and in turn we expect our customers in this area to be positively affected. A sharp decline in mining investment during the past two years is unlikely to be entirely reversed, but there are positive indications of renewed optimism. The rand is unlikely to depreciate sharply and appears optimally balanced. We expect our African markets to perform well ahead of South Africa.

Afrox is well positioned to take advantage of broadly favourable business conditions and our own continuing initiatives that transcend the volatility of the external environment. Afrox is a more service and less production oriented business than it was five years ago. Our stretch targets call for a doubling of operating profits in five years and further meaningful improvements in non-financial metrics.

Executive changes

Peter Betch retired at the end of the year following a three decade career at Afrox. My sincere thanks to Peter for helping to make Afrox what it is today; you have acquitted yourself with distinction. Peter's responsibilities have been assumed by Rob Clarke, who more recently has made a strong impression in our successful Africa operations. Other senior appointments include Jonathan Narayadoo, Brett Wheatcroft, and Amien Nanabhay, who joins Afrox as business development executive. I have little doubt these gentlemen will execute their new roles most effectively.

Acknowledgments

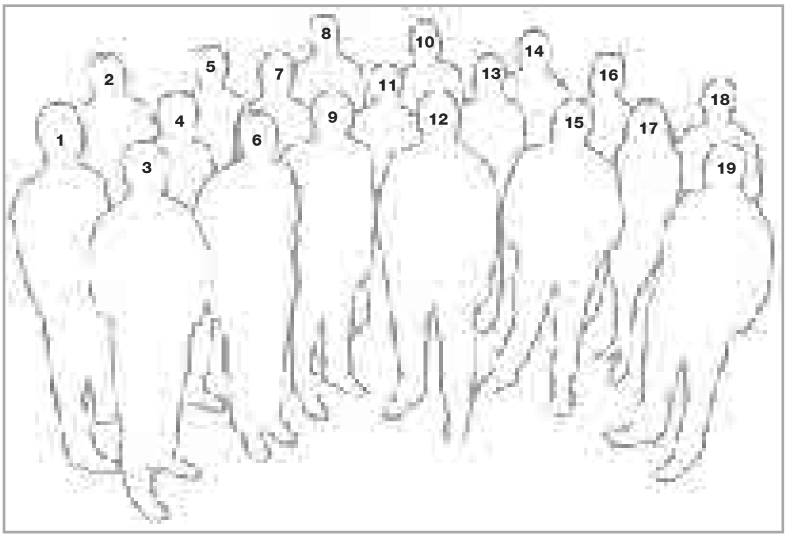
Without our customers, Afrox would not be the business it is – I thank each and every one of our customers for the confidence displayed in our ability to serve their needs. In turn, our employees and senior management are a credit to the organisation in the manner in which they go about their duties – thank you all.

In view of my impending retirement, I wish to record my own appreciation for the privilege of serving alongside many valued colleagues, past and present, and for the opportunity afforded me to pursue a fulfilling career. Afrox is a fine company evolving and modernising yet retaining a stability of purpose in its corporate ethos that stands the test of time.

Rick Hogben
Managing director

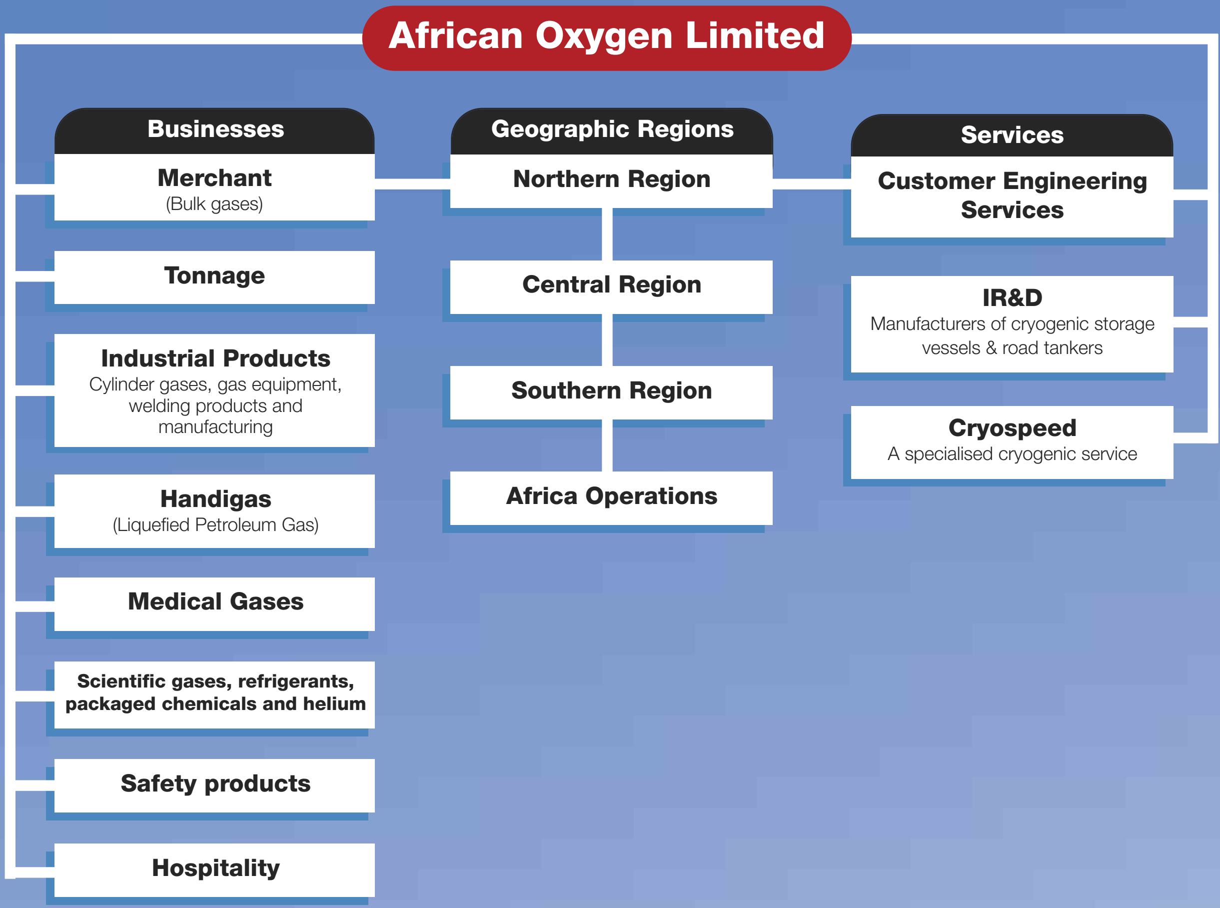
Executive management

Rick Hogben – managing director
Cor van Zyl – group financial director
Rob Clarke – senior general manager; sales & services
Willie Coetzee – general manager; industrial products
Patrick Dunseith – SAP programme director
Michael Erasmus – general manager; human resources
Craig Falconer – general manager; bulk & tonnage
Mike Gaylard – general business manager, IS
Donal Mackinnon – general manager; operations
Rob Mellon – general manager; key customer management
Jonathan Narayadoo – area general manager; north
Peter Roberts – general manager; medical gases
Ria Sanz – general legal counsel and company secretary
Gerhardt Schnackenberg – area general manager; central
Jan Storm – general manager; customer service centre
Gavin Turner – general manager; Handigas
Alex Wasielewski – general business manager; special products
Brett Wheatcroft – general manager, manufacturing
Stephen Viljoen – area general manager; south



1. Patrick Dunseith. 2. Steve Viljoen.
3. Gavin Turner. 4. Rob Clarke. 5. Peter Roberts.
6. Willie Coetzee. 7. Jan Storm.
8. Rob Mellon. 9. Cor van Zyl.
10. Brett Wheatcroft. 11. Donal Mackinnon.
12. Rick Hogben. 13. Mike Erasmus
14. Gerhardt Schnackenberg. 15. Craig Falconer.
16. Mike Gaylard. 17. Ria Sanz.
18. Alex Wasielewski. 19. Jonathan Narayadoo

Business review



Afrox operates several key broad-based businesses which play a part in major sectors of the economy. In fact, most manufacturing processes use Afrox products or services in the making of their own products.

Afrox is an integrated, full-spectrum gases and welding products business – the largest such business on the African continent. Each of our value-adding segments is inter-dependent. This synergy, from bulk gas production through to marketing of a product to the customer, is crucial to sustainability of performance. No one unit is able to stand alone in isolation from another – the bulk business is the foundation stone of our market-segmented range of gas applications; in turn, our full spectrum gas offering provides a basis for our complementary offerings in the form of manufactured gas equipment and welding consumables and safety products.

In addition to liquefied bulk delivery countrywide and customer-specific on-site plants, an advanced supply chain network is in place, capable of sourcing, manufacturing and delivering over 3 000 products and gases in 670 000 industrial gas cylinders and 3 million LPG cylinders.

The group is managed on a matrix system that incorporates line function business units, three domestic regions plus Africa operations, services, and enabling functions tied to an overarching consultative process that ensures symmetry in decision making and execution.

Our main businesses are as follows:

- Bulk & tonnage gases
- Industrial products (cylinder gases, gas equipment and welding products)
- Handigas (liquefied petroleum gas)
- Medical gases and medical products
- Scientific gases, refrigerants, packaged chemicals and helium
- Safety products and services
- Hospitality gases

  Afrox operates in South Africa and 16 other African countries.

In view of the integrated nature of Afrox as a dedicated industrial gases business, a financial segmentation per business line is of little relevance for reporting purposes.

Business review

Highlights of 2006

All businesses produced sound profits during the year.

We were able to minimise the disruptive effect that the lack of liquefied petroleum gas had on customers. Afrox does not manufacture LPG. We source from domestic oil refineries, and supply shortfalls occurred as a result of both maintenance downtime and a rapidly growing supply/demand imbalance. This has in turn focused our attention on security of future supply. We imported LPG directly for the first time ever and intend this to be a continuing feature. Additional domestic storage capacity is being investigated.

The bulk and tonnage business, a mainstay of Afrox for whom the industrial and special products business units are a vital internal customer, produced a good result. Record levels of capacity utilisation were recorded. Substantial investment in growing capacity is under way, with six new gas producing plants being built.

Cylinder gases, gas equipment and welding products performed ahead of expectations, underpinned by growing demand from industrial customers and accelerating infrastructure spending. Import-replacement capex will double MIG wire capacity at our Brits plant. Export revenue and profit growth were most satisfactory in a competitive pricing environment.

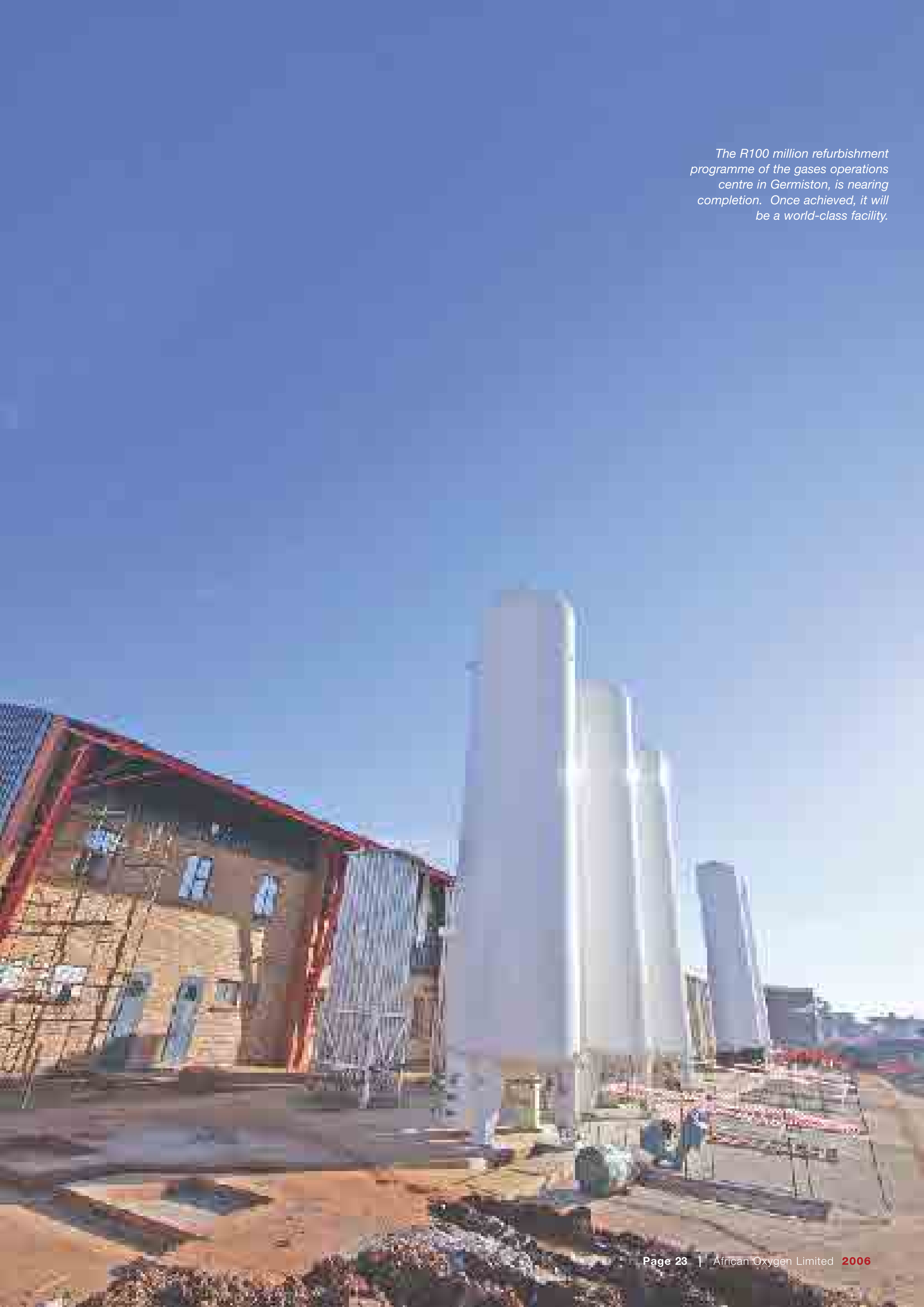
The medical gas business is reflecting real growth in line with the healthcare sector and we continue to defend our strong position.

Special gases continues to produce excellent revenue and profit growth from its high value, comprehensive product range.

Afrox safety, identified as a prominent growth opportunity in our strategic planning, performed well.

Hospitality performed well in line with budget in a low price inflation environment, benefiting from growth countrywide in retail outlets and fast food chains.

Africa Operations are a focal point of long term growth and we continue to make pleasing gains.



The R100 million refurbishment programme of the gases operations centre in Germiston, is nearing completion. Once achieved, it will be a world-class facility.

The bulk and tonnage business

The bulk and tonnage business is the mainstay of Afrox – the foundation stone of a synergistic value adding chain, from production through to retail.

Bulk exhibits a stable growth trend, typically two times GDP. Recurring business accounts for 95 percent of revenues, mainly with multi-year contractual arrangements.

During 2006, high levels of plant utilisation resulted in tight supply of product. Escalating fuel costs were a challenge, but were managed effectively through improved logistics planning.

Several years of good growth in the South African economy have resulted in production capacity being absorbed more rapidly than predicted, requiring a new round of investment to enhance our growth agenda.

A phased, three-year R350 million capex programme for the commissioning of six new gas production plants is well under way at Scaw Metals, Mondi, Xstrata, Sasolburg, Pietermaritzburg in KwaZulu Natal, and Kuils River in the Western Cape.

These projects will come on stream at high loadings and should deliver results in line with our strict criteria for margin, ROCE, customer satisfaction and safety.

In addition to approximately 600 external customers of meaningful size, the industrial and special products business units of Afrox supply approximately 60 000 customers, and are a vital internal customer.

Our job therefore, is to manufacture a range of atmospheric and non-atmospheric gases at 14 air separation plants and distribute them via a sophisticated network of pipelines and bulk road tankers.

Gases have application in virtually all manufactured products – Afrox touches the lives of all South Africans in one form or another each and every day.

Major market sectors include chemicals, oil refining, food & beverage, environmental management, metallurgy, heat treatment, glass production, gold recovery, and metals and minerals. Through other Afrox businesses, in particular scientific, medical gases, and hospitality, bulk indirectly supplies a wide range of customers across the economy.

Our on-site customer-dedicated gas production plants supply industrial gases to major companies from plants installed directly on the customer's own site. The customer therefore need not be concerned with the operation of a plant nor the personnel associated with it. Due to the high capital outlay, the term of the supply contract is similar to the technical operating life of the on-site plant – which could be ten to 15 years. As clients with on-site solutions do not generally require gases in liquefied form, no costs are incurred for liquefaction or transportation by vehicle. This makes on-site plants a cost-effective solution for our customers.

Our customer engineering services unit is a vital support function, encompassing turnkey installations, specialist training, technical best-practice, or ongoing process improvements. Be it an industrial pipeline, a vital life support medical gas supply point in a hospital, or the integrity of a carbonated beverage, this service unit is a vital link in ensuring high quality product also translates into a high quality usage experience by the customer – bringing us repeat and new business opportunities.

The excellent technical support for our activities in southern Africa and transfers of global best practice, provided by BOC, will be enhanced as a result of our inclusion in The Linde Group.

Afrox tonnage gas business has six significant plant investments. These total some R300 million in capital expenditure. All projects will be completed by the end of the 2007 calendar year and will significantly increase product availability.

This photograph shows the Scaw Metals air-separation plant upgrade which is 80 percent operational.

Our scanning of the operating environment is done in conjunction with a continuing interface with customers in order to align their growth aspirations with our aim to ensure reliability of supply. We are optimistic about the medium term outlook and have identified good growth potential in a variety of areas.

Stainless steel welding at the Afrox welding demonstration centre in Germiston.

Cylinder gases, gas equipment and welding products

Cylinder gases, gas equipment and welding products continued on their strong growth path in the year under review, with both revenue and profits ahead of budget.

The modernisation of our gases operations centre (GOC) in Germiston is timely in view of the burgeoning demand across our customer spectrum. We are on schedule to complete this state of the art facility by the end of 2007. GOC fills 50 percent of Afrox's national requirements for industrial cylinder gases, with additional production sites in key centres such as Cape Town, Durban and Port Elizabeth.

In line with the additional sophistication of the GOC facility we are focusing a great deal of management time on skills development.

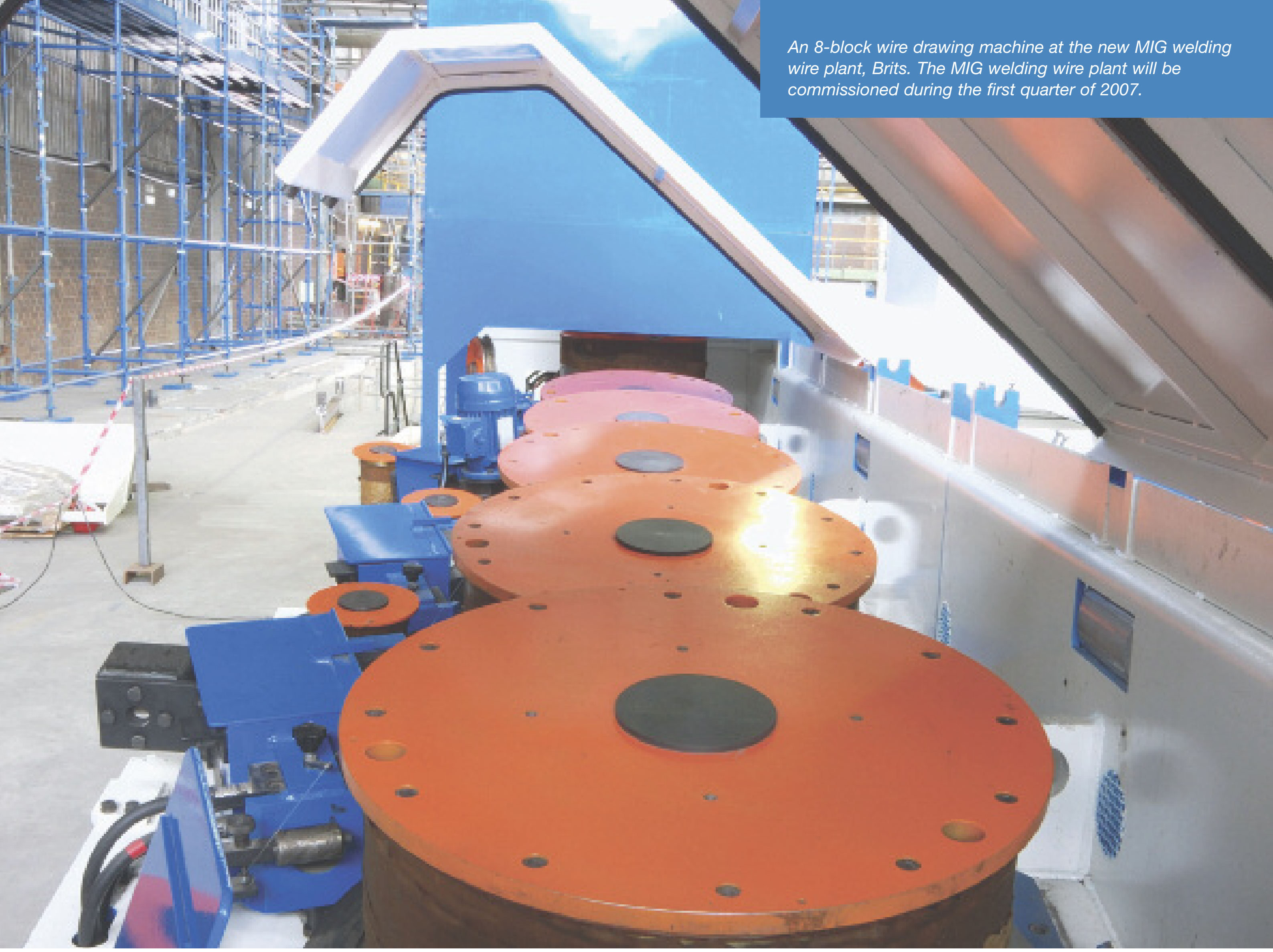
A fully automated nitrous oxide plant was commissioned at the end of the financial year.

Total cylinder capex in 2006, both industrial and LPG, amounted to R150 million.

During the financial year sales of most welding products reached all time highs. In the next few years, sales are expected to continue at a high level as government infrastructure spending increases.

Afrox offers a comprehensive range of gas equipment and welding products, supported by a specialist staff capable of providing technical advice and solutions to a wide range of industrial customers. Equipment manufacturing is supported by an in-house research and development capability. In-house proprietary capabilities are complemented by an extensive network of Tier 1 global suppliers.

High standards of quality in design, manufacturing and safety application are non-negotiable, providing us with a substantial competitive advantage. Our equipment is usually the equipment of choice for a discerning customer base, both locally and globally.



An 8-block wire drawing machine at the new MIG welding wire plant, Brits. The MIG welding wire plant will be commissioned during the first quarter of 2007.

The combination of excellent growth experienced by our manufacturing customers and increased infrastructure spending, has allowed the welding industry to achieve growth not seen in three decades.

This growth has placed strain on the supply chain for welding products and gases. We have been experiencing shortages of cylinders, filling capacity, argon gas (vital to the welding process) and a variety of welding products. This is being driven by increased demand in most sectors.

These shortages are currently being addressed by our substantial investment in infrastructure for gases supply (particularly oxygen, nitrogen, and argon), cylinder plants, and R50 million in import-replacement capex to double MIG wire capacity at our Brits factory, the largest welding consumables factory in the southern hemisphere.

We are confident that these measures will alleviate the capacity constraint and will place Afrox in a strong position to meet anticipated demand.

Exports of welding and cutting equipment, special regulators, and welding consumables are an important feature of Afrox's growth agenda. Our products are exported to Australia, New Zealand, South East Asia, Canada, Latin America, Africa and the United Kingdom. Revenue and profit growth in 2006 were highly satisfactory in a competitive pricing environment, exacerbated by escalations in the price of brass.

New series 8000/8500 regulators were launched during 2006, branded Saffire, with a best in class warranty backed by a Safety Solutions Programme to increase safety awareness in the gases industry. We have built a hard won reputation for the safest equipment available, and we provide training to customers to use the equipment safely and effectively.

Additional successful launches include the new Vitemax sleeve into the DIY market, a more robust packaging for our welding consumables, a 100 percent recyclable Megapac, a state-of-the-art range of submerged arc

Vitemax, one of Afrox's strongest brands, is the most used general purpose electrode in South Africa.

welding fluxes, and a silver brazing alloy, branded Fridgebraze. This is for the refrigeration industry and has already achieved total process cost savings in the region of 30 percent for customers.

Nineteen Gas & Gear branded retail outlets are operational with a further 21 planned during the next two years. The product range continues to grow and will be supplemented by a move into adjacent and complementary product categories in line with customer requirements.

We are positioning for convenience of access by our traditional customers, and to attract new customers to the Afrox retail offering.

Gas & Gear will be an increasingly important channel to market for Afrox.

Handigas

The Handigas brand is synonymous with LPG in South Africa and an integral part of the Afrox offering. LPG is used in a variety of industrial, domestic, hospitality and propulsion applications. Afrox has built a leading market position in a growing market and we expect this business to continue performing in line with our stretch targets.

Escalating energy prices and the increased logistics costs resulted in margin compression during the period under review, although growth in profits was pleasing in difficult circumstances.

Nonetheless, to achieve our growth ambitions, it is imperative that security of LPG supply is a fundamental part of our strategic planning and practical execution. Higher levels of economic growth place increasing demands on domestic petroleum refineries – we expect demand for LPG to outstrip domestic supply capacity by 2008.

In addition to Afrox's recent direct imports of LPG we are investigating storage options that will ensure the reliability of supply our customers expect. Furthermore, we are fully cognisant of the potential synergies presented by natural gas.

Afrox aligns with government's objectives to ensure LPG is the safe, cost effective energy source of choice for emerging communities. Our commitment to price transparency is underscored by extensive advertising to enlighten customers on selling prices. We supply directly to 76 percent of our customers with the balance channelled through independent distributors.

Medical gases and products

Afrox is the market leader in medical gases and allied products, supplying government and private hospitals, medical practitioners and laboratories. Afrox medical gases are scheduled as a pharmaceutical product in terms of the Medicines & Related Substances Control Act and as such our high purity gases are registered with the Medicines Control Council.

During 2006 we experienced real growth in line with a generally buoyant healthcare sector.

Afrox's medical gases business grew strongly during the year. It supplies almost every hospital and emergency service operation in South Africa.

Afrox entered the safety business two years ago. This business now has an annual turnover of R220 million and within the next few years could possibly become the fourth leg of the company. The welder in this picture is fully clad in Afrox safety apparel.

Afrox will continue to defend its strong position in the institutional market whilst seeking to expand in the relatively underdeveloped home care market. Synergies with The Linde Group, which has wide ranging capabilities in the medical gases arena, have particular relevance for Afrox in grasping market opportunities through the introduction of leading-edge applications.

Product innovation and continuous improvement is a constant feature of our resolve to remain at the forefront of this demanding market.

Reliable and safe gas supply to hospitals is one of three critical services, alongside electricity and air conditioning. Afrox remains the yardstick in this safety-critical service in respect of both gas and equipment.

Our introduction of a light-weight fibre-wrapped high pressure cylinder with integrated valve regulator, for use by the emergency services, is finding favour in this niche market. We work in close consultation with clinicians to ensure our products and services make a valuable contribution to the relief of such ailments as chronic obstructive pulmonary disorder and sleep apnoea. In addition, Afrox is working with government, medical aids and private sector practitioners to provide staff training and educational workshops in respect of long term domiciliary oxygen therapy and related home care needs.

Safety products and services

Afrox's safety business was launched in the previous financial year. This followed a detailed analysis that identified a 'personal protective equipment' market at least as large as the existing industrial products market, and potentially 50 percent greater than that.

Afrox's strategy assumes that safety consciousness in South African industry will increasingly become a key component of operating best practice and good citizenship. Afrox's own safety, health, environment and quality policy and practice is a powerful platform from which to leverage experience to the benefit of all South Africans in the workplace. Indeed, our philosophy is that safety in the workplace is not only beneficial for the wellbeing of the community at large but it also has substantial commercial advantages.

Afrox supplies Handigas for cooking in almost every restaurant in South Africa

We are already realising growth of substantial magnitude, both in revenue and profit. In excess of 1 000 line items are sourced from suppliers manufacturing to the highest of specifications. These items, supplemented by Afrox's own AfroxPac35 self-rescuer, complement the welding products already supplied to customers. Routes to market are via our network of Gas & Gear retail outlets and on-site stores at key customer locations. The on-site business model provides customers with a unique system to manage the cost and control of safety products.

Scientific gases, refrigerants, packaged chemicals and helium

The scientific gases, refrigerants, packaged chemicals and helium component produced strong double digit growth in revenue, once again performing at the higher end of our strategic stretch targets.

Afrox supplies a wide range of customers with ultra high purity, instrument grade gases, fire suppression gases, environmentally friendly refrigerant gases and ammonia. Helium is sourced abroad through our parent company.

Additional investment is being made in our refrigerants capability and we continue to keep at the forefront of world standards throughout our offering. This will be reinforced by Afrox's inclusion in The Linde Group.

Hospitality

Hospitality achieved real growth. This business is an integral part of Afrox's marketing outreach to the hospitality sector of the economy. It provides a conduit for our comprehensive product offering to customers in the growing hospitality trade – with fast food outlets doing particularly well – as a result of rapid urbanisation and a growth in the mid-LSM income categories. Our logistics capability, tailored to the unique opening times of our customers, is continually being refined to ensure optimal service reliability.

Africa operations

Afrox's reach beyond the borders of South Africa extends to fifteen, largely Anglophone, territories. These operations contribute approximately 13 percent to group revenue and 17 percent to group operating profit. We are planning for growth in the region of 20 percent per annum for the foreseeable future. An acquisition in Kenya should have a substantial impact on total sales. Afrox is sensitive to local customs and adopts a localisation policy wherever feasible. We believe there is substantial scope to leverage off strong commercial relationships with South African companies doing business throughout the continent.

Financial review

Group results - highlights	
Revenue	R3 914m
Profit on sale of Life Healthcare Group	R362m
Operating profit before finance costs	R754m
Cash generated from operations	R747m

African Oxygen Limited (Afrox) continues to produce financial results well above inflation.

During the year, Afrox completely divested from its healthcare interests by selling its remaining 20.1 percent shareholding in Life Healthcare Group. The consideration was R850 million, realising a profit of R362 million. The company is now a focused industrial company.

Accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) using the historical cost convention modified by the revaluation of financial instruments. All companies in the group have followed these policies in all material respects.

The basis of preparation is consistent with the prior year except for the restatements as a result of the conversion to IFRS from SA GAAP.

These financial statements have been prepared in accordance with IFRS1, 'First time adoption of International Financial Reporting Standards'. Reconciliations and descriptions of the effect of transition from SA GAAP on the group's equity and net income are provided in Note 38 to the annual financial statements.

In addition, we have adopted the guidance on accounting for adjustments to revenue where extended payment terms are made available to customers by adjusting revenue with the cost of granting extended terms, and have restated prior year comparatives.

IFRS restated basic and headline earnings per share	2006 Actual	2005 Actual
Basic earnings per share		
BEPS (cents) as previously reported (2005)	278.1	408.2
Industrial	148.6	130.4
Healthcare	129.5	277.8
BEPS (cents) restated after IFRS	278.1	403.6
Industrial	148.6	117.0
Healthcare	129.5	286.6
Headline earnings per share		
HEPS (cents) as previously reported (2005)	191.4	142.6
Industrial	154.5	132.3
Healthcare	36.9	10.3
HEPS (cents) restated after IFRS	191.4	127.9
Industrial	154.5	118.9
Healthcare	36.9	9.0

Segmental information

R'm	Industrial % change	2006 Industrial	2006 *Other	2006 Total	2005 Industrial	2005 *Other	2005 Total
Revenue	19	**3 914**	**–**	**3 914**	3 279	2 475	5 754
Operating profit	15	**684**	**70**	**754**	597	326	923
Net profit for the year	12	**437**	**421**	**858**	391	959	1 350
HEPS (cents)	19	**141.6**	**49.8**	**191.4**	118.9	9.0	127.9

Group

The comparison of numbers is extremely difficult due to the inclusion of Afrox Healthcare six months operating results and six month associate profit from Life Healthcare in financial year 2005, and in 2006, the inclusion of a full year's associate profits from Life Healthcare Group.

Basic earnings per share for the group decreased 31 percent from 403 cents to 278 cents. This includes the profit on the sale of Life Healthcare Group of R362 million (2005: Afrox Healthcare of R1 085 million).

Headline earnings per share for the group increased 50 percent from 127.9 cents to 191.4 cents.

*The following non recurring items occurred during 2006: Pension fund surplus R114 million. As a result of approval being obtained from the Financial Services Board for the nil surplus scheme submitted in respect of the group's defined benefit pension fund, a pension fund asset has been recognised on the balance sheet at 30 September 2006 with the corresponding amount being credited to income statement. Vesting of unvested Share Appreciation Rights Scheme was R58 million and R21 million was for impairment provision. Life Healthcare operating profit was R32 million. The net profit from the sale of Life Healthcare Group was also included.

The following non recurring items occurred during 2005: The Afrox Healthcare revenue was R2 475 million, operating profit R294 million and net profit R63 million. Life Healthcare operating profit was R32 million. Included was the profit on the sale of Afrox Healthcare Limited.

Income tax expense

The tax expense decreased R307 million, from R623 million to R316 million. The effective tax rate is 27 percent compared to 31 percent in the previous financial year. This was as a result of:

- R178 million secondary tax on the company's payment of the special dividend included in 2005.
- Afrox Healthcare's tax expense in 2006 was nil compared to the R107 million for six months in the 2005 financial year.
- The capital gains tax relating to the sale of Afrox Healthcare in 2005 was R144 million. In 2006 the capital gains tax on the sale of associate investment in Life Healthcare Group was R76 million, a decrease of R68 million.

Dividends

Due to the sound results, the board of directors has declared a final cash dividend of 40 cents per share. The full normal cash dividend for the year thus amounts to 88 cents per share. The total dividend is covered 2.18 times by earnings from the industrial operations.

Shareholders will receive a special dividend of 60 cents per share, which amounts to R185 million paid from the proceeds of the healthcare sale.

Balance sheet and cash flow

Gearing decreased from 17 percent to 3.3 percent as a result of R850 million in proceeds received from the sale of the investment in Life Healthcare Group. Major capital expenditure and investments amounted to R549 million compared to the previous year of R492 million. The group's funding requirements decreased by R279 million to R83 million (2005: R362 million).

Cash generated from operations for the group reduced from R954 million to R747 million as a result of the sale of the healthcare business.

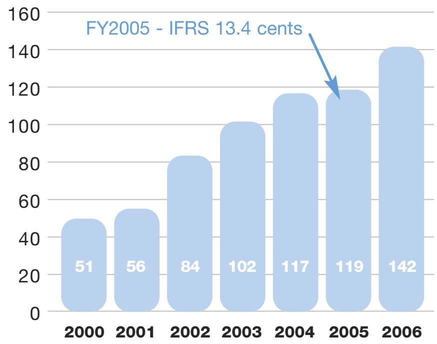
Afrox group paid taxes to the fiscus totalling R627 million (2005: R951 million). The direct taxes were R528 million (2005: R669 million) the indirect portion was R99 million (2005: R282 million).

Industrial business

Revenue at R4 billion (2005: R3.3 billion) was up 19 percent. On a like-for-like basis, operating profit was 15 percent higher at R684 million (2005: R597 million) with net profit 12 percent up at R437 million (2005: R391 million). This is the base off which Afrox will measure itself in the future. Headline earnings per share increased 19 percent to 141.6 cents (2005: 118.9 cents).

The cash generated for the industrial business increased by 4 percent to R859 million (2005: R829 million).

