



**BOC KENYA LIMITED**  
Annual Report  
**2014**



# Contents

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Notice of annual general meeting	2
Directors, officers and administration	3
Board of directors	4-5
Report of the directors	6
Statement of directors' responsibilities	7
Chairman's report	8-9
Managing director's report	10-12
Corporate governance	13-16
Shareholding structure	17
Report of the independent auditors	18
<b>FINANCIAL STATEMENTS:</b>	
Statements of profit or loss and other comprehensive income	19
Statements of financial position	20
Statement of changes in equity of the group	21-22
Statement of changes in equity of the company	23-24
Statements of cash flows	25
Notes to the financial statements	26-67
Proxy	71

# Notice of annual general meeting

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**NOTICE IS HEREBY GIVEN** that the Seventy-Fourth Annual General Meeting of BOC Kenya Limited will be held at the Company's Head Office and factory site, Kitui Road, Industrial Area, Nairobi, on 19 June 2015, at 11:00 a.m. for the following purposes:-

## **ORDINARY BUSINESS**

1. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31 December 2014, together with the reports of the Chairman, Directors and Auditors thereon.
2. To confirm the interim dividend of KShs 2.20 per ordinary share paid on 30 October 2014 and to declare a final dividend of KShs 3.00 per ordinary share payable on or about the 30 June 2015, net of Withholding Tax, to Shareholders on the Register at the close of business on 8 May 2015.
3. To elect Directors:
  - (i) Mrs. L. Njoroge, retires and being eligible offers herself for re-election in accordance with Article 98 of the Articles of Association.
  - (ii) Mr. W. Coetzee and Mr. A. Kamau retire by rotation and being eligible, offer themselves for re-election in accordance with Article 93 of the Articles of Association.
4. To approve the remuneration of directors for the year ended 31 December 2014.
5. To note that Messrs KPMG continue in office as the auditor under Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.

## **BY ORDER OF THE BOARD**

R. T. Ngobi (Ms.)  
Company Secretary  
Kitui Road, Industrial Area  
P O Box 18010-00500  
Nairobi

1 April 2015

## **NOTES:**

1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the company.
2. A proxy form is provided with this report. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the form to the Company Secretary at the registered office of the Company OR to the Company's Registrar, Custody & Registrars, 6th Floor, Bruce House, Standard Street, so as to arrive not later than 2:30 p.m. on 17 June 2015, being not less than 48 hours before the time appointed for the meeting.

# Directors, officers and administration

## BOARD OF DIRECTORS

Mr. N. Kiuna	(Chairman)
Mrs. M. Msiska	(Managing Director)
Mr. A. Kamau	(Finance Director)
Mr. N. Thomson	
Mr. B. Wheatcroft	
Mr. W. Coetzee	
Mr. R. Mbugua	
Mr. M. Kruger	
Mrs. L. Njoroge	(Appointed 1 September 2014)
Ms. R. T. Ngobi	(Company Secretary)

## AUDIT COMMITTEE

Mr. R. Mbugua	(Chairman)
Mr. N. Thomson	
Mr. M. Kruger	
Mrs. L. Njoroge	
Mrs. M. Msiska	(permanent invitee)
Mr. A. Kamau	(permanent invitee)
Ms. R.T. Ngobi	(Secretary)

## NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE

Mr. N. Kiuna	(Chairman)
Mr. W. Coetzee	
Mr. R. Mbugua	
Mrs. M. Msiska	(permanent invitee)
Ms. R.T. Ngobi	(Secretary)

## RETIREMENT AND REMUNERATIONS COMMITTEE

Mrs. L. Njoroge	(Chairman)
Mr. W. Coetzee	
Mr. M. Kruger	
Mrs. M. Msiska	(permanent invitee)
Mr. A. Kamau	(permanent invitee)
Mrs. S. Onyoni	(permanent invitee)
Ms. R. T. Ngobi	(Secretary)

## AUDITOR

KPMG Kenya,  
ABC Towers  
ABC Place  
Waiyaki Way  
P. O. Box 40612-00100  
NAIROBI

## TRANSFER AGENTS

Custody & Registrar Services Limited,  
Bruce House, 6th Floor, Standard Street,  
P. O. Box 8484-00100,  
NAIROBI

## ADVOCATES

Kaplan & Stratton Advocates,  
Williamson House,  
4th Ngong Avenue,  
P.O. Box 40111-00100  
NAIROBI

Daly & Figgis Advocates  
ABC Towers, 6th Floor,  
ABC Place  
Waiyaki Way  
P. O. Box 40034-00100  
NAIROBI

