Independent auditor's report

TO THE SHAREHOLDERS OF AFRICAN OXYGEN LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of African Oxygen Limited (the Group and Company) set out on pages 12 to 74, which comprise the statements of financial position as at 31 December 2016, and the income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and the segmental report, remuneration report, the accounting policies and the notes to the financial statements.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of African Oxygen Limited as at 31 December 2016, and 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 the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
Impairment of plant and equipment (relates to the consolidated and separate financial statements)	
Refer to note 1 on pages 28 to 31 of the consolidated and separate financial statements.	
The directors are required to review the carrying value of plant and equipment when any impairment indicators are identified. The Group's cash-generating units (CGUs) are subject to the cyclical nature of expenditure in the sectors in which these CGUs operate, including the manufacturing, construction and mining sectors, amongst others. These sectors have experienced the impact of a reduction in capital expenditure, reduced government spending, cost reductions, project cancellations and volatile commodity prices. The level of activity in these sectors impacts the forecast cash flows used to assess the value in use of the CGUs. The net book value of the plant and equipment subject to impairment testing in the Group and Company amounted to R1,2 billion. The determination of whether an impairment is required is subjective as judgement is required in determining the value in use. In calculating the recoverable amounts, key assumptions are made by the directors over the cash flow forecasts, future growth rates, discount rates and grouping of assets into CGUs. The value in use as determined by the directors was compared to the net book value of the plant and equipment to determine if an impairment was required to be recognised. Accordingly, due to the high estimation uncertainty, the impairment assessment of plant and equipment was considered to be a key audit matter in the audit of the consolidated and separate financial statements in the current year.	Our audit procedures included, amongst others: • critically evaluating the determination of CGUs; • evaluating whether the model used to calculate the value in use of the individual CGUs complied with the requirements of IAS 36 *Impairment of Assets*; • evaluating the key assumptions made by the directors in determining the value in use; • validating the assumptions applied and inputs used in the impairment models by comparing them to historical information and approved budgets; • assessing the historical accuracy of the directors' forecasts, by comparing the forecasts used in the prior year impairment assessments to actual performance in the current year. These procedures enabled us to determine the accuracy of the forecasting process. We applied increased scepticism to current period forecasts in areas where previous forecasts were not achieved and/or where future uncertainty is greater or volatility is expected; • subjecting the key assumptions to sensitivity analyses; and • considering whether the disclosure in respect of the plant and equipment impairment was appropriate.

Independent auditor's report continued

Other information

The directors are responsible for the other information. The other information comprises the Audit Committee's report, the Directors' report, and the Company Secretary's certificate as required by the Companies Act of South Africa and the Approval of the annual financial statements and the Shareholders' profile, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of African Oxygen Limited for 10 years.

KPMG Inc.
Garry Stanier
Chartered Accountant (SA)
Director
Registered Auditor

23 February 2017

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