

Selected notes to the summarised audited consolidated financial statements

for the year ended 31 December 2016

African Oxygen Limited (Afrox or the Company) is a South African registered company. The summarised audited consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in an associate and a trading trust.

1. STATEMENT OF COMPLIANCE

The summarised audited consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements (JSE Listings Requirements) for summarised reports, and the requirements of the Companies Act of South Africa, 71 of 2008, as amended (Companies Act) applicable to summary financial statements. The JSE Listings Requirements require summarised reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements, from which the summarised audited consolidated financial statements were derived, are in terms of IFRS.

2. BASIS OF PREPARATION

The summarised audited consolidated financial statements do not include all the information and disclosures required for the audited consolidated financial statements. The summarised audited consolidated financial statements should be read in conjunction with the audited consolidated financial statements. The audited consolidated financial statements for the Group as at and for the year ended 31 December 2016 were prepared on the going-concern basis, and are available for inspection at the Company's registered office and will be available on the Afrox website at www.afrox.co.za.

The accounting policies applied in the presentation of the summarised audited consolidated financial statements are consistent with those applied for the year ended 31 December 2015.

The summarised audited consolidated financial statements are prepared on the historical-cost basis except for the following items which are measured using an alternative basis at each reporting date:

- Derivative financial instruments measured at fair value through profit or loss.
- Retirement benefit assets and liabilities are measured at the fair value of the planned assets less the present value of the defined benefit obligation.
- Share-based payment awards are measured at fair value. The fair value of the equity instruments granted is estimated using industry-accepted techniques.
- Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs of to sell.

The directors take full responsibility for the preparation of these summarised audited consolidated financial statements and that the financial information has been correctly extracted from the full audited consolidated financial statements.

This report was compiled under the supervision of Dorian Devers, Financial Director.

3. PROPERTY, PLANT AND EQUIPMENT

R' million	2016 Audited	2015 Audited
Opening carrying value	2 988	3 166
Additions, net of transfers from assets under construction	379	379
Transfer to assets held for sale	(7)	(120)
Impairments	(10)	(27)
Disposals	(15)	(28)
Depreciation	(367)	(369)
Translation differences	(16)	(13)
Closing carrying value	2 952	2 988

Impairment write-down

The Group's plant and equipment was impaired by R10 million (2015: R27 million). The impairment losses have been recognised in profit and loss as impairment of tangible assets. The DRC subsidiary assets were impaired in line with the abandonment of operations. The recoverable amount for the assets was determined based on the value in use of Rnil.

Change in estimate

During the year, the Company conducted a review of expected useful lives of plant and machinery based on IAS 16. As a result, the expected useful lives of these assets increased. The effect of these changes on actual and expected depreciation expense, included in depreciation expenses, in current and future years respectively is as follows:

R' million	31 December 2016 Audited	31 December 2017 Audited	31 December 2018 Audited	31 December 2019 Audited	31 December 2020 Audited
Decrease in depreciation	36	28	15	9	5

Selected notes to the summarised audited consolidated financial statements *continued*

for the year ended 31 December 2016

4. FAIR VALUE CLASSIFICATION AND MEASUREMENT

Accounting classification and fair value

The classification of each class of financial assets and liabilities, and their fair values are:

R'million	Fair value
31 December 2016	
Financial liabilities measured at fair value	
Derivative financial instruments	11
31 December 2015	
Financial assets measured at fair value	
Derivative financial instruments	15

The derivatives are a level 2 measurement, and the fair value of the derivative financial instruments is based on broker quotes. Similar contracts are traded in an active market and the quote reflects the actual transactions in similar instruments.

5. EARNINGS AND HEADLINE EARNINGS PER SHARE

Headline earnings per share are calculated on headline earnings of R585 million (2015: R429 million), and a weighted average number of ordinary shares of 308 567 602 (2015: 308 567 602).

Reconciliation between earnings and headline earnings

R'million	2016 Audited	2015 Audited
Profit for the year	597	414
Adjusted for effects of:		
Impairment of goodwill in subsidiaries	-	-
Profit on disposal of property, plant and equipment	(26)	(6)
Impairment of property, plant and equipment	10	27
Taxation	581	435
	4	(6)
Headline earnings	585	429
Basic and diluted earnings per share – cents	193.3	134.2
Headline earnings per share – cents	189.4	139.2
6. ASSETS HELD FOR SALE		
The sale of the Group's land, situated in Cornubia, Durban has been completed. The sale of unutilised properties and assets at gas equipment factory have also been completed as at 31 December 2016. The assets held for sale related to the Atmospheric Gases segment.		
Opening net assets held for sale	120	-
Transfer to net assets held for sale	7	120
Disposals	(127)	-
Total assets held for sale	-	120
7. RELATED-PARTY TRANSACTIONS		
As part of the restructuring, a decision was taken to divisionalise Afrox Safety (Pty) Ltd and distribute all its assets to Afrox as at 29 February 2016 as a liquidation distribution. Afrox has assumed all the liabilities of Afrox Safety as at 29 February 2016. Afrox Safety was deregistered on 21 July 2016. The investment in subsidiary of R4 million was impaired in the current year.		
The following table summarises the recognised amounts of assets and liabilities assumed at the date of liquidation.		

R'million	2016
Property, plant and equipment	4
Finance leases	15
Deferred taxation	3
Inventories	10
Trade and other receivables	11
Provisions	(10)
Trade and other payables	(1)
Taxation receivable	1
Net assets transferred	33

8. UPDATE ON KEY LITIGATION MATTERS

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.

9. SUBSEQUENT EVENTS

The directors are not aware of any material matter or circumstance arising between 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.

10. SUMMARY FINANCIAL STATEMENTS INCLUDED IN THE SUMMARISED REPORT

The summary financial statements have been derived from the audited consolidated financial statements on the basis set out in note 2.

The summary financial statements have not been separately audited. For a better understanding of the Company's financial position, financial performance and cash flows in accordance with IFRS, the full audited consolidated financial statements and auditor's report thereon are available from the Company's registered office. The Company's auditor, KPMG Inc., issued an unqualified auditor's report on the financial statements.