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

## BANKERS

Citibank, N. A. Kenya Branch  
Barclays Bank of Kenya Limited  
Standard Chartered Bank Kenya Limited

## SECRETARY AND REGISTERED OFFICE

Ms. R.T. Ngobi (CPS No. 726)  
Company Secretary  
Kitui Road, Industrial Area  
P O Box 18010-00500  
NAIROBI

## Board of directors



### **Mr. Ngugi Kiuna (age 66)**

*Non-Executive Chairman (Kenyan)*

Appointed to the Board as Non-Executive Director in October 1993. Appointed Chairman of the Board on 4 May 2012. He graduated with a BSc (Hons) degree in mechanical engineering from Portsmouth Polytechnic, England. He is currently the Managing Director of Maxam Limited, the distributor of Heineken and Philip Morris across East Africa. His professional experience has involved working as a Managing Director of Holman Bros East Africa and as Managing Director of Diversey Eastern and Central Africa Limited until July 2006. Ngugi has served on various boards of listed and non-listed companies in the past, amongst them, Access Kenya Limited and Kenya Power and Lighting Company Limited. He is currently a Director of Transcentury Limited, Proctor & Allen (EA) Limited and UBA Bank (Kenya) Limited.

### **Mr. Willem Coetzee (age 59)**

*Non-Executive Director (South African)*

Appointed to the Board in August 2009. He is the General Manager African Operations, African Oxygen Limited based in South Africa. Mr. Coetzee has over 30 years of corporate business experience across different organizations including 17 years in the industrial gases business with BOC/Linde Group in the United States of America and Thailand. He holds a BSc Engineering degree Cum Laude and a Master of Business Administration degree from the University of Pretoria, South Africa. He is also a registered professional engineer with the South African Institute of Professional Engineers.

### **Mrs. Maria Msiska (age 56)**

*Managing Director (Malawian)*

Appointed as Director to the Board in February 2010. In September 2010 she was appointed as Managing Director of the Company and is also leading the re-engineering of the

Group's operations in the Eastern Africa Region. Prior to her appointment as Managing Director, Mrs. Msiska was Head of Finance for the Linde Group's African Operations outside of South Africa and, prior to this, was Managing Director of Afrox Zambia Limited and Afrox Malawi Limited. She holds a Bachelor of Commerce degree from the University of Malawi and a Master of Business Leadership degree from the University of South Africa. She is a Fellow of the Chartered Association of Chartered Accountants.

### **Mr. A. Kamau (age 49)**

*Finance Director (Kenyan)*

Appointed to the Board in December 2010. He joined the Company in December 2010 as General Manager responsible for Finance and Administration. He has extensive experience in financial management and served in senior management roles over the last ten years in the manufacturing industry including Finance Director for Diversey Eastern and Central Africa Limited. Arthur is a graduate of Economics and Business Studies from the Kenyatta University. He trained as an accountant with KPMG and is a member of the Instituted of Certified Public Accountants of Kenya.

### **Mr. Nick Thomson (age 55)**

*Non-Executive Director (British)*

Appointed to the Board in May 2010. He is the Financial Director of African Oxygen Limited. Prior to his current role Nick was Chief Financial Officer for Transnet Freight Rail. He is a Chartered Accountant (South Africa) and gained valuable business experience with Ernest and Young between 1980 and 2005 during which time he rose to be a Senior Partner. He holds a Bachelor of Commerce degree from the University of Pietermaritzburg, South Africa and a Diploma in Accountancy from the University of Durban. He also holds a post graduate Diploma in Taxation.

## Board of directors



### **Mr. Marius Kruger (age 45)**

*Non-Executive Director (South African)*

Appointed to the Board in August 2013. 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 five years in general management, financial audits and advisory services, business planning, financial and management reporting, strategy formulation, implementation and reviews. Marius holds a post graduate degree in Finance and is an associate member of the Chartered Institute of Management Accountants in the United Kingdom.

### **Mrs. Lucy Njoroge (age 48)**

*Non-Executive Director (Kenyan)*

Appointed to the Board in September 2014. Lucy is a Founder member and Managing Director of XRX Technology Limited, a company that specializes in office automation and ICT integration services. As a professional in IT, Mrs. Njoroge has spearheaded many major IT projects in Kenya and the Region for Government institutions and large public and private companies. She holds a Bachelor of Education degree from Moi University, Eldoret and a Masters in Business Administration from United States International University, Nairobi. She was a Board Member of Kenya Women Finance Trust Ltd between 2006 and 2011.