Headline earnings per share
CAGR 2000–2006 - 19%



Management of financial risks

In the course of the group's business operations it is exposed to currency, interest, counterparty, credit and acquisition risk. Approved policies exist for managing the financial risks to which the group is exposed. The treasury policy specifies controls and procedures over the management of currency, interest, counterparty and liquidity risk. The compliance with the treasury policy is monitored by the Treasury Committee. The management of acquisition risk is overseen by the Investment Committee. The group has a risk management and central treasury function that manages the financial risks relating to operations.

Risk profile

The group's objective in using financial instruments is to reduce the uncertainty over future cash flows arising from movements in currency and interest rates. Throughout the year under review, it has been, and remains the group's policy that no speculative trading in derivative instruments be undertaken.

The financial risk management policy of the group relating to each of these risks is discussed under the blue headings below:

Currency risk

The group has potential foreign exchange exposures in respect of items denominated in foreign currencies, comprising transactional exposure in terms of imports and exports incurred in currencies other than rand, and in respect of investments in overseas operations. Currency transaction exposures are managed through approved policies utilising derivative instruments. Underlying commitments or receivables support all forward exchange contracts.

Where possible, hedging is achieved by borrowing in the same currency as the assets being hedged or through the use of other hedging methods such as currency swaps. Borrowings in a foreign currency constitute one percent (2005: 2 percent) of the group's total borrowings. The aggregate of the notional principal values of currency swaps was nil (2005: nil).

The aggregate principal amount of forward exchange contracts as at 30 September 2006 was R304 million (2005: R137 million). The fair value of these contracts at 30 September 2006 amounted to a profit of R36 million (2005: a loss of R4 million). A 10 percent depreciation of the rand would increase the fair value of these contracts by R28 million (2005: R11 million).

Interest rate risk

As at 30 September 2006 the group had net exposure of R204 million (2005: R250 million) to variable interest rates. Based on the group's year end composition of debt, an increase in average interest rates of one per cent per annum would result in a decrease in future earnings before tax of R2,0 million (2005: R2,5 million).

In order to manage interest rate risk the group maintains both variable and fixed rate debts. At 30 September 2006, there was a 48:52 ratio (2005: 48:52) between variable and fixed rate debt. Where appropriate the group uses interest rate swaps to vary the mix between variable and fixed rate debt in order to manage the group's interest rate exposure. At 30 September 2006, the aggregate of the notional principal values of swap agreements, which affect the variable/fixed rate mix, was nil (2005: nil).

Counterparty risk

Deposits and other financial instruments give rise to the credit risk on the amounts due from counterparties. Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty depending upon its credit rating and by regular reviews of these ratings. The possibility of material loss arising in the event of non-performance by a counterparty is considered unlikely by management.

Liquidity risk

The group manages liquidity risk by proper management of working capital and cash flow. Adequate banking facilities and reserve borrowing capacities are maintained. The group has adequate banking facilities in order to meet its immediate or foreseeable working capital requirements.

Banking facilities	30/09/2006 R'm	30/09/2005 R'm
Available	**1 907**	1 728
Utilised	**504**	373
Unutilised headroom	**1 403**	1 354

Credit risk

The group has potential credit risk exposure on trade receivables. Receivables consist primarily of invoiced amounts from normal trading activities and the group has a large diversified customer base across many geographical areas. Strict credit control is exercised through the setting of credit limits according to each customer's risk profile, monitoring customers' payment history, and when necessary, provision is made for doubtful accounts. As at 30 September 2006, the group was unaware of any significant unprovided or uninsured concentration of credit risk.

Acquisition risk

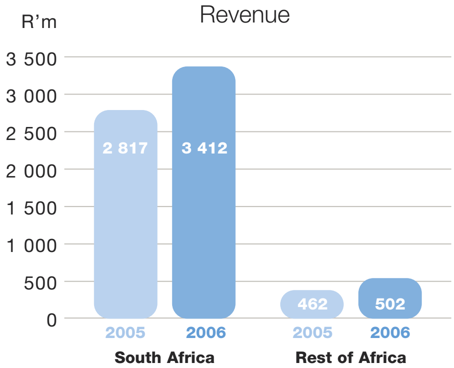
There is a risk that future expected net cash flows from acquisitions might not be realised, resulting in an impairment on the asset valuation upon which the original purchase consideration was based.

An acquisition policy and process has a clearly defined structure and approach that covers levels of authority and risk management responsibilities in each of the following phases:

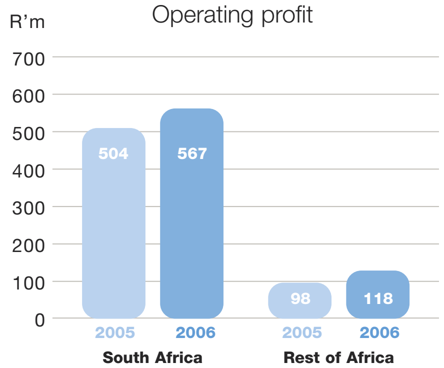
- Project initiation
- Target evaluation
- Risk analysis
- Business case evaluation
- Due diligence
- Deal structure
- Integration and implementation
- Post-acquisition evaluation

Segmental reporting

Geographical



South Africa revenue increased by 21%
Rest of Africa revenue increased by 9%



South Africa operating profit increased by 13%
Rest of Africa operating profit increased by 20%

The Investment Committee reviews all acquisitions prior to any formal board approval, monitors each stage of acquisition and advises, where appropriate, to the respective business involved.

Credit rating

During the financial year Global Credit Rating Company reaffirmed the credit rating of the company in the table below:

Security class	Rating scale	Currency	Rating	Date	Rating watch
Long term	National	Rand	AA-	07/2006	No
Short term	National	Rand	A1+	07/2006	No

Ratios	2006	2005
Operating profit as a % of turnover	**18.9**	16,0
Net asset value per share (cents)	**727.5**	531.2
Current ratios	**1.4**	1.0
Liability ratio	**0.4**	0.7
EBITDA *(earnings before interest, exceptional items, taxation, depreciation and amortisation)*		
EBITDA to turnover - African Oxygen Limited	**28**	22
EBITDA to turnover - ISP	**20**	22
EBITDA to turnover - PGS	**36**	37

Value added statement

for the year ended 30 September 2006

This statement is a measure of the wealth created by African Oxygen Limited through its various business activities, and shows the total wealth created and how it was distributed.

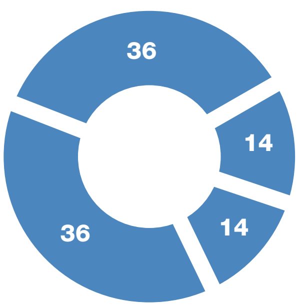
	2006 R'm	%	2005 R'm	%
Wealth created				
Revenue	3 914		5 754	
Cost of goods and services	(2 086)		(3 207)	
Profit on sale of investment	362		1 085	
Value added	2 190		3 632	
Finance income	4		62	
Income from investments	14		11	
Wealth created	2 208		3 705	
Wealth distributed and retained				
Employees				
Salaries and benefits	791	36	1 361	37
Providers of capital	314	14	1 750	47
Finance (income)/costs	35	2	(1)	–
Minority interest	7	–	98	3
Ordinary dividends	272	12	230	6
Special dividend	–	–	1 423	38
Taxation	316	14	623	17
Reinvested in group activities	787	36	(29)	(1)
Depreciation	202	9	258	7
Future growth	1 071	48	(611)	(17)
(Disposal)/re-investment in healthcare associate	(486)	(21)	324	9
	2 208	100	3 705	100

Value added ratios

	2006	2005
Number of employees (at 30 September)	3 200	2 983
Revenue per employee (R'000)	1 266	
Value added per employee (R'000)	709	

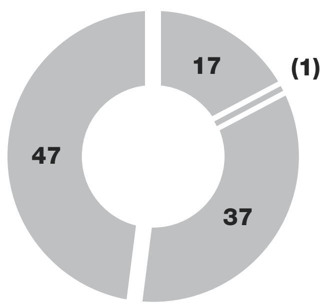
Wealth distributed and retained

2006
%



2006 %		2005 %
36	Reinvested	(1)
14	Taxation	17
14	Providers of capital	47
36	Employees	37
100		100

2005
%



Employee report

Most of our HR efforts are aimed at achieving an 'employer of choice' status and during the course of the year we have faced our fair share of challenges in attracting and retaining staff, particularly skilled black employees, artisans and employees with specialist skills in engineering. A number of specific programmes have been implemented to ensure we attract and retain the best, especially given the massive infrastructure development planned for South Africa over the next eight to ten years and the resulting competition for talent.

An employee satisfaction survey was undertaken in 2005 and we are currently addressing the weaknesses highlighted in the survey. These related to performance management, the development of front line management skills and information sharing and communication.

Remuneration policy

The Afrox remuneration policy is designed to attract and retain managers and staff of the highest calibre. In setting remuneration levels the remuneration committee takes into account the remuneration practices found in other SA listed companies of similar size and complexity. The pay rates of the salary scales are aligned with the 62nd percentile of the market to pave the way for wider implementation of variable pay. Pay is viewed as comprising basic pay allowances, medium term incentive schemes know as variable compensation and long term reward under the SARS scheme. The proportion that each represents to basic pay varies to the seniority of the employee and increases and rewards are based on performance.

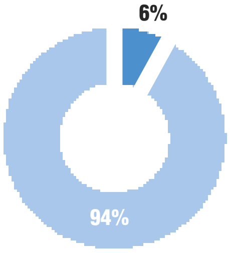
Reward and recognition

In creating value for employees, a share appreciation rights scheme (SARS), governed by rules relating to performance, remuneration and length of service, enables individuals to participate in the company's long-term growth. Performance contracts are used to measure and assess employee performance, innovation, service excellence and the attainment of long and short-term strategic and operational goals.

Over 600 employees participate in this scheme. The purpose of the scheme is to enhance employee identification with the objectives, strategies and long-term success of the company. The scheme also applies to high potential and affirmative action employees as part of the company's overall retention strategy, and SARS are allocated to employees who achieve certain long service milestones.

The allocations are based on a proportion of the value of the appreciation rights, which are linked to ordinary shares in African Oxygen Limited, to basic remuneration according to seniority, and to performance. SARS are issued at the ruling price on the JSE on the date of issue. Rights may be exercised after the fourth anniversary of the allocation, but before the end of the tenth year the allocation is held. A performance clause has been added to the scheme that in order for shares to vest, they must exceed a growth rate which is set down as a combination of GDP plus CPI accumulation.

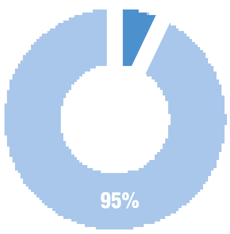
The number of ordinary shares to which unexercised SARS are granted shall not in the case of a single manager, exceed one percent of the total issued ordinary shares and in the aggregate exceed ten percent of the total issued ordinary shares. Market surveys are undertaken from time to time to ensure that the number of allocations are made in line with the mid-point of market practice.



2006

Employee costs for industrial business

2006		**(R'000)**	2005	
%	Amount		Amount	%
94	**675 088**	South Africa	621 149	95
6	**39 362**	Rest of Africa	33 395	5
100	**714 450**	**Total**	654 544	100



2005

Variable compensation scheme

The executive directors, senior and middle managers participate in the variable compensation bonus plan. The plan focuses on annual objectives and links individual performance to business plans. Bonuses are assessed on a combination of financial targets and personal objectives. These are based on Afrox's strategic goals and include safety, growth, people, productivity and customer service. Performance is measured against key performance indicators determined during formal appraisals. The bonuses for the executive directors and senior managers are paid quarterly. Details for the payments to the directors are included in the directors' remuneration for the year on page 118.

Employee benefits

In acknowledging the part that employees play in the success of the company, Afrox provides a range of benefits that go beyond those that are legally mandated. These benefits include the provision, at some but not all sites, of primary care clinics and canteens. In addition, all employees have access to: HIV/AIDS guidance and assistance, paid maternity leave, disability grants, medical aid, pension and provident funds, DIY loans, first time home owners' assistance, bond subsidies, educational assistance that exceed the Basic Conditions of Employment Act, staff discounts for Afrox products, and SARS.

Guiding principles chart the way forward

During the year, Afrox launched a set of principles, known as 'Behaviours in Afrox' which capture Afrox's values, vision and strategic goals and will chart the way forward for the company.

This document was introduced at the senior management conference and adopted by all senior managers. It follows receipt of Afrox's special recognition at the Deloitte's Good Governance Awards for being the inaugural winner of the Overall Best Governed Company, and the winner in both the Board Effectiveness and Ethics and Integrity Categories.

One of the most critical points in the credo states: "Our people are our future, and we must be excellent in the way we manage them. We will attract and retain the best possible people, and are committed to their personal wellbeing and development. We will use our management tools of Performance Management, Individual Development Planning, Coaching and Succession Planning, and our License to Work Programme, to maximise the competence of all our employees, help them to build their careers, and ensure that all employees are qualified and empowered to do their job."

This attitude, together with the other sentiments captured in the document, summarises the behaviours expected not only from Afrox managers, but from all company employees, and will be supplemented by a customer-centric behavioural programme to be rolled out early 2007.

The ten areas identified to convey specific behaviours are safety, people, communication and empowerment, customers and our brand, quality, operational excellence, environment, administration, the code of conduct, corporate social responsibility, shareholders and growth.

Safety is the number one golden rule in Afrox and it has been elevated to the company's number one critical success factor (CSF).

Freedom of association

Afrox fully appreciates the concept of freedom of association and understands that this constitutes a basic and fundamental right in terms of the South African Bill of Rights. Employees are therefore at liberty to join any organisation, forum or trade union if they so wish. Currently approximately 12 percent of our employees belong to trade unions. Employees elect colleagues who represent them in bona fide consultative forums. The forums meet regularly and provide a platform for formal worker representation in decision-making.

The Behaviours in Afrox document is displayed at every site throughout the country.

Employee support

Afrox has adopted a proactive and holistic approach to the wellbeing of its employees, which encompasses the physical, mental and financial health of each individual. Employees are encouraged to take responsibility for their own health and well being by fostering self-sufficiency and resilience.

The company has contracted with a supplier to implement an employee support programme providing a confidential personal support and information service that all employees and immediate family members can access. Qualified, experienced counsellors provide this service, which offers multi-lingual access to telephone or face-to-face counselling. Advice is provided on life management, which includes legal advice, financial management, family or work issues, stress, trauma and substance abuse. Support is offered in the context of workplace productivity and performance enhancement.

Twenty seven percent of employees have made use of this service to date. Of these 95 percent are self-referred.

The employee support programme's effectiveness will be measured in terms of reductions in absenteeism, stress-induced medical aid costs and staff turnover.

Meeting the HIV/AIDS challenge

Afrox's HIV/AIDS policy was implemented in 2003 and to date 70 percent of employees have undergone HIV/AIDS awareness training. Approximately one percent are registered on the HIV disease management programme and are receiving anti-retroviral therapy. Confidentiality is assured through an externally monitored Aid for AIDS call centre.

HIV/AIDS is acknowledged as a critical business risk that affects our employees, has an impact on our work production and increases costs. Our HIV/AIDS policy is based on a combination of sound business principles as well as on the obligations associated with being a socially responsible employer.

We are managing HIV/AIDS by using internal and external experts and by focusing on awareness, lifestyle education and the prevention of infection as well as by offering anti-retroviral treatment to prolong life expectancy. We are committed to addressing HIV/AIDS in a proactive and non-discriminatory manner, and to treating employees fairly, with dignity and compassion.

Afrox employees are encouraged to know their health status through education and awareness training and confidential voluntary counselling and testing campaigns. HIV-negative individuals receive assistance to maintain this status, while HIV-positive employees are offered disease management and treatment as well as counselling, care and support.

New employees receive HIV/AIDS awareness training as part of their induction programme, while line managers are trained to handle the problems that may face members of staff who are infected or affected by the pandemic. There are 76 peer educators who have the skills to train the HIV/AIDS awareness programme.

Afrox chairman, Kent Masters, celebrating Bumbanani Day with the children from Bethesda Home, Soweto.

2006 marks the twelfth year that Afrox employees have devoted their time and energy to making life better for underprivileged children in the local communities surrounding Afrox operations throughout South Africa — efforts that are underpinned by R1,2 million in corporate financial backing each year.

Our annual Bumbanani Day in October involves more than 8 000 children from disadvantaged backgrounds, treating them to a special fun-filled day at various venues around the country.

After hearing reports of the great success of Afrox's Community Involvement Programme (CIP) in South Africa, Afrox chairman, Kent Masters, flew from London to experience this year's Bumbanani Day for himself. Accompanied by his wife and son, Kent visited two projects in Johannesburg.

"It isn't until you see the energy and commitment first hand that you get a real appreciation for the impact this programme has on so many," said Kent. "My thanks go to all the staff for the personal effort they put into making it such a success."

Afrox MD, Rick Hogben, visited projects in Cape Town and Paarl on Bumbanani Day and said, "Bumbanani Day becomes even more meaningful when you see it in the context of the ongoing involvement undertaken by employees with their adopted homes throughout the year.

"Bumbanani Day is the culmination of many hours of employee involvement – it is the celebration of relationships which have been built, and projects which have been undertaken, by Afrox employees to bring about a meaningful and lasting difference in the lives of the children they support."

Well known celebrities have also lent a helping hand around Bumbanani time. Singer and actor Pam Andrews (Frankie from the local soapie, Backstage) joined the children from the Takalani Home in Soweto for a sing-a-long in the run up to Bumbanani Day this year and last year, soccer star André Arendse and musician Mandoza came out in full support.

Black economic empowerment

Rated BB and the 57th most empowered company by Empowerdex

Black economic empowerment review

- **Ownership**
- **Management and control**
- **Employment equity**
- **Skills development**
- **Enterprise development**
- **Preferential procurement**
- **Corporate social investment and donations**

Exercising sound corporate responsibility is fundamental to the way we operate. We are serious about the influence and impact our operations, products, services and people have on society, the economy and the natural environment. This is borne out by Afrox's third consecutive selection as one of the 58 companies in 2006 to be included in the JSE's Socially Responsible Investment (SRI) index.

In 2006, Empowerdex, the Economic Empowerment Rating Agency, awarded Afrox a BB rating which represents a 26 percent legal BEE ownership and 16.67 percent BEE control. In the Empowerdex survey, published in the Financial Mail this year, Afrox was placed as the 57th most empowered company.

Overview of Black Economic Empowerment in Afrox ownership:

Management and control: 29.4 percent of managers in Afrox are of previously disadvantaged groups.

Skills development: During the year, 7 797 training initiatives were conducted with a total cost of 3.8 percent of payroll.

Enterprise development: We have developed 200 franchise distributors for Handigas, 62 SMMEs (Small Medium and Micro Enterprises) for medical gas distribution, and we partner with a further 62 industrial black SMMEs. Afrox has an active programme to extend this initiative.

Preferential procurement: Black owned, black empowered and black influenced spend increased by 71 percent at R1.1 billion. This represents 51 percent of the discretionary spend.

Corporate social investment and donations: As a policy the company donates one percent of after tax earnings. Donations in 2006 amounted to R3,9 million. In addition, Afrox's Community Involvement Programme benefited 8 000 children in 71 child care homes.

Afrox has adopted the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development, which includes economic, environmental, and social performance issues.

Afrox is committed to contributing to the upliftment of the broader population through our black ownership initiatives across various facets of the business, developing our employee skills at all levels, our employment equity programme and our corporate social responsibility programme. This is an ongoing process and we aim for continuous improvement along the journey to transformation.

We give financial support to a number of initiatives whose objectives benefit society. These include the National Business Initiative, the Business Trust, South African Foundation, Free Market Foundation of South Africa, the World Wildlife Fund of South Africa, and the Endangered Wildlife Trust.

Ownership

Afrox is now 50.47 percent owned by The Linde Group of Germany, and South African institutions and the general public hold the balance (see Shareholders' Profile page 66).

We have adopted a policy to seek BEE partners to add value in our business, particularly where we can enable growth, in selected existing businesses. This includes expansion into new markets and in any new commercial enterprises on which we embark. We continue discussions with groups and organisations that would add value to our undertakings.

Management and control

We are committed to raising the proportion of historically disadvantaged South Africans within the company. Our objectives are to:

- raise the proportion of designated groups on the executive management team
- appoint executive trainees from the designated groups at several levels of management

- increase our bursary scheme and graduate development programme to encourage greater participation from designated groups

An internal group monitors the implementation of our BEE ownership, management and control and we report on BEE regularly to the board of directors and shareholders.

Employment equity

We stand for equal opportunity and fair treatment and we aspire to a workforce composition that reflects the demographics of our country. Our employment equity strategy forms part of the annual strategic planning process and is reported and reviewed at monthly executive management meetings chaired by the managing director. A process ensures that employment equity issues, legislative compliance and numerical target levels are set in consultation with the employment equity steering committee, the skills development committee and the consultative forums. Consultation and dialogue are used to address the results of employment equity audits, and progress towards our targets.

Our strategy covers recruitment, staff development and retention, and cultural diversity. Our managers and consultative forums are well versed in the Employment Equity Act. Senior managers are held accountable and are responsible for reaching employment equity goals. Although we will not sacrifice our quality standards, accelerated development programmes assist with the integration of new entrants.

Recruitment

Currently Asian, black and coloured people are under-represented at executive and senior managerial grades, although the imbalances are being addressed. Bursaries are offered to students and graduates from designated groups and we have nine bursars and 13 graduates. We offer the following categories of bursaries:

- full time bursaries
- partial bursaries to many educational establishments (available to employees unable to meet the costs of fees)
- fully paid assistance to employees to further their education up to bachelor degree level
- fully paid bursaries for dependents of employees accepted by tertiary institutions.

Development and performance

Our succession planning process identifies ability and talent, and monitors on a monthly basis the performance of potential individuals from designated groups. Individual development plans are agreed in collaboration with employees' managers. Specific mentoring and accelerated development of selected employees from designated groups, empowers them for expansion into more senior roles. Unfortunately, it seems that other companies recognise the value of Afrox trained individuals and retention of designated groups at senior levels remains a challenge.

Quantative employment equity measures

Employee numbers as at 30 September 2006

JOB LEVEL	MALE					FEMALE						
	AFRICAN	COLOURED	INDIAN	WHITE	**TOTAL**	AFRICAN	COLOURED	INDIAN	WHITE	**TOTAL**	**GRAND TOTAL**	**AA EXCL * WF %**
Top management	–	–	1	5	6	–	–	–	–	–	6	16.67%
Senior management	4	3	7	64	78	1	–	2	5	8	86	19.77%
Professionally qualified & middle management	28	12	28	184	252	9	3	5	57	74	326	26.07%
Skilled technical & academically qualified	131	63	44	267	505	26	10	13	125	174	679	42.27%
Semi-skilled & discretionary	545	112	45	92	794	79	37	22	212	350	1 144	73.43%
Unskilled & defined decision making	376	40	3	22	441	22	12	–	1	35	476	95.17%
Total	1 084	230	122	634	2 076	137	62	42	400	641	2 711	62.08%
										Not graded	42	
										Africa operations	447	
										Grand total	**3 200**	

* White female

Cultural diversity

Afrox takes pride in the cultural diversity of our people and strives to maintain an environment where differences of employees are celebrated, recognised and understood. As set out in our Code of Conduct, we encourage tolerance and sensitivity to other cultures and are committed to maintaining a workplace free from discrimination for reasons of race, creed, culture, nationality, gender or marital status. Employees are selected on their ability to perform the job and physical disability is not a barrier to employment.

Employee training 2006

Description	Total training interventions
Licence To Work: 7 817 learning interventions for 3 200 learners. This presents a 68.05 percent overall level of competence.	
Safety, health, environment and quality	**267**
Adult basic education in progress	**262**
Management skills	**354**
Management development programme	**71**
Performance management and coaching	**215**
Computer systems training	**1 260**
HIV/AIDS training	**567**
Driver training	**978**
Legal	**117**
Total training interventions	**11 908**
Cost as a percentage of payroll	**3,8%**

Skills development

Afrox is committed to investing in our people, and a focus on career and personal development, creates a motivated workforce. To unleash the talent in our employees, the company places an emphasis on education and training and offers many opportunities for advancement.

Knowledge is transmitted to the business units, factories, branches and depots by various channels and employee development takes the form of e-learning, on-the-job coaching and training, development projects, secondments and traditional classroom-based training.

Employees are encouraged to have discussions with their managers regarding their aspirations, prospects and development needs. Individual development plans are then formulated, with agreed targets that synchronise the employee's needs with business strategy and plans.

Licence to work

Afrox manages the development of functional skills through the Licence to Work approach. The approach ensures that each employee is competent in his/her job within a specific time frame. Learning needs analyses are achieved through the development of competency profiles for specific jobs.

Our computerised IMSS (integrated management system and standards) equips employees with the competence to perform and to improve further by acquiring additional skills. IMSS is a training system housing global business reference material, procedures and standards. Individual learning and auditing of the learning cycle are incorporated in the system. Supervisors coach and assess those who are not computer literate. Sixty-two percent of employees have completed their competency modules.

In-house soft skills programmes are provided in an attempt to improve productivity in managers and employees by equipping them with behavioural skills. Advertised internally, these courses include performance and change management, recruitment and selection, industrial relations, stress management, and presentation skills. In addition, individual development plans assist employees identified as having high potential.

Specific programmes

A shortage of welding skills throughout South Africa has led to the development of welding skills training at varying levels. The company trained 76 people in welding during the year. Nine attended the Welding Inspector's course at the South African Institute of Welding. In addition, an employee graduated from Wits University with a Master's Degree in Welding Engineering. As part of their induction, graduate engineers complete a welding skills course, which incorporates marketing of welding products. The intention is that some of these graduates will become fabrication specialists within Afrox to equip them with both marketing skills and a technical qualification.

Front line management development programme

The front line management programme is targeted at entry-level managers. It equips front line managers and supervisors with competencies that will allow them to manage their teams more productively and it encourages promotion into future middle management roles. Approximately 44 delegates participated in the programme in 2006.

Management development programme (MDA)

The company needs the strong support of an informed and empowered second-in-line management and specialist team to enable growth in a competitive business environment. In partnership with the Graduate Institute of Management and Technology (GIMT), Afrox has developed a customised Management Development programme. Eighteen delegates graduated from this programme and three more groups are currently busy with the MDA.

iLead programme

Afrox offers an iLead programme for selected senior leaders in the organisation. This programme is run in conjunction with the University of the Witwatersrand. This four-month course challenges senior managers and executives to use creative thinking. The programme includes fulltime teaching at Wits Business School and the completion of strategic action learning projects pertinent to Afrox. Several of the projects undertaken have been adopted and implemented by the company. Twenty-one managers graduated this year.

Lead programme

Each year, high potential employees are selected to participate in a challenging executive development programme called Lead. This programme extends over 12 months and grooms participants for future executive leadership roles. Only one or two senior leaders per year are selected to attend the iLead programme.

Bursaries

Afrox also offers bursaries to full-time students taking selected studies such as metallurgy, mechanical, chemical, industrial or electrical engineering. Currently we offer fully comprehensive bursaries and partial bursaries for people from disadvantaged backgrounds. New graduates participate in our graduate development scheme, which assigns graduates to mentors within the organisation and facilitates the integration of new recruits. Afrox also runs a TOPP (Training Outside Public Practice) programme and presently employs TOPP students from previously disadvantaged groups.

Company sponsored bursaries are offered to employees to further their education at recognised institutions. In addition, Afrox has and will continue to support the children of employees with bursaries for tertiary education.

Graduate development

A two-year graduate-in-training programme rotates graduates around the various business units every six months, giving them knowledge of, and exposure to, different areas of the company. Their performance in each unit is assessed at the end of each six-month period.

Enterprise development

Afrox is committed to creating sustainable economic wealth by nurturing growth and fostering economic empowerment to facilitate transformation. We create value through management mentoring, procurement, and through our suppliers and distributors who market our products.

Afrox does not take for granted its right to trade freely in South Africa. We strive for equitable economic growth and job creation without compromising shareholder value or customer service. We create value in partnering SMMEs and through our suppliers and distributors, as our products go to the market.

In fostering economic empowerment among previously disadvantaged groups we have created some 215 franchised distributors in our Handigas business, and we are using this opportunity to reach into informal urban and rural settlements. The wealth and employment created by these franchisees is considerable. Each job offers a livelihood to extended family members and benefits the wider economy.

Our medical gases distribution, particularly to State users, supports some 62 SMMEs. We provide these SMMEs with skills training and preferential financing.

The reality of SMMEs in South Africa is that the entrepreneur is often under-skilled in managing a business. Our SMME development initiatives are designed to encourage black suppliers. We have a programme that includes training workshops, to enhance their managerial and operational capacity where there are deficiencies. We also take into account designated spend for the exclusive participation of SMMEs, shorter payment cycles, skills and technology transfer as well as supply and purchasing support in securing goods where labour-only contracts are undertaken.

We cultivate a broad understanding of BEE among all our traditional suppliers, by using BEE support as a criterion for evaluation and also by encouraging joint ventures between traditional and black suppliers.

Afrox's formal accreditation process ensures that suppliers meet the company's preferential procurement policy criteria as either SMMEs, black owned, black empowered or black influenced suppliers, and that they have the potential and capacity to satisfy our business requirements.

Afrox recognises the importance of broad based BEE in our business strategy, and partners 26 BSMMEs (Black Small Medium and Micro Enterprises) and spends more than R20.4 million annually for the work they do for Afrox. Our SMME policy aims to identify, develop and support SMMEs in a fair, equitable, competitive and transparent environment, so that they become cost effective vendors for Afrox. The process is intended to be self-perpetuating so that previously disadvantaged people can contribute to, and participate in, the economy.

We aim to help SMMEs to become successful vendors, and to perform to a predetermined standard. Particular emphasis is placed on:

- nurturing SMME distributors in our medical gases business and extending this concept to other outsourced delivery opportunities
- identifying and maximising opportunities to create SMMEs in other areas of our business, for example in cylinder refurbishment
- developing black franchised distributors in our LPG business
- contributing to NEPAD (New Partnership for Africa's Development) through partnering black business expansion into African countries

An SMME management team develops the economic capacity among historically disadvantaged people in surrounding communities. The SMME programme has been cascaded to 120 operating units. The programme formalises a process that can be implemented consistently across the company and includes detailed guidelines on how to:

- identify, select and appoint the SMME
- understand the accreditation process and the obligations of the SMME
- provide an appropriate induction once the SMME is appointed
- develop and manage the SMME
- identify and solve problems and issues

Targets set for branch and business unit managers stimulate the partnering and empowering of BSMMEs. Progress with SMMEs is measured and monitored by an external auditor.

Developing a small business from scratch is extremely time consuming. Not every manager is skilled in mentoring entrepreneurs, and not every budding entrepreneur will be successful. Afrox, however, remains totally committed to this initiative.

Preferential procurement

Afrox contributes to sustainable growth by encouraging purchasing from black owned, black empowered and black influenced companies. Our procurement policy encompasses both BSMMEs and large black owned, empowered or influenced suppliers with sophisticated financial, technical and managerial capacity. Our procurement policy is commercially oriented and is aimed at identified suppliers who meet a wide range of performance criteria assessed using our SESPA (Supplier Evaluation Selection and Performance Appraisal) process. We continue with a comprehensive practice of favouring BEE suppliers and we regularly measure progress in achieving our targets.

During the year we increased our procurement spend with black owned, black empowered, black influenced and black SMME companies to R1,1 billion. This represents over 50 percent of discretionary spend.

Corporate social investment

Corporate social investment (CSI) is an inherent part of Afrox's business ethos. As a large organisation with operations throughout Africa, we believe that our future is linked to the sustainable development of the communities in which we work. Economically and socially strong communities enhance Afrox's success, and our CSI strategy is aligned to our long-term business objectives.

Our programme includes:

- Community Involvement Programme – the highlight being Bumbanani Day
- Donations programme
- Support of a welding school
- Educational support for under privileged learners

Community involvement programme

Twelve years ago, Afrox established a comprehensive hands-on CSI programme based on empowerment, consultation and partnerships. With financial support from the company, employees volunteer their time and talents to uplift their local communities. Known as our community involvement programme (CIP), this has become a fully-fledged, sustainable, employee driven initiative.

Employee CIP committees are formed and, in a spirit of collaboration and consultation with communities, our employees develop an understanding of the needs of the people. Focusing on disadvantaged children, worthy institutions are selected after thorough assessments are undertaken to ensure they are viable and sustainable. Employee groupings then support their chosen projects into the future.

Afrox employees now support and manage 71 projects offering help to 8 000 disadvantaged children throughout South Africa and in nine other African countries.

The CIP is an employee-driven initiative. The company offers nominal assistance at R10 000 per annum per project and the objective is for employees to take ownership of their projects, raising further funds to assist with needs that have been prioritised. If a project requires significant additional funding they are encouraged to approach the Afrox donations committee.

This devolved approach has empowered and encouraged our volunteers in their efforts to improve the circumstances of their 'adopted' children and the homes or institutions in which these children live or learn. A spinoff for the company is that our employees are enriched by interactions within the communities, instilling in them an understanding of the challenges faced by others and exposing them to different cultures and backgrounds.

Bumbanani Day

Annually, as a culmination of the work achieved during the year, and in celebration of the relationships they have fostered, Afrox employees throughout the country celebrate with the community homes they support. This one-day event is known as Bumbanani Day – meaning 'let's build together' – and functions are held throughout sub-Saharan Africa attended by 8 000 children and approximately 40 percent of employees.

The UN Volunteers and the new Academy of Business, administered by the United Nations Development Programme in Germany, have identified our CIP as a model community involvement programme that is 'meaningful, sustainable and employee driven'.

A list of homes supported by Afrox can be viewed on www.afrox.com under 'Corporate Reporting – CIP institutions supported'.

Projects 2006

South Africa	No. of projects
Gauteng	26
Eastern Cape	2
Free State	3
KwaZulu Natal	8
Limpopo	1
Mpumalanga	4
Northern Cape	4
North West	3
Western Cape	6
Rest of Africa	**No. of projects**
Botswana	3
Kenya	1
Malawi	1
Mozambique	1
Namibia	3
Nigeria	1
Swaziland	1
Zambia	2
Zimbabwe	1
Total	**71**

Projects 2006

Type of home	Number supported
Orphanage/place of safety/care centre for orphaned, abandoned, abused or destitute children	39
School/crèche/aftercare facility	19
Centre assisting AIDS orphans/babies and children living with HIV and AIDS	4
Centre for physically and/or mentally disabled children	9
Total	**71**

Donations

As a policy the company donates one percent of after tax earnings. In the 2006 financial year donations amounted to R3,8 million.

Our programme of sponsorships and donations to charitable organisations is designed around upliftment. The company directs resources to areas where we feel we can make a difference or where employees have a direct involvement.

Donations are governed by a formal policy that has as its theme 'investing in the future' with emphasis on 'our children, their education and their environment'. Our managing director chairs a committee that meets quarterly to allocate funds to charitable institutions.

As in previous years, no donations were made to any political party either in South Africa or the African countries in which we operate.

Welding school

Afrox is a co-sponsor with two other companies in a welding school in Richards Bay, KwaZulu Natal. The school teaches welding skills and equipped 222 people in the community this year.

Total donations

Total		2006
Universities & Technikons	R	658 690
Corporate donations & services	R	758 652
Special projects	R	906 547
Community involvement programme	R	1 277 996
Other	R	275 608
Total	**R**	**3 827 493**

Safety, health, environment and quality

The Afrox SHEQ policy

We value the lives and safety of employees, contractors and customers above all else.

We will develop our SHEQ capabilities to world class standards by:

- Developing, marketing and supplying quality products that are safe to all and do not pose risk to the environment.
- Complying with all external regulations as well as ISO 9001 and ISO 14001.
- Managing our SHEQ performance through continuous improvement.
- Operating the business on the following safety principles:
  - Safety is 100% of our behaviour, 100% of the time.
  - A belief that all fatalities, injuries and incidents can be prevented – a commitment to goal of zero injuries of any nature.
  - Safety is a prerequisite to any business we undertake.
  - Everyone has a personal responsibility for safety.
  - Safe behaviour is a condition of continued employment within Afrox.

This policy is a key part of the overall company strategy and operating policy, and is reviewed on a regular basis by executive management.

