

AFROX

AUDITED GROUP FINANCIAL RESULTS for the year ended 31 December 2012

Revenue: R5.6 billion (6%)

EBITDA: R24 million (3%)

Headline earnings per share: 91.0 cents

Performance summary

On the back of tough trading conditions, which affected all major market segments in which Afrox operates, 2012 revenue increased 6% to R5.6 billion and EBITDA increased 3% to R798 million. Profit for the year was R283 million. Headline earnings per share were flat at 91.0 cents for the year (2011: 91.6 cents). Afrox continued with its programme of investing in plant modernisation, additional capacity and efficiency enhancements, and for the year under review invested R546 million (2011: R416 million). The Group ended the year with net borrowings of R615 million (2011: R716 million) and gearing of 15.5% (2011: 17.4%).

Business review

During the year, market activity remained depressed and cost pressures continued as rising fuel and electricity prices had an effect on margins and production. An unsettled labour environment, which was characterised by strikes and violence, saw production in key industries, such as mining and manufacturing, negatively impacted. The consequential drop in demand for gases and hard goods had a negative effect on Afrox's volumes sold in the second half of the year.

Investments made during the year included improving plant capacity and reliability, the acquisition of cylinders for the packaged and LPG businesses and distribution vehicles to bolster service levels to customers and provide a platform for future growth. In addition R78 million (2011: R115 million) was invested in commissioning the Pretoria ASU, the largest single investment Afrox has made to date. The new plant is far more energy efficient than the plant it replaces. This plant will provide additional capacity to serve the merchant market.

Working capital at R472 million for 2012 improved from R568 million in 2011. Afrox's debt/equity ratio, at 32.3%, was considerably lower than that of the comparative gas companies, reflecting significant headroom for Afrox to take on new initiatives.

Basic earnings per share were favourably influenced by lower impairments being recorded during 2012, at R31 million compared to R153 million in 2011. In the current year, impairments totalling R16 million were made as a consequence of sub-economic performance, and RECO's property, plant and equipment was impaired by R15 million as the division was prepared for sale. The sale was concluded in February 2013.

Competition in the LPG sector rose sharply as small operators took advantage of the fact that they can now access refineries directly for their product, both on the spot or contracted market. Due to the size of Afrox's off-take, and to ensure availability of supply, Afrox procures primarily through the contracted market. The reliable supply in 2012 was generally at higher price levels than obtainable on the spot market, which had a negative impact on margins where end-user prices were set by reference to the spot market.

In addition, the levels of illicit dealing in LPG are still of major concern within the industry. In many cases, these dealers may not adhere to the safety regulations regarding filling of cylinders. They also do not always invest in their own cylinders, but use cylinder stock that belongs to other dealers thereby unfairly reducing their cost of doing business. These factors, among others and including a warm winter, contributed to LPG volumes reducing in 2012. LPG revenue was up 5% due to higher refinery product cost being passed on to customers. To avoid winter shortages, which have been common in the market for several years, the company invested in new 9kg cylinders, most of which were pre-filled prior to their distribution to eliminate supply chain bottlenecks, as well as importing LPG despite the negative impact on margins.

Hard goods revenue increased 6%. This was achieved in the face of continued pressure on pricing and increased competition from importers of low-cost products. Significant investments in the Brits electrode factory during the last two years has seen new equipment installed and scrap rates reduced. The continual rise in steel prices is a major impediment to the production of low-cost welding products. To counter these costs, innovative production techniques have been introduced to increase output and grow market share.

The year under review was challenging for the Atmospheric gases business, which continued to be impacted by the rising cost of electricity and the reduced demand for product experienced in some sectors of the economy, especially the steel industry. Production availability of ASU installations rose steadily to 98% during the year, which is in line with world-class standards.

Energy management programmes are an essential part in efficient management of the plants. The cost of electricity in our air separation operations is the major element in Afrox's energy cost. Through our energy management programme, energy consumption was reduced by about 8%. Tonnage volumes were stable in 2012.

Merchant CO₂ volumes were in line with those achieved in 2011. During 2012, Afrox became the first gases company in South Africa to receive the Global Food Safety Initiative rating for the production of CO₂, the most widely used gas in the beverage and food sectors.

Sales of bulk oxygen decreased 10% largely due to the closure of a large production facility at a customer site. On the merchant industrial side, good growth was experienced for shielding gases used in welding applications.

Medical atmospheric gases, provided to the state and private healthcare sector, performed well. Growth was stimulated by hospitals undergoing refurbishments and moving from cylinder supplies to bulk schemes.

As a major supplier of products to the government sector, particularly the public healthcare sector, the timeous collection of receivables remains challenging. This has led to a build up in days receivables. State hospitals are a key segment of Afrox's healthcare market and a new tender for a three-year contract period to 2015 is expected to be awarded early in 2013.