### **Mr. Robert N. Mbugua (age 47)**

*Non-Executive Director (Kenyan)*

Appointed to the Board in May 2012. Robert is the Co-Founder and Chief Executive of the investment firm, TCI Group. He has a rich accounting background having spent 14 years with PricewaterhouseCoopers both in Kenya and in South Africa where he was admitted as a Partner. He left PricewaterhouseCoopers South Africa and joined

Standard Bank South Africa for 8 years. During his tenure with Standard Bank South Africa he held various Senior roles including Regional Managing Director with responsibility for its operations in a number of African countries. He is a Certified Public Accountant and holder of a Master of Business Administration degree from Bond University (Australia/South Africa). He holds directorships in Fleet Africa (EA) Ltd and Nabo Capital Ltd.

### **Mr. Brett Wheatcroft (age 44)**

*Non-Executive Director (South African)*

Appointed to the Board in December 2012. Brett has over 22 years experience in the gases industry where he has held various Senior operational, SHEQ and business roles. He is a Mechanical Engineer by profession. He also has several Management qualifications from Witswatersrand Business School South Africa as well as Duke University in the United States of America.

### **Ms. R. T. Ngobi (age 54)**

*Company Secretary (Kenyan)*

Appointed Company Secretary in August 2014. Ruth was educated in both Kenya and the UK and qualified as a lawyer in 1985. She previously worked with Unilever Kenya Limited for 15 years as Company Secretary before joining British American Tobacco Kenya Ltd in 2002 as Company Secretary and Area Legal Counsel. She retired from full time employment with British American Tobacco Kenya Ltd in 2010 but retained her role as Company Secretary. She founded Cosec Solutions which provides company secretarial services and corporate governance solutions to various companies. She is a Non-Executive Director on the Boards of CFC Stanbic Bank Limited, CFC Stanbic Holdings Limited and a member of the Public Procurement Oversight Authority Board.

# Report of the directors

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The Directors submit their report together with the audited financial statements for the year ended 31 December 2014, which disclose the state of affairs of the Group and of the Company.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DIVIDEND

The Directors recommend the approval of a final dividend of KShs 3 per ordinary share payable, net of Withholding Tax, on or about 30 June 2015 to Shareholders on the Register at the close of business on 8 May 2015.

During the year an interim dividend of KShs 2.20 per share, amounting to a total of KShs 42,955,981 was paid. The total dividend for the year is therefore KShs 5.20 per share (2013: KShs.5.20) amounting to a total of KShs 101,532,320 (2013: KShs. 101,532,320)

## BOARD OF DIRECTORS

The following changes have taken place in the Board of Directors since the last Annual General Meeting:

- Ms. C. Musyoka resigned from the Board on 30 June 2014.
- Mrs. L. Njoroge was appointed a Director on 1 September 2014 to fill a casual vacancy on the Board.

In accordance with Article 98, Mrs. L. Njoroge retires from the Board and being eligible, offers herself for re-election.

Mr. W. Coetzee and Mr. A. Kamau retire by rotation and being eligible, offer themselves for re-election in accordance with Article 93 of the Articles of Association.

## AUDITOR

The Company's auditor, KPMG, has expressed interest to continue in office in accordance with section 159(2) of the Companies Act.

## APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of Directors held on 1 April 2015.

By order of the Board  
R.T. Ngobi (Ms.)  
Company Secretary  
1 April 2015

# Statement of directors' responsibilities

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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 19 to 67 which comprise the Group and Company statements of financial position at 31 December 2014, 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 information.

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 keeps 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 judgments 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 and operating results of the Group and Company.

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 the next 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 1 April 2015 and were signed on its behalf by:

**N. Kiuna**  
Chairman

**M. Msiska**  
Managing Director

# Chairman's report



## DEAR SHAREHOLDER

The Directors have pleasure in submitting the Group annual financial statements for the year ended 31 December 2014.

The Board is happy to note that there is continued growth in

the East Africa region with key macroeconomic indicators remaining relatively stable albeit terrorism-related security challenges facing Kenya have had a significant adverse effect on some of the sectors of the economy. Key macro-economic indicators have been relatively stable.

Inflation in the month of December 2014 was 6.02% compared to 7.1% in the prior year. The Consumer Price Index was on a downward trend in the second half of 2014 primarily due to dropping fuel prices.