At Afrox, all business, management and policy principles point to one all-consuming commitment – to preserve the safety of our customers, our employees and other stakeholders at all times and in all circumstances involving our products and operations.

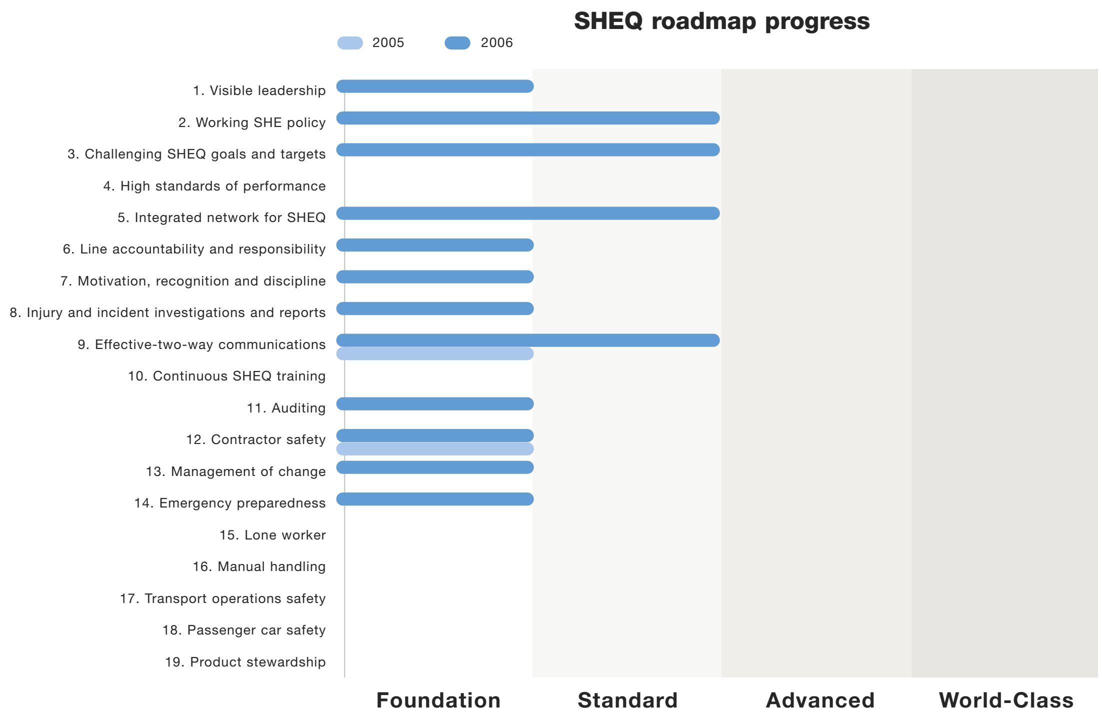
Our vision for safety, health, environment and quality (SHEQ) reflects this corporate commitment: "At Afrox we don't want anyone to get hurt – at work, on the road or at home". This vision is underpinned by a number of principles – captured as part of our SHEQ policy. The SHEQ principles, together with the recently introduced behaviours credo, discussed on page 39, guide our thinking and decision-making criteria.

The elevation of safety to Afrox's highest priority, reflects an all-encompassing commitment to guarding the health and safety of our colleagues, contractors, suppliers, customers and local communities. This culture of safety filters throughout our company from the office of the managing director, Rick Hogben and is captured in his statement:

"We believe that the lives and safety of our employees and our customers are our very first priority and we will never subjugate this to the achievement of any other objective. Never, ever, will we take a risk."

During the year under review Afrox compiled and launched a succinct credo capturing Afrox's value, vision and strategic goals, that has been framed and issued to managers company-wide, for display to their teams. This set of behaviours will guide managers to make decisions that always put safety first. Managers are expected to abide by and support these behaviours and to coach their colleagues and subordinates to ensure these principles are adopted. The credo reinforces the philosophy that every individual in the company makes a difference.

The SiteSafe programme has been rolled out to approximately 60 percent of our sites, to entrench a behavioural approach to SHEQ and harmonise SHEQ practices throughout the company. SiteSafe is a behavioural programme which will help managers, supervisors and employees understand the concept of



total integration of all SHEQ elements. In this way, the progress of our sites on the SHEQ Roadmap will be fast tracked. The roadmap is a tool to identify a site's current SHEQ status and to identify the steps necessary to move to world class safety in terms of 19 SHEQ components. We have placed the greatest emphasis on the following components: visible leadership, motivation recognition and discipline, effective two-way communication, management of change and manual handling.

SiteSafe will also help managers and leaders demonstrate their visible leadership in regard to SHEQ and encourage a greater appreciation of accountability for SHEQ, putting safety measures into practice and the consequences of unsafe behaviours.

The measures mentioned here are the first milestones in a long journey upon which we have only just embarked. With the encouragement, guidance, support and commitment of all Afrox employees, there is no doubt that in due course we will arrive at our ultimate destination – zero fatalities, injuries and incidents.

SHEQ policy and commitment

The company is committed to managing SHEQ risks responsibly and we believe there are no higher priorities for us than the health and safety of our colleagues, contractors, suppliers, customers and local communities – and protecting the environment.

Afrox has an integrated SHEQ policy that governs all our plans, actions and operations. Its main objectives are to supply products that do not pose a risk to the environment and to comply with all internal standards and external regulations.

Protecting the environment and the right of future generations to enjoy healthy and natural surroundings is always included in the planning phase of all new activities or products. Environmental risks are identified and plans implemented to minimise the impacts of these activities. We strive to improve our environmental performance by working towards efficient utilisation of natural resources and by preventing pollution.

Measuring performance

During the year under review, Afrox continued to identify, report on and investigate incidents and our system of 'lagging indicators' has been supplemented by the introduction of 'leading indicators'. Lagging indicators measure events that have happened and are used to measure the past safety performance of a business unit – for example, incidents, truck and passenger car incidents. Leading indicators measure performance in areas where safety is being addressed proactively, such as the number of safety committee meetings and audits compared to the plan, training completed and the percentage of investigation reports completed within 30 days.

Addressing transport related incidents has been a priority during the past year and we have instituted a rigorous review of our transport and distribution functions, concentrating on relevant managers' skills to ensure they fully understand all the SHEQ issues relating to transport.

Manual handling of cylinders has also been identified as an area of concern and we are currently instituting a plan to mitigate the associated risks.

During the year, a comprehensive SHEQ review of the company was undertaken and detailed action plans put together to address the issues.

Product stewardship

Afrox is setting the gas industry standard for product stewardship on the continent at a higher level than ever before. Product stewardship is defined as the ethical and responsible management of all products manufactured and distributed by Afrox, beginning with the high risk gas products in the Packaged Chemicals portfolio – potentially hazardous products that include ammonia, sulphur dioxide and ethylene. We have initiated an audit process that involves contacting each customer in our client base for these products, one by one, to determine whether these high-risk products are being safely and responsibly managed at their sites.

The audits focus on safe handling, storage and usage of the product at high risk gas customer sites and the programme will be extended to sulphur dioxide and ripe gas customers during the next financial year.

While we cannot take responsibility away from the customer in terms of handling and managing our products once on site, we can offer to assist them in implementing a safer and more appropriate approach. Our role is to encourage our customers to adhere to good housekeeping behaviours and this goes right through to proper disposal of unused product. In a worst case scenario, where a customer's site and product management is totally inadequate, Afrox could decide to withdraw as a supplier.

This customer screening initiative is just one aspect of product stewardship – there are many other elements in play, such as Afrox's new product introduction process, eventual supplier screening and our management of transportable bulk vessels.

Responsibilities

Business units are responsible for assessing the risk their activities pose to safety of personnel and the environment and for developing action plans to mitigate such risks. Business unit managers are accountable for SHEQ issues, assisted by SHEQ personnel within their region or at their factory/plant, whose role it is to uphold Afrox management system standards.

The national SHEQ department oversees the implementation, development and continual improvement of the company's integrated management system. SHEQ performance criteria are included in the performance contracts of plant/factory managers and personnel with SHEQ responsibilities.

Management system

Afrox's integrated management system is based on the requirements of OHS 18001, ISO 9001 and ISO 14001 — a management system that assists the company to involve employees in minimising the negative impact of their operations and processes, to comply with local and national legislation and to implement best practices.

All Afrox departments have ISO 9000 listings and we will actively work towards integrated ISO 9001, ISO 14001 and OHS 18001 certification in the coming year.

We're proud to report that to date, the Afrox Welding Consumables Factory and the Afrox Gas Equipment Factory have been awarded ISO 14001 certificates.

All sites manufacturing and filling medical gases have been accredited by the Medicines Control Council (MCC). All cylinder test facilities are registered with SANAS as approved test facilities and all sites with railway sidings have been registered with the Railway Safety Regulator.

Training and competence

The company's Licence to Work and skills development programmes are steadily advancing employees' competence and SHEQ behaviours. All our operations have access to an online IMSS (Integrated Management System and Standards) package offering a spectrum of training competencies.

An internal annual recognition and reward programme encourages all operations to improve their SHEQ performance. At a ceremony held during the year, the following branches/sites were presented with the SHEQ awards for best sites: gas equipment factory (in the category, larger site), Kimberley (medium site) and Walvis Bay (small site).

Afrox harnesses a variety of tools to make employees aware of their SHEQ responsibilities. A regular internal newsletter emphasises risks significant to the company's activities and products, while frequent dedicated e-mail communications and bulletins assist managers to implement SHEQ systems. We also analyse and take lessons from any losses that occur and develop mitigating actions to ensure the particular incident does not recur.

Each employee's responsibility to protect the environment is also reinforced by celebrations of national environmental programmes at Afrox sites, such as Arbor Week and Water Week and international events, such as World Environmental day.

Afrox-specific environmental awareness training packages are available within the IMSS. These include:

- environmental awareness
- waste management
- storm water pollution prevention
- environmental videos

Personnel with SHEQ responsibilities have been trained in the requirements of company environmental standards, national environmental legal requirements and environmental auditing skills.

Contractors on Afrox sites are required to undergo induction training and 'Permit to Work' training before they are allowed to work on Afrox premises. Contractors must comply with all company standards and procedures. The health and safety of our contractors is just as important to us as that of our employees and our SHEQ policy extends to this category of workers as well.

Risk assessment

Afrox business units identify SHEQ risks using the company's standard integrated risk assessment tools. Significant risks are identified and prioritised and management techniques developed to mitigate these risks are reviewed before implementing short- or long-term improvement programmes.

The major risks identified during the year under review were the use of contractors, transport operations, customer sites, personnel competencies and technical skills. Plans have been implemented to mitigate these factors.

While Afrox is generally regarded as being part of the chemical industry sector, in environmental terms, most of our activities do not have the same direct problems or propensity to pollute as other companies in this sector. Our production activities use both renewable and non-renewable resources and harness natural resources for producing gases, welding and gas equipment. The environmental impacts are confined primarily to the local environment in which operations are located.

Incident reporting

All incidents and near misses – including environmental and off-site incidents – are reported via the company's incident reporting system. Major quality-related incidents are also reported and investigated.

During the year under review, no serious environmental incidents occurred. Most of the incidents reported were attributable to inappropriate handling of chemicals, fuel or waste. All incidents were investigated and appropriately closed out through corrective actions.

Health

See Employee support, the HIV/AIDS challenge, occupational health matters and provision of onsite clinics (pages 39 and 40).

Continuous improvement

Afrox policies and management systems have been designed to improve SHEQ performance on an ongoing basis. SHEQ considerations are integrated into business plans for all current and future operations and developments. The CustomerService Improvement (CSI) process enables us to register and track customer complaints and to develop improvement plans for identified projects.

On the environmental front, we have identified a variety of improvement opportunities, which include boosting water and energy efficiency, replacing environmentally unfriendly materials used in Afrox's products with safer materials, and a further improvement in waste handling practices.

Environment

Environmental management is fundamental to the Afrox business. All our products, operations and projects are scrutinised regularly to ensure they do not impact negatively on the environment – and company standards are in place to govern key environmental issues such as waste disposal, water management and air quality.

Compliance with local and national legislation is paramount and several of our efforts go beyond the current legal requirements, for instance, replacing asbestos fibre in our acetylene cylinders and phasing out PCB (Polychlorinated biphenyls – today regarded as environmental contaminants) contaminated dielectric fluids in our transformers. Some of our plants have already started retro-filling transformer oil with PCB-free oil. Plants where PCB contaminated dielectric fluid has been retro-filled include all acetylene production plants within South Africa.

Afrox systems also comply with the spirit of the United Nations Global Compact, the largest voluntary corporate responsibility initiative, through which businesses worldwide voluntarily adopt sustainable and socially responsible policies and report on them.

Waste management

Most of our releases to land result from waste generation. Our sites recognise the importance of effective on-site waste management and strive to comply with the company standard for waste handling and disposal. In addition to adhering to legal requirements for storage and disposal, we are making use of various recycling schemes. Scrap metal such as copper swarf and scrap cylinders is sold to dealers for recycling, while significant amounts of plastic, paper and cardboard are recycled and the remainder disposed of in landfills. Used solvents are recycled or placed in landfills and flux residues are disposed of as hazardous waste.

Some 35 000 tons of calcium hydroxide (a by-product of acetylene production) were produced during the year under review. We have investigated the re-use of this by-product in various other industries and it is currently being sold in slurry or wet cake form to the:

- mining industry for acid mine effluent neutralisation
- construction industry for construction of roads
- paint industry for white-washing
- cement industry for cement manufacturing

Table 1

Waste type	Quantity		Business unit	Destination
Waste oil	46 880	litres	Northern Operations	Recycled
Iron and copper bearing sludge	240	tons	Brits Welding Consumables Factory	Land-filled
Flux residues	340	tons	Brits Welding Consumables Factory	Land-filled
Used solvent (Trichloroethylene)	12 600	litres	Gas Equipment Factory	Recycled and reused
Asbestos containing waste from acetylene cylinders	105	tons	Gas Equipment Factory	Double bagged and land-filled
Copper swarf	74.5	tons	Gas Equipment Factory	Recycled
Pickling plant waste	332.7	tons	Gas Equipment Factory	Landfilled

As a result, as much as 85 percent of the calcium hydroxide we produce is now being re-used, eliminating the need to dispose of this useful product at landfill sites.

Hazardous waste generated by the company includes used oil, empty chemical containers, paint related waste, used solvents and pickling plant waste. Where possible, this waste is recycled for reuse or safely disposed of at licensed facilities.

Stringent measures are in place to handle safely and dispose of asbestos-containing waste from scrapped acetylene cylinders. The company is actively working on a programme to replace asbestos in acetylene cylinders with a safer product.

Major waste types and quantities are indicated in Table 1 at the top of this page.

Environmental performance assessment

Environmental performance, improvements and compliance with internal and legal requirements are assessed via regular audits and our progress — when executing the planned Environmental Management Programmes — is verified by auditors. Environmental audits at Afrox sites are performed on an annual basis as part of the company's integrated management system audits.

External environmental legal specialists performed legal compliance audits at two Afrox operational sites during the year under review.

Regulatory compliance

All sites have access to applicable South African environmental legislation via the Afrox Information Centre and the Afrox Legal Register, updated annually or when legislatory changes impact on our business.

Reporting

Operational and production sites participate in an annual intranet-based environmental survey which measures and compares our performance against other sites in the global group. The survey results are used to initiate programmes that focus on improving environmental performance.

PERFORMANCE

1. Materials other than water

Producing Afrox gases, welding consumables, gas equipment and self-rescue packs involves a range of raw materials. Annual consumption in respect of major products is indicated in Table 2 on page 54.

2. Direct energy

Our primary source of energy is electricity, while other sources of energy include gas, diesel and petrol. The production of oxygen, nitrogen and argon from air (air separation process conducted at Afrox's air separation units) is energy intensive, indirectly resulting in the release of a significant quantity of greenhouse gas.

Air separation units have energy management programmes in place, both to minimise costs and to reduce environmental impact. Our plants harness maximum demand controls and Specific Power (measure of the energy used per ton of product produced) is

Table 2

Material	Quantity	Production process
Calcium Carbide	9 942 tons	Acetylene production
Liquid Ammonium Nitrate	4 198 tons	Nitrous oxide production
Iscor iron rod (5.5mm coiled wire)	8 731 tons	Welding consumables production
Acetylene cylinder porous mass	22 tons asbestos 29.5 tons celite 34.14 tons lime	Acetylene cylinder filling
Flux powders for welding rods	2 400 tons	Welding consumables production
Metal for regulator and torch manufacturing	503 tons brass 50 tons zinc 1 ton stainless steel	Welding equipment production
Chemicals for self-rescue pack manufacture	1,4 tons LiOH 6.3 tons potassium Super oxide	Self-rescue pack production

Business units are required to monitor their consumption of raw materials and to optimise plant and processes to ensure maximum efficiency, yields and outputs.

reported monthly. Production sites have also introduced power factor correction to make optimum use of electricity. Energy consumption for the South African air separation units is indicated in Table 3 on this page.

Afrox purchases approximately 6,48 x 10^8 kilowatt hours of electricity annually.

3. Water

Water is used for manufacturing, cooling systems and office purposes. It is sourced from municipal or regional utilities and some sites use boreholes for gardening purposes. Sites are required to monitor their water consumption monthly and trends are analysed to identify conservation possibilities. About 4,89 x 10^7 kilolitres of water were consumed during the year under review.

Our activities do not have a significant effect on any water resource or related ecosystem.

Some of our acetylene plants re-circulate water used in the generator after separation from the lime (carbide sludge). Cooling water in both acetylene and air separation units is recycled.

4. Land and biodiversity rich habitats

Production sites are primarily located in industrial areas and we therefore do not impact on any biodiversity rich habitats. We conduct most of our operations at sites which have impermeable surfaces and are considered a low risk of impact to any ground water below. Afrox sites are in industrialised areas within greater urban districts and have a minimal effect on protected or sensitive areas, fresh water or marine environments.

5. Major impacts on biodiversity

There have been no reported incidents resulting in negative impacts on the environment.

Table 3

Air separation plant	Annual energy consumption (Kilowatt hour)	Energy consumption/ton of product produced
Highveld plant	190 000 000	527
Pretoria West plant	171 731 617	533
Kuilsriver plant	25 529 354	1 254
Wadeville plant	45 276 960	1 445
Pietermaritzburg plant	33 215 160	699

6. Air quality

The main constituent of greenhouse gas emissions is carbon dioxide (CO_2), primarily resulting from electricity purchased from Eskom. Other greenhouse gas emissions are the result of production processes.

Afrox is a founder member of the South African Fluorocarbon Association. This association was established to act as a conduit between industry and government to ensure that South Africa proactively develops appropriate measures (both voluntary and regulatory) for the environmentally responsible management of ozone depleting substances (ODS) and synthetic greenhouse gases (SGG).

Until recently, the refrigeration industry did not re-use refrigerants. Contaminated refrigerant gas was usually vented to the atmosphere and the system recharged with virgin gas. Today, environmental implications and the high cost of refrigerants make refrigerant reclamation not only an environmental necessity, but also an economically desirable alternative.

Afrox Refrigerants offers a suite of refrigeration reclamation and recycling services to the industry. In conjunction with Hudson Technologies, a leading USA-based refrigeration technology company, Afrox Refrigerants assists contractors and plant managers to operate their refrigeration plants as closely as possible to the design parameters and to minimise their running costs per unit output. This reduces the environmental impact of refrigeration plants, both during every day operations and at the end of their life cycle.

The production of atmospheric gases from our air separation units has a minimal direct impact on the environment. Air separation processes use air as feedstock and are physical processes that do not involve chemical reactions. Only materials originally present in the air could end up in waste gas streams (purges and vents). The potential consequences to the environment are the use of water and energy as well as the use of oil for lubrication. To minimise these impacts, we have improved the energy efficiency of our air separation units continuously, through equipment design, maintenance and efficient operating practices.

Production of dissolved acetylene and nitrous oxide has limited environmental impacts. Other than the raw materials used, the water and energy required for the production process and possible emissions during production, there are no known significant environmental effects. Good operating and environmental practices, training of personnel and improving environmental employees' awareness combine to minimise environmental impacts significantly.

7. Significant discharge to water

Process effluent is monitored by plants and discharged to municipal sewer systems under permits obtained from local authorities. No industrial effluent is discharged to water resources. Plans are in place to monitor the quantity of industrial effluent discharged to the sewer system.

8. Transportation impacts

Our transport fleet is well maintained and regularly serviced to ensure limited emissions, noise and economic fuel consumption. The environmental impacts of our transport fleet are the use of fuels (diesel and petrol), noise and air pollution by carbon monoxide and other combustion products, accidents and waste created during vehicle service.

9. Environmental expenditure

Environmental improvement programmes often have associated costs. Afrox spent R1 187 956 on environmental improvement projects, primarily on the following items:

- consultancy fees (environmental impact assessment, external audits and legal advice)
- updating the Afrox Legal Register
- training managers and co-ordinators
- upgrading waste storage facilities and areas
- spill prevention equipment
- upgrading chemical storage areas
- process modifications

Corporate governance

African Oxygen Limited and its subsidiaries are totally committed to sound corporate governance. They have recognised that, besides being a valid expectation of investors, good governance is fundamentally advantageous to the group's sustainability and functioning.

The board endorses and subscribes unreservedly to the principles contained in the Code of Corporate Practices and Conduct recommended by the 2002 King Report on Corporate Governance for South Africa (King II Report) and further ensures compliance with all the legislation to which we are subject, including the Listing Requirements of the JSE Limited (JSE) and the Namibian Stock Exchange.

The group includes sound corporate governance among its key priorities and constantly reviews and adapts our governance structures.

Statement of compliance

The Listings Requirements of the JSE require that companies report on the extent to which they comply with the principles incorporated in King II.

Based on the information set out in this corporate governance statement, the board believes that throughout the accounting period under review, the group has applied the principles of King II and complied with the provisions set out in the Listings Requirements of the JSE.

Future prospects

- The board has approved the constitution of a transformation committee to assist in implementing, formulating and monitoring a range of strategies to ensure the successful transformation of Afrox.
- The board appointed Louis van Niekerk, David Lawrence, and Dr Khotso Mokhele to the governance and nomination committee to replace Rick Cottrell and Dr Conrad Strauss, who retired from the board on 28 February 2006.
- It has also merged the retirement committee and the management resources committee.

Composition of the board

Afrox has a unitary board structure. Kent Masters, who is a non-executive director, chairs the board. The roles of the chairman and the chief executive officer are separate to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. The chairman has no executive functions. The board is responsible for the strategic direction of the group. Matters reserved for the board and its committees are defined to ensure that the directors retain full and effective control over the company, specifically regarding strategic, financial, organisational and compliance matters.

The board consists of two executive directors and nine non-executive directors, five of whom are independent. The majority non-executive directors are able to exercise significant influence at board meetings to ensure that shareholder interests can be protected. The board applies the JSE's Listing Requirements guidelines when considering a director's independence.

The names and credentials of the directors in office on 30 September 2006 are detailed on pages 4 and 5 of the annual report. David Lawrence, Dr Khotso Mokhele, Sipho Pityana were appointed as independent non-executive directors with effect from 1 December 2005 and Dr Conrad Strauss and Rick Cottrell retired as independent non–executive directors with effect from 28 February 2006.

The board, in reviewing its composition and structure, takes into consideration criteria such as racial diversity. Procedures for appointments to the board are formal, transparent and a matter for the board as a whole.

On appointment all directors have the benefit of an induction programme aimed at broadening the directors' understanding of the company, the business environment and the market in which the company operates. The induction programme includes meeting with senior management, visits to the company's major facilities and the provision of information relating to the business and financial performance, as well information on the duties and responsibilities of directors in terms of the relevant legislation, regulation and best practice.

The company's articles of association stipulate that one-third of the board is required to retire by rotation each year. Retiring directors may offer themselves for re-election. Newly appointed directors are required to have their appointments confirmed at the following annual general meeting.

Cor van Zyl and Lindsay MacNair will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Shareholders will be asked to confirm the appointment of David Lawrence, Dr Khotso Mokele and Sipho Pityana to the board on 1 December 2005 as independent non–executive directors.

Responsibilities

Afrox's board charter regulates the way in which business is conducted and constitutes an integral part of each director's condition of appointment. The board is ultimately accountable and responsible for the group's performance and affairs. According to its charter, the board has the following responsibilities:

- approval and adoption of the strategic and annual business plans, the setting of objectives and the review of key risk and performance areas
- approval of commitments outside the authority delegated to the executive management committees and individual directors
- review, at regular board meetings of management's performance against set objectives, in terms of management performance contracts
- determining of overall policies and processes to ensure the integrity of the company's risk management and internal control
- approval and adoption of group policies, programmes and procedures for safety, health, environment, treasury, remuneration and benefits
- adoption and monitoring of the code of conduct and related matters
- approval and adoption of statutory communications to stakeholders and the investing public
- appointment of the chief executive
- approval of the appointment and removal of directors, auditors and company secretary.

The board monitors compliance with policies and achievement against objectives, quarterly performance reporting and budget updates. It considers issues of strategic direction, large acquisitions and disposals, and it approves major capital expenditure and matters materially affecting Afrox. Management makes presentations to the board on business activities and projects within the company.

Board meetings

The board meets formally five times a year and holds *ad hoc* meetings whenever necessary. Where directors are unable to attend board meetings, they communicate comments they may have regarding the agenda and general items.

The agenda and relevant supporting documents are distributed to the directors well before each board meeting. During the meeting, the appropriate executive director explains and motivates business items where decisions are required. The directors have unrestricted access to all company information and records.

Where directors are based abroad and are not able to attend, video- or tele-conferencing facilities allow them to participate in the debate and conclusions reached.

Evaluation of performance

The board has agreed that evaluations will be carried out in the middle of the 2007 calendar year to ensure compliance with its chartered responsibilities, and that adequate attention is paid to performance matters. The results of the questionnaire will be collated by the company secretary, considered by the chairman of the governance and nomination commitee and discussed with the directors for purposes of performance improvement.

Conflicts of interest

Directors are required to inform the board timeously of conflicts of interests and are obliged to recuse themselves from discussions or decisions on matters in which they have a conflicting interest. Directors are required to disclose their shareholdings in companies and other directorships at least annually and, as and when changes occur.

Advice

Directors have unlimited access to the company secretary regarding the company's affairs, and their roles and responsibilities in terms of legislation, regulation and best practice. Directors may, in appropriate circumstances, obtain independent advice at the company's expense.

Share dealings

Directors may not deal in the company's shares without first advising and obtaining clearance from the chairman. The chairman may not deal in the company's shares without obtaining clearance from the board or a non-executive director designated by the board. The company secretary ensures adherence to closed periods for directors' share trading.

Board committees

While the board remains accountable and responsible for the performance and affairs of the company, it delegates to management and board committees certain functions to assist it properly to discharge its duties.

Each board committee acts within agreed, written terms of reference. The chairman of each board committee reports and provides minutes of committee meetings at scheduled board meetings. Most of the board committees' members are independent non-executive directors. The chairman of each board committee is a non-executive director and the managing director attends all board committee meetings by invitation. The established board committees are as follows:

Audit committee

Composition

The audit committee consists of a majority of independent non-executive directors. During the financial year, Alan Ferguson chaired and Lindsay MacNair and Louis van Niekerk served on the audit committee. Rick Cottrell also served on the committee until his retirement on 28 February 2006. The audit committee met four times during the financial year. One of the meetings was dedicated solely to a risk management and insurance review and a special meeting was held to deal with the restatement of comparative figures as a result of the first time adoption of International Financial Reporting Standards (IFRS).

Roles and responsibilities

The audit committee ensures the integrity of the financial reporting and audit process, and the maintenance of sound risk management and internal control systems. In pursuing these objectives, this committee oversees relations with the external auditors, and reviews the effectiveness of the business assurance/internal audit function.

The audit committee has the authority to examine the company's financial reporting and other strategic issues, according to its written terms of reference, as confirmed by the board. This includes evaluating the findings of business assurance and external audit, the actions taken, the appropriateness and adequacy of the systems of internal financial and operational control, review of accounting policies, and financial information issued to stakeholders.

It recommends to the board the appointment and selection of the company's external auditors, their proposed audit fee and scope of the audit for the following financial year, and, if relevant, any question of resignation, dismissal or appointment of external auditors. The audit committee is authorised to seek the information it requires from any employee.

The audit committee monitors proposed changes in accounting policy, reviews the business assurance function, and discusses the accounting implications of major transactions. Regular reports on the committee's activities are provided to the board.

The audit committee reviews the statement prepared by the directors acknowledging their responsibility for preparing the accounts, the directors' report on the effectiveness of the company's system of internal control, and the directors' report on the business as a going concern.

The business assurance and external auditors have unrestricted access to the chairman of the audit committee.

Management resources committee

Composition

The management resources committee consists of non-executive directors. During the financial year, Lindsay MacNair chaired, and Sipho Pityana and James Cullens served on the management resources committee. As required by the committee's terms of reference, the committee met twice during the financial year

Roles and responsibilities

The purpose of the management resources committee is to determine and make recommendations to the board on the framework, policy and costs of executive and senior management remuneration. The committee determines and recommends the remuneration strategy to ensure that executive directors and other senior employees are adequately remunerated for their contribution to the company's operating and financial performance. The committee refers specific recommendations for independent director remuneration to the board for deliberation. No person is involved in any decisions as to his or her own remuneration.

The committee reviews and advises on the general principles under which compensation, pension, training, succession plans and performance management are applied to senior employees of the Afrox group.

The committee acts as the board's selection or duly authorised committee regarding the rules of any share option, share appreciation rights or share awards scheme operated by the company.

The management resources committee, in fulfilling its duties, gives consideration to industry, local, and international benchmarks and trends. It always pays due attention to succession plans and the retention of key executives.

The management resources committee also monitors and reviews the company's retirement funds to ensure compliance with current best practice standards, industry practices and legislation. The committee informs and recommends to the board any changes required regarding legislation and processes pertinent to the administration of retirement funds. It performs an annual review of the pension, provident, and benefit funds administered on behalf of the company and its employees, and reports to the board on those items that require board approval.

Governance and nomination committee

Composition

The governance and nomination committee consists of non-executive directors, with a majority being independent. During the financial year, Kent Masters chaired, and Rick Cottrell and Dr Conrad Strauss served on the committee until their resignation. The latter two gentlemen were replaced by David Lawrence and Dr Khotso Mokhele. As required, the committee met twice during the financial year.

Roles and responsibilities

The committee monitors and reviews the company's policies, practices and compliance with corporate governance against current best practice standards and corporate governance principles and regulations. While devising criteria for board membership and board positions, it determines and recommends changes to the board and any changes required with regard to the company's corporate governance policies and practices. Prior to the annual general meeting, the committee reviews and makes recommendations on the retirement and re-election of directors by rotation. The committee identifies, evaluates and nominates candidates to fill vacancies for executive, non-executive and independent directors of the company for approval by the board as a whole.

It reviews the size of the board, committee structures, and director assignments. An independent assessor evaluates the board's effectiveness and its performance as a whole.

Transformation committee

The transformation committee consists of non-executive directors. During the financial year, Kent Masters chaired, Dr Khotso Mokhele, Sipho Pityana and James Cullens served on the committee. The committee held its first meeting during the financial year.

Roles and responsibilities

The transformation committee will implement, formulate and monitor a range of strategies to ensure the successful transformation of Afrox, in the areas of black economic empowerment, sustainable development and good corporate citizenship, by assessing the company's performance against the following criteria:

- Black equity participation
- Management transformation
- Employment equity
- Skills development
- Affirmative procurement
- Enterprise development
- Corporate social responsibility

Board and board committees attendance

See page 60.

Relationships and reporting

Employee participation

Encouragement of employee participation is a high priority. The company strives to ensure that every employee understands and accepts the 'living our values' code of conduct. The company has adopted several participating structures on issues that affect employees. Afrox aims to be an employer with lines of communication so clear and of such high quality that employees do not feel the need to join trade unions.

Details of the directors' attendance at the board meetings are set out below:

Board attendance	Board	Audit Committee	Management Resources Committee	Governance & Nomination Committee	Transformation Committee
Number of meetings held during the financial year	5	4	2	2	1
James Cullens *	4		2		1
Alan Ferguson *	5	4			
Jim Ford *	4				
Rick Hogben +	5				
David Lawrence ** (appointed 1 December 2005)	4			1	
Lindsay MacNair **	4	3	2		
Kent Masters *	5			2	1
Dr Khotso Mokhele ** (appointed 1 December 2005)	3			1	1
Sipho Pityana ** (appointed 1 December 2005)	4				1
Daniel Shook #	3				
Dr Conrad Strauss ** (retired 28 February 2006)	1		2	1	
Louis van Niekerk **	4	4		1	
Rick Cottrell ** (retired 28 February 2006)	1	2			
Cor van Zyl +	5				

+ Executive **Non-executive* ***Independent* *#Alternate*

Employment equity

The directors are committed to the creation of an organisation that supports the equality of its people and that is committed to the elimination of any form of unfair discrimination in the workplace. It views employment equity as essential and integral to the company's business. A more detailed report appears under Employment Equity on page 43.

Public and shareholder communications

Communication to the public and shareholders embodies the principles of balanced reporting, clarity and openness. Positive and negative aspects of both financial and non-financial information are provided.

The company maintains an active dialogue with its key financial audiences, including institutional shareholders and investment analysts. It has a dedicated investor relations and communications team for liaising with institutional investors. It is the company's policy to present to investors, fund managers and analysts twice a year after the release of company results.

The investor relations team is in constant contact with analysts and fund managers, arranging presentations and site visits. The executive directors and senior managers conduct regular roadshows and presentations. The investor relations department maintains contact with fund managers and institutional investor representative bodies on socially responsible investment and triple bottom line issues, and initiates one-on-one interactions and briefings with interested investors, both locally and from overseas.

The company's website – www.afrox.com – provides historical and up-to-date financial and other information about Afrox.

The board encourages shareholders to attend its forthcoming annual general meeting, notice of which is contained in this annual report. This meeting provides opportunities for shareholders to question the board, including the chairmen of the various board committees. Shareholders receive company communications and cast their annual general meeting votes.

Going concern

The directors, having considered all relevant factors, are of the opinion that the annual financial statements set out on pages 72 to 139 have been prepared on a going concern basis. They believe that the group has adequate resources in place to continue in operation for the foreseeable future.

Code of conduct

Inextricably linked to good corporate governance is the company's code of conduct. Afrox has always espoused the highest ethical standards of business conduct and full compliance with applicable laws, regulations and industry standards.

We aim to earn the trust of our customers, shareholders, colleagues, suppliers and communities through honesty, performance excellence, good corporate governance and accountability. We expect people to respect confidential information, company time and assets. We believe in open and honest communication, fair treatment and equal opportunities, and we support the fundamental principles of human rights.

While common sense, good judgment and conscience, or 'living our values', apply in managing a difficult or uncertain situation, the code assists in detailing the standards and priorities within the company, as well as specific rules covering human rights, safety at work, and environmental and supply management.

Guiding principles or core values within the code define our responsibilities towards, and what we expect from:

- directors
- employees
- local communities and the public
- customers, suppliers and markets
- shareholders

Allegiance to our code of conduct is the starting point from which our employees draw inspiration and guidance for behaviour within a group, society or the organisation.

These principles are inherent to the Afrox business model, and have been for many years. In 2003, however, a written code formalised our policies and set out standards to be applied to all business dealings and processes. This was published on the intranet and every employee throughout Africa received a copy. After three years, sustaining the code – keeping it relevant, resonant and visible – remains a challenge, and managers have been tasked with ensuring that its principles remain ingrained in every employee. The directors, employees, employees of outsourced functions, as well as suppliers to Afrox, are all expected to comply with the principles of the code and act within its terms.

The directors believe that the ethical standards of the group, as stipulated in the code of conduct, are monitored and are being met. Where there is non-compliance, the appropriate discipline is enforced consistently as Afrox responds to offences and prevents recurrence.

Operating principles

Our ACTS (accountability, collaboration, transparency and stretch) behavioural model is endorsed by our code of conduct, which details our standards, systems, and support mechanisms. All Afrox's operating principles are based on ten behavioural competencies aligned to ACTS. (see page 8).

