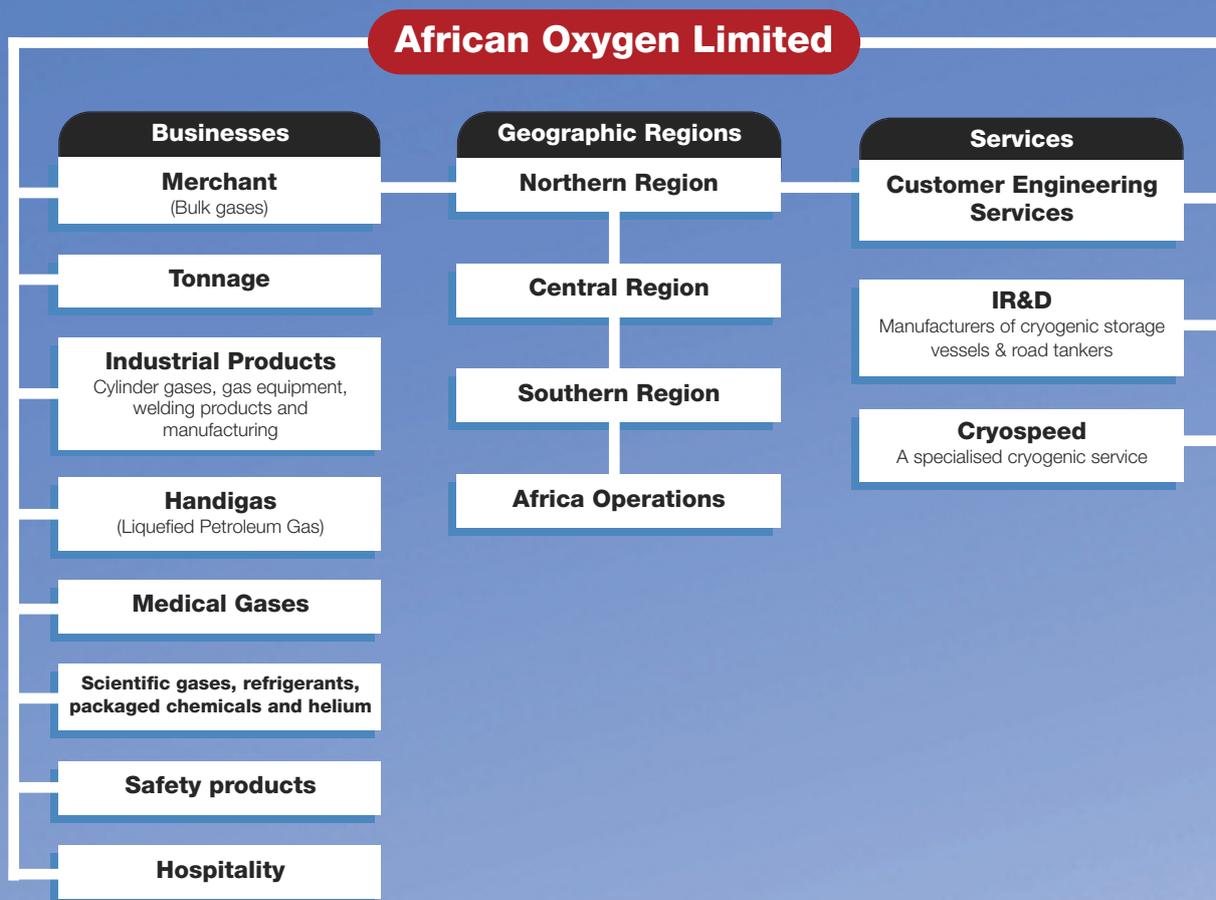


Business review



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.



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



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.

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.

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.