The Shilling depreciated gradually against the dollar in 2014 starting at 86.5 in December 2013 and closing at 90.6 in 2014. The adverse effect of this change on the Group's dollar-denominated supplier invoices was mitigated by an appreciation of the Shilling against the South African Rand.

Interest rates remained stable throughout 2014. The Monetary Policy Committee (MPC) of the Central Bank of Kenya has maintained the Central Bank Rate (CBR) at 8.5% since 7 May 2013 when it was reduced from 9.5%. Interest on short-term treasury bills continued to be stable, oscillating in the 9% - 10% range.

The NSE-20 index remained buoyant during the year with increased foreign investor participation. The Index rose 23% between December 2013 and December 2014.

Kenya's Gross Domestic Product Growth Rate for the 2014 was 5.3%, slightly lower than the 5.7% recorded in 2013.

## COMPANY RESULTS

The financial results are presented 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).

**“The Board is happy to note that there is continued growth in the East Africa region with key macroeconomic indicators remaining relatively stable”.**

In the 2014 financial year, The Linde Group generated revenue of EUR 17.047 billion, making it the largest gases and engineering company in the world with approximately 65,500 employees working in more than 100 countries worldwide.

The strategy of The Linde Group is geared towards 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. The Group is committed to technologies and products that unite the goals of customer value and sustainable development

For more information, visit The Linde Group online at [www.linde.com](http://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.

## DIVIDENDS

The Board of Directors recommend a final dividend of KShs 3 per ordinary share which, when added to the interim dividend of KShs 2.20 paid out during the year, brings total dividends to KShs 5.20 per share. The dividend, which is subject to withholding tax, will be paid on 30 June 2015 to shareholders on the register at the close of business on 8 May 2015.

## CHANGES TO THE BOARD OF DIRECTORS

Ms. Carol Musyoka resigned as a Director on 30 June 2014. I take this opportunity to thank Ms. Musyoka for her invaluable contribution to the Board. I am pleased to welcome to the Board Mrs. Lucy Njoroge who was appointed as a Director on 1 September 2014.

## OUR PEOPLE

Employees are continuously assessed in order to ensure they have 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, Linde Integrated Management System and Standards (LiMSS), 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 economic growth that the East Africa region has enjoyed over the past years will continue in 2015, and the threats emanating from the scourge of terrorism will begin to abate.

Meanwhile the Board believes that a continued focus on customers, delivery of high standards of products and services as well as enforcement of business controls to ensure operational efficiencies, will have a positive effect on the Company's performance, the increasingly competitive landscape notwithstanding.

## 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. I also wish to thank our shareholders for their continued support.

N. Kiuna  
Chairman  
1 April 2015

# Managing director's report



## FINANCIAL RESULTS

Revenue for the year ended 31 December 2014 was Kshs 1,296 million, up 4.4%. Sales were negatively impacted by competition from medical oxygen imports and a change in the

Group's sales mix. A generally more competitive market place limited the Group's ability to recover cost increases through pricing.

A significant cost increase was on electricity, a major input in the Group's production process for gases. Electricity costs increased by 19% over prior year, which was driven by higher fuel cost adjustments on electricity bills together with increased tariffs compared to prior years. The fuel cost adjustment only began to abate towards the end of the year.

Profit before tax was down 9.9% down due to pressure on margins as well as a revision in the calculation methodology for stock obsolescence allowances that was effected in order to comply with Group accounting policies.

## OPERATIONAL EFFICIENCY

With the increasingly competitive landscape of the Eastern Africa economies, the business is focusing on operational efficiency and return on assets.

The spend on new cylinders during the year was KShs 100 million and on the distribution fleet Kshs 42 million. The objective of this significant capital investment was to ensure more timely availability of packaged gases to new and existing customers, an efficient turn-around of empty cylinders for re-filling at our production facilities and reduced distribution costs from the newer fleet. The Company has commissioned its new oxygen filling facility in Mwanza, Tanzania, which will reduce our distribution costs from Nairobi and improve product availability in that region.

The Company has 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 has continued. 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

**“The Company has commissioned its new oxygen filling facility in Mwanza, Tanzania, which will reduce our distribution costs from Nairobi and improve product availability in that region”.**

# Managing director's report continued

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.

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 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

Our Company's policies on safety, health, environment and quality have been reviewed in order to renew and strengthen our commitment to safety.

## HEALTH, SAFETY AND ENVIRONMENT (HSE) POLICY

The objective of the HSE Policy is to avoid harm to people, society and the environment. This policy is integral to The Linde Group strategy and is periodically reviewed by the Executive Board of The Linde Group. The policy is built on the following:

Principles:

- Health, safety and care for the environment are foundational principles of our business.
- The health and safety of our employees, customers, business partners and communities in which we do

business is our number one priority.

