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2010 ANNUAL REPORT  
AFRICAN OXYGEN LIMITED



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## Company profile

African Oxygen Limited (Afrox) is listed on the JSE Limited and the Namibian Stock Exchange. With 3 388 employees, the Company is sub-Saharan Africa's market leader in gases and welding products. Afrox was founded in 1927, listed on the JSE in 1963, and has prospered by constantly meeting the needs of customers and developing solutions that add value to customers' applications. The Company operates in South Africa and in 10 more African countries, managing operations in five others on behalf of the parent company, The Linde Group. Afrox remains committed to achieving above average growth for its shareholders, built on the back of the industry's strongest brand and national distribution network. The Company is structured and managed in accordance with The Linde Group's best practice globally. Our four major areas of business are Merchant and Packaged Gases, LPG, Healthcare and Tonnage, which are the focus of our core operating structures of MPG Operations, Sales, the National Customer Service Centre, Safety, Health, Environment and Quality (SHEQ) and African Operations. All are supported by the enabling functions of Communications, Finance, Information Services and Human Resources. Product offers include the full range of large-volume on-site and bulk gases, cylinder gases, scientific gases, refrigerants, packaged chemicals and helium, medical gases and products, hospitality gases, gas equipment, welding products and ancillary safety products.

### Key company data

Full name: African Oxygen Limited	Formed: 1927
Registration number: 1927/000089/06	Listed JSE: 1963
Year-end: 31 December	Listed NSX: 1995
JSE abbreviated or common usage name: Afrox	Shares in issue: 342 852 910
JSE code: AFX	No of shareholders: 4 658
NSX code: AOX	Market capitalisation: R7 073 million
ISIN: ZAE000067120	Employees: 3 388
Sector: Chemicals	Website: <a href="http://www.afrox.co.za">www.afrox.co.za</a> / <a href="http://www.afrox.com">www.afrox.com</a>
Index: Socially Responsible Investment (SRI) Index	

### The Linde Group profile

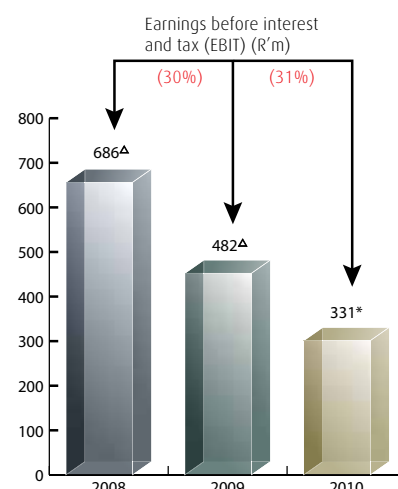
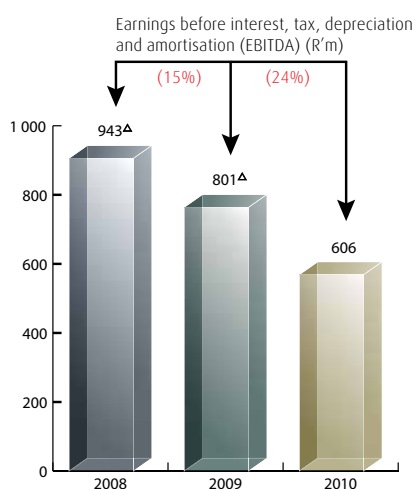
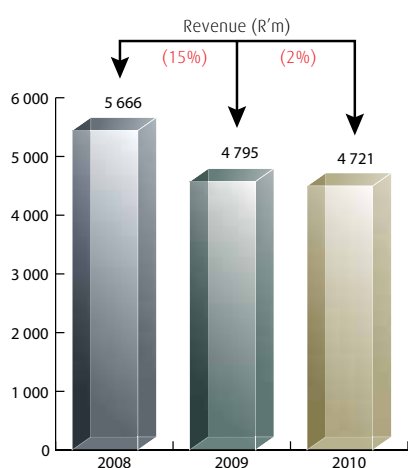
The Linde Group is a world leading gases and engineering company with almost 48 000 employees working in around 100 countries worldwide. In the 2010 financial year it achieved a turnover of 11.2 billion Euro. The strategy of The Linde Group is geared towards sustainable earnings-based growth and focuses on the expansion of its international business with forward-looking products and services. The Linde Group acts responsibly towards its shareholders, business partners, employees, society and the environment. The Linde Group is committed to technologies and products that unite the goals of customer value and sustainable development. For more information, visit The Linde Group online at <http://www.linde.com>.



# Financial highlights

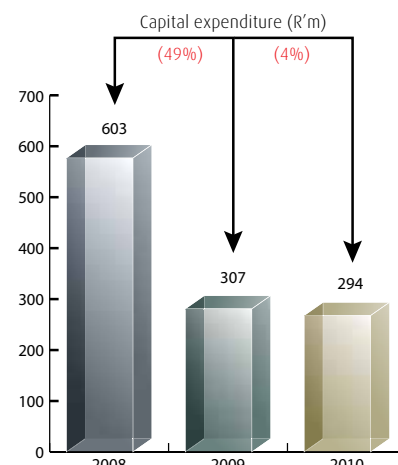
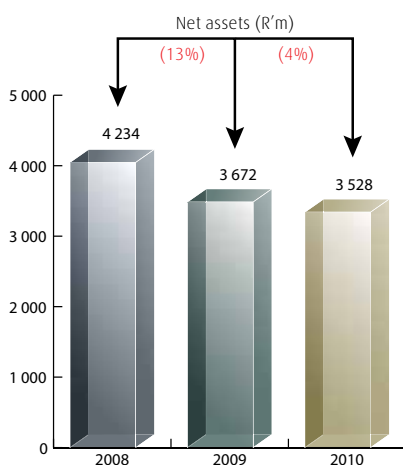
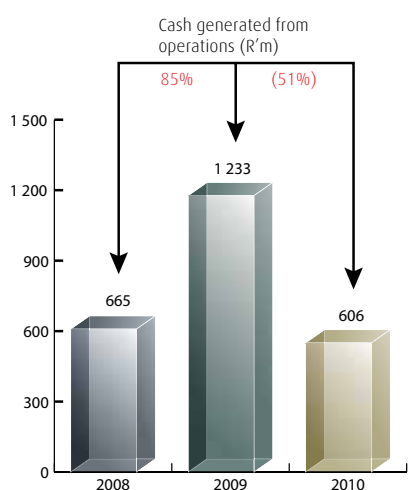
Cash dividends for the period	2010	2009
Interim (cents)	19	19
Final (cents)*	8	19
Total dividends for the period (cents)	27	38

\*The final dividend was declared subsequent to 31 December 2010 and is presented for information purposes.



<sup>Δ</sup>Restated

\* Excluding impairment and related costs  
<sup>Δ</sup>Restated



Overview

Financial director's review and business review

Sustainability and corporate governance

Financial results and other information

# Board of directors

From left to right:

**Kent Masters** (50), non-executive, appointed Chairman of Afrox in April 2005. Board committees: Nominations, Governance and Management of Resources, Transformation.

➤ Kent Masters is a member of the Executive Board of The Linde Group. Within The Linde Group, he has responsibility for businesses in Africa, North America, South America and the South Pacific as well as global business areas Bulk and Packaged Gases and the global business unit, Healthcare. He holds a BSC Chemical Engineering and an MBA Finance.

**Tjaart Kruger** (50), executive, appointed Managing director of African Oxygen Limited in April 2007. The MD attends all Board committees by invitation.

➤ Tjaart Kruger joined Afrox on 1 March 2007 and his appointment as Managing director was effective from 1 April 2007. He has held various executive positions at Tiger Brands Limited, including the positions of Managing Executive for Adcock Ingram Pharmaceuticals Division and Managing Executive of the Grains Division. He is a Chartered Accountant (SA) and a commerce graduate from the University of Johannesburg and participated in the Harvard Business School management development programme in 1995.

**Morongwe Malebye** (38), independent non-executive director, appointed to the Board in December 2007. Board committees: Audit.

➤ Morongwe Malebye is Managing director of Ditiropele-DDMS. She is a former MD of Babcock (2005). Before that she held senior positions at Armaments Corporation of SA, Spoornet, Sasol Chemical Industries and Sasol Technology. She holds a MSc in industrial engineering and an MBA from the University of Witwatersrand and a BSc in mechanical engineering from the University of Cape Town. She is involved in mentorship programmes at Allan Gray Foundation and Student Sponsorship Programme. She also serves on the board of Howden Africa, a JSE listed company.

**David Lawrence** (59), independent non-executive director, appointed to the Board in December 2005. Board committees: Nominations, Governance and Management of Resources (chair), Audit.

➤ David Lawrence'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 he held the position of Managing director. He joined Investec in 1996 as Managing director, Corporate and Investment Banking, and is currently Deputy Chairman of Investec Bank Limited; 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 the Witwatersrand.

**Dr Khotso Mokhele** (55), independent non-executive director, appointed to the Board in December 2005. Board committees: SHEQ (chair), Nominations, Governance and Management of Resources, 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 Foundation for Research and Development from 1992 to 1999, and is President of the National Research Foundation. He has 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. 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 and chairman of Impala Platinum.

**Frederick Kotzee** (39), Executive director and Financial director, appointed to the Board in May 2010. The Financial director attends various Board committees by invitation.

➤ Frederick Kotzee joined Afrox in May 2010 as Financial director. He has 14 year's post-articles experience in mining, industry and merchant banking. He joined Anglo Platinum's Corporate Finance department in 2002 from ING Barings. In 2008 he was appointed General manager Corporate Finance for Anglo American, and returned to Anglo Platinum in 2009 as Head of Business Development. He is a Chartered Accountant (SA) and an honours commerce graduate from the University of Pretoria, and also holds a BProc and LLB from the University of South Africa.



**Jürgen Nowicki** (47), non-executive director, appointed to the Board April 2007. Board committees: Audit.

Jürgen Nowicki is head of Operational Finance and Control/Capex, The Linde Group, based in Germany. He joined The Linde Group in 1991 as The Linde Group AG Financial and Operational staff auditor. Since then he has held a number of senior positions including head of Operational Finance for Linde Gas, CFO Linde Gas North America, CFO Linde Lift Truck in the US and head of Finance, JULI Motorenwerke, in the Czech Republic. He holds a Masters Degree in Economics and Mechanical Engineering, University of Karlsruhe, Germany.

**Jonathan Narayadoo** (52) Executive director and General manager MPG Operations, appointed to the Board in December 2009. Board committees: No appointment as yet.

Jonathan Narayadoo joined the Company in 1980 and has held a number of senior management positions in Afrox and served, most recently, on the boards of the Group's various African subsidiaries. He was educated in South Africa and attended a graduate development programme at the University of Cape Town, as well as a management development programme in the United Kingdom. In addition he is an Associate of the Production Management Institute of South Africa.

**Karen Oliver** (47), non-executive director, appointed to the Board in December 2007.

Karen Oliver is head of Business Development, Global Tonnage Business, with Linde Gas. She joined Afrox in 1988 and held a number of engineering posts until joining BOC in 1995. While at BOC Process Systems she held a number of senior positions including Finance manager, Commercial director and Vice President Project Development. She holds a BSc in chemical engineering from the University of Cape Town.

**Sipho Pityana** (51), independent non-executive director, appointed to the Board in December 2005. Board committees: Transformation (chair).

Sipho Pityana has an MSc (London) and a BA (Hons) (Essex). He has a successful track record in running large government departments. He is chairman of Izingwe Holdings (Pty) Limited and Munich Reinsurance Company of Africa Limited boards. He is also a non-executive director of AngloGold Ashanti Limited, Scaw South Africa (Pty) Limited, Aberdare Cables and Onelogix Group Limited.

**Louis van Niekerk** (61), independent non-executive director, appointed to the Board in February 2005. Board committees: Audit (chair), Nominations, Governance and Management of Resources, SHEQ.

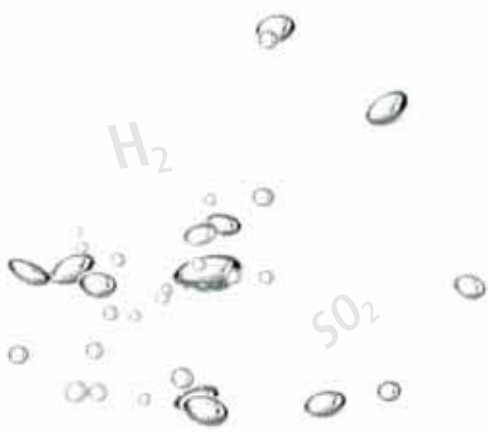
Louis van Niekerk, who retired from Iscor (now Mittal SA) towards the end of 2004, held the position of chief executive and then non-executive deputy chairman. He joined Iscor in 1991 and was appointed as executive director finance in 1993. He became Managing director of Iscor Steel later that year and chief executive of Iscor Limited in 2001. He was the chief operating officer of Transnet until March 2009. He is currently executive director of the Macsteel Group and sits on various subsidiary boards within the group. Louis van Niekerk is a Chartered Accountant (SA) and has a Masters degree in Commerce.

**Dynes Woodrow** (62), non-executive director, appointed to the Board in May 2010. Board committees: SHEQ.

Dynes Woodrow is Global Head of Best Commercial Practice and Global Process Owner for Sales (Merchant and Packaged Gases) with The Linde Group. He also holds the leadership of Global Commercial functions, Key Accounts, Channels, Sales Capability Strategy and Development, Pricing and Strategy for Merchant and Packaged Gases. He joined BOC in 1984 and has held a number of senior positions including Marketing Director Europe, Global Business Development Director and Director of Sales and Marketing South Pacific. He holds a degree in Electrical Engineering and a Masters in Business Administration.



# Chairman's **statement**



## Dear shareholder

Afrox continued to make solid progress in a number of key performance areas during 2010. Notwithstanding, our financial performance was disappointing as trading conditions remained challenging exacerbated by the misfortune of a disruptive and unforeseeable structural failure at the air separation unit (ASU) in Witbank during March. Although our African Operations' performance was flat compared to the previous year, it is a focal point for growth.

In the past two years, we have had to contend with a global economic recession, a reduction in activity in the markets we serve, the bedding-down of our SAP system, cost pressures, a difficult restructuring and an uncertain outlook.

Afrox employees have risen to the challenge and I am satisfied that we have a very capable and skilled workforce. The management team is motivated to succeed, and continues to identify scope for more productive operation and improved organisational effectiveness.

## The way forward

We believe that Africa as a whole offers tremendous growth opportunities and scope for our business. There is a defined strategy for The Linde Group's future on the African continent and from its position of strength, Afrox is uniquely placed to lead in maximising opportunities.

Afrox has a good geographical spread in sub-Saharan Africa and an excellent platform for growth as the continent develops. Over the medium term, we anticipate accelerating growth from African Operations and we will invest in equipment, systems and people, to ensure Afrox gain a meaningful share of expanding market opportunities.

We believe that during the next decade, the gases market in sub-Saharan Africa could grow by a compound rate of 10% plus. Our strategy requires that we have a strong South African base to profit from regional growth. Defending and improving the South African heartland is not only important to our local business, but it is a key part of our growth strategy outside of South Africa. Our African Operations already generate relatively large revenues and profits, and we anticipate that the contribution from African countries will continue to contribute meaningfully to Group earnings in the future providing impetus for growth.

The world faces significant fiscal and economic challenges and South Africa, as a very open economy, is subject to influences beyond its shores. I expect challenges, but we have systematically worked through a number of issues to build a stronger Group.

Recently Afrox has increased investment substantially and we are committed to capitalising on opportunities and maintaining our physical assets in good shape. The substantial investment in upgrading the Germiston operations centre has resulted in a world-class facility that is contributing materially to improved workflow and productivity. This will benefit Afrox for many years.

We continue to explore avenues for optimising our business, including the sharing of best practice with colleagues throughout The Linde Group. For example, all ASUs in South Africa will be controlled and monitored from the remote operating centre in the United Kingdom by the end of 2011.

As part of the journey to becoming a High Performance Organisation, we have challenged ourselves with stretching productivity targets. Working smarter rather than harder is

essential in tough and competitive markets and we have quantitatively defined that as 3% productivity per year.

This past difficult period has emphasised the relevance of our strategy. Through it we have achieved qualitative advances that I believe will perpetuate Afrox's leading market position and create a foundation to deliver real returns over the course of the business cycle.

We target a return that well exceeds our cost of the capital provided by shareholders and lenders. It is our ambition to earn a return on capital employed of 20% or more over the course of a business cycle. With the structure of our statement of financial position, we will require EBITDA margins to improve in excess of 20% to achieve this. This will be a challenge owing to stiff competition, but well within the capabilities of the Group.

### The economic situation

Manufacturing, a key sector for Afrox, had a hesitant recovery from the lows of 2009. No firm upward momentum was discernable during the year and monthly conditions were variable. With the exception of road building, the construction market was depressed. The mining sector rebounded during the year, as commodity prices surged due to strong demand in the developing world.

Despite a difficult two years, the South African economy has weathered the effects of the global financial crisis, and the country's fiscal position is favourable relative to many economies in the world.

South Africa's successful hosting of the FIFA 2010 World Cup™ showcased the country's capability to the world and the event was a catalyst for infrastructure investment.

Industrial action in the public and automotive sectors and a truck drivers' strike during the year were particularly disruptive and highlight some of the difficulties faced in this market.

Economic conditions in the various African territories we serve, other than South Africa, were reasonably favourable and resilient.

### Performance

In 2010, overall volumes in South Africa showed marginal increases compared to the previous year. However, there was an encouraging improvement in volumes in Bulk LPG, Merchant Bulk and Speciality Gas. Activity levels in our African Operations were also favourable.

Group consolidated revenue decreased by 2% in 2010, but earnings before interest and tax decreased 54%, and attributable profit decreased 59%. Afrox basic earnings per share are down 59% to 30.5 cents per share, and headline earnings per share are down 26% to 55.5 cents per share. Our profitability decreased but despite substantial investment our financial position is strong. The Group remains well within loan covenant parameters.

Substantial direct and indirect costs were incurred as a result of the structural failure at the Witbank ASU and are not recoverable.

The vigorous asset improvement, cost containment and efficiency measures instituted during the period defines our focus. Recently we have reduced filling sites, rationalised branches and product lines, introduced a system that quantifies the cost of servicing customers, and enhanced our forecasting and planning, all with the objective of smarter more cost-effective operation improving the customer experience.

Between 2007 and 2010, from the peak of the economic cycle through the trough and then hesitant recovery, Afrox has spent R2.2 billion on investment – equivalent to 31% of the Company's currently depressed market capitalisation. We have to invest a further R200 million in our Pretoria plant to bolster our position in merchant gas, and selected expansion opportunities will require further expenditure.

### Manufacturing facility management

We have identified further opportunities in Afrox's manufacturing operations to economise and improve our competitive position in gas equipment, electrodes and MIG welding wire. By tapping into The Linde Group's global procurement purchasing power and tactical sourcing of suppliers, we can improve our economies of scale, whether through local manufacturing, assembling or importing of components.

### Corporate governance

The JSE Limited (JSE) is the first exchange in the world to require listed companies to progress to integrated reporting. The new Companies Act No. 71 of 2008 has been enacted and is scheduled to come into operation during 2011. Afrox is evaluating the new Act, and once regulations are finalised, will align itself accordingly. In tandem with the new Act, the King Report on Governance for South Africa 2009 (King III), which became effective 1 March 2010, has implications for the manner in which companies conduct their affairs.

# Chairman's statement

The Board has evaluated current practice versus desired practice and has adopted King III on the basis of apply or explain. A King III readiness review was conducted during the year by PricewaterhouseCoopers.

It is pleasing that once again Afrox has been selected as one of only 74 companies qualifying for the 2010 JSE Socially Responsible Index. The SRI Index assesses companies listed in the FTSE/JSE All Share Index against a number of criteria and helps to focus on triple bottom line practices and to recognise the strides listed companies are making in this regard. The 2010 review was conducted once again by Ethical Investment Research Services Limited of the United Kingdom.

## Board of directors

The structure of the Afrox Board includes five independent non-executive directors, four non-executive directors who are employed in executive capacities within The Linde Group and three executive directors.

Louis van Niekerk was appointed lead independent director. Louis provides leadership and advice in the event of a conflict of interest arising in respect of the chairperson and chairs meetings in which chairmanship, succession and performance is under discussion. His role is supportive of the chairperson and ensures there is continuity if circumstances warrant.

Frederick Kotzee was appointed Financial director of the Company and a member of the Board effective 20 May 2010.

Dynes Woodrow of The Linde Group was appointed to the Board as a non-executive director effective 20 May 2010.

## Afrox's relationship with The Linde Group

Afrox is managed in accordance with The Linde Group global best practice, encompassing business processes, management, technology, environment, employment, supplier relations, customers and society. A robust governance structure, including the presence of a lead independent non-executive director at Afrox, ensures equal protection for all Afrox shareholders' interests.

## Risk management and control

Afrox identifies potentially significant risks to its business and identifies actions necessary to mitigate those risks.

In 2010 we identified the uncertain economic environment, the consequences of the restructuring initiatives, plant reliability, and supply constraints as potentially significant risks. Mitigation plans focused on these major risks are in place and monitored on a regular basis.

Safety, Health, Environment and Quality (SHEQ) is not a standalone portfolio, but rather a way of life embedded in our culture. We spend significant effort in managing SHEQ activities as well as ensuring that primary responsibility for SHEQ is owned by line management. We compare ourselves to global benchmarks in this area and aspire to be the benchmark on the African continent.

All ISO 9001 certificates were maintained during 2010. Progress was made in combining all sales regions under one national ISO certificate and we anticipate this certification shortly. As a consequence of the restructure all certifications have been reviewed for applicability. Afrox has necessary safety procedures in place to meet the highest standards of appropriate certification in all its facilities.

## Dividends to shareholders

The Board has declared a final dividend of 8 cents per share which together with an interim dividend of 19 cents totals 27 cents per share for the year. This is covered 2.1 times by headline earnings and compares with 38 cents per share paid for the 2009 period.

## Acknowledgements

I thank Afrox employees for the tireless contributions made this past year. I know we can count on you to continue with that commitment in 2011.

I extend my appreciation to all Board members for their wise counsel in 2010.

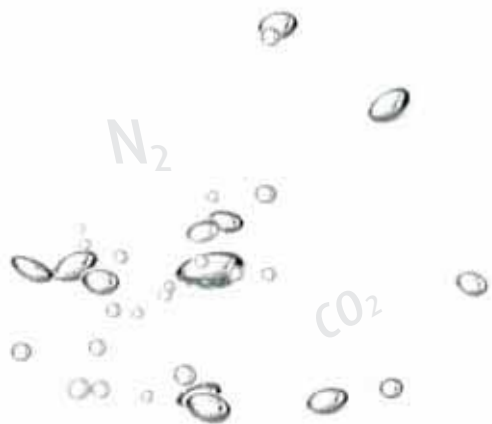
Afrox is thankful to all of its customers for placing their business with us. We shall strive to ensure we live up to your expectations. To our many suppliers, thank you for partnering with us and helping us deliver.



**Kent Masters**  
Chairman

16 February 2011

# Managing director's statement



I extend sympathy to the family of Fana Maseko who died tragically in a road traffic accident while on Afrox business last October. We are deeply concerned when an incident or injury occurs and particularly regret loss of life. We take safety very seriously at Afrox and this year has left much room for improvement. Please refer to my *Thinking and behaving safely* section on page 12 and the SHEQ report on page 30.

Notable features of the trading year

- ▄ Supply disruptions proved challenging
- ▄ Hesitant economic recovery in South Africa
- ▄ Relative Rand strength a competitive challenge
- ▄ Rebound in commodity markets
- ▄ Economic vigour in regional economies
- ▄ Further progress in improving operations

## The result

Afrox returned an unsatisfactory operating result in 2010, with earnings decreasing for a second successive year. Nevertheless the Group's financial and liquidity position is sound and cash generated from operations equalled earnings before interest, tax, depreciation and amortisation.

Group revenue was broadly flat compared to 2009. African Operations contributed R731 million or 15% to Group revenue of R4.7 billion. Profitability in South Africa was weaker but African Operations' stable performance contributed R206 million, or 34% to Group EBITDA of R606 million. Currency volatility somewhat understated the African Operations' contribution.

The business was affected by unforeseen once-off occurrences and a tough market for both volume and price recovery. This resulted in a 13% reduction in EBITDA in the first half, and was followed by a 36% reduction in the second half, with the result that EBITDA was down 24% for the year. Earnings before interest and tax therefore reduced 54% to R219 million and the EBIT margin reduced to 4.6% from 10% in 2009.

A review of manufacturing within Afrox resulted in a strategic decision to close the MIG wire plant. This necessitated an impairment charge and related costs of R112 million.

Net interest expense decreased from R116 million to R63 million, assisted by a lower interest rate environment and reduced borrowings, as well as surplus returns from the employee benefit funds.

Headline earnings, which excludes an adjustment for the net effect of the impairment in plant and equipment, declined 26% from R231 million to R171 million. Headline earnings in 2010 were 58% below the R411 million earned at the peak of 2008.

Afrox generated cash flow from operations of R606 million. Debtor days reflected a pleasing improvement, down from 56 days to 50 days, and creditor days remained at 46 days. Year-end borrowings of R842 million were 8% below 2009. Gearing ratio at 20.6% compares favourably with 21.1% in 2009 and 31.7% in 2008.

# Managing director's **statement**

## Business conditions

More than two years of very tough trading has been emotionally and physically taxing for all our Afrox partners. If Afrox feels the strain of economic recession and declining business fortunes, our customers, shareholders, suppliers, and the communities in which we operate are also affected.

Revenue and profitability in a relatively mature business such as Afrox which is exposed to the real economy, reflects the inherent cyclicity of manufacturing, mining, construction, and discretionary spending.

The sharply negative trend in manufacturing, experienced in the latter part of 2008 and during 2009, began to reverse towards the end of 2010, but demand conditions were soft relative to the previous cyclical peak, and excess capacity was a feature. Automotive production made an encouraging comeback with exports rebounding strongly.

Natural resources are the backbone of the countries in which we operate, and priced predominantly in US Dollars, foreign exchange earnings are influenced accordingly. By December 2010, The Economist All Commodities Dollar indices were back to the all time high of 2008 on buoyant demand in developing countries. South Africa's terms of trade reflected a sharp improvement and there were continued net inflows of foreign capital.

Afrox trades in over a dozen different countries on the African continent, each country having its own currency. The rate of exchange has a substantial impact on the business, both in price effects and levels of demand. The trading results of African Operations were affected by the rate of exchange on translation to the reporting currency, the South African Rand.

A combination of a steadily strengthening Rand currency and relatively weak demand in traditional export markets hindered the South African manufacturing sector and impacted the viability of Afrox's already tight margin exports. We experienced keenly priced import competition in welding products.

South Africa has a diversified, open economy with an important manufacturing sector. The flip side of a stronger currency was a dampening effect on input costs. Despite competitive challenges for the South African business, in particular for the region as a whole, there has been a material net benefit from rising prices for a host of natural resources.

## Operational review of 2010

Price pressures in electricity, wages, and commodities such as steel and fuel, were a challenge for the Group from a price/cost recovery point of view during 2010. As an example, electricity cost Afrox over R200 million in 2010, a rise of 44% over 2009, and approximately twice what it was in 2006. Other factors such as strikes and supply disruptions presented additional challenges.

In March, we suffered equipment failures at the Witbank ASU with downtime running into April. This had a considerable impact on two contract supply customers with knock-on effects for bulk customers and resulted in rationing. The cost of this outage further depressed profitability and hindered our re-pricing.

Despite this occurrence, in the earlier part of the year, total Tonnage volumes tracked ahead of 2009.

Our initial caution at the end of 2009, as to what 2010 had in store, was justified. In the first six months volume was disappointing and there were only modest improvements in LPG Bulk, Tonnage and Merchant Bulk, while the Hardgoods welding category came under strong competitive pressure in a market that was even weaker than 2009. Recovery in automotive and steel sectors benefited LPG bulk and tonnage for the full year.

## Volumes

For the year, total volume produced was almost 1% higher, and South African sales at R4 billion are in line with the prior year. In all instances volume tracked well below 2008 best levels. Tonnage produced in 2010 was 4% less than in 2008,



LPG volumes decreased by 9%, Merchant and Packaged Gases volume was 9% lower and Healthcare volumes 13,5% lower than in 2008.

The year was one of continued recessionary conditions in the markets which Afrox serves. As the Company has historically been an accurate barometer of the broader economy, serving as it does a number of different sectors from healthcare to hospitality, our experience mirrors that of our customers with reduced orders.

A percentage drop in market share in welding was mostly conceded to a new entrant to the market competing aggressively on price against the Afrox benchmark. Despite this, Afrox has retained its leading position overall in welding products. In special products and chemicals, Afrox has enjoyed increases in market share. In merchant bulk, industrial packaged gases, and in LPG bulk and cylinders, the Company continues to consolidate its number one position.

The FIFA 2010 World Cup™ mid-year had minimal impact on business. In Healthcare we made special provision for medical emergencies over the course of the month-long football event.

A tentative recovery in manufacturing was seen in LPG demand with bulk volumes 7% ahead of 2009. Total LPG volumes were 4% higher. LPG cylinder volumes were down 2%. Strikes in the automotive industry had an effect in Q3, but production losses subsequently recovered. In packaged LPG, trading conditions were mixed. Legislated maximum pricing for domestic LPG was instituted in July 2010 and pricing is now adjusted monthly in line with other petroleum products. Of continued concern is illegal filling of Afrox cylinders which deprives Afrox of the use of our assets. In this regard, Afrox is assisting the authorities to bring perpetrators to book. Safety promotions remain a focus to ensure consumers are properly educated about purchase and use of LPG.

Tonnage volumes were flat as a whole but tonnage produced, excluding take-or-pay contracts, increased by 4% and revenue increased for the year. Stable take-or-pay demand is derived from large dedicated supply customers. Profitability was adversely affected by the March 2010 failure and associated costs.

It is envisaged that the new 200 ton-per-day ASU to be completed in Pretoria, incorporating an argon column, will commence production in 2013. This capital investment of approximately R200 million will support the merchant gas

product range and create scope for growth in this profitable area.

Merchant bulk volumes were affected in the first half by supply disruptions, including the Witbank ASU plant failure, and additional costs were incurred for trunking and sourcing. The situation improved during the second half, with volumes ending 3% higher for the full year. Successful commissioning of the Sasol Benfield carbon dioxide column has provided substantial additional high-purity tonnage for domestic and regional demand.

Although total Merchant and Packaged Gas volumes were 2% higher, it was a mixed performance with welding particularly under pressure.

Industrial gases volumes remained weak and cylinder rental decreased. Afrox continues to focus on registering cylinders in advance of the individual cylinder control project, to ensure better inventory management and income protection. Special products and chemicals volumes increased by 9% and hospitality sales also improved.

Welding consumables' volumes were down by 9% and were substantially weaker than the peak year of 2008. Aggressive price-based import competition eroded market share. Sales in gas equipment reduced but gross margin improved as low margin exports fell. Afrox launched a welding machine range to favourable customer response in the latter part of the year.

Active marketing and business development initiatives continued within the Merchant and Packaged Gases and hardgoods product areas.

Healthcare volumes improved steadily as the year progressed and although down by 5% for the year, this was an encouraging result given that four provincial tenders for government hospitals were not renewed the previous year. Sales and profits were within expectations. Growth is being achieved in the private homecare market.

African Operations include Angola, Botswana, DRC, Lesotho, Malawi, Mozambique, Namibia, Swaziland, and Zambia. While Afrox manages The Linde Group's operations in Kenya, Nigeria, Uganda, Zimbabwe, and Tanzania, the results are not included in the Afrox results.

The African Operations have generally come through the global financial crisis well and an improving commodity market has benefited a number of countries.

# Managing director's **statement**

Aligning African Operations with the systems and processes common to Afrox and The Linde Group is continuing. A number of business development milestones were achieved.

## Financial disciplines

Frederick Kotzee joined Afrox as the new Financial director in May 2010. His skills and experience have brought fresh thinking to the portfolio. We view the finance function as a vital partner for our operational colleagues, assisting them with provision of quality business information. This will improve commercial decision making, provide clarity on costs, harness the abilities of SAP to best advantage, and facilitate simplification sharpening strategic focus so we achieve the best returns possible in future.

## Being productive and responsible

The Afrox High Performance Organisation (HPO) philosophy embraces partnership between customers, employees, shareholders, suppliers, and society and gives clarity of purpose and direction to the business. It has quantitative and qualitative metrics.

Our organisational structure is collaborative rather than one of command and control orientated. Afrox ensures its people are appropriately equipped for the job they are tasked to do and are accountable for the consequences of their actions. We do have the right people in the right jobs, and we are improving our ability to work together as a team.

We now employ the best possible support systems and equipment to drive improved productivity. We focus on minimising transportation costs by optimising our routes to market and strive to reduce disruption to both the natural environment and communities.

Our significant investment in plant and equipment maintenance will enhance our reliability. Warehousing and the cylinder truck fleet has been successfully outsourced and both service levels and reliability improved in the latter part of the year.

## Thinking and behaving safely

During the period of change management we have strived to maintain production capability and service levels as well as occupational safety, health, environment and quality management while cutting costs. We did not always succeed and our SHEQ record, in particular the lost-time injury rate, requires greater attention. We are deeply concerned when an incident occurs and particularly regret loss of life.

The SHEQ committee of the Board, chaired by Dr Khotso Mokhele, is one of four separate Board committees of Afrox. All SHEQ aspects are regularly reviewed, and incidents scrutinised and monitored for rectification or remediation. Afrox keeps a detailed material incidents register that records date, location, description, responsible individual, follow-up and status.

While striving to think and behave safely as Afrox employees, it is important that we disseminate safety messages within our communities. For example, we are educating customers through various mediums in safer use of LPG at home and we teach artisans who utilise our welding products how to weld efficiently and safely.

## Manufacturing facility management

In our drive to improve efficiencies, we have been evaluating the gas equipment factory and our MIG wire manufacturing operations where several supply chain productivity improvements and cost savings have been identified.

Afrox has a recognised strength in welding and cutting equipment, such as regulators, torches, nozzles, and accessories, and in consumables, such as electrodes and welding wire. It is imperative that we retain and strengthen our leading position and provide a high quality product to customers at a competitive price, while securing Afrox a good return both in the South African and global export markets.

The Germiston factory is being restructured to focus on assembly and quality control.

Afrox has discontinued production of MIG wire as input costs and low volumes render it unprofitable. Efforts to increase profitability at the MIG plant had failed and no further cost reduction was possible. The impairment charge taken this year relates principally to the MIG plant at Brits. In future MIG wire will be imported. All affected parties were consulted.

Our state-of-the-art Special Gases facility and Laboratory in Germiston is now commissioned and fully operational.

## Prospects

Operationally 2010 started poorly but the year ended on a rather more optimistic note. The South African economy is rebalancing and although consumption spending is constrained somewhat, the tradable goods sector, and mining in particular, have benefited from a growing world economy.

Our national customer service centre is fielding fewer customer complaints and is able to concentrate on facilitating business for the Group. In the latter part of 2010, the deliver-in-full-on-time metric which measures reliability of supply and service levels, reached its best level since introduction, and is encouraging although still below target.

Our focus on protecting our leading position in industrial and bulk gases with continued investment in expansion and modernisation, will show benefits from 2011 onwards. Between 2007 and 2010, Afrox retained strong market shares in our targeted categories of special products and chemicals, merchant bulk, industrial packaged gases, LPG, Healthcare, and in welding, while in Tonnage, we maintain our historical position as number two in South Africa.

Commodities such as oil, coal and various minerals underpinned continued growth in Sub-Saharan Africa during 2009 and 2010. There is also evidence of accelerated spending on social and physical infrastructure. Agriculture is also being prioritised in the interests of food security. As GDP per capita improves so does gas consumption. Governance has improved markedly in many countries. Afrox has a strong employee team in its African Operations to ensure continued progress and to realise our share of selected opportunities.

Our efficiency drive and the HPO process is a journey and will remain inherent in the way we do business. There will be cost savings in 2011 without several sizeable once-off costs with profitability geared to even a modest improvement in volumes.

**Economic empowerment and transformation**

This year your Company achieved an improvement in its Broad-Based Black Economic Empowerment (BBBEE) rating, up from a Level 4 to a Level 3 value-adding company.

This is excellent progress but we are mindful that this status is influenced by the 2005 empowerment transaction involving former Afrox subsidiary, Life Healthcare. As a direct result of this sale to a black empowerment group Afrox earned 18.72 points out of a possible maximum of 20 ownership

points as part of its Level 3 contributor status for BBBEE purposes.

Life Healthcare listed on the JSE Limited in June 2010 resulting in a dilution of BEE ownership. As Afrox derives its ownership points from the sale of Life Healthcare, formally Afrox Healthcare, the Board is assessing the implications.

In enterprise development Afrox has earned a creditable procurement score of 15 out of 20 and continues to identify opportunities for vendors. Employment equity targets remain a challenge in a skills scarce country but the Group is making satisfactory progress and skills development is a high priority. Investment in training and development is undertaken at every level of the organisation.

**Appreciation**

We strive to be the dependable partner in business and the initiatives we have been driving in recent years are making a difference. I thank each of our customers and suppliers for placing their trust in us.

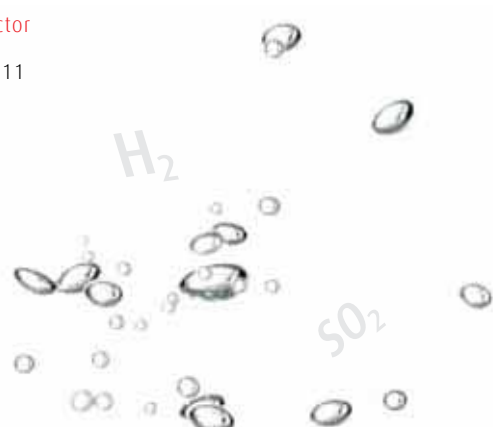
I thank the non-executive members of the Board for their invaluable guidance and support for the executive and the Afrox team. The Linde Group is a supportive shareholder offering Afrox a large reservoir of skill, experience and technical resources.

My colleagues in Afrox at every level of the organisation demonstrate tremendous commitment to the Company and I sincerely thank you all.



**Tjaart Kruger**  
Managing director

16 February 2011



# Financial director's review



Afrox has been synonymous with industry, manufacturing and mining in southern Africa for almost a century. The Group has weathered many storms over the decades and I am honoured to take up the challenge of Financial director and to be part of the Aprox team. The Group has endured setbacks in recent times, as have our customers, all of which has been reflected in the bottom line. In part, some of those shocks have been the result of the modernisation of our assets, work processes, systems and strategies in line with the proven global best practice of our controlling shareholder, The Linde Group. Not only has Aprox had to respond to the economic recession and the resultant changes in global and local business of recent times but we have restructured, reinvested, and repositioned the business at the same time. The success of these initiatives is a testament to the determination and dedication of our people, Aprox's most important asset. While I am reporting on a set of disappointing results for 2010, I am confident, bar any

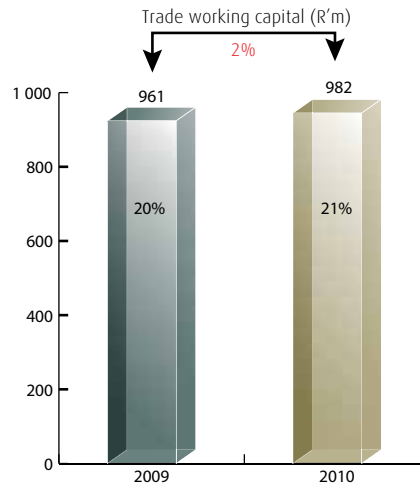
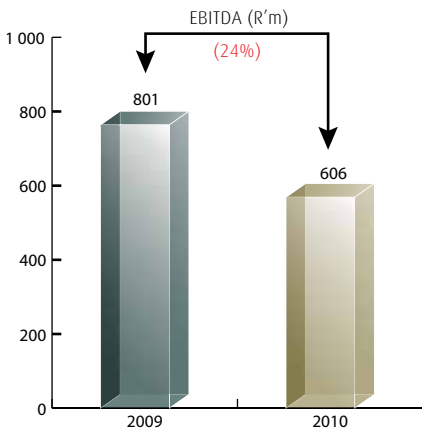
unforeseen events, that our initiatives will start to deliver value for shareholders. We have our goal of real growth and sustainable returns firmly in sight. Lastly, I am grateful for the hard work, support and dedication of my colleagues in what has been a very challenging year.

This report is to provide additional insight into the operating performance and financial position of the Group and should be read in conjunction with the annual financial statements.

### Income statement

Revenue is R4.7 billion, 2% below last year's R4.8 billion as a result of tough trading conditions.

Earnings per share, at 30.5 cents, are 59% lower than 2009 at 75.2 cents. This decline is primarily due to the impairment of the manufacturing facilities, as discussed in this review, as



well as unplanned repairs and maintenance costs during the year due to various failures and unscheduled plant maintenance.