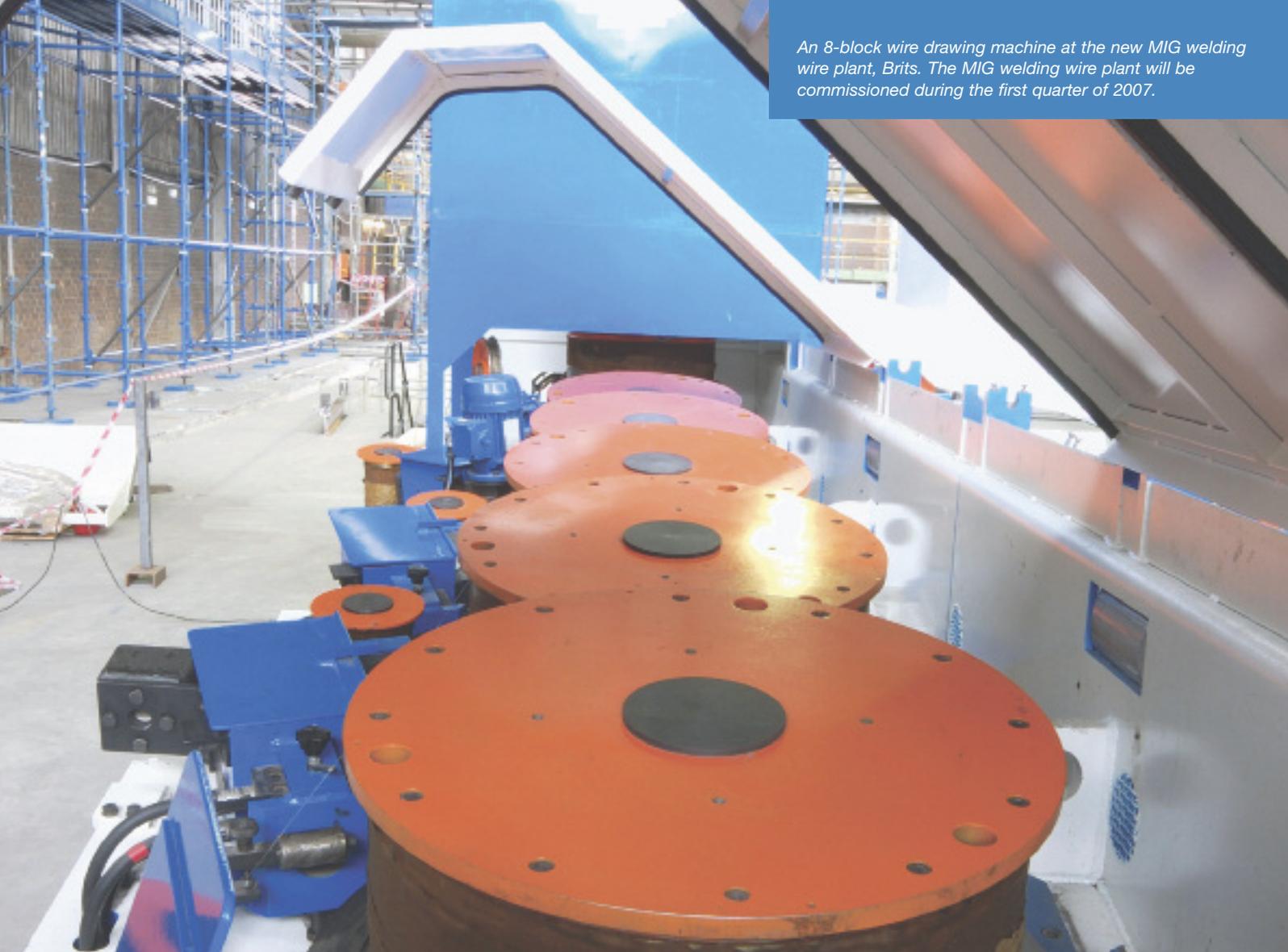
A fully automated nitrous oxide plant was commissioned at the end of the financial year.

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

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 Afox's own AfoxPac35 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.

Afox 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 Afox's inclusion in The Linde Group.

Hospitality

Hospitality achieved real growth. This business is an integral part of Afox'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

Afox'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. Afox 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.