- Personal ownership for HSE through visible, demonstrated leadership and accountability must lie at all levels throughout the Company.
- HSE principles shall be reflected in 100% of our behaviour, 100% of the time.

Vision:

- Zero incidents.
- Safe, secure and healthy working conditions for all who work with and for us.
- High quality, safe and environmentally responsible products and services that meet or exceed the expectations of our customers.
- Responsible use of natural resources.
- Economic and environmental sustainability in everything we do.

Commitment:

- To comply with applicable legal, regulatory, industry and corporate requirements.
- To design, construct and operate our facilities in a safe, secure, efficient and environmentally responsible way.
- Personal accountability to continuously improve our HSE performance through tracking against our goals and targets.
- Proactive management of risk in our business.
- Working with our business partners and our relevant industries to actively promote and enforce compliance with the HSE policy.
- Promoting open communication and learning with all stakeholders and sharing of HSE knowledge.
- Providing resources, training, equipment and other support to enable fulfilment of the HSE policy.

## QUALITY POLICY

The core values of the Company are passion to excel, innovating for customers, empowering people and thriving through diversity. Two of these values namely, "Passion to excel" and "Innovating for customers", specifically address areas that are very important for quality.

Our passion to excel recognizes the need to continuously improve our processes and operations while innovating for customers focuses on excellence in customer service and customer satisfaction.

The company operates according to well established standards, and seeks to ensure employees are competent both from practical and theoretical perspective and there is a systematic review of performance through risk based audits.

## Managing director's report continued

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Employees have access to the web-based Linde Group Learning Management System (TRACCESS) on which they study and undertake tests on subjects relevant to their respective roles in the Company.

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

We expect the East African countries to continue registering positive growth as they have done over the past years. Especially encouraging is the focus by the various governments to undertake initiatives that are beneficial both to their local economies as well as the region.

The recent drop in oil prices has led to a drop in the national import bill and therefore a drop in inflation. However, if the prices remain depressed or drop further this may be a dampener on the region's nascent oil and gas development projects.

The Company will continue to focus on its 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.

### 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 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  
1 April 2015

## OVERVIEW

The Company is committed to the highest standards of corporate governance and adheres to the standards of good corporate governance set out in the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya (CMA Guidelines). The Company however believes that the most potent form of corporate governance comes from within, with external guides and codes being overlays to the standards that we as a Group set ourselves. Those standards are codified in our own Code of Ethics which every company within the Linde Group and every employee is expected to live up to.

## BOARD OF DIRECTORS

### The Role of the Board

The Company is managed under the direction of the Board of Directors. The Board is collectively responsible to the Company's shareholders for the long-term success of the Company and for its overall strategic direction, its values and governance. It provides the leadership necessary to meet its business objectives within the framework of its internal controls, while also discharging the Company's obligations to its shareholders.

### The key responsibilities of the Board include:

1. To provide overall strategic direction and major corporate actions to be taken by the Company;
2. Approval and adoption of the strategic and annual business plans, the setting of objectives and review of key risk and performance areas;
3. To review performance, take material policy decisions and give guidance on general policy.
4. Approval of commitments outside the authority delegated to the executive management committees and individual directors;
5. Responsibility for the overall system of internal control for the Company thereby managing risks that may impede the achievement of the Company's business objectives.
6. Review at regular Board meetings of Management's performance against set objectives; and
7. Approval of adoption of Group policies, programmes and procedures for safety, health, environment, treasury, remuneration and benefits.

Responsibility for implementing strategy and day-to-day operations has been delegated by the Board to the Managing Director and her top management team.

### Composition of the Board of Directors

The Board's current membership consists of seven Non-Executive Directors and two Executive Directors. The Board meets on a quarterly basis as scheduled during the year with additional meetings when necessary. As at the date of this Annual Report, composition of the Board is as set out on page 3.

### Commitment and Conflict of Interest

All Directors are expected to allocate sufficient time to the Company to discharge their responsibilities effectively. The Chairman and other Non-Executive Directors endeavor to ensure that they have adequate time to discharge their responsibilities to the Board effectively.

Any conflict of interest or apparent conflict of interest between the Company and its Directors is avoided. Any circumstances which may give rise to actual or potential conflicts of interest are disclosed to the Board upon appointment and subsequent changes highlighted as they arise. Directors are given the opportunity, at the start of every Board meeting, to declare any actual or potential conflict of interest with their role as Directors. During the course of 2014 no conflict of interest was declared by any Director.