Security, safety, health and environment practices

Protection of staff, colleagues, shareholders and the environment is paramount in all activities. A more detailed report appears on pages 48 to 55.

Social responsibility

The company has a strong culture of social responsibility. Our objective is to assist wisely and constructively by building our people and our projects, thereby making a sustainable difference to society. A more detailed report appears under Corporate Social Investment on pages 46 and 47.

Risk philosophy

Effective risk management is critical to Afrox's operations. Nevertheless, responsible risk-taking is an integral part of the business, helping Afrox to attain growth across our operations.

Individual teams within the organisation are responsible for control and compliance, whether the risk covers strategic, operational, legal, financial, marketing, SHEQ, technology, human resources, reputational, or other issues. Employees are attuned to Afrox's risk philosophy and a culture of risk awareness is embedded in their daily activities.

Risk management procedures

The ultimate responsibility for governing risk management in the group lies with the board. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the daily activities of the company.

The group has acknowledged that enterprise risk management is a driver of business performance, and is an obligation created with a view towards good governance. To this end risk management also plays an integral part of the strategic planning process. While we appreciate that risk-taking is a normal part of creating growth and shareholder wealth, our success lies in the fact that we operate within the parameters of acceptable risk by identifying, understanding and managing those risks.

This financial year saw the establishment of a more formalised enterprise risk management process through the following initiatives:

- An executive risk committee (ERC) was established. This committee reports on the progress of risk management to the board via the audit committee, except for SHEQ and annual business plan risks, which are reported directly to the board. The responsibilities of the ERC are documented in a charter and the ERC has met three times since inception.
- Integrating risk identification and risk management in the normal course of business.
- Risk identification and assessments were performed through the facilitation of risk workshops in key areas of the business. The action plans to mitigate these risks are monitored on a regular basis to ensure that key milestones are met effectively and on time.
- Our insurance programme is regularly scrutinised to ensure that insurable risks are covered to the extent of our appetite for incurring losses. Uninsurable risks are also identified and mitigated to acceptable levels in the normal course of business.

Afrox classifies its risks into the following categories:

- Strategic
- Operational
- Hazard
- Financial
- Acquisition

Each of these categories is driven by constantly changing external and internal risks that have to be managed on a daily basis. (See page 34)

Management of safety, health, environment and quality (SHEQ) risk

The board does not delegate its responsibility for monitoring the effectiveness and efficiency of the SHEQ process. Programmes govern SHEQ performance through self-regulation and by communicating and encouraging adherence to safe practices. A dedicated SHEQ department ensures that Afrox has a deliverable policy, is proactive in its risk assessment and professional in its remediation. Executive managers review the SHEQ policy regularly, which is a key part of overall company strategy and operating policy.

The policy states that the company will develop its SHEQ capabilities to world-class standards by manufacturing, marketing and supplying quality products that are safe and do not pose a risk to people or to the environment. In addition, Afrox is committed to compliance with all external regulations as well as ISO 9001 and ISO 14001.

SHEQ performance is managed through continuous improvement. Safety is a prerequisite to any business we undertake and safe behaviour is a condition of continued employment within Afrox. The maxim that 'safety is 100 percent of our behaviour, 100 percent of the time,' is frequently heard within the company.

Refer to the safety, health, environment and quality section on pages 48 to 55.

Internal controls

Management maintains accounting records, and has developed systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements. Responsibility for the adequacy and operation of these systems is delegated to the executive directors. These records and systems are designed to safeguard assets and minimise fraud.

Our systems of internal control are based on established organisational structures, such as written policies and procedures, which include budgeting and forecasting disciplines and the comparison of actual results against these budgets and forecasts.

A controls template has been developed for the key financial and operational processes. Responsibilities for controls in the processes have been clearly defined and agreed with the appropriate senior managers. Compliance is tested by management self-assessments, business assurance and external audit reviews.

Having reviewed the effectiveness of the company's system of internal financial controls during the period covered by this report, the directors are not aware of any significant weaknesses or deficiencies.

Business assurance

The business assurance department is an independent appraisal function. It examines and evaluates the group's activities and the appropriateness, adequacy and efficiency of the systems of internal control and resultant business risks. Relating to the audit committee charter, the senior business assurance manager is responsible for reporting to the audit committee and has unrestricted access to its chairman, the chairman of the company and the chief executive.

Audit plans are formulated based on the assessment of the key risks. Every assignment is accompanied by a detailed report to management, which includes recommendations for improvement.

Significant business risks and weaknesses in the operating and financial control systems are highlighted and brought to the attention of the audit committee, senior management and the external auditors. The audit work plan is presented in advance to the audit committee.

Employees and associates are able to report suspected irregularities anonymously via a code of conduct help line that is managed by an independent service provider. The business assurance team is responsible for managing the investigation of reported incidents and informing the audit committee of the results.

Spooler machinery at new MIG welding wire plant which will be commissioned shortly.

Financial results contents

shareholders' profile

as at 30 September 2006

Number of shareholders	Group of shares	% of holders	Holdings	% of issued share capital
3 507	1 - 1 000	43.19	1 617 937	0.47
3 690	1 001 - 10 000	45.45	12 810 996	3.74
721	10 001 - 100 000	8.88	20 582 656	6.00
176	100 001 - 1 000 000	2.17	53 019 819	15.46
24	1 000 001 and over	0.30	81 774 976	23.86
1	BOC Holdings	0.01	173 046 513	50.47
8 119		**100.00**	**342 852 897**	**100.00**
5 646	Individuals and deceased estates	69.54	14 884 789	4.35
449	Corporate bodies	5.53	38 245 111	11.15
1 457	Banks and nominee companies	17.95	13 535 951	3.95
56	Insurance, investment and trust companies	0.69	14 429 307	4.21
510	Pension, provident funds and trusts	6.28	88 711 226	25.87
1	BOC Holdings	0.01	173 046 513	50.47
8 119		**100.00**	**342 852 897**	**100.00**

Major shareholders

The shareholders registered as holding 1% or more of the share capital of the company at 30 September 2006 were:

Beneficial shareholders	Number of shares held	% of total
BOC Holdings	173 046 413	50.47
Afrox African Investments (Pty) Ltd (held as treasury shares)	34 285 308	10.00
Investment Solutions	7 516 313	2.19
Old Mutual Group	6 095 320	1.78
Allan Gray	5 959 976	1.74
	226 903 330	66.18
Other shareholders	115 949 567	33.82
TOTAL	**342 852 897**	**100.00**

According to information available to the management on enquiry as to registered nominee shareholders, the only shareholders who beneficially held, directly or indirectly, in excess of 1% of the share capital of the company at 30 September 2006 are listed above.

Shareholder spread

To the best knowledge of the management and after reasonable enquiry, the spread of shareholders at 30 September 2006 as defined in the Listings Requirements of the JSE Limited, was as follows:

	No of shareholders	% of total	Number of shares held	% of total
Public shareholders	8 106	99.84	135 515 786	39.53
Non-public shareholders	13	0.16	207 337 111	60.47
Strategic holdings (more than 10%)	1	0.01	173 046 413	50.47
Directors' holdings - beneficial	5	0.06	2 783	0.00
Directors' holdings - non beneficial	4	0.05	400	0.00
Own holdings and share trusts	3	0.04	34 287 515	10.00
	8 119	**100.00**	**342 852 897**	**100.00**

as at 30 September 2006

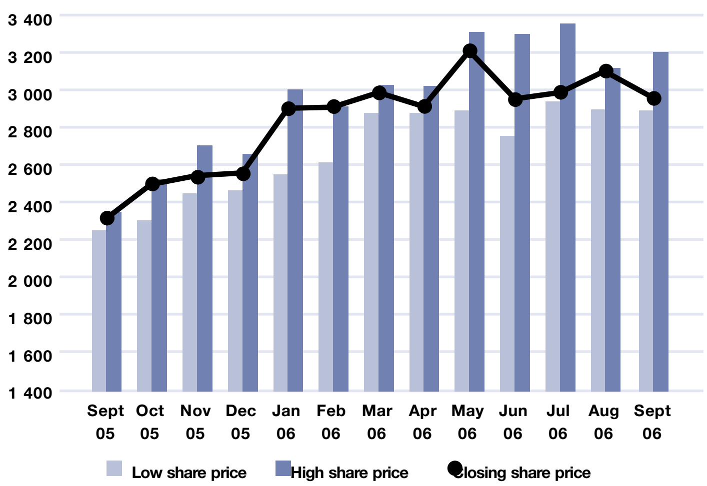
Dividends

Details of dividends declared paid and payable are as follows:

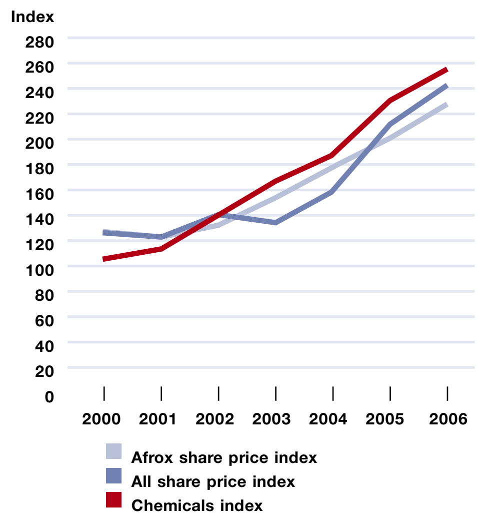
Number	Declaration date	Last date to trade ('LDT') ordinary shares 'CUM' dividend	Ordinary shares trade 'EX' dividend	Record date ('RD')	Payment date	2006 Amount per share (cents)	2005 Amount per share (cents)
Special dividend	26 Oct 2006	19 Jan 2007	22 Jan 2007	26 Jan 2007	29 Jan 2007	**60.0**	415.0
160	26 April 2006	21 July 2006	24 July 2006	28 July 2006	31 July 2006	**48.0**	40.0
161	26 Oct 2006	19 Jan 2007	22 Jan 2007	26 Jan 2007	29 Jan 2007	**40.0**	40.0
						148.0	495.0

Statistics	**2006**	2005	2004	2003	2002	2001
Share price (cents)						
-High	**3 385**	2 739	2 080	1 650	1 500	1 310
-Low	**2 315**	1 945	1 580	1 250	1 150	955
-Average	**2 855**	2 325	1 854	1 429	1 270	1 131
-Closing	**2 950**	2 330	1 940	1 610	1 310	1 200
Ordinary shares in issue at year end ('000)	**342 853**	342 853	342 853	342 853	330 301	325 542
Number of shares traded ('000)	**45 268**	59 266	74 894	40 833	65 977	41 817
Number of transactions	**10 303**	12 069	10 458	6 328	5 124	4 381
Value of shares traded (R'000)	**1 292 307**	1 378 245	1 502 415	583 529	837 889	472 749
Number of shares traded as a percentage of shares issued	**13.2**	17.3	21.8	11.9	20.0	12.8
Earnings yield (%)	**9.4**	17.3	9.2	10.3	9.1	8.6
Ordinary dividend yield (%) (Note 28)	**3.0**	3.4	3.3	5.2	4.8	4.3
Price: basic earnings ratio	**10.6**	5.8	10.8	9.8	11.0	11.7

Share price (cents)



Performance against JSE



seven year financial review

for the year ended 30 September 2006

	IFRS 2006 R'm	IFRS 2005 R'm	GAAP 2004 R'm	GAAP 2003 R'm	GAAP 2002 R'm	GAAP 2001 R'm	GAAP 2000 R'm
income statement summary							
Revenue	**3 914**	5 754	7 835	7 326	6 512	5 239	4 722
Operating profit	**754**	923	1 256	1 090	896	694	646
Profit on sale of investment	**362**	1 085	(16)	–	–	–	–
Exceptional items	**–**	–	–	–	(15)	24	(18)
Profit from operations	**1 116**	2 008	1 240	1 090	881	718	628
Finance income/(costs)	**(35)**	1	(98)	(122)	(157)	(146)	(162)
Income from associates	**100**	60	52	43	27	30	16
Profit before taxation	**1 181**	2 069	1 194	1 011	751	602	482
Income tax expense	**(316)**	(623)	(396)	(299)	(244)	(182)	(161)
Profit after taxation	**865**	1 446	798	712	507	420	321
Minority interest	**(7)**	(96)	(184)	(158)	(117)	(90)	(65)
Net profit for the year	**858**	1 350	614	554	390	330	256
Dividends declared (Note 28)	**(272)**	(1 652)	(284)	(233)	(185)	(66)	(149)
Retained income	**586**	(302)	330	321	205	264	107
balance sheet summary							
Non–current assets							
Property, plant and equipment	**2 016**	1 665	3 048	2 858	2 688	2 193	2 173
Other non current assets	**102**	446	373	334	268	214	267
Retirement benefit asset	**177**	64	32	10	–	–	–
Deferred tax	**2**	3	77	68	33	28	24
Current assets (excluding bank and cash)	**1 171**	899	1 620	1 682	1 611	1 396	1 310
Total assets	**3 467**	3 077	5 150	4 952	4 600	3 831	3 774
Equity and liabilities							
Capital and reserves	**2 248**	1 639	2 663	2 377	1 893	1 585	1 205
Minority interest	**23**	12	753	626	560	385	396
Borrowings (including short term bank and cash)	**83**	362	115	383	623	552	861
Property finance leases (including short term)	**–**	–	59	69	77	82	85
Retirement benefit obligation	**–**	–	–	–	78	58	47
Deferred tax	**153**	125	124	160	166	179	189
Current liabilities (excluding interest bearing borrowings)	**960**	939	1 436	1 337	1 203	990	991
Total equity and liabilities	**3 467**	3 077	5 150	4 952	4 600	3 831	3 774
Net assets - excluding deferred taxation	**2 505**	2 135	3 636	3 547	3 365	2 812	2 759
cash flow summary							
Operating profit (before other operating income)	**740**	923	1 255	1 089	896	684	639
Cash generated from operations	**747**	954	1 611	1 445	1 168	947	641
Change in funding requirements	**(279)**	548	(331)	(258)	(141)	(319)	45
Total capital expenditure	**(549)**	(492)	(494)	(485)	(381)	(257)	(316)

for the year ended 30 September 2006

	IFRS 2006 R'm	IFRS 2005 R'm	GAAP 2004 R'm	GAAP 2003 R'm	GAAP 2002 R'm	GAAP 2001 R'm	GAAP 2000 R'm
statistics							
Total shares	**309**	309	343	343	330	326	318
Weighted shares	**309**	335	343	336	326	321	317
Ordinary share performance							
Headline earnings	**191**	428	343	343	330	326	318
Normalised headline earnings	**191**	606	343	343	330	326	318
Weighted average number of ordinary shares ('000)	**308 568**	334 587	342 853	335 767	326 363	320 828	316 719
Basic earnings per share (cents)	**278.1**	403.6	179.2	165.1	119.6	102.9	81.0
Headline earnings per share (cents)	**191.4**	127.9	185.0	166.5	124.8	94.3	85.5
Dividends per share (cents) (Note 28)	**148.0**	495.0	64.0	83.0	62.5	52.0	47.0
Dividend cover – excl final dividend for current year (times)	**3.15**	0.82	2.16	2.38	2.11	5.02	1.72
Dividend cover – interim, special & final dividend for current year (times)	**1.88**	0.82	2.80	1.96	1.90	1.96	1.72
Dividend cover – Industrial operations	**2.18**	1.75	1.83	1.96	1.90	1.96	1.72
Net asset value per share (cents)	**728**	531	777	693	573	487	378
Profitability and asset management							
Operating margin (%)	**18.9**	16.0	16.0	14.9	13.8	13.0	13.5
Return on net assets (%)	**48.1**	69.6	34.5	31.5	28.5	25.8	23.7
Net asset turn (times)	**1.7**	2.0	2.2	2.1	2.1	1.9	1.8
Return on shareholders equity (%)	**44.1**	62.8	24.4	26.0	22.4	23.7	22.6
Return on capital employed (%)	**48.1**	68.6	33.8	31.1	28.3	25.5	23.5
Effective rate of taxation (%)	**26.8**	30.1	33.1	29.5	32.5	30.2	33.4
Liquidity							
Interest cover (times)	**31.89**	>(100)	12.67	8.94	5.60	4.91	3.89
Liability ratio	**0.43**	0.73	0.46	0.57	0.71	0.74	1.06
Current ratio	**1.37**	1.00	1.25	1.36	1.18	1.20	0.94
Gearing	**3.31**	16.93	4.69	12.50	20.61	22.30	34.02
Employees							
Number of employees	**3 200**	2 983	16 192	16 531	16 809	15 505	16 509
Revenue per employee (R'000)	**1 323**	610	479	439	403	327	290
Profit before taxation per employee (R'000)	**399**	216	73	61	47	38	30

definitions of ratios and terms

Basic earnings per share - net profit for the year divided by the weighted average number of ordinary shares in issue during the year.
Headline earnings per share - net profit for the year before exceptional items (net of tax), goodwill impaired and profit and loss on disposal of property, plant and equipment, divided by the weighted average number of ordinary shares in issue during the year.
Dividend cover (excl final dividend for current year) - net profit for the year divided by the dividend included in the statement of changes in equity for the current year.
Dividend cover (interim & final dividend for current year) - net profit for the year divided by the sum of the interim dividend paid and the final dividend declared for the current year.
Dividend cover - Industrial operations - net profit from industrial operations for the year divided by the sum of the interim dividend paid and the final dividend declared for the current year
Net asset value per share - capital and reserves divided by the number of ordinary shares in issue at year end.
Operating margin - operating profit, before other operating income, as a percentage of revenue.
Return on net assets - profit from operations expressed as a percentage of average net assets.
Net assets - total assets less non-interest-bearing liabilities, excluding deferred taxation.
Net asset turn - revenue divided by average net assets.
Return on shareholders' equity - net profit for the year expressed as a percentage of average capital and reserves.
Return on capital employed - profit from operations expressed as a percentage of average capital employed.
Capital employed - capital and reserves, minority interest, total interest-bearing borrowings (including cash and cash equivalents), retirement benefit obligation and deferred tax liability.
Borrowings - net interest-bearing debt including property finance leases.
Effective rate of taxation - income tax expense expressed as a percentage of profit before taxation.
Interest cover - profit from operations divided by finance costs.
Gearing - borrowings as a percentage of total capital employed.
Liability ratio - total borrowings and current liabilities divided by total equity and liabilities (excluding total borrowings and current liabilities).
Current ratio - current assets to current liabilities.
Revenue per employee - revenue for the year divided by the average number of employees.
Profit before taxation per employee - profit before taxation divided by the average number of employees.

approval of the financial statements

for the year ended 30 September 2006

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the financial statements and related financial information included in this annual report. The external auditors are responsible for reporting on the financial statements.

The financial statements which appear on pages 72 to 139 are prepared in accordance with International Financial Reporting Standards, incorporate full and responsible disclosure and are based on appropriate accounting policies.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported profit during the reporting period. Actual results could differ from these estimates.

Furthermore, the directors are also responsible for the group's system of internal control which is designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, adequately to safeguard, verify and maintain accountability of assets, and to prevent and detect material mistakes and fraud.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the group or any company within the group will not be going concerns in the forseeable future, based on forecasts and available cash resources.

These financial statements support the viability of the company and group.

The financial statements were approved by the board of directors and are signed on their behalf by:

RL Hogben
Managing director
Johannesburg
26 October 2006

CJPG van Zyl
Financial director

for the year ended 30 September 2006

Report of the independent auditors to the members of African Oxygen Limited

We have audited the annual financial statements and group annual financial statements of African Oxygen Limited set out on pages 72 to 139 for the year ended 30 September 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with statements of International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group at 30 September 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

PricewaterhouseCoopers Inc
Director: Eric MacKeown
Registered auditor
Johannesburg
26 October 2006

Lodgement of returns with the Registrar of Companies

In terms of section 268 G (d) of the Companies Act 61 of 1973 as amended, I certify that in respect of the year ended 30 September 2006 the company has lodged with the Registrar all such returns as are required by the Companies Act.

ME Sanz
Company secretary
Johannesburg
26 October 2006

report of the directors

for the year ended 30 September 2006

The directors have pleasure in submitting their report and the annual financial statements of the group and the company for the year ended 30 September 2006.

In the context of the financial statements, the term group refers to African Oxygen Limited (Afrox) as the company and its subsidiaries. A list of the subsidiaries appears on page 138.

Nature of business

Afrox manufactures and markets gases, welding, safety and related products and services, operating in Africa. We provide solutions and service to meet the needs of customers, and package product service offerings to targeted market segments.

The bulk tonnage business supplies large volumes of gas and tailors solutions to meet the needs of customers. In addition Afrox supplies cylinder and liquid fabrication gases, scientific gases, packaged chemicals, helium and refrigerant services, medical gases, Handigas, hospitality gases and manufactures and sells gas equipment, welding and safety products.

Listings

Afrox has its primary listing on the JSE Limited (JSE) and its secondary listing on the Namibian Stock Exchange (NSX). The abbreviated name under which the company is listed on the JSE is ‘AFX’ and on the NSX is ‘AOX’. The company's JSE clearing code is ISIN: ZAE000067120.

Sale of Life Healthcare Group (Pty) Limited

On 29 September 2006 Business Venture Investments No 813 (Pty) Ltd (BEE Consortium 2) purchased the group’s 20.1% investment in Life Healthcare Group, for a total consideration of R850 million.

BEE Consortium 2 is a company owned by Brimstone, Mvelaphanda Strategic Investments, Life Healthcare management (via the Ammed Trust) and Life Healthcare employees (via the Life Healthcare Employees Trust). Other participating shareholders in Life Healthcare, namely Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA), various entities in the FirstRand Group and Life Healthcare management through the Ammed Trust are entitled to acquire a part of the sale interest from BEE Consortium 2.

Segmental contribution

Contribution to the operating profit was as follows:

	2006 %	2005 %
Industrial products	83	56
Merchant and tonnage	17	11
Healthcare	–	33

Headline Earnings	2006	2005
The headline earnings per share of the company were (cents)	191.4	127.9

Headline earnings are defined in note 33 of the Accounting polices on page 116. For details of the calculation of headline earnings see Note 26 in the notes to financial statements on page 117.

Financial results

The results of the business and operations of the group are fully set out in this annual report and do not require any further comment or elucidation other than described in the paragraph below.

The results for the financial year 2006 include the equity accounted results of the Life Healthcare Group for the full year and the exceptional profit on the sale of the 20.1% investment in Life Healthcare Group.

The results for the financial year 2005 have the fully consolidated results of Afrox Healthcare Limited for six months, the exceptional profit on the sale of Afrox Healthcare Limited, and the Life Healthcare Group associated profits for six months.

Any comparisons to prior year results should be made with care.

Accounting standards

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the group's first IFRS compliant consolidated annual financial statements and IFRS1 'First time adoption of International Financial Reporting Standards' has been applied.

The basis of preparation is consistent with the prior year except for the restatements as a result of the conversion to IFRS from SA GAAP (see note 1 and note 38).

for the year ended 30 September 2006

TABLE 1	2006 Number	R	2005 Number	R
Authorised ordinary shares of 5 cents each	**350 000 000**	**17 500 000**	350 000 000	17 500 000
Issued	**342 852 910**	**17 142 646**	342 852 910	17 142 646
Unissued	**7 147 090**	**357 354**	7 147 090	357 354
Treasury shares	**34 285 308**	**1 714 265**	34 285 308	1 714 265

In addition, we have adopted the guidance on accounting for adjustments to revenue where extended payment terms are made available to customers by adjusting revenue with the cost of granting extended terms, and have restated prior year comparatives.

Share capital

The company's authorised share capital remained unchanged. As at 30 September 2006, the company's issued share capital was as follows in Table 1 above:

Distribution to shareholders

Details of dividends are set out in the income statement. An interim dividend of 48.0 cents (2005: 40.0 cents) per ordinary share was paid on Monday 31 July 2006. A final dividend of 40 cents (2005: 40.0 cents) per ordinary share has been declared. The STC on the final dividend will be 5 cents per ordinary share. A special dividend of 60 cents has been declared. The STC on the special dividend will be 7.5 cents per share. The special and final dividends will be paid on Monday, 29 January 2007.

The board is satisfied that the capital remaining after the payment of the final dividend will be sufficient to support the current operations and to facilitate future development of the business.

Parent company

The parent company of Afrox is The Linde Group. The ultimate parent company is The Linde Group. Afrox is incorporated in the Republic of South Africa. The Linde Group is incorporated in Germany and is listed on the DAX 30 share index and all the German Stock Exchanges as well as in the SWX in Zurich.

Board of directors

The following directors were appointed during the financial year ended 30 September 2006:

Name of director	Capacity	Effective date of appointment
David Lawrence	Independent non-executive	1 December 2005
Dr Khotso Mokhele	Independent non-executive	1 December 2005
Sipho Pityana	Independent non-executive	1 December 2005

The following directors retired from the board during the financial year ended 30 September 2006:

Name of director	Capacity	Effective date of resignation
Rick Cottrell	Independent non-executive	28 February 2006
Dr Conrad Strauss	Independent non-executive	28 February 2006

Details of the board of directors are presented on pages 4 and 5 of the annual report.

A detailed report on directors' emoluments has been prepared in accordance with the Listings Requirements of the JSE and appears on pages 118 and 119 of the annual report.

The board comprises two executive directors, four non-executive directors and five independent non-executive directors.

Executive directors

Rick Hogben	Managing director and chief executive
Cor van Zyl	Financial director

report of the directors

for the year ended 30 September 2006

Non-executive directors
Kent Masters *(American)*
Chairman and chief executive of industrial and special products: The BOC Group plc.
James Cullens *(British)*
Group human resources director: The BOC Group plc
Jim Ford *(British)*
Managing director, industrial and special products, Europe: The BOC Group plc.
Alan Ferguson *(British)*
Group finance director: The BOC Group plc.
Daniel Shook *(American)*
Finance director, industrial and special products: The BOC Group plc.

Independent non-executive directors

David Lawrence	Director of companies
Lindsay MacNair	Former senior general manager - gases
Sipho Pityana	Director of companies
Louis van Niekerk	Director of companies
Dr Khotso Mokhele	Director of companies

Interests of directors
Details of the interests of directors are provided on pages 118 and 119 of the annual report.

No other material change in the aforegoing interests has taken place between 30 September 2006 and the date of this report.

There were no contracts of significance during, or at the end of, the financial year in which any directors of the company were personally materially interested.

Significant shareholders
Details of significant shareholders appear on page 66 of this annual report.

Service contracts
No service contracts exist between the company and any of its directors having a notice period exceeding one month or providing for compensation and benefits in excess of one month's salary.

Independent non-executive directors' remuneration
The fees payable to the independent non-executive directors are as follows in Table 2 below.

Note: all fees stated are per meeting. The principle of double payment for the chairperson has been retained with the exception of the retainer fee which is to be paid twice per annum.

TABLE 2

Category	Role	Current practice		Proposed 2007 payment		% increase
		Retainer fee payable April & October	Fee per meeting	Retainer fee payable April & October	Fee per meeting	
Directors' fees	Director	R27 000	R8 100	R28 620	R8 586	6.0
Audit committee	Member	R16 200		R17 172		6.0
Management Resources Committee, Transformation Committee, and Governance & Nomination Committee	Chairperson	R16 200		R17 172		6.0
	Member	R8 100		R8 586		6.0

for the year ended 30 September 2006

Share Appreciation Rights Scheme

A summary of shares subject to exercise in terms of the Share Appreciation Rights Scheme (SARS) follows in accordance with the provisions of the company's SAR Scheme.

Number of SARs at 30 September 2005	14 274 457
Add: SARs allocated during the year	5 654 910
Less: SARs redeemed and terminations	(9 017 713)
Number of SARs at 30 September 2006	10 911 654
Number of vested SARs at 30 September 2006	8 213 654
Number of unvested SARs at 30 September 2006	2 698 000

In terms of the rules of the Share Appreciation Rights Scheme, the aggregate number of share appreciation rights for the purposes of the scheme shall not exceed the equivalent of 10 percent of the company's issued ordinary share capital from time to time and no one individual may hold in excess of the equivalent of 1 percent of the company's issued share capital. The executive directors who held office on 30 September 2006, had a direct interest in 272 200 Share Appreciation Rights in the company granted at an average price of R26.06 per share. At the date of this report, there have been no changes to the above SARs holdings. (Refer to page 38)

There are no incentive schemes at the subsidiary level. Employees of subsidiaries participate in the above mentioned Share Appreciation Rights Scheme (SARS).

Secretary

ME Sanz is the company secretary. Her business and postal addresses appear on page 146 of this annual report.

Administration

Computershare Investor Services 2004 (Pty) Limited is the share transfer secretary of the company.

The JSE sponsor is Barnard Jacobs Mellet Corporate Finance (Pty) Ltd and the NSX sponsoring broker is Namibia Equity Brokers (Pty) Ltd.

Subsidiary and associated companies

Information regarding the interest in subsidiaries is set out on page 138, and of interest in associates on page 139.

	2006 R'm	2005 R'm
Subsidiary companies' profit after taxation	**111**	318
Share of associated companies' profit after taxation	**100**	60

Independent auditors

The independent auditors, PricewaterhouseCoopers Inc ('PWC'), have been re-appointed and will continue in office for the ensuing year in accordance with section 270(2) of the Companies Act, 1973, as amended.

Material events after accounting date

No material events occurred between the accounting date and the date of this report that need further comment.

basis of preparation

for the year ended 30 September 2006

1 Accounting framework

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) using the historical cost convention modified by the revaluation of financial instruments and certain freehold properties.

The basis of preparation is consistent with the prior year except for the restatements as a result of the conversion to IFRS from SA GAAP see note 1 and note 38.

These financial statements have been prepared in accordance with IFRS 1 'First time adoption of International Financial Reporting Standards'. Reconciliations and descriptions of the effect of transition from SA GAAP to IFRS are presented in note 1 and note 38.

In addition, we have adopted the guidance contained in SAICA Circular 9/2006 on accounting for adjustments to revenue where extended payment terms are made available to customers, by adjusting revenue with the cost of granting extended terms, and have restated prior year comparatives.

2 Foreign currency translation

The consolidated financial statements are presented in rands, which is the company's functional and presentation currency.

The functional currency of each entity within the group is determined based on the currency of the primary economic environment in which that entity operates. Transactions in currencies other than the entity's functional currency are recognised at the exchange rates ruling on the dates of the transactions. i.e. dates on which the transactions first qualify for recognition.

Monetary assets and liabilities denominated in such currencies are translated at the exchange rates ruling at the balance sheet date.

Gains and losses arising on exchange differences are recognised in profit or loss.

Resulting exchange differences are classified as a foreign currency translation reserve and recognised directly in equity. On disposal of a foreign operation the related amount in equity is recognised in profit or losses as part of the gain or loss on sale.

The financial statements of entities (none of which has the currency of a hyper inflationary economy) whose functional currencies are different to the group's presentation currency are translated as follows: Assets, including goodwill, and liabilities: At the closing exchange rates for each balance sheet date presented:

Income and expense items: At the exchange rates at the dates of the transactions, or suitable averages.

Equity items: At the exchange rates ruling when they arose.

Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items such as equities classified as available-for-sale financial assets, are included in the foreign currency translation reserve in equity from 1 October 2004.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign company and translated at the closing rate.

3 Comparative figures

Comparative figures are restated in the event of a change in accounting policy or prior period error. As a result of the conversion to reporting under IFRS from SA GAAP there have been restatements of comparative figures see note 1 and note 38.

In addition we have adopted the guidance contained in SAICA Circular 9/2006 on accounting for adjustments to revenue where extended payment terms are made available to customers, by adjusting revenue with the cost of granting extended terms, and have restated prior year comparatives.

4 Subsidiaries

Subsidiaries are entities controlled by the parent (including special purpose entities, at this stage limited to the ISAS trust). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls the other entity.

The separate financial statements recognise the interests in subsidiaries at cost.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of minority interest. The excess of the cost of acquisition over the fair value of the group's share of the individual net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

for the year ended 30 September 2006

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal. Inter-company transactions and balances between group entities are eliminated on consolidation.

Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the group. The reporting dates of subsidiaries are aligned with the reporting date of the group.

5 Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associate but has no control or joint control over these policies.

The separate financial statements recognise the interests in associates at cost.

The consolidated financial statements incorporate the assets, liabilities, income and expenses of associates using the equity method of accounting from the acquisition date to the disposal date. In this method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the share of net assets of the investee. Profit or loss includes the share of the profit or loss of the investee.

The carrying amounts are reduced where necessary to recognise any impairment losses.

Where a group entity transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the group. The reporting dates of associates are aligned with the reporting date of the group.

6 Joint ventures

The group's interest in jointly controlled entities are accounted for by proportionate consolidation.

In this method the venturer's share of each of the assets, liabilities, income and expenses of the jointly controlled entity is combined line by line with similar items in the venturer's financial statements.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The separate financial statements recognise the interests in jointly controlled entities at cost.

Inter-company transactions and balances between group entities are eliminated on proportionate consolidation to the extent of the group's interest in the joint venture.

Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the group. The reporting dates of joint ventures are aligned with the reporting date of the group.

7 Property, plant and equipment

Property, plant and equipment comprise tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. Land and buildings comprise mainly factories and offices.

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the assets for its intended use. Other borrowing costs are expensed as incurred.

Owner occupied properties are carried at cost less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Depreciation is charged to income so as to write off the depreciable amount of the assets, other than land, over their estimated useful lives, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Where significant parts of an item have different useful lives or patterns in which future economic benefits are expected to be consumed to the item itself, these parts are depreciated over their estimated useful lives.

The methods of depreciation, useful lives and residual values are reviewed annually.

The assumptions regarding expected useful lives for the 2006 financial year are as follows:

basis of preparation

for the year ended 30 September 2006

freehold buildings	- 40 years.
passenger vehicles	- 5 years;
light delivery vehicles	- 7 years;
trucks	- 10 years;
trailers	- 15 years;
plant and equipment	- 15 years;
liquefied petroleum gas cylinders	- 15 years;
computer equipment	- 3 years;
other cylinders	- 25 years and
furniture and fittings	- 5 years.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation whichever is sooner.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

8 Intangible assets

Intangible assets are initially recognised at cost if acquired separately or internally generated or at fair value if acquired as part of a business combination. If assessed as having an indefinite useful life, they are not amortised but are tested for impairment annually and impaired if necessary. If assessed as having a finite useful life, they are amortised over their useful lives using a straight line basis and tested for impairment if there is an indication that they may be impaired.

Research costs, being the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognised in profit or loss as they are incurred.

Development costs, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before starting commercial production or use, are capitalised only when and if they meet criteria for capitalisation. Otherwise they are recognised in profit or loss.

Trademarks and licences are recognised at cost. They have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of trademarks and licences over their estimated useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs are included in the cost of software development, employees and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

The expected useful lives are as follows:

- Computer software development costs recognised as assets – not exceeding 5 years
- Restraint of trade payments are capitalised and amortised over the period of the restraint on a straight line basis – not exceeding 10 years
- Computer software costing more than R100 000 – is amortised over 5 years using the straight line method
- Computer software costing less than R100 000 – is expensed immediately
- Trademarks and licences – not exceeding 20 years

9 Goodwill

Goodwill is allocated to cash generating units for the purpose of impairment testing. It is not amortised but is tested for impairment annually and impaired if necessary. It is recognised as an asset and is measured at cost less impairment losses.

Goodwill on acquisition of associates is included in the carrying amount of the associates.

Goodwill acquired in a business combination for which the agreement date was before 30 September 2004 was previously amortised on a systematic basis over its estimated useful life. The accumulated amortisation prior to that date was netted against the cost.

If, on a business combination, the fair value of the group's interest in the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognised in profit or loss immediately.

On disposal of a subsidiary, associate, jointly controlled entity or business unit to which goodwill was allocated on acquisition, the amount attributable to such goodwill is derecognised and included in the determination of the profit or loss on disposal.

10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

for the year ended 30 September 2006

It excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and costs necessary to make the sale.

The first-in-first-out method is used to arrive at the cost of items that are interchangeable.