Headline earnings, excluding impairment, per share are 55.5 cents, 26% lower than 2009.

Earnings before interest, tax, depreciation, amortisation (EBITDA) and impairments reduced to R606 million.

**Restatements**

Management has elected to disclose net investment income on the post-retirement surpluses (i.e. interest cost and expected gain on plan assets) under net finance costs. Historically the net investment income was disclosed together with current service cost as operating cost. The restatement has resulted in improved disclosure of finance costs.

**Statement of financial position**

The Group's financial position remained strong. Afrox was able to reduce net borrowings from R914 million to R842 million during the year. This was as a result of lower interest rates and improved collection of accounts receivables. Gearing improved to 20.6% against 21.1% for 2009.

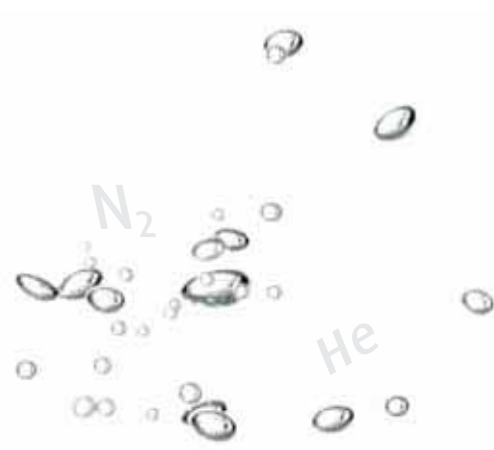
**Impairments**

During the year Afrox performed a critical evaluation of the carbon steel MIG wire plant at Brits and the gas equipment factory in Germiston. After careful analysis a decision was taken to impair the assets of the MIG plant and stop production at the end of December 2010. At the gas equipment factory certain machinery was impaired. This resulted in impairments of tangible and intangible assets of R104 million, and retrenchment costs and inventory write-offs of R8 million were provided as part of the normal operating costs. This decision is expected to result in annualised savings of R25 million during the 2011 fiscal year and R50 million in 2012.

**Cash flow**

Cash generated from operations was R606 million compared to R1 233 million in 2009. The primary reasons for this were lower profits and normalisation of working capital. Inventory management remains a focus area. Long-term borrowings of R363 million were repaid during 2010.

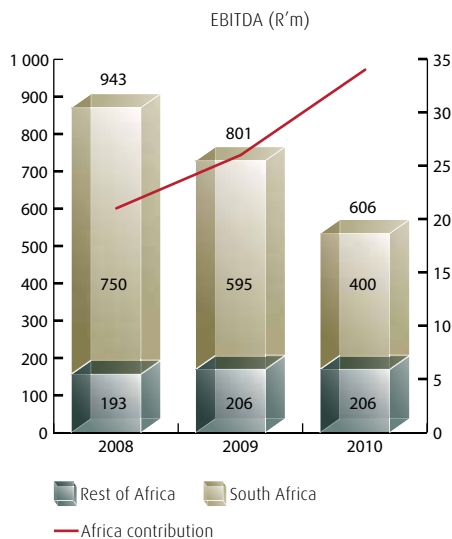
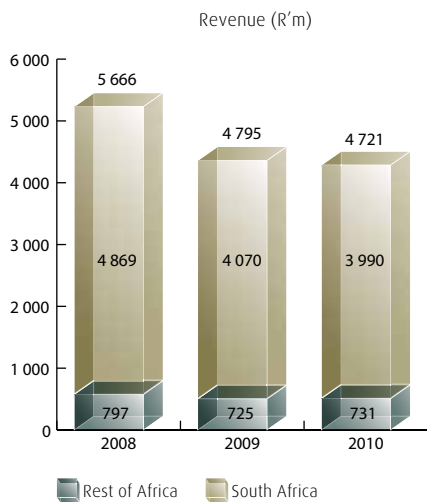
R'm	December 2010	December 2009
Earnings before interest and tax (EBIT)	219	482
Adjustments for:		
Depreciation, amortisation and impairment	387	319
Other	36	10
<b>Operating cash flow before working capital changes</b>	<b>642</b>	<b>811</b>
Inventories	(90)	272
Trade and other receivables	83	293
Trade and other payables	(29)	(143)
<b>Working capital changes</b>	<b>(36)</b>	<b>422</b>
<b>Cash generated from operations</b>	<b>606</b>	<b>1 233</b>



# Financial director's review

## Segmental results

The African Operations continued to produce stable results, contributing 34% of the Group's EBITDA (2009: 26%). The EBITDA margin of the African Operations remained flat at 28%. Namibia and Zambia had excellent results and contributed 9% and 7% respectively to EBITDA for the Group.



## Capital expenditure

Capital expenditure on tangible assets of R294 million for 2010 included investment in production facilities of R61 million and R121 million on distribution equipment and cylinder replacement. This capital expenditure is in line with the capital expenditure of 2009.

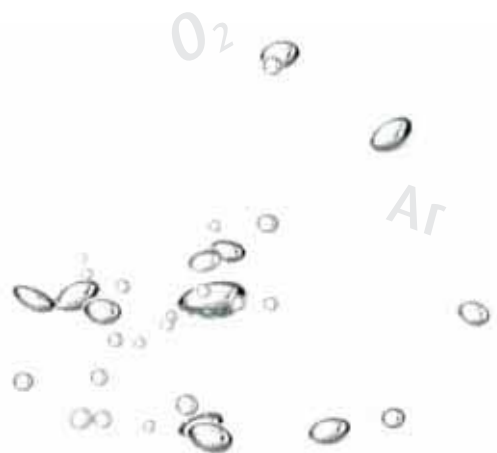
There are plans to increase capital expenditure for 2011 investing in a new plant, and improvements to ensure that major plants perform at full capacity.

## Outlook

Afrox's executive management team is optimistic about 2011. Conservative indications are, barring any unforeseen events, that financial results could return to at least 2009 levels amid continual efforts to control costs and to improve customer service.

**Frederick Kotzee**  
Financial director

16 February 2011



# Stakeholder engagement

Stakeholders	Engagement and focus
Analysts, investors and individual shareholders	Afrox has a programme of engagement with analysts, potential investors, shareholders and the media. As part of this, the Group's results are presented at the annual general meeting, half-year and year-end periods as set out in the shareholders' diary section of the annual report. In addition, the Managing director and Financial director engage with major shareholders and other interested parties at least twice yearly.
Customers and business partners	<p>It is recognised that forging close relationships with customers and business partners at every level adds value to the products and services Afrox provides. In this respect Afrox continually strives to understand the needs of customers to provide value for money products and innovative technology-based solutions. We communicate regularly on any industrial action that may impact customers and business partners.</p> <p>In support of the customer experience, and to ensure latest product information is easily accessible, the Company undertakes regular market benchmarking in the production of a range of equipment brochures and our product reference manual which is available in hard copy, CD, and via the internet at <a href="http://www.afrox.com">www.afrox.com</a>.</p>
Employees	Our employees are the Group's most important asset and, as such, Afrox invests in skills-based and safety training on a continuous basis and engages with employees across a range of important issues, including performance, transformation, and HIV/Aids. Engagement is via a number of avenues, such as bi-annual performance appraisals, surveys, weekly and quarterly newsletters, multi-media vehicles, team meetings and via accredited unions. At certain operations engagement takes place through unions. Training of the employees receives significant management commitment, while succession planning is a focus area of the Board of directors.
Regulations	Afrox complies with all applicable laws in every country in which it operates and actively engages with government agencies, where appropriate, to ensure compliance and to represent the best interests of the business. In this way the Group is proactive in complying with any new legislation/regulation.
Wider society	Afrox has a dedicated community involvement programme, recognised by the United Nations as a benchmark in social responsibility, to engage with charities and more than 7 000 disadvantaged children across Africa. See page 46. Afrox is committed to sustainability and the environment for the benefit of the communities in which we operate and for future generations. The Group has all appropriate mechanisms in place to monitor and report safety, health, environment and quality issues. Afrox has strict guidelines and codes prescribing corporate behaviour and enforces a zero tolerance policy in terms of unethical behaviour. Afrox is committed to spending a significant portion of the Corporate Social Investment budget in the area of mathematics and science education.
Suppliers	Afrox actively engages with key suppliers to influence their transformation strategies, environmental impact and economic sustainability as part of ongoing efforts to manage product quality, pricing and supply. Afrox is a value adding Broad-Based Black Economic Empowerment Level 3 contributor and, as such, 138% of our procurement spend is recognised as 'preferential' under the current Government guidelines to assist previously disadvantaged ethnic groups and businesses.

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# Executive **management**

From left to right:

- Francis Graham** General manager Human Resources
- Johann Cilliers** General manager Communications
- Gerhardt Schnackenberg** General manager Sales
- Karen Swatton** General manager SHEQ
- Carnita Low** Company secretary and general counsel
- Jonathan Narayadoo** General manager MPG Operations, Executive director
- Herbert Ngwenya** General manager Liquefied Petroleum Gas (LPG)
- Tjaart Kruger** Managing director

- James Poulter** General manager Information Services
- Jaco Wiese** General manager Merchant and Packaged Gases
- Lerato Mosiah** General manager Healthcare
- Frederick Kotzee** Financial director
- Patrick Dunseith** General manager HPO
- Donal Mackinnon** General manager Tonnage
- Willie Coetzee** General manager African Operations
- Jan Storm** General manager National Customer Service Centre



# The Afrox **spirit**

**STRATEGY** Our strategy is to transform our Company into a High Performance Organisation. We will achieve this by being the best in our class in everything we do. We will develop a performance-based culture built around the best people. We will transform our Company to comply to BBBEE requirements. We will achieve operational excellence by working as one team in a cross-functional matrix driven organisation. This will be delivered through highly effective planning and low-cost manufacturing and distribution. We will focus the business on the customer, routes to market, and marketing strategies driving our brands forward. We will look for growth and other opportunities through innovation, both within and outside of South Africa's borders.

**VISION** We will be the leading gases and welding products company admired for our people, by any measure, in sub-Saharan Africa.

**MISSION** Afrox will provide services and a focused range of performance enhancing gases and welding products to valued customers, through excellence in operations, customer service and delivery, and investment in infrastructure, people and technology for the benefit of all stakeholders.

**VALUES** We believe that a passion to excel, innovating for customers, empowering and thriving through diversity will result in a high-performing organisation. Moreover, by exercising these values with integrity and in ways that are safe, sustainable and respectful, we will create an organisation for which all can be proud to work and in which everyone can find fulfilment.

**FOUNDATIONAL PRINCIPLES** Our core principles and values are incorporated into all our processes. The foundational principles by which Afrox does business are:

**Safety:** We don't want to harm people or the environment

**Sustainability:** We are preoccupied with today's success, but accept our responsibility for future generations

**Integrity:** Our actions are honest, fair and ethical

**Respect:** Every human being deserves to be treated with respect



# Business review



## Overview

Afrox is a sub-Saharan Africa gases and welding products business that is part of The Linde Group. The Linde Group is a major international supplier of industrial, process, and speciality gases in compressed or liquefied form and has world-class in-house process engineering expertise.

Afrox offers its customers large-volume tonnage on-site gases, bulk gases transported by truck in spherical tankers, cylinder gases, scientific gases, refrigerants, packaged chemicals and helium, medical gases and products, and hospitality gases. The Company supplies a comprehensive range of welding equipment, welding consumables and safety products. Afrox has a network of strategically located Gas & Gear retail outlets and branches, and is the largest distributor of LPG in South Africa, sourcing LPG from oil refineries.

The South African market is dominant in the regional context, and the foundation of the Afrox business in Africa, and is important in The Linde Group's future growth strategy. In recent years, there has been a noticeable improvement in socio-economic conditions in many African countries and relative political stability has promoted greater confidence and opportunities for business. Afrox has a strong market presence in the two primary focus categories of bulk and packaged gases and has a meaningful position in tonnage.

The 2010 financial year saw continued soft demand conditions in South Africa following the economic recession, and rather more buoyant demand conditions in the other sub-Saharan territories in which Afrox and The Linde Group operate.

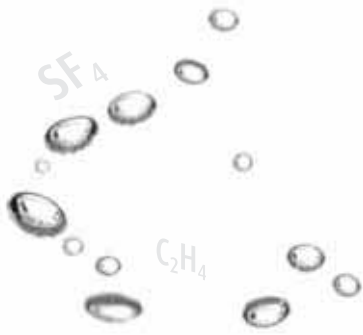
In South Africa, revenue was maintained at the previous year's level, but profitability was adversely affected as a result of non-recurring costs, escalating electricity costs, the effects of

supply failures at the Witbank ASU, and aggressive competitor activity in welding products. With more than half of costs fixed, any shortfall in recoveries in pricing has negative margin implications. However, right-sizing measures previously taken resulted in decreased employment costs.

Excluding currency translation effects, both revenue and profit in African Operations maintained satisfactory levels of 2009. Operating cash flow was strong and working capital well managed. Although Zimbabwe is a managed operation and thus not consolidated, there has been a material improvement in the business climate in that country which has positive implications for regional stability.

## Operational highlights

- /// Upgraded CO<sub>2</sub> recovery plant in Sasolburg increases high-purity capacity by two-thirds
- /// Roll out of remote monitoring of ASUs on schedule
- /// Targeted marketing campaign with innovative communication for gas applications
- /// Customer service centre achieves advances in key performance targets
- /// Productivity and risk management enhancement through information technology
- /// Focus on integrating African Operations with Afrox/Linde systems
- /// Product innovations in welding range towards the end of the year were well received
- /// Employee development and management continues to assist operating efficiencies
- /// Strategic decision to leverage global supply chain efficiencies in manufacturing
- /// Burgeoning opportunity throughout the African continent



### Operational lowlights

- // Market activity remained depressed in South Africa
- // Intensified cost pressures and poor price/cost recoveries
- // ASU failures in Witbank
- // Aggressive price competition in welding products
- // Public sector, transport and automotive industrial action
- // Continued disorder in the LPG domestic market in South Africa
- // Past-due accounts with public sector remain problematic

### Tonnage

Tonnage continues to provide a stable revenue stream due to the take-or-pay nature of contracts. The capital cost of building and installing large ASUs is significant, and as a result contracts with dedicated supply customers typically run to 15 years. Revenue risk is minimised due to long-term contractual provisions on off-take, but volumes above threshold during peak periods carries a price premium. Volumes is therefore less sensitive to the up and downturns of the economy, and in 2010, recurring business accounted for 55% of volumes.

Volumes overall were stable in 2010, with volumes excluding take-or-pay up 4%. There was an increase in sales revenue for the year.

On-site customers require high volume supply and in turn there is off-take for the merchant bulk market, which requires liquefaction of gas for distribution by road tankers. Oxygen and nitrogen accounted for most of the Tonnage production in 2010, with a small proportion of argon accounting for the balance.

Afrox believes that the Tonnage business is essential to a fully-fledged gas company. Air is liquefied, distilled and separated into component parts, which include atmospheric gases such as oxygen, nitrogen and argon. Aprox also produces non-atmospheric gases such as hydrogen and carbon dioxide.

Afrox's ASUs are the largest consumers of electricity in the Group. The total cost of electricity exceeded R200 million or 5% of the South African revenue in 2010. Eskom is escalating charges significantly and therefore a combination of cost recovery and energy saving measures is imperative to protect profitability.

Higher maintenance expenses were incurred during the year, but this is an item that will not be compromised for short-term cost savings. Initiatives to improve reliability were stepped up during 2010, and SAP has now been introduced across all ASUs for scheduled maintenance planning.

There were three outages at the Witbank ASU in March, with the most significant being a structural fault that led to a nitrogen leak in the cold box. The plant was out of commission for more than three weeks. This severely impacted service to pipeline customers, notwithstanding all attempts to mitigate the worst of the effects. Full service was restored as quickly as possible with Aprox benefiting from the support of skills within The Linde Group internationally. Merchant customers were only minimally inconvenienced due to our flexible distribution capability.

Aprox has increased commissioning activity during recent years, with new ASUs and liquefiers brought into production predominantly for supply to the merchant market.

Aprox has identified a project pipeline of opportunity in South Africa and in other African countries. It is strategically important to develop long-term plans to secure pipeline supply contracts.

The Company is investing R200 million in a new 200-ton-per-day ASU in Pretoria scheduled for commissioning in 2013. This will strengthen Aprox's market position in packaged gases. Aprox will acquire proprietary technology and equipment for the new GOX 6000 air separation plant from The Linde Group's Engineering Division. It has world-class in-house process engineering expertise that enables it to design, plan, project manage and construct turnkey industrial plants in different market segments and industrial uses. The new ASU will incorporate an argon rectification column and associated equipment. Aprox Technical and Engineering Division will undertake integration into product and service lines and the civil infrastructure.

### LPG

LPG volumes increased 4% driven by a 7% rise in bulk volumes. Cylinder volumes reduced by 2%.

Strike actions in the automotive sector affected demand, as did a temporary plant shutdown at a major automotive components producer. This was compensated for on resumption of production, and the bulk market ended the year on a relatively good note, even if somewhat below previous best levels. A significant portion of LPG sales volumes is to bulk and mega-bulk users, and the upturn in demand experienced in 2010 is an encouraging signal for future industrial activity.

## Business review

Fewer power interruptions have reduced the need for LPG as a standby energy source, but this may change as economic activity continues to rise, and capacity to deliver electricity reliably remains constrained ahead of new capacity coming on stream.

Bulk LPG reseller and hospitality sector demand remain subdued, while packaged LPG experienced stiff price competition. The FIFA 2010 World Cup™ had little impact.

Legislated maximum pricing for domestic LPG was promulgated in July 2010. Over-the-counter prices are now adjusted monthly, as is the case with petrol. Afrox has been engaging with the Department of Energy to refine the working rules and the first review of regulations is expected to be implemented during Q1 of 2011.

Irresponsible behaviour, characterised by illicit filling of cylinders, illegal use of Afrox cylinders, fraudulent and unsafe practices, and even excessive pricing continues to disrupt the LPG retail market. Afrox is at the forefront of promoting safe handling of LPG and participates in the LPG Safety Association. A working team is co-ordinating industry action to stamp out illegal cylinder cross-filling, and another team is engaging Government to enforce standards and regulation.

### Merchant and Packaged Gases (MPG) and hardgoods

Afrox is a major participant in the bulk and packaged gases market, and is continually challenged to retain that advantage in a less buoyant economic climate. Typically liquefied product is transported by road tanker and packaged gases are supplied in cylinders. Packaged gases include dissolved acetylene, scientific gases, refrigerants, helium, packaged chemicals, argon, oxygen and nitrogen. These gases have numerous applications in industrial, mining, commercial, household, scientific and medical activities. In the hardgoods category of electrodes and welding equipment, Afrox has built a strong market position.

In 2010, total MPG volumes increased 2% over 2009 but activity tracked well below that of 2008. Bulk gas volumes increased 3% although market activity has been generally subdued. Industrial gas volumes were slightly weaker, however special gas volume increased almost 9%. Volumes in the welding consumables market were 9% below 2009, and turnover reduced by a similar amount. Cylinder rental income was also under pressure during the year.

Cost recovery, through pricing, remains a priority and filling and maintenance costs and accuracy of cylinder inventories have been targeted to reduce costs.

Service levels at the Germiston operations centre continue to benefit from the investment in upgrading the facility with a particular emphasis on production capability, cylinder filling and logistics.

A combination of aggressive competitor price undercutting and a strengthening currency in what was already a weak market made 2010 one of the most difficult years for the welding consumables business.

Gas equipment sales were down but a reduction in lower margin exports improved profitability. The product offering is continually refined, and the launch of a new Transarc machine range has been well received by the market.

The MIG wire manufacturing facility in Brits has been closed after reviewing manufacturing activities. High-quality MIG wire will now be sourced from the most competitive suppliers internationally. The strategy for the Germiston gas equipment factory is to reduce the cost of tier-one products to comparable global benchmarks or below, if possible, while keeping the





unique features, range and quality to which Afrox customers are accustomed. Electrodes manufacturing will continue at the Brits plant and the self-rescue device for the mining industry will also be manufactured locally.

The changes in our manufacturing operation will bring substantial cost savings and improved competitiveness.

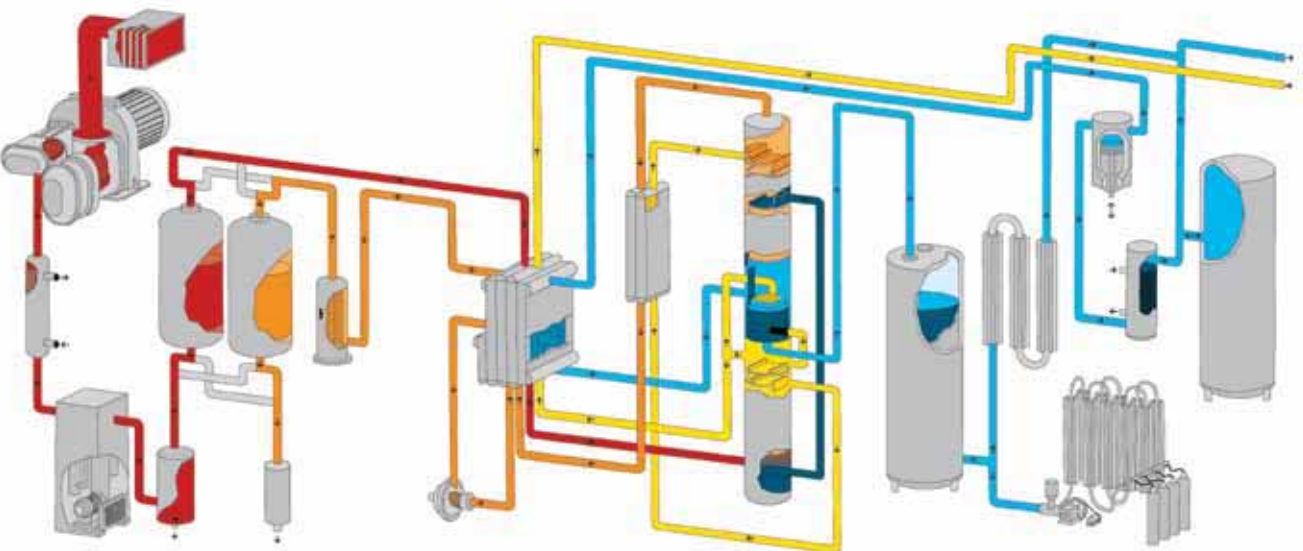
Despite a tough environment Afrox is very active in its marketing and business development initiatives. In the

gas equipment and consumables category, Afrox is targeting specific categories of customers and developing appropriate solutions at the right price points.

**Healthcare**

The market for medical gases requires ultra high-purity, quality, and reliability, in a safety-critical application. Medical gases are scheduled as a pharmaceutical product in terms of the Medicines and Related Substances Control Act and registered with the Medicines Control Council (MCC).

Air separation units are the **core of our business**



Air ■ Waste nitrogen ■ Nitrogen ■ Oxygen ■

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## Business review

The business is predominantly tender-based with government as the largest customer accounting for 70% of revenue. Fewer provinces were retained in 2010 but despite this volumes were down only 5% for the year and ahead of expectation. There was some pressure on margin. The public sector strike depressed volumes in the third quarter.

Afrox was well prepared for the FIFA 2010 World Cup™ and ensured it could cater for all medical contingencies.

Afrox retained a strong presence in private hospitals during the year and a focus on homecare private business is yielding results off a low base.

The business has introduced a number of innovative solutions over the years and will be introducing additional offerings in 2011. A new application called Heliox21, has passed screening and is in the evaluation phase of the registration process. Heliox21 is indicated to assist breathing in patients with severe airway obstruction. In addition a new indication for cluster headaches is awaiting registration by the Medicines Control Council.

Afrox continues to communicate constructively with the Department of Health in respect of the possible introduction of single exit pricing.

Recovery of past due accounts by the State is of concern and is being addressed.

### African Operations

Commodities are the backbone of these economies and with the strong recovery in pricing following the global financial crisis of 2008 and 2009, African countries have benefited from improved trade and higher GDP growth. Generally the African Operations have proved very resilient during the past two years.

Constant currency revenue and EBITDA improved over 2009, but even allowing for a much stronger Rand on translation revenue from subsidiaries was up slightly to R731 million and EBITDA was maintained at R206 million.

Namibia is the largest contributor to African Operations' revenue, followed by Botswana, Zambia, Lesotho, Swaziland, Malawi and Mozambique. Afrox also holds a minority share on the island of Mauritius. Namibia contributed 26% to African Operations' EBITDA, Botswana 15%, Zambia 20%, Lesotho 8%, Swaziland 15%, Malawi 11%, and Mozambique contributed 4%.

The operations in Kenya (Tanzania, Uganda), Nigeria and Zimbabwe are not reflected in the Afrox consolidated results, as they are owned directly by The Linde Group, but they are nevertheless managed by Afrox.

The geopolitical situation in Africa is evolving and economically the demand for natural resources is the principal determinant.

China has emerged as South Africa's largest single trading partner and in December 2010 South Africa was invited to participate in the informal but increasingly powerful BRIC bloc. This is a strategic as much as an economic decision. For South Africa a diversification in its trade relationships towards newly emerging countries is a positive development and the positive terms of trade effect, stemming from rising natural resource pricing, is stimulating growth throughout Africa. Afrox is well positioned to handle the risks that co-exist with opportunities.

Afrox and The Linde Group's African Operations' growth strategy is regional, focused on central Africa, west Africa, south west Africa, including Angola, and east Africa. Mining and energy are two key industrial sectors, with consumption, particularly beverages, a natural business opportunity, arising from improved per capita income. Central Africa has the advantage of vast tracts of arable land with fortuitous climate and growing conditions for agriculture. The sugar industry in Mozambique, for example, is being transformed and is increasingly an important foreign exchange earner. More enlightened political thinking is encouraging agriculture as the ultimate sustainable industry and one in which a number of countries, such as Zambia and Mozambique, could have a natural competitive advantage.

Major international mining and energy groups have extensive operations and ambitious expansion plans in the region. Copper, diamonds, coal, oil, iron ore, uranium and platinum, among other commodities, feature prominently. Investment is bringing new physical infrastructure and employment and thus demand. Order books for mining equipment in sub-Saharan Africa reached a record level in December 2010, and projections on demand over the next five years in southern Africa alone are very strong and suggest sustained growth driven by commodity demand.

Growth drivers in central Africa, centred on DRC, Mozambique, Malawi, Zambia and Zimbabwe, include beverage consumption, i.e. CO<sub>2</sub>, and mining, ASUs and Pressure Swing Adsorption units (PSAs). The Tete coalfields in Mozambique for example are in the process of being opened up and will provide a significant source of new coal reserves and stimulus for economic development.

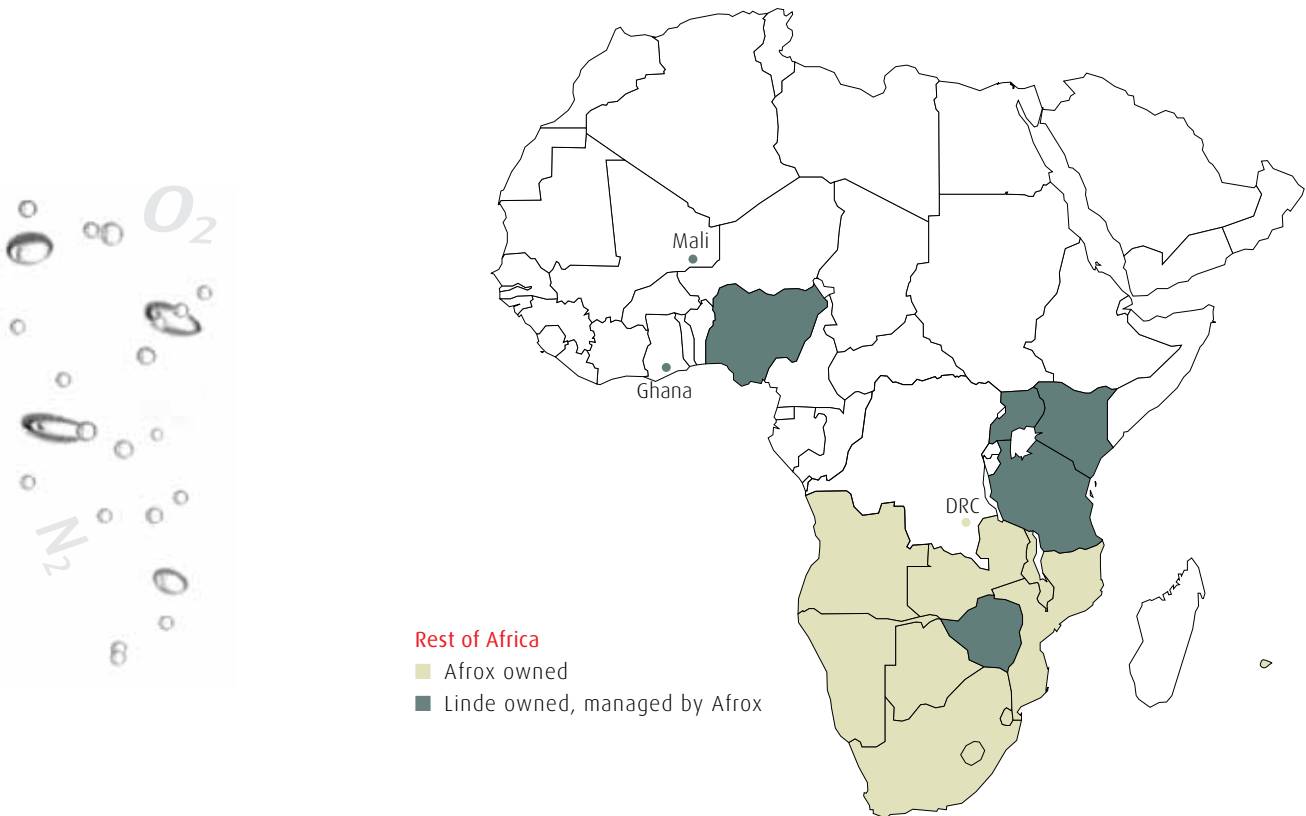
West Africa centred on Nigeria and Ghana, is being driven by oil, fabrication, mining and beverages, offering scope for substantial growth.

In south west Africa centred on Namibia and Angola, mining and oil are the key drivers, but there are also opportunities in healthcare and the construction environment. During the first quarter of 2011, the largest packaging company in South Africa will open a significant new investment in Angola manufacturing beverage cans which will supplant imports.

East Africa, centred on Kenya, Uganda, and Tanzania, is less of a natural resources hub, but nonetheless consumption opportunities are relatively attractive.

The intraregional scope of opportunity for Afrox and The Linde Group is further underscored by the fact that many markets are fragmented from a gas industry participation viewpoint. Afrox and The Linde Group have historically developed strong market share positions in countries such as Kenya, Namibia, Zambia, and Zimbabwe, but for the Africa of the future such positions need reinforcing and leveraging for intraregional advantage. There is a clear strategy to ensure the businesses in Africa are properly integrated with the international group, prioritised for suitable capex on ASUs, PSAs, cylinders, filling sites, transport and other equipment, and staffed appropriately.

## African Operations



# Human resources **review**

Afrox stands for equal opportunity and fair treatment and strives for a workforce composition that reflects the demographics of South Africa. Its employment equity strategy forms part of the annual strategic planning process and is reported on and reviewed at monthly executive management meetings, chaired by the Managing director. Aprox is a Level 3 BBBEE contributor.

Employment equity issues, legislative compliance and numerical target levels are set in consultation with the Transformation committee and consultative forums. Consultation and dialogue are used to address the results of employment equity audits, and progress towards targets.

Aprox’s HR strategy covers recruitment, employee development, performance management, retention and cultural diversity. 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.

### Cultural diversity

Aprox is proud of the cultural diversity of its people. As set out in the code of conduct, the Company encourages tolerance and sensitivity to other cultures and is committed to maintaining a workplace free from discrimination for reasons of race, creed, culture, nationality, gender, sexual or marital status. Employees are selected on their ability to perform the job and physical disability is not a barrier to employment.



### Talent and performance management

Aprox, in line with controlling shareholder, The Linde Group, has adopted the following talent management framework:

Approximately 479 line managers were trained in the performance management process earlier in the year. The implementation of performance management and the subsequent development planning process is monitored.

### Recruitment and selection

Good progress has been made in recruiting persons from designated groups and 72% of new recruits for the year were from designated groups.

In addition, the Company is recruiting disabled persons through partnerships with recruitment agents who specialise in recruitment of disabled persons, and learnership programmes available in the Company.

Bursaries are offered to students and graduates from designated groups and currently there are six bursars and 13 graduates.

Aprox offers the following bursaries:

- /// Full-time bursaries;
- /// Partial bursaries to registered educational establishments;
- /// Fully-paid assistance to employees to further their education up to Bachelor degree level; and
- /// Fully-paid bursaries for dependants of employees accepted by tertiary institutions.

### Succession planning

Succession plans for all the positions at the general manager and one level below have been developed and the critical roles identified. Mitigation plans have been put in place for areas where there is not a “ready now” successor for a job at this level. Succession plans have also been developed for the levels below general manager minus one, which are being validated and cross-referenced to other functions. The development planning process, which is an important catalyst for good succession planning, is being improved. The Talent Management and Employment Equity committee meets every quarter. Its mandate is to review succession planning, staff turnover and retention and employee development. This is also closely monitored by both the Board and the executive.

### Leadership and management development

Afrox in collaboration with the Linde University provides a suite of leadership and management development programmes. These include a Global Leadership Development programme and a Global Talent Circle programme. Good progress has been made locally in rolling out the first and second line manager programmes to build our leadership capability. The objectives of these programmes are to build the people management skills of the participants and to help clarify their role in supporting our HPO efforts. By year-end, more than 370 managers in the region had been through these programmes with very positive feedback.

The equity profile of the participants is also taken into account in line with the Company employment equity plans.

### Young talent development

Afrox continues to run its bursary and graduate schemes, an important feeder especially for technical roles in the Company. There are currently 14 bursars in various engineering disciplines, including the intake for 2011. In addition, six in-service trainees were recruited for 2011. There are currently 18 graduates in various rotations on the graduate development programme and five of these graduates started in 2011.

### Artisan development

The training and development unit in Afrox manages the technical training programme requirements for the business. There are 47 learners on apprenticeship or learnership programmes in the Tonnage and MPG Operations business areas. These apprenticeships include various disciplines such as instrument mechanics, electricians, millwright, and chemical fitters. Programmes are being developed with the CHIETA to focus on the development of apprenticeships in line with the industry needs.

### Licence to work

Afrox recognises that the success of the Company, in an increasingly competitive global economy, relies on the ongoing development of our employees and the existence of a skilled, flexible workforce. Training and development is targeted towards the continual performance improvement of the individual, the team and the Company as a whole.

The output of the Afrox learning and training systems are competent employees. Afrox learning philosophy is based on the Licence to Work approach, and refers to the requirement for staff to master key competencies required in specific job roles. Competence is viewed as a requirement for job ownership.

Learning needs are identified through the development of competency profiles for specific jobs. This ensures every employee is competent in his/her job within specific time-frames.

Afrox's integrated management system and standards (IMSS) equips employees to perform and improve. This computerised training system houses global business reference material, procedures and standards. Individual learning and auditing are incorporated and supervisors coach and assess those who are not computer literate.

In-house programmes are provided to improve productivity by equipping employees with behavioural skills. These courses include performance and change management, recruitment and selection, industrial relations, stress management, and presentation skills. In addition, individual development plans assist all employees, especially those identified as having high potential.

### Remuneration policy

The remuneration approach is aimed at attracting and retaining managers and employees of the highest calibre. In setting levels, the Board Remuneration Committee takes into account the best practices found in other JSE 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, short-term incentive plans and long-term reward under the share appreciation rights scheme. The proportion that each element represents to basic pay varies with the seniority of the employee, and all increases and rewards are performance-based.

# Human resources **review**

## 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. The purpose of the scheme is to enhance employee alignment with the objectives, strategies and long-term success of the Company. The scheme also applies to high potential and previously disadvantaged employees as part of the overall retention strategy.

Allocations are based on a proportion of the value of the appreciation rights, which are linked to ordinary shares in Afrox, and basic remuneration according to seniority and 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 10th year. A performance clause is included in the scheme so that in order for shares to vest, the Company's results 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 1% of the total issued ordinary shares and in the aggregate exceed 10% 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.

## Short-term incentive scheme

The executive directors, senior and middle managers participate in a global short-term incentive scheme, which is administered by The Linde Group or a local incentive scheme administered by Afrox, depending on their grade. 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 both The Linde Group's and Afrox's strategic goals. Performance is measured against key performance indicators determined during formal appraisals. The bonuses for the executive directors and senior managers are paid annually. Details for the payments to the directors are included in the directors' remuneration for the year on page 55.

## Long-term incentive scheme

Afrox recognises the significant contribution made by employees. In anticipation of their efforts in furthering the Company's objectives, employees participate in the future growth of the Company through a share appreciation rights scheme. The Company believes that share ownership, or acceptable variations of such ownership, enhances employee identification with the objectives, strategies and long-term success of Afrox.

The long-term incentive plans currently offered by the Company are under review in an effort to determine suitable arrangements going forward to meet the Company's objectives.

## Employee benefits

Afrox provides a range of benefits that go beyond those legally mandated. These benefits include the provision, at some but not all sites, of primary care clinics and canteens. In addition and subject to scheme rules, all employees have access to: HIV/Aids guidance and assistance, paid maternity leave, disability grants, medical aid, pension or provident funds, DIY loans, first time homeowners' assistance, bond subsidies, educational assistance, all of which exceed the Basic Conditions of Employment Act, and staff discounts for Afrox products.

## Freedom of association

Employees are at liberty to join any organisation, forum or trade union if they so wish. Currently approximately 30.5% 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.

## Employee support

Employees are encouraged to take responsibility for their own health and wellbeing by fostering self-sufficiency and resilience. The Company has contracted with a supplier to implement an employee support programme providing a

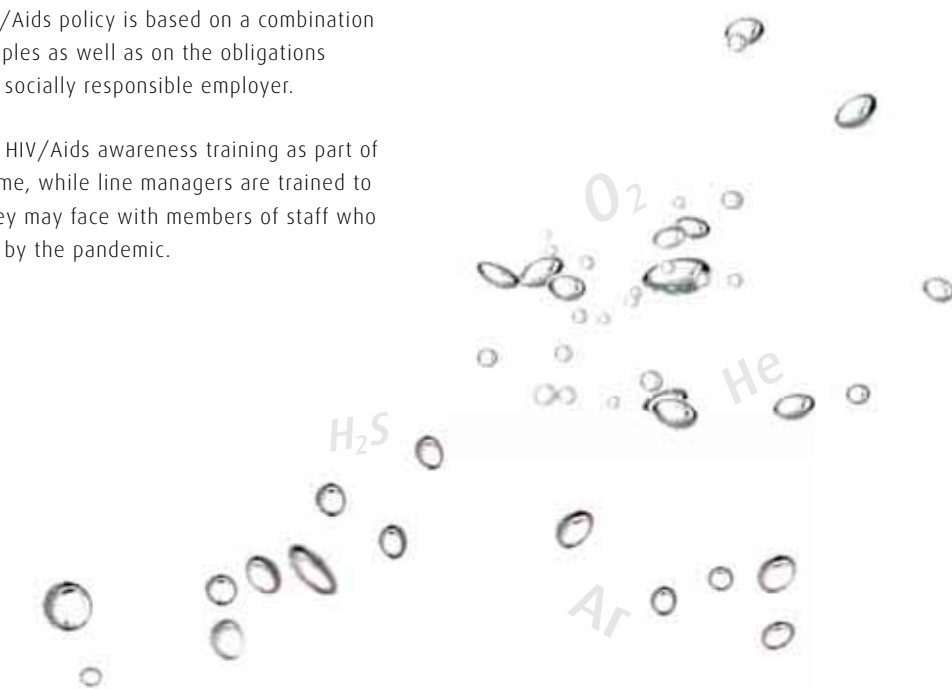
confidential personal support and information service that all employees and immediate family members can access. Qualified, experienced counsellors provide this service, which offers multilingual access to telephone or face-to-face counselling. Advice is provided on life management, which includes legal advice, financial management, family or work issues, stress, trauma and substance abuse. Support is offered in the context of workplace productivity and performance enhancement. The annualised total engagement rate is 31.4%

### Meeting the HIV/Aids challenge

Afrox's HIV/Aids policy was implemented in 2003 and to date 70.5% of employees have undergone HIV/Aids awareness training. Approximately 150 employees 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 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.

New employees receive HIV/Aids awareness training as part of their induction programme, while line managers are trained to handle the problems they may face with members of staff who are infected or affected by the pandemic.



# Safety, health, environment and **quality**



In Afrox we value the health and safety of our employees and all who come into contact with our business. We do not want to harm or damage the environment and are committed to supply high-quality and safe products to our customers.