### Development

All Directors joining the Board receive induction and are encouraged to continually update their skills and knowledge of the business to enhance the effectiveness of the Board and its constituted committees.

### Re-election

The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment for three years, renewable after a further three years subsequent reappointment is subject to endorsement by the Board and the approval of shareholders at an AGM in the usual manner.

## Corporate governance continued

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In accordance with the Articles of Association of the Company, all Directors offer themselves for re-election at regular intervals. All new appointments to the Board are subject to election by shareholders at the first Annual General Meeting after their appointment.

### **Risk Management and Internal Control**

The Board is responsible for determining the nature and extent of the significant risks that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. With the support of the Audit Committee, the Board carries out a review of the effectiveness of its risk management and internal control systems covering all material controls including financial, operational and compliance controls and risk management systems.

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.

### **BOARD COMMITTEES**

The Board has established three principal Board Committees, to which it has delegated some of its responsibilities namely, the Audit Committee, the Retirement and Remuneration Committee and the Nominations and Corporate Governance Committee.

### **Audit Committee and Auditors**

The Audit Committee meets three times a year with internal and external auditors, as well as with management. The Committee's responsibilities include:

1. Review of financial information and in particular the integrity of the half-year and annual financial statements before submission to the full Board for review and approval;
2. Ensuring integrity of financial reporting and internal and external audit processes;
3. Evaluation of the findings of the external and internal audit functions, the actions taken, the appropriateness and adequacy of the systems of internal financial and operational control and review of accounting policies and financial information released to stakeholders;
4. Recommending to the Board the selection and appointment of the Group's external auditors and review of proposed audit fees; and
5. 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.

The current members of the Committee are:

Mr. R. Mbugua (Chairman)

Mr. N. Thomson

Mr. M. Kruger

Mrs. L. Njoroge

Ms. R.T. Ngobi (Secretary)

KPMG Kenya are the Company's auditors. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. The external auditors are required to rotate the audit partners responsible for the audit at least every seven years. During 2014 Mr. Joseph Kariuki replaced Mr. E. Aholi as the Engagement Partner in line with KPMG's rotational policies.

### **The Retirement and Remuneration Committee**

The Retirement and Remuneration Committee determines and makes 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. The Committee

## Corporate governance continued

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ensures that compensation for all employees is performance-driven and appropriately benchmarked against other companies in Kenya.

The Committee is responsible for setting executive remuneration covering salary and benefits, performance related bonus arrangements, pensions and terms of service, monitoring and advising the Board on major changes to the policy on employee benefit structures for the Company.

Remuneration of Non-Executive Directors is also reviewed by the Committee 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.

All members of the Committee are Non-Executive Directors.

The current members of the Committee are:

Mrs. L. Njoroge (Chairman)

Mr. W. Coetzee

Mr. M. Kruger

Ms. R.T. Ngobi (Secretary)

### **Nominations and Corporate Governance Committee**

The Board, at its meeting on 1 April 2015, formally constituted a Nominations and Corporate Governance Committee. The Committee is responsible for identifying candidates to fill vacancies on the Board and has oversight on the adherence and compliance by the Company to its Code of Ethics and to the principles and requirements of good corporate governance. The process of identification of candidates to fill vacancies will continue to include an evaluation of the skills and experience sought by the Board prior to recruitment. Suitable candidates will be interviewed by the Committee and its Chairman and recommended to the Board for appointment.

All members of the Committee are Non-Executive Directors.

The current members of the Committee are:

Mr. N. Kiuna (Chairman)

Mr. W. Coetzee

Mr. R. Mbugua

Mrs. M. Msiska (permanent invitee)

Ms. R. T. Ngobi (Secretary)

### **COMMUNICATION WITH STAKEHOLDERS**

The Board is committed to ensuring that shareholders, regulators and the financial markets are provided with full and timely information about its performance. This is achieved through the release of its half-year and annual results in the local press, distribution of annual reports, and holding investor briefings as appropriate.

The Board encourages shareholders to attend the forthcoming Annual General Meeting (AGM), notice of which is contained in this Annual Report. The AGM provides a useful opportunity for shareholder engagement and, in particular, for the Chairman to explain the Company's progress and to receive questions from shareholders. The Chairmen of the Audit, Retirement and Remuneration and Benefits, and Nominations and Corporate Governance Committees are available at the AGM to take any relevant questions. Information is also available on the Group Company's website: [www.boc.co.ke](http://www.boc.co.ke)

### **DIRECTOR LOANS**

There were no loans made to Directors at any time during the year.

