

2013 ANNUAL REPORT
BOC KENYA LIMITED



Around the world The Linde Group has always been committed to the highest ethical standards of business conduct and to complying fully with all applicable laws and regulations. Only by consistently acting with integrity do we earn the trust of our customers, shareholders, colleagues, suppliers and the communities where we live and work.

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Notice of annual general meeting

Notice is hereby given that the Seventy Third Annual General Meeting of BOC Kenya Limited will be held at the Company's Head Office and factory site on Kitui Road, Industrial Area, Nairobi, on Friday 30 May 2014 at 11.00 am, for the following purposes:

ORDINARY BUSINESS

- (a) To receive and adopt the audited financial statements for the year ended 31 December 2013, together with the directors' and auditors' reports thereon.
- (b) To declare the final dividend for the year ended 31 December 2013.
- (c) To re- elect directors
 - (1) Mr. Marius Kruger who was appointed as a director with effect from 12 August, 2013, retires in accordance with clause 98 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - (2) Mr. Robert N. Mbugua retires by rotation under clause 93 of the Company's Articles of Association and being eligible, offers himself for re-election.
- (d) To approve the remuneration of directors for the year ended 31 December 2013.
- (e) To note that the auditors, KPMG Kenya, being eligible and having expressed their willingness, will continue in office in accordance with section 159 of the Companies Act (Cap 486) and to authorise the directors to fix their remuneration.

ANY OTHER BUSINESS

- (f) Any other business for which due notice has been given.

BY ORDER OF THE BOARD

Virginia Ndunge
Company Secretary
Kitui Road, Industrial Area
P.O Box 18010 -00500
Nairobi

28 March 2014

NOTE:

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on his/her behalf. Such a proxy need not be a member of the Company. To be valid, proxy forms must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.

The proxy form is available on page 63 of this report.

Directors, officers and administration

DIRECTORS

Ngugi Kiuna	Chairman
Maria Msiska*	Managing Director
Willem Coetzee**	
Nick Thomson***	
Robert N Mbugua	
Carol Musyoka	
Brett Wheatcroft**	
Marius Kruger**	Appointed 12 August 2013
Arthur Kamau	
Shuaib Fareed**	Alternate to Willem Coetzee

* Malawian

** South African

*** British

SECRETARY

Virginia Ndunge
Certified Public Secretary (Kenya)
Kitui Road, Industrial Area
P.O Box 18010 -00500
Nairobi

AUDITORS

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
P.O Box 40612-00100
Nairobi

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Kitui Road
Industrial Area
P.O Box 18010 -00500
Nairobi

ADVOCATES

Kaplan & Stratton Advocates
Williamson House 9th Floor
4th Ngong Avenue
P.O Box 40111-00100
Nairobi

Daly & Figgis Advocates
ABC Towers 6th Floor
ABC Place
P.O Box 40034 -00100
Nairobi

J.A Guserwa & Company
Agip House, Entrance B, 6th floor
Haile Selassie Avenue, P.O Box 8384 - 00200
Nairobi

REGISTRARS

Custody & Registrars Services Limited
6th Floor, Bruce House
Standard Street
P.O Box 8474 -00100
Nairobi

PRINCIPAL BANKERS

Citibank, N.A
Citibank House
Upper Hill Road
P.O Box 30711-00100
Nairobi

Standard Chartered Bank Kenya Limited
Sameer Park, Mombasa Road
P.O Box 18081-00500
Nairobi

Barclays Bank of Kenya Limited
Industrial Area, off Enterprise Road
P.O Box 30120 -00100
Nairobi

Board of directors



1. MARIA MSISKA

Maria is a Fellow of the Chartered Association of Certified Accountants. She holds a Master of Business Leadership degree from the University of South Africa as well as Bachelor of Commerce degree from the University of Malawi. Maria has served as a director in various listed and non-listed companies within and outside of the Linde Group in Africa. She was appointed as a director on the BOC Kenya Limited Board in February 2010. In September 2010, she was appointed Managing Director of BOC Kenya Limited and is leading the re-engineering of the Group's operations in the Eastern Africa region. Before her current role, she was Head of Finance for the Group's African Operations outside of South Africa and, prior to this, was Managing Director of Afrox Zambia Limited and Afrox Malawi Limited.

2. WILLEM DIEDERIK COETZEE

Willem is the General Manager African Operations, African Oxygen Limited (Afrox) based in South Africa. He is a registered professional engineer with the South African Institute of Professional Engineers. He holds a BSc Engineering degree Cum Laude and a Master of Business Administration degree from the University of Pretoria, South Africa. Willem has a total of 30 years business experience at various positions and organizations including 17 years in the industrial gases business with BOC/Linde in the United States of America and Thailand.

3. NGUGI KIUNA

Ngugi is a holder of a BSc (Hons) degree in mechanical engineering from Portsmouth Polytechnic, England. He was the Managing Director of Diversey Eastern and Central Africa Limited until July 2006. He was appointed a non-executive director of BOC Kenya Limited in October 1993. Ngugi, a renowned businessman, has served on various boards of listed and non-listed companies among them Access Kenya Limited and the Kenya Power and Lighting Company. He was appointed Chairman of the Board of the Company on 4 May 2012.

4. BRETT WHEATCROFT

Brett is a Mechanical Engineer and has several Business Management qualifications from Wits Business School as well as Duke University in USA. Brett has 23 years experience in the gases industry where he has held various operational, SHEQ and business roles.

5. NICK THOMSON

Nick was appointed to the position of African Oxygen Limited (Afrox) Financial Director in April 2012. Prior to joining he was Chief Financial Officer for Transnet Freight Rail. He is a Chartered Accountant (South Africa) and gained valuable business experience with Ernst and Young between 1980 and 2005, where he rose to being a senior partner before joining Transnet in 2005. He holds a post graduate Diploma in Taxation and a Bachelor in Commerce degree from the University of Pietermaritzburg and a Diploma in Accountancy from the University of Durban.



6. MARIUS KRUGER

Marius is based at African Oxygen Limited, BOC's sister Company in South Africa, and is the Cluster Manager responsible for East Africa. He brings to the Board a wealth of experience gained over twenty three years in financial audits and advisory services, business planning, financial and management reporting, strategy formulation, implementation and reviews. Marius has a post graduate degree in finance and is an associate member of the Chartered Institute of Management Accountants.

7. ARTHUR KAMAU

Arthur Kamau is a graduate of Economics and Business Studies (Kenyatta University) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK), where he has previously served on its finance committee. He trained as an accountant with the global accountancy services firm, KPMG, where he rose to the position of senior manager. Arthur has also spent ten years in the manufacturing industry, firstly at United Distillers and Vintners Limited, then at Diversey Eastern and Central Africa Limited, where he was Finance Director and also Chair of the Board of Trustees of that company's Provident Fund. Arthur joined BOC Kenya Limited in December 2010 as the General Manager responsible for Finance & Administration.

8. CAROL W MUSYOKA

Carol is a leadership and executive training consultant. Carol has served as an Executive Director and Chief Operating Officer

at K-Rep Bank as well as a Corporate Director at Barclays Bank of Kenya. She is currently a non-executive director of Trans Century Limited, British American Tobacco (BAT) Kenya Limited and a trustee at SOS Children's Villages. She is a holder of a Bachelor of Laws (LLB) degree from the University of Nairobi and a Master of Law (LLM) degree from Cornell Law School, USA.

9. ROBERT N MBUGUA

Robert is a Certified Public Accountant (CPA) and holder of a Master of Business Administration degree from Bond University's Graduate School of Business (Australia/South Africa). He is the Co-founder and Chief Executive of the investment firm, TCI Group. Robert spent fourteen years with PricewaterhouseCoopers both in Kenya and in South Africa. He was admitted as a Partner in PricewaterhouseCoopers South Africa. Robert left PricewaterhouseCoopers and joined Standard Bank of South Africa where he served as a director for eight years. He held various positions at Standard Bank, among them, Regional Managing Director with responsibility for a number of African countries. From his dual bases in Kenya and South Africa, he has consulted to and served on Boards of organizations in at least fifteen African Countries spanning Cape Town to Cairo. Robert therefore has a broad understanding of Africa.

Report of the directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2013, which disclose the state of affairs of the Group and Company.

1. Principal activities

The principal activity of the Group is the manufacture and sale of industrial gases, medical gases and welding products.

The Company is listed on the Nairobi Securities Exchange.

2. Results

The results for the year are set out on page 16.

3. Dividends

During the year the Company paid an interim dividend of KShs 2.60 per share amounting to KShs 50,766,160 (2012 KShs 2.00 per share amounting to KShs 39,050,892).

The Directors recommend the approval of a final dividend of KShs 2.60 per share amounting to KShs 50,766,160 (2012 - KShs 3.05 per share amounting to KShs 59,552,610).

4. Directors

The Directors who served since 1 January 2013 are set out on page 3.

5. Auditor

The auditors, KPMG Kenya, continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap. 486).

6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 28 March 2014.

BY ORDER OF THE BOARD

VIRGINIA NDUNGE
Secretary

Date: 28 March 2014



Statement of directors' responsibilities

The Directors are responsible for the preparation and fair presentation of the Group and Company financial statements of BOC Kenya Limited set out on pages 16 to 60 which comprise the Group and Company statements of financial position at 31 December 2013, the Group and Company statements of profit or loss and other comprehensive income, the Group and Company statements of changes in equity and the Group and Company 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, in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act the Directors are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year and of the operating results of the Group and Company for that year. It also requires the Directors to ensure the Group and Company keep proper accounting records, which disclose with reasonable accuracy the financial position of the Group and Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the ability of the Company and its subsidiaries to continue as a going concern and have no reason to believe that the business will not be a going concern for at least twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 28 March 2014 and were signed on its behalf by:

N. Kiuna
Chairman

M. Msiska
Managing Director



Chairman's report

N. Kiuna

DEAR SHAREHOLDER

The Directors have pleasure in presenting the Group annual financial statements for the year ended 31 December 2013.

The Board is happy to note that in 2013 there was continued growth in the Eastern Africa region with key macroeconomic indicators remaining relatively stable. The Board is optimistic that these changes have set the country on a path of sustained progress and will enable the attainment of the Government's economic blueprint, Vision 2030.

Exchange rate stability was maintained throughout the year, with the Shilling trading at the 84-87 range to the United States Dollar. Inflation was generally within the Government's medium-term target of 5% but in September 2013 it rose to 8.3% following the implementation of the new Value Added Tax Act. The rate subsequently improved and stood at 6.9% in February 2014.

In May 2013, the Monetary Policy Committee of the Central Bank of Kenya reduced the Central Bank Rate from 9.5% to 8.5% and has thereafter maintained this rate. The average lending rate dropped marginally in the year to 17% while the average deposit rate increased marginally to 6.5%. Interest rates on the 91-Day Treasury Bill continued to oscillate around 10%.