SHEQ is an integral part of how Afrox does business. In line with The Linde Group, Afrox's SHEQ policy, as well as the Afrox Spirit, commits to these principles and covers all operational aspects and activities that could influence the safety and health of our people and the environment in which we operate.

To achieve the vision of being the leading gases and welding company in sub-Saharan Africa, Afrox personnel are required to take personal responsibility for SHEQ and apply the policy in their day-to-day behaviour and decisions.

Afrox personnel understand the business priorities and key strategies. Detailed goals and targets are defined and articulated in a business scorecard. The scorecard includes SHEQ roles and, in line with the aspirations of a High Performance Organisation (HPO), these are cascaded down to business unit, plant, factory, site and individual level.

Afrox strives to lead in SHEQ by developing annual action plans and improvement programmes at all sites. Local SHEQ plans consider Company policy and business objectives, as well as The Linde Group's SHEQ strategy, so that the plans are aligned to key risks. SHEQ considerations are integrated into business plans for all current and future operations and developments.

## Management system

Afrox's long established Integrated Management System Standards (IMSS) are being upgraded to accommodate all the additional business units which have been largely excluded from the system. IMSS will now address all the requirements of the standards such as ISO 9001, ISO 14001, and OHSAS 18001.

IMSS will incorporate other relevant Afrox standards and codes including legal, regulatory and other risks, and elective standard requirements.

The system allows for SHEQ audits, risk assessments and management reviews and also facilitates employee involvement in SHEQ risk management. All areas of SHEQ are compliant with industry requirements, local and national legislation and the implementation of operational best practice. The management system also aims to respect the right of all people to a healthy environment. By managing the environmental impacts of daily operations, the Company contributes to the preservation of the environment and to sustainable development.

## Certifications

All the ISO 9001: 2008 certificates obtained during 2009, in accordance with the restructured business units and departments, were successfully maintained during 2010. African Operations were also able to maintain their ISO 9001: 2008 certifications during the course of the year.

Major progress was achieved during 2010 in combining all the sales regions under one National Sales ISO 9001 certificate. The re-assessment for a single certificate took place and this certificate should be issued in early 2011.

The certifications to ISO 14001 and OHSAS 18001 have undergone a major reshuffle, due to the restructure which took place during 2009. Many of these certificates have now lapsed and it was decided to renew only those applicable to sites where manufacturing/filling take place. This means that the sales areas which have insignificant safety and environmental risks will only maintain legal compliance.

The sites producing and supplying food/beverage grade carbon dioxide have been assessed for compliance with the Hazard Analysis and Critical Control Points (HACCP) requirements to align with major bottling customer requirements.

For the supply of medical gases, Afrox is required to comply with both Good Manufacturing Practice and Good Distribution Practice (GDP). The Medicines Control Council has licensed all the relevant manufacturing/filling sites and Afrox is currently implementing GDP at relevant areas.

The Afrox cylinder test shops were able to maintain their SANAS certifications during 2010. The Railway Safety Regulator Certificates for sites with active railway sidings were successfully retained during 2010.

### Performance measurement

During 2010, 15 leading indicators tracked and measured critical SHEQ interventions. Performance targets are agreed with the business and set at the beginning of the financial year and then monitored and reported monthly to the Executive committee. Seven new leading indicators were introduced in 2010 to track performance regarding Internal Audit Plan Adherence, Major Hazard Review Programme (MHRP) compliance for Category 1 and 2 sites, Percentage of Driver's Fine Free, Measurement of Transport Safety Critical Training via five folders on Afrox's learning management system, Traccess, Incident Closure on Time (60 Days), Total Incidents Closed and also the measurements of the Roadmap per quarter.

Seven lagging indicators were chosen for 2010, which are as follows: Lost Workday Case Rate (LWCR), Total Recordable Case Rate (TRCR), Passenger Car Avoidable Accident Rate (PCAAR), PCAAR Severity Level 1 and 2, Truck Avoidable Accident Rate (TAAR), TAAR Severity Level 1 and 2 and Quality Incidents (MCIR).

Audit Manager, one of the pillars of IMSS, is a database to capture and manage internal and external audit findings as well as non-conformance. Afrox auditors use this to assess site processes and activities, and the effectiveness of the Company's implementation of its management systems. Since 2010, Audit Manager has been used to capture all internal and

external findings. This gives a holistic view of the management of non-conformance within the respective business units/ areas.

In January 2009, an incident management database (Synergi) was implemented. This database allows incidents to be logged, managed and trended electronically. To date there have been various users throughout the business who have been trained on the system. Users now also have the option to log near misses and first-aid cases.

Traccess is being upgraded to a newer version, Traccess CI. An updated production system will be launched in Afrox in the first quarter of 2011. IMSS was upgraded to LIMSS in 2010 and will go live in the first quarter of 2011.

### Behavioural SHEQ

Afrox's behavioural SHEQ programme aims to deliver a step change in the SHEQ culture and behaviours within the organisation. It is an integral part of our SHEQ strategy to improve performance, to be recognised as a leading SHEQ HPO, and to assist with achieving the Company SHEQ vision: "We do not want to harm people or the environment". The programme entrenches an interdependent behavioural approach to SHEQ and, during 2010, the business focused on creating a culture of visible leadership – whereby everyone takes accountability for their own safety as well as the safety of their colleagues.

Our strategic tool, *Leading in SHEQ Roadmap* guides SHEQ performance and behaviour, and helps the business visualise the meaning of "leading" in SHEQ. It identifies our current position on the Roadmap and then maps out progression towards world-class SHEQ. During 2010 we have focused on progressing in six key components – visible leadership; line accountability and responsibility; motivation, recognition and discipline; injury and incident investigation and reporting; contractor safety; and emergency preparedness.

Leaders use the LeadSafe behavioural assessment tool to demonstrate their visible leadership of SHEQ, and their care and concern for the well-being of employees. Through this approach leaders recognise and support safe behaviours, address and change unsafe behaviours, and motivate employees at all levels in the organisation.

Management uses the visible leadership matrix tool to monitor activities and behaviours they must demonstrate within the business to display their commitment to SHEQ.

### Legal compliance

Afrox is always committed to comply with applicable legislative requirements, and personnel have access to legal requirements relevant to Afrox's activities via the SHE Legal Register.

# Safety, health, environment and **quality**

A Company standard focuses on SHE legal compliance and is updated regularly. This contains a SHE legal compliance checklist based on external environmental safety and health legal audits conducted at selected Afrox sites annually. Sites use this checklist to monitor and verify legal compliance at site level. Afrox also subscribes to legislative updates and SANAS standards.

Country specific SHE legal compliance checklists have been developed for African Operations.

Environmental Impact Assessment Authorisations, previously Records of Decisions, exposure to hazardous substances, and progress with the phase-out of acetylene cylinders containing asbestos, are monitored and reported annually to the relevant authorities, as required by legislation.

## Environmental management

Afrox's environmental management system is well developed and fully integrated into the SHEQ system. Environmental standards have been implemented to ensure responsible management of specific impacts on water, air, waste, industrial effluent and hazardous chemicals.

Sites report environmental data annually using a global environmental reporting tool. The Linde Group uses the data to compile submissions to the global Carbon Disclosure Project (CDP) regarding the consumption of water, electricity, raw materials, packaging materials as well as both hazardous and non-hazardous wastes and any by-products generated.

Afrox has assessed its greenhouse gas emissions and developed a strategy to reduce emissions over a five-year period. The Afrox Board SHEQ Committee has verified the carbon footprint assessment.

The *Mail and Guardian's* Greening the Future Awards recognised Afrox's innovative business methods in 2010. In addition several initiatives to minimise waste generation have been implemented throughout the Group.

## Transport safety

It is with regret and sympathy that we report the tragic death of driver Fana Maseko who died in a road traffic accident while on Afrox business last October. Distribution and driver safety is one of the key focus areas within the Afrox SHEQ management system. Several key interventions ensure that drivers and their supervisors are aware of the risks on the road and at customer sites. A behavioural programme for drivers called ActSafe teaches Afrox drivers to identify and assess road hazards enabling them to prevent road accidents. Afrox is also investigating practical rollover prevention training for drivers.

## Process safety

Afrox has adopted process safety management principles to ensure that significant hazards that could result in disastrous or serious incidents are controlled. Process safety minimises the risk of incidents involving the release of hazardous materials, energy, fire and explosions at production plants.

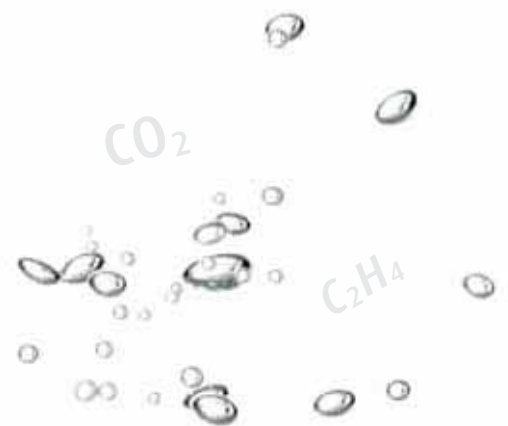
Afrox uses the Major Hazard Review Programme to identify and assess large scale site hazards that may pose risks to employees or the off-site public. Controls relating to major accident hazards cover all safety disciplines, but are primarily managed through process safety, and include elimination, monitoring, management and prevention of risk.

During 2010, Afrox was accredited by SANAS as an Approved Inspection Authority (AIA) to conduct risk assessments of the Major Hazard Installation (MHI) Regulations of the Occupational Health and Safety Act. This enables Afrox to conduct MHIs for its own installations and to assist customers with conducting these assessments for Afrox installations on their sites.

## SHEQ sustainability

Sustainable development is an essential part of the Afrox values system. The Company places equal importance on care and respect for people, our planet and prosperity.

A comprehensive SHEQ Sustainability Report for 2010 has been prepared and can be accessed by the following link: [www.afrox.com](http://www.afrox.com).



# Corporate **governance**

## Introduction

African Oxygen Limited and its subsidiaries (the Group) remain committed to ensuring that fair, honest and understandable business practices are integrated into the organisational culture. Sound corporate governance is a way of life within the Group and best practices are followed, where these are in the best interest of the Company and are relevant and applicable to the Group.

Governance principles are incorporated into all the Group structures, systems and policies which are constantly reassessed and reviewed to ensure that continuous compliance and best practice is applied and practised.

The King III Report on Governance for South Africa (King III) has focused the Group on sound leadership, sustainability and corporate citizenship.

## 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 The King Report. King III became effective on 1 March 2010, and during 2010 the Special Executive Committee on Corporate Governance, established in 2009, together with the Board, took the lead in this regard by conducting a King III Readiness Audit. Based on the results of this audit, the Board is currently implementing improvements throughout the organisation to ensure full compliance of the “apply or explain principle”, in that it will explain fully to all stakeholders, any instances where Afrox is not able to apply the principles of King III.

## Board

### The Board charter

The Board operates under an approved charter, which regulates the way business is conducted by the Board in line with the principles of sound corporate governance. The Board charter, which is aligned to principles recommended by King III, details the Board’s powers and provides that the Board has ultimate accountability and responsibility for the Group’s performance and affairs.

The charter is updated annually to align with best practice and will be amended to include any changes brought about by new legislation.

## Board of directors

The Board of directors is responsible for setting the direction of the Group by establishing strategic objectives and key policies. The Board monitors compliance with the approved policies and achievement against objectives through quarterly performance reporting and budget updates.

Board meetings are held formally four times a year and ad hoc meetings are arranged whenever necessary. Where directors are unable to attend any particular Board meeting, they communicate comments they may have regarding the agenda and general items to the committee chairperson to be raised at the relevant meeting.

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 unable to attend, video- or teleconferencing facilities allow them to participate in the debate and conclusions reached.

The attendance schedule for the year is on page 36.

## Composition of the Board

The Board comprises 12 directors, and is constituted as follows:

- // *Three executive directors*
  - TN Kruger – Managing director
  - FT Kotzee – Financial director (joined in May 2010)
  - J Narayadoo – MPG Operations GM
- // *Four non-executive directors*
  - JK Masters – Chairman
  - J Nowicki
  - KJ Oliver
  - DM Woodrow (appointed in May 2010)
- // *Five independent non-executive directors*
  - LL van Niekerk
  - Dr KDK Mokhele
  - SM Pityana
  - DM Lawrence
  - M Malebye

# Corporate **governance**

## The Chairman and Managing director

The roles of the Chairman and the Managing director are separate to ensure a balance of power and authority, so that no one individual has unfettered powers of decision-making.

The Chairman has no executive functions, but provides overall leadership of the Board and its committees. He, in conjunction with the Nomination, Governance and Management Resources Committee (NGMRC), monitors and evaluates the performance of the Managing director to ensure that the strategic and operational objectives of the Company are achieved.

The Chairman is an executive of the controlling shareholder, Linde AG.

LL van Niekerk is the lead independent non-executive director.

## Rotation of directors and confirmation of new appointments

At the annual general meeting to be held on 19 May 2011, shareholders will be asked to confirm the reappointment of LL van Niekerk, SM Pityana, JK Masters and Dr KDK Mokhele, who will retire in accordance with the Company's articles of association but who, being eligible, have offered themselves for re-election.

## Selection and succession planning

The NGMRC makes recommendations to the Board on the appointment of executive and non-executive directors and on the composition of the Board.

The Board, having due regard for the recommendations of the committee, makes such appointments to the Board as it may deem appropriate, subject to the approval of shareholders being obtained at the ensuing annual general meeting.

Directors are appointed on the basis of skills, acumen, experience and their actual or potential level of contribution to and impact on the activities of the Group, as well as racial and gender diversity. All directors have access to management, including the Company secretary, and to information required to enable them to carry out their duties and responsibilities fully and effectively.

Following the resignation of MM Manjingolo as the Company secretary effective 31 January 2010, Carnita Low has been appointed as the Company secretary, effective October 2010. The interim period was covered by an internal acting Company secretary.

## Performance assessment

Directors are required to dedicate sufficient time to be able to monitor, evaluate and comment effectively to the Board and management on the financial and operational information supplied to the Board.

The Board conducts an independent Board assessment or evaluation every three years. These are conducted by a qualified and experienced independent third party, the last being conducted in 2009. Self-assessments or self-evaluations are also conducted at yearly intervals.

## The Company secretary

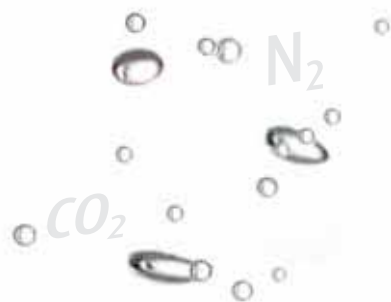
Carnita Low has been appointed as the Company secretary effective 1 October 2010.

The Board has full access to and is fully aware of the responsibilities and duties of the Company secretary and has committed itself to ensure that the Company secretary is afforded the support required in order to perform her duties. The Company secretary is among others, responsible for the following:

- ▀ providing assistance and advice to the Board on matters of good governance and ethics;
- ▀ providing advice to directors on their duties and responsibilities to the Company;
- ▀ induction of directors;
- ▀ updating the Board on new developments in applicable laws, regulations and standards; and
- ▀ overseeing shareholder relations in respect of Company notices, correspondence, shareholder meetings and ensuring that the Company complies with the relevant legislation. The Company secretary acts as secretary to all Board committees.

## 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 to discharge its duties properly. 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 an independent non-executive director. The executive directors attend Board committee meetings by invitation. The established Board committees are shown on the following page:



Committee	Purpose	Composition	Meetings
<b>Audit</b>			
LL van Niekerk (chair) M Malebye D Lawrence	Details of the committee are contained in the Audit Committee report on page 41.		
<b>Governance and MRC</b>	<b>Part I – Management resources</b>		
D Lawrence (chair) LL van Niekerk K Masters Dr K Mokhele	<ul style="list-style-type: none"> <li>/// Determines and makes recommendations to the Board on the framework, policy and costs of executive and senior management remuneration. Determines and recommends the remuneration strategy to ensure that executive directors and other senior employees are adequately remunerated;</li> <li>/// Refers specific recommendations for independent director remuneration to the Board for deliberation. No person is involved in any decision as to his or her own remuneration;</li> <li>/// Reviews and advises on the general principles under which compensation, pension, training, succession plans and performance management are applied to senior employees of the Group;</li> <li>/// Reviews the rules of any share option, share appreciation rights or share rewards scheme operated by the Company; and</li> <li>/// Monitors and reviews the Company's retirement funds to ensure compliance with current best practice standards, industry practices and legislation.</li> </ul>	Four non-executive directors, the majority of whom are independent	Meets three times a year
<b>Governance and MRC</b>	<b>Part II – Nomination and corporate governance</b>		
	<ul style="list-style-type: none"> <li>/// Monitors and reviews the Company's policies, practices and compliance with corporate governance principles and regulations.</li> <li>/// Serves as a Nomination committee and as part of its function is:               <ul style="list-style-type: none"> <li>– prior to the annual general meeting, the committee reviews and makes recommendations on the retirement and re-election of directors by rotation;</li> <li>– 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;</li> <li>– reviews the size of the Board, committee structures, and director assignments; and</li> <li>– once every three years an independent assessor evaluates the Board's effectiveness, and its performance as a whole. However, at certain intervals the Board, through the Committee conducts self-performance evaluations.</li> </ul> </li> </ul>		Meets three times a year
<b>SHEQ</b>			
Dr K Mokhele (chair) LL van Niekerk A Watkins (up to May 2010, thereafter D Woodrow)	<ul style="list-style-type: none"> <li>/// Ensures that the management of safety, health, environment and quality within Afrox is aligned with the overall business strategy of the Company and is geared towards compliance and fulfilment of its commitments and obligations in these fields;</li> <li>/// Reviews the policies and performance of Afrox and the implementation of safety, health, environment and quality policies;</li> <li>/// Considers and provides guidance to the Board on major safety, health, environmental and quality projects;</li> <li>/// Ensures that the Board is informed about all significant impacts on the Company in the safety, health, environment and quality field and how these processes and activities are managed;</li> <li>/// Considers substantive national and international regulatory and technical developments in the field of safety, health, environment and quality; and</li> <li>/// Monitors the Company's safety, health, environment and quality performance, progress continuous improvement.</li> </ul>	Three non-executive directors, the majority of whom are independent	Meets three times a year

# Corporate governance

Committee	Purpose	Composition	Meetings
<b>Transformation</b>			
S Pityana (chair) Dr K Mokhele K Masters	<p>Formulates and monitors 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:</p> <ul style="list-style-type: none"> <li>– black equity participation;</li> <li>– employment equity;</li> <li>– management transformation;</li> <li>– skills development;</li> <li>– affirmative procurement;</li> <li>– enterprise development; and</li> <li>– corporate social responsibility.</li> </ul>	Three non-executive directors, the majority of whom are independent	Meets three times a year

Details of the directors' attendance at the Board and committee meetings are set out below:

Board attendance	Governance and management resources committee				
	Board	Audit committee	SHEQ committee	Transformation committee	
Number of meetings held during the financial period	4	3	3	2	3
Tjaart N Kruger† Appointed 1 April 2007	4	3	3	2	3
David M Lawrence** Appointed 1 December 2005	3	3	3	—	—
Morongwe Malebye** Appointed 20 December 2007	4	3	—	—	—
Kent Masters* Appointed April 2005	4	3	3	—	3
Khotso DK Mokhele** Appointed December 2005	4	—	3	2	2
Jürgen Nowicki* Appointed 4 April 2007	3	2	—	—	—
Karen Oliver* Appointed 28 December 2007	3	—	—	—	—
Sipho Pityana** Appointed 1 December 2005	4	—	—	—	3
Louis L van Niekerk** Appointed 24 February 2005	3	3	3	2	—
Jonathan Narayadoo† Appointed 1 December 2009	4	—	—	—	—
Frederick Kotzee† Appointed 20 May 2010	3	2	2	—	—
Dynes M Woodrow* Appointed 20 May 2010	3	—	—	1	—

†Executive

\*Non-executive

\*\*Independent

### Employee relations

Encouragement of employee participation is a high priority. The Company has adopted several participating structures on issues that affect employees. Licence to Work ensures every employee is competent in his/her job within specific timeframes. Learning needs are identified through the development of competency profiles for specific jobs.

Afrox's HIV/Aids policy was implemented in 2003 and to date 70.5% of employees have undergone HIV/Aids awareness training. Further information on Afox policies is available on [www.afrox.com](http://www.afrox.com).

### Employment equity

Afrox stands for equal opportunity and fair treatment and strives for a workforce composition that reflects the demographics of South Africa. Its employment equity strategy forms part of the annual strategic planning process and is reported on and reviewed at monthly executive management meetings chaired by the Managing director. Employment equity issues, legislative compliance and numerical target levels are set in consultation with the Transformation committee and consultative forums. Consultation and dialogue are used to address the results of employment equity audits and progress towards targets. Afox's HR strategy covers recruitment, employee development, performance management, retention and cultural diversity. 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.

### 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 is the Company's policy to present to investors, fund managers and analysts twice a year after the release of Company results.

The executive directors conduct regular roadshows and presentations and maintain contact with fund managers and institutional investor representative bodies on socially responsible investment and triple bottom line issues, and initiate one-on-one interactions and briefings with interested investors, both locally and from overseas.

The Board encourages shareholders to attend its forthcoming annual general meeting, notice of which is contained in this annual report. This meeting provides an opportunity for shareholders to question the Board, including the chairmen of the various Board committees. Shareholders have opportunity to cast their votes at the annual general meeting.

### Going concern

The directors, having considered all relevant factors, are of the opinion that the annual financial statements set out on pages 53 to 56 and 59 to 125 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 ethics

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

The Group aims to earn the trust of customers, shareholders, colleagues, suppliers and communities through honesty, performance excellence, good corporate governance and accountability. The Group expects people to respect confidential information, Company time and assets. The Group believes in open and honest communication, fair treatment and equal opportunities, and supports the fundamental principles of human rights.

While common sense, good judgement and conscience apply in managing a difficult or uncertain situation, the code of ethics assists in detailing the standards and priorities within the Group, 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; and
- /// shareholders.

Allegiance to the code of ethics is the starting point from which employees draw inspiration and guidance for behaviour within a group, society or the organisation. An integrity line has been established to enable employees to report contraventions of the code of ethics.

# Corporate **governance**

## Social responsibility

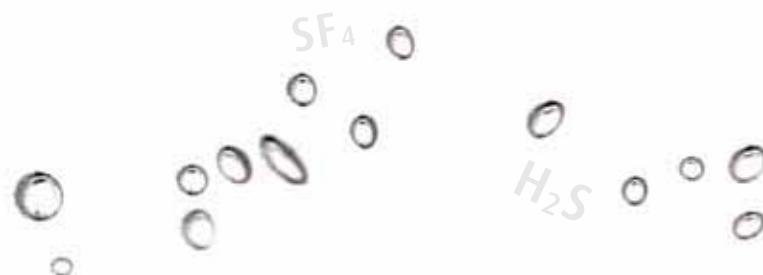
The Company has a strong culture of social responsibility. The objective is to assist wisely and constructively by building our people and our projects, thereby making a sustainable difference to society. A more detailed report appears under corporate responsibility on page 46.

## Risk management report

Risk management has been further embedded in daily activities of the organisation throughout 2010, and now includes, but is not limited to, quarterly review of top risks faced by the Company and progress on mitigation plans.

The table below highlights the top risks currently being faced by the Company and highlights the key mitigations:

Risk description	Key risk mitigation initiatives
<b>Sustainability of supply position:</b>	<p>Install and commission new GOX 6000 unit in Pretoria in line with recent approval.</p> <p>Finalise having all ASU's and CO<sub>2</sub> plants operable from remote operating centres in the UK and USA respectively.</p> <p>Review related business continuity plans annually.</p>
<b>Competitor activity and changing customer preferences:</b>	<p>Monitor impact of non-traditional gas companies and revise product and service offering to counter threat.</p> <p>Meet High Performance Organisation objectives as per agreed road maps.</p>
<b>Skills and experience levels of employees:</b> Inability to attract/retain key skills to ensure sustainability of current operations and realise growth opportunities in South Africa and rest of Africa.	<p>Comprehensive succession planning relaunched.</p> <p>Training and development of first and second line managers in 2011.</p> <p>Reviewed employee recognition policy.</p>
<b>Global economy and industrial output:</b> A reduction in industrial production in South Africa, exacerbated by continuing local currency strength.	<p>Increase monitoring of market and customer trends.</p> <p>Developed contingency plans for cost reduction in event of decrease in demand, this has included review of competitiveness of equipment manufacturing facilities in 2010. Continue to manage cash flow to protect liquidity.</p>



Comprehensive insurance remains in place and is reviewed annually and currently encompasses:

- ▀ being part of The Linde Group global insurance programme, which provides access to comprehensive cover and competitive rates;
- ▀ continuing to absorb low level and predictable losses at business unit level, and transferring the risk of major/catastrophic losses to insurers. This is in alignment with SHEQ and other risk management policies; and
- ▀ continuing to use the services of a broker to provide insurance consultancy and claims handling services.

### Conclusion

In line with King III recommendations, an integrated Risk Management Framework policy, approved by the Board in 2008, is currently under review further to enhance effectiveness of processes and systems of managing risks in the Company. The Company risks are updated quarterly into the ARM or Active Risk Manager database. This requires that risk, risk mitigation, impact and probability of risk occurring be captured together with assigning a risk-owner who is responsible for implementing and tracking progress on the mitigation plans.

Good progress is being made in integrating risk management into daily activities of the Company including, for example, evaluation of risks during drafting of investment cases, in evaluating changes to processes or operation, discussion and training on impact of legislation to operations. Risks are also routinely reviewed in conjunction with strategy development and updates. Internal audit further reviewed effectiveness of risk management in late 2009 and recommendations were implemented in 2010. The Board is therefore satisfied that progress has been made in improving the effectiveness of risk management processes within the Company.

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

The Board has the ultimate responsibility for monitoring the effectiveness and efficiency of the SHEQ process. SHEQ performance is governed through self-regulation, communicating and encouraging adherence to safe practices. A dedicated SHEQ department ensures that the Group 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, the Group is committed to compliance with all external regulations as well as ISO 9001, ISO 14001 and OHS 18001.

In 2008, the Board established a SHEQ committee to give strategic direction on all SHEQ-related matters. For more information on SHEQ refer to the safety, health, environment and quality section on pages 30 to 32.

### 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, internal audit and external audit reviews.

A Risk Assurance Forum has been created during the year under the sponsorship of the Financial director. The aim of the forum is to nurture a culture of internal control, develop a sustainable plan to address business control issues and involve all key roleplayers in the business to enforce this through the established forum. The forum uses the collective inputs from complementary assurance departments to continuously evaluate and update rules, policies and procedures to ensure that they keep pace with the ever-evolving business landscape. The forum also reviews all audit findings and ensure the timely and sustainable close-out of the findings, thereby strengthening the internal control environment.

### Internal audit

Internal audit department renders independent, objective audit and consultation services geared towards creating added value and improving business processes. It helps the Company to achieve objectives by assessing and helping to improve the effectiveness of risk management, control mechanisms and the management and monitoring of processes through a

# Corporate **governance**

systematic, targeted approach. For risks and opportunities identified through audits, the EBIT and liquidity impacts are calculated, where possible, and concrete recommendations are provided on how to minimise the risks and realise opportunities.

The department is part of a Global Internal Audit function, managed by the controlling shareholder, The Linde Group, and provides services to the Company and its subsidiaries. Though the internal audit department is based in Johannesburg, the functional and administrative reporting line to the global function allows the department and the head of internal audit to be completely independent from the Company's operations and receive sufficient support in fulfilling its role. In addition, the head of internal audit has unrestricted access to the Audit Committee chairman, the Managing director and the Financial director of the Company, to ensure that effective reporting and communication lines exist. All reports distributed are shared with the external auditors and material findings are discussed as arising from both the internal and external audits.

Internal audit follows a risk-based approach and utilises the Company's enterprise-wide risk assessments as one of many contributors to their own annual risks assessment, before arriving at their audit work-plan for the year. The draft plan is reviewed by the global function and discussed with the Managing director and Financial director of the Company, including the Chairman of the Audit Committee. The final plan is approved by the members of the Audit Committee annually.

The internal audit department focuses on six core audit functions, namely:

- ▀ standard reviews, financial and operational processes;
- ▀ IT reviews; this role is conducted by the specialist auditors from the global function;
- ▀ special reviews, as requested by the Audit Committee members or executive management;
- ▀ projects, conducted as part of the controlling shareholder initiative and aligned to the Company's risk assessment;
- ▀ self-assessments, conducted on a periodic basis; and

- ▀ Integrity Line, conducting fraud investigations on cases reported to the independent ethics hotline.

The head of internal audit attends all Audit Committee meetings where all findings are presented. In addition to the findings, the report to the committee would include:

- ▀ an update on progress made against the plan
- ▀ implementation statistics on follow ups conducted
- ▀ any capacity issues that may arise
- ▀ results of investigations conducted; and
- ▀ matters of concern and other information as requested by the committee.

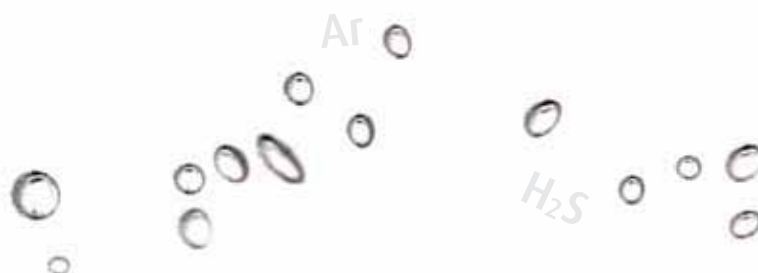
The internal audit department is guided by a comprehensive audit manual as developed by the global function. The key principles covered in the manual are: objectivity in gathering, assessment and communication of findings; independence from the audited entity; unlimited access to relevant information; duties are carried out with Integrity; confidentiality is maintained and information not disclosed without proper authority; and, necessary skills and knowledge is sought from the global function should it not exist in the department. The standard audit process is quality based in that all reports undergo intensive quality reviews to ensure the final report is clear enough be understood by the readers and management are in agreement with the findings.

The internal audit function is governed by the standards as set out by the Institute of Internal Auditors and the King Code.



**Carnita Low**  
Company secretary

16 February 2011



# Report of the Audit committee

We are pleased to present our report for the financial year ended 31 December 2010.

The Audit committee is an independent statutory committee appointed by the shareholders, and further duties are delegated to the Audit committee by the Board of directors of the Company. In addition to having specific statutory duties to the shareholders, in terms of the Companies Act, 1973, it assists the Board through advising and making submissions on financial reporting, oversight of the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the Company.

## 1. Audit committee terms of reference

The Audit committee has adopted formal terms of reference that have been approved by the Board of directors. The committee has conducted its affairs in compliance with its applicable terms of reference and has discharged its responsibilities contained therein. The terms of reference are reviewed annually by the members of the Audit committee to ensure they remain current.

## 2. Composition of Audit committee

The Audit committee consists of three independent members, non-executive directors: Ms M Malebye, Mr D Lawrence, and Mr LL van Niekerk, who chairs the Audit committee. Profiles of these directors can be found on page 4 in the annual report.

## 3. Meeting attendance

The Audit committee is required to meet at least three times a year, as per its terms of reference. For the financial year under review, the members met on three occasions in 2010 at meetings held on 17 February, 25 August and 10 November. Attendance statistics of the members can be found on page 36.

The Chairman of the Board, Managing director, Financial director, head of internal audit, the external auditor and other assurance providers attend meetings by invitation only. Other members of the Executive Management Committee are invited to be present at meetings.

The Audit committee has had closed sessions with the internal and external auditors at the end of each meeting, without management being present.

## 4. Role and duties

The Audit committee's role and duties include statutory duties per the Companies Act, 1973, and further responsibilities assigned to it by the Board. In execution of its duties during

the past financial year, the committee performed the following functions during the year under review:

- // reviewed the interim and year-end financial statements, culminating in a recommendation to the Board;
- // reviewed the external auditor's reports;
- // reviewed the internal audit and risk management reports, and made recommendations to the Board;
- // reviews included the following:
  - taking appropriate steps to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS);
  - considering and, when appropriate, making recommendations on the effectiveness of internal controls;
  - authorising the external audit fees;
  - evaluating the effectiveness of risk management, controls and the governance processes;
  - acting as the Audit committee of the Company and all its subsidiaries although, some subsidiaries also have local audit committees;
  - dealing with concerns or complaints relating to:
    - accounting policies;
    - internal and external audit;
    - the audit or content of annual financial statements;
    - internal controls; and
    - related matters.

## External auditor appointment and independence

The Audit committee has satisfied itself that the external auditor appointed was independent of the Company. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence. The Audit committee further believes that the appointment of KPMG Inc. complied with the relevant provisions of the Companies Act, 1973.

The committee, in consultation with executive management, agreed to the terms of engagement, audit plan and budgeted audit fees relating to the 2010 financial year-end audit. Details of the external auditor's fees are set out per note 22 on page 104 of the annual report. As per the terms of reference, the Audit committee governs the process whereby the auditor is considered for non-audit services. For the year under review, the external auditors provided non-audit services in the form of an export and import undertakings audit. All non-audit services were pre-approved by the Audit committee.

# Report of the Audit **committee**

The committee has nominated, for election at the annual general meeting, KPMG Inc. as the external audit firm for 2011.

## **Financial statements, accounting practice and internal financial controls**

The Audit committee has reviewed the accounting policies and the financial statements of the Company and is satisfied that they are appropriate and comply with International Financial Reporting Standards. With regard to any concerns and complaints received from management, internal audit and external audit, relating to the accounting reporting practices and internal audit of the Company, the content or auditing of its financial statements and internal financial controls of the Company, no matters of significance have been raised in the past financial year to the Audit committee. Based on the processes and assurances obtained, the Audit committee believes that significant internal controls are effective.

## **Going concern**

The Audit committee has reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the Company and has made recommendation to the Board in accordance. The Audit committee concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

## **Internal audit**

The Audit committee is satisfied that the Company's internal audit function is independent and has the necessary resources, standing and authority within the Company to enable it to discharge its duties. Furthermore, the committee oversees co-operation between the internal and external auditors, and serves as a link between the Board and these functions.

A comprehensive internal audit manual exists to guide the function with regards to its duties and quality standards. The internal audit's annual audit plan was approved by the Audit committee and the manual was noted.

The head of internal audit has reported functionally and had unrestricted access to the Audit committee, primarily through its chairman.

The Audit committee is also responsible for the assessment of the performance of the internal audit function. In October

2010, an independent quality and effectiveness review was performed by KPMG AG (Germany), reporting positive results.

## **Governance of risk**

The Board has assigned oversight of the Company's risk management function to the Audit committee. The Audit committee fulfils the role as an integral component of the Company's enterprise-wide risk management process, as described in its terms of reference. This includes but is not limited to: approving the framework; providing input to the top risks of the Company; reviewing progress reports from management regarding mitigation plans; and, reporting to the Board any critical matters identified.

## **Preventing and detecting fraud**

The Audit committee receives an overview regarding forensic investigations conducted by the manager for loss control, security and investigations. The Company also has an independent Integrity Line in place, which is administered by the controlling shareholder, The Linde Group. Fraud or theft matters as reported to the Integrity Line are investigated by internal audit and reported to the Audit committee accordingly.

## **Finance function**

As required by the JSE Listings Requirements 3.84(i), the Audit committee has satisfied itself that the Financial director has appropriate expertise and experience to meet his responsibilities in the position. The evaluation also considered the appropriateness of the expertise and adequacy of resources of the finance function.

## **Regulatory compliance**

The Audit committee recognises the value in implementing the requirements of the King Code of Governance and is in the process of taking steps to ensure compliance where gaps have been identified.



**Mr LL van Niekerk**  
Chairman of the Audit committee

15 February 2011

# Information services **report**

The Afrox Board is ultimately responsible for the governance of information services within the Company. Management of the function is delegated to the General manager Information Services (IS), and the IS regional management team (RMT). IS managers attend meetings of, and regularly report back to, the Executive committee, the Audit and Risk Committee and Special Governance Committee. In 2011, IS will submit a bi-annual report directly to the Board.

Local governance, as well as The Linde Group governance policies, are reviewed on an ongoing basis and are suitably integrated into the Afrox IS environment. Several control policies and procedures are documented and implemented, but have not as yet been ratified by the Afrox Board. This will be formalised early in 2011 to ensure total compliance with King III recommendations.

## IS alignment with the performance and sustainability objectives of the organisation

Within Afrox, IS supports the High Performance Organisation (HPO) initiative to drive best operating processes across the business. In conjunction with The Linde Group, collaborative working practices enable benefits through shared cost, risk and learnings. An IS infrastructure roadmap is used to drive strategy. The IS strategy is aligned with both the Afrox business strategy and The Linde Group IS objectives, and is implemented through targeted scorecards cascaded through the IS organisation. Regular reviews with key business stakeholders prioritise and align work with their functional objectives to ensure congruence.

## Approval and evaluation of significant IS investments and expenditure

Budgets are consolidated into Afrox budgets annually and performance against budget is reported on throughout the year. All IS projects are subject to standard Afrox investment appraisal and approval. Significant IS projects require The Linde Group Investment Committee and Afrox Board approval prior to commencement ensuring strategic alignment of both global and local objectives. Active project portfolio management focuses resources and funding on value-add investment opportunities. Delta project methodology is applied to ensure robust project management. The Afrox Executive Committee and The Linde Group global IS receive monthly project status reports for action if required. All projects are assigned a business project sponsor who has responsibility for meeting business requirements in the delivery of the project. Project best practice is applied. This includes regular Steering Committee meetings for governance with key business

management stakeholders. Steering Committee meetings are minuted and post-implementation reviews performed against all completed projects to leverage learnings for future projects.

## IS form an integral part of the Company's risk management

Risk and risk mitigation is critical within the IS function. In addition to reporting into the Audit and Risk Committee, which assists the Board in executing their duties in governance of IS, significant risk mitigation measures have been implemented to ensure the going concern of the Afrox business:

- / Full disaster recovery (DR) plans, procedures and facilities are in place for all business identified critical systems hosted locally. DR facilities hosted by Continuity SA are available to relocate the national customer service centre operatives in the event of complete failure. Two full DR recovery tests were conducted in 2010, with any retrospective reviews and learnings proactively incorporated into DR processes. DR planning considerations are incorporated into our change control release strategy.
- / Change Advisory Board (CAB) is convened weekly to control changes to infrastructure and systems. IS RMT representation is required in all CAB meetings. This process mitigates business risk by enforcing diligence in testing and requiring evidence, providing mentor review and ensuring cross-stream awareness of proposed changes prior to impacting a production environment. Business critical freeze periods are respected and protected to ensure minimal risk during these periods.
- / The development lifecycle for all enterprise resource planning (ERP) system enhancements and changes is fully implemented. Controls are enforced by documentation of change specification, enhanced system testing followed by user acceptance testing, global template team review and approval, programme code review and approval, training material update, change management incorporation and final business approval prior to CAB approval and implementation.
- / Where audit or other compliance or business risks are identified, IS is engaged with the business to identify solutions and processes required to eliminate or minimise risk. IS is focused on internal and external audit compliance within the function, through strict process adherence and clear roles and responsibility definition.

# Information services report

- / Systems security policies protect the business from external and internal abuse and access violations.
- / Automated anti-virus and software patch distribution is managed centrally through enterprise level applications significantly increasing speed of response for known risks and virus threats and automatically reaching out to all servers and workstations on our network.
- / An ongoing end-of-life hardware refresh programme has been implemented to ensure core servers, operating systems and workstations are within warranty and support, minimising the risk of unplanned maintenance and downtime.
- / Risk workshops, evaluation and mitigation plans are incorporated into all major IS investment projects as part of the initial project evaluation and subsequently the detailed deployment planning.
- / Information is perceived as an integral company asset. Management and protection of this information is a duty of IS by implementing pertinent security measures. Data protection and information privacy is also a critical requirement within Afrox.

In line with the business reliance on critical IS applications our governance policies and procedures are being adapted to ensure the necessary controls and risk mitigation are available to protect our business, workforce, customers, vendors and our community. The following IS governance elements have been implemented to drive compliance and controls within the function and business:

- / User security, confidentiality and general IS policies have been documented and are signed by all systems and network users in accordance with legal compliance and local human resources policies.
- / All IS legislative and compliance regulations are implemented. Through close working relationships with the Afrox legal team, all new IS legislation is incorporated into policy timeously.
- / ISO 9001 quality management system compliance has been maintained for The Linde Group IS by providing support, co-ordination and management of information technology services to Afrox.

Synergistic and global procurement benefits are leveraged from The Linde Group, enabling standardisation of processes, systems and centralisation of many shared services. Afrox benefits from reduced costs and risks during system solution enhancements as a result of converging processes and system solutions globally in line with The Linde Group strategy. Global strategic systems solutions have enabled The Linde Group to realise software licence savings across core business software applications and various preferred workstation suppliers. Data centre operations have been centralised in Munich, Germany, enabling server rationalisation, enhanced support and reduced costs.