11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to its original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

12 Financial assets

The group classifies its financial assets into the following categories:

- Fair value through profit and loss
- Loans and receivables
- Held to maturity
- Available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss: Those acquired principally for the purpose of selling in the near term or held as part of a trading portfolio. Included in this category are derivates (other than those designated as effective hedging instruments) being financial instruments whose values change in response to an underlying transaction, require no initial or little net investment in relation to other types of contracts that would be expected to have a similar response to changes in market factors and are settled at a future date.

Loans and receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held-to-maturity investments: Non-derivative financial assets with fixed or determinable payments and fixed maturities where there is a positive intention and ability to hold them to maturity.

Available-for-sale financial assets: Those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or held-to-maturity investments or financial assets at fair value through profit or loss.

Financial assets are initially measured at fair value plus transaction costs. However, transaction costs in respect of financial assets classified as at fair value through profit or loss are expensed.

Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset i.e. those costs that would not have been incurred had the asset not been acquired.

Financial assets at fair value through profit or loss are subsequently measured at fair value with gains or losses being recognised in profit or loss. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models, if unlisted.

Financial assets classified as held-to-maturity financial assets are measured at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.

Loans and receivables, which include trade receivables, are measured at amortised cost less impairment losses, which are recognised in profit or loss.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired.

Financial assets or parts thereof are derecognised.

Available-for-sale financial assets are measured at fair value with gains or losses being recognised directly in equity. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models if unlisted. Impairment losses first go to reverse gains recognised in equity with any excess being recognised in profit or loss.

Financial assets or parts thereof are derecognised, i.e. removed from the balance sheet, when the contractual rights to receive the cash flows have been transferred or have expired or if substantially all the risks and rewards of ownership have passed. Where substantially all the risks and rewards of ownership have not been transferred or retained, the financial assets are derecognised if they are no longer controlled. However, if control in this situation is retained, the financial assets are recognised only to the extent of the continuing involvement in those assets.

All other assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal.

13 Financial liabilities

A financial liability at fair value through profit or loss is a financial liability that is classified as held for trading and is designated as such on initial recognition.

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A financial liability held for trading is one that is incurred as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or a derivative (except for a derivative that is a designated and effective hedging instrument).

Financial liabilities are initially measured at fair value plus transaction costs. However, transaction costs in respect of financial liabilities classified as at fair value through profit or loss are expensed. Transaction costs are those costs that are directly attributable to the issue of a financial liability, i.e. those that would not have been incurred had the liability not been issued.

Financial liabilities that are not designated on initial recognition as financial liabilities at fair value through profit or loss are measured at amortised cost.

Financial liabilities that are designated on initial recognition as financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss.

Derivative liabilities are measured at fair value, with changes in fair value being recognised in profit or loss other than those designated as cash flow hedges.

Financial liabilities are derecognised when the relevant obligation has either been discharged or cancelled or has expired.

14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

15 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

16 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

A deferred tax asset is only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, unless specifically exempt. Deferred income tax is measured at the tax rates that have been enacted or substantially enacted at the balance sheet date or are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, and is not discounted.

A deferred tax liability is recognised for taxable temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantially enacted at the balance sheet date and is not discounted.

Deferred tax, arising on asset revaluations or reserve accounted fair value adjustments, is charged against the reserve to which the asset revaluation or fair value adjustment is recognised.

Deferred tax, arising on investments in subsidiaries, associates and joint ventures, is recognised except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

17 Post-employment benefit obligations

Contributions to defined contribution plans are recognised in profit or loss as they accrue.

The cost of providing defined benefits is determined using the projected unit credit method. Valuations are usually conducted every three years and interim adjustments to those valuations are made annually.

Actuarial gains and losses, i.e. differences between the previous actuarial assumptions and what actually occurred and changes in actuarial assumptions that exceed 10% of the greater of the present value of the group's pension obligations, or the fair value of plan assets, are amortised over the expected average remaining working lives of the participating employees.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement.

Past service costs, i.e. increases or decreases in the present value of the defined benefit obligation for employee service in prior periods resulting from the introduction of, or changes to, post-employment benefits or other long-term employee benefits, are recognised immediately in profit or loss to the extent that the benefits have already vested.

Otherwise they are amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and the unrecognised past service costs, and reduced by the fair value of plan assets. Any asset is limited to the unrecognised actuarial loss plus the present value of available refunds and reductions in future contributions to the plan.

The group policy is not to provide for post-retirement medical aid benefits to employees who joined after 31 October 1996. However, due to previous employment benefits offered, the group has honoured its contractual commitment in respect of post-retirement medical aid contributions to certain employees and pensioners employed before the change in policy.

Some group companies have obligations to provide certain post retirement medical aid benefits to their eligible employees and pensioners. The entitlement to these benefits is dependent upon the employee remaining in service until retirement age and completing a minimum service period.

Actuarial gains and losses as a result of experience adjustments are recognised as income or expenditure systematically over the remaining service period of the eligible employees. Adjustments pertaining to retired employees are recognised immediately as an expense.

18 Shareholders for equity dividends

Dividends to equity holders are only recognised as a liability when declared. Secondary tax on companies in respect of such dividends is recognised as a liability when the dividends are recognised as a liability and are included in the tax charge in profit or loss.

19 Provisions

Provisions are recognised for environmental restoration, restructuring costs and legal claims when the group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of discounting is material, provisions are measured at their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks for which future cash flow estimates have not been adjusted.

20 Equity

Ordinary shares are classified as equity. Mandatory redeemable preference shares are classified as liabilities. Transactions relating to the acquisition and sale of shares in the company, together with their associated costs, are accounted for in equity. Other transactions are accounted for directly in equity only if permitted by the standards.

Equity shares in African Oxygen Limited held by any group company are classified as treasury shares.

These shares are treated as a deduction from the issued and weighted average number of shares. The consideration paid, including any directly attributable incremental costs, is deducted from group equity until the shares are cancelled, re-issued or disposed of. When such shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to African Oxygen Limited's equity holders. Dividends received on treasury shares are eliminated on consolidation.

21 Revenue

Revenue comprises the fair value of the sale of goods and services. It is measured at the amount received or receivable net of VAT, cash discounts and rebates and after eliminating sales within the group.

Revenue from the rendering of services is measured using the stage of completion method based on the services performed to date as a percentage of the total services to be performed, and is recognised when the amount of the revenue, the related costs and the stage of completion can be measured reliably, and when it is probable that the debtor will pay for the services.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

22 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of

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inventories or reversals of previous write downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

23 Employee benefit costs

Employee benefit costs include all forms of consideration given in exchange for services rendered by employees. The cost of providing employee benefits is recognised in profit or loss in the period they are earned by employees.

The cost of short-term employee benefits is recognised in profit or loss in the period in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur.

The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation as a result of a past practice to make such payments as a result of past performance.

24 Borrowing costs

Borrowing costs include interest and other costs incurred in connection with the borrowing of funds.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

25 Taxation

The charge for current tax is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to the taxable income.

Deferred tax is recognised for all temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantially enacted at the balance sheet date.

26 Derivative financial instruments and hedging activities

A derivative is a financial instrument whose value changes in response to an underlying instrument, requires no initial or little net investment in relation to other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognised in profit or loss.

If a cash flow hedge meets the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss.

Hedges of foreign exchange risk on firm commitments are recognised as cash flow hedges.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses recognised in equity are recognised in profit or loss in the same period in which the asset or liability affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gains or losses recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the forecast transaction is no longer expected to occur or when the hedge designation is revoked.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

27 Impairment of assets

At each reporting date the carrying amount of the tangible and intangible assets are assessed to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs, is estimated. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to the higher of its recoverable amount and zero. Impairment losses are recognised in profit or loss. The loss is first allocated to reduce the carrying amount of goodwill and then to the other assets of the cash generating unit. Subsequent to the recognition of an impairment loss, the depreciation or amortisation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

If an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years.
A reversal of an impairment loss is recognised in profit or loss.

Goodwill and intangible assets with indefinite useful lives, and the cash generating units to which these assets have been allocated, are tested for impairment even if there is no indication of impairment. Impairment losses on goodwill and intangible assets with indefinite lives are not reversed.

28 Leasing

(a) The group is the lessee

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the assets useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received by the lessor) are charged to the income statement on a straight line basis over the period of the lease. Contingent rentals are charged to the income statement as they accrue.

(b) The group is the lessor

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. Rental income (net of any incentives given to lessees is recognised on a straight-line basis over the lease term. Contingent rentals are recognised in the income statement as they accrue.

29 Discontinued operations

A discontinued operation is a component that has either been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately in the income statement and the assets associated with these operations are included with non-current assets held for sale in the balance sheet.

30 Share based payments

Goods and services paid for by the issue of the company's own equity instruments are recognised when the goods or services have been received and are measured at the fair value of the goods or services acquired.

Shares and options issued or granted to employees for services rendered or to be rendered are recognised in profit or loss when the services have been rendered or, if vesting requirements are applicable, over the vesting period, and are measured at the fair value of the equity instruments at grant date.

Share appreciation rights granted to employees for services rendered or to be rendered are raised as a liability and recognised in profit or loss immediately or, if vesting requirements are applicable, over the vesting period. The liability is measured annually until settled and any changes in value are recognised in profit or loss.

31 Contingent assets and contingent liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Contingent assets are not recognised as assets.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the

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obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities.

32 Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components that are operating in other economic environments. The group's primary format for reporting segment information is by business segment and its secondary format is by geographical segment based on the location of its operations.

Inter-segment transfers: segment revenue, segment expenses and segment results include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. These transfers are eliminated on consolidation.

Segment revenue and expenses: segment revenue and expenses that are directly attributable to the segments are allocated to those segments.

Segment assets and liabilities: segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment and investments, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued liabilities. Segment assets and liabilities do not include deferred tax.

33 Headline earnings per share

The calculation of headline earnings per share is based on the net profit attributable to ordinary shareholders; after excluding all items of a non-trading nature, divided by the weighted average number of ordinary shares in issue during the year. An itemised reconciliation of the adjustment to earnings attributable to ordinary shareholders is provided in the notes to the financial statements.

34 Sources of estimation uncertainty

The key assumptions made concerning the future and other key sources of estimation uncertainty at the balance sheet date that could have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are:

- Those used to arrive at asset lives
- Historical experience of similar asset lives
- Those used to arrive at residual balances
- Historical experience of disposal prices received on sale of assets.
- Those used to arrive at impairment of assets.

Impairment reviews in respect of PPE, goodwill and intangible assets are performed at least annually.

The recoverable amounts of cash generating units have been determined on the value-in-use calculations.

Details of the assumptions used are set out in note 21.

- Those used to determine post-employment benefit obligations.

Pension accounting requires certain assumptions to be made in order to value the group’s obligations and to determine the charges to be made to the income statement. Details of the assumptions used are set out in note 10. By changing these assumptions we are able to change the value of the actuarial liability for the defined benefit fund.

35 Recent accounting developments

The following accounting standards, amendments and interpretations, that are not mandatory for the year to September 2006, have been published prior to the signature of this report and not early adopted.

IAS1, Presentation of Financial Statements (Amendment): (applicable for financial years beginning after 1 January 2006) requires additional disclosures in the statement of changes in equity regarding items recognised directly in equity.

The amendment effective for the financial years beginning after 1 January 2007 requires additional disclosures regarding the level of an entity’s capital and how it manages capital.

IFRIC 4, 'Determining whether an arrangement contains a lease' (applicable from 1 October 2006) requires the determination of whether an arrangement is or contains a lease. This determination is to be based on the substance of the arrangement. The adoption is not expected to have a material effect on the consolidated results of operations or the financial position of the group. African Oxygen Limited retains the risks and rewards on assets installed at client premises, therefore certain revenue may be reclassified sale of product to operating lease rentals.

IFRIC 10, Interim Financial Reporting and Impairment: (applicable for financial years beginning after 1 November 2006) states that an entity should not reverse at year-end an impairment loss recognised during a previous interim period in respect of goodwill or an investment in either an equity intrument or a financial asset carried at cost.

IFRS 7 'Financial instruments: Disclosures' (applicable from 1 October 2007), introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantative information about exposure to risks arising from financial instruments, including specified minimum disclosure about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 32, 'Financial Instruments: disclosure and presentation'. The group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 October 2007 and it is not expected to have a material effect on the group's disclosures. IAS 19 'Employee benefits' (applicable from 1 October 2006) has been amended to allow for the full recognition of actuarial gains and losses in the period in which they occur outside profit or loss. Currently the group applies the corridor method in accounting for actuarial gains and losses.

There are also additional disclosure requirements contained in the revised statement which will require disclosure of historical trends, portfolio make-up and assessment of discount rates. These requirements will be applied by the group to financial periods beginning on 1 October 2006.

Other new statements have been issued which will have no effect on us at this time:

- IFRS 6 Exploration for and Evaluation of Mineral Resources and a complementary amendment to IFRS 1, (applicable from 1 January 2006).
- IAS 21, The Effect of Changes in Foreign Exchange Rates (Amendment): (applicable for financial years beginning after 1 January 2006). The amendment clarifies that exchange rate differences on a monetary item that forms part of an entity's net investment in a foreign operation are accounted for in a separate component of equity, regardless of the currency of the monetary items.
- IAS 39, Financial Instruments: Recognition and measurement and IFRS4, Insurance contracts (Amendment): Financial guarantee contracts: (applicable for financial years beginning after 1 January 2006).

The amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently at the higher of the amortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at balance sheet date.

- IAS 39, Financial Instruments: Recognition and measurement (Amendment): The fair value option: (applicable for financial years beginning after 1 January 2006)

The amendment limits the circumstances in which financial instruments can be classified as at fair value through profit and loss.

- IFRIC 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds: (applicable for financial years beginning after 1 January 2006)
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment: (applicable for financial years beginning after 1 December 2005).
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies: (applicable for financial years beginning after 1 March 2006)
- IFRIC 8 – Scope of IFRS 2 (applicable from 1 May 2006) – determines whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods and services received.
- IFRIC 9 'Reassessment of Embedded Derivatives' (applicable from 1 June 2006) – subsequent re-assessment of whether an embedded derivative is contained in a contract is prohibited, unless there is a change in the terms of the contract that significantly modifies the cashflow.
- AC503 'Accounting For Black Economic Empowerment (BEE) Transactions' (applicable from 1 May 2006) – This interpretation considers only those BEE transactions where the entity grants equity instruments to black people (directly or indirectly) and the fair value of the cash and other assets received (or to be received), black people (directly or indirectly) and the fair value of the cash and other assets received (or to be received).

36 Judgments made by management

Judgments made by management in applying the accounting policies, other than those dealt with above, that could have a significant effect on the amounts recognised in the financial statements are:

- The economic lives selected for the assets are based on historical experience.
- Depreciation of assets is based on a straight-line method over time as the charges resulting from this method approximate those that would result had the usage method been used.
- Most plants have no planned idle time.
- Componentisation of assets only applied to items where the effect of componentisation would be significant.
- Residual balances are estimated to be zero on all operating assets due to their specialised nature.

balance sheets

as at 30 September 2006

	Note	Group 2006 R'm	Group 2005 IFRS restated R'm	Company 2006 R'm	Company 2005 IFRS restated R'm
Assets					
Non-current assets		**2 297**	2 178	**2 669**	2 539
Property, plant and equipment	2	**2 016**	1 665	**1 603**	1 272
Intangible assets	3	**50**	18	**36**	2
Goodwill	4	**34**	32	**12**	7
Investments in subsidiaries	5	**–**	–	**833**	827
Investments in associates	6	**11**	377	**1**	346
Available for sale investments	7	**–**	–	**–**	14
Non–current receivables	9	**7**	19	**7**	7
Retirement benefit asset	10	**177**	64	**177**	64
Deferred income tax assets	11	**2**	3	**–**	–
Current assets		**1 618**	1 066	**1 320**	829
Inventories	12	**452**	326	**338**	234
Trade and other receivables	13	**652**	535	**522**	415
Holding/group companies		**12**	30	**29**	29
Other financial assets at fair value through profit or loss	36	**20**	8	**20**	7
Derivative financial instruments	36	**34**	–	**34**	–
Cash and cash equivalents	14	**448**	167	**377**	144
Total assets		**3 915**	3 244	**3 989**	3 368
Equity and liabilities					
Capital and reserves		**2 271**	1 644	**2 553**	1 961
Share capital	15	**15**	15	**17**	17
Share premium	15	**537**	537	**537**	537
Revaluation reserve		**28**	104	**–**	–
Hedging reserve		**22**	–	**22**	–
Foreign currency translation reserve		**28**	18	**–**	–
Retained earnings		**1 618**	958	**1 977**	1 407
Total attributable to equity holders		**2 248**	1 632	**2 553**	1 961
Minority interest		**23**	12	**–**	–
Non–current liabilities		**464**	599	**422**	552
Interest bearing borrowings	16	**311**	467	**305**	460
Deferred income tax liabilities	11	**153**	132	**117**	92
Current liabilities		**1 180**	1 001	**1 014**	855
Trade and other payables	17	**829**	656	**698**	543
Provisions	18	**–**	52	**–**	52
Current portion of interest bearing borrowings	16	**205**	57	**205**	57
Holding/group companies		**9**	3	**22**	2
Derivative financial instruments	36	**–**	4	**–**	4
Current income tax liability		**122**	224	**79**	194
Bank overdrafts	14	**15**	5	**10**	3
Total equity and liabilities		**3 915**	3 244	**3 989**	3 368

The notes on page 92 to 137 are an integral part of these consolidated financial statements

for the year ended 30 September 2006

		Group		Company	
	Note	2006 R'm	2005 IFRS restated R'm	2006 R'm	2005 IFRS restated R'm
Revenue	19	3 914	5 754	3 164	2 663
Cost of sales		(2 414)	(2 669)	(1 671)	(1 395)
Cost of services		–	(1 291)	–	–
Gross profit		1 500	1 794	1 493	1 268
Other operating income		14	11	91	268
Distribution costs		(178)	(164)	(178)	(163)
Other operating expenses		(582)	(718)	(721)	(640)
Operating profit		754	923	685	733
Profit on sale of investment	22	362	1 085	484	1 702
Profit from operations	20	1 116	2 008	1 169	2 435
Finance (costs)	23	(39)	(61)	(38)	(44)
Finance income	23	4	62	3	51
Income from associates		100	60	–	–
Profit before taxation		1 181	2 069	1 134	2 442
Income tax expense	25	(316)	(623)	(263)	(464)
Net profit for the year		865	1 446	871	1 978
Attributable to:					
Equity holders of the company		858	1 350	871	1 978
Minority interest		7	96	–	–
Net profit for the year		865	1 446	871	1 978
Basic earnings per ordinary share (cents)	26	278.1	403.6		

The notes on page 92 to 137 are an integral part of these consolidated financial statements

statements of changes in equity

for the year ended 30 September 2006

	Note	Share capital R'm	Share premium R'm	Reval-uation reserve R'm	Hedging reserve R'm	Foreign currency translation reserve R'm	Retained earnings R'm	Total attributable to equity holders R'm	Minority interest R'm	Total R'm
GROUP										
Balance at 1 October 2004		17	537	102	–	19	1 988	2 663	753	3 416
IFRS adjustment opening balance		–	–	(24)	–	–	(67)	(91)	(18)	(109)
Restated balance		17	537	78	–	19	1 921	2 572	735	3 307
Fair value gains, net of tax										
- revaluation of properties		–	–	9	–	–	–	9	–	9
Other movements		–	–	(3)	–	–	3	–	(26)	(26)
Acquisition/disposal of investment		–	–	–	–	–	–	–	(793)	(793)
Currency translation difference		–	–	–	–	(1)	–	(1)	–	(1)
		17	537	84	–	18	1 924	2 580	(84)	2 496
IFRS adjustments 2005		–	–	20	–	–	–	20	–	20
Net profit for the year		–	–	–	–	–	1 350	1 350	96	1 446
Dividend declared	28	–	–	–	–	–	(1 653)	(1 653)	–	(1 653)
Buy back of own shares	15	(2)	–	–	–	–	(663)	(665)	–	(665)
Balance at 1 October 2005		15	537	104	–	18	958	1 632	12	1 644
Cash flow hedges, net of tax		–	–	–	22	–	–	22	–	22
Other movements		–	–	(79)	–	(2)	74	(7)	4	(3)
Currency translation difference		–	–	3	–	12	–	15	–	15
		15	537	28	22	28	1 032	1 662	16	1 678
Net profit for the year		–	–	–	–	–	858	858	7	865
Dividends declared	28	–	–	–	–	–	(272)	(272)		(272)
Balance at 30 September 2006		15	537	28	22	28	1 618	2 248	23	2 271
COMPANY										
Balance at 1 October 2004		17	537	–	–	–	1 135	1 689	–	1 689
IFRS adjustment opening balance	38	–	–	–	–	–	(36)	(36)	–	(36)
Restated balance		17	537	–	–	–	1 099	1 653	–	1 653
Net profit for the year		–	–	–	–	–	1 978	1 978	–	1 978
Dividends declared	28	–	–	–	–	–	(1 666)	(1 666)	–	(1 666)
Other movements		–	–	–	–	–	(4)	(4)	–	(4)
Balance at 1 October 2005		17	537	–	–	–	1 407	1 961	–	1 961
Cash flow hedges, net of tax		–	–	–	22	–	–	22		22
Net profit for the year		–	–	–	–	–	871	871	–	871
Dividends declared	28	–	–	–	–	–	(302)	(302)	–	(302)
Other movements		–	–	–	–	–	1	1	–	1
Balance at 30 September 2006		**17**	**537**	**–**	**22**	**–**	**1 977**	**2 553**	**–**	**2 553**

Revaluation reserve
The revaluation reserve reflects the unrealised gains on the revaluations of assets. When the assets are realised these amounts are transferred to accumulated profits.

Foreign currency translation reserve
The foreign currency translation reserve comprises all translation differences arising on the retranslation of opening net assets together with differences between income statements translated at average and closing rates of foreign subsidiaries.

Hedging reserve
The hedging reserve reflects the hedging gains and losses that are the result of effective hedging. These amounts will be reversed from equity when the asset being hedged is recognised in the accounts of the group.

for the year ended 30 September 2006

	Note	Group 2006 R'm	Group 2005 IFRS restated R'm	Company 2006 R'm	Company 2005 IFRS restated R'm
Cash flows from operating activities					
Cash receipts from customers		4 588	5 363	3 684	2 638
Cash paid to suppliers and employees		(3 841)	(4 409)	(3 120)	(1 824)
Cash generated from operations	29	747	954	564	814
Interest received		4	62	3	51
Interest paid		(39)	(61)	(38)	(44)
Dividends received		7	11	91	268
Normal taxation paid	30	(369)	(326)	(319)	(141)
Secondary taxation on companies paid	30	(32)	(214)	(32)	(206)
Cash available from operating activities		318	426	269	742
Dividends paid	31	(272)	(1 653)	(302)	(1 666)
Ordinary dividends paid		(272)	(230)	(302)	(243)
Special dividends paid out of the profit on sale of investment		–	(1 423)	–	(1 423)
Net cash inflow/(outflow) from operating activities		46	(1 227)	(33)	(924)
Cash flows from investing activities					
Disposal/(acquisition) of subsidiaries	32	(5)	2 121	(5)	2 188
Purchase of property, plant and equipment	2	(549)	(492)	(497)	(302)
Replacement of property, plant and equipment		(214)	(325)	(197)	(135)
Additions to property, plant and equipment		(335)	(167)	(300)	(167)
Proceeds from disposal of property, plant and equipment		8	23	2	14
Associates and investments	32	801	(312)	801	(1 668)
Long term assets		11	36	–	–
Intangibles acquired		(34)	(4)	(35)	(1)
Intangibles disposed		1	2	–	–
Net cash inflow from investing activities		233	1 374	266	231
Cash flows from financing activities					
Dividends and loans paid to minority shareholders		–	(30)	–	–
(Repayment)/increase in long term borrowings		(156)	457	(155)	440
Increase/(repayment) of short term borrowings		148	(180)	148	(9)
Repayment of capital element of finance lease liabilities		–	(45)	–	–
Buy back of own shares (treasury shares)		–	(665)	–	–
Net cash (outflow)/inflow from financing activities		(8)	(463)	(7)	431
Net increase(decrease) in cash and cash equivalents		271	(316)	226	(262)
Cash and cash equivalents at beginning of year		162	478	141	403
Cash and cash equivalents at end of year	14	433	162	367	141

The notes on page 92 to 137 are an integral part of these consolidated financial statements

segmental reporting

for the year ended 30 September 2006

Primary reporting format

Business segments for the group.

The group operates in two main business segments, namely merchant and tonnage and industrial products. These businesses are the basis on which the group reports its primary segment information. Healthcare was partially disposed of in March 2005, and the segment report includes results up to this date.

The merchant and tonnage business operates dedicated gas plants that are situated on or adjacent to customer sites, or supplied by long distance gas pipelines. It also supplies bulk gases by road tanker to the merchant market, to enhance customer processes and installs and manages small on-site packaged gas producing plants.

The industrial products business comprises cylinder and liquid fabrication gases, special, hospitality and medical gases, Handigas and welding products. This business also includes the industrial business of local and foreign subsidiaries.

The healthcare business operates private hospitals in southern Africa. It offers healthcare services consisting of an occupational and primary healthcare provider, an interest in a pathology management company, a pharmacy management company and Lifecare Group Holdings Ltd.

	Merchant & tonnage		Industrial products		Healthcare		Total	
	2006 R'm	2005 R'm	2006 R'm	2005 R'm	2006 R'm	2005 R'm	2006 R'm	2005 R'm
Revenue								
External sales	481	437	3 433	2 841	–	2 476	3 914	5 754
Result								
Operating profit before corporate overheads	119	98	601	494	–	294	720	886
Fair value adjustment for associate investment – unallocated	–	–	–	–	–	–	18	21
Preference dividend from associate investment – unallocated	–	–	–	–	–	–	14	11
Corporate overheads – unallocated	–	–	–	–	–	–	2	5
Operating profit after corporate overheads	119	98	601	494	–	294	754	923
Net third party finance costs – allocated	–	–	–	–	–	(16)	(24)	(16)
Net third party finance costs – unallocated	–	–	–	–	–	–	(11)	17
Income from associates	–	–	2	4	–	19	2	23
Income from healthcare associate	–	–	–	–	–	–	98	37
Profit on sale of investment	–	–	–	–	–	–	362	1 085
Income tax expense allocated	–	–	–	–	–	(108)	–	(108)
Income tax expense unallocated	–	–	–	–	–	–	(316)	(515)
Profit after taxation	119	98	603	498	–	189	865	1 446
Minority interest	–	–	(7)	(4)	–	(92)	(7)	(96)
Net profit for the year	119	98	596	494	–	97	858	1 350
Other information								
Segment assets	497	336	2 949	2 316	–	–	3 446	2 652
Investments in associates	–	–	11	9	–	–	11	9
Investment in healthcare associate	–	–	–	–	–	–	–	369
Unallocated assets	–	–	–	–	–	–	456	211
Consolidated total assets	497	336	2 960	2 325	–	–	3 913	3 241
Segment liabilities								
Current liabilities	74	61	496	437	–	–	570	498
Unallocated current liabilities	–	–	–	–	–	–	488	503
Non–current liabilities	–	–	–	–	–	–	–	–
Unallocated non–current liabilities	–	–	–	–	–	–	433	467
Consolidated total liabilities	74	61	496	437	–	–	1 491	1 468
Capital expenditure	147	55	402	294	–	143	549	492
Depreciation	61	60	141	128	–	72	202	260
Amortisation of intangible assets	–	–	2	1	–	–	2	1
Impairment of goodwill	–	–	21	2	–	6	21	8
Impairment of trade investments	–	–	–	3	–	–	–	3

for the year ended 30 September 2006

Secondary reporting format

Geographical segments for the group.

The group operates mainly in two geographical segments, South Africa and the rest of Africa.

	South Africa		Rest of Africa		Total	
	2006 R'm	2005 R'm	2006 R'm	2005 R'm	2006 R'm	2005 R'm
Revenue						
External sales	3 412	5 292	502	462	3 914	5 754
Result						
Segment result	604	794	118	97	722	891
Fair value adjustment for associate investment	18	21	–	–	18	21
Preference dividend from associate investment	14	11	–	–	14	11
Profit on sale of investment	362	1 085	–	–	362	1 085
Finance costs	(34)	0	(1)	1	(35)	1
Income from associates	98	56	2	4	100	60
Income tax expense	(280)	(591)	(36)	(32)	(316)	(623)
Profit after taxation	782	1 376	83	70	865	1 446
Minority interest	-	(92)	(7)	(4)	(7)	(96)
Net profit for the year	782	1 284	76	66	858	1 350
Other information						
Segment assets/consolidated total assets	3 574	2 591	328	273	3 902	2 864
Investments in associates	–	368	11	9	11	377
Consolidated total assets	3 574	2 959	339	282	3 913	3 241
Segment liabilities/consolidated total liabilities	1 385	1 373	106	95	1 491	1 468
Capital expenditure	506	461	43	31	549	492
Depreciation	192	249	10	11	202	260
Amortisation of intangible assets	2	1	–	–	2	1
Impairment of goodwill	–	8	21	–	21	8
Impairment of trade investments	–	3	–	–	–	3

Segment revenue and expenses

Revenue and expenses that are directly attributable to segments are allocated to those segments.

Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables inventories and property, plant and equipment, net of related allowances and provisions.

Segment liabilities include all operating liabilities and consist principally of trade payables, wages, taxes currently payable and accruals. Segment assets and liabilities do not include deferred income tax assets and liabilities.

Segment assets shown in segment calculation:	3 913
Deferred tax asset	2
Assets per balance sheet	3 915
Segment liabilities shown in segment calculation:	1 491
Deferred tax liability	153
Liabilities per balance sheet	1 644

notes to the financial statements

for the year ended 30 September 2006

		Group		Company	
	Note	2006 R'm	2005 R'm	2006 R'm	2005 R'm

1. Changes in accounting policies

i) Adoption of IFRS

The group has adopted IFRS for the year ended 30 September 2006. These are the group's first consolidated financial statements prepared in compliance with IFRS and hence IFRS 1 - First time adoption of IFRS, has been applied.

The group has adopted all applicable IFRS statements and interpretations issued or revised up to 30 September 2006. An explanation of how the transition to IFRS has affected the reported financial position and performance of the group is provided in Note 38 to the financial statements.

The group selected fair value as deemed cost of fixed assets in terms of IFRS1 at the date of first adoption of IFRS. The group no longer revalues fixed assets.

ii) Revenue adjustments

The group implemented circular 9/2006 'Transactions giving rise to Adjustments to Revenue Purchases' which gave guidance in accounting for the financing element within credit sales.

The adjustment to the income statement is as follows

	Note	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
Revenue			(99)		(52)
Other operating income			99		52
		–	–	–	–

2. Property, plant and equipment

Summary	2006 R'm	2005 R'm
Group		
Owned	2 016	1 665
	2 016	1 665
Company		
Owned	1 603	1 272
	1 603	1 272

Owned	Cost R'm	Accumulated depreciation R'm	Carrying amount R'm
Group			
2006			
Freehold property	230	(32)	198
Plant and equipment	1 994	(984)	1 010
Cylinders	1 003	(365)	638
Vehicles	297	(153)	144
Furniture and fittings	189	(163)	26
	3 713	(1 697)	2 016
2005			
Freehold property	209	(30)	179
Plant and equipment	1 623	(863)	760
Cylinders	886	(319)	567
Vehicles	263	(136)	127
Furniture and fittings	186	(154)	32
	3 167	(1 502)	1 665

for the year ended 30 September 2006

	Freehold property R'm	Plant and equipment R'm	Cylinders R'm	Vehicles R'm	Furniture & fittings R'm	Total R'm
2. Property, plant and equipment *continued*						
2006						
Carrying amount at beginning of year	179	760	567	127	32	1 665
Additions	19	361	120	41	8	549
Disposals	–	1	(1)	(4)	–	(4)
Currency translation differences	3	2	1	2	–	8
Depreciation	(3)	(114)	(49)	(22)	(14)	(202)
Carrying amount at end of year	198	1 010	638	144	26	2 016
2005						
Carrying amount at beginning of year	1 254	997	514	119	89	2 973
Additions	69	263	103	35	22	492
(Disposal)/acquisition of business (note 32)	(1 118)	(346)	–	(3)	(54)	(1 521)
Disposals	(14)	–	(5)	(2)	(1)	(22)
Revaluations	9	1	–	–	–	10
Currency translation differences	(3)	(1)	(1)	(1)	–	(6)
Reclassification	–	(7)	–	–	6	(1)
Depreciation	(18)	(147)	(44)	(21)	(30)	(260)
Carrying amount at end of year	179	760	567	127	32	1 665

Owned	Cost R'm	Accumulated depreciation R'm	Carrying amount R'm
Company			
2006			
Freehold property	9	(2)	7
Plant and equipment	1 560	(727)	833
Cylinders	964	(351)	613
Vehicles	262	(134)	128
Furniture and fittings	160	(138)	22
	2 955	(1 352)	1 603
2005			
Freehold property	7	(1)	6
Plant and equipment	1 220	(644)	576
Cylinders	857	(308)	549
Vehicles	234	(121)	113
Furniture and fittings	158	(130)	28
	2 476	(1 204)	1 272

notes to the financial statements

for the year ended 30 September 2006

	Freehold property R'm	Plant and equipment R'm	Cylinders R'm	Vehicles R'm	Furniture and fittings R'm	Total R'm
2. Property, plant and equipment *continued*						
2006						
Carrying amount at beginning of year	6	576	549	113	28	1 272
Additions	2	341	112	35	7	497
Disposals	–	3	(2)	(1)	–	–
Depreciation	(1)	(87)	(46)	(19)	(13)	(166)
Carrying amount at end of year	7	833	613	128	22	1 603
2005						
Carrying amount at beginning of year	11	491	498	103	34	1 137
Additions	–	168	98	27	9	302
Disposals	(4)	(4)	(5)	–	–	(13)
Reclassification	(1)	1	–	–	–	–
Depreciation	–	(80)	(42)	(17)	(15)	(154)
Carrying amount at end of year	6	576	549	113	28	1 272

Capitalised leased assets	Cost R'm	Accumulated depreciation R'm	Carrying amount R'm
Group			
2005			
Freehold property	–	–	–

2005	Freehold property R'm	Total R'm
Carrying amount at beginning of year	347	347
Additions	2	2
(Disposal)/acquisition of business (note 32)	(347)	(347)
Depreciation	(2)	(2)
Carrying amount at the end of year	–	–

for the year ended 30 September 2006

2. Property, plant and equipment *continued*

The group's land and buildings, were independently valued as at 1 October 2001.
The valuation was carried out in accordance with the Property Valuers Professional Act of 2000 by registered Associated Valuers, Garth MacFarlane and Peter Parfitt who are qualified to express an opinion thereon.
Due to the specialised nature of the buildings owned by the group the value has not increased materially since this valuation.
These values were used as the opening balances on fixed assets in terms of IFRS 1 exemption.

No fixed assets are encumbered - the group's borrowings are unsecured see note 16.
A register of land and buildings owned by the group is available for inspection at the registered office of the company.

The group assumes residual values on fixed assets to be nil as the assets are of a specialised nature and there is no history of recoveries on these assets when their economic life is completed and they are scrapped.