The NSE-20 share index remained buoyant during the year with increased foreign investor participation. The index rose 19% between December 2012 and December 2013.

The Gross Domestic Product growth rate for 2013 is expected to be slightly higher than the 4.6% recorded in prior year.

"The Board expects that the renewed economic recovery that the country has enjoyed over the last several years will continue in 2014."

COMPANY RESULTS

The financial results are discussed in the Managing Director's report.

THE LINDE GROUP

The parent Company of BOC Kenya Limited is BOC Holdings and the ultimate holding Company is Linde AG. The Linde Group (Linde) is incorporated in Germany and is listed on the German Stock Exchange (where it forms part of the DAX 30 share index).

In the 2013 financial year, Linde generated revenue of EUR 16,655 bn, making it the largest gases and engineering company in the world, with approximately 63,500 employees working in more than 100 countries worldwide.

The strategy of Linde is geared toward long term, profitable growth and focuses on the expansion of its international business with forward-looking products and services. Linde acts responsibly towards its shareholders', business partners, employees, society and the environment in every one of its business areas, regions and locations across the globe. For more information, visit The Linde Group online at www.linde.com.

CORPORATE GOVERNANCE

The Board of directors of BOC Kenya Limited recognises that principles of good corporate governance, together with open honest and comprehensive business practices, are essential to protect the interests of all stakeholders. These principles are integrated into the organisational culture to ensure that they become a way of life within the Group. Governance principles are incorporated into all the Group structures, systems and policies and these structures, systems and policies are constantly reassessed and reviewed to ensure that continuous compliance and best practice is applied and practised.

The Company is in compliance with the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya.

The Board is accountable to all stakeholders for ensuring that the Company's business is conducted in accordance with highest standards of governance. The role of the Board is to determine the Company's direction and strategy, monitoring the achievement of business objectives, while ensuring the Company meets its responsibilities to shareholders and that the control environment mitigates exposure to risk.

The Board, comprising seven non-executive directors (three of whom are independent) and two executive directors, brings to the Company the diverse competencies, management and business acumen required to effectively ensure the highest standards are maintained in the running of the Company.

OUR PEOPLE

Employees are continuously assessed in order to enable the skills required to carry out their responsibilities. BOC Kenya's policy to develop our people is fully integrated with The Linde Group, which is committed to being the employer of choice for the best talent. As a result, our people have access to The Linde Group's online training database, Integrated Management Systems and Standards (IMSS), that provides high standard material designed for specific roles globally. Where local gaps are identified, management works with employees to enhance knowledge through training.

PROSPECTS FOR THE FUTURE

The Board expects that the renewed economic recovery that the country has enjoyed over the last several years will continue in 2014, with an added impetus from the successful national elections held in March 2013.

The broader Eastern Africa region is expected to continue on the growth trajectory of recent years, with the recent discovery of natural resources expected to accelerate the region's growth in the years that lie ahead.

Threats to Kenya's economic performance include terrorism-related consequences of instability in Somalia, the general state of security in the country, balance of payments pressures due to the high current account deficit and the state of the global economy.

However the Board believes that continued focus on customers, delivery of high standards of service and enforcement of business controls while maintaining operational efficiencies, will continue to have a positive effect on the Company's performance.

We continue our journey towards becoming a High Performance Organisation, embracing the partnership between customers, employees, shareholders, suppliers and society.

APPRECIATION

I would like to thank our customers, suppliers and resellers for their continued support. The Board is committed to ensuring our business partnerships remain mutually beneficial.

Finally, I would like to thank my fellow directors for providing leadership and support in the affairs of your Company. I would also like to thank the management team and our employees for their dedication and hard work during the year.

N Kiuna
Chairman
28 March 2014



Managing director's report

Maria Msiska

FINANCIAL RESULTS

In the first quarter of the year economic activity in East Africa was generally subdued but picked up after Kenya's general elections. The macroeconomic indicators remained relatively stable during 2013.

Revenue for the year ended 31 December 2013 was Kshs 1,243 million, down 4%, largely due to a slow start to the year as Kenya prepared for its first general elections under the new constitution as well as the ASU plant breakdown in June 2013. Although there was a drop in revenue, profit before tax was up 7.8% to Kshs 308 million.

The Company continued to enforce a robust credit control policy which together with improved stock management processes adequately mitigated the risk of impairment.

OPERATIONAL EFFICIENCY

The standardization of the Company's Enterprise Resource Planning (ERP) system with other Companies in the Group was completed in Q4-2013 leading to significant improvement in management reporting.

During the year, the Company continued to focus on personnel development and motivation, as this is key to the achievement of our objectives.

Our quest to become a High Performance Organisation continues. Our journey has four thrusts that are our main focus:

- Customer focus: having a clear understanding of customer needs and providing solutions that consistently meet these needs;
- Process excellence: implementing standardised global best operating practices that will bring efficiency to our processes and systems;
- Ability to execute: getting things done efficiently and on a timely basis; and
- People excellence: becoming the employer of choice for the best talent available.

"Profit before tax was up 7.8% to Kshs 308 million."

Continuous improvement is the cornerstone of our high performance culture which drives us to learn, change and improve. We have made sustainable progress in this regard.

WORKING CAPITAL MANAGEMENT

Cash generation for operational and investment needs is still a key measure of management performance. The Company's capital investment model is based on the ability to identify opportunities that will generate acceptable cash flows over the appraisal period. In view of the continuing economic challenges, the need for cash generation becomes ever more imperative and management is actively aware of the changed circumstances and has put in place the necessary mitigations.

CUSTOMER SERVICE

Understanding the needs of our customers and offering them products, services and technologies that consistently meet those needs, is among our prime areas of focus. The Customer Service Improvement (CSI) programme requires that customer issues, which we regard as opportunities for improvement, are investigated to identify root causes for appropriate corrective action.

SAFETY, HEALTH, ENVIRONMENT AND QUALITY (SHEQ) MANAGEMENT

On SHEQ, we continue to uphold The Linde Group standards. Our SHEQ policy states that "We shall not harm people or the environment" and is premised on our ethos of "Safety is 100% of our behavior, 100% of the time". We have continued to build on our various initiatives such as 'near-miss' reporting, SHEQ Roadmap and "LeadSafe" observations, all of which are aimed at promoting safe behavior and visible leadership at executive and functional team level. To reinforce this, a set of seven Golden Rules were developed and implemented at all sites, targeting 100% of The Linde Group's employees world-wide. Our people continue to be involved in, and are measured on, their contribution to the SHEQ programme.

Our SHEQ Roadmap progress monitoring is geared to achieve a robust standard level in all of the 21 components by end of 2014 with a focus on four HPO components namely; Visible Leadership, Challenging SHEQ Goals and Targets, Integrated Network for SHEQ and Line Accountability & Responsibility. The ultimate goal is to attain world-class behavioural standards in all the 21 components.

The Company maintained its ISO 9001:2008, ISO 14000:2004 and OHSAS 18000:2007 certification during the year, the benefits of which will manifest in the success of the business through operational efficiencies and effectiveness in meeting stakeholder requirements.

COMMUNITY INVOLVEMENT PROGRAMME (CIP)

At the forefront of this programme are our people, who

drive it through dedicating their time and efforts towards sustainable projects that they adopt in consultation with local communities. Our emphasis has been directed towards care homes for disadvantaged children. One day in the year is set aside for Tumaini Day (Day of Hope), when celebrations are held.

We are members of the UN Global Compact Network Kenya, which demonstrates our commitment to the universal declaration of human rights, labor standards, the environment and anti-corruption.

OUTLOOK

Growth outlook for the region remains encouraging, especially due to oil and gas and infrastructure development projects. This should firm up demand for welding gases, consumables and other products. Our subsidiaries in Uganda and Tanzania are expected to be a significant contributor to our growth in the coming years, both in sales and profitability. The East African Customs Union presents a common market of 130 million people and we are optimistic that the Company is well poised to meet the demands and expectations of its customers within this market.

We will continue to focus on our ambitious growth strategy, placing customers at the forefront of everything we do. Our growth prospects are linked to the quality of our people, the positive growth prospects of the economies in which we operate and the ability to exceed the expectations of our customers.

During 2014, we will install a filling facility in Tanzania which will substantially improve product availability in that market. We will continue to focus on process and production efficiencies, as well as investment in facilities.

APPRECIATION

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

I thank the non-executive members of the Board for their invaluable guidance and also thank the executive management team and all our employees for their unflinching support.

Many thanks also go to our suppliers for their contribution and to you, our shareholders, for your continued support.

Maria Msiska
Managing Director
28 March 2014

Corporate governance

The Board recognises the importance of corporate governance and as such it carries out its mandate with honesty, openness and integrity and is committed to applying and enforcing relevant corporate governance principles, policies and practices within the Group. The Board is committed to the principles of accountability and to the provision of relevant and meaningful reporting to all stakeholders.

Below are the key features of corporate governance structure and internal control systems put in place and which were in operation during the year.

BOARD OF DIRECTORS

The Board of Directors comprises seven non-executive directors (three of whom are independent) and two executive directors, namely the Managing Director and the Finance Director. The Board meets on a quarterly basis as scheduled during the year, with additional meetings when necessary. The appointment of directors is on the basis of experience, skills and level of contribution necessary to carry out their duties. Summarised below are the key roles and responsibilities of the Board:

- Approval and adoption of the strategic and annual business plans, the setting of objectives and review of key risk and performance areas;
- Approval of commitments outside the authority delegated to the executive management committees and individual directors;
- Determination of overall policies and processes to ensure integrity of the Group's management of risk and internal control;
- Approval and adoption of Group policies, programmes and procedures for safety, health, environment, treasury, remuneration and benefits;
- Review at regular Board meetings of management's performance against set objectives; and
- Approval of the appointment and removal of directors and the external auditors.

AUDIT COMMITTEE

The Board has constituted an Audit Committee which meets at least twice annually, as scheduled. The Committee, whose membership comprises non-executive directors, meets with internal auditors, external auditors and management as appropriate. Its responsibilities include:

- Ensuring the maintenance of sound risk management and internal control systems, including regulatory compliance;

- Evaluating the appropriateness and adequacy of the systems of internal financial and operational control and review of accounting policies and financial information issued to stakeholders;
- Review of the annual financial statements, interim reports, preliminary or provisional result announcements and any other intended release of price sensitive information or prospectuses, trading statements and similar documents, before they are submitted for review and approval of the full board;
- Recommending to the Board the selection and appointment of the Group's external auditors and approving the terms of their engagement, including remuneration;
- Overseeing the internal and external audit processes and evaluating audit findings and remedial actions taken by Management;
- Requesting for in-depth investigation into any matter that is of concern to the Committee that is likely to have an impact on the operations of the Group.

RETIREMENT AND REMUNERATION BENEFITS COMMITTEE

The Committee is mandated to determine and make recommendations to the Board on the remuneration policies of the Group, and the terms and conditions of employment of the executive directors and senior management in order to maintain a competitive and equitable compensation policy.