In 2010, IS provided several key enhancements in the African Operations' systems roadmap, which will continue into 2011, aligned with the growth potential in these countries. In South Africa the focus has been on exploitation of the stabilised SAP solution, providing further benefits and efficiencies in the business in key customer facing areas around banking interfaces, Electronic Data Interface development, self-service portal solution, LPG market with the new price regulations, as well as participation in key business six sigma and HPO projects around efficiency and effectiveness of processes. Service level agreements have been consistently met and exceeded. Outsource alliance partners handling workstation maintenance and support nationally, and helpdesk and server maintenance, have enabled a risk minimisation model of support delivering quality and monetary value to the business. Close management and service monitoring of outsourced partners ensures high quality and adherence to compliance requirements.

Afrox IS supports environmental initiatives and recognises initiatives to conserve energy through IS efficiency. Utilisation of IS solutions enables rapid deployment of e-learning courses company-wide, as implemented globally. As an example of this, an e-learning course on The Linde Group's code of ethics was deployed late in 2010 to all employees in Afrox.

Governance within Afrox IS will remain a core priority in 2011 to protect the business from unnecessary risk, while harnessing the power of technological advancements. Process optimisation in the delivery of HPO is core to the future growth of the organisation, and IS will continue to perform a key facilitation role in this initiative.



# Corporate responsibility **policy**

## Philosophy

Positioned as a leading industrial gases and welding company, Afrox has built its business on the following four cornerstones:

- // Passion to excel
- // Innovating for customers
- // Empowering people
- // Thriving through diversity.

We see these values at the heart of our competitive abilities and long-term success. They underpin and contextualise our role within society, guiding our actions wherever our business takes us.

Every Afrox employee undertakes to acknowledge and implement the guidelines set out in our Corporate Responsibility policy.

## Principles

Afrox undertakes to behave responsibly towards its shareholders, business partners, employees, society and the environment – in every one of its business areas, regions and locations.

Afrox is committed to technologies and products that unite the goals of customer value and sustainable development.

Afrox secures its future by investing in staff, research and development and by tackling the problems and challenges facing the world today.

## Guidelines

### Markets

- // We believe in a value-driven management style, with business policies that are aligned with the interests of our Company, its shareholders and its stakeholders
- // We promote good corporate governance, constantly strengthening the sense of responsibility that governs our management and supervisory activities
- // Our activities revolve around the best interests of our customers
- // We offer in-depth, end-to-end technical solutions; and
- // We are firmly committed to free and fair competition and we deal with our competitors and business partners in accordance with the Afrox code of ethics.

### Employees and society

- // We maintain an atmosphere of respect and openness both within our Company and in our business interactions

- // We believe in personal development and ongoing learning, offering our employees a wide variety of opportunities to achieve their personal potential
- // We make our knowledge and expertise available to society as a whole and secure our success through a willingness to co-operate with other organisations
- // We are open to other cultures and lifestyles and welcome different experiences and perspectives
- // Equal opportunities are hardwired into all aspects of our work; and
- // We promote education and research projects that are closely linked to our core business.

## SHEQ – Safety, Health, Environment and Quality

All our activities are guided by a clear umbrella principle:

**“At Afrox we do not want to harm people or the environment.”**

Our activities align with the Afrox SHEQ Policy.

This commits us to ensuring that all of our business operations are executed in accordance with strict safety, health, environment and quality standards.

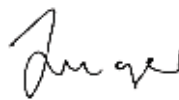
- // We all take a personal responsibility for SHEQ.
- // Managers at all levels demonstrate visible leadership.
- // We apply this policy in our day-to-day behaviour.
- // Safety, health, care for the environment and quality are a prerequisite to any business we undertake.

## Obligation

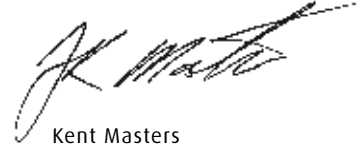
We fulfil our duty of accountability towards our shareholders, employees, customers, business partners and the general public through regular and accurate reporting.

All our Company guidelines are in harmony with our Corporate Responsibility policy.

On behalf of the Afrox Board and the executive management.



**Tjaart Kruger**  
Managing director



**Kent Masters**  
Chairman

Johannesburg

November 2010

# Corporate responsibility

Afrox takes seriously the influence and impact its business has on society, the economy and the environment. This is reflected by the Company’s selection as one of 74 companies in 2010 to be included in the JSE’s Socially Responsible Investment (SRI) index.

Corporate social investment (CSI) is inherent in the Afrox business philosophy. Economically and socially strong communities enhance Afrox’s success, and its CSI strategy is aligned to long-term business objectives.

### Donations

Afrox donates 1% of the previous year after-tax earnings. In this financial year donations amounted to R2.5 million. Social investments 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”. Afrox’s 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.

Total donations	R
Educational institutions and bursaries	827 305
Maths and science programmes	1 200 000
Welding schools	20 000
Environment	200 000
Product donations	30 047
General donations	293 591
<b>Total</b>	<b>2 570 943</b>

### Community involvement programme

The community involvement programme is an employee-driven social responsibility programme focusing on disadvantaged

children from local communities. It is hands-on involvement as opposed to “cheque-book charity”. We currently have 74 projects in South Africa, 85 Afrox business units participating and 12 African Operations’ projects.

The objective of the programme is to make a meaningful and lasting difference in the lives of over 7 000 disadvantaged children within our communities. We enable Afrox employees to experience the personal sense of reward from helping those less fortunate. The programme also aims to promote Afrox both internally and externally as a caring company.

### Bumbanani Day

Afrox employees celebrate annually with the community homes they support through the community involvement programme. This one-day event is known as Bumbanani Day – meaning “let’s build together”. Functions are held throughout sub-Saharan Africa.

Projects 2010	Number
Orphanage/place of safety/care centre for orphaned, abandoned, abused or destitute children, many of whom are living with HIV/Aids	41
School/crèche/aftercare facility	18
Centre for physically and/or mentally disabled children	7
Youth sports club	2
Drug rehabilitation centre for teenagers	3
Children’s feeding scheme	3
<b>Total</b>	<b>74</b>

A list of homes supported by Afrox can be viewed on [www.afrox.com](http://www.afrox.com).



# Financial results

for the year ended 31 December 2010

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# Shareholders' profile

for the year ended 31 December 2010

Group of shares	Number of shareholders	% of holders	Holdings	% of issued share capital
Profile at year end				
Individuals and deceased estates	3 519	75.55	7 709 924	2.25
Corporate bodies	138	2.96	2 693 257	0.79
Banks and nominee companies	64	1.37	25 621 052	7.47
Insurance, investment and trust companies	149	3.20	48 109 246	14.03
Pension, provident funds and trusts	682	14.64	50 336 366	14.68
Private companies	100	2.15	1 022 137	0.30
Public companies	6	0.13	207 360 928	60.48
	4 658	100.00	342 852 910	100.00

## MAJOR SHAREHOLDERS

The shareholders registered as holding 1% or more of the share capital of the Company at 31 December 2010 were:

Shareholders holding of 1% or more	Number of shares held	% of total
BOC Holdings (wholly owned subsidiary of Linde AG)	173 046 413	50.47
Afrox African Investments (Pty) Ltd (held as treasury shares)	34 285 308	10.00
Allan Gray Investment Council	32 010 936	9.34
Investec Asset Management	29 546 703	8.62
Government Employees Pension Fund (previously Public Investment Corporation)	17 427 604	5.08
Oasis Asset Management	9 865 436	2.88
	296 182 400	86.39
Other shareholders	46 670 510	13.61
<b>Total</b>	<b>342 852 910</b>	<b>100.00</b>

## SHAREHOLDER SPREAD

To the best knowledge of management and after reasonable enquiry, the spread of shareholders at 31 December 2010 (as defined in the Listings Requirements of the JSE Limited), was as follows:

	Number of shareholders	% of holders	Number of shares held	% of total
Shares held outside the Group	4 644	99.68	135 517 215	39.53
Shares held within the Group	14	0.32	207 335 695	60.47
Strategic holdings (more than 10%)	1	0.02	173 046 413	50.47
Directors' holdings	10	0.24	1 767	0.00
Own holdings and share trusts	3	0.06	34 287 515	10.00
	4 658	100.00	342 852 910	100.00
Public shareholders				39.53
Non-public shareholders				60.47

## 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	2010 Amount per share (cents)	2009 Amount per share (cents)
166	27 August 2009	16 October 2009	19 October 2009	23 October 2009	26 October 2009		19.0
167	18 February 2010	16 April 2010	19 April 2010	23 April 2010	26 April 2010		19.0
168	26 August 2010	15 October 2010	18 October 2010	22 October 2010	25 October 2010	19.0	
169	16 February 2011	14 April 2011	15 April 2011	21 April 2011	26 April 2011	8.0	
						27.0	38.0

Statistics	December 2010	December 2009	December 2008	December 2007	December 2006
Share price (cents)					
- Closing	2 063	2 200	2 425	3 221	2 950
Ordinary shares in issue at financial period end ('000)	342 853	342 853	342 853	342 853	342 853
Number of shares traded ('000)	65 495	64 360	69 911	84 221	45 268
Value of shares traded (R'000)	1 418 693	1 424 366	1 827 744	2 081 844	1 292 307
Number of shares traded as a percentage of shares issued	19.1	18.8	20.4	24.6	13.2
Earnings yield (%)	1.3	3.1	5.0	5.8	9.4
Ordinary dividend yield (%)	1.3	1.7	2.8	3.1	3.0
Price: basic earnings ratio	75.3	32.5	20.2	19.1	10.6
Price: headline earnings ratio	37.2	29.5	18.2	17.1	17.8

### Definitions of ratios and terms utilised for statistics

Earnings yield	Basic earnings divided by closing share price
Ordinary dividend yield	Dividends declared per share divided by closing share price
Price: basic earnings ratio	Closing share price divided by basic earnings
Price: headline earnings ratio	Closing share price divided by headline earnings

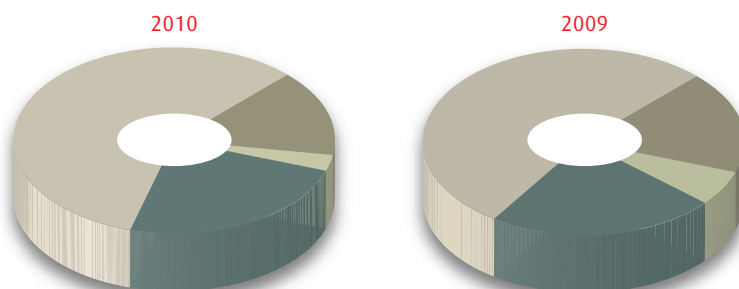
# Value added **statement** for the year ended 31 December 2010

This statement is a measure of the wealth created by the Group through its various business activities. The statement and charts show the total wealth created, how it was distributed and retained.

	2010		2009 Restated	
	R'm	%	R'm	%
<b>Wealth created</b>				
Revenue	4 721		4 795	
Cost of goods and services	(3 176)		(2 892)	
Value added	1 545		1 903	
Net finance income	228		219	
Income from investments	6		2	
Wealth created	1 779		2 124	
<b>Wealth distributed and retained</b>				
Employees				
Salaries and benefits	1 043	58	1 120	53
Providers of capital	420	24	482	23
Finance costs	291	16	335	15
Non-controlling interest	12	1	11	1
Ordinary dividends	117	7	136	7
Taxation	56	3	125	6
Retained in Group activities	260	15	397	18
Depreciation and amortisation	283	16	301	14
Retained (loss)/income	(23)	(1)	96	4
	1 779	100	2 124	100
<b>Value added ratios</b>				
Number of employees	3 434		3 558	
Permanent	3 388		3 439	
Short-term and contractors	46		119	
Revenue per average permanent employee (R'000)	1 383		1 268	
Value added per average permanent employee (R'000)	453		503	

## Wealth distributed and retained

2010 %		2009 %
15	Retained	18
3	Taxation	6
24	Providers of capital	23
58	Employees	53
100		100



# Five-year financial review

for the year ended 31 December 2010

Group	2010 R'm	2009 R'm	2008 R'm	2007* R'm	2006** R'm
<b>STATEMENT OF FINANCIAL POSITION SUMMARY</b>					
<b>Non-current assets</b>					
Property, plant and equipment	2 637	2 729	2 817	2 459	1 928
Other non-current assets	304	357	417	408	226
Retirement benefit assets	544	653	591	771	177
Deferred tax assets	11	10	6	3	2
Current assets (excluding cash and cash equivalents)	1 463	1 438	2 023	1 626	1 182
<b>Total assets</b>	<b>4 959</b>	<b>5 187</b>	<b>5 854</b>	<b>5 267</b>	<b>3 515</b>
<b>Equity and liabilities</b>					
Total equity	2 695	2 827	2 741	2 741	2 282
Non-controlling interest	32	32	39	27	23
Borrowings (including cash and cash equivalents)	842	914	1 532	1 025	83
Deferred tax liabilities	514	562	519	465	167
Current liabilities (excluding interest bearing borrowings)	876	852	1 023	1 009	960
<b>Total equity and liabilities</b>	<b>4 959</b>	<b>5 187</b>	<b>5 854</b>	<b>5 267</b>	<b>3 515</b>
Net assets – excluding deferred taxation and retirement benefit assets	3 528	3 672	4 234	3 484	2 376
<b>INCOME STATEMENT SUMMARY***</b>					
Revenue	4 721	Restated 4 795	Restated 5 666	Restated 5 849	Restated 3 914
Earnings before interest, tax, depreciation, amortisation and impairments (EBITDA)	606	801	943	1 195	744
Depreciation and amortisation	(283)	(301)	(257)	(254)	(204)
Impairments	(104)	(18)	—	—	—
Profit on sale of investment	—	—	—	—	362
Exceptional items	—	—	—	—	(5)
Earnings before interest and tax (EBIT)	219	482	686	941	897
Finance (expense)/income	(63)	(116)	(54)	(13)	73
Income from associate	6	2	2	1	100
Profit before taxation	162	368	634	929	1 070
Income tax expense	(56)	(125)	(207)	(341)	(284)
Profit for the period	106	243	427	588	786
Non-controlling interest	(12)	(11)	(15)	(10)	(7)
Net profit for the financial period	94	232	412	578	779
Dividends declared (Note 27)	(117)	(136)	(272)	(475)	(272)
<b>Retained (loss)/income</b>	<b>(23)</b>	<b>96</b>	<b>140</b>	<b>103</b>	<b>507</b>
<b>Cash flow summary</b>					
Earnings before interest and tax (EBIT)	219	482	686	941	897
Cash generated from operations	606	1 233	665	994	734
Total capital expenditure (tangible and intangible assets)	294	307	603	987	549
Change in funding requirements	(72)	(618)	507	942	(279)

**Restatements**

\* 15 months

\*\* Disposal of major shareholding in Afrox Healthcare Limited

\*\*\* Improved disclosure of finance cost for employee benefits (note 1)

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# Five-year financial review

for the year ended 31 December 2010

	2010	2009	2008	2007*	2006**
<b>STATISTICS</b>					
Total shares (excluding treasury shares) (millions)	309	309	309	309	309
Weighted shares (millions)	309	309	309	309	309
<b>Ordinary share performance</b>					
Basic earnings per share (cents)	30.5	75.2	133.7	187.5	252.5
Headline earnings per share (cents)	55.5	74.6	133.5	188.9	165.9
Dividends declared per share (cents) (Note 27)	27.0	38.0	67.0	100.0	148.0
Dividend cover – basic earnings	1.1	2.0	2.0	1.9	1.7
Dividend cover – headline earnings	2.1	2.0	2.0	1.9	1.1
Net asset value per share (cents)	784	804	782	730	713
<b>Profitability and asset management</b>					
EBITDA margin (%)	12.8	16.7	16.6	20.4	19.0
EBIT margin (%)	4.6	10.1	12.1	16.1	22.9
Return on net assets (%)	6.1	12.2	17.8	32.1	40.0
Net asset turn (times)	1.3	1.2	1.5	2.0	1.7
Return on shareholders equity (%)	3.4	8.3	15.0	23.0	39.5
Return on capital employed (%)	5.2	10.5	15.1	27.6	37.9
Effective rate of taxation (%)	34.6	34.0	32.6	36.7	26.6
<b>Liquidity and leverage</b>					
Interest cover (times)	3.5	4.2	12.7	72.4	(12.3)
Liability ratio	0.6	0.7	0.8	0.7	0.4
Current ratio	1.7	1.7	2.0	1.6	1.2
Gearing (%)	20.6	21.1	31.7	24.1	3.3
<b>Value added</b>					
Number of permanent employees	3 388	3 439	4 124	3 848	3 200
Revenue per average permanent employee (R'000)	1 383	1 268	1 421	1 660	1 266
Profit before taxation per average permanent employee (R'000)	47	97	159	264	346

## DEFINITIONS OF RATIOS AND TERMS UTILISED FOR RATIOS AND STATISTICS

<b>Basic earnings per share</b>	$\frac{\text{net profit for the financial period (net of tax)}}{\text{weighted average number of ordinary shares in issue during the period}}$	<b>Return on shareholders' equity</b>	$\frac{\text{net profit for the financial period}}{\text{average capital and reserves}}$
<b>Headline earnings per share</b>	$\frac{\text{net profit for the financial period (net of tax), impairments and profit and loss on disposal of property, plant and equipment}}{\text{weighted average number of ordinary shares in issue during the period}}$	<b>Return on capital employed</b>	$\frac{\text{EBIT}}{\text{average capital employed}}$
<b>Dividend cover</b>	$\frac{\text{net profit for the financial period}}{\text{current period's declared dividend}}$	<b>Capital employed</b>	capital and reserves, total interest-bearing borrowings and deferred tax
<b>Dividend declared per share</b>	interim dividend per share paid plus final dividend per share declared	<b>Borrowings</b>	net interest-bearing debt
<b>Net asset value per share</b>	$\frac{\text{net assets}}{\text{number of ordinary shares in issue at period end}}$	<b>Effective rate of taxation</b>	$\frac{\text{income tax expense}}{\text{profit before taxation}}$
<b>EBITDA margin</b>	$\frac{\text{EBITDA}}{\text{revenue}}$	<b>Interest cover</b>	$\frac{\text{EBIT}}{\text{net finance (expense)/ income}}$
<b>EBIT margin</b>	$\frac{\text{EBIT}}{\text{revenue}}$	<b>Liability ratio</b>	$\frac{\text{gross borrowings and current liabilities}}{\text{total equity and liabilities (excluding borrowings and current liabilities)}}$
<b>Return on net assets</b>	$\frac{\text{EBIT}}{\text{average net assets}}$	<b>Current ratio</b>	$\frac{\text{current assets}}{\text{current liabilities}}$
<b>Net assets</b>	total assets less non-interest bearing liabilities, excluding deferred taxation and retirement benefit assets	<b>Gearing</b>	$\frac{\text{borrowings}}{\text{total capital employed}}$
<b>Net asset turn</b>	$\frac{\text{revenue}}{\text{average net assets}}$	<b>Revenue per employee</b>	$\frac{\text{revenue for the financial period}}{\text{average number of permanent employees}}$
		<b>Profit before taxation per employee</b>	$\frac{\text{profit before taxation}}{\text{average number of permanent employees}}$

# Report of the **directors** for the year ended 31 December 2010

The directors have pleasure in submitting the Group annual financial statements for the year ended 31 December 2010.

In the context of the financial statements, the term "Group" refers to African Oxygen Limited (Afrox) as the Company, its subsidiaries and its interest in associate. A list of the subsidiaries and associate appears on pages 124 and 125.

## NATURE OF BUSINESS

Afrox is an integrated, full spectrum gases and welding products business, operating in sub-Saharan Africa. We provide solutions and service to meet the needs of customers, and package product service offerings to targeted market segments. The business comprises large gas supply schemes, cylinder gases and welding products, liquefied petroleum gas, medical gases and products, scientific gases, refrigerants, packaged chemicals and helium, gases and services and safety products and services.

## 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.

## AUDIT COMMITTEE REPORT

In line with its terms of reference approved by the Board of Directors and the requirements of Section 270A of the Companies Act (introduced by the Corporate Laws Amendments Act 2006), the Audit Committee confirms that it has discharged all of its responsibilities contained therein (refer to page 41 for details of functions performed by the Audit Committee).

## FINANCIAL RESULTS

The results of operations for the year are set out in the income statements on page 74.

A five-year summary of the Group statement of financial position, income statement and cash flow summary are presented on pages 51 to 52.

The results for the year ended 31 December 2010 show revenue of R4 721 million with earnings before interest and tax at R219 million and net profit attributable to the equity holders of the Company at R94 million. Basic and diluted earnings per share was 30.5 cents and headline earnings per share was 55.5 cents. The statements of financial position remain strong with operating cash flows for the period at R606 million. Gearing is at a very acceptable 20.6%.

## SHARE CAPITAL

The Company's authorised share capital remained unchanged. As at 31 December 2010, the Company's issued share capital is reflected in the following table:

## For the year ended 31 December 2010

	2010 and 2009	
	Number	R
Authorised ordinary	350 000 000	17 500 000
Issued	342 852 910	17 142 646
Unissued	7 147 090	357 354
Treasury shares	34 285 308	1 714 265

## DISTRIBUTION TO SHAREHOLDERS

Details of dividends are set out in note 27 to the financial statements. An interim dividend of 19 cents per ordinary share was paid on 26 October 2010.

A final dividend of 8 cents per ordinary share has been declared. The STC on the final dividend will be 0.8 cents per ordinary share. The final dividend will be paid on Monday, 26 April 2011. 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 BOC Holdings and the ultimate parent company is Linde AG. Afrox is incorporated in the Republic of South Africa. The Linde Group is incorporated in Germany and is listed on all the German Stock Exchanges (DAX 30 share index) as well as in the SWX in Zurich.

## BOARD OF DIRECTORS

The Board currently comprises three executive directors, four non-executive directors and five independent non-executive directors. Their names are as follows:

### Executive directors:

Tjaart Kruger (Managing director and Chief executive officer)  
 Frederick Kotzee (Financial director) appointed 20 May 2010  
 Cor van Zyl (Financial director) resigned 28 February 2010  
 Jonathan Narayadoo (General manager MPG Operations)

### Non-executive directors:

Kent Masters (American) (Chairman)  
 Alan Watkins (British) resigned 28 February 2010  
 Dynes Woodrow (British) appointed 20 May 2010  
 Jürgen Nowicki (German)  
 Karen Oliver

### Independent non-executive directors:

David Lawrence  
 Siphon Pityana  
 Louis van Niekerk  
 Dr Khotso Mokhele  
 Morongwe Malebye

# Report of the **directors** for the year ended 31 December 2010

## INTERESTS OF DIRECTORS

No other material change in the foregoing interests has taken place between 31 December 2010 and the date of this report. There were no contracts of significance during, or at the end of, the financial period in which any directors of the Company were personally materially interested.

## SIGNIFICANT SHAREHOLDERS

Details of significant shareholders appear on page 48 of this annual report.

## SERVICE CONTRACTS

No service contracts exist between the Company and any of its directors having a notice period exceeding three months or providing for compensation and benefits in excess of three months' salary.

## INDEPENDENT NON-EXECUTIVE DIRECTORS' REMUNERATION

The fees payable to the independent non-executive directors are reflected 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.

Category	Role	Current practice		Proposed 2011 payment		% Total fee increase
		Retainer fee	Fee per meeting	Retainer fee	Fee per meeting	
Committee						
Independent Lead director		R120 000		R128 400		7
Board	Director	R50 000	R25 000	R53 500	R26 750	7
Audit	Chairperson	—	R40 000	—	R42 800	7
	Member	—	R20 000	—	R21 400	7
- Nominations, governance and management of resources	Chairperson	—	R40 000	—	R42 800	7
- Safety, health, environment and quality						
- Transformation	Member	—	R20 000	—	R21 400	7

## SHARE APPRECIATION RIGHTS SCHEME (SARS)

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 31 December 2009	13 507 428
Add: SARS allocated during the period	3 470 400
Less: SARS redeemed, terminated and expired	(871 864)
Number of SARS at 31 December 2010	16 105 964
Number of vested SARS at 31 December 2010	7 234 051
Number of unvested SARS at 31 December 2010	8 871 913

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% 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% of the Company's issued share capital.

The executive directors who held office on 31 December 2010, had a direct interest in 899 050 share appreciation rights in the Company granted at an average price of R26,53 per share. At the date of this report, there have been no changes to the above SARS holdings (refer to page 121).

## SECRETARY

Ms C Low was appointed as Company secretary on 1 October 2010. Her business and postal addresses appear on page 138 of this annual report.

## ADMINISTRATION

Computershare Investor Services (Pty) Limited is the share transfer secretary of the Company. The JSE sponsor is Barnard Jacobs Mellet Corporate Finance (Pty) Limited and the NSX sponsoring broker is Namibia Equity Brokers (Pty) Limited.

## SUBSIDIARIES AND ASSOCIATE

Information regarding the interest in subsidiaries is set out on page 124 and of interest in associate on page 125.

Subsidiary companies' profit after tax R160 million (2009: R138 million), subsidiary companies' aggregate amount of losses after tax R27 million (2009: R21 million) and share of associate profit after tax R6 million (2009: R2 million).

#### INDEPENDENT AUDITORS

The independent auditors, KPMG Inc. will continue in office for the ensuing period in accordance with Section 270(2) of the Companies Act, 1973, as amended.

#### BORROWING FACILITIES

The Group's net debt at December 2010 amounted to R842 million (2009: R914 million). Details of the long-term borrowings are set out in note 18. No restrictions on borrowings are set in the articles of association.

#### LITIGATION STATEMENT

Claims of approximately R400 million have been made by two customers against the Group. These claims refer to supply disruptions, predominantly as a result of power outages and equipment failures. The Group has sought legal advice and the Board of directors is of the opinion that various robust defences exist in respect of the two claims and material success in either of the matters by the claimants is improbable. Accordingly, no provision for any liability has been made in these financial statements.

#### GENERAL

To the best of our knowledge no other material major formal litigation has been instigated against the Company.

#### EVENTS AFTER REPORTING DATE

No material event occurred between the accounting date and the date of this report.

## Remuneration report for the year ended 31 December 2010

### Directors' emoluments (R'000s)

Name	Months paid	Fees	Remuneration	Pension payment/contributions	Performance bonus	Benefits, allowances and gains on share incentives	Total December 2010	Total December 2009
<i>Non-executive directors</i>								
<i>Current</i>								
M Malebye		195	—	—	—	—	195	168
K Mokhele		335	—	—	—	—	335	217
D Lawrence		250	—	—	—	—	250	198
S Pityana		255	—	—	—	—	255	198
L van Niekerk		409	—	—	—	—	409	236
<i>Former</i>								
CB Strauss		—	—	138	—	—	138	138
		1 444	—	138	—	—	1 582	1 155
<i>Executive directors</i>								
TN Kruger	12	—	2 497	335	3 194	1 425	7 451	5 154
CJPG van Zyl	6	—	685	83	1 730	235	2 733	2 881
FT Kotzee	9	—	1 204	185	1 043*	416	2 848	—
J Narayadoo	12	—	1 336	327	801	445	2 909	162
		—	5 722	930	6 768	2 521	15 941	8 197
<b>Total emoluments</b>		1 444	5 722	1 068	6 768	2 521	17 523	9 352

\* Once-off sign-on bonus

# Report of the directors

for the year ended 31 December 2010

The following executive directors have share appreciation rights:

	December 2010			December 2009		
	Rand value R'000	Vested number of rights (exercisable)	Non-vested number of rights (not yet exercisable)	Rand value R'000	Vested number of rights (exercisable)	Non-vested number of rights (not yet exercisable)
TN Kruger	293	340 000	300 200	148	—	582 800
CJPG van Zyl	—	—	—	91	1 000	237 850
J Narayadoo	154	129 750	129 100	105	66 750	153 800
	447	469 750	429 300	344	67 750	974 450

Shares – options	December 2010		December 2009	
	Rand value R'000	Non-vested number of shares	Rand value R'000	Non-vested number of shares
TN Kruger	—	—	338	16 250

The Company did recognise 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.

The directors are not entitled to any other post-retirement benefits except those disclosed above.

Shareholding of directors (number of shares)	December 2010		December 2009	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
<i>Executive directors</i>				
TN Kruger	—	100	—	100
FT Kotzee	—	—	—	—
CJPG van Zyl	—	—	126	—
J Narayadoo	241	200	—	—
<i>Non-executive independent directors</i>				
M Malebye*	—	100	—	100
Dr. KDK Mokhele~+>	—	100	—	100
DM Lawrence*~	500	—	500	—
LL van Niekerk*~>	126	—	126	—
SM Pityana+	—	100	—	100
<i>Non-executive directors</i>				
JK Masters~+	—	100	—	100
J Nowicki*	—	100	—	100
KJ Oliver	—	100	—	100
D Woodrow	—	—	—	—
AM Watkins>	—	—	—	100

\*Audit Committee member

+Transformation Committee

~Governance and Management Resources Committee member.

>SHEQ Committee

## Interest of directors in contracts

The directors have certified that they had no material personal interests in any transactions of any significance with the Company or any of its subsidiaries. Accordingly, no conflict of interest with regard to directors' interest in contracts exist. There was no change in directors' interests in contracts in the period between the financial year-end and the date of signature of this report.

# Certificate of the Company **secretary**

for the year ended 31 December 2010

In my capacity as the Company secretary, I hereby confirm, in terms of the South African Companies Act, 1973, that for the year ended 31 December 2010 the Company has lodged with the Registrar of Companies all such returns as are required of

a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



C Low  
Company Secretary

Johannesburg  
16 February 2011

# Approval of financial **statements**

for the year ended 31 December 2010

The directors are responsible for the preparation and fair presentation of the Group annual financial statements and annual financial statements of African Oxygen Limited, comprising the statements of financial position at 31 December 2010, and the income statements, the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and AC 500 Standards as issued by the Accounting Practices Board and in the manner required by the Companies Act of South Africa.

In discharging this responsibility, the Group maintains suitable internal control systems designed to provide reasonable assurance that the assets are safeguarded and that the transactions are executed and recorded in accordance with Group policies.

The directors, supported by the Audit Committee, are satisfied that such controls, systems and procedures are in place to minimise the possibility of material loss or misstatement.

The directors believe that the Group has adequate resources to continue in operation for the foreseeable future and the financial statements on pages 53 to 56 and 59 to 125 have, therefore, been prepared on a going-concern basis.

The auditor is responsible for reporting on whether the Group and Company annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The Group annual financial statements and annual financial statements of African Oxygen Limited, were approved by the Board of Directors on 16 February 2011 and are signed on their behalf by:



TN Kruger  
Managing director



FT Kotzee  
Financial director

Johannesburg  
16 February 2011

# Independent auditors' report for the year ended 31 December 2010

## TO THE MEMBERS OF AFRICAN OXYGEN LIMITED

We have audited the Group annual financial statements and the annual financial statements of African Oxygen Limited, which comprise the statements of financial position as at 31 December 2010, the income statements, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 53 to 56 and pages 59 to 125.

### Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of African Oxygen Limited at 31 December 2010, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



KPMG Inc.  
Registered Auditor

Per NH Southon  
Chartered Accountant (SA)  
Registered Auditor  
Director  
16 February 2011

KPMG Crescent  
85 Empire Road  
Parktown  
Johannesburg  
2193

# Glossary of financial reporting terms

## GROUP STRUCTURES

### Reporting entity

African Oxygen Limited is a company domiciled in South Africa. The address of the Company's registered office is 23 Webber Street, Selby, Johannesburg, South Africa. Its parent company is BOC Holdings Limited (registered in the United Kingdom) a wholly owned subsidiary of Linde AG. The ultimate holding company is Linde AG (registered in Germany). The consolidated financial statements of African Oxygen Limited, as at 31 December 2010 and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in an associate. The Group is primarily involved in the manufacture and distribution of gases and welding products.

### Associate

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 with no control or joint control over these policies.

### Company

A legal business entity registered in terms of the applicable legislation of that country.

### Equity method

A method in which 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.

### Foreign operation

An entity whose activities are based or conducted in a country or currency other than those of the reporting entity.

### Group

The Group comprises African Oxygen Limited, its subsidiaries, its interest in an associate and special purpose entity.

### Special purpose entity

An entity established to accomplish a narrow and well defined objective (at this stage limited to the ISAS Trust).

### Subsidiary

A subsidiary is an entity controlled by the parent. 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.

## GENERAL ACCOUNTING TERMS

### Accounting policies

The specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

### Accrual basis of accounting

The effects of transactions and other events are recognised when they occur rather than when the cash is received or paid.

### Acquisition date

The date on which control in subsidiaries, special purpose entities and significant influence in the associate commenced.

### Actuarial gains and losses

The effects of differences between the previous actuarial assumptions and what has actually occurred, as well as changes in actuarial assumptions.

### Amortised cost

The amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the effective interest method, of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

### Asset

A resource controlled by the entity as a result of a past event from which future economic benefits are expected to flow to the entity.

### Borrowing costs

Finance and other costs incurred in connection with the borrowing of funds.

### Carrying amount

The amount at which an asset or liability is recognised in the statement of financial position.

### Cash flow hedge

A hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with an asset, or a liability that could affect profit or loss or a highly probable forecast transaction that could affect profit or loss.

### Cash-generating unit

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### Change in accounting estimate

An adjustment to an asset or a liability or the amount of the periodic consumption of an asset as a result of new information or developments.

# Glossary of financial reporting terms

## Constructive obligation

An obligation that derives from an established pattern of past practice, published policies or a sufficiently specific current statement such that it creates a valid expectation on the part of other parties that the obligation will be met.

## Consolidated financial statements

The financial results of the Group which comprise the financial results of African Oxygen Limited and its subsidiaries, special purpose entities and its interest in the associate.

## Control

The power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## Contingent asset

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 entity.

## Contingent liability

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 entity, 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 obligation cannot be measured with sufficient reliability.

## Costs to sell

The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

## Date of transaction

The date on which a transaction first qualifies for recognition in accordance with IFRS.

## Depreciation or amortisation

The systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of the asset, or other amount substituted for cost, less its residual value.

## Derecognition

The removal of a previously recognised asset or liability from the statement of financial position.

## Discontinued operation

A component of the entity that has either been disposed of or is classified as held-for-sale and represents a separate major line of business or geographical operational area or is part of

a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation or a subsidiary acquired exclusively with a view to resell.

## Employee benefits

All forms of consideration given in exchange for services rendered by employees.

## Expenses

The decreases in economic benefits in the form of outflows or depletion of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

## Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable and willing partners in an arm's length transaction.

## Fair value hedge

A hedge of exposure to changes in fair value of a recognised asset, recognised liability or unrecognised firm commitment.

## Financial instrument

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity.

## Finance lease

A lease that transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee.

## Financial results

Comprise the financial position (assets, liabilities and equity), financial performance (revenue and expenses) and cash flows of the Group or an entity within the Group.

## Financial risk

The risk of a possible future change in a specified interest rate, financial instrument price, commodity price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

## Firm commitment

A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

## Functional currency

The currency of the primary economic environment in which the entity operates.

## Going-concern basis

The assumption that the entity will continue in operation for the foreseeable future.

**Gross investment in lease**

The aggregate of the minimum lease payments receivable by the lessor under a finance lease and any unguaranteed residual value accruing to the lessor.

**Headline earnings**

Earnings excluding “separately identifiable remeasurements”, net of related tax and related non-controlling interest, other than re-measurements specifically included in headline earnings.

**Hedged item**

An asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that exposes the entity to risk of changes in fair value or future cash flows and is designated as being hedged.

**Hedging instrument**

A designated derivative or non-derivative financial asset or liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

**Hedge effectiveness**

The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

**Held-for-trading financial asset or financial liability**

Financial asset or financial liability that is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or as a 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 or a financial guarantee contract).

**Impairment loss**

The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

**Income**

Increase in economic benefits in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

**Key management personnel**

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity including any director.

**Legal obligation**

An obligation that derives from a contract, legislation or other operation of law.

**Liability**

A present obligation arising from a past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

**Minimum lease payments**

Payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, including, in the case of a lessee, any amounts guaranteed by the lessee or by the party related to the lessee or, in the case of a lessor, any residual value guaranteed to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

**Net investment in the lease**

The gross investment in the lease discounted at the interest rate implicit in the lease.

**Onerous contract**

A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to accrue under it.

**Operating lease**

A lease other than a finance lease.

**Other comprehensive income**

Comprises items of income and expenditure (including reclassification adjustments) that are not recognised in profit or loss and includes the effect of translation of foreign operations, cash flow hedges, available-for-sale financial assets, changes in revaluation reserves and actuarial gains or losses.

**Owner-occupied property**

Property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services or for administrative purposes.

**Past service cost**

The increase or decrease in the present value of the defined obligation for employee service in prior periods resulting, in the current period, from the introduction of, or changes to, post-employment benefits or other long-term employee benefits.

**Post-employment benefits**

Employee benefits (other than termination benefits) that are payable after the completion of employment.

# Glossary of financial reporting terms

## Post-employment benefit plans

Formal or informal arrangements under which an entity provides post-employment benefits to employees. Defined contribution benefit plans are plans where there are no legal or constructive obligations for the employer to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

## Presentation currency

The currency in which the financial statements are presented.

## Prospective application

Applying a change in accounting policy to transactions, other events and conditions occurring after the date the policy changed, or recognising the effect of a change in accounting estimate in the current and future periods.

## Recoverable amount

The amount that reflects the greater of the fair value less costs to sell and value in use that can be attributed to the asset as a result of its ongoing use by the entity.

## Regular way purchase or sale

A purchase or sale of a financial asset under a contract, the terms of which require delivery of the asset within the time frame established by regulation or convention in the marketplace concerned.

## Related party

A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity; another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or another entity that is under common control with the reporting entity through having: common controlling ownership; owners who are close family members; or common key management.

## Research and development cost

Research costs, being the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

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.

## Residual value

The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

## Retrospective application

Applying a new accounting standard to transactions, other events and conditions as if the policy had always been applied.

## Revenue

Gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

## 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. Segment liabilities include all operating liabilities and consist principally of trade payable and accrued liabilities. Segment assets and liabilities do not include deferred tax, income tax and post employment assets and liabilities.

## Segment revenue and expenses

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

## Significant influence

The power, to participate in, but not exercise control over, the financial and operating policy decisions of an entity so as to obtain economic benefit from its activities.

## Tax base

The tax base of an asset is the amount that is deductible for tax purposes if the economic benefits from the asset are taxable or the carrying amount of the asset if the economic benefits are not taxable. The tax base of a liability is the carrying amount of the liability less the amount deductible for tax purposes in respect of that liability in future periods.

## Temporary differences

The differences between the carrying amount of an asset or liability and its tax base.

## Treasury shares

An entity's own equity instruments held by the entity or other members of the consolidated Group.

**Transaction costs**

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

**Unearned finance income**

The difference between the gross investment in the lease and the net investment in the lease.

**Useful life**

The period over which an asset is expected to be available for use by the entity or the number of production or similar units expected to be obtained from the asset by the entity.

**Value in use**

The present value of the future cash flows, expected to be derived from the continuing use and disposal at the end of its useful life of an asset or cash generating unit and the continuing use and disposal thereof, at the end of its useful life.

**FINANCIAL INSTRUMENT TERMS****Available-for-sale financial assets**

A non-derivative financial asset that is so designated or is not classified as:

- ▀ a loan and receivable;
- ▀ a held-to-maturity investment; or
- ▀ a financial asset at fair value through profit or loss.

**Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

**Derivative**

A financial instrument:

- ▀ whose value changes in response to movements in a specified interest rate, commodity price, foreign exchange rate or similar variable;
- ▀ that requires no initial net investment, or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to change in market factor; and
- ▀ whose terms require or permit settlement at a future date.

**Effective interest rate**

The derived rate that discounts the expected future cash flows over the expected life of the financial instrument to the current net carrying amount of the financial asset or financial liability.

**Equity instrument**

Any financial instrument that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**Financial asset**

Cash or cash equivalents, a right to receive cash, an equity instrument of another entity or a right to exchange financial instruments under favourable conditions.

**Financial liability**

A contractual obligation to pay cash or cash equivalents or transfer other benefits or an obligation to exchange financial instruments under unfavourable conditions.

**Financial instruments classified as held for trading**

Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; on initial recognition it is 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 it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

**Financial liability at fair value through profit or loss**

Financial liability that meets either of the following conditions: It meets the definition of held-for-trading, or upon initial recognition it is designated by the entity at fair value through profit or loss.

**Held-to-maturity investment**

A financial asset with a fixed maturity and fixed or determinable future payments, that management has the positive intent and ability to hold to maturity.

**Loans and receivables**

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

- ▀ those that the Group intends to trade in, which are classified as held-for-trading, and those that the Group designates as at fair value through profit or loss;
- ▀ those that the Group designates as available-for-sale; and
- ▀ those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

**Monetary assets**

An asset which will be received in a fixed or determinable amount of money.