Although the manufacturing sector was significantly affected by prevailing economic conditions, the general reduction in demand for packaged gases from this sector was offset to a degree by new demand from vital infrastructure projects. This led to Afrox securing new contracts for the supply of oxygen, argon, carbon dioxide, LPG and welding consumables.

One of the main factors influencing the positive growth trend in the rest of Africa has been the wide range of commodities mined and the exploitation of newly discovered reserves of oil and natural gas. For Afrox this activity has translated into a year of sustained growth with revenues of R849 million being generated. The region's GPADE (Gross Profit after Distribution Expenses) was R314 million which translates into 21% (2011: 20%) of the Group's GPADE.

Funding

The Group has made good progress in developing and executing its new funding strategy. A R600 million short-term bridging facility is currently in place. This will meet our cash requirements whilst long-term funding is negotiated and instituted during the first half of 2013.

Dividend

The Board declared a final cash dividend of 18.0 cents per share (2011: 23 cents), which together with the interim cash dividend of 27 cents per share (2011: 22 cents), makes a total of 45.0 cents per share (2011: 45 cents) that has been declared out of the after tax profits of the year and which is covered 2.0 times by headline earnings per share.

Board of Directors

Brett Kimber was appointed Managing Director from 1 January, 2012, from a position as CEO of Linde operations in South Korea. He brings to Afrox a desirable blend of local and global experience that will be invaluable going forward.

Nick Thomson was appointed Financial Director and joined the Board in April, 2012. Prior to joining Afrox, Nick was Chief Financial Officer for Transnet Freight Rail for six years and before that was a partner in the accounting services firm Ernst and Young. He replaces Frederick Kotzee who served the company well during his tenure.

Louis van Niekerk, the lead independent non-executive director, who has served on the Board since 2005, announced that he would not be available for re-election as Director at the company's AGM in May 2013.

Christopher Wells and Sipho Maseko were appointed to the Board as independent non-executive directors with effect from November 2012.

Outlook

Although overall trading conditions were challenging throughout the year, the Group's prospects remain positive and are supported by a well developed business footprint and distribution network.

While increased capital investment will continue, attention will be paid to improving margins through greater efficiency, growth and reduction of costs to levels that are appropriate to the business.

Afrox is poised to move into the second phase of its 'turnaround' strategy, which will involve concentrating on growth and improving the EBITDA level from the current levels. To assist in this, an integrated business planning approach to Afrox's activities has been adopted, which will assist in identifying where investment is required to increase customer service levels, as well as identifying where future growth can be expected. In addition, the company has introduced a new integrated business line structure which will improve accountability, allow clear performance goals and objectives to be set and ensure that there is appropriate bottom-line accountability as well as efficient asset utilisation.

In the coming year, attention will be focused on market opportunities supported by investment in new projects. An anticipated R1.5 billion will be devoted to the capital projects programme which will boost capacity and improve customer service in KwaZulu-Natal, Gauteng and the Eastern Cape. Our outlook remains optimistic.

Mike Huggon
Chairman

Brett Kimber
Managing Director

28 February 2013
Johannesburg

NOTICE OF FINAL DIVIDEND DECLARATION NUMBER 173 AND SALIENT FEATURES

Notice is hereby given that a gross final cash dividend of 18.0 cents per ordinary share, being the final dividend for the year ended 31 December 2012, has been declared payable to all shareholders of African Oxygen Limited recorded in the register on Friday, 19 April 2013.

The salient dates for the declaration and payment of the final dividend are as follows:

Last day to trade ordinary shares "cum" dividend
Friday, 12 April 2013

Ordinary shares trade "ex" the dividend
Monday, 15 April 2013

Record date
Friday, 19 April 2013

Payment date
Monday, 22 April 2013

Share certificates may not be dematerialised or rematerialised between Monday, 15 April 2013 and Friday, 19 April 2013, both days inclusive.

The local net dividend amount is 15.3 cents per share for shareholders liable to pay the new Dividend Tax and 18.0 cents per share for shareholders exempt from the new Dividends Tax (2011: 22.0 cents).

In terms of the new Dividends Tax effective 1 April 2012, the following additional information is disclosed:

- the dividend has been declared out of income reserves;
- the local Dividends Tax rate is 15%, subject to double tax agreement;
- no Secondary Tax on Companies (STC) credits were utilised;
- Afrox currently has 308 567 602 ordinary shares in issue; and
- Afrox's income tax reference number is 9350042710.