Specifically, the Committee determines, on behalf of the Board, the detailed terms of service of the senior management team including salaries, performance related bonus arrangements and any other benefits that may accrue from time-to-time.

COMMUNICATION WITH STAKEHOLDERS

The Group is committed to ensuring that shareholders, relevant authorities such as the Nairobi Stock Exchange, the Capital Markets Authority and financial markets are provided with timely information about its overall performance.

The Board encourages shareholders to attend the 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 Chairpersons of the various Board committees. Shareholders have the opportunity to cast their votes at the annual general meeting.

DIRECTORS' LOANS

There were no loans made to the directors at any time during the year by virtue of their positions in the Group.

DIRECTORS' REMUNERATION

The remuneration of all directors is subject to regular review to ensure that the levels of remuneration and compensation are appropriate. Information on aggregate amount of emoluments and fees paid to directors is disclosed in note 10 of the financial statements.

DIRECTORS' INTEREST

Below is the summary of the shares in BOC Kenya Limited held by the directors at the close of the financial period:

Mr Ngugi Kiuna 55,420

EXECUTIVE COMMITTEE

The Managing Director chairs an executive committee, which comprises senior management. This committee meets on a monthly basis and is mandated to:

- Review the Group performance in relation to the targets and objectives as agreed at the beginning of the financial period;
- From time-to-time, take the necessary corrective measures with a view to meeting agreed objectives;
- Address any critical operational and employee issues that may have arisen in the course of business; and
- Ensure effective communication with all stakeholders of the Group.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Management recognises its role to grow shareholder value while adhering to approved risk assessment procedures and limits. This is done by identifying risks that may inhibit the Group from achieving its objectives, analysing those risks, avoiding certain risks and implementing plans for mitigating risks that remain.

The Board recognises that managing risk, to ensure the optimal mix between risk and return, is an integral part of achieving corporate goals. A risk management programme is in place to assist the Board in understanding business risk issues and key performance indicators affecting the ability of the Group to achieve its objectives.

As part of planning, meetings are held with senior management to establish and classify major risks and to assess whether appropriate actions are in place to minimise or eliminate them, and whether insurance cover against risk is required.

The directors have also defined procedures and financial controls to ensure that the Group's system of internal controls provide reasonable assurance that the assets are safeguarded,

transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. There is a clearly defined organisational structure within which individual responsibilities are identified in relation to internal controls. The structure is complemented by defined procedures, financial controls and information system controls.

The Group's internal audit department performs various activities in the evaluation of the risk management, control and governance process. Significant business risks and weaknesses in the systems of operating and financial controls are highlighted and brought to the attention of the Audit Committee, senior management and external auditors. Areas accorded high-risk profiles are given urgent attention by management.

At every Board meeting the status of mitigations against identified business risks is reviewed to ensure timely implementation of corrective actions.

EMPLOYMENT EQUITY

The Group is committed to the creation of an organisation that supports the equality of all employees and is committed to the elimination of any form of discrimination in the work place. Our policy covers recruitment, staff development, retention and cultural diversity.

Our succession planning process identifies ability and talent and monitors, on a regular basis, the performance of high-fliers. Individual development plans are agreed upon in collaboration with managers of the respective employees.

The Group manages the development of functional skills through the "License-to-Work" approach. This approach ensures that all employees are competent to perform their specific duties within a given time frame.

The retirement and remuneration committee of the Board also ensures that manpower plans are implemented timeously.

CODE OF CONDUCT

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

The Company aims to earn the trust of customers, shareholders, suppliers and communities through honesty, performance excellence, good corporate governance and accountability. The Company expects people to respect confidential information, company time and assets.

Corporate governance continued

The Company 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 Linde 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.

STAFF HELPLINE

The Group has a facility through which staff are encouraged to report any actions that they consider to be against our established code of conduct. This facility is managed by an independent third party organisation in order to protect confidentiality.

GOING CONCERN

The directors, having considered all relevant factors, are of the opinion that the annual financial statements have been prepared on a going-concern basis and that the Group has adequate resources in place to continue in operation for the foreseeable future.

SHAREHOLDERS' PROFILE AS AT 31 DECEMBER 2013

Ownership structure	Number of shareholders	Number of shares held	% of issued shares capital
Foreign Institutions	5	14,277,378	73.12%
Foreign Individuals	20	169,211	0.87%
Local institutions	108	2,476,117	12.68%
Local Individuals	747	2,602,740	13.33%
Totals	880	19,525,446	100.00%

Ten largest shareholders	Number of shares held	% of issued share capital
BOC Holdings UK	12,765,578	65.38%
Standard Chartered Nominees A/C 9306	1,480,000	7.58%
CFC Stanbic Nominees Ltd. A/C R48701	866,967	4.44%
ICEA Lion Life Assurance Company Limited	455,812	2.33%
Kanaiyalal Mansukhlal & Shah Lalitaben Kanaiyalal Shah	262,371	1.34%
APA Insurance Limited	124,703	0.64%
CFC Stanbic Nominees Ltd. A/C R48703	120,000	0.61%
Mrs Carolyn Anne Gray Rosso	110,143	0.56%
Allied Storage Limited	109,879	0.56%
Rakesh Prakash Gadani	103,600	0.53%
Total for top 10 shareholders	16,399,053	83.97%
Other shareholders	3,126,393	16.03%
Total Issued Shares	19,525,446	100.0%

Report of the independent auditors

to the members of BOC Kenya Limited

We have audited the Group and Company financial statements of BOC Kenya Limited set out on pages 16 to 60 which comprise the Group and Company statements of financial position at 31 December 2013, the Group and Company statements of profit or loss and other comprehensive income, the Group and Company statements of changes in equity and the Group and Company 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.

Directors' responsibility for the financial statements

As stated on page 7, the 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 Kenyan Companies Act, and for such internal control as the Directors determine is necessary to enable the preparation 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 about whether the financial statements are free from 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the Consolidated and Separate financial position of BOC Kenya Limited at 31 December 2013, and the Consolidated and Separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in a manner required by the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- (ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- (iii) The statement of financial position and the statement of profit or loss and other comprehensive income of the Company are in agreement with the books of account.

KPMG Kenya

Date: 28 March 2014

The Engagement Partner responsible for the audit resulting in this independent auditor's report is CPA Eric Etale Aholi- P/1471.

Statements of profit and loss and other comprehensive Income

Income statements:

	Notes	GROUP		COMPANY	
		2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Revenue	7	1,242,602	1,294,550	1,174,874	1,199,297
Cost of sales	8(b)	(597,614)	(585,884)	(584,037)	(573,024)
Gross profit		644,988	708,666	590,837	626,273
Other operating income	8(a)	9,526	101	9,526	101
Distribution costs	8(b)	(112,275)	(132,134)	(105,109)	(127,372)
Selling and administrative expenses	8(b)	(310,406)	(345,981)	(263,564)	(279,528)
Operating profit		231,833	230,652	231,690	219,474
Finance income	9 (a)	185,512	125,927	163,942	116,005
Finance costs	9 (b)	(108,953)	(69,887)	(96,425)	(63,016)
Profit before tax	10	308,392	286,692	299,207	272,463
Tax expense	11	(105,756)	(89,318)	(100,898)	(83,075)
Profit for the year		202,636	197,374	198,309	189,388
Other comprehensive income					
<i>Items that will never be reclassified to profit or loss</i>		-	-	-	-
<i>Items that are or may be reclassified to profit or loss:</i>					
Translation differences for foreign operations		6,556	(5,482)	-	-
Change in fair value of available-for-sale financial assets		522,016	70,035	522,016	70,035
Deferred tax on change in fair value of available for sale financial assets		360	(2,894)	360	(2,894)
Total other comprehensive income for the year net of tax		528,932	61,659	522,376	67,141
Total comprehensive income for the year		731,568	259,033	720,685	256,529
Earnings per share (KShs per share)					
- Basic and diluted	12	10.38	10.11	10.16	9.70

The notes set out on pages 23 to 60 form an integral part of these financial statements

Statements of financial position

	Notes	GROUP		COMPANY	
		2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	595,134	601,921	563,866	572,630
Intangible assets	15	3,637	3,525	3,637	3,525
Investment in subsidiaries	16	-	-	60	60
Available-for-sale financial assets	17	813,209	292,534	813,209	292,534
Deferred tax asset	26(a)	6,106	5,324	-	-
Prepaid operating leases	18	3,503	3,590	3,503	3,590
Total non-current assets		1,421,589	906,894	1,384,275	872,339
Current assets					
Inventories	19	182,813	204,267	169,971	189,365
Available-for-sale financial assets	17	242,033	182,202	242,033	182,202
Trade and other receivables	20	323,352	247,358	334,813	273,952
Tax recoverable	21	29,173	7,209	23,116	-
Term deposits	22	27,522	67,768	27,522	26,588
Cash and cash equivalents	23	406,611	379,167	208,424	231,348
Total current assets		1,211,504	1,087,971	1,005,879	903,455
TOTAL ASSETS		2,633,093	1,994,865	2,390,154	1,775,794
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	24(a)	97,627	97,627	97,627	97,627
Share premium	24(b)	2,554	2,554	2,554	2,554
Other reserves	25	736,144	207,212	739,606	217,230
Retained earnings		1,239,735	1,147,418	1,065,116	977,126
Total equity		2,076,060	1,454,811	1,904,903	1,294,537
Non-current liabilities					
Deferred tax liability	26(b)	13,022	16,825	13,022	16,825
Current liabilities					
Tax payable	21	-	28,363	-	28,363
Trade and other payables	27	544,011	494,866	472,229	436,069
		544,011	523,229	472,229	464,432
TOTAL EQUITY AND LIABILITIES		2,633,093	1,994,865	2,390,154	1,775,794

The financial statements on pages 16 to 60 were approved for issue by the Board of Directors on 28 March 2014 and signed on its behalf by:

N. Kiuna
Chairman

M. Msiska
Managing Director

The notes set out on pages 23 to 60 form an integral part of these financial statements..

Statement of changes in equity of the Group

Year ended 31 December 2013

	Share capital KShs'000	Share premium KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
Balance at 1 January 2013	97,627	2,554	217,230	(10,018)	1,147,418	1,454,811
Comprehensive income for the year						
Profit for the year	-	-	-	-	202,636	202,636
Other comprehensive income, net of tax						
Foreign currency translation differences	-	-	-	6,556	-	6,556
Change in available for sale financial assets	-	-	522,016	-	-	522,016
Deferred tax on change in available for sale financial asset	-	-	360	-	-	360
Total other comprehensive income	-	-	522,376	6,556	-	528,932
Total comprehensive income	-	-	522,376	6,556	202,636	731,568
Transactions with owners, recognised directly in equity						
Dividends to equity holders						
- Final for 2012 paid	-	-	-	-	(59,553)	(59,553)
- Interim for 2013 paid	-	-	-	-	(50,766)	(50,766)
Balance at 31 December 2013	97,627	2,554	739,606	(3,462)	1,239,735	2,076,060

The notes set out on pages 23 to 60 form an integral part of these financial statements.