### **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;

## Corporate governance continued

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- 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.

### 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 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 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.

# Shareholding Structure at 31 March 2015

## SUMMARY OF SHAREHOLDERS:

Shareholder	Number of Shareholders	Number of Shares Held	% of Issued Share capital
Foreign Companies	6	14,395,371	73.73%
Foreign Individuals	20	196,715	1.01%
Local Companies	101	2,121,052	10.86%
Local Individuals	769	2,812,308	14.40%
<b>Total</b>	<b>896</b>	<b>19,525,446</b>	<b>100.00%</b>

## DISTRIBUTION OF SHAREHOLDERS:

Shareholder	Number of Shareholders	Number of Shares Held	% of Issued Share capital
Less than 500	373	77,439	0.40%
501 - 5,000	384	724,905	3.71%
5,001- 10,000	54	399,776	2.05%
10,001 - 100,000	75	2,214,829	11.34%
100,001 - 1,000,000	8	1,996,319	10.22%
Above 1,000,000	2	14,112,178	72.28%
<b>Total</b>	<b>896</b>	<b>19,525,446</b>	<b>100.00%</b>

## MAJOR SHAREHOLDERS:

Major Shareholders	Number of Shares Held	% of Issued Share capital
BOC Holdings UK	12,765,578	65.38%
Standard Chartered Nominees Non Resd A/C 9306	1,346,600	6.90%
CFC Stanbic Nominees Ltd. A/C R48701	854,967	4.38%
Kanaiyalal Mansukhlal & Shah Lalitaben Kanaiyalal Shah	295,273	1.51%
Standard Chartered Kenya Nominees Ltd A/C Ke002012	204,356	1.05%
Best Investment Decisions Ltd	176,300	0.90%
Ngugi Kiuna	143,420	0.73%
Allied Storage Limited	111,579	0.57%
Mrs Carolyn Anne Gray Rosso	110,143	0.56%
Mr Allan Njoroge Ngugi	100,281	0.51%
<b>Total for Top Ten Shareholders</b>	<b>16,108,497</b>	<b>82.49%</b>
Other shareholders	3,416,949	17.51%
<b>Total Issued Shares</b>	<b>19,525,446</b>	<b>100.00%</b>

## DIRECTORS SHAREHOLDING:

Directors Shareholding	Number of Shares Held	% of Issued Share capital
Ngugi Kiuna	143,420	0.73%

# Report of the independent auditors

to the members of BOC Kenya Limited

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We have audited the Group and Company financial statements of BOC Kenya Limited set out on pages 19 to 67 which comprise the Group and Company statements of financial position at 31 December 2014, 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 information.

## 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 2014, and the Consolidated and Separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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.

*The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Joseph Kariuki - P/2102.*

**KPMG Kenya**

**Date: 1 April 2015**

# Statements of profit and loss and other comprehensive income

## Income statements:

	Notes	GROUP		COMPANY	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
<b>Revenue</b>	7	1,296,679	1,242,602	1,223,756	1,174,874
Cost of sales	8 (b)	( 667,502)	( 597,614)	( 657,638)	( 584,037)
<b>Gross profit</b>		<b>629,177</b>	<b>644,988</b>	<b>566,118</b>	<b>590,837</b>
Other income	8 (a)	2,671	9,526	2,349	9,526
Distribution costs	8 (b)	( 112,012)	( 112,275)	( 105,787)	( 105,109)
Selling and administrative expenses	8 (b)	( 318,986)	( 310,406)	( 263,524)	( 263,564)
<b>Operating profit</b>		<b>200,850</b>	<b>231,833</b>	<b>199,156</b>	<b>231,690</b>
Finance income	9 (a)	78,896	185,512	65,361	163,942
Finance costs	9 (b)	( 1,762)	( 108,953)	( 730)	( 96,425)
<b>Profit before tax</b>	10	<b>277,984</b>	<b>308,392</b>	<b>263,787</b>	<b>299,207</b>
Tax expense	11	( 48,359)	( 105,756)	( 43,737)	( 100,898)
<b>Profit for the year</b>		<b>229,625</b>	<b>202,636</b>	<b>220,050</b>	<b>198,309</b>
<b>Other comprehensive income</b>					
<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 arising from foreign operations		( 7,626)	6,556	-	-
Change in fair value of available-for-sale financial assets		( 443,064)	522,016	( 443,064)	522,016
Deferred tax on available for sale assets		( 14,085)	360	( 14,085)	360
<b>Total other comprehensive income for the year net of tax</b>		<b>(464,775)</b>	<b>528,932</b>	<b>(457,149)</b>	<b>522,376</b>
<b>Total comprehensive income for the year</b>		<b>(235,150)</b>	<b>731,568</b>	<b>(237,099)</b>	<b>720,685</b>
<b>Earnings per share (KShs per share)</b>					
- Basic and diluted	12	<b>11.76</b>	<b>10.38</b>	<b>11.27</b>	<b>10.16</b>

The notes set out on pages 26 to 67 form an integral part of these financial statements.