If the group's land and buildings were to be stated on the historical cost basis, the amounts would be as follows:

	2006 R'm	2005 R'm
Cost	**177**	157
Accumulated depreciation	**(26)**	(24)
Carrying amount	**151**	133

notes to the financial statements

for the year ended 30 September 2006

	Cost R'm	Accumulated amortisation R'm	Carrying amount R'm
3. Intangible assets			
Group			
2006			
Trademarks	8	(1)	7
Computer software	47	(5)	42
Restraint of trade	1	–	1
	56	(6)	50
2005			
Trademarks	8	–	8
Computer software	13	(4)	9
Restraint of trade	1	–	1
	22	(4)	18

Reconciliation of carrying amounts

2006	Trademarks R'm	Computer Software R'm	Lease premiums R'm	Restraint of trade R'm	Total R'm
Carrying amount at beginning of year	8	9	–	1	18
Additions	–	35	–	–	35
Reclassification		(1)		–	(1)
Amortisation charge (note 20)	(1)	(1)	–	–	(2)
Carrying amount at end of year	7	42	–	1	50
2005					
Carrying amount at beginning of year	–	3	1	–	4
Additions	2	2	–	–	4
Acquired/(disposed)	6	6	(1)	1	12
Amortisation charge (note 20)	–	(2)	–	–	(2)
Carrying amount at end of year	8	9	–	1	18

Company	Cost R'm	Accumulated amortisation R'm	Carrying amount R'm
2006			
Computer software	40	(5)	35
Restraint of trade	1	–	1
	41	(5)	36
2005			
Computer software	6	(4)	2
	6	(4)	2

for the year ended 30 September 2006

	Restraint of trade R'm	Computer software R'm	Total R'm
3. Intangible assets *continued*			
Reconciliation of carrying amounts			
2006			
Carrying amount at beginning of year	–	2	2
Additions	–	35	35
Reclassification	1	(1)	–
Amortisation charge (note 20)	–	(1)	(1)
Carrying amount at end of year	1	35	36
2005			
Carrying amount at beginning of year		2	2
Additions		1	1
Amortisation charge (note 20)		(1)	(1)
Carrying amount at end of year		2	2

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
4. Goodwill				
Carrying amount at beginning of year	**32**	171	**7**	1
Additions	**23**	31	**5**	4
Reclassification	**–**	–	**–**	2
Impairment charge (note 21)	**(21)**	(8)	**–**	–
Disposals	**–**	(162)	**–**	–
Carrying amount at end of year	**34**	32	**12**	7
5. Investments in subsidiaries				
Ordinary shares			**114**	96
Loans owing by subsidiaries			**803**	789
			917	885
Loans owing to subsidiaries			**(60)**	(60)
			857	(825)
Provision for impairment reversal/(loss)			**(24)**	2
Net investment in subsidiaries			**833**	827

Details of subsidiaries are presented on page 138

notes to the financial statements

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
6. Investments in associates				
Unlisted ordinary shares	**1**	201	**1**	201
Opening balance	**201**	31	**201**	–
Recoverable value of associate at acquisition	**–**	375	**–**	375
Redemption of preference shares held in associate	**–**	(51)	**–**	(51)
Preference shares held in associate shown under indebtedness	**–**	(124)	**–**	(124)
Disposal	**(200)**	(31)	**(200)**	–
Increasing interest in investment to associate level	**–**	1	**–**	1
Indebtedness	**–**	124	**–**	124
Opening balance	**(124)**	6	**124**	–
Preference shares held in associate	**–**	124	**–**	124
Disposal	**124**	(6)	**(124)**	–
Share of accumulated profits since acquisition	**10**	52	**–**	21
Share of opening accumulated profits	**52**	84	**21**	–
Share of current profit for the year	**100**	60	**–**	–
Disposal	**(161)**	(115)	**(39)**	–
Repayment of associated trust/partnership profits	**–**	–	**–**	–
Fair value adjustment of healthcare derivative	**18**	21	**18**	21
Fair value adjustments taken to equity	**1**	2	**–**	–
Ordinary dividends received from associates	**–**	–	**–**	–
Carrying amount at end of year	**11**	377	**1**	346
Directors' valuation of shares	**11**	377	**1**	346

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
6. Investments in associates *continued*				
The aggregate assets, liabilities and results of operations of associate company are summarised as follows:				
Income statement				
Revenue	**5 698**	3 010		
Profit before taxation	**681**	374		
Income tax expense	**(208)**	(120)		
Net profit for the year	**473**	254		
Balance sheet				
Non-current assets	**28**	4 344		
Current assets	**16**	1 352		
Total assets	**44**	5 696		
Capital and reserves	**33**	1 722		
Non-current liabilities	**4**	2 906		
Current liabilities	**7**	1 086		
Total equity and liabilities	**44**	5 714		
Cash flow				
Net cash flow from operating activities	**7**	534		
Net cash flow from investing activities	**(3)**	(174)		
Net cash flow from financing activities	**(1)**	(118)		
Net movement in cash and cash equivalents	**3**	241		
Capital commitments				
Approved not yet contracted for	**–**	329		
Contracted for	**–**	103		
	–	432		

Details of the associates are presented on page 139.

The group's share of profits or losses is determined by reference to the audited financial statements or management accounts of associated companies at 30 June 2006 and 30 September 2006.
Management results up to 31 August 2006 have been included for all companies with a June 2006 year end.
There have been no material transactions in the period between 31 August 2006 and the year end 30 September 2006 apart from the disposal.

notes to the financial statements

for the year ended 30 September 2006

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
7. Available for sale investments				
Unlisted	–	–	–	–
Opening carrying amount	–	–	14	–
Reclassification	–	–	(14)	–
Net other investments	–	–	–	14
Directors' valuation	–	–	–	14

Details of other investments are presented on page 139.

8. Joint ventures

The group holds indirectly the following interests in joint ventures:

	Group 2006	Group 2005
MOCOH Gas Madagascar SARL	0%	50%
Petrogas, Lda	0%	49%

The consolidated results include the following amounts relating to the group's interest in joint ventures:

	Group 2006 R'm	Group 2005 R'm
Income statement		
Revenue	5	28
Profit before tax	–	6
Income tax (expense)	–	–
Profit for the year	–	6
Balance sheet		
Non–current assets	–	14
Current assets	–	2
Total assets	–	16
Capital and reserves	–	4
Non–current liabilities	–	4
Current liabilities	–	8
Total equity and liabilities	–	16

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
8. Joint ventures *continued*				
Cash flow				
Net cash flow from operating activities	**–**	23		
Net cash flow from investing activities	**–**	(6)		
Net cash flow from financing activities	**–**	(20)		
Net movement in cash and cash equivalents	**–**	(3)		

The group's interest in capital commitments for the joint ventures is R nil (2005: R nil)

The group purchased the remaining 51% of Petrogas Lda on 30 September 2006. Petrogas is therefore classified as a subsidiary at 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
9. Non–current receivables				
Loans receivable	**–**	12	**–**	–
Opening carrying amount	**19**	48	**–**	–
Net other movements during the year	**(19)**	(36)	**–**	–
Fair value adjustment	**–**	–	**–**	–
Other long term assets	**7**	7	**7**	7
	7	19	**7**	7

The Afrox Healthcare loans included in the comparative opening carrying amount are unsecured, bear interest at rates linked to the prime bank overdraft rate and are repayable between two and five years.

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
10. Retirement benefit asset				
Summary				
i) Pension funds	**114**	–	**114**	–
Post–retirement medical benefits	**63**	64	**63**	64
Disability fund	**–**	–	**–**	–
	177	64	**177**	64

ii) Pension and provident funds

The group has one pension fund and one provident fund. All employees are required to belong to either the defined benefit fund or the defined contribution fund. The pension fund is a defined benefit fund and the provident fund is a defined contribution fund. The funds are administered on behalf of the group by external financial service companies and trustees and are governed by the Pension Fund Act of 1956.

Actuarial valuations are made for the defined benefit fund in accordance with the respective pension fund rules. The defined contribution provident fund does not require an actuarial valuation, however a financial review is carried out annually, to determine the fund's solvency. The defined benefit fund is actuarially valued using the projected unit credit method. The defined benefit fund is closed to new members.

The assets of the schemes are held in administered funds separate from the group's assets.

The latest statutory valuation of the African Oxygen Ltd Pension Fund was made on 30 June 2006. At the time of the valuations, the fund was certified by the reporting actuaries as being in a sound financial position, subject to the continuation of their current contribution rates. In arriving at their conclusions, the actuaries took into account the following assumptions at the date of the valuation:

notes to the financial statements

for the year ended 30 September 2006

10. Retirement benefit asset *continued*

The following actuarial assumptions were applied:

	Company 2006 %	Company 2005 %
Discount rate	**9.00**	8.50
Consumer price inflation	**5.75**	4.50
Expected return on assets	**9.50**	9.50
Compensation increase rate	**6.75**	5.50
Pension increase rate	**5.75**	4.50

As a result of approval being obtained from the Financial Services Board for the nil surplus scheme submitted in respect of the group's defined benefit pension fund.
The valuation of the pension fund at 30 June 2006 has resulted in a surplus of R114m being identified.
In terms of IAS19 Para 59 this has been recognised in the African Oxygen Ltd balance sheet.
The group's obligation in respect of retirement benefits for African Oxygen Ltd Pension Fund is measured in terms of IAS 19 and is tabled below:

Fund status	2006 R'm	2005 R'm
Fair value of plan assets	**1 744**	1 470
Benefit obligation	**(1 289)**	(1 143)
Funded status	**455**	327
Unrecognised actuarial gain	**(282)**	(163)
	173	164
Unrecognised pension asset	**(59)**	(164)
Pension asset recognised at 30 September 2006	**114**	–
Movements in the net liability recognised in the balance sheet are as follows:		
Net asset at beginning of year	**164**	123
Net (expense)/income recognised in the income statement	**(12)**	19
Company contributions	**21**	22
Net asset at end of year	**173**	164
Amounts recognised in the income statement are as follows:		
Current service cost	**15**	15
Interest on obligation	**95**	92
Expected return on plan assets	**(134)**	(126)
	(24)	(19)
Amortisation: Unrecognised past service costs	**19**	–
Amortisation: Unrecognised net loss	**(1)**	–
Settlement costs	**18**	–
Change in the unrecognised pension asset	**(105)**	–
Total included in staff costs	**(93)**	(19)
Opening unrecognised actuarial (gain)/loss	**(163)**	(103)
Actuarial loss/(gain)	**151**	217
Actuarial gain on plan assets	**(270)**	(277)
Net unrecognised actuarial gain	**(282)**	(163)

for the year ended 30 September 2006

	Company	
	2006	2005
	%	%
10. Retirement benefit asset *continued*		
Percentage of fair value of assets made up of		
Equity instruments	**50**	63
Debt instruments	**10**	14
Property	**6**	2
Other assets	**34**	21
	100	100
	2006	2005
	R'm	R'm
Value of African Oxygen Limited shares held by the pension fund is	**3**	1

iii) Post-retirement medical benefits
Group and company
African Oxygen Ltd has a liability arising as a result of a post-employment subsidy of healthcare benefits.

Members of certain medical aid plans, who joined the company before 1 November 1996 and remain in the employment of African Oxygen Ltd until retirement, are eligible for a post-retirement subsidy of their medical aid contributions.

African Oxygen Ltd's contributions to this fund have been disclosed below.

African Oxygen Ltd is liable to make good any shortfalls in the fund.
The benefit fund meets the definition of a defined benefit plan and has been disclosed in accordance with IAS 19.
The plan assets represent the market value of the assets.
The defined benefit fund is actuarially valued using the projected unit credit method.
This benefit fund is a closed fund.

The following actuarial assumptions were applied:	**2006**	2005
	R'm	R'm
Discount rate (%)	**9.00**	8.50
Consumer price inflation (%)	**5.75**	4.50
Healthcare cost inflation (%)	**7.75**	6.50

The group's obligation in respect of this post-retirement medical aid benefit as measured in terms of IAS 19 are tabled below:

Fund status

Fair value of plan assets	**209**	273
Benefit obligation	**(159)**	(217)
Funded status	**50**	56
Unrecognised actuarial loss	**13**	7
Benefit asset recognised at 30 September 2006	**63**	63

Analysis of benefit obligation:

Projected benefit obligation as at 1 October 2005	**216**	203
Obligation transferred to Life Healthcare	**(72)**	–
Service cost	**3**	4
Interest cost	**22**	21
Benefits paid	**(10)**	(12)
Actuarial loss	**–**	–
Benefit obligation as at 30 September 2006	**159**	216

notes to the financial statements

for the year ended 30 September 2006

	Company	
	2006 R'm	2005 R'm
10. Retirement benefit asset *continued*		
Analysis of plan assets:		
Fund assets at 1 October 2006	**274**	228
Obligation transferred to Life Healthcare	**(72)**	–
Surplus disbursements	**(40)**	–
Growth attributable to prior years	**44**	32
	206	260
Expected return on plan assets	**19**	26
Benefits paid	**(10)**	(12)
Actuarial loss	**(6)**	–
Market value of plan assets at 30 September 2006	**209**	274
Amounts recognised in the income statement are as follows:		
Current service cost	**3**	5
Interest on obligation	**14**	21
Expected return on plan assets	**(19)**	(26)
Growth in fund	**44**	32
Total included in staff costs	**42**	32
Net unrecognised actuarial gain +		
Opening unrecognised actuarial loss/(gain)	**7**	7
Actuarial loss on plan assets	**6**	–
Net unrecognised actuarial loss	**13**	7
Comparative workings	**2006 %**	2005 %
The effect of an increase of one percentage point in the assumed medical cost rates trend would be to: (assuming all other assumptions stay constant)		
Adjust the asset by	**(3.90)**	(2.80)
The effect of an decrease of one percentage point in the assumed medical cost rates trend would be to: (assuming all other assumptions stay constant)		
Adjust the asset by	**3.10**	3.30

+ - the opening cumulative net unrecognised actuarial (gain)/loss in excess of the 10% corridor is recognised in the income statement over the average remaining working lives of the employees.

for the year ended 30 September 2006

	Company	
	2006 R'm	2005 R'm

10. Retirement benefit asset *continued*

iii) Disability fund

Group and company

African Oxygen Ltd has a liability to provide benefits to employees who become disabled during the course of their employment. African Oxygen Ltd made a lump sum contribution to this disability fund during 2005.
The plan assets represent the market value of the assets.
This disability fund has been actuarially valued using the projected unit credit method.

Fund status

	Company 2006 R'm	Company 2005 R'm
Fair value of plan assets	**16**	16
Benefit obligation	**(16)**	(16)
Benefit asset recognised at 30 September 2006	**–**	–

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
11. Deferred income tax				
Deferred income tax asset:				
- Deferred income tax asset to be recovered after more than 12 months				
- Deferred income tax asset to be recovered within 12 months	**(2)**	(3)	**–**	–
	(2)	(3)	**–**	–
Deferred income tax liability				
- Deferred income tax liability to be recovered after more than 12 months	**64**	52	**38**	25
- Deferred income tax liability to be recovered within 12 months	**89**	80	**79**	67
	153	132	**117**	92
	151	129	**117**	92
The net deferred income tax liability comprises:				
Capital allowances	**189**	211	**149**	151
Tax losses carried forward	**–**	(56)	**–**	–
Provisions and other	**(38)**	(26)	**(32)**	(59)
	151	129	**117**	92
Reconciliation of deferred income tax				
Opening balance	**129**	54	**92**	117
Under provision in prior years	**–**	(5)	**(22)**	(10)
Exchange adjustments and other	**–**	2	**(2)**	–
Disposal of subsidiary	**–**	117	**–**	–
Capital allowances	**43**	14	**37**	14
Provisions and other	**(21)**	(57)	**12**	(29)
Tax on equity–revaluation reserve	**–**	4	**–**	–
Closing balance	**151**	129	**117**	92

notes to the financial statements

for the year ended 30 September 2006

11. Deferred income tax *continued*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances is as follows:

Group	Accelerated tax depreciation R'm	Fair value gains R'm	Other R'm
At 1 October 2004	204	(150)	54
Charged to the income statement	2	62	64
Prior year	(27)	59	32
Charged to equity	–	(21)	(21)
At 30 September 2005	179	(50)	129
Charged to the income statement	10	12	22
At 30 September 2006	189	(38)	151
Company			
At 1 October 2004	144	(27)	117
Credited to the income statement	1	(2)	(1)
Charged to equity	–	(24)	(24)
At 30 September 2005	145	(53)	92
Credited to the income statement	4	44	48
Prior year	–	(23)	(23)
At 30 September 2006	149	(32)	117

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
The deferred income tax charged to equity during the year is as follows:				
Fair value reserves in shareholders' equity - land and buildings	–	(21)	–	(24)
	–	(21)	–	(24)

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
12. Inventories				
Raw materials	**65**	35	**55**	28
Work in progress	**10**	17	**3**	8
Finished goods	**377**	274	**280**	198
	452	326	**338**	234
Amount charged to the income statement	**1 396**	1 525	**966**	797
13. Trade and other receivables				
Trade receivables	**643**	512	**470**	393
Provision for doubtful debts	**(42)**	(27)	**(12)**	(12)
Net trade receivables	**601**	485	**458**	381
Other receivables	**29**	27	**42**	17
Prepayments	**2**	2	**6**	2
Deposits	**1**	2	**–**	–
Accrued income	**19**	19	**16**	15
	652	535	**522**	415

Receivables are carried at anticipated realisable value. An estimate is made for impairment, based on a review of all outstanding amounts at year end. Bad debts are written off during the period in which they are identified.

14. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
Cash on hand and favourable balances with banks	**448**	167	**377**	144
Bank overdrafts	**(15)**	(5)	**(10)**	(3)
	433	162	**367**	141
Cash and cash equivalents consist of the following:				
South African Rand	**385**	132	**367**	141
Foreign currencies	**48**	30	**–**	–
	433	162	**367**	141

notes to the financial statements

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	2006 R'm	2005 R'm
15. Share capital and share premium				
Group and company				
Authorised				
Ordinary shares - 350 000 000 of 5 cents each	17	17	17	17

	Number of shares	Ordinary shares R'm	Share premium R'm	Total R'm
Group				
Issued				
Total shares in issue	342 852 910	17	537	554
Treasury shares held by subsidiary	(34 285 308)	(2)	–	(2)
At 30 September 2005	308 567 602	15	537	552
Changes in share capital and share premium	–	–	–	–
At 30 September 2006	**308 567 602**	**15**	**537**	**552**
Company				
Issued				
At 30 September 2005	342 852 910	17	537	554
Changes in share capital and share premium	–	–	–	–
At 30 September 2006	**342 852 910**	**17**	**537**	**554**

During 2005 African Oxygen Limited's wholly–owned subsidiary, Afrox African Investments (Pty) Ltd., acquired 34 285 308 ordinary shares of African Oxygen Limited. These shares are being held as treasury shares.

The unissued shares remain under the control of the directors until the next annual general meeting, subject to the provisions of, section 221 and 222 of the Companies Act of 1973 as amended and the rules and directives of the JSE Limited respectively. All issued shares are fully paid.

BOC Holdings owns 50.47% of African Oxygen Limited (Company), but from a Group perspective, BOC Holdings owns 56.08% of the group's shares. The ultimate beneficial shareholder is The Linde Group.

	Group		Company	
	2006 R'm	2005 R'm	2006 R'm	2005 R'm
16. Long–term borrowings				
Unsecured loans	516	524	510	517
	516	524	510	517
Less: current portion of interest bearing borrowings	(205)	(57)	(205)	(57)
	311	467	305	460
Analysis:				
South African Rand	311	467	305	460
	311	467	305	460

for the year ended 30 September 2006

	Date of final repayment	2006 %	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
16. Long-term borrowings *continued*						
Terms of repayment						
- Unsecured loans						
In full on repayment date, interest half-yearly in arrears	10/2005	16.16	–	20	–	20
In half yearly repayments with interest	12/2005	9.18	–	28	–	28
In full on repayment date, interest quarterly in arrears	08/2008	7.90	100	100	100	100
In full on repayment date, interest quarterly in arrears	09/2008	7.90	50	–	50	–
In full on repayment date, interest quarterly in arrears	07/2008	8.23	150	150	150	150
In full on repayment date, interest quarterly in arrears	07/2007	8.18	100	100	100	100
In full on repayment date, interest quarterly in arrears	07/2008	7.98	100	100	100	100
In half yearly repayments with interest	03/2008	11.74	10	19	10	19
In half yearly repayments with interest	03/2008	12.00	6	7	–	–
			516	524	510	517
Less: current portion of interest bearing borrowings			(205)	(57)	(205)	(57)
			311	467	305	460
Minimum repayments of borrowings:						
One to two years			205	57	205	57
Two to five years			311	467	305	460
			516	524	510	517

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
17. Trade and other payables				
Trade payables	395	301	335	257
Cylinder deposits	107	76	86	58
Value added taxation	1	10	(5)	7
Interest accrual	12	8	12	8
Provision for share appreciation rights	104	123	101	120
Employee benefits including leave pay	118	46	99	43
Other payables	92	92	70	50
	829	656	698	543

Other payables include employee related costs and sundry accruals.

notes to the financial statements

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
18. Provisions				
Other provisions	**–**	52	**–**	52
	–	52	**–**	52

Movement in provisions: R'm	**Healthcare warranty cost**	**Other**	**Total**
At 1 October 2004	–	16	16
- additional provisions	40	–	40
Used during the year	–	(4)	(4)
At 30 September 2005	40	12	52
At 1 October 2005	40	12	52
- unused amounts reversed	–	(12)	(12)
Provisions sold through disposal of subsidiary	(40)	–	(40)
At 30 September 2006	–	–	–

Healthcare warranty costs
These amounts related to certain warranties given at the time of the sale of the healthcare subsidiary in March 2005.

	Note	Group		Company	
		2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
19. Revenue					
Sale of goods		**3 914**	3 278	**3 164**	2 663
Revenue from services		**–**	2 476	**–**	–
		3 914	5 754	**3 164**	2 663

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
20. Profit from operations				
Profit from operations is shown after taking the following into account:				
Income				
- Dividends received from subsidiaries - unlisted	**–**	–	**91**	257
- Preference dividends received from associates	**14**	11	**14**	11
- Profit on disposal of property, plant and equipment	**2**	3	**–**	–
- Management fees from subsidiaries	**–**	–	**49**	39
Expenses				
- Auditors' remuneration	**5**	7	**3**	2
Audit Fees - current	**5**	7	**3**	2
- prior year under provision	**–**	–	**–**	-
- Amortisation of intangibles (note 3)	**2**	2	**1**	1
- Depreciation of property, plant and equipment (note 2)				
Owned:	**202**	260	**166**	154
Freehold properties	**3**	18	**1**	–
Plant and equipment	**114**	147	**87**	79
Cylinders	**49**	44	**46**	42
Vehicles	**22**	21	**19**	18
Furniture and fittings	**14**	30	**13**	15
Impairment of assets (Note 21)	**21**	11	**24**	(13)
- Operating lease charges	**16**	97	**22**	20
Property	**13**	81	**19**	16
Equipment	**3**	16	**3**	4
- Directors' emoluments			**28**	8
Executives				
For services as directors			**27**	7
Non-executives				
Fees			**1**	1
Pension paid to former directors			**–**	–

For a detailed breakdown of the directors' emoluments see note 27

notes to the financial statements

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
20. Profit from operations *continued*				
- Staff costs	**791**	1 417	**692**	637
Wages and salaries	**741**	1 275	**651**	570
Pension costs–defined benefit and defined contribution plan expenses	**17**	30	**40**	18
Post retirement income–pension surplus*	**(114)**	–	**(114)**	–
Provident costs–defined contributions	**61**	55	**34**	28
Cost of SARS vesting early because of change of control	**58**		**58**	
Medical aid current contribution for employees	**28**	57	**23**	21
Inventory written off	**5**	5	**2**	4
Inventory previously written off, written back	**–**	3	**–**	3
- Loss on disposal of property, plant and equipment	**(3)**	(3)	**(1)**	(1)
- Foreign exchange losses	**(1)**	(6)	**–**	(5)

*As a result of approval being obtained from the Financial Services Board for the nil surplus scheme submitted in respect of the group's defined benefit pension fund, a pension fund asset has been recognised on the balance sheet as at 30 September 2006 with a corresponding amount being credited to the income statement.

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
21. Impairment of assets				
- Impairment of goodwill (note 4)	**(21)**	(8)	**–**	–
- Reversal of impairment of trade and subsidiary investments	**–**	–	**–**	17
- Impairment of trade and subsidiary investments	**–**	(4)	**(24)**	(4)
	(21)	(12)	**(24)**	13

Reversal of impairment of trade and subsidiary investments
The impairment on the trade and subsidiary investment was reversed as the relevant subsidiaries had been returned to a profitable state.

Estimated impairment of trade investment
This amount represents the estimated reduction in value of investments as a result of the reduction in profitability of these investments.
The impairment results from revaluing the loans and investments of Petrogas Lda.
The face value of the loans held by the company is not believed to be recoverable and has been impaired immediately after acquisition of the balance of shares in the investment.

Estimated impairment of goodwill
The group tests annually whether goodwill has suffered any impairment.
The recoverable amounts of cash-generating units have been determined as the lower of value-in-use or fair value less costs to sell.

For all the CGU identifed value in use was the value determined to be the lower of the two amounts.
These calculations require the use of estimates (see on next page).
The impairment of goodwill arises in 2 companies:

IGL (Pty) Ltd in Namibia had an investment that was of no further value to the company. The amount of R3 million was written off in order to reduce the carrying value of this goodwill to zero.

An amount of approximately R18 million in goodwill was recognised when the additional investment was made in Petrogas Lda in Mozambique. As noted above some of the assets may not be recoverable.
We have therefore impaired the goodwill in the group to recognise this.

for the year ended 30 September 2006

		Group		Company	
		2006 R'm	2005 R'm	**2006 R'm**	2005 R'm

21. Impairment of assets *continued*

Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGU's) identified according to location of operation and business segment.

A summary of the goodwill impairment allocation is presented below:

Cash-generating units		Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
IGL (Pty) Limited	Subsidiary	**(3)**	–	**–**	–
Petrogas Lda	Subsidiary	**(18)**	–	**–**	–
Afrox Healthcare subsidiaries		**–**	(6)	**–**	–
Namibia	Subsidiary	**–**	(2)	**–**	–
		(21)	(8)	**–**	–

The recoverable amount of a CGU is determined based on value-in-use calculations.
These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extracted based on the estimated growth rates stated below.

Key assumptions used for value-in-use calculations: %

Cash-generating units	**IGD Natal**	**Botswana**	**ElectroGas**
Average annual revenue growth	15-23	10-13	3
Gross margin (1)	48	34	50
Annual increase in expenses	15-23	10-13	3
Discount rate (2)	19	19	20

	Drury	**Twinco**	**Chemoxy**
Average annual revenue growth	3	40-65	7
Gross margin (1)	45	20-30	47
Annual increase in expenses	3	40-65	15-21
Discount rate (2)	20	20	35

(1) = Budgeted gross margin
(2) = Post-tax discount rate applied to the cash flow projections

These assumptions have been used for analysis of each CGU within the business segment.
Management determined budgeted gross margin based on past performance and its expectations for the market development. The annual growth rates are determined based on market forecasts. The discount rates used are post-tax and reflect specific risks relating to the relevant CGUs.

Effect of changes in management's assumptions

If the projected discount rates used had been increased by 10% then an imparment to goodwill would be required at Chemoxy of R200 000. No other CGU would be affected.

If the budgeted gross margins had been lowered by 10% then an impairment to goodwill of R4 million would be required at Chemoxy. No other CGU would be affected.

If projected growth was 10% lower than forecast then – goodwill would not be impaired in any of the CGU.

If overheads had been 10% higher then an impairment to goodwill of R0.6 million would be required at Chemoxy.
No other CGU would have been affected.

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for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
22. Profit on sale of investment and impairment reversal				
Reversal of previously recognised impairment losses	**–**	–	**–**	17
Net profit on sale of investment	**286**	941	**408**	1 558
	286	941	**408**	1 575
Profit on sale of investment				
Gross profit on sale of investment	**362**	1 085	**484**	1 702
Taxation	**(76)**	(144)	**(76)**	(144)
Net profit on sale of investment	**286**	941	**408**	1 558

2006

On 29 September 2006 the remaining 20.1% stake in *Life Healthcare Group Holdings (see note below) was disposed of. This disposal of the remaining interest in the healthcare business resulted in a profit in 2006 of R362 million on the transaction, after taking into account the costs of disposal.

The group has equity accounted for any profits earned by the Life Healthcare Group Holdings until the date of disposal.

Life Healthcare was previously known as Business Venture Investments No 790 (Pty) Ltd and was the purchaser of the entire share capital of Afrox Healthcare Limited as of 23 March 2005. Life Healthcare is the holding company of Life Healthcare Group (Pty) Ltd (LHG), a private healthcare service provider in South Africa.

2005

On 23 March 2005, after obtaining approval from the Tribunal of the Competitions Commission, African Oxygen Limited disposed of its 68% shareholding in Afrox Healthcare Limited, and purchased a 20.1% interest in Business Venture Investments 790 (Pty) Ltd (Bidco), a BEE consortium led by Brimstone Investment Corporation Limited and Mvelaphanda Strategic Investments (Pty) Limited.

Effectively the transaction reduced the group's holdings in the healthcare segment from 68% to 20.1%.
The partial disposal of the healthcare business resulted in a profit in 2005 of R1 085 million on the transaction, after taking into account the costs of disposal.

*The group has equity accounted for any profits earned by the Bidco associate after the date of sale.

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
23. Finance (costs)/income				
Interest paid:				
On borrowings	**(42)**	(57)	**(41)**	(44)
Less interest capitalised	**3**	–	**3**	–
On finance leases (properties)	**–**	(4)	**–**	–
	(39)	(61)	**(38)**	(44)
Interest received	**4**	62	**3**	51
	(35)	1	**(35)**	7

24. Operating leases

The group leases certain of its property, plant and equipment in terms of operating leases.

	Total future minimum lease payments under non-cancelable operating leases			
Not later than 1 year	**12**	12	**12**	12
Between 1 and 5 years	**21**	24	**20**	23
	33	36	**32**	35

Leases of motor vehicles are for 36 months and are not subject to annual increases or other contingent rental changes. Interest rates are floating and linked to the prime lending rate.

Leases of buildings are of varying lengths. Contingent rentals take the form of variable increases in monthly fees linked to various indices depending on the contract signed with the building landlord.

25. Income tax expense

- S.A. normal taxation	**284**	409	**242**	269
Current	**186**	285	**135**	136
Capital gains tax	**76**	144	**76**	144
Prior year	**6**	1	**4**	3
Deferred tax				
Current	**38**	(16)	**49**	(4)
Prior year	**(22)**	(5)	**(22)**	(10)
- Secondary taxation on companies	**32**	214	**32**	206
- Ordinary dividends	**32**	36	**32**	28
- Special dividend	**–**	178	**–**	178
- Net receipt flowing from participation in vesting trust	**–**	–	**(11)**	(11)
Current	**–**	–	**(11)**	(11)
Prior year	**–**	–	**–**	-
	316	623	**263**	464

notes to the financial statements

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
25. Income tax expense *continued*				
Reconciliation of taxation charge				
Profit before taxation	**1 181**	2 069	**1 134**	2 442
Taxation calculated at a statutory tax rate of 29% (2005: 29%)	**343**	600	**329**	708
Income not subject to taxation	**(63)**	(200)	**(162)**	(443)
Prior year adjustments	**–**	(5)		(7)
Expenses not deductible for taxation purposes	**9**	15	**69**	1
Effect of non-resident shareholders' taxation	**(5)**	(1)	**(5)**	(1)
Secondary taxation on companies	**32**	214	**32**	206
Income tax expense	**316**	623	**263**	464
Effective tax rate	**26.7**	30.1	**23.2**	19.0

Available STC credits at year-end amount to R nil (2005: R nil).

Subsidiaries within the group have estimated tax losses of R nil (2005: R nil) available to be offset against future taxable income.

26. Earnings and headline earnings per share

Group earnings per share are calculated on earnings of R858 m (2005: R1 350 m) and a weighted average number of ordinary shares of 308 567 602 (2005: 334 587 037) in issue during the year.

Group headline earnings per share are calculated on headline earnings of R591m (2005: R428 m) and a weighted average number of ordinary shares of 308 567 602 (2005: 334 587 037) in issue during the year.

Group

Reconciliation of the weighted average number of ordinary shares

Balance at beginning of year	**308 567 602**	342 853 084
Shares cancelled	**–**	(42)
Shares held by a subsidiary in respect of share buyback (4 July 2005)	**–**	(8 266 005)
	308 567 602	334 587 037

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	2006 R'm	2005 R'm
26. Earnings and headline earnings per share *continued*				
Group				
Reconciliation between earnings and headline earnings				
Net profit/earnings for the year	858	1 350		
Adjustments for:				
- Profit on sale of investment	(362)	(1 085)		
- Capital gains tax on sale of investment	76	144		
- Transaction costs within associate investment	–	14		
- Taxation effect on transaction costs within associate investment	–	(4)		
- Impairment of trade and subsidiary investments	–	4		
Add back goodwill impairment/amortised	21	8		
Profit on disposal of property, plant and equipment	(2)	(3)		
Headline earnings	591	428		
Headline earnings per ordinary share (cents)	191.4	127.9		
The effect of the changes in accounting policy on headline earnings was as follows (see note 38)				
Basic earnings originally stated prior year		1 365		
IFRS adjustments		(15)		
Basic earnings restated		1 350		
Decrease on basic earnings per share (cents)		(4.6)		
Headline earnings originally stated prior year		477		
IFRS adjustments		(49)		
Headline earnings restated		428		
Decrease on headline earnings per share (cents)		(14.7)		

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	Months paid 2006	Fees	Remun-eration	Retirement medical	Performance bonus	Benefits allowances gains on share incentives	Total 2006	2005
27. Director's emoluments (R'000)								
Non-executive directors								
Current								
L A MacNair	12	146	–	–	–	–	146	130
L van Niekerk	12	154					154	48
K Mokhele	10	68	–	–	–	–	68	–
D Lawrence	10	68	–	–	–	–	68	–
S Pityana	10	68	–	–	–	–	68	–
Former								
G S Sibiya	–	–	–	–	–	–	–	10
C B Strauss	5	80	–	69	–	–	149	108
R G Cottrell	5	71	–	–	–	–	71	157
	–	655	–	69	–	–	724	453
Executive directors								
R L Hogben	12	–	2 092	443	1 381	16 284	20 200	5 239
C J P G van Zyl	12	–	1 234	143	555	5 361	7 293	2 153
		–	3 326	586	1 936	21 645	27 493	7 392
Total emoluments		655	3 326	655	1 936	21 645	28 217	7 845
Non-executive director paid by subsidiary								
R G Cottrell	–	–	–	–	–	–	–	41
L A MacNair	12	30					30	–
Executive director paid by subsidiary in which they were directors								
C J P G van Zyl	–	–	–	–	–	–	–	943
R L Hogben	–	–	–	–	–	–	–	475

Messrs Masters, Cullens, Ferguson, Ford and Shook do not receive any emoluments from Afrox or its subsidiaries.

The following executive directors have share appreciation rights :

	2006		2005	
	Vested No. of rights (exercisable)	**Non-vested No. of rights (not yet exercisable)**	Vested No. of rights (exercisable)	Non-vested No. of rights (not yet exercisable)
R L Hogben	**210 150**	**–**	4 500	481 625
C J P G van Zyl	**62 050**	**52 000**	–	291 000
	272 200	**52 000**	4 500	772 625

The company has recognised a liability on the difference between the issue price and the actual exercise price.
Non-executive directors do not participate in the group's incentive programmes, nor is their remuneration pensionable.

for the year ended 30 September 2006

27. Director's emoluments (R'000) *continued*

Shareholding of directors	2006 Beneficial	2006 Non-beneficial	2005 Beneficial	2005 Non-beneficial
Executive directors				
R L Hogben	105		105	
C J P G van Zyl	108		108	
Non-executive independent directors				
L A MacNair * ^	1 962		1 962	
L van Niekerk * ~	108		108	
D Lawrence ~	500		–	
K Mokhele + ~				
S Pityana + ^				
Non-executive directors				
J K Masters ~ +		100		100
A Ferguson *		100		100
A J Cullens + ^		100		100
J A Ford		100		100

* Audit committee member
+ Transformation committee member
~ Governance and nomination committee member
^ Management resource committee member

Interest of directors in contracts

The directors have certified that they were not personally materially interested in any transaction of any significance with the company or any of its subsidiaries. Accordingly, a conflict of interest with regard to directors' interest in contracts does not exist.