Statement of changes in equity of the Group

Year ended 31 December 2012

	Share capital KShs'000	Share premium KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
Balance at 1 January 2012	97,627	2,554	150,089	(4,536)	1,082,817	1,328,551
Comprehensive income for the year						
Profit for the year	-	-	-	-	197,374	197,374
Other comprehensive income, net of tax						
Foreign currency translation differences	-	-	-	(5,482)	-	(5,482)
Change in available for sale financial assets	-	-	70,035	-	-	70,035
Deferred tax on change in available for sale financial asset	-	-	(2,894)	-	-	(2,894)
Total other comprehensive income	-	-	67,141	(5,482)	-	61,659
Total comprehensive income	-	-	67,141	(5,482)	197,374	259,033
Transactions with owners, recognised directly in equity						
Dividends to equity holders						
- Final for 2011 paid	-	-	-	-	(93,722)	(93,722)
- Interim for 2012 paid	-	-	-	-	(39,051)	(39,051)
Balance at 31 December 2012	97,627	2,554	217,230	(10,018)	1,147,418	1,454,811

The notes set out on pages 23 to 60 form an integral part of these financial statements.

Statement of changes in equity of the Company

Year ended 31 December 2013	Share capital KShs'000	Share premium KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
Balance at 1 January 2013	97,627	2,554	217,230	977,126	1,294,537
Comprehensive income for the year					
Profit for the year	-	-	-	198,309	198,309
Other comprehensive income, net of tax					
Change in available for sale financial assets	-	-	522,016	-	522,016
Deferred tax on change in available for sale financial asset	-	-	360	-	360
Total other comprehensive income for the year	-	-	522,376	-	522,376
Total comprehensive income for the year	-	-	522,376	198,309	720,685
Transactions with owners, recognised directly in equity					
Dividends:					
- Final for 2012 paid	-	-	-	(59,553)	(59,553)
- Interim for 2013 paid	-	-	-	(50,766)	(50,766)
Balance at 31 December 2013	97,627	2,554	739,606	1,065,116	1,904,903

The notes set out on pages 23 to 60 form an integral part of these financial statements.

Statement of changes in equity of the Company

Year ended 31 December 2012	Share capital KShs'000	Share premium KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
Balance at 1 January 2012	97,627	2,554	150,089	920,511	1,170,781
Comprehensive income for the year					
Profit for the year	-	-	-	189,388	189,388
Other comprehensive income, net of tax					
Change in available for sale financial assets	-	-	70,035	-	70,035
Deferred tax on change in available for sale financial asset	-	-	(2,894)	-	(2,894)
Total other comprehensive income for the year	-	-	67,141	-	67,141
Total comprehensive income for the year	-	-	67,141	189,388	256,529
Transactions with owners, recognised directly in equity					
Dividends:					
- Final for 2011 paid	-	-	-	(93,722)	(93,722)
- Interim for 2012 paid	-	-	-	(39,051)	(39,051)
Balance at 31 December 2012	97,627	2,554	217,230	977,126	1,294,537

The notes set out on pages 23 to 60 form an integral part of these financial statements.

Statements of cash flows

	Notes	GROUP		COMPANY	
		2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Cash flows from operating activities					
Cash generated from operating activities	28	299,311	446,015	289,628	365,484
Tax paid	21	(160,119)	(97,336)	(155,820)	(76,538)
Net cash generated from operating activities		139,192	348,679	133,808	288,946
Cash flows from investing activities					
Purchase of property, plant and equipment	14	(56,429)	(36,332)	(52,404)	(32,180)
Purchase of intangibles	15	(1,140)	-	(1,140)	-
Proceeds from disposal of equipment		9,526	118	9,526	118
Net proceeds on available for sale financial assets		(4,277)	(117,817)	(45,458)	(77,124)
Interest received		39,011	24,650	31,183	23,301
Dividends received		11,880	17,523	11,880	17,523
Net cash used in investing activities		(1,429)	(111,858)	(46,413)	(68,362)
Cash flows from financing activities					
Dividends paid		(110,319)	(132,773)	(110,319)	(132,773)
Net cash used in financing activities		(110,319)	(132,773)	(110,319)	(132,773)
Increase/(decrease) in cash and cash equivalents		27,444	104,048	(22,924)	87,811
Movement in cash and cash equivalents					
At the beginning of year		379,167	275,119	231,348	143,537
Increase/(decrease) in cash and cash equivalents		21,138	108,376	(22,924)	87,811
Effects of exchange rate changes on foreign cash and cash equivalents		6,306	(4,328)	-	-
At the end of year	23	406,611	379,167	208,424	231,348

The notes set out on pages 23 to 60 form an integral part of these financial statements.

Notes to the financial statements

1 REPORTING ENTITY

The Company is incorporated as a limited liability Company under the Kenyan Companies Act, and is domiciled in Kenya. Its registered address is at Kitui Road, P.O Box 18010 - 00500 Nairobi Industrial Area. The consolidated financial statements of the Group as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in the manufacture and sale of industrial and medical gases and welding products.

The ultimate holding Company of BOC Kenya Limited is Linde A.G, a limited liability company incorporated in Germany.

2 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act.

(b) Basis of measurement

The financial statements are prepared under the historical cost basis except for available for sale financial assets which are measured at fair value.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of current events, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4 – Critical accounting estimates and judgements.

(d) Functional and presentation currency

These financial statements are presented in Kenya Shillings, which is the Company's functional currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to influence those returns through its power over the investee. The investment in subsidiaries is recognised at cost.

(ii) Transactions eliminated on consolidation

Transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset.

(b) Foreign currency

(i) Transactions and balances in Group entities

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items that are measured on historical cost basis in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from retranslation of available-for-sale equity investments are recognised in other comprehensive income.

(ii) Foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each entity are translated at the closing rate at the reporting date;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

When a foreign operation is sold, exchange differences recognised in other comprehensive income are 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 entity and translated at the closing rate.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(c) Revenue recognition

Revenue represents the fair value of the consideration receivable for sale of goods and services, and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- i. Sale of goods is recognised when significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and when there is no continuing management involvement.
- ii. Sale of services is recognised in the period in which the services are rendered by reference to the stage of completion of specific transactions. The stage of completion is assessed on the basis of actual services provided as a proportion of total services to be provided.

Revenue is only recognised when both the associated costs and the amount of revenue can be estimated reliably.

(d) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a gross basis as either finance income or finance cost.

(e) Income tax

Income tax expense is the aggregate of the charge to profit or loss in respect of current tax and deferred tax. Current tax is the amount of income tax payable or receivable on taxable profit or loss for the period determined in accordance with the relevant tax legislation, using the tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not recognised. In addition, deferred tax is not recognised for taxable temporary differences arising on initial recognition of goodwill. Deferred tax is determined using tax rates enacted or substantively enacted at the reporting date and are expected to apply when the related temporary differences reverse.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(f) Property, plant and equipment

All items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the assets 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 other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Depreciation is recognised in profit or loss on a straight line basis to write down the cost of each asset to residual values over their estimated useful life as follows:

Buildings	40 years
Plant and machinery	5 - 20 years
Cylinders	15 - 25 years
Motor vehicles	5 - 10 years
Furniture and fixtures	4 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Capital work in progress represents assets that are under construction or that are not immediately available for use, and is not depreciated but is reviewed for impairment.

Gains and losses on disposal of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(g) Intangible assets

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 to their residual values over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised to their residual values over their estimated useful lives (not exceeding three years).

(h) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the period of the lease. Any resulting operating lease accrual or prepayment is recognised over the period of the lease.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other related direct costs and production overheads (based on normal operating activities), but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(j) Recognition and measurement of financial instruments

(i) *Classification*

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. These are classified as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated at fair value through profit or loss or available-for-sale. Loans and receivables comprise trade and other receivables, balances due from Group companies and cash and cash equivalents.

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and for the purposes of the statement of cash flows, bank overdrafts.

Available-for-sale assets are the non-derivative financial assets that are designated as available for sale or are not classified as held for trading purposes, loans and receivables or held to maturity. These include short-term deposits, shares in quoted companies, treasury bills and bonds and corporate bonds.

Other financial liabilities are non-derivative financial liabilities that are recognised on the date the Group becomes party to the contractual provisions of the instruments. Other financial liabilities comprise trade and other payables.

(ii) *Recognition*

The Group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Loans and receivables are recognised on the date they are transferred to the Group.

(iii) *Measurement*

Financial instruments are measured initially at fair value plus, in the case of financial instruments not at fair value, through profit or loss less applicable transaction costs.

Subsequent to initial recognition, financial instruments and available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All other financial liabilities and loans and receivables are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in other comprehensive income and presented within equity until the instrument is derecognised or impaired, at which time the cumulative gain or loss is recognised in profit or loss and trading instrument gains or losses are recognised in profit or loss in the period they arise.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(j) Recognition and measurement of financial instruments continued

(iv) *Derecognition*

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

(v) *Offsetting of financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(k) Impairment of assets

(i) *Impairment of financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset 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.

An impairment loss in respect of a financial asset measured at amortised cost such as trade and other receivables is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available for sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

(ii) *Impairment of non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and Groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(l) Employee benefits

(i) *Retirement benefit obligations*

The Group operates a defined contribution scheme for all its employees. Contributions to the defined contribution plan are recognised in profit or loss as incurred and presented as an employee benefit expense. Any difference between the amount recognised in profit or loss and the contributions payable is recorded in the statement of financial position under other receivables or other payables.

(ii) *Termination benefits*

Termination benefits are recognised as an expense at the earlier of the following dates:

- when the Group can no longer withdraw the offer; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

(iii) *Other entitlements*

Employee entitlements to long service awards are recognised when they accrue to employees. An accrual is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(m) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(n) Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which they are declared.

(o) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(q) Related party transactions

The Group discloses the nature, volume and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the Directors, executive officers and Group or related companies. The related party transactions are at arm's length.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(s) New standards and interpretations adopted

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards in the period commencing 1 January 2013. The nature and effects of the changes are explained below.

- IAS 1 Presentation of Financial Statements - Presentation of items of Other Comprehensive Income (OCI)
- IAS 19 Employee Benefits (2011)
- IAS 27 Separate Financial Statements (2011).
- IAS 28 Investments in Associates and Joint Ventures (2011)
- IFRS 7 Disclosures - offsetting Financial Assets and Financial Liabilities (Amended IFRS 7)
- IFRS 10 Consolidated Financial Statements (2011).
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

(i) IAS 1 'Presentation of Items of Other Comprehensive Income' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.

The amendment requires that items presented within Other Comprehensive Income (OCI) be grouped separately into those items that will be recycled into profit or loss at a future point in time, and those items that will never be recycled. The amendment affects presentation only and therefore has no impact on the Group's financial position or performance.