**Monetary liability**

A liability which will be settled in a fixed or determinable amount of money.

# Accounting policies

## BASIS OF PREPARATION

### Corporate information

African Oxygen Limited (the Company) is a South African registered company. The registered address of the Company is 23 Webber Street, Selby. The consolidated financial statements of the Company for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in an associate.

### Statement of compliance

The consolidated financial statements for African Oxygen Limited and its subsidiaries have been prepared in compliance with International Financial Reporting Standards (IFRS), the AC 500 Standards as issued by the Accounting Practices Board, and the requirements of the South African Companies Act.

### Changes in accounting policies

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures, including in some cases, revisions to accounting policies or adjustments to the financial statements on an entity level.

The adoption of the standards or interpretations is described below:

- **IFRS 2. "Share-based Payment (Revised)":**  
The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.
- **IFRS 3. "Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)":**  
IFRS 3 (Revised) introduced significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction cost, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) required that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give

rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisition or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The change in accounting policy was applied prospectively and had no impact on earnings per share.

- **IAS 39. "Financial Instruments: Recognition and Measurement - Eligible Hedged Items":**  
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or a portion thereof in particular situations. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.
- **IFRIC 17. "Distribution of Non-cash Assets to Owners":**  
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on the financial position or performance of the Group.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as detailed above and have been applied by the Group entities.

## SIGNIFICANT ACCOUNTING POLICIES

### 1. Basis of preparation of financial results

The consolidated annual financial statements are presented in South African Rands (Rands), which is the Group's functional and presentation currency. All financial information presented in South African Rands has been rounded to the nearest million (R'm) except for when otherwise indicated. The consolidated financial statements are prepared using the historical cost basis, except derivative financial instruments that have been measured at fair value and liabilities for cash settled share-based payment arrangements that are required to be measured at fair value.

The consolidated financial statements are prepared on the going concern basis.

### 2. Basis of consolidation of financial results

The consolidated financial statements reflect the financial results of the Group. All financial results are consolidated with similar items on a line by line basis except for the investment

in the associate, which is included in the Group's results as set out below.

#### Transactions eliminated on consolidation

Inter-company transactions, balances and unrealised gains and losses between entities are eliminated on consolidation. To the extent that a loss on a transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss of a non-current asset, that loss is recognised in profit or loss.

In respect of the associate, unrealised gains and losses are eliminated to the extent of the Group's interest in the entity.

#### 2.1 Subsidiaries

The Group financial statements include the financial statements of the Company and its subsidiaries. Where an investment in a subsidiary is acquired or disposed of during the financial year its results are included from the date control commences to date control ceases. In the financial statements of the Company, the interests in subsidiaries are measured at cost less impairments.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. 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 in profit or loss.

Non-controlling interests are measured at their share of the fair value of the identifiable assets and liabilities.

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the subsidiaries.

The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### 2.2 Associate

The consolidated financial statements incorporates investments in the associate, income and expenses of the associate using the equity method of accounting from the acquisition date to the disposal date, being the date that significant influence commenced to the date that significant influence ceased.

Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. 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 associate. Profit and loss includes the share of the profit or loss of the associate.

In the financial statements of the Company, the interest in the associate is measured at cost less impairments.

Associate accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. The reporting dates of the associate are not aligned to the reporting dates of the Group. The Group recognises its share of the net profit or loss of the associate up to the Group's reporting date.

If the Group's share of losses of the associated company exceeds the carrying amount the investment would be carried at nil. Additional losses would only be recognised to the extent that the Group has incurred legal or constructive obligations or has made payments on behalf of the associate.

### 3. Foreign currency

#### 3.1 Foreign currency transactions

Transactions in currencies other than the entity's functional currency are recognised at the exchange rates ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the reporting date. Gains and losses arising on these exchange differences are recognised in profit or loss.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equities classified as available-for-sale financial assets, are included in other comprehensive income.

#### 3.2 Foreign operations

The financial statements of entities (none of which has the currency of a hyperinflationary economy) whose functional currencies are different to the Group's presentation currency are translated on consolidation:

- ▀ Assets, including goodwill, and liabilities: At the closing exchange rates for each reporting date presented;
- ▀ Income and expense items: At the exchange rates at the dates of the transactions; and
- ▀ Equity items: At the exchange rates ruling when they arose.

# Accounting policies

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

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 at the reporting date.

#### 4. 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 accounting period. Land and buildings are factories and offices.

Items of property, plant and equipment, other than land, are measured at cost less accumulated depreciation and accumulated impairment losses.

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 benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Land is measured at cost less any accumulated impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Depreciation is based on cost less residual value, and is recognised in profit or loss so as to write off the depreciable amount of the assets, 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 expected useful lives were as follows for current and prior years:

Freehold properties	40 years
Cylinders	15 – 20 years
Plant and equipment	5 – 25 years
Vehicles	7 – 25 years
Furniture and fittings	5 years

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 profit or loss.

#### 5. 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 the estimated useful lives using a straight line basis and assessed for impairment whenever there is an indication that they may be impaired.

Trademarks and licences are recognised initially at cost. They have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to amortise the cost of trademarks and licences over their estimated useful lives, from the date that they are available for use.

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 or the licence period, whichever is shorter.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable software products controlled by the Group, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. Directly attributable costs include employee costs and an appropriate portion of relevant overheads are included in the cost of software development.

Development expenditure is capitalised only if the cost can be measured reliably, the product or process is technically and commercially feasible and future economic benefits are probable.

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

The expected useful lives of intangible assets are as follows for current and prior years:

- // Computer software development costs – not exceeding eight years, using the straight line method.
- // Restraint of trade payments over the period of the restraint, using the straight line method – not exceeding ten years.
- // Computer software – over five years using the straight line method.
- // Trademarks, patents and licences, using the straight line method – not exceeding eight years.

## 6. Goodwill

Goodwill is allocated to cash generating units for the purpose of impairment testing.<sup>1</sup> 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 associate is included in the carrying amount of the associate. For goodwill acquired in a business combination for which the agreement date was before 30 September 2004 and was previously amortised on a systematic basis over its estimated useful life, the accumulated amortisation prior to that date was set-off 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 or business unit to which goodwill was allocated such amount attributable to such goodwill is derecognised and included in the determination of the profit or loss on disposal.

## 7. Inventories

Inventories are measured 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. 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.

## 8. Financial assets

Financial assets are recognised initially at fair value plus transaction costs. However, transaction costs in respect of financial assets classified as at fair value through profit and loss are expensed. Financial assets other than those at fair value through profit or loss or available-for-sale are subsequently measured at amortised cost using the effective interest method, less impairment losses. Impairment losses on financial assets are established when there is objective evidence that one or more events have had a negative effect on the estimated future cash flows of that asset that can be measured reliably. The amount of the impairment loss for loans and receivables is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. An impairment in respect of an available-for-sale financial asset is calculated by reference to its current fair value. The amount of the impairment loss is recognised in profit or loss. At each reporting period the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

Receivables are recognised as assets when the entity becomes a party to the contract and has a legal right to receive or a legal obligation to pay cash.

The Group classifies its financial assets into the following categories:

- // Fair value through profit and loss;
- // Loans and other receivables;
- // Held to maturity; and
- // 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.

Financial assets or parts thereof are derecognised, by removing them from the statement of financial position, 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.

<sup>1</sup>Each cash-generating unit to which goodwill is so allocated, shall not be larger than any operating segment as defined in IFRS 8 before aggregation.

# Accounting policies

## 9. Financial liabilities

### *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred on the date that they are originated. Borrowings are subsequently measured at amortised cost using the effective interest method; any difference between the proceeds (net of transaction costs) and redemption value is recognised over the period of the borrowings using the effective interest 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 reporting period.

### *Other financial liabilities*

Financial liabilities are initially measured at fair value plus transaction costs on the date that they are originated. Transaction costs in respect of financial liabilities classified as at fair value through profit or loss are expensed.

Financial liabilities that are not classified as financial liabilities at fair value through profit and loss are measured at amortised cost using the effective interest method.

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 which are recognised in other comprehensive income, to the extent that they are effective.

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

## 10. Cash and cash equivalents

Cash and cash equivalents for the purposes of the statements of cash flows includes cash on hand, deposits held on call with banks, other short-term highly liquid investments with maturities of three months or less and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the statement of financial position.

## 11. Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that they will realise.

Deferred tax is measured at the tax rates that have been enacted or substantively enacted at the reporting date or are expected to apply when the related temporary differences reverse.

The Group recognises a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, except to the extent that both of the following conditions are satisfied: the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

## 12. Post-employment benefit obligations

### *Defined contribution plans*

Contributions to defined contribution plans are recognised in profit or loss as an employee benefit expense as they accrue.

### *Defined benefit plans*

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.

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 are increased or decreased 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, and 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 statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and reduced by the fair value of plan assets. Any asset is limited to the cumulative unrecognised past service cost plus the present value of available refunds and reductions in future contributions to the plan.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

### 13. Shareholders for 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 and loss.

### 14. Equity

#### *Ordinary shares are classified as equity*

Transactions relating to the acquisition and sale of treasury shares in the Company, together with the associated costs, are accounted for in equity.

Equity shares in the Company 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 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 the Company's equity holders. Dividends received on treasury shares are eliminated on consolidation.

### 15. 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. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at reporting period 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.

Restructuring provisions comprise lease termination penalties and employee termination payments. A provision for restructuring is recognised after the Group has prepared a detailed and formal plan or if the restructuring has commenced or has been announced publicly. Provisions are not recognised for future operating losses.

### 16. Revenue

Revenue is measured at the fair value of the consideration received or receivable net of VAT, cash discounts, rebates and settlement discounts.

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 the amount of the revenue and the related costs can be reliably measured, no continuing management involvement with the goods and when it is probable that the debtor will pay for the goods.

### 17. 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 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.

### 18. Employee benefit costs

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 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 and the amounts can be reliably measured.

### 19. Borrowing costs

Borrowing costs are capitalised only for qualifying assets where the construction period will be in excess of one year. The capitalisation of the borrowing cost will cease as soon as the plant has been commissioned and it produces 25% of its capacity.

### 20. Taxation

The charge for current tax is based on the results for the period as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to the taxable income as well as any adjustment to tax payable in respect of previous years.

# Accounting policies

## 21. Derivative financial instruments and hedging activities

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 in other comprehensive income 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 highly probable forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses recognised in other comprehensive income (OCI) 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 highly probable forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gains or losses recognised in OCI 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), for cash flow hedges, when the forecast transaction is no longer expected to occur, when the hedge designation is revoked or when the hedge instrument is sold, terminated or exercised.

A derivative not designated in a hedge relationship that qualifies for hedge accounting, is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. Fair value changes are recognised in profit or loss.

## 22. Impairment of non-financial assets

At each reporting date the carrying amount of the Group's non-financial 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 useful lives of the assets.

If the recoverable amount of an asset (or cash-generating unit) is the greater of its value in use and its fair value less costs to sell 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 on a pro rata basis. 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 annually even if there is no indication of impairment, and whenever there is an indication of impairment, impaired if necessary. Impairment losses on goodwill are not reversed.

## 23. Leases

### *Where 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. Subsequently, the asset is accounted for in accordance with the accounting policy appropriate to the assets. 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 and the short-term portion are included in other long-term payables. The interest element of the finance cost is charged to profit or loss 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 asset's 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 recognised to profit or loss on a straight line basis over the period of the lease. Contingent rentals are recognised to profit or loss as they are incurred.

#### *Where the Group is the lessor*

When assets are leased under a finance lease the present value of the minimum lease payments is recognised as the receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance income is recognised over the term of the lease on the lessor's net investment in the finance lease 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 statement of financial position. 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 profit or loss as they are received.

#### **24. Equity settled share based payments**

The grant date fair value of shares and options issued or granted to employees for services rendered or to be rendered is recognised in profit or loss with a corresponding increase in equity when the services have been rendered or, if vesting requirements are applicable, over the vesting period. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at vesting date.

#### **25. Cash settled share based payments**

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

#### **26. Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other

components. Operating segments are identified on the basis of internal reports that are regularly reviewed by the Group's and Company's chief decision making body, the Board of directors, in order to allocate resources to the segment and assess its performance. This basis is geographical.

Inter-segment transfers: Segment revenue, segment expenses and segment results include transfers 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.

#### **27. Earnings per share**

Basic earnings per share represent the profit on ordinary activities after taxation attributable to the equity shareholders of the parent entity, divided by the weighted average number of ordinary shares in issue during the year, adjusted for own shares held.

The calculation of headline earnings per share is based on the net profit attributable to ordinary shareholders; after excluding separately identifiable re-measurements net of related tax and related non-controlling interests, divided by the weighted average number of shares in issue during the financial period. An itemised reconciliation of the adjustment to earnings attributable to ordinary shareholders is provided in the notes to the financial statements.

#### **28. Sources of estimation uncertainty and judgments made by management**

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

##### *Post employment benefits*

The Group accounts not only for its legal obligation, but also for any constructive obligation that arises from past practices and determines the present value of defined benefit obligations and the fair value of any plan assets by using the Projected Unit Credit Method to measure its obligations and costs and uses unbiased and mutually compatible actuarial assumptions about demographic variables and financial variables.

##### *Deferred tax assets*

These are recognised to the extent it is probable that future taxable income will be available against which they can be utilised. Three year profit forecast and cash flows are utilised to access the recoverability of the deferred tax assets.

# Accounting policies

## 29. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The resulting accounting estimates may, by definition, not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are detailed in the notes to the financial statements where applicable. The estimates and associated assumptions are

based on historical experience and various other factors that are believed to be reasonable under the circumstances.

## 30. Future changes in accounting policies

A number of new standards, amendments to standards and interpretations have been issued that are not yet effective for the period ended 31 December 2010 and have not been applied in preparing these financial statements. These amendments are not expected to have a significant impact on the consolidated financial statements.

Standards and interpretations	Details of amendment
IAS 24 <i>Related Party Disclosures (Amendment)</i>	The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.
IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues (Amendment)</i>	The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
IFRS 9 <i>Financial Instruments: Classification and Measurement</i>	IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets.
IFRIC 14 <i>Prepayments of a Minimum Funding Requirement (Amendment)</i>	The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

# Statements of financial position

as at 31 December 2010

	Notes	Group		Company	
		2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>3 496</b>	<b>3 749</b>	<b>3 947</b>	<b>4 176</b>
Property, plant and equipment	2	2 637	2 729	2 240	2 305
Intangible assets	3	136	171	133	167
Goodwill	4	19	25	11	15
Investments in subsidiaries	5			898	912
Investment in associate	6	17	13	1	1
Long-term derivative financial instruments	7	10	8	10	8
Other investments	8	11	4	11	4
Non-current lease receivables	9	111	136	99	111
Retirement benefit assets	10	544	653	544	653
Deferred tax assets	11	11	10	—	—
<b>Current assets</b>		<b>1 790</b>	<b>2 047</b>	<b>1 392</b>	<b>1 704</b>
Inventories	12	663	573	574	484
Trade and other receivables	13	750	830	620	675
Receivables from Group companies		7	14	7	14
Short-term portion of non-current lease receivables	9	23	21	12	11
Taxation receivable		20	—	14	29
Cash and cash equivalents	15	327	609	165	491
<b>Total assets</b>		<b>5 286</b>	<b>5 796</b>	<b>5 339</b>	<b>5 880</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>		<b>2 727</b>	<b>2 859</b>	<b>2 935</b>	<b>3 060</b>
Share capital	16	15	15	17	17
Share premium	16	537	537	537	537
Reserves	17	191	300	265	347
Retained earnings		1 952	1 975	2 116	2 159
Total attributable to equity holders of the Company		2 695	2 827	2 935	3 060
Non-controlling interest		32	32	—	—
<b>Non-current liabilities</b>		<b>1 385</b>	<b>1 689</b>	<b>1 354</b>	<b>1 656</b>
Long-term borrowings	18	871	1 127	865	1 127
Deferred tax liabilities	11	514	562	489	529
<b>Current liabilities</b>		<b>1 174</b>	<b>1 248</b>	<b>1 050</b>	<b>1 164</b>
Trade and other payables	19	654	677	564	598
Other short-term financial liabilities	20	167	156	141	133
Derivative financial instruments	14	16	3	16	3
Payables to Group companies		11	7	31	34
Short-term portion of long-term borrowings	18	263	363	263	363
Taxation payable		28	9	—	—
Bank overdrafts	15	35	33	35	33
<b>Total equity and liabilities</b>		<b>5 286</b>	<b>5 796</b>	<b>5 339</b>	<b>5 880</b>

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# Income statements

for the year ended 31 December 2010

	Notes	Group		Company	
		2010 R'm	2009 Restated R'm	2010 R'm	2009 Restated R'm
Revenue	21	4 721	4 795	3 800	3 742
Operating expenses		(4 115)	(3 994)	(3 293)	(2 942)
Earnings before interest, tax, depreciation, amortisation and impairments (EBITDA)		606	801	507	800
Depreciation and amortisation		(283)	(301)	(252)	(262)
Impairments		(104)	(18)	(104)	—
Earnings before interest and tax (EBIT)	22	219	482	151	538
Finance expense	24	(291)	(335)	(291)	(334)
Finance income	24	228	219	222	211
Income from associate		6	2		
<b>Profit before taxation</b>		<b>162</b>	<b>368</b>	<b>82</b>	<b>415</b>
Income tax expense	25	(56)	(125)	5	(70)
<b>Profit for the period</b>		<b>106</b>	<b>243</b>	<b>87</b>	<b>345</b>
<b>Attributable to:</b>					
Equity holders of the Company		94	232	87	345
Non-controlling interest		12	11		
<b>Profit for the period</b>		<b>106</b>	<b>243</b>	<b>87</b>	<b>345</b>
<b>Earnings per share</b>					
Basic and diluted earnings per ordinary share (cents)	26	30.5	75.2		

# Statements of comprehensive income

for the year ended 31 December 2010

	Note	Group		Company	
		2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>Profit for the period</b>		<b>106</b>	<b>243</b>	<b>87</b>	<b>345</b>
<b>Other comprehensive (loss)/income:</b>		<b>(117)</b>	<b>(14)</b>	<b>(82)</b>	<b>17</b>
Translation differences for foreign operations		(27)	(27)	—	—
Translation differences relating to non-controlling interest		(8)	(4)		
Changes in fair value of cash flow hedges (net of tax)		(12)	(2)	(12)	(2)
Actuarial (losses)/gains on defined benefit funds		(97)	26	(97)	26
Deferred tax relating to actuarial (losses)/gains	25	27	(7)	27	(7)
<b>Total comprehensive (loss)/income for the period</b>		<b>(11)</b>	<b>229</b>	<b>5</b>	<b>362</b>
<b>Total comprehensive (loss)/income attributable to:</b>					
Equity holders of the Company		(15)	222	5	362
Non-controlling interest		4	7		
<b>Total comprehensive (loss)/income for the period</b>		<b>(11)</b>	<b>229</b>	<b>5</b>	<b>362</b>

# Statements of changes in equity

for the year ended 31 December 2010

	Group								
	Share capital	Share premium	Hedging reserve	Actuarial gains/ losses on defined benefit funds	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
<b>Balance at 31 December 2008</b>	15	537	4	328	(22)	1 879	2 741	39	2 780
<i>Recognised in comprehensive income</i>	—	—	(2)	19	(27)	—	(10)	(4)	(14)
Cash flow hedges, net of tax	—	—	(2)	—	—	—	(2)	—	(2)
Actuarial gains recognised in equity, net of tax	—	—	—	19	—	—	19	—	19
Translation differences	—	—	—	—	(27)	—	(27)	(4)	(31)
Profit for the period	—	—	—	—	—	232	232	11	243
<i>Transactions with shareholders</i>									
Dividends paid	—	—	—	—	—	(136)	(136)	(14)	(150)
<b>Balance at 31 December 2009</b>	15	537	2	347	(49)	1 975	2 827	32	2 859
<i>Recognised in comprehensive income</i>	—	—	(12)	(70)	(27)	—	(109)	(8)	(117)
Cash flow hedges, net of tax	—	—	(12)	—	—	—	(12)	—	(12)
Actuarial losses recognised in equity, net of tax	—	—	—	(70)	—	—	(70)	—	(70)
Translation differences	—	—	—	—	(27)	—	(27)	(8)	(35)
Profit for the period	—	—	—	—	—	94	94	12	106
<i>Transactions with shareholders</i>									
Dividends paid	—	—	—	—	—	(117)	(117)	(4)	(121)
<b>Balance at 31 December 2010</b>	15	537	(10)	277	(76)	1 952	2 695	32	2 727

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# Statements of changes in equity

for the year ended 31 December 2010

	Company					
	Share capital R'm	Share premium R'm	Hedging reserve R'm	Actuarial gains/ losses on defined benefit funds R'm	Retained earnings R'm	Total equity R'm
<b>Balance at 31 December 2008</b>	17	537	2	328	1 964	2 848
<i>Recognised in comprehensive income</i>	—	—	(2)	19	—	17
Cash flow hedges, net of tax	—	—	(2)	—	—	(2)
Actuarial gains recognised in equity, net of tax	—	—	—	19	—	19
Profit for the period	—	—	—	—	345	345
<i>Transactions with shareholders</i>						
Dividends paid	—	—	—	—	(150)	(150)
<b>Balance at 31 December 2009</b>	17	537	—	347	2 159	3 060
<i>Recognised in comprehensive income</i>	—	—	(12)	(70)	—	(82)
Cash flow hedges, net of tax	—	—	(12)	—	—	(12)
Actuarial losses recognised in equity, net of tax	—	—	—	(70)	—	(70)
Profit for the period	—	—	—	—	87	87
<i>Transactions with shareholders</i>						
Dividends paid	—	—	—	—	(130)	(130)
<b>Balance at 31 December 2010</b>	17	537	(12)	277	2 116	2 935

# Statements of cash flows

for the year ended 31 December 2010

	Notes	Group		Company	
		2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>Cash flows from operating activities</b>					
Cash receipts from customers		5 382	5 466	4 332	4 266
Cash paid to suppliers and employees		(4 776)	(4 233)	(3 965)	(3 328)
Cash generated from operations	28	606	1 233	367	938
Interest received		6	10	3	6
Interest paid		(140)	(194)	(140)	(192)
Dividends received		—	—	130	228
Contributions to defined benefit funds		(3)	(3)	(3)	(3)
Normal taxation (paid)/refunded	29	(51)	(90)	20	(15)
Secondary taxation on companies paid	29	(12)	(14)	(12)	(14)
Cash available from operating activities		406	942	365	948
Dividends paid to owners of the parent	30	(117)	(136)	(130)	(150)
Dividends to non-controlling interest		(4)	(14)		
Net cash inflow from operating activities		285	792	235	798
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment	2	(294)	(293)	(264)	(278)
Replacement of property, plant and equipment		(233)	(216)	(210)	(201)
Expansion of property, plant and equipment		(61)	(77)	(54)	(77)
Proceeds from disposal of property, plant and equipment		11	91	8	86
Acquisition of derivative financial instruments	7	(16)	—	(16)	—
Other investments		(6)	3	(6)	—
Refund received from benefit fund		53	—	53	—
Intangible assets acquired		—	(14)	—	(14)
Decrease in non-current lease receivables		39	39	24	25
Net cash outflow from investing activities		(213)	(174)	(201)	(181)
<b>Cash flows from financing activities</b>					
Borrowings raised		6	600	—	600
Borrowings repaid		(362)	(500)	(362)	(500)
Net cash (outflow)/inflow from financing activities		(356)	100	(362)	100
Net (decrease)/increase in cash and cash equivalents		(284)	718	(328)	717
Cash and cash equivalents at beginning of the period		576	(142)	458	(259)
Cash and cash equivalents at end of the period	15	292	576	130	458
<b>Comprising:</b>					
Cash and cash equivalents		327	609	165	491
Bank overdrafts		(35)	(33)	(35)	(33)
		292	576	130	458

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# Segmental reporting

for the year ended 31 December 2010

## OPERATING SEGMENTS FOR THE GROUP

The operating segments are based on internal reports which are regularly utilised by the Board of Directors to assess the Group's performance and allocate resources to the segments. The Group's strategic business units are based on geography, and are South Africa and the rest of Africa. The strategic units differ in their main geographical lines and are managed separately as they are subject to different operational risks and marketing strategies.

Segment performance is measured based on segment profit before interest, tax, depreciation and amortisation. Segment profit is measured as the directors and management believe that such information is useful in evaluating the results of the segment relative to other entities that operate within the industry. Inter-segment pricing is determined on an arm's length basis.

Information regarding the operations of each reportable segment is included below. The revenues from external customers for each category of products and services is not disclosed as the necessary information is not available and the cost to develop it would be excessive.

	South Africa		Rest of Africa		Total	
	2010	Restated 2009	2010	2009	2010	Restated 2009
	R'm	R'm	R'm	R'm	R'm	R'm
<b>Revenue</b>						
Revenues from external customers	3 990	4 070	731	725	4 721	4 795
Intersegment revenue	222	302	—	—	222	302
<b>Total revenues</b>	<b>4 212</b>	<b>4 372</b>	<b>731</b>	<b>725</b>	<b>4 943</b>	<b>5 097</b>
<b>Results</b>						
EBITDA	400	595	206	206	606	801
Depreciation and amortisation	(270)	(285)	(13)	(16)	(283)	(301)
Impairments	(104)	(18)	—	—	(104)	(18)
<b>EBIT</b>	<b>26</b>	<b>292</b>	<b>193</b>	<b>190</b>	<b>219</b>	<b>482</b>
Other material items:						
Finance income	225	215	3	4	228	219
Finance expense	(291)	(335)	—	—	(291)	(335)
Income from associate	—	—	6	2	6	2
<b>Reportable segment (loss)/profit before taxation</b>	<b>(40)</b>	<b>172</b>	<b>202</b>	<b>196</b>	<b>162</b>	<b>368</b>
<b>Other information</b>						
Reportable segment assets	4 798	5 273	471	510	5 269	5 783
Investments in associate	—	—	17	13	17	13
<b>Consolidated total assets</b>	<b>4 798</b>	<b>5 273</b>	<b>488</b>	<b>523</b>	<b>5 286</b>	<b>5 796</b>
Reportable segment liabilities	2 356	2 807	203	130	2 559	2 937
Capital expenditure (tangible and intangible)	275	294	19	13	294	307
Depreciation	236	255	16	16	252	271
Amortisation of intangible assets	31	30	—	—	31	30
Number of permanent employees	2 992	3 052	396	387	3 388	3 439

## REST OF AFRICA

Afrox operates in 10 countries outside of South Africa and is continuing to expand its footprint in sub-Saharan Africa. The countries in which Afox operates include: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Southern DRC, Swaziland and Zambia.

## RECONCILIATION OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, ASSETS AND LIABILITIES

	2010 R'm	2009 R'm
<b>Revenues</b>		
Total revenues from reportable segments	4 943	5 097
Elimination of intersegment revenue	(222)	(302)
<b>Consolidated revenue</b>	<b>4 721</b>	<b>4 795</b>
<b>Profit or loss</b>		
Total profit for reportable segments	606	801
<b>EBITDA</b>	<b>606</b>	<b>801</b>
<b>Assets</b>		
Total assets for reportable segments	4 964	5 480
Additions to property, plant and equipment	294	293
Investment in associate	17	13
Deferred tax assets	11	10
<b>Consolidated total assets</b>	<b>5 286</b>	<b>5 796</b>
<b>Liabilities</b>		
Total liabilities for reportable segments	2 017	2 366
Other unallocated amounts:		
Deferred tax liabilities	514	562
Taxation payable	28	9
<b>Consolidated total liabilities</b>	<b>2 559</b>	<b>2 937</b>

## 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 tax assets and liabilities.

## MAJOR CUSTOMERS

Neither the Group nor any reporting segment has a single customer on which it derives 5% or more of its revenue.

# Notes to the financial statements

for the year ended 31 December 2010

## 1. CHANGES IN COMPARATIVE FIGURES

### Improved disclosure of net finance income for employee benefit funds and impairments

Historically the accounting treatment adopted by Afrox has been to include the finance expense on employee benefit obligations and the expected return on plan assets within EBIT.

The new improved disclosure will be to remove the finance expense and expected return on plan assets from the operating expenses and disclose as finance expense and income respectively. Impairments are also now separately disclosed in the income statement.

Change to the classification or presentation is permitted by IFRS if it will result in a more reliable and relevant presentation.

As a result the published accounts for the Group and the Company for the period ended 31 December 2009 have been restated.

The restated income statements show the original reported numbers and the effect of the adjustments.

### Income statement

	Group		
	Reported December 2009 R'm	Adjustments R'm	Restated December 2009 R'm
Revenue	4 795	—	4 795
Operating expenses	(3 957)	(37)	(3 994)
<b>Earnings before interest, tax, depreciation, amortisation and impairments (EBITDA)</b>	838	(37)	801
Depreciation and amortisation	(301)	—	(301)
Impairments	—	(18)	(18)
<b>Earnings before interest and tax (EBIT)</b>	537	(55)	482
Finance expense	(198)	(137)	(335)
Finance income	27	192	219
Income from associate	2	—	2
<b>Profit before taxation</b>	368	—	368
Income tax expense	(125)	—	(125)
<b>Profit for the period</b>	243	—	243
<b>Attributable to:</b>			
Equity holders of the Company	232	—	232
Non-controlling interest	11	—	11
<b>Profit for the period</b>	243	—	243
<b>Earnings per share</b>			
Basic and diluted earnings per ordinary share (cents)	75.2	—	75.2

	Company		
	Reported December 2009 R'm	Adjustments R'm	Restated December 2009 R'm
Revenue	3 742	—	3 742
Operating expenses	(2 887)	(55)	(2 942)
<b>Earnings before interest, tax, depreciation, amortisation and impairments (EBITDA)</b>	855	(55)	800
Depreciation and amortisation	(262)	—	(262)
<b>Earnings before interest and tax (EBIT)</b>	593	(55)	538
Finance expense	(197)	(137)	(334)
Finance income	19	192	211
<b>Profit before taxation</b>	415	—	415
Income tax expense	(70)	—	(70)
<b>Profit for the period</b>	345	—	345

## 2. PROPERTY, PLANT AND EQUIPMENT

Summary	2010 R'm		2009 R'm	
<b>Group</b>				
Owned	2 637		2 729	
<b>Company</b>				
Owned	2 240		2 305	

Owned	Group			Carrying amount R'm
	Cost R'm	Accumulated depreciation R'm	Accumulated impairment R'm	
<b>2010</b>				
Freehold properties	334	(57)	—	277
Plant and equipment	2 850	(1 458)	(96)	1 296
Cylinders	1 477	(603)	—	874
Vehicles	304	(158)	—	146
Furniture and fittings	141	(97)	—	44
	5 106	(2 373)	(96)	2 637
<b>2009</b>				
Freehold properties	340	(52)	—	288
Plant and equipment	2 636	(1 317)	(2)	1 317
Cylinders	1 467	(538)	—	929
Vehicles	310	(152)	—	158
Furniture and fittings	131	(94)	—	37
	4 884	(2 153)	(2)	2 729

Owned	Group					Total R'm
	Freehold properties R'm	Plant and equipment R'm	Cylinders R'm	Vehicles R'm	Furniture and fittings R'm	
<b>2010</b>						
Carrying amount at 1 January 2010	288	1 317	929	158	37	2 729
Additions	8	231	23	13	19	294
Impairments	—	(96)	—	—	—	(96)
Foreign exchange differences	(12)	(4)	(5)	(3)	—	(24)
Disposals	(2)	(5)	(1)	(5)	(1)	(14)
Depreciation	(5)	(147)	(72)	(17)	(11)	(252)
<b>Carrying amount at 31 December 2010</b>	<b>277</b>	<b>1 296</b>	<b>874</b>	<b>146</b>	<b>44</b>	<b>2 637</b>
<b>2009</b>						
Carrying amount at 1 January 2009	292	1 303	934	243	45	2 817
Additions	9	184	68	24	8	293
Impairments	—	(2)	—	—	—	(2)
Foreign exchange differences	(5)	(5)	(10)	(4)	(1)	(25)
Disposals	(1)	(4)	(1)	(76)	(1)	(83)
Depreciation	(7)	(159)	(62)	(29)	(14)	(271)
<b>Carrying amount at 31 December 2009</b>	<b>288</b>	<b>1 317</b>	<b>929</b>	<b>158</b>	<b>37</b>	<b>2 729</b>

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## 2. PROPERTY, PLANT AND EQUIPMENT (continued)

Owned	Company			
	Cost R'm	Accumulated depreciation R'm	Accumulated impairment R'm	Carrying amount R'm
<b>2010</b>				
Freehold properties	30	(5)	—	25
Plant and equipment	2 440	(1 130)	(96)	1 214
Cylinders	1 421	(579)	—	842
Vehicles	256	(139)	—	117
Furniture and fittings	131	(89)	—	42
	<b>4 278</b>	<b>(1 942)</b>	<b>(96)</b>	<b>2 240</b>
<b>2009</b>				
Freehold properties	28	(3)	—	25
Plant and equipment	2 232	(1 007)	—	1 225
Cylinders	1 404	(514)	—	890
Vehicles	263	(133)	—	130
Furniture and fittings	119	(84)	—	35
	<b>4 046</b>	<b>(1 741)</b>	<b>—</b>	<b>2 305</b>

Owned	Company					Total R'm
	Freehold properties R'm	Plant and equipment R'm	Cylinders R'm	Vehicles R'm	Furniture and fittings R'm	
<b>2010</b>						
Carrying amount at 1 January 2010	25	1 225	890	130	35	2 305
Additions	2	216	22	6	18	264
Impairments	—	(96)	—	—	—	(96)
Disposals	—	(4)	—	(6)	(1)	(11)
Depreciation	(2)	(127)	(70)	(13)	(10)	(222)
<b>Carrying amount at 31 December 2010</b>	<b>25</b>	<b>1 214</b>	<b>842</b>	<b>117</b>	<b>42</b>	<b>2 240</b>
<b>2009</b>						
Carrying amount at 1 January 2009	21	1 182	886	210	38	2 337
Additions	5	183	63	19	8	278
Disposals	—	(2)	(1)	(74)	—	(77)
Depreciation	(1)	(138)	(58)	(25)	(11)	(233)
<b>Carrying amount at 31 December 2009</b>	<b>25</b>	<b>1 225</b>	<b>890</b>	<b>130</b>	<b>35</b>	<b>2 305</b>

A register of land and buildings is maintained in terms of paragraph 22(3) of Schedule 4 of the South African Companies Act. The register is available for inspection at the registered office of African Oxygen Limited.

## 2. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### Capitalised leased assets

The Group has no capitalised leased assets.

### Deemed cost

The Group's freehold properties, were independently valued to deemed cost on 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 were qualified to express an opinion thereon. In terms of IFRS 1 deemed cost exemption, these values were used as opening balances regarding freehold property. No property, plant and equipment is encumbered – the Group's borrowings are unsecured (see note 18).

### Impairment testing

The impairment of property, plant and equipment is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Property, plant and equipment is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Afrox performed impairment tests on individually significant items of property, plant and equipment at 31 December 2010 by discounting the estimated future pre-tax cash flows to their present value using a pre-tax discount rate that reflected the current market assessment of the time value of money and the risks specific to the asset. An average sales growth of 9% was assumed with the gross margin percentage, based on actual results to date, being applied to the calculation and discounted at a rate of 8%.

### Impairment write-down

The impairment of R96 million represents the write-down of property, plant and equipment of the carbon steel MIG wire plant in Brits and part of the Gas Equipment Factory in Germiston. Aprox discontinued production of MIG wire as costs made it unviable. No recoverable amount for the plant is expected.

### Sale and lease-back of vehicles

During the previous financial year Aprox decided to sell its fleet of cylinder vehicles. These vehicles have been leased back on an operating lease basis.

### Fully depreciated assets

Assets fully depreciated but still in use amounted to R909 million (2009: R785 million).

### Residual values

It is the Group's accounting policy to assess residual values on an annual basis. The Group estimates residual values on plant and equipment 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. Residual values are assigned to LPG cylinders.

### Assets under construction

Property, plant and equipment includes assets under construction detailed below:

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Freehold properties	6	4	6	4
Plant and equipment	108	206	97	197
Cylinders	20	46	20	46
Other	12	20	12	20
<b>Total</b>	<b>146</b>	<b>276</b>	<b>135</b>	<b>267</b>

Borrowing costs of Rnil (2009: R3 million) were capitalised during the year.

# Notes to the financial statements

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## 3. INTANGIBLE ASSETS

	Group			
	Cost R'm	Accumulated amortisation R'm	Accumulated impairments R'm	Carrying amount R'm
<b>2010</b>				
Trademarks	12	(5)	(4)	3
Computer software	220	(87)	—	133
Restraint of trade	1	(1)	—	—
Patents	1	(1)	—	—
	234	(94)	(4)	136
<b>2009</b>				
Trademarks	12	(4)	—	8
Computer software	220	(53)	(4)	163
Restraint of trade	1	(1)	—	—
Patents	1	—	(1)	—
	234	(58)	(5)	171

	Group				
	Trademarks R'm	Computer software R'm	Restraint of trade R'm	Patents R'm	Total R'm
<b>2010</b>					
Carrying amount at 1 January 2010	8	163	—	—	171
Impairments	(4)	—	—	—	(4)
Amortisation charge	(1)	(30)	—	—	(31)
<b>Carrying amount at 31 December 2010</b>	<b>3</b>	<b>133</b>	<b>—</b>	<b>—</b>	<b>136</b>
<b>2009</b>					
Carrying amount at 1 January 2009	10	181	1	1	193
Additions	—	14	—	—	14
Foreign exchange differences	—	(1)	—	—	(1)
Impairments	—	(4)	—	(1)	(5)
Amortisation charge	(2)	(27)	(1)	—	(30)
<b>Carrying amount at 31 December 2009</b>	<b>8</b>	<b>163</b>	<b>—</b>	<b>—</b>	<b>171</b>

	Company			
	Cost R'm	Accumulated amortisation R'm	Accumulated impairments R'm	Carrying amount R'm
<b>2010</b>				
Trademarks	5	(1)	(4)	—
Computer software	218	(85)	—	133
Restraint of trade	1	(1)	—	—
Patents	2	(2)	—	—
	226	(89)	(4)	133
<b>2009</b>				
Trademarks	5	(1)	—	4
Computer software	218	(51)	(4)	163
Restraint of trade	1	(1)	—	—
Patents	2	(2)	—	—
	226	(55)	(4)	167

## 3. INTANGIBLE ASSETS (continued)

	Trademarks R'm	Computer software R'm	Company Restraint of trade R'm	Patents R'm	Total R'm
<b>2010</b>					
Carrying amount at 1 January 2010	4	163	—	—	167
Impairments	(4)	—	—	—	(4)
Amortisation charge	—	(30)	—	—	(30)
<b>Carrying amount at 31 December 2010</b>	<b>—</b>	<b>133</b>	<b>—</b>	<b>—</b>	<b>133</b>
<b>2009</b>					
Carrying amount at 1 January 2009	5	174	1	2	182
Additions	—	14	—	—	14
Amortisation charge	(1)	(25)	(1)	(2)	(29)
<b>Carrying amount at 31 December 2009</b>	<b>4</b>	<b>163</b>	<b>—</b>	<b>—</b>	<b>167</b>

**Trademarks**

Trademarks comprise well-established growing brands.

**Impairment testing**

Management forecasts typically cover a three year period and thereafter a reasonable rate of growth is applied based on market conditions. These impairment tests are performed using a discounted cash flow model. Discount rates used in the discounted cash flow models are based on a weighted average cost of capital of similar businesses in the same sector and of similar size.

The key assumptions applied in determining the recoverable amount of the intangibles were:

Assumptions applied	Group and Company 2010	Group and Company 2009
Average annual revenue growth (%)	6.00	9.00
Discount rate applied to projected cash flows (%)	8.00	8.00
Risk-free rate (%)	3.50	4.00
Market risk premium (%)	5.00	5.00
Beta rate (:1)	0.97	0.86

Computer software comprises of SAP and other minor systems which are considered to be corporate assets and therefore do not generate cash inflows independently of other assets or groups of assets. At the reporting date there was no indication of the possible impairment of computer software.

# Notes to the financial statements

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## 4. GOODWILL

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Carrying amount at beginning of the period	25	37	15	15
Impairments	(4)	(11)	(4)	—
Foreign exchange differences	(2)	(1)	—	—
Carrying amount at end of the period	19	25	11	15
Gross cost	56	57	15	15
Accumulated impairment loss	(37)	(32)	(4)	—
Carrying amount at end of the period	19	25	11	15
Cash generating units containing goodwill				
The following units have carrying amounts of goodwill:				
Reco	—	4	—	4
Electrogas	4	4	4	4
IGD Midlands	5	5	5	5
Drury operations	2	2	2	2
Heat Engineering – Botswana	2	2		
Chemoxy – Malawi	6	8		
	19	25	11	15

### Description of impairment test and key assumptions

Impairment tests are conducted on an annual basis using a discounted cash flow valuation model to determine the value-in-use.