By order of the Board
Carnita Low
Company Secretary

28 February 2013
Johannesburg

Forward looking statements disclaimer: This annual results review contains statements related to our future business and financial performance and future events or developments involving Afrox that may constitute forward-looking statements. Such statements are based on current expectations and certain assumptions of Afrox's management are therefore subject to certain risks and uncertainties. A variety of factors, many of which are beyond Afrox's control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Afrox to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements or anticipated on the basis of historical trends.

Summarised consolidated statement of cash flows
for the year ended 31 December 2012

	2012	2011
R'million	Audited	Audited
Earnings before interest and tax (EBIT)	439	338
Adjustments for:		
Depreciation, amortisation and impairments	359	436
Other	103	19
EBIT before working capital adjustments	901	793
Working capital adjustments	35	51
Cash generated from operations	936	844
Net finance expenses and tax paid	(150)	(221)
Net cash available from operating activities	786	623
Dividends paid to owners of the parent	(154)	(93)
Dividends to non-controlling interests	(17)	(10)
Net cash inflow from operating activities	615	520
Additions to property, plant and equipment and intangibles	(558)	(447)
Other investing cash flows	58	53
Net cash outflow from investing activities	(500)	(394)
Decrease in borrowings	(78)	(186)
Incentive share scheme share purchased on behalf of employees	(14)	-
Net cash outflow from financing activities	(92)	(186)
Net increase/(decrease) in cash and cash equivalents	23	(60)
Cash and cash equivalents at the beginning of the year	232	292
Cash and cash equivalents at the end of the year	255	232

Summarised consolidated income statement
for the year ended 31 December 2012

R'million	Note	2012 Audited	2011 Audited
Revenue		5 558	5 246
Operating expenses		(4 760)	(4 472)
Earnings before interest, tax, depreciation, amortisation and impairments (EBITDA)		798	774
Depreciation and amortisation		(328)	(283)
Impairments		(31)	(153)
Earnings before interest and tax (EBIT)		439	338
Net finance expense		(24)	(46)
Income from associate		4	3
Profit before taxation		419	295
Income tax expense		(136)	(100)
Profit for the year		283	195
Attributable to:			
Equity holders of the company		270	183
Non-controlling interests		13	12
		283	195
Basic and diluted earnings per ordinary share - cents	4	87.5	59.2

Summarised consolidated statement of group
comprehensive income
for the year ended 31 December 2012

R'million	2012 Audited	2011 Audited
Profit for the year	283	195
Other comprehensive (loss)/income after tax	(154)	48
Translation differences for foreign operations	(18)	23
Translation differences relating to non-controlling interests	(7)	5
Changes in fair value of cash flow hedges (net of tax)	4	10
Actuarial (losses)/gains on defined-benefit funds	(184)	13
Deferred tax relating to actuarial losses/(gains)	51	(3)
Total comprehensive income for the year	129	243
Total comprehensive income attributable to:		
Equity holders of the company	123	226
Non-controlling interests	6	17
	129	243

Statistics and ratios

	2012 Audited	2011 Audited
Average no of shares in issue during the year (‘000)	308 568	308 568
Shares in issue (‘000)	308 568	308 568
Dividends per share (cents)	45.0	45.0
Final	18.0	23.0
Interim	27.0	22.0
Ratios		
EBITDA margin (%)	14.4	14.8
Interest cover on EBITDA (times)	33.3	16.8
Effective tax rate (%)	32.5	33.9
Gearing (%)	15.5	17.4
Dividend cover - headline earnings (times)	2.0	2.0

Summarised consolidated statement of changes in equity

R'million	Share capital and share premium	Incentive scheme share and share based payment reserves	FCTR and hedging reserves	Actuarial gains/(losses)	Retained earnings	Non- controlling interests	Total equity
Balance at 31 December 2010	552	-	(86)	277	1 952	32	2 727
Other comprehensive income	-	-	33	10	-	5	48
Profit for the year	-	-	-	-	183	12	195
Change in subsidiary shareholding	-	-	-	-	(1)	(1)	(2)
Dividends paid	-	-	-	-	(93)	(10)	(103)
Balance at 31 December 2011	552	-	(53)	287	2 041	38	2 865
Other comprehensive income	-	-	(14)	(133)	-	(7)	(154)
Profit for the year	-	-	-	-	270	13	283
Shares purchased on behalf of employees	-	(14)	-	-	-	-	(14)
Share based payments net of tax	-	22	-	-	-	-	22
Dividends paid	-	-	-	-	(154)	(17)	(171)
Balance at 31 December 2012	552	8	(67)	154	2 157	27	2 831

Business segments

	2012 Audited	2011 Audited
R'million		
Revenue	5 558	5 246
Atmospheric gases	1 817	1 696
LPG	2 018	1 913
Hard goods	874	822
Rest of Africa	849	815
Gross profit after distribution expenses (GPADE)	1 510	1 422
Atmospheric gases	568	513
LPG	362	378
Hard goods	266	242
Rest of Africa	314	289
Reconciliation of GPADE to EBIT		
GPADE for business segments	1 510	1 422
Other operating expenses	(1 040)	(931)
Impairments	(31)	(153)
Earnings before interest and taxation (EBIT)	439	338