(ii) IAS 19 'Employee Benefits' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.

The amendments eliminate the option to defer the recognition of gains and losses resulting from defined benefit plans, as well as the options for presentation of gains and losses relating to these plans. The disclosure requirements are also improved to show the characteristics of defined benefit plans and the risk arising from these plans. The Group does not have any defined benefit obligations, therefore this amendment will have no impact on the financial performance or position.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(s) New standards and interpretations adopted (continued)

- (iii) ***IAS 27 'Separate Financial Statements' has been adopted on 1 January 2013 for the first time for financial year ended 31 December 2013.***

The amended version of this standard now only deals with the requirements for separate financial statements, while requirements for consolidated financial statements are now contained in IFRS 10. The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost or in accordance with IAS 39. The Standard also deals with the recognition of dividends, certain group reorganizations and includes a number of disclosure requirements. The effects of the amendment are not considered significant to the Group.

- (iv) ***IAS 28 'Investments in Associates and Joint Ventures (as revised in 2011)' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.***

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Company has no associates or joint venture investments, this amendment has no impact on the Group's financial position or performance.

- (v) ***IFRS 7 'Financial Instruments: Disclosure - Offsetting Financial Assets and Financial Liabilities' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.***

IFRS 7 amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

- (vi) ***IFRS 10 'Consolidated Financial Statements' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.***

The amendments introduce a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. The effect of this amendment are not considered significant to the Group.

- (vii) ***IFRS 11 'Joint arrangements' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.***

IFRS 11 focuses on the rights and obligations of joint arrangements, rather than legal form. It distinguishes joint arrangements between joint operations and joint ventures, and always requires the equity method for joint ventures. The effects of this amendment are not considered significant to the Company.

- (viii) ***IFRS 12 'Disclosure of Interests in Other Entities' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.***

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities, as well as the effects of those interests on the entity's financial position, financial performance and cash flows. As a result of IFRS 12, the Group has extended its disclosures about its interests subsidiaries (see note 16).

3 SIGNIFICANT ACCOUNTING POLICIES continued

(s) New standards and interpretations adopted (continued)

- (ix) ***IFRS 13 'Fair Value Measurement' has been adopted on 1 January 2013 for the first time for the financial year ended 31 December 2013.***

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. The standard does not provide a significant departure from the current application of fair value accounting highlighted under note 5 (c) and as expounded below.

Determination of fair value

Policy applicable from 1 January 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

(t) New Standards and amendments not yet effective

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 9 Financial Instruments (2010)	1 January 2018
• Amendments to IAS 32-Offsetting Financial Assets and Financial Liabilities (2011)	1 January 2014
• Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)	1 January 2014
• Amendments to IAS 36-Recoverable Amount Disclosures for Non-Financial Assets (2013)	1 January 2014
• Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (2013)	1 January 2014
• IFRIC 21 Levies (2013)	1 January 2014

3 SIGNIFICANT ACCOUNTING POLICIES continued

(t) New Standards and amendments not yet effective (continued)

(i) **IFRS 9: Financial Instruments (2010)**

It replaces parts of IAS 39 - Financial Instruments, Recognition and Measurement that relate to classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the characteristics of the contractual cash flows of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is applied for financial liabilities, the part of a fair value change arising from a change in an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

(ii) **Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities**

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after 1 January 2014, with retrospective application.

(iii) **Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities (2012)**

The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014,

The Directors do not anticipate any effect on the Group's financial statements as the parent company is not an investment entity.

(iv) **Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets (2013)**

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014.

(v) **Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (June 2013)**

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

(vi) **IFRIC 21: Levies (2013)**

The interpretation provides guidance on when to recognize a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum

3 SIGNIFICANT ACCOUNTING POLICIES continued

(t) New Standards and amendments not yet effected (continued)

threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1 January 2014.

The Group did not early adopt new or amended Standards in 2013 and is in the process of assessing the impact of the new accounting standards not yet effective.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(ii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Trade receivables

The Group assesses its trade receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the profit or loss account, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

(iv) Inventories

The Group assesses impairment for inventories at each reporting date. In determining whether inventories are impaired, the Group assesses the age at which inventories are held in the store in order to make an assessment of the impairment loss.

(v) Property, plant and equipment

Critical estimates are made by the Directors in determining depreciation rates for property and equipment.

(b) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining the classification of financial assets and leases.

5 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) 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, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases references. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the Risk Management Committee. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a cash or prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a good credit rating. Given the good credit ratings, management does not expect any counterparty to fail to meet its obligations.

Notes to the financial statements continued

5 FINANCIAL RISK MANAGEMENT continued

(a) Credit risk (continued)

Write-off policy

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment allowance has been raised, then that amount will be written off. The determination is reached after considering information such as the occurrence of significant changes in the customer's position such that the customer can no longer pay the obligation.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2013		2012	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Available-for-sale financial assets	290,467	290,467	205,820	205,820
Term deposits	27,522	27,522	67,768	26,588
Trade and other receivables	323,352	334,813	247,358	273,952
	641,341	652,802	520,946	506,360

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2013		2012	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Kenya	288,861	288,861	249,047	249,047
Uganda	23,962	-	26,458	-
Tanzania	32,556	-	29,104	-
	345,379	288,861	304,609	249,047

The ageing of trade receivables at the reporting date was:

	2013		2012	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Not past due	22,207	22,040	33,617	27,018
Past due 0-30 days	43,532	36,354	50,756	49,579
Past due 31-90 days	115,823	108,975	87,515	75,821
More than 90 days	163,817	121,492	132,721	96,629
	345,379	288,861	304,609	249,047
Neither past due nor impaired	22,207	22,040	33,617	27,018

Notes to the financial statements continued

5 FINANCIAL RISK MANAGEMENT continued

Management believes that the amounts that are neither past due nor impaired will be collectible in full.

Impairment losses

Trade receivables	2013 Group		2012 Company	
	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January	95,809	76,652	65,091	48,889
Impairment of trade receivables	16,794	23,923	13,052	18,371
Bad debts written off	-	(4,766)	-	(2,169)
Balance at 31 December (Note 20)	112,603	95,809	78,143	65,091

(b) 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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below analyses liabilities into relevant maturity groupings based on the remaining period at 31 December 2013 and 2012 to the contractual maturity date.

All figures are in thousands of Kenya shillings (KShs '000)

	month	Up to 1 months	1-3 months	3-12 years	1-5 years	Over 5 Total
Liabilities (2013)						
Trade and other payables	26,582	122,567	394,862	-	-	544,011
Liquidity gap - 2013	26,582	122,567	394,862	-	-	544,011
Liabilities (2012)						
Trade and other payables	93,041	59,624	342,201	-	-	494,866
Liquidity gap - 2012	93,041	59,624	342,201	-	-	494,866

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are South African Rand (ZAR), US Dollars (USD) and British Pounds (GBP), Uganda Shillings (Ushs) and Tanzania Shillings (TShs).

Notes to the financial statements continued

5 FINANCIAL RISK MANAGEMENT continued

(c) Market risk continued

Currency risk continued

The Group operates in Kenya, Uganda and Tanzania and its assets and liabilities are carried in the respective local currency. The Group's exposure to foreign currency risk was as follows, based on notional amounts:

All figures are in thousands of Kenya shillings KShs '000

	USD	GBP	Euro	Rand	Total
Assets					
Trade and other receivables	8,316	-	-	763	9,079
At 31 December 2013	8,316	-	-	763	9,079
Liabilities					
Trade and other payables	(8,411)	(17,290)	(5,845)	(15,263)	(46,809)
At 31 December 2013	(8,411)	(17,290)	(5,845)	(15,263)	(46,809)
Net balance sheet position - 2013	(95)	(17,290)	(5,845)	(14,500)	(37,730)

	USD	GBP	Euro	Rand	Total
Assets					
Trade and other receivables	13,656	5	4	-	13,665
At 31 December 2012	13,656	5	4	-	13,665
Liabilities					
Trade and other payables	(11,816)	(9,225)	(515)	(39,404)	(60,960)
At 31 December 2012	(11,816)	(9,225)	(515)	(39,404)	(60,960)
Net balance sheet position - 2012	1,840	(9,220)	(511)	(39,404)	(47,295)

The following exchange rates were applied in the respective periods:

	Annual average rates		Closing rates	
	2013	2012	At 31 December 2013	At 31 December 2012
US Dollar	86.15	84.53	86.45	86.00
British Pound	134.72	133.91	143.14	139.78
South African Rand	8.92	10.33	8.24	10.17
Euro	114.41	108.82	118.83	113.49

5 FINANCIAL RISK MANAGEMENT continued

(c) Market risk continued

Currency risk continued

Sensitivity analysis

A 10 percent strengthening of the Kenyan Shilling against the following currencies at 31 December 2013 would have increased/ (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis has been performed on the same basis as in 2012.

As at 31 December	Profit or Loss	
	2013 KShs '000	2012 KShs '000
US Dollar	10	(184)
GBP	1,729	922
Euro	584	51
Rand	1,450	3,940
Net Impact	3,773	4,729

A 10 percent weakening of the Shilling against the above currencies at 31 December 2013 would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

5 FINANCIAL RISK MANAGEMENT continued

(c) Market risk continued

(ii) Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group exposure to interest rate risk is with regards to fluctuation in interest rates in the market which affects the returns on the investments held by the Group.

	Effective interest rate %	On demand KShs'000	Due within 3 months KShs'000	Due within 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Over 5 years KShs'000	interest bearing KShs'000	Non-Total KShs'000
As at 31 December 2013								
ASSETS								
Available-for-sale financial assets	11	-	242,033	48,434	764,775	1,055,242		
Trade and other receivables	-	-	-	-	322,477	322,477		
Term deposits	5	-	27,522	-	-	27,522		
Cash and cash equivalents	11	-	319,076	-	87,535	406,611		
		-	319,076	269,555	48,434	-	1,174,787	1,811,852
LIABILITIES								
Trade and other payables		-	-	-	-	-	532,892	532,892
As at 31 December 2012								
ASSETS								
Available-for-sale financial assets	11	-	182,202	27,582	23,392	241,560		474,736
Trade and other receivables	-	-	-	-	-	239,849		239,849
Term deposits	4	-	67,768	-	-	67,768		67,768
Cash and cash equivalents	9	-	160,163	-	-	219,004		379,167
		-	160,163	249,970	27,582	23,392	700,413	1,161,520
LIABILITIES								
Trade and other payables		-	-	-	-	-	475,518	475,518

5 FINANCIAL RISK MANAGEMENT continued

(c) Market risk continued

Interest rate risk - continued

Sensitivity analysis

Sensitivity analysis on interest rates

An increase of one percentage point in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2012.