The impairment tests are prepared on the basis of forecast profits generated by the cash-generating unit. Management forecasts typically cover a three-year period and thereafter a reasonable rate of growth is applied based on current market conditions. In assessing future cash flows management has used assumptions relating to the growth in the units market potential, new market opportunities as well as changes in manufacturing costs based on business plans. Discount rates used in the discounted cash flow models are based on price-earnings ratios of similar businesses in the same sector and of generally similar size.

	Group and Company 2010	Group and Company 2009
<b>Assumptions applied</b>		
Average annual revenue growth (%)	6.00	9.00
Discount rate applied to projected cash flows (%)	8.00	8.00
Risk-free rate (%)	3.50	4.00
Market risk premium (%)	5.00	5.00
Beta rate (:1)	0.97	0.86

## 5. INVESTMENTS IN SUBSIDIARIES

	Company 2010 R'm	Company 2009 R'm
Ordinary shares	104	104
Reduction of investment in subsidiaries	(6)	—
Net loans due by subsidiaries	800	808
Loans owing by subsidiaries	824	832
Impairment of Afrox Mozambique Limited	(24)	(24)
	898	912

Loans payable to subsidiaries of R20 million are reported as part of payables to Group companies (2009: R27 million).

Details of subsidiaries are presented on page 124.

## 6. INVESTMENT IN ASSOCIATE

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Unlisted ordinary shares				
Investment at cost	1	1	1	1
Share of accumulated profits since acquisition	16	12	—	—
Share of opening accumulated profits	12	13	—	—
Dividends received from associate	(2)	(3)	—	—
Share of current profit for the year	6	2	—	—
Carrying amount at end of the period	17	13	1	1
Directors' valuation of shares	17	13	1	1
The information below illustrates summarised financial information of the Group's investment in Les Gaz Industriels Limited at 100%.				
<b>Statement of comprehensive income</b>				
Revenue	52	11		
Profit before taxation	19	4		
Income tax expense	(3)	(1)		
<b>Net profit for the year</b>	16	3		
<b>Statement of financial position</b>				
Non-current assets	28	31		
Current assets	35	21		
<b>Total assets</b>	63	52		
Capital and reserves	45	36		
Non-current liabilities	4	4		
Current liabilities	14	12		
<b>Total equity and liabilities</b>	63	52		
<b>Cash flow</b>				
Net cash flow from operating activities	5	4		
Net cash flow from investing activities	(1)	(2)		
Net cash flow from financing activities	(1)	(1)		
<b>Net movement in cash and cash equivalents</b>	3	1		

Details of the associate are presented on page 125.

The Group has a 38% interest in Les Gaz Industriels Limited, which is domiciled in Mauritius. The principal activity of the Company is the manufacture of medical and industrial oxygen gas, nitrogen, nitrous oxide and welding electrodes. The Group's 38% share of profits is determined by reference to the audited financial statements for the year ended 30 June 2010 and unaudited management accounts for the period 1 July 2010 to 31 December 2010.

There are no significant restrictions on the ability of the associate to transfer funds to Afrox in the form of cash dividends or repayment of loans or advances.

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## 7. LONG-TERM DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Carrying amount at beginning of the period	8	12	8	12
Financial instruments acquired during the period	16	—	16	—
Fair value adjustment for the year	(14)	(4)	(14)	(4)
Total derivative financial instruments at end of the period	10	8	10	8

The Group acquired derivative financial instruments (being cash-settled call options) from a financial institution to be utilised as hedging instruments to settle the hedged item, being the related financial obligation under the cash-settled Share Appreciation Rights Scheme. The cash-settled call options have been designed specifically to hedge a portion of the fluctuation in the cash settlement amount payable in terms of the scheme. The exercise dates of both the hedged item and the derivative financial instruments coincide, ensuring that the cost to the Group of the Share Appreciation Rights Scheme (SARS) benefits is known and fixed at the outset.

	<b>Outright</b>	<b>Capped</b>
Number of call options	3 000 000	2 502 600
Strike price	26.50 & 28.50 & 30.50	R20 capped at R40
Maturity date	17 February 2012	25 trading days from 1 October 2012

The fair value of the financial instruments at the end of the period was determined by way of valuations performed by the financial institution concerned using the Black-Scholes option pricing model.

	Group and Company			
	2010 Outright		2009 Capped	
<b>The inputs into the valuation model are as follows:</b>				
Weighted average exercise price of derivative financial instruments	R28.50	R28.50	R20.00	
Expected life of derivative financial instruments (years)	1.13	2.13	1.80	
Company share price at period-end	R20.69	R22.00	R20.69	
Expected share price volatility (%)*	27.23	35.92	33.76	
Expected dividend yield (%)	6.44	6.17	4.03	
Risk-free interest rate (%)**	5.71	9.04	6.01	

\* The expected share price volatility is based on the volatility expected to be realised over the life of the derivative.

\*\* The risk-free interest rate has been extracted from the yield curve furnished by the financial institution from which the financial instruments have been acquired.

Refer to note 31 for further information relating to financial risk management.

## 8. OTHER INVESTMENTS

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Carrying amount at 1 January 2010	4	4	4	4
Additions – fair value of equity shares	5	—	5	—
Fair value adjustment of equity shares	2	—	2	—
	11	4	11	4

Investment in unlisted company at cost of R4 million (2009: R4 million).

In the current year the Group has invested in listed equity to the value of R5 million (2009: Rnil). The fair value of the quoted equity shares are determined by reference to published prices quoted on the JSE Limited.

The Group assesses at each reporting date whether there is objective evidence that the investments have been impaired.

## 9. NON-CURRENT LEASE RECEIVABLES

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Long-term lease receivables	134	157	111	122
Short-term portion of non-current receivables	(23)	(21)	(12)	(11)
	111	136	99	111

	Group 2010			Group 2009		
	Gross investment in lease R'm	Unearned finance income R'm	Present value of minimum lease payments R'm	Gross investment in lease R'm	Unearned finance income R'm	Present value of minimum lease payments R'm
Long-term lease receivables						
Receivable in less than one year	37	(14)	23	37	(16)	21
Between one and five years	94	(34)	60	112	(42)	70
More than five years	69	(18)	51	90	(24)	66
Long-term lease receivables	163	(52)	111	202	(66)	136
<b>Total</b>	<b>200</b>	<b>(66)</b>	<b>134</b>	<b>239</b>	<b>(82)</b>	<b>157</b>

	Company 2010			Company 2009		
	Gross investment in lease R'm	Unearned finance income R'm	Present value of minimum lease payments R'm	Gross investment in lease R'm	Unearned finance income R'm	Present value of minimum lease payments R'm
Long-term lease receivables						
Receivable in less than one year	24	(12)	12	24	(13)	11
Between one and five years	82	(34)	48	85	(39)	46
More than five years	69	(18)	51	89	(24)	65
Long-term lease receivables	151	(52)	99	174	(63)	111
<b>Total</b>	<b>175</b>	<b>(64)</b>	<b>111</b>	<b>198</b>	<b>(76)</b>	<b>122</b>

**Long-term lease receivables**

Long-term lease receivables are deemed finance leases as per IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

During the previous financial periods the Group incurred expenditure on assets, being plant and technical equipment, installed on customer sites. The Group utilises these assets to provide gas to customers, which the customers use in their manufacturing processes. The Group has entered into arrangements with these customers, that have maturities of up to 15 years, whereby the customers pay fixed monthly fees over the term of the arrangements, plus variable charges based on the quantity of the gas used above the fixed minimum amounts.

Although the arrangements are not in the legal form of leases, the Group concluded that the arrangements contained a lease of assets because fulfilment is economically dependent on the use of the plant and technical equipment and it is unlikely that any parties other than the customers will receive a significant part of the output. The leases were therefore classified as finance leases. The Group could not estimate reliably the relative future values of the lease element and other elements of the required payments. Therefore, at inception of the leases, the Group recognised receivables at amounts equal to the estimated fair value of the equipment.

The interest income on the lease receivables was determined based on the borrowing rate of 11% (2009: 11%).

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for the year ended 31 December 2010

## 10. RETIREMENT BENEFIT ASSETS

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>Summary</b>				
Pension fund	513	583	513	583
Post-retirement medical benefit fund	31	70	31	70
	544	653	544	653
Current actuarial (loss)/gains recognised in other comprehensive income	(97)	26	(97)	26
Pension fund	(102)	(20)	(102)	(20)
Post-retirement medical benefit fund	5	46	5	46

### Pension and provident funds

The Group and Company have one pension fund which is a defined benefit fund and one provident fund which is a defined contribution fund.

All employees are required to belong to either the defined benefit fund or the 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. The assets of the schemes are held in administered funds separate from the Group's assets.

Actuarial valuations are made for the defined benefit fund in accordance with the respective pension fund rules, using the projected unit credit method. The defined benefit fund is closed to new members.

The latest actuarial calculation of the African Oxygen Limited Pension Fund was made on 31 December 2010.

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:

	Group and Company 2010 %	Group and Company 2009 %
Discount rate	8.25	9.50
Consumer price inflation	5.00	6.00
Expected return on plan assets	8.25	9.25
Compensation increase rate	6.00	7.00
Pension increase rate	5.00	6.00

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 63 is 18 years (2009: 19 years) for males and 22 years (2009: 23 years) for females.

The overall expected long-term rate of return on assets is 8.25% (2009: 9.25%). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns without adjustments.

**10. RETIREMENT BENEFIT ASSETS** *(continued)***Sensitivity analysis**

Assumed pension cost trend rates have a significant effect on the amounts recognised in profit or loss. A quarter percentage point change in assumed pension cost trends would have the following effects:

	Group and Company 2010	
	Quarter percentage point increase R'm	Quarter percentage point decrease R'm
Effect on the aggregate service and interest cost	3	3
Effect on defined benefit obligation	29	29
	2010 R'm	2009 R'm
<b>Fund status</b>		
Fair value of plan assets	2 025	2 012
Benefit obligations	(1 512)	(1 429)
Pension asset recognised at end of period	513	583
<b>Movements in the plan asset recognised in the statements of financial position are as follows:</b>		
Fair value of plan assets at the beginning of period	2 012	1 937
Contributions paid into the plan	6	8
Benefits paid by the plan	(188)	(157)
Risk premiums	—	(1)
Expected return on plan assets	184	170
Actuarial gain	11	55
Fair value of plan assets at end of period	2 025	2 012
<b>Movements in the net liability recognised in the statements of financial position are as follows:</b>		
Liability for defined benefit obligations at the beginning of period	1 429	1 366
Members' contributions	6	7
Benefits paid by the plan	(188)	(157)
Current service costs	17	17
Past service costs	—	1
Risk premiums	—	(1)
Interest costs	135	121
Actuarial loss	113	75
Liability for defined benefits obligation at end of period	1 512	1 429
<b>Amounts recognised in profit or loss are as follows:</b>		
Current service cost	17	17
Interest on obligation	135	121
Expected return on plan assets	(184)	(170)
Past service costs	—	1
Total included in profit or loss	(32)	(31)
<b>The expenses are recognised in the following line items in the income statement:</b>		
Administrative expenses	17	18
Finance costs	(49)	(49)
<b>Return on plan assets</b>		
Actual return on plan assets	195	225

# Notes to the financial statements

for the year ended 31 December 2010

## 10. RETIREMENT BENEFIT ASSETS (continued)

	Group and Company 2010 R'm	Group and Company 2009 R'm
<b>Fund status</b>		
<b>Actuarial gains recognised directly in other comprehensive income</b>		
Net cumulative amount at beginning of the period	330	344
Recognised during the period	(102)	(20)
Deferred tax thereon	28	6
Net cumulative amount at end of the period	256	330
<b>Percentage of fair value of assets:</b>	%	%
Equity instruments	21	19
Debt instruments	58	49
Property	2	1
International	14	16
Cash	5	15
	100	100
Percentage of the Company's shares held by the defined benefit fund is	0.07	0.03

Historical information	Group and Company				
	2010 R'm	2009 R'm	2008 R'm	2007 R'm	2006 R'm
Fair value of plan assets	2 025	2 012	1 937	2 081	1 744
Present value of the defined benefit obligations	(1 512)	(1 429)	(1 366)	(1 349)	(1 289)
Adjustment due to paragraph 59 limit	—	—	—	—	(341)
Defined benefit asset recognised at the end of the period	513	583	571	732	114

The Group expects to pay no contributions to the defined benefit plan in the 2011 financial period.

Afrox has obtained a cash flow benefit of R14.3 million (2009: R16.9 million) representing the contribution saving for the year ended 31 December 2010.

### Post-retirement medical benefits

#### Group and Company

The Group and Company have a liability arising as a result of a post-employment subsidy of healthcare benefits. Members of the medical aid plan, who joined the Group or Company before 1 November 1996 and remain in the employment of the Group or Company until retirement, are eligible for a post-retirement subsidy of their medical aid contributions.

The benefit fund meets the definition of a defined benefit plan and has been disclosed in accordance with IAS 19.

The defined benefit fund is actuarially valued using the projected unit credit method. The benefit fund is closed to new members.

The latest actuarial calculations of the African Oxygen Limited post-retirement medical fund was made on 31 December 2010.

At the time of the valuation, the fund was certified by the reporting actuaries as being in a sound financial position. In arriving at their conclusions, the actuaries took into account the following assumptions at the date of the valuation:

## 10. RETIREMENT BENEFIT ASSETS (continued)

	Group and Company 2010 %	Group and Company 2009 %
Discount rate	8.25	9.50
Consumer price inflation	5.00	6.00
Expected return on plan assets	7.25	10.50
Healthcare cost inflation	7.00	8.00

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 63 is 18 years (2009: 19 years) for males and 22 years (2009: 23 years) for females.

The overall expected long-term rate of return on assets is 7.25% (2009: 10.50%). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns without adjustments.

**Sensitivity analysis**

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trends would have the following effects:

	Group and Company One percentage point increase R'm	Group and Company One percentage point decrease R'm
Effect on the aggregate current service and interest cost	1	2
Effect on defined benefit obligations	16	18

**Fund status**

The Group's and Company's obligation in respect of this post-retirement medical aid benefit as measured in terms of IAS 19 is tabled below:

	Group and Company 2010 R'm	Group and Company 2009 R'm
Fair value of plan assets	175	208
Benefit obligations	(144)	(138)
Funded status	31	70
<b>Movements in the net asset recognised in the statement of financial position are as follows:</b>		
Fund assets at beginning of the period	208	192
Expected return on plan assets	21	17
Refund to employer	(53)	—
Benefits paid	(10)	(8)
Actuarial gain	9	7
Fair value of plan assets at end of the period	175	208

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## 10. RETIREMENT BENEFIT ASSETS (continued)

	Group and Company 2010 R'm	Group and Company 2009 R'm
<b>Movements in the net liability recognised in the statement of financial position are as follows:</b>		
Projected benefit obligation at beginning of the period	138	172
Current service cost	2	3
Interest cost	13	13
Benefits paid	(9)	(8)
Effect of curtailment	(3)	(3)
Actuarial loss/(gain)	3	(39)
Benefit obligations at end of the period	144	138
<b>Amounts recognised in profit or loss are as follows:</b>		
Current service cost	2	3
Interest on obligation	13	13
Expected return on plan assets	(21)	(17)
Curtailment due to retrenchments	(3)	(3)
Total included in profit or loss	(9)	(4)
<b>The expenses are recognised in the following line items in the income statement:</b>		
Administrative expenses	(1)	—
Finance costs	(8)	(4)
<b>Actuarial gains recognised directly in other comprehensive income</b>		
Net cumulative amount at beginning of the period	17	(16)
Recognised during the period	5	46
Deferred tax thereon	(1)	(13)
Net cumulative amount at end of the period	21	17
	2010 %	2009 %
<b>Percentage of fair value of assets:</b>		
Equity instruments	—	45
Debt instruments	100	49
Property	—	4
Other assets	—	2
	100	100

None of the Company's shares are held by the defined benefit fund.

## 10. RETIREMENT BENEFIT ASSETS (continued)

Historical information	2010 R'm	Group and Company			
		2009 R'm	2008 R'm	2007 R'm	2006 R'm
Fair value of plan assets	175	208	192	199	222
Present value of the defined benefit obligation	(144)	(138)	(172)	(160)	(159)
Surplus in the plan	31	70	20	39	63

The Group expects to pay no contributions to the defined benefit medical plan in the 2011 financial period.

## 11. DEFERRED TAX

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Deferred tax assets	(11)	(10)	—	—
Deferred tax liabilities	514	562	489	529
	503	552	489	529
<b>The net deferred tax comprises:</b>				
Accelerated capital allowances	436	432	408	402
Provisions and other	71	123	82	130
Assessed loss	(4)	(3)	(1)	(3)
	503	552	489	529
<b>Reconciliation of deferred tax</b>				
Opening balance	552	513	529	484
Recognised in profit or loss				
– current year temporary differences	(9)	39	(10)	45
– prior year overprovision	(5)	(4)	(4)	(7)
Realignment of currencies recognised directly in other comprehensive income	—	(3)	—	—
Other	(8)	—	—	—
Recognised in other comprehensive income				
– current year temporary differences	(27)	7	(26)	7
Closing balance	503	552	489	529
<b>Deferred tax is calculated at the following rates:</b>				
South African operations – 28% (2009: 28%)	493	532	489	529
Foreign operations at average rate – 29.89% (2009: 32.82%)	10	20	—	—
	503	552	489	529

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## 11. DEFERRED TAX (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances is as follows:

	Accelerated capital allowances R'm	Group Provisions and other R'm	Total R'm
At 31 December 2008	408	105	513
Recognised in profit or loss			
– current year temporary differences	28	11	39
– prior year underprovision	(4)	–	(4)
Realignment of currencies recognised directly in other comprehensive income	–	(3)	(3)
Recognised to other comprehensive income			
– current year temporary differences	–	7	7
<b>At 31 December 2009</b>	<b>432</b>	<b>120</b>	<b>552</b>
Recognised in profit or loss			
– current year temporary differences	9	(18)	(9)
– prior year overprovision	(5)	–	(5)
Other	–	(8)	(8)
Recognised to other comprehensive income			
– current year temporary differences	–	(27)	(27)
<b>At 31 December 2010</b>	<b>436</b>	<b>67</b>	<b>503</b>

	Accelerated capital allowances R'm	Company Provisions and other R'm	Total R'm
At 31 December 2008	381	103	484
Recognised in profit or loss			
– current year temporary differences	28	17	45
– prior year underprovision	(7)	–	(7)
Recognised to other comprehensive income			
– current year temporary differences	–	7	7
<b>At 31 December 2009</b>	<b>402</b>	<b>127</b>	<b>529</b>
Recognised in profit or loss			
– current year temporary differences	10	(20)	(10)
– prior year overprovision	(4)	–	(4)
Recognised to other comprehensive income			
– current year temporary differences	–	(26)	(26)
<b>At 31 December 2010</b>	<b>408</b>	<b>81</b>	<b>489</b>

## 11. DEFERRED TAX (continued)

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
The deferred tax charged to other comprehensive income during the year is as follows:				
Tax effect on actuarial gains on defined benefit funds	(27)	7	(27)	7
	(27)	7	(27)	7
The estimated losses which are available for the reduction of future taxable income which are taken into account in calculating deferred taxation	16	10	2	10
Shareholders' interest in the estimated tax losses not yet utilised	—	29	—	10
Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is no intention to settle the balances on a net basis. The deferred tax assets arise due to temporary differences. Given both recent and forecast trading, the directors are of the opinion that the level of profits in the foreseeable future is more likely than not to be sufficient to recover these assets.				
<b>12. INVENTORIES</b>				
Raw materials	77	63	61	54
Work in progress	16	16	14	13
Finished goods	570	494	499	417
	663	573	574	484
<b>Inventory obsolescence</b> (taken into account in the carrying value of inventories above)				
Finished goods	35	41	29	24
Raw materials	—	5	—	—
Balance at end of the period	35	46	29	24

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## 13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Trade receivables	822	886	690	735
Impairment allowance	(111)	(103)	(92)	(76)
Net trade receivables	711	783	598	659
Other receivables	21	26	8	—
Centriq insurance receivable	4	5	4	5
Prepayments	2	2	—	—
Deposits	1	1	—	—
Accrued income	4	2	4	2
Staff loans	7	11	6	9
	750	830	620	675

The net carrying values of trade and other receivables are considered a close approximation of their fair values.

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines limits by customer. Limits and scoring are reviewed annually and upon request from a customer. Due to the nature of the business, there is no customer that forms more than 5% of the total balance of trade receivables.

### Centriq insurance receivable

Afrox entered into a short-term insurance policy with Centriq Insurance Company Limited (Centriq) in terms of which they insured Afrox against any losses incurred in respect of motor vehicles, assets and business interruptions and fidelity and computer crime. The policy entitled Afrox to maintain an experience account for the purpose of recording any over or under recoveries under the policy. In accordance with the policy Afrox is able to utilise the experience account through the offsetting of future insurance premiums, claims being paid under the policy and the payment of fees to the insurers, Centriq.

	Group		Company	
	December 2010 R'm	December 2009 R'm	December 2010 R'm	December 2009 R'm
The carrying amounts of gross trade receivables are denominated in the following currencies:				
SA Rand	765	831	678	716
US Dollars	3	4	3	4
British Pounds	4	3	4	3
Australian Dollars	5	12	5	12
Other	45	36	—	—
	822	886	690	735

**13. TRADE AND OTHER RECEIVABLES** *(continued)***Credit quality of trade receivables**

As at 31 December 2010 trade receivables of R230 million (2009: R234 million) were past due but not impaired. These relate to customers of whom there is no recent history of default. The aging of the trade receivables is shown below:

	Group 2010		Group 2009	
	Carry value R'm	Impairment R'm	Carry value R'm	Impairment R'm
Not past due date	522	41	550	1
Past due within 30 days from statement	49	3	59	1
Past due within 30 – 60 days from statement	20	2	66	1
Past due within 60 – 90 days from statement	18	2	5	1
Past due within 90 – 120 days from statement	15	2	29	1
Past due within 120 – 150 days from statement	10	1	10	10
Past due in excess of 150 days from statement	188	60	167	88
	<b>822</b>	<b>111</b>	<b>886</b>	<b>103</b>

	Company 2010		Company 2009	
	Carry value R'm	Impairment R'm	Carry value R'm	Impairment R'm
Not past due date	453	34	456	1
Past due within 30 days from statement	32	3	44	1
Past due within 30 – 60 days from statement	14	1	52	1
Past due within 60 – 90 days from statement	14	2	4	1
Past due within 90 – 120 days from statement	9	1	17	1
Past due within 120 – 150 days from statement	8	1	10	7
Past due in excess of 150 days from statement	160	50	152	64
	<b>690</b>	<b>92</b>	<b>735</b>	<b>76</b>

Listings of overdue customer balances are reviewed monthly and compared against their credit terms/limits. Any customer exceeding their credit terms/limits must settle their overdue balances before any further credit is extended. Appropriate action is taken to recover long overdue debts. Overdue accounts are put on hold until payments are received to return them within limits. Trade receivables are not committed as security for debt.

The amount of the impairment allowance at 31 December 2010 was R111 million (2009: R103 million) and reflects trade receivables from customers who are considered to be experiencing difficult economic situations. It was assessed that a portion of these receivables is expected to be recovered.

	Group		Company	
	December 2010 R'm	December 2009 R'm	December 2010 R'm	December 2009 R'm
<b>Movement in the impairment allowance</b>				
Balance at beginning of the period	(103)	(103)	(76)	(48)
Raised during the period	(18)	(5)	(18)	(35)
Utilised during the period	10	5	2	7
Balance at end of the period	<b>(111)</b>	<b>(103)</b>	<b>(92)</b>	<b>(76)</b>

The creation and release of the impairment allowance has been included in net operating expenses in the statement of comprehensive income.

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## 14. DERIVATIVE FINANCIAL INSTRUMENTS

### Credit quality of trade receivables

The Group has entered into certain foreign exchange contracts which do not relate to specific items on the statement of financial position, but were entered into to cover foreign commitments not yet due.

### Foreign exchange contracts

Foreign exchange contracts are entered into mainly to cover import purchases and fair values are determined using foreign exchange market rates. Foreign exchange contracts entered into as at 31 December:

Currency	Group and Company		Group and Company	
	2010 million foreign currency	2010 million ZAR	2009 million foreign currency	2009 million ZAR
Australian Dollars	1	5	2	10
Danish Krone	1	1	—	1
Japanese Yen	2	—	2	—
Swiss Francs	—	1	—	—
British Pounds	—	3	—	4
US Dollars	7	48	6	45
Euro	22	201	4	42
		259		102
Mark-to-market value				
Foreign exchange contracts liability		(16)		(3)

Actual foreign carrying amounts were used and not rounded rates as disclosed above.

## 15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
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 statements of cash flows comprise the following statements of financial position amounts:				
Cash on hand and favourable balances with banks	327	609	165	491
Bank overdrafts	(35)	(33)	(35)	(33)
	292	576	130	458
Cash and cash equivalents consist of the following:				
South African Rand	131	456	130	455
Foreign currencies	161	120	—	3
	292	576	130	458

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of these financial instruments.

### Credit risk

The Group limits its credit risk exposure by investing only with financial institutions that have a minimum long-term rating of AA (zaf) by Fitch.

The Group has ISDA Master Agreements with most of its counterparties for financial derivatives, which permits net settlement of assets and liabilities in certain circumstances, thereby reducing the Group's credit exposure to individual counterparties.

Management does not expect any counterparty to fail to meet its obligations.

**16. EQUITY****16.1 Share capital and share premium**

	Number of shares	Ordinary shares R'm	Share premium R'm	Total R'm
<b>Group</b>				
<b>Issued</b>				
Total shares in issue	342 852 910	17	537	554
Treasury shares held by subsidiary	(34 285 308)	(2)	—	(2)
At 31 December 2010	308 567 602	15	537	552
<b>Company</b>				
<b>Issued</b>				
At 31 December 2009	342 852 910	17	537	554
At 31 December 2010	342 852 910	17	537	554

Authorised share capital comprises 350 000 000 ordinary shares at 5 cents each.

The Company's wholly-owned subsidiary, Afrox African Investments (Pty) Limited holds 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, and the rules and directives of the JSE Limited respectively. All issued shares are fully paid.

BOC Holdings owns 50.47% of the Company, but from a Group perspective, BOC Holdings owns 56.08% of the Group's shares. The ultimate beneficial shareholder is Linde AG.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**17. RESERVES**

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Hedging reserve	(10)	2	(12)	—
Foreign currency translation reserve	(76)	(49)	—	—
Actuarial gains on defined benefit funds	277	347	277	347
	191	300	265	347

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

**Foreign currency translation reserve**

The foreign currency translation reserve relates to the cumulative net movement in the net value of the foreign assets and liabilities held by foreign subsidiaries since acquisition due to fluctuations in exchange rates.

**Actuarial gains/losses on defined benefit funds**

These relate to actuarial gains and losses on defined benefit funds recognised in other comprehensive income in terms of IAS 19.

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## 18. LONG-TERM BORROWINGS

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Unsecured loans	1 134	1 490	1 128	1 490
Less: current portion of interest bearing borrowings	(263)	(363)	(263)	(363)
	871	1 127	865	1 127

Terms of repayment	Date of final repayment	Interest rate	Term	Group		Company	
				2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>Unsecured loans</b>							
Abacus	05/2010	8.05%	variable	—	100	—	100
Standard Bank	08/2010	9.63%	variable	—	200	—	200
Ivuzi	05/2011	9.71%	fixed	100	100	100	100
Citibank	08/2011	10.80%	fixed	100	100	100	100
Ivuzi	06/2012	14.19%	fixed	100	100	100	100
Ivuzi	07/2012	11.54%	fixed	150	150	150	150
Citibank	08/2012	6.30%	variable	100	100	100	100
Ivuzi	12/2012	11.32%	fixed	90	90	90	90
Ivuzi	04/2013	12.39%	fixed	100	100	100	100
ABSA Capital	07/2013	12.70%	fixed	100	100	100	100
Standard Chartered*	08/2013	9.74%	variable	188	250	188	250
Nedbank	08/2013	12.75%	fixed	100	100	100	100
FNB Namibia	01/2015	8.25%	variable	6	—	—	—
				1 134	1 490	1 128	1 490
Less: Current portion of interest bearing borrowings				(263)	(363)	(263)	(363)
				871	1 127	865	1 127
<i>Minimum repayments of unsecured borrowings:</i>							
One year – capital				263	363	263	363
One year – interest				115	152	115	152
				378	515	378	515
Two to five years – capital				871	1 127	865	1 127
Two to five years – interest				114	238	114	238
				985	1 365	979	1 365
				1 363	1 880	1 357	1 880

The fair value of current borrowings equals their carrying amount. Currency analysis: All long-term borrowings are Rand denominated.

Cash flow sensitivity for variable-rate instruments: A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by R2 million (2009: R4 million) for a period of one year compounded monthly. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis for 2009. Loans are repayable in full on maturity date, interest payable quarterly in arrears.

\*Loan repayable in equal annual instalments, interest payable quarterly in arrears.

## 19. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Trade payables	391	394	338	349
Value added taxation	20	28	18	22
Interest accrual	26	29	26	29
Employee benefit in respect of share appreciation rights	20	22	20	22
Employee benefits including leave pay, bonuses and other costs	102	82	98	78
Deferred rentals	20	7	18	4
Other payables	75	115	46	94
	654	677	564	598

Other payables include employee related costs and sundry accruals.

The fair value of trade and other payables approximates the carrying amount.

The Group has no material exposure to interest risk as there are no suppliers that charge interest.

No individual vendor represents more than 10% of the Group's trade payables.

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>The carrying amounts of trade payables are denominated in the following currencies:</b>				
SA Rand	352	346	329	323
Euro	9	24	9	24
British Pounds	—	2	—	2
Other	30	22	—	—
	391	394	338	349
<b>Age analysis of trade payables</b>				
Not past due date	247	301	244	287
Past due within 30 days from statement	102	38	67	25
Past due within 30 – 60 days from statement	11	25	7	16
Past due within 60 – 90 days from statement	8	8	5	6
Past due within 90 – 120 days from statement	1	12	1	8
Past due within 120 – 150 days from statement	16	9	10	6
Past due in excess of 150 days from statement	6	1	4	1
	391	394	338	349
<b>20. OTHER SHORT-TERM FINANCIAL LIABILITIES</b>				
<b>Cylinder deposits</b>				
HP cylinder deposits	30	30	6	8
LPG cylinder deposits	137	126	135	125
Total	167	156	141	133

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for the year ended 31 December 2010

## 21. REVENUE

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Revenue				
Sale of goods	4 229	4 217	3 308	3 164
Rentals	492	578	492	578
Total revenue for the period	4 721	4 795	3 800	3 742

## 22. EARNINGS BEFORE INTEREST AND TAX (EBIT)

Profit from operations is shown after taking the following into account:

<b>Cost of sales</b>	2 566	2 485	2 136	1 942
<b>Income</b>				
Dividends received from subsidiaries – unlisted			130	228
Management fees from subsidiaries			31	29
<b>Expenses</b>				
Auditors' remuneration	5	8	5	5
Fees for audit – current year	4	7	4	4
– prior year	1	1	1	1
Amortisation of intangibles (note 3)	31	30	30	29
Depreciation of property, plant and equipment (note 2)	252	271	222	233
Freehold properties	5	7	2	1
Plant and equipment	147	159	127	138
Cylinders	72	62	70	58
Vehicles	17	29	13	25
Furniture and fittings	11	14	10	11
Loss/(profit) on disposal of property, plant and equipment	3	(13)	3	(10)
Operating lease charges	233	181	239	184
Property	26	26	33	31
Vehicles and equipment	207	155	206	153
Loss on foreign currency transactions	21	24	21	20
Impairments	104	18	104	–
Plant and equipment	96	2	96	–
Goodwill and intangible assets	8	16	8	–

## 23. EMPLOYEE AND KEY MANAGEMENT COMPENSATION COSTS

	Group		Company	
	2010 R'm	2009 Restated R'm	2010 R'm	2009 Restated R'm
<b>Directors' emoluments</b>	18	9	18	9
Executives – for services as directors	16	8	16	8
Non-executives – fees	2	1	2	1
For a detailed breakdown of the directors' emoluments see page 55.				
<b>Employee costs</b>	1 043	1 120	947	1 002
Salaries and wages	908	938	820	836
Pension costs – defined benefit plan	17	18	17	18
Pension costs – provident fund	61	62	57	56
Retrenchment cost	6	65	6	63
Other salary costs	7	1	6	—
Share appreciation rights costs/(income)	6	(7)	6	(7)
Post-retirement defined benefit plan (income)/costs	(1)	2	(1)	2
Medical aid current contribution for employees	39	41	36	34

## 24. FINANCE (EXPENSE)/INCOME

	Group		Company	
	2010 R'm	2009 Restated R'm	2010 R'm	2009 Restated R'm
<b>Finance income</b>				
Loans and receivables	7	9	4	4
Interest received from subsidiaries	—	—	—	1
Expected return on plan assets*	205	192	205	192
Lease receivables from finance leases	16	18	13	14
<b>Total finance income</b>	228	219	222	211
<b>Finance expense</b>				
Loans and payables	(142)	(196)	(141)	(193)
Interest paid by subsidiaries	—	—	(1)	(2)
Interest cost of pension obligations*	(148)	(137)	(148)	(137)
Net change in fair value of financial assets at fair value through profit or loss	(1)	(5)	(1)	(5)
Less: Interest capitalised on property, plant and equipment	—	3	—	3
<b>Total finance expense</b>	(291)	(335)	(291)	(334)
<b>Net finance expense</b>	(63)	(116)	(69)	(123)
<b>Analysed per category:</b>				
Net loans and payables	(78)	(129)	(81)	(132)
Held-to maturity investments	15	13	12	9
	(63)	(116)	(69)	(123)

\*Restatement: The expected return on plan assets and the Interest cost of pension obligations were previously reported as part of operating costs.

# Notes to the financial statements

for the year ended 31 December 2010

## 25. INCOME TAX EXPENSE

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Normal taxation	49	64	(1)	—
Current	44	68	—	—
Prior year under/(over) provision	5	(4)	(1)	—
Deferred tax	(14)	33	(14)	35
Current year temporary differences	(9)	37	(10)	43
Prior year overprovision	(5)	(4)	(4)	(8)
Foreign taxes	9	14	12	14
Secondary taxation on companies	12	14	12	14
Net (receipt)/charge from participation in vesting ISAS trust	—	—	(14)	7
	56	125	(5)	70
<b>Reconciliation of taxation charge</b>				
Profit before taxation	162	368	82	415
Taxation calculated at a statutory tax rate of 28% (2009: 28%)	45	103	23	116
Income not subject to taxation	(20)	(9)	(37)	(74)
Prior year adjustments	—	(8)	(5)	(8)
Expenses not deductible for taxation purposes	4	5	4	1
Foreign tax rate differential	6	6	—	—
Effect of non-resident shareholders' taxation	9	14	12	14
Secondary taxation on companies	12	14	12	14
Net (receipt)/charge from participation in vesting ISAS trust	—	—	(14)	7
Income tax expense	56	125	(5)	70
Effective tax rate (%)	34.6%	34.0%	(6.1)%	16.9%

## 26. EARNINGS AND HEADLINE EARNINGS PER SHARE

Group earnings per share and Group diluted earnings per share are calculated on earnings of R94 million (2009: R232 million) and a weighted average number of ordinary shares of 308 567 602 (2009: 308 567 602) in issue during the period. Group headline earnings per share are calculated on headline earnings of R171 million (2009: R231 million) and a weighted average number of ordinary shares of 308 567 602 (2009: 308 567 602) in issue during the period.

	Group 2010			Group 2009		
	Gross R'm	Tax R'm	Net R'm	Gross R'm	Tax R'm	Net R'm
Reconciliation between earnings and headline earnings						
Profit for the period	94		94	232		232
<i>Adjustments for:</i>						
– Loss/(profit) on disposal of property, plant and equipment	3	(1)	2	(13)	4	(9)
– Net impairment of plant, goodwill and intangibles	104	(29)	75	11	(3)	8
<b>Headline earnings</b>	<b>201</b>	<b>(30)</b>	<b>171</b>	<b>230</b>	<b>1</b>	<b>231</b>
<b>Basic and diluted earnings per ordinary share (cents)</b>			<b>30.5</b>			<b>75.2</b>
<b>Headline earnings per ordinary share (cents)</b>			<b>55.5</b>			<b>74.6</b>

## 27. DIVIDENDS

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Final dividend number 165 paid on 28 April 2009: 25 cents per share		77		85
Interim dividend number 166 paid on 26 October 2009: 19 cents per share		59		65
Final dividend number 167 paid on 26 April 2010: 19 cents per share	58		65	
Interim dividend number 168 paid on 25 October 2010: 19 cents per share	59		65	
	117	136	130	150
<b>Dividends proposed</b>				
Final dividend number 169 payable on 26 April 2011: 8 cents per share				
Dividends declared per share (cents)	27.0	38.0		
Interim	19.0	19.0		
Final*	8.0	19.0		

\*Dividend was declared subsequent to 31 December 2010 and is presented for information purposes.

## 28. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	Group		Company	
	2010 R'm	Restated 2009 R'm	2010 R'm	Restated 2009 R'm
<b>Profit before taxation</b>	162	368	82	415
Adjustments for:				
Depreciation	252	271	222	233
Dividends received	—	—	(130)	(228)
Foreign exchange adjustments	(15)	(2)	—	—
Revaluation loss on derivative financial instruments	14	5	14	5
Impairment of tangible and intangible assets	104	18	104	—
Reversal of income from associate	(6)	(2)	—	—
Loss/(profit) on disposal of property, plant and equipment	3	(13)	3	(10)
Other non-cash movements	34	20	49	55
Amortisation of intangibles	31	30	30	29
Finance income	(228)	(219)	(222)	(211)
Finance expenses	291	335	291	334
<b>EBIT before working capital adjustments</b>	642	811	443	622
Working capital adjustments	(36)	422	(76)	316
(Increase)/decrease in inventories	(90)	272	(90)	124
Decrease in trade and other receivables	72	293	45	211
Decrease/(increase) in net Group company receivables	11	(16)	12	59
Decrease in trade and other payables	(29)	(127)	(43)	(78)
<b>Cash generated from operations</b>	606	1 233	367	938

# Notes to the financial statements

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## 29. NORMAL AND SECONDARY TAXATION PAID

	Group		Company	
	2010 R'm	Restated 2009 R'm	2010 R'm	Restated 2009 R'm
Taxation (liability)/asset at beginning of the period	(9)	(21)	29	27
Income statement charge (excluding deferred tax )	(70)	(92)	(9)	(27)
Interest received	2	—	2	—
Translation difference	6	—	—	—
Taxation liability/(asset) at end of the period	8	9	(14)	(29)
	(63)	(104)	8	(29)
Normal South African taxation paid	12	(78)	30	—
Foreign taxation paid	(65)	(12)	(12)	(15)
Interest received	2	—	2	—
Secondary taxation paid	(12)	(14)	(12)	(14)
	(63)	(104)	8	(29)
<b>30. DIVIDENDS PAID</b>				
Ordinary dividends	(117)	(136)	(130)	(150)

## 31. FINANCIAL RISK MANAGEMENT

### 31.1 Overview

In the normal course of business, the Group is exposed to the following financial risks:

- // Treasury cash and capital management
- // Credit risk
- // Liquidity risk
- // Currency risk
- // Commodity risk
- // Interest rate risk

Exposure to treasury cash and capital management, credit, liquidity, currency, commodity and interest rate risk arises in the normal course of the Group's business. This note explains the Group's exposure to each of the above risks, and it summarises the policies and processes that are in place to measure and manage the risks arising, including those related to the management of capital.

The directors are ultimately responsible for the establishment and overseeing of the Group's risk management framework. An essential part of this framework is the role undertaken by the Audit Committee, supported by the Executive Risk Committee, and an independent internal audit function.

The Audit Committee meets three times a year and, among other duties, reviews the internal control environment and risk management systems within the Group, with one Audit Committee meeting specifically dedicated to the review of risk management, including progress on mitigation actions. The Audit Committee reports on its activities to the Board.

### 31. FINANCIAL RISK MANAGEMENT *(continued)*

#### 31.2 Treasury cash management

The Board also receives a report on treasury activities, including confirmation of compliance with treasury risk management policies. The main objectives of the treasury function are:

- // to fund the Group at the lowest net cost (after taking account of tax costs, fees and currency and interest rate movements);
- // to manage the Group's currency and interest rate risk in order to maximise net Group cash inflows at acceptable levels of risk, and with the flexibility needed to achieve the Group's commercial objectives;
- // to invest the Group's surplus funds in order to maximise returns consistent with adequate security and liquidity;
- // to manage and maintain the Group's relationships with banks, financial institutions and credit rating agencies to safeguard the Group's access to debt capital and associated expertise.

