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**

SRI INDEX

AFROX Stainshield®
AFROX PortaPak®
AFROX Vitemax®
AFROX AfroxPac
AFROX Cryospeed
AFROX shield®
AFROX Propellants
AFROX Refrigerants
AFROX Safety
AFROX Alushield®
A Custo
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
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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®
A
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

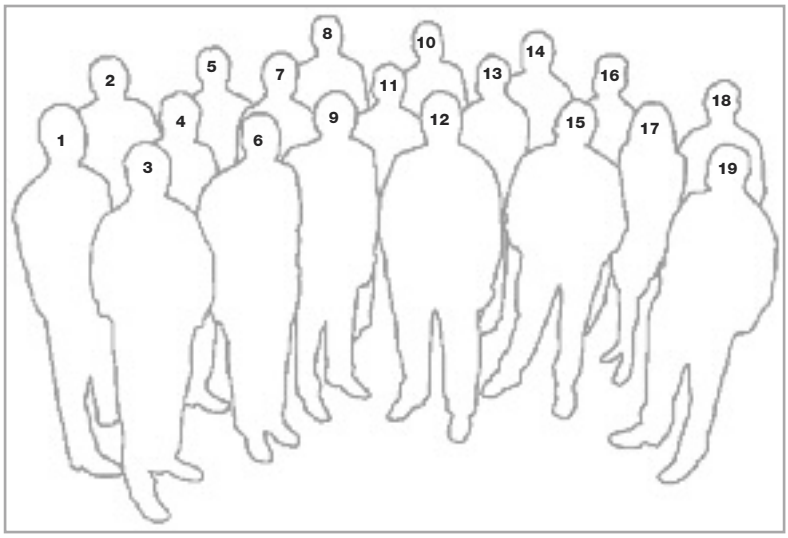
Without our customers, Afrox would not be the business it is – I thank each and every one of our customers for the confidence displayed in our ability to serve their needs. In turn, our employees and senior management are a credit to the organisation in the manner in which they go about their duties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