Effect in Kenyan Shillings thousands

	Profit or loss	
	2013 KShs	2012 KShs
Interest bearing assets	6,383	4,611

A decrease of one percentage point in interest rates at the reporting date would have had an equal but opposite effect on the profit or loss, on the basis that all other variables remain constant.

Equity price risk

The Group is exposed to fluctuation in the market price on its equity investment. The fair value of the investment at 31 December 2013 and 2012 is as follows:

	2013	2012
Shares in quoted company	764,775	241,560

Sensitivity analysis

Sensitivity analysis on equity prices

A decrease of 10% in the share prices would have the following effect on the fair value.

Effect in Kenyan Shillings thousands

	Other Reserves	
	2013	2012
Available for sale financial assets and equity investment	(76,478)	(24,156)

An increase of 10% in the share price would have had an equal but opposite effect on the reserves, on the basis that all other variables remain constant.

5 FINANCIAL RISK MANAGEMENT continued

(d) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities is the same as the carrying amounts as shown in the statement of financial position due to their short-term nature.

2013	Designated at fair value KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Held to maturity KShs '000	Other amortised cost KShs '000	Total carrying value KShs '000	Fair Value KShs '000
Financial Assets							
Available for sale financial assets	-	-	1,055,242	-	-	1,055,242	1,055,242
Trade and other receivables	-	322,477	-	-	-	322,477	322,477
Term deposits	-	27,522	-	-	-	27,522	27,522
Cash and cash equivalents	-	406,611	-	-	-	406,611	406,611
	-	756,610	1,055,242	-	-	1,811,852	1,811,852
Financial Liabilities							
Trade and other payables	-	-	-	-	532,892	532,892	532,892
2012							
Financial Assets							
Available for sale financial assets	-	-	474,736	-	-	474,736	474,736
Trade and other receivables	-	239,849	-	-	-	239,849	239,849
Term deposits	-	67,768	-	-	-	67,768	67,768
Cash and cash equivalents	-	379,167	-	-	-	379,167	379,167
	-	686,784	474,736	-	-	1,161,520	1,161,520
Financial Liabilities							
Trade and other payables	-	-	-	-	494,866	494,866	494,866

5 FINANCIAL RISK MANAGEMENT continued

(d) Fair value of financial assets and financial liabilities continued

Fair value hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Listed equities	Treasury bills and bonds	None
Types of financial liabilities:	None	None	None

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2013:

31 December 2013:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets				
Available-for-sale financial assets	764,775	290,467	-	1,055,242
Total assets	764,775	290,467	-	1,055,242
31 December 2012:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets				
Available-for-sale financial assets	241,560	233,176	-	474,736
Total assets	241,560	233,176	-	474,736

Valuation technique and significant observable inputs

Type	Valuation technique	Significant observable inputs	Significant observable inputs: Interrelationships between the significant observable inputs and fair value measurements
Treasury bonds	<i>Market comparison technique</i> The valuation model is based on market data derived from Treasury bond prices as listed in the Nairobi Securities Exchange	Dirty price as per the market	The estimated fair value will increase/(decrease) if the dirty price per the market increases/(decreases)

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders. Capital comprises all components of equity (i.e. share capital, retained earnings and other reserves).

Notes to the financial statements continued

5 FINANCIAL RISK MANAGEMENT continued

(e) Capital management continued

There is no externally imposed capital requirement.

There were no changes in the Group's approach to capital management during the year.

6 SEGMENT INFORMATION

The Group has three reportable segments which are the strategic business units in the following regions. These are Kenya, Tanzania and Uganda.

For each of the strategic business units, the Board reviews internal management reports. Information regarding the results of each reportable segment is described below. Performance is measured based on each segment profit before tax as indicated in the internal management reports that are reviewed by the Board.

Year ended 31 December 2013	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Sales	1,174,874	83,539	42,586	(58,397)	1,242,602
Operating profit/(loss)	231,690	3,405	(1,669)	(1,593)	231,833
Net finance income	67,517	1,803	7,239	-	76,559
Profit/(loss) before income tax	299,207	5,208	5,570	(1,593)	308,392
Income tax expense	(100,898)	(3,158)	(1,700)	-	(105,756)
Profit/(loss) for the year	198,309	2,050	3,870	(1,593)	202,636

Year ended 31 December 2012	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Sales	1,199,297	77,424	82,243	(64,414)	1,294,550
Operating profit/(loss)	219,474	(4,904)	16,082	-	230,652
Net finance income/(expense)	52,989	7,537	(4,486)	-	56,040
Profit before income tax	272,463	2,633	11,596	-	286,692
Income tax expense	(83,075)	(2,748)	(3,495)	-	(89,318)
Profit/(loss) for the year	189,388	(115)	8,101	-	197,374

Notes to the financial statements continued

6 SEGMENT INFORMATION continued

Other segment items included in the profit and loss account are:

Year ended 31 December 2013

	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total KShs'000
Depreciation	61,081	2,113	863	64,057
Amortisation of intangible assets	1,115	-	-	1,115
Amortisation of operating leases	87	-	-	87
Impairment of inventories	(3,203)	722	280	(2,201)
Impairment of trade receivables	13,052	(787)	4,529	(16,794)

Year ended 31 December 2012

	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total KShs'000
Depreciation	64,719	1,158	948	66,825
Amortisation of intangible assets	1,373	-	-	1,373
Amortisation of operating leases	105	-	-	105
Impairment of inventories	7,151	(2,478)	(314)	4,359
Impairment of trade receivables	18,372	4,741	810	23,923

The segment assets and liabilities at 31 December 2013 and capital expenditure for the period then ended are as follows:

Year ended 31 December 2013	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Assets	2,390,154	132,158	118,171	(7,390)	2,633,093
Liabilities	472,229	59,328	30,355	(17,901)	544,011
Capital expenditure:					
(i) Additions to property, plant and equipment	52,404	3,839	186	-	56,429
(ii) Additions to intangible assets	1,140	-	-	-	1,140

Year ended 31 December 2012	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Assets	1,775,794	151,811	121,000	(53,740)	1,994,865
Liabilities	436,069	82,249	42,764	(66,216)	494,866
Capital expenditure:					
(i) Additions to property, plant and equipment	32,180	4,069	83	-	36,332
(ii) Transfer to intangible assets	3,263	-	-	-	3,263

Segment assets comprise primarily property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred tax.

Segment liabilities comprise operating liabilities. They exclude tax and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Notes to the financial statements continued

7 REVENUE

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Sale of medical and industrial gases	966,321	1,014,055	920,463	951,417
Equipment sales	123,025	155,133	104,326	124,175
Equipment and facilities rentals	82,742	89,758	82,190	88,404
Service and delivery revenue	70,514	35,604	67,895	35,301
	1,242,602	1,294,550	1,174,874	1,199,297

8 OTHER OPERATING INCOME AND EXPENSES

(a) Other operating income

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Profit on disposal of property, plant and equipment	9,526	101	9,526	101

(b) Expenses by nature

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Raw materials, products for resale & consumables	309,001	289,397	299,490	279,729
Employee benefits and other staff costs	222,522	209,578	211,479	194,419
Electricity costs	111,179	131,276	111,038	131,237
Depreciation	64,057	66,825	61,081	64,719
Amortization of intangible assets	1,115	1,373	1,115	1,371
Repairs & Maintenance	54,643	69,713	54,205	69,297
Vehicle expenses	56,149	71,088	50,480	67,695
Management fee	27,336	29,065	24,813	25,893
Other expenses	174,293	195,684	139,009	145,564
Total cost of sales and overheads	1,020,295	1,063,999	952,710	979,924

Expenses by function are made up of:

Cost of sales	597,614	585,884	584,037	573,024
Distribution costs	112,275	132,134	105,109	127,372
Selling and administrative expenses	310,406	345,981	263,564	279,528
	1,020,295	1,063,999	952,710	979,924

(c) Employee benefit expense

The following items are included within staff costs:

Social security benefits	313	1,033	230	226
Retirement benefits costs:				
- defined contribution scheme	15,525	12,567	15,396	12,329

The number of persons employed by the Group at the end of the year was 102 (2012: 107).

Notes to the financial statements continued

9 FINANCE INCOME AND FINANCE COSTS

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
(a) Finance income				
Interest income on short term investments	52,977	30,077	45,149	28,241
Dividend income	11,880	11,880	11,880	11,880
Foreign currency exchange gains	120,655	83,970	106,913	75,884
	185,512	125,927	163,942	116,005
(b) Finance costs				
Foreign currency exchange loss	(108,953)	(69,887)	(96,425)	(63,016)

Dividend income relates to an investment in the shares of a Nairobi Securities Exchange listed company (Note 17).

10 PROFIT BEFORE TAXATION

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Profit before taxation is arrived at after charging:				
Repairs and maintenance expenditure on property, plant and equipment	38,015	35,773	37,568	35,210
Directors' remuneration				
- Fees	3,844	2,797	3,844	2,797
- Salaries and short term benefits	34,122	29,636	34,122	29,636
Depreciation	64,057	66,825	61,081	64,719
Amortisation of intangible assets	1,115	1,373	1,115	1,373
Operating lease charges	87	105	87	105
Auditors' remuneration	4,964	4,550	3,840	3,555
And after crediting:				
Profit on disposal of property, plant and equipment	9,526	101	9,526	101

Notes to the financial statements continued

11 INCOME TAX EXPENSE

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
(a) Current tax expense				
Current year (Note 21)	105,699	110,156	99,935	101,705
Prior year under provision (Note 21)	4,214	-	4,406	-
	109,913	110,156	104,341	101,705
(b) Deferred tax credit/(charge)				
Increase in deferred tax asset (Note 26(a))	(714)	(2,247)	-	-
Decrease in deferred tax liabilities (Note 26 (b))	(3,478)	(19,341)	(3,478)	(19,341)
Prior year deferred tax under provision (Note 26)	35	750	35	711
	(4,157)	(20,838)	(3,443)	(18,630)
Tax expense	105,756	89,318	100,898	83,075

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Profit before tax	308,392	286,692	299,207	272,463
Tax calculated at a tax rate of 30%	92,518	86,007	89,762	81,739
Tax effect of:				
Dividend income taxed at 5%	(2,970)	(2,970)	(2,970)	(2,970)
Expenses not deductible for tax purposes	11,959	5,511	9,665	3,595
Under provision of current tax in prior years	4,214	-	4,406	-
Under provision of deferred tax in prior years	35	750	35	711
Impact of exchange rates	-	20	-	-
Tax expense	105,756	89,318	100,898	83,075

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders with the weighted average number of ordinary shares outstanding during the year. There were no potentially dilutive shares outstanding at 31 December 2013 or 31 December 2012. Therefore, the dilutive earnings per share and the calculation thereof equals the basic earnings per share.