Summarised consolidated statement of financial position as at 31 December 2012

R'million	Notes	2012 Audited	2011 Audited
ASSETS			
Property, plant and equipment	3	2 854	2 657
Other non-current assets		604	880
Non-current assets		3 458	3 537
Inventories		685	678
Trade and other receivables		841	830
Other current assets		32	16
Taxation receivable		30	50
Cash and cash equivalents		297	243
Current assets		1 885	1 817
Assets held-for-sale	5	44	-
Total assets		5 387	5 354
EQUITY AND LIABILITIES			
Shareholders' equity		2 804	2 827
Non-controlling interests		27	38
Total equity		2 831	2 865
Long-term borrowings		132	446
Deferred tax liability		528	524
Non-current liabilities		660	970
Trade, other payables and financial liabilities		1 078	981
Taxation payable		38	25
Short-term portion of long-term borrowings		738	502
Bank overdrafts		42	11
Current liabilities		1 896	1 519
Total equity and liabilities		5 387	5 354

Notes to the financial statements

African Oxygen Limited ("Afrox" or the "Company") is a South African registered company. The summarised consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

1 Statement of compliance

These summarised consolidated financial statements have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), the presentation as well as disclosure requirements of IAS34 Interim Financial Reporting, the SAICA financial reporting pronouncements issued by the Financial Reporting Standards Council and the South African Companies Act 71 of 2008.

2 Basis of preparation

The accounting policies are those presented in the annual financial statements for the year ended 31 December 2012 and have been consistently applied in these summarised consolidated financial statements and by all Group entities.

These summarised consolidated financial statements have been prepared under the supervision of the Financial Director, Nick Thomson (CA) SA.

3 Property, plant and equipment

	2012	2011
R'million	Audited	Audited
Property, plant and equipment		
Opening carrying value	2 657	2 637
Additions	546	416
Transfer to assets held-for-sale	(15)	-
Impairments	(16)	(152)
Disposals	(14)	(3)
Depreciation	(296)	(253)
Translation differences	(8)	12
Closing carrying value	2 854	2 657

4 Earnings and headline earnings per share

Earnings per share are calculated on earnings of R270 million (2011: R183 million).

Headline earnings per share are calculated on headline earnings of R281 million (2011: R283 million).

Reconciliation between earnings and headline earnings

	2012	2011
R'million	Audited	Audited
Profit for the year	270	183
Adjusted for the after-tax effects of:		
Profit on disposal of subsidiary	(11)	-
Profit on disposal of property, plant and equipment	-	(10)
Impairment of property, plant and equipment (net of tax)	22	110
Headline earnings	281	283
Basic and diluted earnings per share - cents	87.5	59.2
Headline earnings per share - cents	91.0	91.6

5 Assets held-for-sale

A decision to dispose of one of the Group's businesses (RECO) was taken in May 2012, as the nature of the business operations was not aligned to the Group's principal lines of business. The sale was completed in February 2013. The assets of the business have been accounted for as a disposal group, however, not as a discontinued operation, as the business does not represent a major line of business. As at 31 December 2012, the major classes of assets disposed of are detailed below:

	2012
R'million	Audited
Property, plant and equipment	15
Inventories	52
Impairment of property, plant and equipment	(15)
Inventory held-for-sale written-off	(8)
Total assets held-for sale	44

6 Subsequent events

The sale of RECO was completed in February 2013.

7 Audit opinion

The independent auditors, KPMG Inc, have issued their opinion on the Group's annual financial statements for the year ended 31 December 2012. A copy of their unqualified audit report is available for inspection at the company's registered office. These summarised financial statements have been derived from the group annual financial statements.

The auditor's report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of that report together with the accompanying financial information from the registered office of the company.

Corporate information

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

Afrox House, 23 Webber Street, Selby

Johannesburg 2001

PO Box 5404, Johannesburg 2000

Telephone +27 (11) 490 0400

Transfer secretaries: Computershare Investor Services (Pty) Limited

Sponsor in South Africa: One Capital

Sponsor in Namibia: Namibia Equity Brokers (Pty) Limited

Directors: B Kimber (Managing Director), NA Thomson** (Financial Director), J Narayadoo (Director MPG Operations), MS Huggon** (Chairman), M von Plotho*, DM Lawrence, M Malebye, Dr KDK Mokhele, LL van Niekerk, DM Woodrow**, SN Maseko, CF Wells** *German **British

Company Secretary: Carnita Low

Auditors: KPMG Inc.

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