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
28. Dividends				
Final dividend number 157 paid on 31 January 2005: 31 cents per share		106		106
Special dividend paid on 27 June 2005: 415 cents per share		1 423		1 423
Interim dividend number 158 paid on 25 July 2005: 40 cents per share		124		137
Final dividend number 159 paid on 30 January 2006: 40 cents per share	124		137	
Interim dividend number 160 paid on 31 July 2006: 48 cents per share	148		165	
	272	1 653	302	1 666

	2006	2005
Dividends per share (cents)	148.0	495.0
Final	40.0	40.0
Special dividend	60.0	415.0
Interim	48.0	40.0

notes to the financial statements

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
29. Reconciliation of net profit before taxation to cash generated from operations				
Profit before taxation	**1 181**	2 069	**1 134**	2 442
Adjustments for :				
Depreciation	**202**	260	**166**	154
Foreign exchange loss	**5**	(2)	**–**	–
Other reserve movements	**(11)**	17	**22**	(3)
Reversal of income from associates	**(100)**	(60)	**–**	–
Profit on disposal of property, plant and equipment	**(3)**	(3)	**(1)**	–
Profit on disposal of company	**(362)**	(1 087)	**(484)**	(1 684)
Impairment of goodwill	**21**	8	**–**	–
Impairment of investment	**–**	–	**24**	–
Other non–cash movements	**(1)**	(6)	**20**	(9)
Amortisation of intangibles	**2**	2	**1**	1
Post retirement medical aid provision – non–cash	**–**	(31)	**–**	(31)
Investment income	**(7)**	(11)	**(98)**	(268)
Finance costs/(income)	**35**	(1)	**35**	(7)
Operating profit before working capital changes	**962**	1,155	**819**	595
Working capital changes	**(215)**	(201)	**(255)**	219
(Increase) in inventories	**(127)**	(41)	**(104)**	(29)
(Increase)/decrease in trade and other receivables	**(162)**	(347)	**(154)**	47
Increase/(decrease) in group company loans	**20**	(18)	**20**	(18)
Increase/(decrease) in trade and other payables	**54**	205	**(17)**	219
Cash generated from operations	**747**	954	**564**	814
30. Normal and secondary taxation paid				
Taxation liability at beginning of year	**(224)**	(131)	**(194)**	(63)
Disposal of subsidiaries (note 32)	**–**	12	**–**	–
Income statement charge (excluding deferred tax) (note 25)	**(299)**	(643)	**(236)**	(478)
Currency translation differences	**–**	(2)	**–**	–
Taxation liability at end of year	**122**	224	**79**	194
	(401)	(540)	**(351)**	(347)
31. Dividends paid				
Ordinary dividends	**(272)**	(230)	**(302)**	(243)
Special dividends paid out of the profit on sale of investment	**–**	(1 423)	**–**	(1 423)
	(272)	(1 653)	**(302)**	(1 666)

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm

32. (Acquisition)/disposal of subsidiaries

Acquisitions

2006

African Oxygen Limited acquired the assets and liabilities of Industrial Gases Distributor (Durban) (Pty) Limited and Industrial Gases Distributer (Midlands) (Pty) Limited on 1 March 2006.

African Oxygen Limited acquired the outstanding 51% of the shares in Petrogas, Lda on 30 September 2006. The accounting for this acquisition is provisional.

2005

Subsidiaries acquired represent Kiddo Investments acquired 1 April 2005 and increases in various other subsidiaries acquired by Afrox Healthcare Limited.

African Oxygen Limited also acquired the assets and liabilities of TwinCo (Pty) Ltd on 1 April 2005 as well as the assets and liabilities of Electrogas (Pty) Ltd on 1 May 2005.

The fair value of (assets acquired)/liabilities assumed are as follows:

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
Inventories	**–**	(9)	**–**	(1)
Trade receivables	**–**	(16)	**(24)**	(4)
Property, plant and equipment	**–**	(71)	**–**	(1)
Shares in associated companies/subsidiary	**(4)**	(16)	**(4)**	–
Minorities	**–**	(1)	**–**	–
Intangibles	**–**	(15)	**–**	(1)
Goodwill on acquisition	**(23)**	(29)	**(5)**	(3)
Interest bearing borrowings	**–**	17	**–**	–
Trade payables	**–**	32	**–**	–
Other payables	**22**	12	**28**	–
Taxation	**–**	2	**–**	–
Deferred tax	**–**	1	**–**	–
Total purchase price	**(5)**	(93)	**(5)**	(10)
Less: cash	**–**	–	**–**	–
Cash flow on acquisition net of cash acquired	**(5)**	(93)	**(5)**	(10)

The recognition of goodwill on acquisitions resulted from the acquisition of the two industrial gas distributor companies. Although an existing customer base was taken over, there are no contracts with these customers. As a result of this, no value could be assigned to intangible assets and the balance paid was allocated to goodwill.

Disposals

2006

On 29 September 2006 the remaining 20.1% stake in Life Healthcare Group Holdings was disposed of for R850m. The proceeds of the sale of Life Healthcare Group are included on the associate and investment line on the cash flow.

The transaction generated an after tax profit of R286m.

Life Healthcare was previously known as Business Venture Investments No 790 (Pty) Ltd and was the purchaser of the entire share capital of Afrox Healthcare Limited as of 23 March 2005. Life Healthcare is the holding company of Life Healthcare Group (Pty) Ltd (LHG), a private healthcare service provider in South Africa.

notes to the financial statements

for the year ended 30 September 2006

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm

32. (Acquisition)/disposal of subsidiaries *continued*

2005

On 22 March 2005, African Oxygen Limited disposed of its 68% shareholding in Afrox Healthcare Limited for R2.3 billion, and purchased a 20.1% interest in Business Venture Investments 790 (Pty) Ltd (Bidco), a BEE consortium led by Brimstone Investment Corporation Limited and Mvelaphanda Strategic Investments (Pty) Limited, for R375m on 23 March 2005. The associate investment in Bidco is included on the associate and investment line on the cash flow statement.
The transaction generated an after tax accounting profit of R941m.

Afrox Healthcare Limited also decreased its shareholding in certain subsidiaries and associates prior to the date of its disposal by African Oxygen Limited, and these disposals are also included in the disposal schedule below.
These transactions generated an after tax accounting profit of R2m.

The fair value of assets disposed/(liabilities disposed) are as follows:

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
Inventories	–	131	–	–
Trade receivables	–	1 019	–	–
Property, plant and equipment (note 2)	–	1 939	–	–
Shares in associated companies/subsidiary	–	163	–	–
Investments	–	–	–	514
Minorities	–	(792)	–	–
Intangibles	–	1	–	–
Interest bearing borrowings	–	(703)	–	–
Trade payables	–	(896)	–	–
Taxation	–	(15)	–	–
Deferred tax	–	120	–	–
Total sales price	–	967	–	514
Goodwill	–	160	–	–
Profit on disposal of interest	–	1 087	–	1 684
Cash flow on disposal	–	2 214	–	2 198
Analysis of consideration				
– Cash received	–	2 318	–	2 318
– Other payables	–	(104)	–	(120)
	–	2 214	–	2 198

for the year ended 30 September 2006

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm

33. Related party transactions

Various transactions are entered into by the company and its subsidiaries during the year between related parties. Unless specifically disclosed, these transactions occurred under terms that are no less favourable than those entered into with third parties.

Related party transactions with related parties

Shareholders

Details on the shareholders of the company are disclosed on page 66 and 67. (Shareholders' profile).

Holding company

The parent company of African Oxygen Limited is BOC Holdings.
The ultimate parent company is The Linde Group

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
Cash dividends	152	927		
Technical aid fee	14	11		
Amounts outstanding on trade payables:				
BOC Windlesham	–	2		
African Oxygen Investments				
Investments in subsidiaries, associated companies and trade investments are detailed on pages 138 and 139.				
Revenue from sale of goods:				
Les Gaz Industriels Limited	2	2		
BOC Gases Zambia plc	17	15		
BOC Malawi Limited	6	4		
Amounts outstanding on trade receivables:				
BOC Gases Zambia plc	3	2		
IGL (Pty) Ltd	3	2		
BOC Malawi Limited	1	1		
These transactions are at arm's length.				
Dividend received:				
Life Healthcare Group (Pty) Limited preference dividend	14	11		
Fellow subsidiaries of holding company				
Revenue from sale of goods:				
BOC Kenya	5	4		
BOC Nigeria	2	3		
BOC Zimbabwe	18	15		
BOC Australia	22	21		
BOC New Zealand	2	3		
Amounts outstanding on trade receivables:				
BOC Kenya	1	1		
BOC Zimbabwe	–	8		
BOC Australia	–	5		
BOC Nigeria	4	2		

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	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm

33. Related party transactions *continued*

No debts of related parties have been provided for. There was no expense for bad debt of related parties.
All outstanding amounts from related parties are unsecured.

Key management personnel
Key management is defined as executive directors and non-executive directors.
Directors' emoluments are disclosed in note 27.
The directors are listed in the directors' report.
No loans were made to or received from any director.

34. Commitments

	Group 2006 R'm	Group 2005 R'm	Company 2006 R'm	Company 2005 R'm
Capital expenditure				
Contracted	**50**	–	**50**	–
Authorised by the directors, but not yet contracted for	**617**	624	**531**	616
Total future capital expenditure	**667**	624	**581**	616
Split between				
Intangibles	**72**	30	**72**	30
Property, plant and equipment	**595**	594	**509**	586

It is intended to finance capital expenditure from surpluses generated and borrowing facilities available.

35. Share Appreciation Rights

African Oxygen Limited has issued share appreciation rights to some of its employees as a performance incentive and as long service awards. These rights are issued at the prevailing market price at the date of issue. The rights are valid for ten years and become vested after four years. The right-holders are entitled to the appreciation in the share price from the date of issue to the date the right is exercised. There are no incentive schemes at the subsidiary level. Employees of subsidiaries participate in the above mentioned share appreciation rights scheme.

	Group 2006	Group 2005
The provision in respect of Share Appreciation Rights is as follows	**104**	123
The following SARS are in issue: (number of rights)		
No of SARS allocated at 1 October 2005	**14 274 457**	15 367 532
Allocations during the year	**5 654 910**	2 857 375
SARS redeemed and terminations	**(9 017 713)**	(3 950 450)
No of SARS issued at 30 September 2006	**10 911 654**	14 274 457
Number of vested SARS at 30 September 2006	**8 213 654**	1 470 500
Number of unvested SARS at 30 September 2006	**2 698 000**	12 803 957
Total SARS issued at 30 September 2006	**10 911 654**	14 274 457

for the year ended 30 September 2006

35. Share Appreciation Rights *continued*

The following expiry dates applied to the SARS in issue at 30 September 2006

Expiry date	No of SARS	Net cash flow on exercise of SAR R'm
2007	344 800	8
2008	73 750	2
2009	277 000	6
2010	32 000	1
2011	192 750	4
2012	858 500	19
2013	1 203 500	25
2014	1 356 193	21
2015	1 546 475	15
2016	5 026 686	2

The range of Issuing prices of these SARS is as follows:

No of SARS	Price Range
1 248 300	7.00 - 7.99
1 184 000	8.00 - 8.99
506 500	9.00 - 11.00
1 338 693	11.00 - 14.99
1 477 725	15.00 - 20.99
2 458 436	21.00 - 24.67
2 698 000	24.68 - 30.00

The following Share Appreciation Rights were issued during the year:

No of SARS issued	5 654 910
Average issue price	R29.01

The following Share Appreciation Rights were redeemed during the year:

No of SARS redeemed	8 859 144
Total gain on encashing of SARS	R161m
Weighted average share price at the date of exercise of option	R30.69

Fair value of Share Appreciation Rights and assumptions

Share linked incentives granted to employees have been valued using the Black Scholes model

Share price	R29.50
Expected volatility	20%
Dividend yield	2.7%
Risk free interest rate	10.4%

The expected volatility is based on the historic volatility, adjusted for once-off events in the historic volatility and for any changes to expected future volatility due to publicly available information.

As a result of the change of control of the group's ultimate holding company, SARS in issue at 5 September 2006 have been deemed to vest. An additional charge has been taken in the operating profit. This was to the expense for all the unvested SARS vesting now rather than being charged over the normal four year vesting period.

This additional cost of the SARS vesting early is reflected in the operating profit and amounts to R58m.

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36. Financial instruments

Interest rate risk

The group is exposed to interest rate risk as it borrows funds at fixed and variable rates from financial institutions. It also places funds at institutions at variable and fixed rates. The risk is managed by maintaining an appropriate mix between fixed and variable rates at different financial institutions.

The group's exposure to interest rate risk and the effective interest rate on financial assets and liabilities at the balance sheet date are:

	Weighted average effective interest rate %	Floating interest rate R'm	Fixed interest rate maturing 1 year or less R'm	Fixed interest rate maturing 1 to 5 years R'm	Non-interest bearing R'm	Book value 2006 R'm	Total book value 2005 R'm
Assets							
Derivatives							
Foreign exchange contracts - hedging		22	–	–	–	22	–
Foreign exchange contracts		12	–	–	–	12	–
Financial assets at fair value through profit and loss							
Staff loans	10.5	20	–	–	–	20	8
Cash and cash equivalents	7.9	448	–	–	–	448	167
Loans and receivable							
Trade and other receivables		–	–	–	652	652	536
Non-current assets		184	–	–	84	268	132
Available for sale financial assets							
Investments in associates and trade investments		–	–	–	11	11	377
Total financial assets		686	–	–	747	1 433	1 220
Liabilities							
Financial liabilities at fair value through profit and loss							
Foreign exchange contracts		–	–	–	–	–	4
Other financial liabilities							
Bank overdraft	10.0	15	–	–	–	15	5
Trade and other payables		–	–	–	829	829	656
Current portion of interest bearing borrowings	8.0	105	100	–	–	205	57
Interest bearing borrowings	8.1	111	–	200	–	311	467
Total financial liabilities		231	100	200	829	1 360	1 189
Net financial assets/(liabilities)		455	(100)	(200)	(82)	73	31

for the year ended 30 September 2006

36. Financial instruments *continued*

Bank loans

Bank loans are with reputable banking institutions and all repayment and security details are included in note 16.

Credit risk

Financial assets that potentially subject the group to concentrations of credit risk consist principally of cash and cash equivalents, investments in associates, trade receivables, other investments and non-current receivables.

The group's cash equivalents are placed with high credit rated financial institutions. Trade receivables are presented net of the impairments. Credit risk with respect to trade receivables is limited due to a large customer base, spread across various geographical areas and industries.
The group has no significant exposure to any single customer or counter party that is of major concern.

The carrying amounts of financial assets included in the balance sheet represent the group's exposure to credit risk in relation to these assets. At 30 September 2006 the group did not consider there to be a significant concentration of credit risk that had not been adequately provided for.

Liquidity risk management

The group manages liquidity risk by utilising a central treasury function and monitoring forecasted cash flows. The group's borrowing powers are determined by the articles of association of the company.

Fair values

The carrying values of cash resources, trade receivables, trade payables, accrued expenses and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities.

The fair value of borrowings are all equal to the face value on the loans as the borrowings are at variable rates.

The fair values of other long-term financial assets and long-term liabilities are not significantly different to their carrying values. Where applicable, the carrying values of certain loans were adjusted to reflect the fair value as disclosed in notes 9 and 13.

Hedging

Cash flow hedges

(a) The following cash flow hedges have been entered into in order to minimise the risk of exchange rate fluctuations on the purchase of large components for the construction of fixed assets.

	Group		Company	
	2006 R'm	2005 R'm	**2006 R'm**	2005 R'm
Gains and losses through equity				
The following amounts have been recognised in equity during the year (see change in equity statement)	**22**	–	**22**	–

notes to the financial statements

for the year ended 30 September 2006

36. Financial instruments *continued*

Foreign currency exposure

Loans

In terms of the group's policy, all material foreign currency loans are covered under forward exchange contracts.

Trade exposure

The group has entered into certain forward contracts, which do not relate to specific items in the balance sheet, but which were entered into to cover foreign commitments not yet due and proceeds which are not yet receivable. The contracts will be utilised for purposes of trade and interest commitments on loans detailed above during 2006.

Details of significant contracts are as follows:

	Foreign amount 'm	2006 Average rate	Rand amount 'm
Assets			
US dollars	10	7.0	69
British pounds	2	11.9	27
Australian dollars	–	5.4	1
Euro	24	8.7	211
Other	–	–	1
			309
Liabilities			
US dollars	–	12.7	2
Australian dollars	–	5.4	2
			4

	Foreign amount 'm	2005 Average rate	Rand amount 'm
Assets			
US dollars	7	6.6	45
British pounds	1	11.6	10
Euro	9	8.1	72
			127
Liabilities			
US dollars	–	6.5	1
British pounds	1	11.7	9
Australian dollars	–	4.9	1
			11

The fair values of forward exchange contracts are determined using the relevant market forward exchange rates.

for the year ended 30 September 2006

	2006	2005
37. Exchange rates to South African Rand		
Year-end rates:		
US dollar	**7.75**	6.36
British pound	**14.51**	11.25
Euro	**9.87**	7.65
Average rates for the year:		
US dollar	**6.59**	6.24
British pound	**11.86**	11.45
Euro	**8.12**	7.96

38. IFRS reconciliation

Supplementary notes to the adoption of International Financial Reporting Standards

Basis of preparation

The group has adopted International Financial Reporting Standards (IFRS) for the year ending 30 September 2006.

Accounting policies adopted under IFRS have been applied consistently in preparing the financial statements for the year ended 30 September 2006, the comparative information for the year ended 30 September 2005 and the opening balance sheet on 1 October 2004.

An explanation of how the transition to IFRS and other adjustments have affected the previous financial position and performance of the group is provided below.

Reconciliation SA GAAP to IFRS

During the current financial year ending 30 September 2006, African Oxygen Limited (Afrox) adopted IFRS for the first time. This has required Afrox to restate its opening balance sheet at 1 October 2004 and the beginning of the financial year ended 30 September 2005.

The comparative income statements and balance sheets for the financial year ending 30 September 2005 have been restated.

There were no material adjustments to the cash flows.

Explanatory notes

The IFRS adjustments arose from application of the following statements and exemptions.

38.1) IFRS 2 share based payments

The group has applied IFRS 2 to those Share Appreciation Rights (SARS) that had been issued but not vested by 1 October 2004. The fair value of these share appreciation rights is now recognised in profit or loss over the vesting period. In the past only vested SARS were recognised in profit or loss.

The applicable liability for these amounts has been raised in the opening balance sheet at 1 October 2004.

The comparative IFRS income statements and balance sheets for the 12 months ended 30 September 2005 have been restated.

Details of the amounts charged to the income statement are given in the income statement section of the changes to equity reconciliation.

38.2) IAS 17 leases

Certain long term operating leases of buildings have been reclassified as finance leases. This reclassification relates to Afrox Healthcare. The fixed assets and the loan Items which did not appear on the balance sheet under SA GAAP were recognised in the opening IFRS balance sheet of the Afrox group at 1 October 2004.

notes to the financial statements

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

This has resulted in the recognition of the fixed assets that are subject to the lease agreement along with the related liability for the lease finance. The opening reserves have been restated as a result of this reclassification.

As a result of the restatements, the book value of Afrox Healthcare changed. The profit on sale of investment has been restated in the IFRS income statements for the 12 months ending 30 September 2005. The adjustments to leased fixed assets were reversed as part of the sale prior to 31 March 2005.

38.3) IAS 12 income taxes

(a) Taxation has been provided on the restatement of income statement amounts described in the IFRS conversion at the applicable rate.

(b) Deferred tax has been provided against revaluation reserves arising on the revaluation of fixed assets. Certain land and buildings had been revalued and the surplus on revaluation was recognised in non-distributable reserves. These reserves have been reduced by the applicable tax.

38.4) IAS 16 property, plant and equipment

The group has elected to measure certain items of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. This exemption was applied to revalued land and building owned at the transition date. Thus the net book value of these revalued items remained unchanged.

38.5) IAS 37 - provisions, contingent liabilities and contingent assets

A provision is a liability of uncertain timing or amount. Leave pay and other payroll related accruals have been transferred from provisions to accruals.

Other significant elections under IFRS 1

A number of exemptions are available in respect of the conversion to IFRS for first time users.
Afrox has made the following elections in respect of the conversion to IFRS.

Business combinations

The group has elected not to apply IFRS 3 (Business combinations) to business combinations that occurred before 1 October 2004. This exemption allows Afrox not to restate any acquisitions entered into prior to the implementation of this statement. Thus goodwill on acquisition remains unchanged.

Employee benefits

No adjustment was made in respect of the unrecognised actuarial gains and losses on defined post-retirement schemes and post-retirement medical benefits at the date of transition.

Cumulative translation differences

The group has applied IFRS principles to cumulative translation reserves retrospectively since the date the foreign subsidiary was acquired/formed. This continues the current practice of the group.

Designation of previously recognised financial instruments

The group has not reclassified any financial instruments at the IFRS transition date between the categories: 'available-for-sale', 'fair value through profit and loss' and 'amortised cost'.

Decommissioning liabilities

The group has no adjustment in respect of decommissioning liabilities, therefore the exemption in respect of accounting for decommissioning liabilities was not taken.

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

IFRS reconciliations

The restated opening company balance sheet at 1 October 2004 is:

IFRS restatement company

SUMMARISED BALANCE SHEET

COMPANY	Note	30 September 2004 Audited SA GAAP R'm	IFRS effects R'm	1 October 2004 IFRS Restated R'm
ASSETS				
Non–current assets		1 211	–	1 211
Property, plant and equipment		1 135	–	1 135
Intangible assets		2	–	2
Goodwill		1	–	1
Investments in subsidiaries		13	–	13
Available for sale investments		20	–	20
Non–current receivables		8	–	8
Retirement benefit asset		32	–	32
Current assets		1 084	–	1 084
Inventories		204	–	204
Trade and other receivables		465	–	465
Group companies		13	–	13
Cash and cash equivalents		402	–	402
Total assets		2 295	–	2 295
EQUITY AND LIABILITIES				
Capital and reserves		1 689	(36)	1 653
Share capital		17	–	17
Share premium		537	–	537
Retained earnings	See changes in equity	1 135	(36)	1 099
Non–current liabilities		133	(6)	127
Long-term borrowings		23	–	23
Deferred tax liabilities		110	(6)	104
Current liabilities		473	42	515
Trade and other payables	38.1, 38.5	297	65	362
Short-term provisions	38.5	39	(23)	16
Current portion of interest bearing borrowings		67	–	67
Group companies		7	–	7
Current tax payable		63	–	63
Total equity and liabilities		2 295	–	2 295

notes to the financial statements

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

Financial year ended 30 September 2005 comparative restatement

As a result of the change to reporting under IFRS the published accounts of the company for the 12 months ending 30 September 2005 had to be restated. These restated income statements and balance sheets show the original reported numbers under SA GAAP the IFRS restatements and the results under IFRS.

SUMMARISED BALANCE SHEET

COMPANY	Note	30 Sept 2005 SA GAAP Audited R'm	IFRS effects R'm	1 Oct 2005 IFRS Restated R'm
ASSETS				
Non-current assets		2 539	–	2 539
Property, plant and equipment		1 272	–	1 272
Intangible assets		2	–	2
Goodwill		7	–	7
Investments in subsidiaries		827	–	827
Investments accounted for using the equity method		346	–	346
Available for sale investments		14	–	14
Non–current receivables		7	–	7
Retirement benefit asset		64	–	64
Current assets		829	–	829
Inventories		234	–	234
Trade and other receivables		422	–	422
Group companies		29	–	29
Cash and cash equivalents		144	–	144
Total assets		3 368	–	3 368
EQUITY AND LIABILITIES				
Capital and reserves		2 040	(79)	1 961
Share capital		17	–	17
Share premium		537	–	537
Accumulated profits	See changes in equity	1 486	(79)	1 407
Non–current liabilities		570	(18)	552
Long–term borrowings		460	–	460
Deferred tax liabilities	38.1	110	(18)	92
Current liabilities		758	97	855
Trade and other payables	38.1, 38.5	400	147	547
Short–term provisions	38.5	102	(50)	52
Current portion of interest bearing borrowings		57	–	57
Group companies		2	–	2
Current tax payable		194	–	194
Bank overdrafts		3	–	3
Total equity and liabilities		3 368	–	3 368

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

SUMMARISED INCOME STATEMENT

COMPANY	Note	For the year ended 30 September 2005 SA GAAP Audited R'm	IFRS effects R'm	30 September 2005 IFRS Restated R'm
Revenue		2 663	–	2 663
Cost of sales		(1 395)	–	(1 395)
Gross profit		1 268	–	1 268
Other operating income		268	–	268
Distribution costs		(163)	–	(163)
Administration and other expenses	1	(585)	(55)	(640)
Operating profit		788	(55)	733
Profit on sale of investment		1 702	–	1 702
Profit from operations		2 490	(55)	2 435
Finance costs		(44)	–	(44)
Finance income		51	–	51
Profit before taxation		2 497	(55)	2 442
Income tax expense	3	(476)	12	(464)
Profit for the period		2 021	(43)	1 978
Attributable to:				
Equity holders of the company		2 021	(43)	1 978
Minority interest		–	–	–
Net profit for the period		2 021	(43)	1 978

Changes in equity

A summary of the effect on equity of the change to reporting under IFRS is given below.
The restated income statement movements for the 12 months to 30 September 2005 are detailed in this statement.
These amounts are cross referenced to the explanatory notes.

CHANGES IN EQUITY

COMPANY Equity	Note	As at 1 October 2005	As at 1 October 2004
Total equity under SA GAAP		2 040	1 689
Adjusted for the IFRS effect of:			
Opening balances and reserve movements		(36)	(36)
IFRS2 - Share based payments	38.1	(42)	(42)
IAS12 - Income taxes	38.3	6	6
Income statement movements		(43)	
IFRS2 - Share based payments	38.1	(55)	
IAS12 - Income taxes	38.3	12	
Total equity under IFRS		1 961	1 653

notes to the financial statements

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

The restated opening group balance sheet at 1 October 2004 is:

IFRS restatement group

SUMMARISED BALANCE SHEET

GROUP	Note	30 September 2004 SA GAAP Audited R'm	IFRS effects R'm	1 October 2004 IFRS Restated R'm
ASSETS				
Non-current assets		3 531	265	3 796
Property, plant and equipment	38.2	3 048	265	3 313
Intangible assets		4	–	4
Goodwill		171	–	171
Investments accounted for using the equity method		121	–	121
Available for sale investments		23	–	23
Non-current receivables		55	–	55
Retirement benefit asset		32	–	32
Deferred tax assets		77	–	77
Current assets		2 101	–	2 101
Inventories		407	–	407
Trade and other receivables		1 199	–	1 199
Group companies		14	–	14
Cash and cash equivalents		481	–	481
Total assets		5 632	265	5 897
EQUITY AND LIABILITIES				
Capital and reserves		3 416	(109)	3 307
Share capital		17	–	17
Share premium		537	–	537
Revaluation reserve	See changes in equity	102	(24)	78
Retained earnings	See changes in equity	2 007	(67)	1 940
		2 663	(91)	2 572
Minority interest		753	(18)	735
Non-current liabilities		539	385	924
Long-term borrowings	38.2	415	381	796
Deferred tax liabilities	38.1, 38.3	124	4	128
Current liabilities		1 677	(11)	1 666
Trade and other payables	38.1, 38.3, 38.5	1 078	194	1 272
Short-term provisions	38.5	221	(205)	16
Current portion of interest bearing borrowings		237	–	237
Group companies		7	–	7
Current tax payable		131	–	131
Bank overdrafts		3	–	3
Total equity and liabilities		5 632	265	5 897

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

Financial year ended 30 September 2005 comparative restatement

As a result of the change to reporting under IFRS the published accounts of the group for the 12 months ending 30 September 2005 had to be restated. These restated income statements and balance sheets show the original reported numbers under SA GAAP the IFRS restatements and the results under IFRS.

SUMMARISED BALANCE SHEET

GROUP	Note	30 September 2005 SA GAAP Audited R'm	IFRS effects R'm	1 October 2005 IFRS Restated R'm
ASSETS				
Non-current assets		2 179	(1)	2 178
Property, plant and equipment		1 665	–	1 665
Intangible assets		18	–	18
Goodwill		32	–	32
Investments in subsidiaries		–	–	0
Investments accounted for using the equity method		378	(1)	377
Non-current receivables		19	–	19
Retirement benefit asset		64	–	64
Deferred tax assets		3	–	3
Current assets		1 066	–	1 066
Inventories		326	–	326
Trade and other receivables		543	–	543
Group companies		30	–	30
Cash and cash equivalents		167	–	167
Total assets		3 245	(1)	3 244
EQUITY AND LIABILITIES				
Capital and reserves		1 731	(87)	1 644
Share capital		15	–	15
Share premium		537	–	537
Revaluation reserve	See changes in equity	126	(4)	122
Retained earnings	See changes in equity	1 041	(83)	958
		1 719	(87)	1 632
Minority interest		12	–	12
Non-current liabilities		613	(14)	599
Long-term borrowings		467	–	467
Deferred tax liabilities	38.1, 38.3	146	(14)	132
Current liabilities		901	100	1 001
Trade and other payables	38.1, 38.3, 38.5	506	154	660
Short-term provisions		106	(54)	52
Current portion of interest bearing borrowings		57	–	57
Group companies		3	–	3
Current tax payable		224	–	224
Bank overdrafts		5	–	5
Total equity and liabilities		3 245	(1)	3 244

* *Nominal amount*

notes to the financial statements

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

SUMMARISED INCOME STATEMENT

GROUP	Note	For the year ended 30 September 2005 SA GAAP Audited R'm	IFRS effects R'm	1 October 2005 IFRS Restated R'm
Revenue		5 754	–	5 754
Cost of sales		(2 669)	–	(2 669)
Cost of services		(1 291)	–	(1 291)
Gross profit		1 794	–	1 794
Other operating income		11	–	11
Distribution costs		(164)	–	(164)
Other operating expenses	38.1, 38.2	(654)	(64)	(718)
Operating profit		987	(64)	923
Profit on sale of investment	38.1	1 051	34	1 085
Profit from operations		2 038	(30)	2 008
Finance costs		(61)	–	(61)
Finance income		62		62
Income from associates		61	(1)	60
Profit before taxation		2 100	(31)	2 069
Income tax expense	38.3	(636)	13	(623)
Profit for the period		1 464	(18)	1 446
Attributable to:				
Equity holders of the company		1 366	(16)	1 350
Minority interest		98	(2)	96
Net profit for the period		1 464	(18)	1 446
Basic earnings per ordinary share (cents)		408.2	(4.6)	403.6

Changes in equity

A summary of the effect on equity of the change to reporting under IFRS is given below.
The restated income statement movements for the 12 months to 30 September 2005 are detailed in this statement.
These amounts are cross referenced to the explanatory notes.

for the year ended 30 September 2006

38. IFRS reconciliation *continued*

GROUP Equity	Note	As at 1 October 2005 R'm	As at 1 October 2004 R'm
Total equity under SA GAAP		1 731	3 416
Adjusted for the IFRS effect of:			
Opening balances and reserve movements		(71)	(109)
IFRS2 - Share based payments	38.1	(41)	(41)
IAS17 - Leases	38.2	(37)	(37)
IAS12 - Income taxes	38.3	(11)	(31)
Minority interest in above		18	18
Minority shareholder included in equity		–	(18)
Income statement movements		(16)	
Operating profits		(64)	
IAS17 - Leases	38.2	(8)	
IFRS2 - Share based payments	38.1	(56)	
Restatement of investment in associate		(1)	
IAS12 - Income taxes	38.3	13	
Minority interest in above		2	
Restatement of sale of investment	38.1	34	
Total equity under IFRS		1 644	3 307

subsidiaries

as at 30 September 2006

Name of company	Nature of business +	Issued share capital 2006	Effective holding 2006 %	Effective holding 2005 %	Book value of company's interest: Shares at cost 2006 R'm	Shares at cost 2005 R'm	Due (to)/by subsidiary 2006 R'm	Due (to)/by subsidiary 2005 R'm
Subsidiaries incorporated in South Africa								
Unlisted								
Afrox African Investments (Pty) Ltd	F	R10	100	100	–	–	634	649
Afrox (Pty) Ltd	G	R100	100	100	–	–	–	(1)
Afrox Educational Services (Pty) Ltd	T	R102	100	100	–	–	–	–
Afrox Finance (Pty) Ltd	F	R60 000	100	100	–	–	–	2
Afrox Properties (Pty) Ltd	P	R4 000	100	100	–	–	43	35
Afrox Safety (Pty) Ltd	E	R1 000 000	100	100	–	–	28	24
Harris Gas Equipment (Pty) Ltd	G	R2	100	100	–	–	–	–
Industrial Research and Development (Pty) Ltd	E	R6 000	100	100	–	–	17	16
Isas trust	G	–	100	100	68	68	(3)	(2)
PPE - Isizo (Pty) Ltd	G	R200	74	74	–	–	–	–
Safety Gas (Pty) Ltd	G	R100	100	100	–	–	–	–
Drury Welding (Pty) Ltd	G	R20 016	100	100	–	–	–	–
Subsidiaries incorporated in Botswana								
Botswana Oxygen (Pty) Ltd	G	P200	100	100	–	–	(4)	1
KIDDO Investments (Pty) Ltd	G	P2	100	100	–	–	12	11
Subsidiary incorporated in Lesotho								
Afrox Lesotho (Pty) Ltd	G	M2	100	100	–	–	(4)	(2)
Subsidiary incorporated in Malawi								
BOC Malawi Limited	G	K4,4m	76	76	1	1	1	–
Subsidiary incorporated in Mauritius								
Afrox International Limited	G	US$50 000	100	100	–	–	1	(1)
Subsidiary incorporated in Mocambique								
BOC Gases Mocambique Limitada	G	MZM 1 100	100	100	1	1	6	4
Petrogas Lda	G	MZM 2 350	100	49	17	–	13	–
Subsidiary incorporated in Namibia								
IGL (Pty) Ltd	G	N$2	100	100	–	–	(14)	(14)
Subsidiary incorporated in Swaziland								
Swazi Oxygen (Pty) Ltd	G	E8	100	100	–	–	–	(6)
Subsidiary incorporated in Zambia								
BOC Gases Zambia plc	G	K86,5m	70	70	5	5	–	–
Subtotal					92	75	730	716
Non-trading and other companies					22	22	13	12
Total					114	97	743	728

\+ **Nature of business:**
E Engineering merchants, contractors and manufacturers;
F Finance;
G Gas and welding equipment;
P Property holdings;
T Training and educational services.

as at 30 September 2006

Name of company	Nature of business +	Issued share capital 2006 R	Effective holding 2006 %	Effective holding 2005 %	Book value of company's interest: Shares 2006 R'm	Shares 2005 R'm	Indebtedness 2006 R'm	Indebtedness 2005 R'm
Company								
Group								
Unlisted associated companies								
Business Venture Investments No.790 (Pty) Ltd (Bidco)	H	1	–	20	–	200	–	124
Lez Gaz Industriels Ltd	G	RS 13,1m	38	38	1	1	–	–
					1	201	–	124

\+ **Nature of business:**
G Gas and welding equipment;
H Hospitals, nursing homes and allied services.

global reporting initiative (index)

for the year ended 30 September 2006

This report has been prepared using the Global Reporting Initiatives Guidelines (GRI) as a framework. The GRI is an international framework for providing comprehensive information to stakeholders on a company's economic, social and environmental performance - the triple bottom line. The initiative was founded in 1997 and is endorsed by the United Nations. Its goal is to enhance the quality, rigour and utility of sustainability reporting.
A cross-reference index for the GRI framework is set out hereunder.