Treasury risk management strategies include the use of derivatives, principally in the form of foreign currency contracts and interest rate swaps in order to manage the currency and interest rate exposures arising from the Group's operations.

The Group's treasury policies are established to identify and analyse the financial risks faced by the Group, to set appropriate risk limits and controls and to monitor exposures and adherence to limits.

#### 31.3 Capital management

The capital structure of the Group consists of net borrowings and shareholders' equity. Besides the statutory minimum capitalisation rules that may apply to subsidiaries in different countries, the Group is not subject to any externally imposed capital requirements.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Group's long-term credit outlook is currently rated A+ by Global Credit Ratings (short-term A1) (2009: A+ and A1).

Key credit metrics that underpin the Group's rating are reviewed on a quarterly basis. Financial covenants included in the Group's core bank facilities were complied with throughout the year.

#### 31.4 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial assets that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, trade and other receivables and non-current receivables.

##### *Derivative financial instruments*

Cash-settled call options are only acquired from approved F1 rated financial institutions in order to comply with the Group's treasury policy and to limit the Group's exposure to credit risk arising from the use of derivative financial instruments. The Group does not consider there to be any significant concentration of credit risk related to derivative financial instruments. Refer to note 7 for more detail.

##### *Cash and cash equivalents*

The Group limits its exposure to financial institutions by dealing with institutions with a Fitch long-term rating of AA (zaf) or better. The Group has International Swap and Derivatives Master Agreements with most of its counterparties for financial derivatives, which permits net settlement of assets and liabilities in certain circumstances, thereby reducing the Group's credit exposure to individual counterparties.

##### *Trade and other receivables*

There is no significant concentration of credit risk with respect to trade receivables as the Group has a large customer base spread across various geographical areas and industries. The Group has credit policies that require appropriate credit checks on potential customers before sales commence, with ongoing reviews at regular intervals.

The Group considers its maximum credit risk to be R1 228 million (2009: R1 618 million) which is the total of the Group's financial assets. At 31 December 2010 the Group did not consider there to be a significant concentration of credit risk for which an impairment allowance had not adequately been made.

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## 31. FINANCIAL RISK MANAGEMENT (continued)

### 31.4 Credit risk (continued)

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group Carry amount		Company Carry amount	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Long-term derivative financial instruments	10	8	10	8
Non-current lease receivables	111	136	99	111
Trade and other receivables	750	830	620	675
Receivables from Group companies	7	14	7	14
Taxation receivable	—	—	14	29
Short-term portion of non-current lease receivables	23	21	12	11
Cash and cash equivalents	327	609	165	491
	<b>1 228</b>	<b>1 618</b>	<b>927</b>	<b>1 339</b>

### 31.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

The Group finances its operations through cash generated by the business and a mixture of short-term, medium-term and long-term bank credit facilities and bank loans with a range of maturity dates. In this way, the Group ensures that it is not overly reliant on any particular liquidity source and that maturities of borrowings sourced in this way are not overly concentrated.

Subsidiaries have access to local bank credit facilities, but are principally funded by the Group.

The Group has the following core lines of credit that are available for general corporate purposes and which are maintained by Afrox:

- ▀ R1 127 million committed facility maturing over the next three years; and
- ▀ R1 475 million uncommitted facility with no maturity date.

Liquidity risk faced by the Group is mitigated by having diverse sources of finance available to it and by maintaining substantial unutilised banking facilities and reserve borrowing capacity, as indicated by the level of uncommitted facilities.

Unutilised borrowing capacity under uncommitted bank facilities amounted to R1 433 million.

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the statements of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

## 31. FINANCIAL RISK MANAGEMENT (continued)

## 31.5 Liquidity risk (continued)

	Group 2010			Company 2010		
	Less than 1 year R'm	Between 1 and 2 years R'm	Between 2 and 5 years R'm	Less than 1 year R'm	Between 1 and 2 years R'm	Between 2 and 5 years R'm
<b>Non-derivative financial liabilities</b>						
Borrowings	378	586	399	378	586	393
Trade and other payables	654	—	—	564	—	—

	Group 2009			Company 2009		
	Less than 1 year R'm	Between 1 and 2 years R'm	Between 2 and 5 years R'm	Less than 1 year R'm	Between 1 and 2 years R'm	Between 2 and 5 years R'm
Borrowings	515	382	983	515	382	983
Trade and other payables	677	—	—	598	—	—

The table below analyses the Group's derivative financial assets which will be settled on a gross basis, into relevant maturity groupings based on the remaining period at the statements of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group and Company 2010		
	Less than 1 year R'm	Between 1 and 2 years R'm	Between 2 and 5 years R'm
<b>Derivative financial liabilities</b>			
Foreign currency contracts			
Outflow	(259)	—	—

	Group and Company 2009		
	Less than 1 year R'm	Between 1 and 2 years R'm	Between 2 and 5 years R'm
Foreign currency contracts			
Outflow	(102)	—	—

## 31.6 Currency risk

## Foreign currency risk

The Group will engage in foreign currency dealing only to the extent necessary to conduct the business and to protect the Group's interests with respect to foreseen needs in accordance with prudent practice. Accordingly, only actual foreign commitments arising from contractual obligations that have currency risk on imports or exports may be hedged with foreign currency contracts. The Company will not engage in currency transactions for the purpose of speculative profit.

The Group faces three broad types of risk from currency rate movements:

- ▀ Transaction exposure, where the functional currency value of contracted or known foreign currency payments or receipts (such as debtor or creditor payments) varies due to currency rate movements.
- ▀ Economic exposure, where the Rand present value of all future Afrox cash flows (and Afrox's market capitalisation) is affected by currency rate movements.
- ▀ Translation or "accounting" exposure, where currency rate movements cause the reported accounting profit or net worth to vary on translation of financial balances but which it is not intended to convert to Rands. An example is earnings not represented by a cash dividend.

# Notes to the financial statements

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## 31. FINANCIAL RISK MANAGEMENT (continued)

### 31.6 Currency risk (continued)

#### Transaction exposure

This risk is managed through the use of foreign currency contracts. Currency transaction risk can only be hedged up to a maximum period of one year in advance unless permission is obtained from the SA Reserve Bank. Subject to this limitation, at least 95% of all foreign currency risk on transaction exposure should be hedged at all times. Treasury will first seek to net off matching foreign cash inflows against foreign cash outflows on a currency by currency basis, where practical, before entering into foreign currency contracts to hedge the residual exposure with banks.

#### Economic exposure

Economic exposure relates to longer-term cash flows from a business, and can include exposure to movements in the currency of competitors in internationally traded goods (e.g. welding products). Primary management of this exposure is through the choice of procurement, investment or manufacturing location, which forms part of the capital expenditure authorisation process, and pricing and other commercial policies.

#### Translation exposure

The Group's policy with respect to translation exposure is that the Group does not specifically hedge "earnings" beyond the point covered by economic risk hedging. As far as is practical investment into foreign countries should be funded by borrowings in the currency of the investment country after considering local banking, investment, taxation and currency control legislation.

Some hedging of reported earnings will result from hedging economic exposure through borrowing in the currency of investment, (and so incurring an interest charge in that currency). The extent of hedging depends on the interest cover in that currency and availability of banking facilities in that particular country.

Group treasury's currency funding objective is to hedge all foreign investments by borrowing in the currency of investment revenues where practicable and cost-effective.

#### Foreign currency exposure

##### Loans

In terms of the Group's policy, all significant foreign currency loans are covered under foreign currency contracts.

##### Trade exposure

The Group has entered into certain forward currency contracts, which do not relate to specific items in the statements of financial position, 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 2010. Details of significant contracts are as follows:

	Group and Company 2010		
	Foreign currency million	Average currency rate	Rand amount R'm
<b>Assets</b>			
US Dollars	7	6.70	48
British Pounds	—	10.40	3
Australian Dollars	1	6.70	5
Danish Krone	1	1.20	1
Swiss Francs	—	7.10	1
Japanese Yen	2	0.08	—
Euro	22	9.20	201
			259

**31. FINANCIAL RISK MANAGEMENT** *(continued)***31.6 Currency risk** *(continued)**Trade exposure (continued)*

	Group and Company 2009		
	Foreign currency million	Average currency rate	Rand amount R'm
<b>Assets</b>			
US Dollars	6	7.6	45
British Pounds	—	12.1	4
Australian Dollars	2	6.9	10
Euro	4	11.3	42
Other	—	—	1
			102

The fair values of forward currency contracts are determined using the relevant market forward currency rates. Actual foreign currency amounts were used and not rounded amounts as disclosed above.

**Sensitivity analysis**

The tables below set out the Group's currency exposures from financial assets and financial liabilities held by Group companies in currencies other than their functional currencies and resulting in currency movements in the statement of comprehensive income and statement of financial position. The potential impact on earnings is based on a 10% change in foreign currency rate.

Currency risks arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature.

	Group				Company			
	2010		2009		2010		2009	
	Amount	Potential impact on earnings	Amount	Potential impact on earnings	Amount	Potential impact on earnings	Amount	Potential impact on earnings
<b>Financial assets – Trade and other receivables</b>								
US Dollars	3	—	4	1	3	—	4	1
British Pounds	4	—	3	—	4	—	3	—
Australian Dollars	5	—	12	2	5	—	12	2
Other	45	4	36	3	—	—	—	—
<b>Total</b>	<b>57</b>	<b>4</b>	<b>55</b>	<b>6</b>	<b>12</b>	<b>—</b>	<b>19</b>	<b>3</b>
<b>Financial liabilities – Trade and other payables</b>								
British Pounds	—	—	2	—	—	—	2	—
Euro	9	1	24	3	9	1	24	3
Other	30	3	22	2	—	—	—	—
<b>Total</b>	<b>39</b>	<b>4</b>	<b>48</b>	<b>5</b>	<b>9</b>	<b>1</b>	<b>26</b>	<b>3</b>

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## 31. FINANCIAL RISK MANAGEMENT (continued)

### 31.6 Currency risk (continued)

#### Foreign currency sensitivity analysis

The following significant exchange rates applied during the year:

	Group and Company 2010	Group and Company 2009
<b>Exchange rates to South African Rand</b>		
<i>Year-end rates:</i>		
US Dollar	6.62	7.41
British Pound	10.33	11.97
Euro	8.86	10.61
Pula	1.03	1.11
Zambian Kwacha (000's)	1.38	1.66
<i>Average rates for the period:</i>		
US Dollar	7.31	8.36
British Pound	11.31	13.08
Euro	9.71	11.66
Pula	1.08	1.18
Zambian Kwacha (000's)	1.53	1.60

### 31.7 Commodity risk

The Group makes use of derivative instruments of short duration as a means of mitigating exchange rates and timing risks on imports. In effecting these transactions, the Company operates within procedures and policies designed to ensure that risks are minimised.

### 31.8 Interest rate risk

The Group's interest rate exposure is the risk that all future cash flows (operational as well as financial) will vary adversely due to interest rate movements. Thus the Group's income may vary when interest rates move, due to the effect of interest rate changes on customer demand, supplier costs and the wider economy.

There are two opposing considerations in establishing the Group's interest rate hedging policy i.e. the proportion of the Group's net debt financed at fixed and variable interest rates. Fixed interest rate debt tends to reduce earnings volatility and variable rate debt tends to reduce interest cost depending on the uncertainty in the market. The Group's policy is geared towards striking a balance between the two with at least 35% of the Group's net debt at fixed interest rates.

As at 31 December 2010 the Group had net exposure of R389 million (2009: R586 million) to variable interest rates. Based on the Group's year-end composition of debt an increase in average interest rates of 1% per annum would result in a decrease in future earnings before tax of R4 million (2009: R6 million).

#### Fair value sensitivity analysis for fixed rate instruments

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed rates of interest that are accounted for at amortised cost are not subject to interest rate risk as defined in IFRS 7 – *Financial Instruments: Disclosures*.

The Group holds derivative contracts with a nominal value of R259 million as at 31 December 2010 (2009: R102 million) which are designated as fair value hedges. In the case of these instruments and the underlying fixed rate bonds, changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements net-off almost completely in the statements of comprehensive income in the same period. As a result, these instruments are also not exposed to interest rate risk.

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have impacted on other comprehensive income by the amounts shown on page 113. This analysis assumes all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

### 31. FINANCIAL RISK MANAGEMENT (continued)

#### 31.8 Interest rate risk (continued)

##### Interest rate profiles of financial assets and financial liabilities

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 reporting date are:

	Group						Group	
	Weighted average effective interest rate %	Floating interest rate R'm	Fixed interest rate maturing			Non-interest bearing R'm	Total carry amount	
			1 year or less R'm	1 to 5 years R'm	Over 5 years R'm		2010 R'm	2009 R'm
<b>Assets</b>								
<i>Available-for-sale financial assets</i>								
Long-term derivative financial instruments	5.7	10	—	—	—	—	10	8
<i>Loans and receivable</i>								
Trade and other receivables		—	—	—	—	757	757	844
Non-current receivables	8.3	544	23	111	—	—	678	810
<b>Total loans and receivables</b>		544	23	111	—	757	1 435	1 654
<i>Derivatives</i>								
Cash and cash equivalents	5.3	164	—	—	—	163	327	609
<b>Total financial assets</b>		718	23	111	—	920	1 772	2 271
<b>Liabilities</b>								
<i>Other financial liabilities</i>								
Bank overdrafts	7.5	35	—	—	—	—	35	33
Trade and other payables			—	—	—	665	665	684
Short-term portion of interest bearing borrowings	8.5	63	200	—	—	—	263	363
Interest bearing borrowings	8.5	231	—	640	—	—	871	1 127
<b>Total financial liabilities</b>		329	200	640	—	665	1 834	2 207
<b>Net financial assets/ (liabilities)</b>		389	(177)	(529)	—	255	(62)	64

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## 31. FINANCIAL RISK MANAGEMENT (continued)

### 31.8 Interest rate risk (continued)

Interest rate profiles of financial assets and financial liabilities (continued)

	Company						Company	
	Weighted average effective interest rate %	Floating interest rate R'm	Fixed interest rate maturing			Non-interest bearing R'm	Total carry amount	
			1 year or less R'm	1 to 5 years R'm	Over 5 years R'm		2010 R'm	2009 R'm
<b>Assets</b>								
<i>Available-for-sale financial assets</i>								
Long-term derivative financial instruments	5.7	10	—	—	—	—	10	8
<i>Loans and receivable</i>								
Trade and other receivables		—	—	—	—	627	627	689
Non-current receivables	8.3	544	12	99	—	—	655	775
<b>Total loans and receivables</b>		544	12	99	—	627	1 282	1 464
<i>Derivatives</i>								
Cash and cash equivalents	5.3	2	—	—	—	163	165	491
<b>Total financial assets</b>		556	12	99	—	790	1 457	1 963
<b>Liabilities</b>								
<i>Other financial liabilities</i>								
Bank overdrafts	7.5	35	—	—	—	—	35	33
Trade and other payables			—	—	—	595	595	632
Short-term portion of interest bearing borrowings	8.5	63	200	—	—	—	263	363
Interest bearing borrowings	8.5	225	—	640	—	—	865	1 127
<b>Total financial liabilities</b>		323	200	640	—	595	1 758	2 155
<b>Net financial assets/ (liabilities)</b>		233	(188)	(541)	—	195	(301)	(192)

### 31. FINANCIAL RISK MANAGEMENT (continued)

#### 31.9 Fair values

The fair values of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	Group				Company			
	2010 Carry amount R'm	Fair value R'm	2009 Carry amount R'm	Fair value R'm	2010 Carry amount R'm	Fair value R'm	2009 Carry amount R'm	Fair value R'm
<b>Assets</b>								
<b>Non-current assets</b>	676	676	801	801	664	664	776	776
Long-term derivative financial instruments	10	10	8	8	10	10	8	8
Other investments	11	11	4	4	11	11	4	4
Retirement benefit assets	544	544	653	653	544	544	653	653
Non-current lease receivables	111	111	136	136	99	99	111	111
<b>Current assets</b>	1 107	1 107	1 474	1 474	804	804	1 191	1 191
Trade and other receivables	750	750	830	830	620	620	675	675
Receivables from Group companies	7	7	14	14	7	7	14	14
Short-term portion of non-current receivables	23	23	21	21	12	12	11	11
Cash and cash equivalents	327	327	609	609	165	165	491	491
<b>Liabilities</b>								
<b>Non-current liabilities</b>								
Interest bearing borrowings	871	871	1 127	1 127	865	865	1 127	1 127
<b>Current liabilities</b>	1 146	1 146	1 239	1 239	1 050	1 050	1 164	1 164
Trade, other payables and liabilities	837	837	836	836	721	721	734	734
Payables to Group companies	11	11	7	7	31	31	34	34
Current portion of interest-bearing borrowings	263	263	363	363	263	263	363	363
Bank overdrafts	35	35	33	33	35	35	33	33

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## 31. FINANCIAL RISK MANAGEMENT (continued)

### 31.9 Fair values (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

#### Fair values

The carrying values of cash resources, trade receivables, trade payables, accrued expenses and short-term borrowings approximates fair value because of the short-term maturity of these instruments.

The fair values of other long-term financial assets and long-term financial liabilities are not significantly different to their carrying values, as they are carried at amortised cost.

#### Accounting classifications

The Group's assets and liabilities are measured at fair value at 31 December 2010.

The different levels have been defined as follows:

*Level 1* – Quoted prices in active markets for identified assets or liabilities.

*Level 2* – Input other than quoted prices included within level 1 that are observable for the asset or liability.

*Level 3* – Input for the assets or liabilities that are not based on observable market data.

Refer to the values identified in the fair value note on page 117.

#### Hedging

##### Cash flow hedges

Cash flow hedges have been entered into in order to minimise the risk of currency rate fluctuations on the purchase of large components for the capital expenditure projects. The financial instruments are forward currency contracts. The cash flows on these instruments are expected to occur within the next financial period.

#### Gains and losses in other comprehensive income

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
The following amounts have been recognised in other comprehensive income during the period	(12)	(2)	(12)	(2)

## 32. RELATED PARTY TRANSACTIONS

Various transactions are entered into by the Company and its subsidiaries during the period 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

##### Shareholders

Details on the shareholders of the Company are disclosed on pages 48 and 49 (shareholders' profile).

##### Holding company

The parent company of African Oxygen Limited is BOC Holdings Limited, incorporated in the United Kingdom. The ultimate holding company is Linde AG, incorporated in Germany.

## 32. RELATED PARTY TRANSACTIONS (continued)

	Group		Company		
	2010 R'm	2009 R'm	2010 R'm	2009 R'm	
<b>Holding company</b>					Overview
Cash dividends to holding company	66	76	66	76	
Technical aid fee	14	14	14	14	
<b>Fellow subsidiaries of holding company</b>					Financial director's review and business review
Revenue from sale of goods:					
BOC UK	7	14	7	14	
BOC Kenya	6	8	6	8	
BOC Nigeria	—	3	—	3	
BOC Zimbabwe	1	18	1	18	
BOC Australia	16	28	16	28	
BOC New Zealand	1	1	1	1	
Amounts outstanding on trade receivables:					
BOC Nevada	—	1	—	1	
BOC Kenya	2	3	2	3	
BOC Zimbabwe	—	1	—	1	
BOC Nigeria	5	9	5	9	
BOC Limited – ENG Gasses	—	—	—	—	
BOC Australia	—	—	—	—	
Amounts outstanding on trade payables:					Sustainability and corporate governance
Linde Gas division	3	—	3	—	
BOC Group Limited	3	—	3	—	
BOC UK	3	3	2	3	
BOC Cryostar	1	2	1	2	
Linde Global Helium	1	2	1	2	
<b>African Oxygen Investments</b>					Financial results and other information
Investments in subsidiaries and associated companies are detailed on pages 124 and 125.					
<b>Subsidiaries and associate</b>					
Revenue from sale of goods:					
Les Gaz Industriels Limited			3	4	
Afrox Zambia Limited			25	17	
Afrox Malawi Limited			14	16	
IGL (Pty) Ltd			30	34	
Amounts outstanding on trade receivables:					
Les Gaz Industriels Limited			—	2	
Afrox Zambia Limited			3	6	
IGL (Pty) Limited			13	6	
Afrox Malawi Limited			1	5	
Dividends received			130	228	

Amounts outstanding on trade receivables and payables are to be settled in cash within the 30-day credit terms offered to third parties. The amounts due by related parties will be settled in cash with the normal 30 day credit period. No debts of related parties have been impaired. 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 and their emoluments are shown on page 55. No loans were made to or received from any director.

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## 33. COMMITMENTS AND GUARANTEES

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>Capital commitments</b>				
Capital expenditure				
Contracted	59	33	59	33
Authorised by the directors, but not yet contracted for	231	62	231	62
<b>Total future capital expenditure</b>	<b>290</b>	<b>95</b>	<b>290</b>	<b>95</b>
Allocated to:				
Property, plant and equipment	290	95	290	95

Afrox intends to finance capital expenditure from surpluses generated and borrowing facilities available.

### Leases

#### Operating leases

The Group leases certain of its property, plant and equipment in terms of operating leases.

Total future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Not later than 1 year	58	55	58	55
Between 1 and 5 years	131	145	131	145
Longer than 5 years	16	17	16	17
	<b>205</b>	<b>217</b>	<b>205</b>	<b>217</b>

Leases of vehicles are for periods between 12 months to 117 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.

#### Sale and lease-back

During the previous financial year Afrox disposed of its fleet of cylinder vehicles. These vehicles are leased back on an operating lease basis.

#### Deemed finance leases

These assets are recognised as lease receivables. The following income and expenses shown as finance lease income.

	Group		Company	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
Other expenses from lease payments	(37)	(37)	(24)	(24)
Finance income	14	18	12	14
	<b>(23)</b>	<b>(19)</b>	<b>(12)</b>	<b>(10)</b>

**34. SHARE APPRECIATION RIGHTS**

The Company has issued share appreciation rights (SARS) to various 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 three/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 other share linked incentive schemes at the subsidiary level. Employees of subsidiaries participate in the above mentioned share appreciation rights scheme.

No SAR shall be capable of exercise unless the committee is satisfied that earnings before interest, taxation, depreciation and amortisation for the period from the financial year end immediately preceding the commencement date until the financial year end immediately preceding the date on which the SAR is intended to be exercised has grown by no less than GDP adjusted by inflation over the same period. SARS granted after 2006 to a participant who ceases to be an employee as a result of a retrenchment or retirement will vest immediately, but must exercise their SARS within 24 months of the date on which they cease to be an employee. SARS issued after 2006, in the case of the death of a participant the beneficiary must exercise within 24 months.

The following SARS are in issue: (number of rights)

	Group		Company	
	2010	2009	2010	2009
Number of SARS allocated at beginning of the period	13 507 428	10 381 903	13 288 140	10 109 452
Allocations during the financial period – granted	3 470 400	3 524 350	3 384 400	3 429 350
SARS exercised	(362 251)	(64 850)	(362 251)	(64 100)
SARS terminations	(509 613)	(333 975)	(489 613)	(310 475)
SARS transferred	—	—	(47 750)	123 913
No of SARS issued at end of the period	16 105 964	13 507 428	15 772 926	13 288 140
Number of vested SARS at end of the period	7 234 051	4 131 415	7 070 888	4 040 915
Number of unvested SARS at end of the period	8 871 913	9 376 013	8 702 038	9 247 225
Total SARS issued at end of the period	16 105 964	13 507 428	15 772 926	13 288 140

The following expiry dates applied to the SARS in issue at 31 December 2010:

Expiry date	Group		Company	
	Number of SARS	Accrual on exercise of SARS R'm	Number of SARS	Accrual on exercise of SARS R'm
2011	54 500	1	54 000	1
2012	341 750	4	334 250	4
2013	286 250	3	276 250	3
2014	366 689	2	363 689	2
2015	2 000 875	1	1 960 375	1
2016	4 185 487	1	4 083 824	1
2018	1 959 413	—	1 926 038	—
2019	3 900 600	5	3 811 100	5
2020	3 010 400	3	2 963 400	3
	16 105 964	20	15 772 926	20

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## 34. SHARE APPRECIATION RIGHTS (continued)

The range of issuing prices of these SARS is as follows:

	Price range	Group 2010 Number of SARS	Company 2010 Number of SARS
	7.00 – 12.99	676 000	658 000
	13.00 – 19.99	1 378 814	1 356 814
	20.00 – 20.99	3 030 700	2 950 700
	21.00 – 27.99	3 837 150	3 746 650
	28.00 – 28.99	2 236 237	2 214 074
	29.00 – 29.99	4 137 563	4 060 188
	30.00 – 36.99	809 500	786 500
		16 105 964	15 772 926

	Group 2010	Group 2009
The following Share Appreciation Rights were issued during the financial period:		
Number of SARS issued	3 470 400	3 524 350
Average issue price	R21.63	R20.11
The following Share Appreciation Rights were redeemed during the financial period:		
Number of SARS redeemed	362 251	64 850
Total gain on encashing of SARS	R3.9m	R0.8m
Weighted average share price at the date of exercise of option	R22.17	R19.76
<i>Fair value of Share Appreciation Rights and assumptions:</i>		
Share linked incentives granted to employees have been valued using the Black-Scholes model		
Share price	R20.63	R22.00
Expected volatility	27%	21%
Dividend yield	1.8%	2.0%
Risk free interest rate	7.6%	9.9%

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.

### 35. JUDGMENTS MADE BY MANAGEMENT

In preparing financial statements in conforming with IFRS, estimates and assumptions that affect the reported amounts and related disclosures are as follows:

#### Impairment of accounts receivable

An allowance 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 the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

#### Deferred tax assets

Deferred tax assets have been raised at year-end on temporary differences.

#### Asset lives and residual values

The useful lives and residual values of property, plant, equipment and intangible assets are reassessed annually based on current utilisation, prospects and market conditions.

#### Impairment of assets and intangibles

The impairment of goodwill is tested at least annually. Property, plant and equipment, as well as intangible assets, are considered for impairment when conditions indicate that impairment may be necessary. These conditions include the economic conditions of the operating unit as well as the viability of the assets itself.

The discounted cash flow method is used, taking into account future expected cash flows, market conditions and the expected useful lives of the assets.

#### Post-employment benefit obligations

Post-retirement defined benefits are provided for certain existing and former employees (see note 10).

The actuarial valuation method used to value the obligations is the projected unit method. The assumptions used includes a discount rate, inflation rate, salary increase rate, medical inflation, expected rate of return on assets and a pension increase allowance.

#### Valuation of financial instruments

Refer to note 31 for a detailed analysis of the fair value methodologies applied.

### 36. CONTINGENT LIABILITY

Claims of approximately R400 million have been made by two customers against the Group. These claims refer to supply disruptions, predominantly as a result of power outages and equipment failure. The Group has sought legal advice and the Board of directors is of the opinion that various robust defenses exist in respect of the two claims and material success in either of these matters by the claimants is improbable. Accordingly, no provision for any liability has been made in these financial statements.

### 37. EVENTS AFTER THE REPORTING PERIOD

No material events occurred between the accounting date and the date of this report.

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## 38. SUBSIDIARIES

Name of company	Nature of business*	Issued share capital 2010	Carry value of Company's interest					
			Effective holding		Shares at cost		Due by/(to) subsidiaries	
			2010 %	2009 %	2010 R'm	2009 R'm	2010 R'm	2009 R'm
<b>Subsidiaries incorporated in South Africa</b>								
<b>Unlisted</b>								
Afrox African Investments (Pty) Limited	F	R10	100	100	—	—	523	536
Afrox Properties (Pty) Limited	P	R4 000	100	100	—	—	196	197
Afrox Safety (Pty) Limited	E	R1 000 000	100	100	4	4	3	11
Industrial Research and Development (Pty) Limited	E	R6 000	100	100	—	—	2	7
ISAS trust	G	—	100	100	62	68	12	4
Drury Welding (Pty) Limited	G	R20 016	100	100	—	—	—	—
Amalgamated Welding and Cutting (Pty) Limited	G	R2 500 000	100	100	20	20	(12)	(9)
<b>Subsidiaries incorporated in Botswana</b>								
Botswana Oxygen Company (Pty) Limited	G	P200	100	100	—	—	(2)	(4)
KIDDO Investments (Pty) Limited	G	P2	100	100	—	—	5	7
<b>Subsidiary incorporated in Lesotho</b>								
Afrox Lesotho (Pty) Limited	G	M2	100	100	—	—	10	2
<b>Subsidiary incorporated in Malawi</b>								
Afrox Malawi Limited	G	K4.4m	76	76	1	1	1	—
<b>Subsidiaries incorporated in Mozambique</b>								
BOC Gases Mozambique Limited	G	MZM1 100	100	100	1	1	6	9
Afrox Mozambique Limited	G	MZM2 350	100	100	4	4	35	35
<b>Subsidiary incorporated in Namibia</b>								
IGL (Pty) Limited	G	N\$2	100	100	—	—	13	8
<b>Subsidiary incorporated in Swaziland</b>								
Swazi Oxygen (Pty) Limited	G	E8	100	100	—	—	(6)	(14)
<b>Subsidiary incorporated in Zambia</b>								
Afrox Zambia Limited	G	ZK86.5m	70	70	5	5	3	—
<b>Subsidiary incorporated in Angola</b>								
Afrox Angola LDA	G	KA1.6m	100	100	—	—	14	15
Subtotal					97	103	803	804
Non-trading and other companies					1	1	1	1
<b>Total</b>					<b>98</b>	<b>104</b>	<b>804</b>	<b>805</b>
Impairment of Aprox Mozambique Limited							(24)	(24)
							780	781
<b>Subsidiary loans</b>								
Payables to Group companies							(20)	(27)
Loans due by subsidiaries (note 5)							800	808
							780	781

\*Nature of business:

E - Engineering merchants, contractors and manufacturers

F - Finance

G - Gas and welding equipment

P - Property holdings

Currency

R South African Rand

P Botswana Pula

M Lesotho Loti

K Malawi Kwacha

MZM Mozambican Metical

N\$ Namibian Dollars

E Swazi Elangeli

ZK Zambian Kwacha

KA Angolan Kwanza

US\$ US Dollars

## 39. ASSOCIATED COMPANY

Name of company	Nature of business*	Issued share capital 2010	Carry value of Company's interest					
			Effective holding		Shares at cost		Due by/(to) subsidiaries	
			2010	2009	2010	2009	2010	2009
			%	%	R'm	R'm	R'm	R'm
<b>Group and Company</b>								
<b>Unlisted associated company</b>								
Les Gaz Industriels Limited	G	RS13.1m	38	38	1	1	—	—
			38	38	1	1	—	—

†Associate with June financial year end

\*Nature of business:

G - Gas and welding equipment;

Currency

RS Mauritian Rupee

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# Global reporting initiative

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 to the GRI framework is set herewith.

General performance indicators			Page number
<b>1</b>	<b>Vision and strategy</b>		
1.1	Vision, mission purpose and strategy	Well defined	19
1.2	Statement from CEO describing key elements of the report	Refer Managing director's review	6
<b>2</b>	<b>Profile</b>		
2.1	Name of the reporting organisation	African Oxygen Limited	2
2.2	Major products and derives	Manufacture and supply of industrial, medical and special gases: cutting and welding equipment and consumables.	Inside back cover
2.3	Operational structure of the 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 services, medical gases, handigas, hospitality gases, and manufactures and sells gas equipment and welding products.	20
2.4	Description of major divisions, operating companies, subsidiaries and associates	Full reporting of the operations of the organisation's major units.	124 – 125
2.5	Countries in which operations are located	In South Africa and 10 other African countries with main being: Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, DRC, Swaziland and Zambia.	78
2.6	Nature of ownership – legal form	Afrox is a public company listed on the JSE with 4 658 shareholders.	48
2.7	Nature of markets served	Covered in business reviews.	20

General performance indicators			Page number
2.8	Scale of reporting organisation Number of employees	3 388	2
	Products and services offered	Refer to our top brands and business review.	Inside back cover
	Net sales	Refer to income statement.	74
	Capitalisation by debt and equity	Refer note on financial risk management.	108
	Value added	Refer to value added statement.	50
	Segmental reporting	Refer segmental results.	78
2.9	List of stakeholders	Shareholders and providers of capital, employees, customers, suppliers, and the community.	17
2.10	Contact information	Refer to administration.	138
2.11	Reporting period	Twelve months ended 31 December 2010.	
2.12	Date of most recent previous reports	Interim results – 30 June 2010.	
2.13	Scope of report	Report covers activities of Afrox in Sub-Saharan Africa.	78
2.14	Significant changes in size, structure, ownership since previous reports	Refer to corporate governance.	33
2.15	Basis for reporting subsidiaries and associates etc	Comprehensive disclose in the business review – GRI principles applied throughout.	
2.16	Explanation regarding restatement of information	Refer to changes in accounting policies.	80
2.17	Decisions not to apply GRI principles	GRI principles applied throughout.	
2.18	Criteria/definitions used in accounting statements	Refer accounting policies.	64
2.19	Significant changes in measurement	Refer to changes in accounting policies.	80
2.20	Policies and internal practices to enhance and provide assurance about the accuracy, completeness and internal reliability of the report	Statement of responsibility and approval of the financial statements by the Board of directors.	57
2.21	Policies and current practices with regard to providing independent assurance about the report	Independent auditors' report.	58
2.22	Additional information and reports on sustainability	Contact corporate.communication@afrox.linde.com Phone +27 11 490 0466 or view www.afrox.co.za	138
<b>3</b>	<b>Governance structure and management systems</b>		
3.1	Governance structure of the organisation	Refer to corporate governance.	33
3.2	Percentage of the Board of directors that are independent, non-executive directors	Refer to corporate governance.	33
3.3	Board member expertise	Refer to Board of directors.	4
3.4	Board level processes	Refer to corporate governance.	33
3.5	Linkage between executive compensation and performance	Refer to directors emoluments.	55
3.6	Organisation structure and key responsibilities	Refer to executive management.	18

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General performance indicators			Page number
3.7	Mission and value statement and code of ethics	Afrox has a well defined mission and value statement, as well as its own code of ethics by which all employees must abide.	18
3.8	Mechanisms for shareholders to provide recommendations	Annual general meeting, formal presentations to investment community, direct communication with stakeholders and through electronic communications and media releases.	17 and 33
3.9	Basis for identification of major stakeholders	Major stakeholders are those who are critical to the success of our performance – e.g. investors, customers, employees, suppliers and communities.	17 and 33
3.10	Stakeholder consultation	Afrox uses several media to communicate with stakeholders.	17 and 33
3.11	Stakeholder consultation information	Interim and annual reports, regular presentations, meetings and interviews.	17 and 33
3.12	Use of stakeholder consultation information	Information gathered from stakeholder consultation is acted upon when deemed necessary.	17 and 33
3.13	Precautionary approach	See approach to risk management.	108
3.14	Economic, environmental and social charters	Afrox endorses several global charters: <ul style="list-style-type: none"> <li>– International Financial Reporting Standards.</li> <li>– Code of Corporate Practices and Ethics contained in the King Report on Corporate Governance in SA.</li> <li>– Global Reporting Initiatives.</li> <li>– Sustainability Reporting.</li> <li>– The UN Global Compact.</li> <li>– Many of our business units are ISO certified.</li> </ul>	33
3.15	Industry and business association membership	LP Gas Association, SA Fluorocarbon Association, National Business Initiatives, South African Foundation, Free Market Foundation of SA.	
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.	33

General performance indicators			Page number
3.17	Managing indirect economic, environmental and social impacts	Afrox has implemented policies to measure and manage indirect financial impacts. Our procurement and environmental policies require suppliers to conform to performance and environmental criteria.	33
3.18	Decision regarding location and change in operations	Our business evolves to meet market opportunities.	20
3.19	Procedures for managing and measuring economic, environmental and social performance	Comprehensively covered throughout the whole report.	
3.20	Certification status regarding economic, environmental and social management systems	Most sites are ISO accredited as ISO 14001 or ISO 18001. Afrox has retained its standing in the Socially Responsible Investment (SRI) index and is Empowerdex rated.	30
<b>EC</b>	<b>Economic performance indicators</b>		
EC 1	Net sales	Value added statement provides an overview of the direct impact of the Company in the 2010 financial period in reference to its providers of capital, employees, customers, suppliers and public sector.	50
EC 2	Geographic breakdown of markets	Afrox operates in South Africa and 12 other African countries.	78
EC 3	Cost of goods, materials and services purchased	Refer to the value added statement.	50
EC 4	Percentage of contracts paid in accordance with agreed terms	Refer to accounts payable.	103
EC 5	Payroll and benefits (including wages, pensions, other benefits and redundancies)	93% of the salaries, wages and other benefits paid by Afrox in the 2010 financial year were paid in South Africa.	105
EC 6	Distributions to providers of capital	Refer to value added statement.	50
EC 7	Increase/decrease in retained earnings	Refer to value added statement.	50
EC 8	Taxes paid	Afrox paid 0% of its taxes in South Africa, with the balance paid in sub-Saharan Africa.	108
EC 9	Subsidies received	Afrox did not receive any subsidies in the 2010 financial period.	
EC 10	Donations	The donation policy stipulates that donations will not exceed 1% of the previous year's attributable earnings. In 2010, R2.5 million was donated to the community and worthy groups. In addition, Afrox provided external and internal bursaries and supports a welding school.	46
EC 11	Suppliers	No supplier represented 10% or more of total purchases.	103

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General performance indicators			Page number
EC 12	Total spend on non-core business infrastructure development	No investments were made in any infrastructure outside our main business activities.	
EC 13	Indirect economic impacts	Not assessed.	
<b>EN</b>	<b>Environmental performance indicators</b>		
EN 1	Total material use other than water	Refer to website for information.	30
EN 2	Wastes used	Afrox uses, processes and sells carbon dioxide that is obtained as a byproduct 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. Refer to website for information.	30
EN 3	Direct energy used	Our primary source of energy is electricity. Other sources include LPG, diesel and petrol. Refer to website for information.	30
EN 4	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.	30
EN 5	Total water used	Refer to website for information.	30
EN 6	Land owned, leased or managed in biodiversity	Our operations do not impact on biodiversity rich habitats. No incidents have led to negative impacts on the environment. Environmental impact assessments are performed before any new project is commissioned. No negative impacts associated with our products have been identified.	30
EN 7	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 performed before any new project is commissioned. No negative impacts associated with our products have been identified.	30
EN 8	Greenhouse gas emissions	As to date we have not accurately quantified greenhouse gas emissions.	30

General performance indicators			Page number
EN 9	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 hydrofluorocarbons (HFCs), which contain no chlorine and have zero ozone depletion potential.	30
EN 10	Nox, Sox and other significant air emissions	We do not produce Nox and Sox as a waste product in any production process.	30
EN 11	Total amount of waste by type destination	Waste management programmes have been implemented and, improved storage facilities, more effective waste separation, recycling and disposal procedures are in place.	30
EN 12	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.	30
EN 13	Spills of chemicals, oils and fuels	No major spills were reported.	30
EN 14	Environmental impacts of products	Atmospheric gases from our air separation units have a minimal impact on the services 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.	30
EN 15	Percentage of product weight reclaimable	Refer to website for information.	30
EN 16	Fines for non-compliance	No fines were levied for non-compliance with environmental issues.	30
EN 17	Initiatives to use renewable energy sources or increase energy efficiency	Our primary source of energy is electricity. Other sources of energy include gas, diesel and petrol. No initiatives to use renewable energy resources.	30

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General performance indicators			Page number
EN 18	Energy consumption of major products	Refer to website for information.	30
EN 19	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.	30
EN 20	Water sources and related ecosystems/habitats affected by water	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. Refer to website for information.	30
EN 21	Ground and surface water withdrawals	None withdrawn (see EN 20).	30
EN 22	Recycling and use of water	Some acetylene plants recirculate the water used in the generator after separation from the lime (carbide sludge). Cooling water in air separation units is recycled.	30
EN 23	Land owned, leased or managed	Location of land owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas.	30
EN 24	Impermeable surface land owned	Not assessed.	30
EN 25	Impact on protected or sensitive areas	No negative impacts associated with our activities/products have been identified.	30
EN 26	Changes to natural habitats and percentage	Not assessed.	30
EN 27	Restoring ecosystems	Not assessed.	30
EN 28	IUCN red list species in operating areas	Not assessed.	30
EN 29	Operations in protected or sensitive areas	Our business units are primarily located in industrial areas.	30
EN 30	Indirect greenhouse gas emissions	Refer to EN 9 and EN 8.	30
EN 31	Hazardous waste	Refer to EN 11.	30
EN 32	Water sources affected by discharges	Production sites are in industrial areas and have a low risk impact on ground water below the sites and no effect on protected areas, fresh water or marine environments.	30
EN 33	Supplier performance regarding 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.	30

General performance indicators			Page number
EN 34	Environmental impacts of transportation	Our transport fleet is serviced regularly to ensure limited emissions, noise and economic fuel consumption. 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.	30
EN 35	Environmental expenditures	Refer to website for information.	30
<b>LA</b>	<b>Social performance indicators – Labour relations</b>		
LA 1	Breakdown of workforce	Refer employee report.	26
LA 2	Employment creation	See enterprise development.	26
LA 3	Trade union representation	Approximately 30% of employees are represented by registered trade unions.	26
LA 4	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).	26
LA 5	Recording and 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 (Department of Labour) and to the European Industrial Gas Association are recorded.	26
LA 6	Formal health and safety committees	Every unit has a Health and Safety Committee, complying with the Occupational Health and Safety Act (85 of 1993). Adherence to the Health and Safety Committee programme is measured as a leading indicator. Statistics are reported monthly to the Industrial Executive Committee and quarterly to The Linde Group.	26
LA 7	Injury, lost day and 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.	26
LA 8	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.	26

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General performance indicators			Page number
LA 9	Average hours of training per annum	Refer employee report.	26
LA 10	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.	25
LA 11	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.	35
LA 12	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.	26
LA 13	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.	26
LA 14	Compliance with ILO guidelines for occupational health	Afrox is fully compliant with ILO conventions.	26
LA 15	Agreements with trade unions covering health and safety at work	Our industry level collective agreement covers safety and health issues at work.	26
LA 16	Programmes to support continued employability and to manage career endings	See employee review and skills development.	26
LA 17	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.	26
<b>HR</b>	<b>Social performance indicators – Human rights</b>		
HR 1	Policies, procedures etc on human rights	Afrox abides by the South African Constitution and the Bill of Rights.	33
HR 2	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.	33

General performance indicators			Page number
HR 3	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.	33
HR 4	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 and Prevention of Unfair Discrimination Act and the Employment Equity Act.	33
HR 5	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.	26
HR 6	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.	33
HR 7	Forced and compulsory labour	Fully compliant with Section 48 of the BCEA that prohibits forced and compulsory labour.	33
HR 8	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.	33
HR 9	Appeal practices	The Afrox Disciplinary Code and Procedure contains provision for an appeal mechanism. This is available to all employees who face disciplinary action.	33
HR 10	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.	33
HR 11	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.	33
HR 12	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.	33

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General performance indicators			Page number
HR 13	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.	33
HR 14	Share of operating revenues redistributed to local communities	See Corporate Social Investment.	45
<b>SO</b>	<b>Social performance indicators – Society</b>		
SO 1	Managing community impacts	Our community involvement project is a sustainable and ongoing relationship with 74 childcare institutions providing care and support to some 8 000 disadvantaged children.	45
SO 2	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 whistle blowing, and employee concerns of perceived corruption are routed to The Linde Group's global compliance department.	33
SO 3	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.	33
SO 4	Awards received for social, ethical and environmental performance	SRI Index, Good Governance Awards, United Nations recognition for community project and Empowerdex rated.	33
SO 5	Donations to political parties	As set out in our Code of Conduct, Afrox does not fund any political parties.	33
SO 6	Court decisions regarding antitrust and monopoly regulations	Afrox has not breached any antitrust or monopoly regulations.	33
SO 7	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.	33

General performance indicators			Page number
<b>PR</b>	<b>Social performance indicators – Product Responsibility</b>		
PR 1	Customer health and safety during use of products/ services	Afrox gases are packaged in containers that meet the requirements of the Occupational Health and Safety Act, Vessels Under Pressure Regulations and the incorporated Health and Safety Standards.	30
PR 2	Product information and labelling	The packages are filled and labelled 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 labelling that provides information related to both safety and product contents.	30
PR 3	Consumer privacy	Not assessed.	33
PR 4	Non-compliance concerning product information and labelling	No reports of non-compliance during the financial year.	33
PR 5	Complaints upheld regarding the health and safety of products	There were no complaints during the financial year.	33
PR 6	Voluntary code compliance or award regarding social and/or environmental responsibility	Afrox was selected by the JSE as one of 74 companies to make up the Socially Responsible Investment (SRI) index.	45
PR 7	Non-compliance regarding product information and labelling	No instances were recorded.	33
PR 8	Policies relating to customer satisfaction	The Customer First initiative is part of our daily outreach to both external and internal customers. Customer satisfaction surveys are conducted regularly.	33
PR 9	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.	33
PR 10	Breaches of advertising and marketing regulations	Content is evaluated internally and externally to ensure that there is no breach of industrial self regulation or of relevant legislation.	33
PR 11	Complaints regarding breaches of consumer privacy	No complaints during the financial year.	33

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## Shareholders' diary

### SALIENT DATES

Financial year-end	31 December 2010
Posting of annual report	15 March 2011
Annual general meeting	19 May 2011
Interim	30 June 2011

### REPORTS AND ACCOUNTS

Audited financial results for 31 December 2010	<b>PUBLISHED</b>
Interim results	16 February 2011
	3 August 2011

### DIVIDENDS (ORDINARY SHARES)

Interim dividend	<b>DECLARED</b>	<b>PAID</b>
Final dividend	26 August 2010	19 October 2010
	16 February 2011	26 April 2011

## SENS announcements

The following SENS announcements were made during the past financial year:

4 January 2011	Announcement relating to the acquisition and installation of a 200 ton per day Gox 6000 air separation plant by Afrox
11 November 2010	Afrox announces an evaluation of manufacturing facilities and trading statement
4 November 2010	Quarterly results of Linde AG
26 August 2010	Unaudited financial results and dividends
2 August 2010	Quarterly results of Linde AG
13 July 2010	Appointment of Company secretary
20 May 2010	Results of annual general meeting
21 May 2010	Appointment to the Board of directors
15 March 2010	No change statement and notice of annual general meeting
8 March 2010	Dealings in securities by a director
1 March 2010	Appointment of Financial director
18 February 2010	Audited financial results and dividend announcement for the year
1 February 2010	Trading update

### DIVIDEND

A final dividend of 8 cents per ordinary share has been declared. The final dividend will be paid on Tuesday, 26 April 2011.