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Net profit attributable to shareholders	202,636	197,374	198,309	189,388
Weighted average number of ordinary shares in issue	19,525	19,525	19,525	19,525
Basic and dilutive earnings per share (KShs)	10.38	10.11	10.16	9.70

Notes to the financial statements continued

13 DIVIDEND PER SHARE

At the next annual general meeting a final dividend in respect of the year ended 31 December 2013 of KShs 2.60 per share (2012: KShs 3.05 per share), amounting to a total of KShs 50,766,160 (2012: KShs 59,552,610) is to be proposed.

During the year, an interim dividend of KShs 2.60 per share (2012: KShs 2.00 per share), amounting to a total of KShs 50,766,160 (2012: KShs 39,050,892) was paid. The total dividend for the year is therefore KShs 5.20 per share (2012: KShs 5.05), amounting to a total of KShs 101,532,320 (2012: KShs 98,603,502).

Payment of dividends is subject to withholding tax at a rate of either 5% or 10%, depending on the residence of the respective shareholders.

14 PROPERTY, PLANT AND EQUIPMENT

(a) Group 2013

	Buildings KShs'000	Plant and motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost						
At 1 January 2013	114,280	655,696	586,583	37,319	(38)	1,393,840
Additions	422	33,150	11,745	1,053	10,059	56,429
Disposals	-	(20,545)	-	(5)	-	(20,550)
Transfers to intangible assets	-	(194)	-	107	-	(87)
Currency translation differences	5	446	1,123	67	-	1,641
At 31 December 2013	114,707	668,553	599,451	38,541,	10,021	1,431,273
Depreciation						
At 1 January 2013	(51,900)	(482,055)	(230,231)	(27,771)	38	(791,919)
Charge for the year	(5,226)	(28,123)	(27,530)	(3,178)	-	(64,057)
Disposals	-	20,545	-	5	-	20,550
Currency translation differences	(5)	(15)	(434)	(259)	-	(713)
At 31 December 2013	(57,131)	(489,648)	(258,195)	(31,203)	38	836,139
Carrying value						
At 31 December 2013	57,576	178,905	341,256	7,338	10,059	595,134

Notes to the financial statements continued

14 PROPERTY, PLANT AND EQUIPMENT continued

(b) Group 2012

	Buildings KShs'000	Plant and motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost						
At 1 January 2012	95,799	604,871	565,507	87,993	56,302	1,410,472
Adjustment	18,470	4,547	(2,744)	(56,929)	(3,029)	(39,685)
As adjusted	114,269	609,418	562,763	31,064	53,273	1,370,787
Additions	-	16,439	14,137	5,709	47	36,332
Disposals	-	-	-	(78)	-	(78)
Transfers – Note 15	-	30,117	9,683	1,616	(44,679)	(3,263)
Adjustments	-	-	-	-	(8,641)	(8,641)
Currency translation differences	11	(278)	-	(992)	(38)	(1,297)
At 31 December 2012	114,280	655,696	586,583	37,319	(38)	1,393,840
Depreciation						
At 1 January 2012	(28,333)	(447,440)	(204,112)	(85,383)	-	(765,268)
Adjustment	(18,349)	(4,288)	2,322	60,000	-	39,685
As adjusted	(46,682)	(451,728)	(201,790)	(25,383)	-	(725,583)
Charge for the year	(5,207)	(30,392)	(28,466)	(2,760)	-	(66,825)
Disposals	-	-	-	61	-	61
Currency translation differences	(11)	65	25	311	38	428
At 31 December 2012	(51,900)	(482,055)	(230,231)	(27,771)	38	(791,919)
Carrying value						
At 31 December 2012	62,380	173,641	356,352	9,548	-	601,921

Notes to the financial statements continued

14 PROPERTY, PLANT AND EQUIPMENT continued

(c) Company 2013

	Buildings KShs'000	Plant and motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost						
At 1 January 2013	113,047	633,591	558,307	36,769	-	1,341,714
Additions	422	29,744	11,745	434	10,059	52,404
Disposals	-	(20,545)	-	-	-	(20,545)
Transfers	-	-	-	(87)	-	(87)
At 31 December 2013	113,469	642,790	570,052	37,116	10,059	1,373,486
Depreciation						
At 1 January 2013	(50,666)	(471,567)	(220,089)	(26,762)	-	(769,084)
Charge for the year	(5,226)	(26,339)	(26,438)	(3,078)	-	(61,081)
Disposals	-	20,545	-	-	-	20,545
At 31 December 2013	(55,892)	(477,361)	(246,527)	(29,840)	-	(809,620)
Carrying value						
At 31 December 2013	57,577	165,429	323,525	7,276	10,059	563,866

Notes to the financial statements continued

14 PROPERTY, PLANT AND EQUIPMENT continued

(d) Company 2012

	Buildings KShs'000	Plant and motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost						
At 1 January 2012	113,047	591,001	534,488	29,707	53,273	1,321,516
Additions	-	12,473	14,136	5,524	47	32,180
Disposals	-	-	-	(78)	-	(78)
Transfers	-	30,117	9,683	1,616	(44,679)	(3,263)
Adjustments	-	-	-	-	(8,641)	(8,641)
At 31 December 2012	113,047	633,591	558,307	36,769	-	1,341,714
Depreciation						
At 1 January 2012	(45,460)	(442,062)	(192,769)	(24,135)	-	(704,426)
Charge for the year	(5,206)	(29,505)	(27,320)	(2,688)	-	(64,719)
Disposals	-	-	-	61	-	61
At 31 December 2012	(50,666)	(471,567)	(220,089)	(26,762)	-	(769,084)
Carrying value						
At 31 December 2012	62,381	162,024	338,218	10,007	-	572,630

Included in property, plant and equipment are assets with a gross value of KShs 345,061,895 (2012: KShs 253,474,557) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs 44,683,664 (2012: KShs 30,828,887).

There were no idle assets at 31 December 2013 and 2012.

The Group had no property pledged as security as at 31 December 2013 and 2012.

15 INTANGIBLE ASSETS

Group and Company	2013 KShs'000	2012 KShs'000
Cost		
At the beginning of year	20,842	17,579
Additions	1,140	-
Transfers from property, plant and equipment (Note 14)	87	3,263
At end of year	22,069	20,842
Accumulated amortisation and impairment losses		
At the beginning of year	(17,317)	(15,944)
Charge for the year	(1,115)	(1,373)
At end of year	(18,432)	(17,317)
Net carrying amount at 31 December	3,637	3,525

Notes to the financial statements continued

16 INVESTMENT IN SUBSIDIARIES

Company	Percentage shareholding	2013 KShs'000	2012 KShs'000
East African Oxygen Limited	100%	-	-
BOC Tanzania Limited	100%	10	10
BOC Uganda Limited	100%	50	50
Kivuli Limited	100%	-	-
		60	60

East African Oxygen Limited is incorporated in Kenya and is a dormant company.

BOC Tanzania Limited and BOC Uganda Limited are incorporated in Tanzania and Uganda respectively. The principal activity of the companies is the sale of industrial and medical gases, and welding products.

Kivuli Limited, a structured consolidated entity, is incorporated in Kenya and holds certain investments on behalf of BOC Kenya Limited.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group and Company	2013 KShs'000	2012 KShs'000
Non-current:		
Shares in quoted company	764,775	241,560
Treasury bonds	18,722	18,985
Corporate bonds	29,712	31,989
Total	813,209	292,534
Current:		
Treasury bonds	-	27,356
Treasury bills	242,033	154,846
Total	242,033	182,202

The weighted average effective interest rate on the treasury bonds at year-end was 9.13% (2012: 11.74%).

18 PREPAID OPERATING LEASES

Group and Company	2013 KShs'000	2012 KShs'000
Leases expiring beyond five years		
At the beginning of the year	3,590	3,695
Amortisation for the year	(87)	(105)
At the end of the year	3,503	3,590

Notes to the financial statements continued

19 INVENTORIES

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Raw materials	12,855	20,463	12,855	20,463
Finished goods and other saleable stock	121,856	162,953	107,560	147,611
Plant spares	60,784	38,344	60,784	38,344
Goods in transit	16,137	13,336	16,137	13,324
Work in progress	649	840	649	840
Inventories obsolescence allowance	(29,468)	(31,669)	(28,014)	(31,217)
	182,813	204,267	169,971	189,365

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Trade receivables	345,379	304,609	288,861	249,047
Allowance for impairment	(112,603)	(95,809)	(78,143)	(65,091)
	232,776	208,800	210,718	183,956
Staff debtors	-	537	-	523
Prepayments	10,672	6,528	8,574	6,094
Receivables from related companies (Note 31(b))	-	2,244	36,596	59,836
Other receivables	79,904	29,249	78,925	23,543
	323,352	247,358	334,813	273,952

21 TAX (RECOVERABLE)/PAYABLE

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
At 1 January	21,154	8,776	28,363	3,196
Charge for the year (Note 11)	105,699	110,156	99,935	101,705
Prior year under-provision (Note 11)	4,214	-	4,406	-
Tax paid	(160,119)	(97,336)	(155,820)	(76,538)
Foreign currency translation	(121)	(442)	-	-
At 31 December	(29,173)	21,154	(23,116)	28,363
Comprising:				
Tax recoverable	(29,173)	(7,209)	(23,116)	-
Tax payable	-	28,363	-	28,363
	(29,173)	21,154	(23,116)	28,363

22 TERM DEPOSITS

Term deposits comprise fixed and call deposits with financial institutions whose maturities are between three and twelve months.

Notes to the financial statements continued

23 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Cash at bank and in hand	87,535	219,004	50,316	71,185
Fixed and call deposits	319,076	160,163	158,108	160,163
	406,611	379,167	208,424	231,348

24 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital	Number of shares Thousands	Ordinary shares KShs'000
Authorised	20,000	100,000
Issued and fully paid 2013 and 2012	19,525	97,627

The total authorised number of ordinary shares is 20,000,000 with a par value of Shs 5 per share. The total issued number of ordinary shares is 19,525,446. All issued shares are fully paid up.

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.

(b) Share premium

Share premium arose when the shares of the company were issued at a price higher than the nominal (par) value.

25 OTHER RESERVES

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Fair value reserve	739,606	217,230	739,606	217,230
Foreign currency translation reserve	(3,462)	(10,018)	-	-
	736,144	207,212	739,606	217,230

a) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, recognised in other comprehensive income excluding impairment losses, until the investment is derecognised.

Notes to the financial statements continued

25 OTHER RESERVES continued

(b) Foreign currency translation reserve

Translation reserves relate to differences arising from closing and opening exchange rates applicable to assets and liabilities in the subsidiaries.

