

# Directors' report

## for the year ended 31 December 2016

The directors have pleasure in submitting the Group annual financial statements and annual financial statements for the year ended 31 December 2016.

In the context of the financial statements, the term 'Group' refers to African Oxygen Limited (Afrox) as the Company and its subsidiaries as well as an associate and a trading trust. A list of the subsidiaries and associate appears on pages 70 to 74.

### NATURE OF BUSINESS

Afrox is an integrated, full spectrum industrial gases, welding products and liquefied petroleum gas (LPG) business, operating in sub-Saharan Africa. We provide solutions and services to meet the needs of customers and deliver product service offerings to targeted market segments. The business comprises large gas supply schemes, bulk industrial gas, packaged cylinder gases, welding products and liquefied petroleum gas, this includes products such as medical gas 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 94 of the Companies Act of South Africa, the Audit Committee confirms that it has discharged all of its mandated responsibilities (refer to page 2 for details of functions performed by the Audit Committee). Afrox aspires to apply all the principles of the King Code of Governance Principles for South Africa (King IV).

### SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

The Social, Ethics and Transformation Committee also confirms that it has discharged all of its mandated responsibilities in line with its terms of reference approved by the Board of directors.

### FINANCIAL RESULTS

The results of the Group's operations for the year are set out in the income statements on page 19.

The results for the year show revenue of R5 537 million (2015: R5 473 million) with earnings before interest and tax at R848 million (2015: R508 million) and net profit attributable to the equity holders of the Company at R597 million (2015: R414 million). Basic and diluted earnings per share were 193.3 cents (2015: 134.2 cents). The statement of financial position continues to reflect that the Group is in a strong financial position with cash generated from operations for the year of R1 099 million (2015: R926 million).

### SHARE CAPITAL

The Company's authorised share capital remained unchanged. As at 31 December 2016, the Company's issued share capital is reflected in the following table:

	2016 and 2015	
	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 paid and declared to shareholders are set out in note 26 to the financial statements and are available on our website, [www.afrox.co.za](http://www.afrox.co.za). An interim dividend of 38 cents (2015: 18 cents) per ordinary share was paid on 17 October 2016.

A final dividend of 56 cents (2015: 51 cents) per ordinary share before the dividend taxation of 20% has been declared. The final dividend will be paid on 10 April 2017. The Board is satisfied that the Group's capital remaining after the payment of the final dividend will be sufficient to support the current operations and to facilitate the anticipated future developments of its business during the year ahead.

### 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 (where it forms part of the DAX 30 share index).

## BOARD OF DIRECTORS

### Composition of the Board

The Afrox Board currently consists of five independent non-executive directors, with three non-executive directors employed in executive capacities within The Linde Group and two executive directors. The Board composition and changes thereto during the year are detailed on page 71 of the Integrated Report.

## INTERESTS OF DIRECTORS

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' interests in contracts exists. There was no change in directors' interests in contracts and shareholding in the period between the financial year-end and the date of signature of this report.

## SIGNIFICANT SHAREHOLDERS

Details of significant shareholders appear on page 7.

## COMPANY SECRETARY

Ms C Singh is the Company Secretary and her business and postal addresses appear on page 112 of the Integrated Report.

The Board is satisfied that an arm's length relationship exists between it and the Company Secretary, who is not a member of the Board or a prescribed officer of Afrox.

The Company Secretary provides the Board with guidance in respect of the discharge of their duties and responsibilities and regarding legislation, regulatory, and governance procedures and requirements. The Board has access to, and is 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 to perform her duties.

## ADMINISTRATION

Computershare Investor Services Proprietary Limited is the share transfer secretary of the Company. The JSE sponsor is One Capital and the NSX sponsoring broker is Namibia Equity Brokers Proprietary Limited.

## SUBSIDIARIES AND ASSOCIATE

Information regarding the Group's subsidiaries is set out in note 3 on page 32 and of the interest in its associate in note 4 on page 33.

## INDEPENDENT AUDITORS

Provided that their appointment is confirmed at the AGM on 25 May 2017, the independent auditors, KPMG Inc will continue in office for the ensuing period in accordance with Section 84(4)(b) of the Companies Act of South Africa.

## BORROWING FACILITIES

The Group's cash on hand at 31 December 2016 amounted to R153 million (2015: net borrowings of R148 million). Details of the long-term borrowings are set out in note 13 on page 43. There are no restrictions on the Company's borrowing capacity contained in the Memorandum of Incorporation.

## LITIGATION STATEMENT

The Group and AMSA reached a settlement in 2016. The full proceeds of the settlement amounting to R165 million was received during the year. As at the date of this report, there is no outstanding litigation of a material nature against the Group. Afrox is presently a respondent in an investigation by the Competition Commission of South Africa with respect to the LPG sector. Afrox is cooperating fully with the Commission's investigation.

## EVENTS AFTER REPORTING DATE

The directors are not aware of any material matter or circumstance arising since the end of the year and up to the date of this report, not otherwise dealt with in this report. The proceeds of the disposal of certain properties amounting to R84 million were received subsequent to the year end, but before the date of this report.