GENERAL PERFORMANCE INDICATORS				Page numbers
1.1	Vision, mission purpose and strategy	✔	Well defined.	7, 8, 20
1.2	Statement from the CEO describing key elements of the report	✔	Covered in Managing Director's review.	14-17
2.1	Name of reporting organisation	✔	African Oxygen Limited.	
2.2	Major products and/or services	✔	Manufacture & supply of industrial, medical and special gases; cutting and welding equipment and consumables; safety products and personal protective equipment.	20-31
2.3	Operational structure of organisation	✔	The bulk tonnage and merchant business supplies large volumes of gas meeting the needs of bulk customers. In addition Afrox supplies cylinder and liquid fabrication gases, scientific gases, packaged chemicals, helium and refrigerant services, medical gases, Handigas, hospitality gases, and manufactures and sells gas equipment, welding and safety products.	20
2.4	Description of major divisions, operating companies, subsidiaries and joint ventures	✔	Full reporting of the operations of the organisation's major business units.	20 - 31, 138-139
2.5	Countries in which operations are located	✔	In South Africa and in 15 African countries - Angola, Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, DRC, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.	31
2.6	Nature of ownership - legal form	✔	Afrox is a public company listed on the JSE with 7 906 shareholders.	8, 66
2.7	Nature of markets served	✔	Covered in business reviews.	22-31
2.8	Scale of reporting organisation	✔		20
2.9	List of stakeholders	✔	Shareholders & providers of capital, customers, employees, suppliers, and the community.	66
2.10	Contact information	✔	Corporate.communication@afrox.boc.com Phone 27 11 490 0430 African Oxygen Limited, 23 Webber Street, Selby, Johannesburg.	146
2.11	Reporting period	✔	Financial year ended 30 September 2006.	
2.12	Date of most recent previous report	✔	Annual report published in November 2005, interim report May 2006	
2.13	Boundaries/scope of report	✔	Report covers activities of Afrox in sub-Saharan Africa.	
2.14	Significant changes in size, structure, ownership since previous report	✔	A 20.1% interest in Life Healthcare Group was sold to a BEE consortium for a cash consideration of R850 million	11, 72
2.15	Basis for reporting joint ventures, subsidiaries etc	✔	Comprehensively disclosed in the business review - GRI principles applied throughout.	22 - 31, 76-85 138, 139
2.16	Explanation regarding the restatement of information	✔	See note 38 pages 129 - 137 The restatements were made in accordance with the transition to International Financial Reporting Standards.	129-137
2.17	Decisions not to apply GRI principles	✔	GRI principles applied.	140-145
2.18	Criteria/definitions used in accounting statements.	✔	Accounting definitions outlined in annual financial statements.	69, 76-85
2.19	Significant changes in measurement	✔	Changes in the measurement methods used in the report relate to compliance with International Financial Reporting Standards.	129-137
2.20/ 2.21	Internal & external practices to provide assurance about accuracy and reliability of the sustainability and full report	✔	Strong administration systems ensure the reliability of information. The company's auditors and an independent non-executive director review the annual report. Non-financial information is reviewed by external auditors eg ISO 14001 or ISO 9002 compliance.	61, 63, 70, 71
2.22	Additional information and reports on sustainability	✔	Contact corporate.communication@afrox.boc.com Phone 27 11 490 0430 or view www.afrox.com	
3.1	Governance structure of the organisation	✔		56-63
3.2	Percentage of the board of directors that are independent, non-executive directors	✔		56, 60
3.3	Board member expertise	✔	Afrox is listed on the JSE and complies with the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance in South Africa published in March 2002.	4, 5
3.4	Board level processes	✔	Disclosure from 3.2-3.6 is contained in the Corporate Governance section of this report.	56-63
3.5	Linkage between executive compensation and the achievement of objectives	✔		38, 118, 119
3.6	Organisational structure & key responsibilities	✔		18, 19

for the year ended 30 September 2006

GENERAL PERFORMANCE INDICATORS				Page numbers
3.7	Mission and values statement and code of conduct	✔	Afrox has a well defined mission and values statement, as well as its own code of conduct by which all employees must abide.	7, 8, 39, 61
3.8	Mechanisms for shareholders to provide recommendations	✔	Formal presentations to investment community, direct communication with stakeholders and through electronic communication and media releases.	60
3.9	Basis for identification of major stakeholders	✔	Major stakeholders are those who are critical to the success of our performance - eg. investors, customers, employees, suppliers and communities.	
3.10	Stakeholder consultation	✔	We use several media to communicate with stakeholders.	39, 59, 60
3.11	Stakeholder consultation information	✔	Interim & annual reports, regular presentations, meetings and interviews.	59, 60
3.12	Use of stakeholder consultation information	✔	Stakeholder consultation information is acted upon where deemed necessary.	59, 60
3.13	Precautionary approach	✔	See approach to risk management.	34-36, 48,49,51,52,61-63,81
3.14	Economic, environmental and social charters	✔	Afrox endorses several global charters:	
			• International Financial Reporting Standards.	10, 32, 76, 129-137
			• Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance in SA	56
			• Global Reporting Initiative's Sustainability Reporting	141-145
			• The UN Global Compact	52
			• Many of our business units are ISO certificated.	50-51
3.15	Industry and business association memberships	✔	LP Gas Association, SA Fluorocarbon Association, National Business Initiatives, South African Foundation,Free Market Foundation of SA, World Wildlife Fund, Endangered Wildlife Trust.	
3.16	Policies/systems for managing upstream and downstream impacts	✔	A number of initiatives are in place to ensure responsible stewardship of our products. We use our own analytical services and that of The Linde Group to guarantee quality of product. We offer product training for employees and consumers. A preferential procurement policy and supply chain management initiative are in place.	46, 48-55
3.17	Managing indirect economic, environmental and social impacts	✔	Policies exist for managing indirect financial impacts. Our procurement and environmental policies require suppliers to conform to performance and environmental criteria.	34,46,48-55
3.18	Decisions regarding location and change in operations	✔	Our business evolves to meet market opportunities.	14-17
3.19	Procedures for managing and measuring economic, environmental and social performance	✔	Comprehensively covered throughout the whole report.	34-37,46,47,49-55 58,62,66-139
3.20	Certification status regarding economic, environmental and social management systems	✔	Most sites are ISO accredited and we are working towards general ISO 14001 and ISO 18001 certification. Afrox has changed to IFRS (International Financial Reporting Standards) of accounting, and was selected for the Socially Responsible Investment (SRI) index on the JSE and is Empowerdex rated.	3, 7, 51
ECONOMIC PERFORMANCE INDICATORS				**Page numbers**
EC1	Net sales	✔	Value added statement provides an overview of the direct economic impact of the company in 2006 and refers to customers, suppliers, employees, providers of capital and public sector.	37
EC2	Geographic breakdown of markets	✔	Afrox operates in South Africa and 15 African countries.	31, 91
EC3	Cost of goods, materials and services purchased	✔	See value added statement.	37
EC4	Percentage of contracts paid in accordance with agreed terms	◆	Not assessed.	
EC5	Payroll and benefits (inc wages, pensions, other benefits & redundancies)	✔	Afrox paid 98% of its salaries, wages and other benefits in 2006 in South Africa.	37-39
EC6	Distributions to providers of capital	✔	See value added statement.	37
EC7	Increase/decrease in retained earnings	✔	See value added statement.	37
EC8	Taxes paid	✔	Afrox paid 95% of its taxes within South Africa, with the balance paid throughout the rest of Africa.	
EC9	Subsidies received	◆	Not assessed.	
EC10	Donations	✔	The donation policy states that annual donations shall not exceed 1% of the previous year's attributable earnings. In 2006 R3,9 million was donated to the community, and other groups. The company offers external and internal bursaries and provides for a welding school.	47
EC11	Suppliers	✔	No supplier respresented 10% or more of total purchases.	
EC12	Total spend on non-core business infrastructure development	✔	No investments were made in any infrastructure outside our main business activities.	
EC13	Indirect economic impacts	◆	Not assessed.	

global reporting initiative

for the year ended 30 September 2006

ENVIRONMENTAL PERFORMANCE INDICATORS				Page numbers
EN1	Total material use other than water	✔	See table of materials used.	54
EN2	Wastes used	✔	Afrox uses, processes and sells carbon dioxide that is obtained as a by-product from chemical processes such as refineries, hydrogen reformers (e.g. ammonia plants) and fermentation processes (ethanol plants). The gas is refined to conform to beverage grade carbon dioxide standards. 93 342 tons of carbon dioxide is processed p.a.	53
EN3	Direct energy used	✔	Our primary source of energy is electricity and we purchase 6,48 x 10^8 kilowatt hours annually. Other sources include gas, diesel and petrol.	54
EN4	Indirect energy used	✔	Afrox purchases LPG from the petrochemical industry and packages the gas as bulk or in cylinders. LPG is then distributed and sold for industrial or domestic applications. Energy used for delivery of LPG is not evaluated.	
EN5	Total water used	✔	In 2006, 4,89 x 10^7 kilolitres of water were used for manufacturing purposes.	54
EN6	Land owned, leased or managed in biodiversity rich habitats	✔	Our operations are located in industrial areas and have minimal effects on protected areas, fresh water or marine environments.	54
EN7	Impacts on biodiversity	✔	Our operations do not impact on biodiversity rich habitats. No incidents have led to negative impacts on the environment. Environmental impact assessments are done before new projects are commissioned. No negative impacts associated with our activities/products have been identified.	54
EN8	Greenhouse gas emissions	◆	As to date we have not accurately quantified greenhouse gas emissions	
EN9	Use and emissions of ozone depleting substances	✔	We minimise product risk by the responsible care of our products throughout their life cycle. CFC usage has been reduced over recent years. Afrox complies with environmental legislation and replaces CFCs with interim replacement refrigerants (HCFCs) and with hydrofluoro-carbons (HFCs), which contain no chlorine and have zero ozone depletion potential.	50, 52
EN10	NOx, SOx and other significant air emissions	✔	We do not produce NOx and SOx as a waste product in any production process	
EN11	Total amount of waste by type and destination	✔	Waste management programmes have been implemented and, improved storage facilities, more effective waste separation, recycling and disposal procedures are in place.	52-55
EN12	Discharges to water by type	✔	Process effluents are monitored by plants and discharged to municipal sewer systems via permits from local authorities. No industrial effluent is discharged to water resources.	55
EN13	Spills of chemicals, oils and fuels	✔	No major spills were reported.	54
EN14	Environmental impacts of products and services	✔	Atmospheric gases from our air separation units have a minimal impact on the environment. Air separation units use water, energy and oil. We have improved energy efficiency of these units through equipment design, maintenance and efficient operating practices.	53, 54
EN15	Percentage of product weight reclaimable	✔	See table 1 on page 53.	53
EN16	Fines for non-compliance	✔	No fines were levied for non-compliance with environmental issues.	
EN17	Initiatives to use renewable energy sources or increase energy efficiency	✔	Our primary source of energy is electricity and we purchase 6,48 x 10^8 kilowatt hours annually. Other sources of energy include gas, diesel and petrol. No initiatives to use renewable energy resources.	54
EN18	Energy consumption of major products	✔		
EN19	Other indirect energy use	✔	Afrox purchases LPG from the petrochemical industry and packages the gas for distribution and sale for industrial or domestic applications. The energy used for the delivery of LPG is not currently evaluated.	
EN20	Water sources and related ecosystems/ habitats affected by water	✔	4,89 x 10^7 kilolitres of water p.a. are used for manufacturing and office purposes. Water is obtained from municipal or regional utilities. Water sources and related ecosystems are not affected nor is any ground or surface water withdrawn. Secondary flow meters monitor water consumption of processes like dissolved acetylene production and the hydrostatic testing of cylinders.	54
EN21	Ground and surface water withdrawals	✔	None withdrawn - see EN20.	
EN22	Recycling and use of water	✔	Some Acetylene plants re-circulate the water used in the generator after separation from the lime (carbide sludge). Cooling water in air separation units is recycled.	54
EN23	Land owned, leased or managed	✔	Land used for production is approx 2301329 sq metres and leased property is 90 072 sq metres.	
EN24	Impermeable surface land owned	◆	Not assessed.	

global reporting initiative

for the year ended 30 September 2006

ENVIRONMENTAL PERFORMANCE INDICATORS				Page numbers
EN25	Impact on protected or sensitive areas	✔	No negative impacts associated with our activities/products have been identified.	54
EN26	Changes to natural habitats & percentage protected/restored	◆	Not assessed.	
EN27	Restoring ecosystems	◆	Not assessed.	
EN28	IUCN red list species in operating areas	◆	Not assessed.	
EN29	Operations in protected or sensitive areas	✔	Our business units are primarily located in industrial areas.	
EN30	Indirect greenhouse gas emissions	✔	Refer to EN9 and EN8	50, 52
EN31	Hazardous waste	✔	Refer to EN11	52-55
EN32	Water sources affected by discharges	✔	Production sites are in industrial areas and have a low risk impact on ground waters below the sites and no effect on protected areas, fresh water or marine environments.	54
EN33	Supplier performance re environment	✔	Environmental performance of suppliers is evaluated when contracts are negotiated using a Supplier Evaluation Selection and Performance Appraisal (SESPA) process. SESPA is The Linde Group standard worldwide for supplier selection, and includes safety and environmental performance.	46
EN34	Environmental impacts of transportation used	✔	Our transport fleet is serviced regularly to ensure limited emissions, noise and economic fuel consumption. Approx 19 590 kilolitres of diesel were used. Fuel is supplied by Caltex and stored in Caltex underground storage tanks on some of our premises. Tyres and batteries are returned to the manufacturers for recycling.	55
EN35	Environmental expenditures	✔	R1 187 956 was spent on environmental improvement projects.	55

SOCIAL PERFORMANCE INDICATORS: Labour Relations				Page numbers
LA1	Breakdown of workplace by status	✔		43
LA2	Employment creation	✔	See enterprise development	45-46
LA3	Trade union representation	✔	Approximately 20% of employees are represented by registered trade unions	39, 59
LA4	Policy and procedures involving information, consultation and negotiation with employees regarding company restructuring	✔	Afrox subscribes to the Labour Relations Act in respect of all restructuring exercises that require consultation. We use Consultative Forums (representing non-unionised employees).	39, 59
LA5	Recording & notification of occupational accidents/diseases	✔	All occupational injuries are reported monthly to the industrial executive committee and quarterly to The Linde Group. Claims to the Compensation Commissioner (Dept of Labour) and to the European Industrial Gas Association are recorded.	49
LA6	Formal health & safety committees	✔	Every unit has a health & safety committee, complying with the Occupational Health & Safety Act (85 of 1993). Adherence to the health & safety committee programme is measured as a leading indicator. Statistics are reported monthly to the industrial executive committee and quarterly to The Linde Group	49
LA7	Injury, lost day & absentee rates, work-related	✔	Lost workday case rates and total recordable case rates are reported monthly to the industrial executive committee and quarterly to The Linde Group. Actual performance against set targets is monitored each month. Occupational healthcare clinics at Afrox's major production sites record absenteeism.	50
LA8	HIV/Aids policies and programmes	✔	Our HIV/Aids programme offers prevention, treatment and care backed by the Employee Support Programme for employees and their families.	39, 40
LA9	Average hours of training per annum	✔	Approx 160 hours per annum per employee.	42
LA10	Equal opportunities and monitoring systems	✔	We have an employment equity policy and management of diversity policy. Afrox champions equal opportunities. Equity plans for each business unit are signed off by the unions/consultative forums. HR reports monthly on levels achieved against the plan. Remedial action is implemented where there are major discrepancies.	42-44
LA11	Composition of senior management and corporate governance bodies	✔	Several senior management/corporate governance bodies are in place, e.g remuneration committee, competency steering committee. See also Corporate Governance which provides details on governance structures.	42, 56-59
LA12	Employee benefits beyond those legally mandated	✔	Clinics, canteens, HIV/AIDS guidance, wellness and employee support programme, paid maternity leave and disability grants, bursaries, education loans etc are some of the benefits offered.	38-40, 44, 45
LA13	Provision for formal worker representation in decision making	✔	Workers elect colleagues to represent them in the consultative forums, which meet regularly with executive management to debate issues.	39
LA14	Compliance with ILO guidelines for occupational health	✔	Afrox is fully compliant with ILO conventions.	39
LA15	Agreements with trade unions covering health and safety at work	✔	Our industry level collective agreement covers safety and health issues at work.	
LA16	Programmes to support continued employability and to manage career endings	✔	See Employee Review and Skills Development.	38-40, 42-46

global reporting initiative

for the year ended 30 September 2006

SOCIAL PERFORMANCE INDICATORS: Labour Relations				Page numbers
LA17	Programmes for skills management	✔	Afrox manages the development of functional skills through the Licence to Work approach, ensuring that employees are competent in their jobs. Learning needs analyses are achieved through the development of competency profiles for specific jobs. Management development programmes, a graduate development scheme, national learnerships and life skills training are in place.	44

SOCIAL PERFORMANCE INDICATORS: Human Rights				Page numbers
HR1	Policies, procedures etc on human rights	✔	Afrox abides by the South African Constitution and the Bill of Rights.	42-44, 61
HR2	Human rights impact on investment	✔	Afrox conducts itself in a manner that is consistent with the Bill of Rights of the Republic of South Africa in all aspects of investment.	56-63
HR3	Human rights within supply chain and monitoring systems	✔	The company observes the Bill of Rights in dealings with customers and suppliers and has a Code of Conduct that endorses ethical conduct in customer and supplier relations.	61, 60
HR4	Policies preventing discrimination	✔	The company's Code of Conduct and the Disciplinary Code and Procedure prohibit any form of unfair discrimination. We abide by the relevant anti-discrimination sections within the South African Constitution, the Promotion of Equality & Prevention of Unfair Discrimination Act and the Employment Equity Act.	43, 44, 61
HR5	Freedom of association policy	✔	The company will not violate the right to freedom of association nor will it compel its employees to join any trade union.	39, 59
HR6	Child labour	✔	Afrox complies with Section 43 of the Basic Conditions of Employment Act 75 (BCEA) that prohibits the employment of children under the age of 15 years.	
HR7	Forced and compulsory labour	✔	Fully compliant with Section 48 of the BCEA that prohibits forced and compulsory labour.	
HR8	Employee training in human rights relevant to operations	✔	Afrox undertakes training on employment law and employee relations. Key human rights issues and unfair discrimination are covered in this programme.	44
HR9	Appeal practices	✔	The Afrox Disciplinary Code and Procedure contains provision for an appeal mechanism. This is available to all employees who face disciplinary action.	61
HR10	Non-retaliation	✔	The Code of Conduct, Disciplinary Code and the Grievance Procedure all prohibit any form of victimisation by management. Managers who victimise employees, face disciplinary action.	44, 61
HR11	Human rights training for security personnel	✔	Although security is outsourced to an external company, Afrox ensures that security employees receive proper training, fair labour practices and there is full compliance with labour legislation.	
HR12	Needs of indigenous people jointly managed	✔	Afrox takes a firm approach against racial, cultural, ethnic, language and religious discrimination. Diversity training programmes sensitise employees to respect and appreciate the needs of previously disadvantaged people.	44
HR13	Jointly managed community grievance mechanisms	✔	Afrox has an internal alternate dispute resolution mechanism that encourages and requires a participative and joint approach towards problem solving. Consultative forums are working well at various levels of the organisation.	
HR14	Share of operating revenues redistributed to local communities	✔	See Corporate Social Investment.	41, 46, 47

SOCIAL PERFORMANCE INDICATORS: Society				Page numbers
SO1	Managing community impacts	✔	Our community involvement project is a sustainable and ongoing relationship with 71 childcare institutions providing care and support to some 8 000 disadvantaged children.	41, 46, 47
SO2	Policies to manage bribery and corruption	✔	The Code of Conduct and Disciplinary Code record the actions to be taken against bribery and corruption. A contract with Expolink manages whistleblowing, and employee concerns of perceived corruption are routed to The Linde Group's global compliance department.	61
SO3	Policies to manage political lobbying and contributions	✔	Afrox is apolitical - we do not lobby or contribute to any political party. This is set out in our Code of Conduct.	61
SO4	Awards received for social, ethical & environmental performance	✔	SRI Index, Good Governance Awards, United Nations recognition for community project and Empowerdex rated.	3, 7, 11, 47
SO5	Donations to political parties	✔	As set out in our Code of Conduct, Afrox does not fund any political parties.	61
SO6	Court decisions regarding anti-trust and monopoly regulations	✔	Afrox has not breached any anti-trust or monopoly regulations.	
SO7	Procedures for preventing anti-competitive behaviour	✔	Afrox abides by the rules as laid down by the Competition Commission and the rulings of the Competition Tribunal.	

for the year ended 30 September 2006

SOCIAL PERFORMANCE INDICATORS: Product Responsibility				Page numbers
PR1	Customer health and safety during use of products/services	✔	Afrox gases are packaged in containers that meet the requirements of the Occupational Health & Safety Act, Vessels Under Pressure Regulations and the incorporated Health & Safety Standards.	50
PR2	Product information and labelling	✔	The packages are filled and labeled to conform to the requirements of the Trade Metrology Act in respect of product contents. Customers are assured of receiving safe gas packages, correctly filled, with labeling that provides information related to both safety and product contents.	50
PR3	Consumer privacy	◆	Not assessed.	
PR4	Non-compliance concerning product information and labelling	✔	No reports of non-compliance during the financial year.	50
PR5	Complaints upheld regarding the health and safety of products	✔	There were no complaints during the financial year.	50
PR6	Voluntary code compliance or award regarding social and/or environmental responsibility	✔	Afrox was selected by the JSE as one of 58 companies to make up the Socially Responsible Investment (SRI) index.	3, 7
PR7	Non-compliance regarding product information and labelling	✔	No instances were recorded.	50
PR8	Policies relating to customer satisfaction	✔	The CustomerFirst initiative is part of our daily outreach to both external and internal customers. Customer satisfaction surveys are conducted regularly.	
PR9	Adherence to standards related to advertising	✔	Content is evaluated internally and externally to ensure that there is no breach of industrial self-regulation or of relevant legislation.	
PR10	Breaches of advertising and marketing regulations	✔		
PR11	Complaints regarding breaches of consumer privacy	✔	No complaints during the financial year.	

shareholders' diary

Salient dates	
Financial year end	30 September 2006
2007 financial year end	31 December 2007
Annual general meeting	16 February 2007

Reports	**Published**
Interim for half year to March 2006	26 April 2006
Final announcement of 2006 audited annual results	26 October 2006
Annual financial statements of 2006	First fortnight in December 2006

Dividends	**Declared**	**Paid**
Final 2006	October 2006	January 2007
Interim 2007	July 2007	October 2007

As a result of the takeover by The Linde Group, Afrox has changed its year end from September 2007 to December 2007.

administration

Registered office and business address
Afrox House, 23 Webber Street, Selby,
Johannesburg, 2001 South Africa
Tel + 27 (0) 11 490-0400
Fax + 27 (0) 11 493-1580

Postal address
PO Box 5404, Johannesburg, 2000
African Oxygen Limited
Reg. No. 1927/000089/06
ISIN: ZAE000067120

Auditors
PricewaterhouseCoopers Inc.

Company secretary
ME Sanz B Comm, LLB, HDip Tax

Transfer secretaries
Computershare Investor Services 2004 (Pty) Ltd
70 Marshall Street
Johannesburg, 2001
PO Box 61051, Marshalltown 2107
Tel + 27 (0) 11 370-5000
Fax + 27 (0) 11 370-5271/2

Sponsor
South Africa
Barnard Jacobs Mellet Corporate Finance (Pty) Ltd

Sponsoring broker
Namibia
Namibia Equity Brokers (Pty) Ltd

Website: www.afrox.com

Stakeholder enquiries
Stakeholder enquiries may be addressed per email to:
corporate.communication@afrox.boc.com

Notice to shareholders

Notice is hereby given that the 79th annual general meeting of African Oxygen Limited will be held on 16 February 2007 at 09h00 in the boardroom at Afrox House, 23 Webber Street, Selby, Johannesburg, South Africa to conduct the following business:

1. Ordinary resolution number 1: Adoption of the annual financial statements

To receive and adopt the annual financial statements for the year ended 30 September 2006.

2. Ordinary resolution number 2: Confirmation of the directors' remuneration

To confirm the directors' remuneration for the year ended 30 September 2006, as set out on pages 118 and 119 of the annual report of which this notice forms part.

3. Ordinary resolution number 3: Confirmation of appointment of directors and re-election of directors

To confirm the appointment of the following directors who were appointed by the board with effect from 1 December 2005:

3.1 Mr DM Lawrence
3.2 Mr SM Pityana
3.3 Dr K Mokhele

To re-elect the following directors who, in terms of the company's articles of association retire at the annual general meeting of the company, but, being eligible, offer themselves for re-election:

3.4 Mr LA MacNair
3.5 Mr CJPG van Zyl

Abbreviated curriculum vitae pertaining to each new director appear on pages 4 and 5 of the annual report of which this notice forms part.

4. Ordinary resolution number 4: To increase the independent non-executive fees

4.1 To increase the fees of the independent non-executive directors of the company with effect from 1 January 2007 as follows: retainer fee from R27 000 to R28 620 and fee per meeting from R8 100 to R8 586.

4.2 To increase the fees payable to the independent non-executive directors serving on various committees of the board, with effect from 1 January 2007 as follows:

Audit Committee

Member's fee from R16 200 to R17 172 per meeting.

Governance and Nomination Committee

Member's fee from R8 100 to R8 586 per meeting.
Chairman's fee from R16 200 to R17 172 per meeting.

Management Resources Committee

Member's fee from R8 100 to R8 586 per meeting
Chairman's fee from R16 200 to R17 172 per meeting

Transformation Committee

Member's fee from R8 100 to R8 586 per meeting.
Chairman's fee from R16 200 to R17 172 per meeting.

Two or three committee meetings are usually scheduled per annum.

5. Ordinary resolution number 5: Re-appointment of auditors

To re-appoint PricewaterhouseCoopers Inc. as independent auditors of the company for the ensuing year and to authorise the directors to determine the remuneration of the auditors for the past year's audit.

6. Ordinary resolution number 6: Renewal of the authority that all the unissued shares be placed under the control of the directors

To renew the authority that the entire authorised, but unissued share capital of the company from time to time, be and is hereby placed under the control of the directors of the company until the next annual general meeting, as a general authority in terms of section 221 and 222 of the Companies Act 61, 1973 ('the Act'), as amended, subject to the provisions of the Act and the Listings Requirements of the JSE Limited ('JSE'), for allotment and issue to such persons as the directors in their discretion deem fit.

7. Ordinary resolution number 7: General authority to issue shares for cash

To renew the authority that, pursuant to the articles of association of the company and subject to the Act, and the Listings Requirements of the JSE, the directors of the company be and are hereby authorised, by way of a general authority to allot and issue ordinary shares for cash, on the following basis:

- this authority shall not extend beyond the later of the date of the next annual general meeting of the company or the date of the expiry of 15 months from the date of this annual general meeting;
- a press announcement giving full details, including the impact on the net asset value, the net tangible asset value per share, earnings per share and headline earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, five percent or more of the number of shares in issue prior to the issue;
- issues in the aggregate in any one financial year may not exceed 15 percent of the number of the shares in the company's issued share capital;
- the maximum discount at which ordinary shares may be issued is 10 percent of the weighted average traded price of those shares over the 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the company; and
- any such issue will only be made to 'public shareholders' as defined by the Listings Requirements of the JSE, and not to related parties;
- shares be of a class already in issue.

In terms of the Listings Requirements of the JSE, a 75 percent majority is required of votes cast by shareholders present or represented by proxy at the annual general meeting at which this ordinary resolution is to be considered.

8. Special resolution: General authority to repurchase shares

That, subject to the provisions of the Act, and the Listings Requirements of the JSE, the company and/or any of its subsidiary companies, be and are hereby authorised, by way of a general authority, to acquire ordinary shares in its issued share capital, and/or acquire shares in its holding company, subject to the following limitations:

- at any point in time, the company may only appoint one agent to effect any repurchase;
- an announcement be published as soon as the company has cumulatively repurchased 3 percent of the initial number (the number of that class of share in issue at the time that the general authority is granted) of the relevant class of securities and for each 3 percent in aggregate of the initial number of that class acquired thereafter, containing full details of such repurchases;
- the company be authorised thereto by its articles of association;
- the repurchase of shares be effected through the order book operated by the JSE trading system and be done without any prior understanding or arrangement between the company and the counter party;
- this general authority shall only be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 months from the date of this special resolution;
- the repurchase of shares will not take place during prohibited periods and will not affect compliance with the shareholders' spread requirements as laid down by the JSE;
- acquisitions of ordinary shares shall not in the aggregate in any one financial year exceed 20 percent of the company's issued capital; and
- the repurchases are not made at a price greater than 10 percent above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected.

9. Ordinary resolution number 8: Authorisation to sign documents giving effect to resolutions

"Any one director or the secretary of the company be and they are hereby authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening the annual general meeting at which these ordinary and special resolutions will be considered."

REASONS FOR AND EFFECTS OF SPECIAL RESOLUTION

The reason for and effect of this special resolution is to authorise the company, and/or any of its subsidiary companies, by way of general approval, to acquire its own issued shares, and/or shares in its holding company, on terms and conditions and in amounts to be determined from time to time by the directors of the company, subject to certain statutory provisions and the Listings Requirements of the JSE.

At the present time the directors have no specific intention with regard to the utilisation of this authority, which will only be used if the circumstances are appropriate.

DISCLOSURES REQUIRED IN TERMS OF THE LISTINGS REQUIREMENTS OF THE JSE

In terms of the Listings Requirements of the JSE, the following disclosures are required when requiring shareholders' approval to authorise the company, or any of its subsidiaries, to repurchase any of its shares or the shares in its holding company's shares.

Working capital statement

The directors are of the opinion that, after considering the effect of the maximum repurchase permitted for a period of 12 months after the date of this notice of annual general meeting:

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

Barnard Jacobs Mellet Corporate Finance (Pty) Limited, as the company's appointed JSE sponsor, will provide the necessary working capital statement as required in terms of paragraph 2.12 of the Listings Requirements of the JSE prior to the commencement of any purchase of the company's shares on the open market.

Litigation statement

Other than disclosed or accounted for in this annual report, the directors of the company, whose names are given on pages 4 and 5 of this annual report, are not aware of any legal or arbitration proceedings pending or threatened against the group, which may have or have had, in the 12 months preceding the date of this notice of annual general meeting, a material effect on the group's financial position.

Directors' responsibility statement

The directors, whose names are given on pages 4 and 5 of this annual report, collectively and individually, accept full responsibility for the accuracy of the information pertaining to the above special resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the above special resolution contains all information required.

Material changes

Other than the facts and developments reported on in this annual report, there have been no material changes in the affairs, financial or trading position of the group since the signature date of this annual report.

The following further disclosures required in terms of the Listings Requirements of the JSE are set out in accordance with the reference pages in the annual report of which this notice forms part:

- Directors (refer to pages 4 and 5)
- Major shareholders of the company (refer to page 66)
- Directors' interests in the company's shares (refer to page 119)
- Share capital (refer to page 108).

Any member entitled to attend and vote at the meeting may appoint a proxy to attend, speak, and on a poll, vote in his/her stead. A proxy need not be a member of the company. The proxy form must be lodged with the company's transfer secretaries at least forty-eight hours before the start of the meeting.

By order of the board

ME Sanz
Company Secretary
Johannesburg,
26 October 2006

AFRICAN OXYGEN LIMITED

(Registration No. 1927/000089/06) ISIN : ZAE000067120
(Incorporated in the Republic of South Africa)
('the company')

PROXY FORM FOR USE BY SHAREHOLDERS HOLDING SHARE CERTIFICATES AND SHAREHOLDERS WHO HAVE DEMATERIALISED THEIR SHARE CERTIFICATES AND HAVE ELECTED 'OWN NAME' REGISTRATION THROUGH A CENTRAL SECURITIES DEPOSITORY PARTICIPANT ('CSDP') OR BROKER, AT THE ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD AT 09h00 ON 16 FEBRUARY 2007.

If you are a shareholder entitled to attend and vote at the abovementioned annual general meeting you can appoint a proxy to attend, vote and speak in your stead. A proxy need not be a shareholder of the company.

If you are a shareholder and have dematerialised your share certificate through a CSDP or broker, and have not selected own name registration in the sub-register maintained by a CSDP, you must not complete this proxy form but must instruct your CSDP or broker to issue you with the necessary authority to attend the annual general meeting, or if you do not wish to attend, you may provide your CSDP or broker with your voting instructions in terms of the custody agreement entered into with your CSDP or broker.

I/We (name in block letters)

Of (address in block letters)

Being a member of African Oxygen Limited and entitled to votes, hereby appoint:

1. **or failing him/her;**

2. **or failing him/her;**

the chairman of the meeting as my/our proxy to act for me/us at the annual general meeting, to be held at 09h00 on 16 February 2007, in the boardroom, at Afrox House, 23 Webber Street, Selby, Johannesburg, South Africa, and at any adjournment thereof, as follows:

VOTING INSTRUCTIONS	**Number of Afrox shares**		
	In favour of	Against	Abstain
1. Ordinary resolution number 1 Adoption of the annual financial statements			
2. Ordinary resolution number 2 Confirmation of the directors' remuneration			
3. Ordinary resolution number 3 Confirmation of appointment of the following directors: 3.1 Mr DM Lawrence			
3.2 Mr SM Pityana			
3.3 Dr K Mokhele			
Re-election of the following directors: 3.4 Mr LA MacNair			
3.5 Mr CJPG van Zyl			
4. Ordinary resolution number 4 4.1 To approve the increase of the independent non-executive directors' fees			
4.2 To approve the increase of fees payable to the independent non-executive directors serving on various board committees			
5. Ordinary resolution number 5 Re-appointment of PricewaterhouseCoopers as auditors and to authorise the directors to determine the remuneration of the auditors for the past year's audit			
6. Ordinary resolution number 6 Authority to place unissued shares under the control of the directors			
7. Ordinary resolution number 7 General authority to issue shares for cash.			
8. Special resolution number 1 General authority to repurchase shares			
9. Ordinary resolution number 8 Authority to sign documents giving effect to resolutions			

Signed at on 2006/2007

Signature

Please read the instructions on the reverse side of this proxy form.

Proxy form – Instructions

1. On a poll a shareholder is entitled to one vote for each share held.

2. Forms of proxy must be lodged at, posted to or faxed to Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107. Fax +27 11 688 5238), to reach the company by no later than 09h00 on 14 February 2007.

3. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholders' choice in the space/s provided, with or without deleting the words "the chairman of the annual general meeting". Any such deletions must be individually initialled by the shareholder, failing which they will not have been validly effected. The person present at the annual general meeting whose name appears first on the proxy form and has not been deleted shall be entitled to act as proxy to the exclusion of the persons whose names follow.

4. Any alterations or corrections to this proxy form have to be initialled by the relevant signatory(ies).

5. Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder(s) of the company) to attend, speak and vote (either on a poll or by show of hands) in place of that shareholder at the annual general meeting.

6. Voting instructions for each of the resolutions must be completed by filling the number of votes (one per ordinary share) under the 'In Favour', 'Against' or 'Abstain' headings on the proxy form. If no instructions are filled in on the proxy form, the chairman of the annual general meeting, if the chairman is the authorised proxy, or any other proxy shall be authorised to vote in favour of, against or abstain from voting as he/she deems fit.

7. A shareholder or his/her proxy is entitled but not obliged to vote in respect of all the ordinary shares held by the shareholder. The total number of votes for or against the ordinary and special resolutions and in respect of which any abstention is recorded may not exceed the total number of shares held by the shareholder.

8. Documentary evidence establishing the authority of a person signing this form must be attached to this proxy form unless previously recorded by the transfer secretaries of the company or waived by the chairman of the annual general meeting.

9. This proxy form is to be completed only by those shareholders who either still hold shares in a certificated form, or whose shares are recorded in their 'own name' in electronic form in the sub-register.

10. Shareholders whose dematerialised shares are held in the name of a nominee and wish to attend the annual general meeting must contact their Central Securities Depository Participant ('CSDP') or broker who will furnish them with the necessary letter of authority to attend the annual general meeting. Alternatively, they have to instruct their CSDP or broker as to how they wish to vote. This has to be done in terms of the agreement between the shareholder and the CSDP or the broker.

11. Shareholders who wish to attend and vote at the meeting must ensure that their letters of authority from their CSDP or broker reach the transfer secretaries not later than 09h00 on 14 February 2007.

12. The completion and lodging of this proxy form does not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person to the exclusion of any proxy appointed by the shareholder.

13. The chairman of the annual general meeting may accept or reject any proxy form which is completed and/or received other than in accordance with these instructions, provided that he shall not accept a proxy unless he is satisfied as to the manner in which a shareholder wishes to vote.

Transfer secretaries' office

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