26 DEFERRED TAX

(a) Deferred tax asset

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2012: 30%). The movement on the deferred tax account is as follows

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
At the beginning of year	5,324	3,099	-	-
Recognised in profit or loss (Note 11)	714	2,247	-	-
Prior year under provision	-	(39)	-	-
Currency translation differences	68	17	-	-
At end of year	6,106	5,324	-	-

Consolidated deferred tax assets and deferred tax charge/(credit) to profit or loss account are attributable to the items below:

Year ended 31 December 2013	Foreign			
	At 01.01.2013 Kshs '000	Recognised in profit or loss Kshs '000	currency translation differences Kshs '000	At 31.12.2013 Kshs '000
Property, plant and equipment	(6,128)	(598)	-	(6,726)
Unrealized exchange (gains)/losses	819	(1,196)	-	(377)
Accrued expenses & provisions	10,633	2,508	68	13,209
Total	5,324	714	68	6,106

Year ended 31 December 2012	At 01.01.2012 Kshs '000	Recognised in profit or loss Kshs '000	Prior year under provision Kshs '000	Currency translation differences Kshs '000	At 31.12.2012 Kshs '000
	Property, plant and equipment	(6,351)	223	-	-
Unrealized exchange (gains)/losses	(3)	822	-	819	(377)
Accrued expenses & provisions	9,453	1,202	(39)	17	10,633
Total	3,099	2,247	(39)	17	5,324

Notes to the financial statements continued

26 DEFERRED TAX continued

(b) Deferred tax liability

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2012: 30%). The movement on the deferred tax account is as follows:

Group and Company	2013 KShs'000	2012 KShs'000
At the beginning of year	16,825	32,561
Recognised in profit or loss (Note 11)	(3,478)	(19,341)
Prior year under provision	35	711
Unrealized gain/(loss) on available for sale financial assets	(360)	2,894
Currency translation differences	-	-
At end of year	13,022	16,825

Consolidated deferred tax liabilities and deferred tax charge/(credit) to profit or loss account are attributable to the items below:

Group and Company

Year ended 31 December 2013	At 01.01.2013 Kshs '000	Recognised in profit or loss Kshs '000	Prior year under provision Kshs '000	Recognised in other comprehensive income Kshs '000	At 31.12.2013 Kshs '000
Property, plant and equipment	72,077	830	35	-	72,942
Unrealized loss on available for sale financial assets	40	-	-	(360)	(320)
Provisions	(56,565)	(2,454)	-	-	(59,019)
Unrealised exchange (gains)/losses	1,273	(1,854)	-	-	(581)
	16,825	(3,478)	35	(360)	13,022

Year ended 31 December 2012	At 01.01.2012 Kshs '000	Recognised in profit or loss Kshs '000	Prior year under provision Kshs '000	Recognised in other comprehensive income Kshs '000	At 31.12.2012 Kshs '000
Property, plant and equipment	74,336	(2,259)	-	-	72,077
Unrealized loss on available for sale financial assets	(2,854)	-	-	2,894	40
Provisions	(38,800)	(18,476)	711	-	(56,565)
Unrealised exchange (gains)/losses	(121)	1,394	-	-	1,273
	32,561	(19,341)	711	2,894	16,825

Notes to the financial statements continued

27 TRADE AND OTHER PAYABLES

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Cylinder deposits	211,764	159,716	185,435	136,820
Trade payables	70,862	123,549	70,093	95,846
Amounts due to related companies (Note 31(c))	37,338	62,737	34,036	69,486
Accruals and other payables	224,047	148,864	182,665	133,917
	544,011	494,866	472,229	436,069

28 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operating activities:

Note	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Profit before tax	308,392	286,692	299,207	272,463
Adjustments for:				
Depreciation	14 64,057	66,825	61,081	64,719
Amortisation of intangible assets	15 1,115	1,373	1,115	1,373
Operating lease charges	18 87	105	87	105
Profit on sale of property and equipment	7 (9,526)	(101)	(9,526)	(101)
Effect of foreign currency translations	5,438	3,569	-	-
Interest income	(52,977)	(30,077)	(45,149)	(28,241)
Dividend income	9 (11,880)	(11,880)	(11,880)	(11,880)
Changes in working capital:				
- trade and other receivables	(75,994)	97,413	(60,861)	30,264
- inventories	21,454	(12,756)	19,394	(9,961)
- trade and other payables	49,145	44,852	36,160	46,743
Cash generated from operating activities	299,311	446,015	289,628	365,484

29 CONTINGENT LIABILITIES

At 31 December 2013, the Company had given guarantees amounting to KShs 3,656,208 (2012: KShs 61,293,049) on behalf of third parties.

There are certain pending legal claims brought against the Company as at 31 December 2013 for which a provision has been made in the books. In the opinion of the Directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided in these financial statements.

30 CAPITAL COMMITMENTS

At 31 December 2013, the Company had capital commitments of KShs 22,958,713 (2012: Nil).

Notes to the financial statements continued

31 RELATED PARTY TRANSACTIONS

Group

The ultimate parent of the Group is Linde A.G., a company incorporated in Germany. There are other companies that are related to BOC Kenya Limited through common shareholdings or common Directorships.

The following transactions were carried out with related parties:

(a) Purchase of goods and services from related parties - Group

	2013 KShs'000	2012 KShs'000
BOC Group plc	20,371	12,945
African Oxygen Limited	52,922	92,405
Cryostar Limited – France	3,532	595
Afrox Zambia Limited	3,533	45
BOC Zimbabwe Limited	-	858
	80,358	106,848

Expenses incurred on behalf of other related parties were recharged at actual cost. Purchases from related parties were made at normal commercial terms and conditions similar to those offered to third parties.

(b) Outstanding balances included in receivables

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
BOC Zambia Limited	-	844	-	844
BOC Nigeria Limited	-	962	-	962
BOC Zimbabwe	-	396	-	396
BOC Malawi	-	42	-	42
African Oxygen Limited	-	-	-	-
BOC Tanzania Limited	-	-	24,610	31,944
BOC Uganda Limited	-	-	11,986	25,648
	-	2,244	36,596	59,836

(c) Outstanding balances arising from purchase of goods and services included in payables

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
BOC Group plc	17,378	8,526	17,378	8,526
African Oxygen Limited	16,905	54,163	13,603	52,291
Afrox Zambia Limited	53	44	53	44
BOC Tanzania Limited	-	-	-	8,621
Linde A.G	2,998	-	2,998	-
BOC Zimbabwe Limited	4	4	4	4
	37,338	62,737	34,036	69,486

Notes to the financial statements continued

31 RELATED PARTY TRANSACTIONS continued

(d) Key management compensation	2013 KShs'000	2012 KShs'000
Group and Company		
Salaries and short term benefits	62,705	52,620
Termination benefits	3,399	-
	66,104	52,620

Key management compensation relates to salary and benefits paid to senior members of management.

(e) Directors' remuneration	2013 KShs'000	2012 KShs'000
Group and Company		
- Fees	3,844	2,797
- Salaries and short term benefits	34,122	29,636
	37,966	32,433

(f) Dividends paid	2013 KShs'000	2012 KShs'000
BOC Group plc	72,126	86,806

32 SUBSEQUENT EVENTS

Since the end of the financial period, no matter or circumstances have occurred that have or may significantly affect the operations or the state of affairs of the Group in subsequent financial years.

PROXY

NOTE:

In accordance with section 136(2) of the Companies Act (Cap. Act 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy, to attend and vote on his/her behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to the Company Secretary, to arrive not later than 48 hours before the meeting or any adjournment thereof.

PROXY FORM
BOC KENYA LIMITED

TO: The Company Secretary,
BOC Kenya Limited
P.O. Box 18010 - 00500
NAIROBI

I/We

of

being a member/members of the above named Company hereby appoint:

.....

of

or failing him/her

of

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30 May 2014 at the Company's Head Office on Kitui Road, Industrial Area, Nairobi, and at any adjournment thereof.

Signed by me/us and sealed this day of 2014

Signature:

NOTE: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof. In case of a corporation, the proxy must be executed under the Common Seal.

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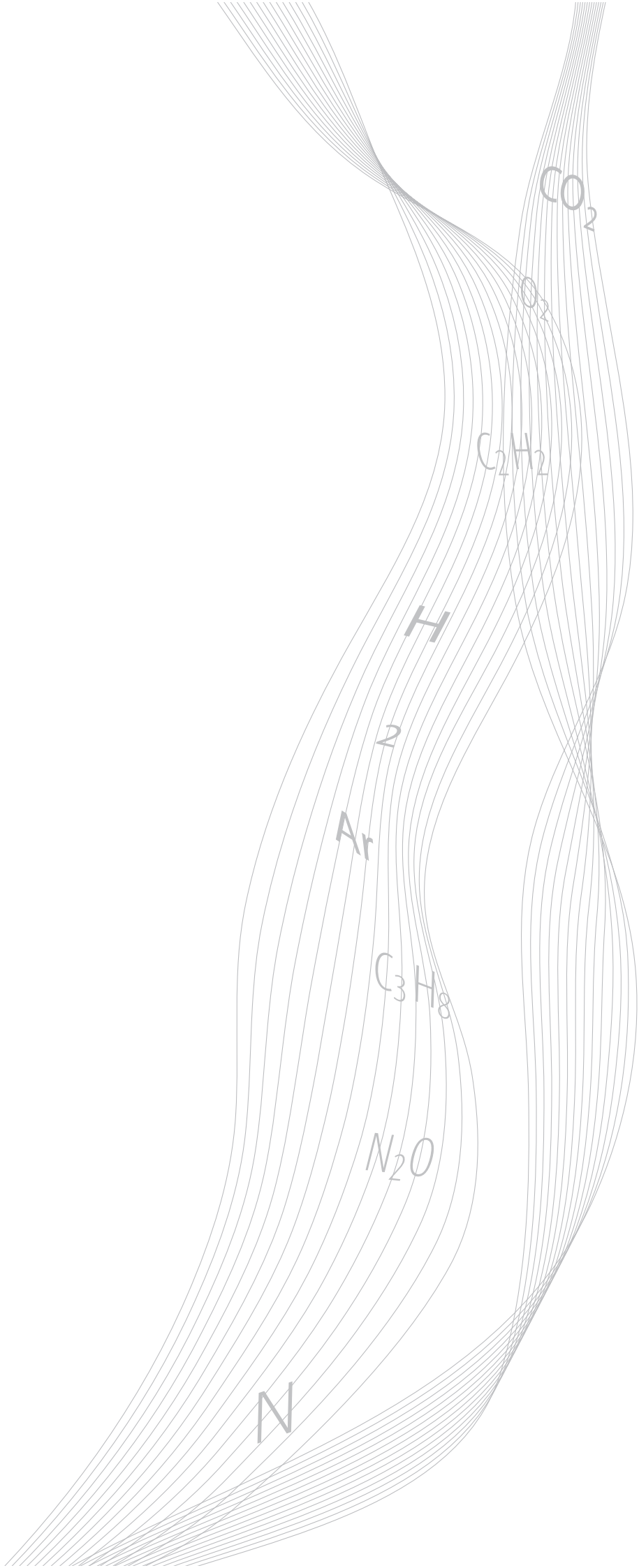
STICK
STAMP
HERE

Company Secretary
BOC Kenya Limited
P O Box 18010
Nairobi 00500
Kenya

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Fold 3

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