## Administration

### AFRICAN OXYGEN LIMITED

(Incorporated in the Republic of South Africa)  
 Registration number: 1927/000089/06  
 ISIN: ZAE000067120  
 JSE code: AFX NSX code: AOX

### REGISTERED OFFICE AND BUSINESS ADDRESS

Afrox House, 23 Webber Street, Selby, Johannesburg 2001  
 PO Box 5404, Johannesburg 2000  
 Telephone +27 (0) 11 490 0400  
 Fax +27 (0) 11 493 1580

### AUDITORS

KPMG Inc.

### COMPANY SECRETARY

C Low BA (Law), LLB, LLM (Tax) Diploma in Banking

### TRANSFER SECRETARIES

Computershare Investor Services (Pty) Limited  
 70 Marshall Street, Johannesburg 2001  
 PO Box 61051, Marshalltown 2107  
 Telephone +27 (0) 11 370 5000  
 Fax +27 (0) 11 370 5271/2

### SPONSOR IN SOUTH AFRICA

Barnard Jacobs Mellet Corporate Finance (Pty) Limited  
 17 Fricker Road, Illovo  
 Telephone +27 (0) 11 550 5010  
 Fax 086 568 3538

### SPONSOR IN SOUTH NAMIBIA

Namibia Equity Brokers (Pty) Limited

### WEBSITE

www.afrox.com www.afrox.co.za

### STAKEHOLDER ENQUIRIES

Stakeholder enquiries may be addressed per e-mail to:  
 corporate.communication@afrox.boc.com

# Notice to shareholders

AFRICAN OXYGEN LIMITED (Registration number 1927/000089/06)  
 JSE share code: AFX ISIN code: ZAE000067120 ("Afrox" or "the Company")

Notice is hereby given that the 82nd annual general meeting of the Company will be held in the Boardroom of the Company, Afrox House, 23 Webber Street, Selby, Johannesburg, South Africa on Thursday, 19 May 2011 at 10:00 at which the resolutions set out below will be considered and, if deemed fit, passed with or without amendments:

**1. Ordinary Resolution Number 1: The adoption of the annual financial statements**

Resolved as an Ordinary Resolution that the annual financial statements of the Group and the Company for the financial year ended 31 December 2010, including the directors' report and the report of the auditors therein, be and are hereby received and confirmed.

**2. Ordinary Resolution Number 2: Re-election of directors**

Resolved as an Ordinary Resolution that the following directors who retire in terms of the Company's articles of association and, being eligible, offer themselves for re-election, be and is hereby re-elected as a director of the Company:

- a) Louis van Niekerk;
- b) Dr Khotso Mokhele;
- c) Kent Masters; and
- d) Sipho Pityana.

An abbreviated curriculum vitae in respect of each director offering themselves for re-election is set out on pages 4 and 5 of this annual report.

**3. Ordinary Resolution Number 3: Reappointment of auditors**

Resolved as an Ordinary Resolution that KPMG Inc. be reappointed as the independent auditors of the Company and that Mr NH Southon be appointed being a director of KPMG Inc., as the individual designated auditor who will undertake the audit of the Company for the ensuing period and to authorise the directors to fix the auditors' remuneration for the past year.

**4. Ordinary resolution number 4: Appointment of Audit Committee members**

To confirm the appointment of the following directors as members of the Audit Committee:

- a) Louis van Niekerk;
- b) David Lawrence; and
- c) Morongwe Malebye.

Abbreviated curriculum vitae in respect of each director offering themselves for re-election is set out on pages 4 and 5 of this annual report.

**5. Ordinary Resolution Number 5: The renewal of the authority that all the unissued shares be placed under the control of the directors**

Resolved as an Ordinary Resolution that, 5% (five percent) of the 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 sections 221 and 222 of the Companies Act No 61, 1973 as amended ("the Act") as amended from time to time, subject to the provisions of the Act and the Listings Requirements of the JSE Limited, for allotment and issue to such persons as the directors in their discretion deem fit.

# Notice to shareholders

## 6. Ordinary Resolution Number 6: To increase the independent non-executive directors' fees

Resolved as an Ordinary Resolution that the fees paid to the independent non-executive directors serving on various committees of the Board for 2010 be ratified and that the fees payable to the independent non-executive directors serving on various committees of the Board, with effect from 1 January 2011 are as follows:

Committee	
	<b>Retainer per annum</b>
Independent lead director	From R120 000 to R128 400
Board members	From R50 000 to R53 500
Audit chairperson	No retainer
Nominations, governance and management of resources	No retainer
SHEQ chairperson	No retainer
Transformation chairperson	No retainer
	<b>Chairperson per meeting</b>
Audit	From R40 000 to R42 800
Nominations, governance and management of resources	From R40 000 to R42 800
SHEQ	From R40 000 to R42 800
Transformation	From R40 000 to R42 800
	<b>Member per meeting</b>
Board	From R25 000 to R26 750
Audit	From R20 000 to R21 400
Nominations, governance and management of resources	From R20 000 to R21 400
SHEQ	From R20 000 to R21 400
Transformation	From R20 000 to R21 400

## 7. Ordinary Resolution Number 7: General authority to enter into funding agreements

Resolved as an Ordinary Resolution that the Company and/or its wholly owned subsidiaries incorporated in the Republic be and is hereby granted a general

authority to enter into funding agreements between any one or more of them from time to time, subject to the provisions of the Listings Requirements of the JSE Limited, for funding agreements and as the directors in their discretion deem fit.

## 8. Ordinary Resolution Number 8: Adoption of the African Oxygen Limited Share Appreciation Right Plan and Forfeitable Share Plan

That the Company adopts and approve the African Oxygen Limited Share Appreciation Right Plan and Forfeitable Share Plan, in accordance with the salient features set out below, details of which are incorporated in separate plan rules which have been available for inspection at the Company's registered office for 14 days prior to the annual general meeting.

Further, the directors of the Company are authorised to do all such things as are necessary for the implementation and operation of the African Oxygen Limited Share Appreciation Right Plan.

### 8.1. Salient Features of the New Afrox Long-Term Incentive Plans

#### 8.1.1. Introduction

##### *General*

In line with South African and global market practice, the Company intends to adopt two new long-term incentive plans:

- African Oxygen Limited Forfeitable Share Plan (the "FSP"); and
  - African Oxygen Limited Share Appreciation Right Plan (the "SAR Plan"),
- (together the "Plans").

Both plans are in line with several recently adopted schemes for JSE-listed companies and such plans are also operated by a large number of companies listed in Europe, particularly on the London Stock Exchange. Executive directors of the Company and other selected employees of the Group will be eligible to participate in the plans.

##### *Purpose*

The purpose of both plans is to provide executive directors and selected employees with the opportunity to receive shares in the Company, thereby aligning

their interests with those of shareholders. It will also assist with the retention of these key individuals.

The SAR will replace the African Oxygen Limited Share Appreciation Rights Scheme: Management Scheme (the "Old SAR Scheme") under which rights have been granted to employees providing a cash benefit based on the appreciation in value of the Company's share price. No further rights will be granted under the Old SAR Scheme.

#### *Vesting*

In the case of all participants, it is the intention that the vesting of SARs will be subject to the achievement of a performance condition and will also be subject to the vesting condition. If these conditions are not satisfied, the SARs will lapse and cannot be exercised. This means that the participant will not acquire shares unless the specified conditions are met.

A portion of awards granted under the FSP will be subject to the achievement of a performance condition and will also be subject to the vesting condition. If these conditions are not met, the awards will lapse meaning that the participant will lose all rights to the forfeitable shares and will not be compensated. The primary focus of the portion of the award subject to the vesting condition only is to retain the services of that employee. Where a specific retention issue is identified, or in other limited circumstances, and it is not considered appropriate to use a performance condition, awards granted under the FSP can be subject to the vesting condition only.

It is the Company's intention that the vesting period is a period of three years from the award date or date of grant, as applicable. However, in respect of the first tranche of awards and SARs, they will be granted shortly after shareholder approval of the FSP and SAR has been obtained and their vesting period will expire during February 2014 rather than May 2014. This is because long-term incentive awards are normally granted by the Company in February each year and the Company does not wish to adversely affect the interests of participants in the plans by virtue of the delay in granting the 2011 long-term incentive awards caused by the introduction of the plans.

#### *Use of shares*

In settlement of awards and SARs, the company can either:

- issue new shares;
- purchase shares in the market; or
- utilise shares held by a third party (either a subsidiary or a trust) on treasury account.

The number of shares which can be allocated under the FSP and SAR (when taken together with the Old SAR Scheme) and satisfied with newly issued shares or shares held on treasury account will not exceed [34 million] shares which equates to approximately [10]% of the issued share capital of the Company. This limit had previously been approved by shareholders in connection with the Old SAR Scheme and is not being changed with the introduction of the plans. The limit is not applicable if shares are purchased in the market in satisfaction of award or SARs.

#### **Glossary of terms**

"Affiliate" Linde, and any subsidiary of Linde (excluding any Group company) provided that Linde is a holder of shares from time to time;

"Allocated" for purposes of setting the FSP limits, one share allocated per each forfeitable share subject to an award and for purposes of setting the SAR plan limits means the number of shares that the Company expects to settle on a participant on the exercise of a SAR and, as one SAR granted will never result in the settlement of one full share, shall be less than the number of SARs granted;

"Award" an award of a specified number of forfeitable shares to the participant on terms that he may forfeit the forfeitable shares in the circumstances set out in the award letter, and "awarded" shall bear a similar meaning;

"Award Date" the date, specified in the award letter, on which an award is made to an employee irrespective of the date on which the award is accepted by the employee;

## Notice to **shareholders**

“Award Letter” a letter, sent by the Company to a participant in the FSP informing the participant of the grant of an award to him and the terms of that award;

“Committee” the Nominations, Governance and Management of Resources Committee of the Board of directors, the members of which do not hold any executive office within the Group, or any sub-committee of that committee, charged with the administration of all or part of the plans and, in the absence of such committee, the Board of directors;

“Company” African Oxygen Limited (registration number 1927/000089/06);

“Control” the ownership, other than by Linde, of (i) more than 50% of the total voting rights of the shares; or (ii) the power to appoint or remove all, or the majority of the directors or officers of the Company, but shall exclude any event or series of events resulting in Linde merging with or a change of control of Linde;

“Date of Grant” the date with effect from which SARs are granted to an employee, as specified in the letter of grant;

“Directors” the Board of directors of the Company;

“Employee” a person eligible for participation in the plans, namely a permanent employee of the Company or an executive director of the Company, but excluding any non-executive directors of the Company;

“Escrow Agent” the person or entity appointed by the Company from time to time to hold forfeitable shares for the absolute benefit of participants;

“Exercise Date” the date on which SARs are exercised;

“Exercise Price” the market value of a share on the business day immediately preceding the exercise date;

“Forfeitable Shares” the shares comprised in the award held by the agent for the absolute benefit of the participant;

“FSP” African Oxygen Limited forfeitable share plan constituted by the rules, as amended from time to time;

“Grant” the grant to an employee of a SAR;

“Grant Price” the market value of a share on the business day immediately preceding the date of grant;

“Group” the Company and its subsidiaries from time to time and such joint ventures and other entities as identified by the directors;

“JSE” the JSE Limited (registration number 2005/022939/06), a public company duly registered and incorporated with limited liability in accordance with the company laws of South Africa, licensed as an exchange under the Securities Services Act, No. 36 of 2004;

“Letter of Grant” a document delivered to a participant in the SAR plan informing the participant of the grant of a SAR to him and the terms of that SAR;

“Linde” Linde AG of Klosterhofstr 1, 80331, München, Germany, a public company registered in accordance with applicable German law;

“Market Value” the volume weighted average price of a Share, as quoted on the JSE, on any particular day preceding the date on which a determination of the market value of the shares is to be made for the purposes of the SAR plan or, if the shares shall cease to be listed on the JSE, as determined by the committee by reference to a generally accepted method of calculating such value;

“Participant” an employee who has accepted or is deemed to have accepted an award made to him under the FSP or a SAR granted under the SAR plan and includes the executor of such employee’s estate;

“Performance Condition” a performance condition imposed as a condition of the vesting of an award or a SAR;

“Performance Period” the period in respect of which a performance condition is to be satisfied, as set out in the award letter or the letter of grant;

“Retirement” in relation to a participant, retirement as defined in the rules of the pension or provident fund of which the participant is a member or, in relation to

a participant who is not a member of such fund or where the employer company does not have such fund, as determined by a service contract between the participant and his current employer;

“SAR” a conditional right to receive shares under the SAR plan to the value of the difference between the exercise price and the grant price of that number of SARs exercised, based on the market value of the shares as at the exercise date;

“SAR Period” the period from the date of grant to 00:00 on the date which is the seventh anniversary of the date of grant and as stated in the letter of grant;

“SAR Plan” the African Oxygen Limited Share Appreciation Right Plan constituted by the rules, as amended from time to time;

“Settlement” delivery by the employer company to a participant of the required number of forfeitable shares to which a participant is entitled pursuant to the making of the award or delivery of the required number of shares to which a participant is entitled pursuant to the exercise of a SAR and “Settled” shall bear a corresponding meaning;

“Settlement Date” the date on which settlement shall occur;

“Shares” an ordinary share in the capital of the Company;

“Vesting Condition” the condition of continued employment with the Company for the duration of the vesting period up to and including the vesting date;

“Vesting Date” the date on which a participant becomes unconditionally entitled to the forfeitable shares free of any restrictions and forfeiture or the date on which SARs become exercisable, and “vest”, “vesting” and “vested” shall be construed accordingly; and

“Vesting Period” the period specified in the award letter or the letter of grant for which the participant should fulfil the vesting condition.

### 8.1.2. Salient features of the Plans 14.1

#### *Basis of awards 14.1(d), (e), (f)*

Under the FSP, a participant is granted a number of forfeitable shares. Participants are not required to pay for the grant of an award or to make a payment in order for the award to vest. Following the grant of the award, the relevant employer company shall, within 30 (thirty) days of the award date, procure the settlement of that number of forfeitable shares to the participant.

During the vesting period, the forfeitable shares are held by the Escrow agent for the absolute benefit of the participant and the participant shall have all shareholder rights in respect of the shares with effect from the settlement date. However, the forfeitable shares will be subject to restrictions in that they cannot be disposed of, ceded, transferred or otherwise encumbered until they vest on the vesting date. In addition, the forfeitable shares are subject to a risk of forfeiture until they vest on the vesting date.

Awards will only vest once the performance condition and the vesting condition have been satisfied and it is only after the vesting date that the forfeitable shares will be released by the Escrow agent and that the participant is free to deal with the shares and can no longer lose them.

#### *Basis of SARs 14.1 (d), (e), (f)*

Under the SAR plan, participants are granted a conditional right to acquire shares equal in value to the difference between the exercise price and the grant price of a specified number of shares. Participants are not required to pay for the grant of a SAR or to make a payment for the vesting or exercise of a SAR.

Vesting of the SAR is subject to the satisfaction of the performance condition and the vesting condition. After vesting, the SAR will become exercisable and the participant can acquire shares in the Company. The SAR must be exercised before the expiry of the SAR period. The number of shares which can be acquired by the participant on exercise will be equal to the difference between the exercise price and the grant price for the number of shares being exercised.

## Notice to **shareholders**

Upon exercise of a SAR, the relevant employer company will settle the value of the difference between the exercise price and the grant price in shares. Following exercise of the SAR and settlement of the shares, the participant will be a shareholder in the Company and is free to deal with the shares.

In respect of both awards and SARs, the number of forfeitable shares granted under an award and SARs granted under a SAR will be based primarily on the employee's annual salary, grade, performance, retention requirements and market benchmarks.

### *Eligibility 14.1(a)*

Directors (excluding non-executive directors of the Company) and employees of the Group are eligible to participate in the FSP and the SAR.

### *Vesting*

In the case of all participants, it is the Company's intention that the vesting of at least a portion of the award and the entire SAR will be subject to the achievement of the performance condition over the performance period and will also be subject to the vesting condition. However, awards can be granted under the FSP subject to the vesting condition only should a need for a pure retention award be identified or should the particular circumstances require.

In respect of awards granted under the FSP, to the extent that the performance condition is not satisfied or the vesting condition is not met, the forfeitable shares will be forfeited and the participant will lose all entitlement to them. In these circumstances, the participant will not be compensated for the loss of the forfeitable shares. The forfeited shares will be sold by the Escrow agent as soon as practicable after the lapse date and the sales proceeds will be remitted to the Company.

In respect of the SARs granted under the SAR Plan, to the extent that the performance condition is not satisfied or the vesting condition is not met, the SAR will be forfeited and the participant will lose all entitlement to any benefit under that SAR. The participant will not be compensated if he forfeits his SAR.

### *Performance Condition*

The performance condition in respect of awards and SARs will be set by the Committee.

The performance condition imposed in respect of the first grant of awards will be based on the following:

- Compound annual growth in adjusted headline earnings per share (HEPS); and
- Growth in the total shareholder return (TSR) of the Company for the performance period.

The weighting applied to these conditions will be 75% HEPS condition and 25% TSR condition.

The performance condition imposed in respect of the first grant of SARs will be the same conditions as imposed on awards and the same weighting will also apply.

In subsequent years, the Committee will determine the specific performance conditions, taking into account the Company's business strategy at the relevant time and to ensure alignment between participants and shareholders, but the performance conditions shall be no less stretching than that set out above.

If, at any point during the performance period, an event occurs which causes the Committee to consider that the performance condition is no longer appropriate, the Committee may substitute or vary the performance conditions in such manner as:

- Is reasonable in the circumstances; and
- Produces a fairer measure of performance and is not materially less difficult to satisfy.

### **Limits**

#### *Overall Company Limits 14.1(b)*

The aggregate number of Shares at any one time which may be allocated under the FSP and SAR, when taken together with rights granted under the old SAR scheme, and where newly issued shares or shares held on treasury account are used in settlement, shall not exceed [34 million] shares equating to approximately [10] % of the current issued share capital of the Company as at [20 May 2011]. In the event of a

discrepancy between the number of shares and the percentage of issued shares it represents, the number of shares shall prevail over the stated percentage.

The limit referred to relates to newly issued shares and shares held on treasury account only. It shall exclude shares purchased in the market in settlement of awards under the FSP or upon the exercise of SARs granted under the SAR Plan or the old SAR scheme. It also excludes shares allocated to participants under the SAR plan and the old SAR scheme which are subsequently forfeited.

*Individual limit 14.1(c)*

The maximum number of Shares which may be allocated to any participant under the FSP and the SAR, when taken together with rights granted under the old SAR scheme, shall not exceed [3.4 million] shares, representing approximately [1] % of the current issued ordinary share capital of the Company as at [20 May 2011]. In the event of a discrepancy between the number of shares and the percentage of issued shares it represents, the number of shares shall prevail over the stated percentage.

**8.1.3. Cessation of employment and death 14.1(h)**

*Resignation or dismissal*

If a participant's employment with the Company terminates prior to the vesting date by reason of his resignation or dismissal on grounds of misconduct, poor performance or proven dishonest or fraudulent conduct (whether such cessation occurs as a result of notice given by him or otherwise or where he resigns to avoid dismissal on grounds of misconduct, poor performance or proven dishonest or fraudulent conduct) his award and all unexercised SARs (whether vested or unvested) will be forfeited in their entirety and will lapse immediately on the date of termination of employment.

*Death, retrenchment, retirement, ill health, injury, disability, employer company ceasing to be a subsidiary or other reasons for cessation of employment*

If a participant's employment with the Company terminates prior to the vesting date by reason of

death, retrenchment, retirement, ill health, injury, disability, the employer company ceasing to be a subsidiary of the Company (or the undertaking in which the participant is employed is transferred out of the Group), or other reasons for cessation of employment (other than resignation or dismissal), then a portion of his award or unvested SAR will vest on the date of termination of employment.

The portion of the award or SAR which shall vest will reflect the number of months served since the award date or date of grant over the total number of months in the vesting period and the extent to which the performance condition has been met as at the date of termination of employment. In the case of a SAR, the participant will then have a period of six months from the date of termination of employment to exercise his SAR. To the extent that the SAR is not exercised during this period, it will lapse upon the expiry of the six month exercise period.

The portion of the award or SAR that does not vest on termination of employment because the performance condition and/or vesting condition has not been met in full, will lapse immediately. The unvested forfeitable shares will be sold by the Escrow agent as soon as practicable after the lapse date and the sales proceeds remitted to the relevant employer company.

Where a participant holds vested but unexercised SARs and his employment is terminated for one of the reasons specified above, those SARs can be exercised within a period of six months following the date of termination of employment. To the extent that a SAR is not exercised during this period, it will lapse upon the expiry of the six month exercise period.

*Change of Control 14.1(g) 14.3(a), (b), (c)*

In the event of a change of control of the Company occurring prior to the vesting date, a portion of the award or unvested SAR shall vest on the date of the change of control and will continue to be subject to the terms of the award letter or letter of grant. The award and SAR will vest in accordance with, and subject to, its original terms unless the terms of the award letter or possible, the number of shares subject

## Notice to **shareholders**

to the continuing portion. In this case, to the extent possible, the number of shares subject to an award of SAR and the grant price of a SAR shall be adjusted or awards or grants converted into rights in respect of shares in one or more other companies, provided that the participant is no worse off. In the event that such adjustment or conversion is not possible, the Committee will determine the treatment of the award or SAR provided that the participant is no worse off as a consequence of the actions taken.

Where a change of control of the Company occurs after a SAR has vested but before it has been exercised in full, it can be exercised at any time during the SAR period and will not lapse as a consequence of the change of control.

In the case of:

- (a) an internal reconstruction; or
- (b) the shares ceasing to be listed on the JSE (which does not follow a change of control); or
- (c) any other event which may affect awards or SARs, but that event does not result in a change in the ultimate control of the Company, the award or SAR will not vest as a consequence of that event and the award or SAR will continue to be governed by the rules of the plan. However, if the terms of the award letter or letter of grant are no longer appropriate, to the extent possible, the number of shares subject to an award or SAR and the grant price of a SAR shall be adjusted or awards or grants converted into rights in respect of shares in one or more other companies, provided that the participant is no worse off. In the event that such adjustment or conversion is not possible, the Committee will determine the treatment of SAR or award provided that the participant is no worse off as a consequence of the actions taken.

Where, following a change of control of the Company a participant remains employed by an employer company but, as a direct consequence of the event, his position or employee grade within the employer company is demoted to that of a lesser position or employee

grade, any unvested SARs and unvested awards held by the participant will vest immediately and in full on the date upon which that demotion takes effect. The SAR may be exercised (together with any vested SARs) at any time during the SAR period.

### *Delisting of shares following change of control 14.1(g)*

If, following a change of control of the Company and as a direct consequence of that change of control, the shares cease to be listed on the JSE, any unvested SARs and unvested awards will vest immediately and in full on the day immediately preceding the date of delisting and the SARs may be exercised (together with any vested SARs) at any time during the SAR period. Upon the exercise of a SAR following a delisting of the shares, the Committee will determine the market value of a share for the purposes of establishing the exercise price.

### *Variation in share capital 14.1(e), (g), 14.3*

In the event of a rights issue, capitalisation issue, subdivision of shares, consolidation of shares, the Company being put into liquidation (or an event which is similar in form to a liquidation, including, but not limited to, a business rescue), or the Company making a distribution in specie or a payment in terms of Section 90 of the Companies Act 61 of 1973 (other than a dividend paid in the ordinary course of business out of the current year's retained earnings), participants shall continue to participate in the plans. However, the Committee may make such adjustment to the number of shares subject to an award or a SAR, and the grant price in the case of a SAR, or take such other action as may be required to place participants in no worse a position than they were prior to the happening of the relevant event and to provide that the fair value of the award or SAR immediately after the event is materially the same as that immediately before the event.

In the case of the FSP, participants, as shareholder of the forfeitable shares, will be eligible to participate in such an event as a shareholder. Where additional

shares are acquired by the participant as a consequence of his participation in this event, such shares shall not be subject to the rules of the FSP.

Any adjustments made in these circumstances will be notified to the participants and the auditors will confirm in writing to the Committee (where necessary) and the JSE whether the adjustments were calculated in accordance with the rules of the plan. In addition, the adjustments will be reported in the Company's annual financial statements for the year in question.

For the avoidance of doubt, the issue of shares as consideration for an acquisition, for cash and the issue of shares or a vendor consideration placing will not constitute a variation in share capital for these purposes.

On a liquidation of the Company (or an event which is similar in nature to a liquidation), other than for the purposes of reorganisation, the award or SAR will lapse on the date of liquidation.

#### Amendments to the plans 14.2

Amendments to the provisions of the plans relating to:

- ▀ eligibility to participate in the plan; 14.1(a)
- ▀ the number of shares which may be utilised for the purpose of the plans; 14.1(b)
- ▀ the basis for determining awards or SARs; 14.1(f)
- ▀ the amount payable on the grant or vesting of an award or SAR; 14.1(d)
- ▀ the voting, dividend, transfer and other rights attached to the awards and SARs, including those arising on a liquidation of the Company; 14.1(e)
- ▀ the adjustment of awards or SARs in the event of a variation of capital of the Company or a change of control of the Company; 14.1(g);
- ▀ the procedure to be adopted in respect of the vesting of awards or SARs in the event of termination of employment; and 14.1(h)
- ▀ the limitations on benefits or maximum entitlements, 14.1(c),

may not be amended without the prior approval of the JSE and of shareholders through an ordinary resolution of 75% (seventy five percentage) shareholders of the Company present or by proxy in general meeting, excluding (in the case of the FSP) all the votes attached to forfeitable shares and all shares owned and controlled by persons who are existing participants in the FSP and which have been acquired under the FSP and, in the case of the SAR plan, excluding all of the votes attached to shares owned and controlled by persons who are existing participants in the SAR plan and which have been acquired under the SAR plan.

#### 9. Special Resolution Number 1: General authority to repurchase shares

Resolved as a special resolution that the Company be and is hereby granted a general approval authorising the repurchase by the Company and/or its subsidiaries of shares issued by the Company, on such terms and conditions as the Directors may deem fit, and in terms of the Companies Act No 61 of 1973, as amended or revised ("Act"), the Company's articles of association and the Listings Requirements of the JSE Limited provided that in terms of the Listings Requirements of the JSE, general repurchases of the Company's shares can only be made subject to the following:

- 9.1 that the Company and its subsidiaries are enabled by their articles of association to repurchase such shares; [5.72 (b)]
- 9.2 that the repurchase of shares be effected through the order book operated by the JSE Limited trading system and be done without any prior understanding or arrangement between the Company and the counterparty; [5.72 (a)]
- 9.3 that the Company and its subsidiaries are authorised by its members in terms of a special resolution taken at general meetings, to make such general repurchases, such authorisation being valid only until the next annual general meetings or for 15 months from the date of this special resolution, whichever is the earlier date; [5.72 (c)]

## Notice to **shareholders**

- 9.4 that an announcement be made giving such details as may be required in terms of the Listing Requirements of the JSE when the Company has cumulatively repurchased 3% (three 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 shares and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter; [5.79]
- 9.5 at any one time the Company may only appoint one agent to effect any repurchase on the Company's behalf; [5.72 (e)]
- 9.6 the repurchase of shares will not take place during a prohibited period (as defined in the Listings Requirements of the JSE) unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
- 9.7 after such repurchase the Company will still comply with the Listings Requirements of the JSE concerning shareholder spread requirements;
- 9.8 the repurchase of shares shall not, in the aggregate, in any one financial year, exceed 20% (twenty percent) of the Company's issued share capital as at the date of registration of this special resolution; or
- 9.9 10% (ten percent) of the Company's issued share capital in the case of an acquisition of shares in the Company by a subsidiary of the Company;
- 9.10 the repurchase of shares may not be made at a price greater than 10% (ten percent) above the weighted average traded price of the market value of the shares as determined over the five business days immediately preceding the date on which the transaction is effected; [5.72 (d)]
- 9.11 the Company may not enter the market to proceed with the repurchase of its ordinary shares until the Company's Sponsor has confirmed the adequacy of the Company's working capital for the purpose of undertaking a repurchase of securities in writing to the JSE.
- 9.12 Reason and effect of the Special Resolution**  
The reason for this Special Resolution is to grant the Company and its subsidiaries a general authority to repurchase the Company's shares by way of open market transactions on the JSE Limited, subject to the Act and the Listings Requirements of the JSE.
- The effect of this special resolution would be that the Company and its subsidiaries will have been authorised generally to repurchase the Company's shares on the open market, subject to the Act 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.
- 9.13 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 with reference to the repurchase of the Company's shares as set out in the special resolution above.

#### 9.14 Working capital statement

The directors are of the opinion that, after considering the effect of the maximum repurchase permitted and the maximum general payments to shareholders, 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, recognised and measured in accordance with the accounting policies used in the latest 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.

Other than disclosed or accounted for in this report, the directors of the Company whose names are given on pages 4 and 5 of this report are not aware of any other 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 general meeting, a material effect on the Group's financial position.

#### 9.15 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.

#### 9.16 Disclosures in terms of paragraph 11.26 of the Listings Requirements of the JSE

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of Special Resolution Number 1:

- // Directors and management (refer to pages 4 – 5 and 18 to 19).
- // Major shareholders of the Company (refer to page 48).
- // Directors' interests in the Company's shares (refer to page 56).
- // Share capital of the Company (refer to page 101).

#### 10. 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 and the posting date thereof.

#### 11. Litigation statement

The directors of the Company whose names appear on pages 4 and 5 of the annual report of which this notice forms part, report that claims of approximately R400 million have been made by two customers against the Group. These claims refer to supply disruptions, predominantly as a result of power outages and equipment failure. The Group has sought legal advice and the Board of directors is of the opinion that various robust defenses exist in respect of the two claims and material success in either of these matters by the claimant is improbable. Accordingly, no provision for any liability has been made in the financial statements.

# Notice to **shareholders**

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## 12. Voting and proxies

### 12.1 Certificated shareholders

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name.

Should this not be the case and the shares are in fact registered in another name, or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangement with that party to be able to attend and vote in their capacity.

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend, speak and on a poll, vote in his/her stead.

A proxy need not be a shareholder of the Company.

For the convenience of registered shareholders of the Company, a form of proxy is enclosed herewith, containing detailed instructions in this regard.

### 12.2 Uncertificated shareholders

Beneficial owners of dematerialised shares who wish to attend the annual general meeting require their Central Securities Depository Participant ("CSDP") or broker to provide them with a letter of representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

### 12.3 Proxies

The instrument appointing a proxy and the authority (if any) under which it is signed must reach the transfer secretaries by no later than 10:00 on 17 May 2011. On a poll, ordinary shareholders will have one vote in respect of each share held.



**Carnita Low**  
Company secretary

16 February 2011

# Form of proxy



(Registration number 1927/000089/06)  
 JSE share code: AFX ISIN code: ZAE000067120  
 ("Afrox" or "the Company")

FOR USE BY SHAREHOLDERS HOLDING SHARE CERTIFICATES AND SHAREHOLDERS WHO HAVE DEMATERIALIZED 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 10:00 ON 19 MAY 2011.

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 subregister maintained by a CSDP, you must not complete this form of proxy 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/members 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 African Oxygen Limited, Afrox House, 23 Webber Street, Selby, Johannesburg, South Africa on 19 May 2011 at 10:00 and at any adjournment thereof, as follows:

	Number of Afrox shares		
	In favour of	Against	Abstain
1. Adoption of annual financial statements			
2. Re-election of directors			
2.1 Louis van Niekerk			
2.2 Dr. Khotso Mokhele			
2.3 Kent Masters			
2.4 Sipho Pityana			
3. Reappointment of auditors			
4. Appointment of Audit Committee members			
4.1 Louis van Niekerk			
4.2 David Lawrence			
4.3 Morongwe Malebye			
5. Place unissued share capital under the control of the directors			
6. Increase of independent non-executive directors' fees			
7. General authority to enter into funding agreements			
8. Adoption of the African Oxygen Limited Share Appreciation Right Plan and Forfeitable Share Plan			
9. Special Resolution 1: General authority to repurchase shares			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2011

Member \_\_\_\_\_

Please read the instructions on the reverse side of this form of proxy.

Overview

Financial director's review and business review

Sustainability and corporate governance

Financial results and other information

# Form of proxy

## Form of proxy – 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 (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 10:00 on 17 May 2011.
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 meeting". Any such deletion 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 form of proxy 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 form of proxy 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 of", "Against" or "Abstain" headings on the form of proxy. If no instructions are filled in on the form of proxy, 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 form of proxy unless previously recorded by the transfer secretaries of the Company or waived by the chairman of the annual general meeting.
9. This form of proxy 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 subregister.
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 10:00 on 17 May 2011.
12. The completion and lodging of this form of proxy 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 form of proxy 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

Computershare Investor Services (Pty) Limited  
70 Marshall Street, Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)

## Our top products



Vitamax is a market-leading, premium quality, welding electrode. Vitamax is renowned for its smooth, quiet arc action, low spatter and good striking and restrike characteristics and excellent slag detachability. This versatile electrode, which has a rapid burn-off rate, produces smooth welds in all positions.



Handigas is the safe, reliable energy source that can be used in all heating and cooking processes, indoors and out. With unmatched power and portability, Handigas has established itself as a major energy supplier to industrial, commercial and hospitality businesses as well as an important energy source in the domestic and agricultural markets.



Suremix is southern Africa's leading beverage dispensing brand. When it comes to draught beer, soft drinks or fruit juices and wines, Suremix has the right drinks dispensing gas for your needs. Suremix is available as Suremix 30 for stouts and ales, Suremix 60 for quick pouring of lagers, Suremix 100 for soft drinks and higher carbonated lagers, and Suremix N for fruit juices and wines.



The AfroxPac is the first self-contained self-rescuer manufactured by Afrox, and was approved in August 1992 for use by the South African mining industry. Its successor, AfroxPac 35, was launched in 2002 and is now the market leader sold throughout Africa and abroad.



Afrox Medispeed is committed to providing a comprehensive range of products and services to respiratory therapy patients in the home. Afrox Medispeed provides a complete Domiciliary Respiratory Service package to suit the requirements of medical practitioners, medical aids and, most importantly, the patient.



Proven shielding gas mixtures offering the highest quality, providing optimum welding productivity, and supported by outstanding Afrox service. These products include Argoshield 5, Argoshield Light and Argoshield Universal that are indispensable to everyday welding technology.



The Transarc MMA 160 is an inverter based welding machine with added TIG welding capability. The machine is fitted with VRD and will consistently deliver high quality MMA welding. Ideal for DIY and light maintenance, the MMA 160 is portable with stable arc characteristics.



The Afrox PortaPak is an ideal welding and cutting set for those difficult-to-get-to jobs. Light and robust, only 29 kg yet still having man-sized capabilities, it is easily moved by one person, and can be lifted through hatches or into service vehicles. Due to its portability, PortaPak is ideal for emergency vehicles or on maintenance duty in industry where portability is a must.



Saffire gas equipment comes with a best in class warranty backed by a Safety Solutions Programme to increase safety awareness in the gases industry. Afrox has won a reputation for the safest equipment available and provides training to customers to use the equipment safely and effectively.



MIG 6000 is produced from a high quality deoxidised rod and is copper coated for increased shelf life, which also facilitates good electrical conductivity and pick-up with reduced friction during high speed welding. MIG 6000 is a premium quality wire, which is precision layer wound to provide positive uninterrupted feeding in semi-automatic and automated systems.



African Oxygen Limited

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