# Statements of financial position

	Notes	GROUP		COMPANY	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
<b>ASSETS</b>					
Non-current assets					
Property, plant and equipment	14	723,005	595,134	692,941	563,866
Intangible assets	15	3,562	3,637	3,562	3,637
Investment in subsidiaries	16	-	-	60	60
Available-for-sale financial assets	17	368,868	813,209	368,868	813,209
Deferred tax asset	26(a)	18,330	6,106	10,955	-
Prepaid operating leases	18	3,398	3,503	3,398	3,503
<b>Total non-current assets</b>		<b>1,117,163</b>	<b>1,421,589</b>	<b>1,079,784</b>	<b>1,384,275</b>
<b>Current assets</b>					
Inventories	19	188,127	182,813	171,859	169,971
Available-for-sale financial assets	17	120,970	242,033	120,970	242,033
Trade and other receivables	20	320,957	323,352	333,200	334,813
Tax recoverable	21	50,133	29,173	37,492	23,116
Term deposits	22	24,812	27,522	24,812	27,522
Cash and cash equivalents	23	478,158	406,611	290,359	208,424
<b>Total current assets</b>		<b>1,183,157</b>	<b>1,211,504</b>	<b>978,692</b>	<b>1,005,879</b>
<b>TOTAL ASSETS</b>		<b>2,300,320</b>	<b>2,633,093</b>	<b>2,058,476</b>	<b>2,390,154</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
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	271,369	736,144	282,457	739,606
Retained earnings		1,375,638	1,239,735	1,191,444	1,065,116
<b>Total equity</b>		<b>1,747,188</b>	<b>2,076,060</b>	<b>1,574,082</b>	<b>1,904,903</b>
<b>Non-current liabilities</b>					
Deferred tax liability	26(b)	-	13,022	-	13,022
<b>Current liabilities</b>					
Trade and other payables	27	553,132	544,011	484,394	472,229
<b>Total Liabilities</b>		<b>553,132</b>	<b>557,033</b>	<b>484,394</b>	<b>485,251</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,300,320</b>	<b>2,633,093</b>	<b>2,058,476</b>	<b>2,390,154</b>

The financial statements on pages 19 to 67 were approved for issue by the Board of Directors on 1 April 2015 and signed on its behalf by:

**N. Kiuna**  
Chairman

**M. Msiska**  
Managing Director

The notes set out on pages 26 to 67 form an integral part of these financial statements.

# Statement of changes in equity of the Group

Year ended 31 December 2014

	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 2014	97,627	2,554	739,606	( 3,462)	1,239,735	2,076,060
<b>Comprehensive income for the year</b>						
Profit for the year	-	-	-	-	229,625	229,625
<b>Other comprehensive income, net of tax</b>						
Foreign currency translation differences	-	-	-	( 7,626)	-	( 7,626)
Change in available-for-sale financial assets	-	-	(443,064)	-	-	( 443,064)
Deferred tax on available for sale assets	-	-	( 14,085)	-	-	( 14,085)
<b>Total other comprehensive income</b>	-	-	(457,149)	( 7,626)	-	(464,775)
<b>Total comprehensive income for the year</b>	-	-	<b>(457,149)</b>	<b>( 7,626)</b>	<b>229,625</b>	<b>( 235,150)</b>
<b>Transactions with owners, recognised directly in equity</b>						
Dividends to equity holders						
- Final for 2013 paid	-	-	-	-	(50,766)	( 50,766)
- Interim for 2014 paid	-	-	-	-	(42,956)	( 42,956)
<b>Balance at 31 December 2014</b>	<b>97,627</b>	<b>2,554</b>	<b>282,457</b>	<b>( 11,088)</b>	<b>1,375,638</b>	<b>1,747,188</b>

The notes set out on pages 26 to 67 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
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	202,636	202,636
<b>Other comprehensive income, net of tax</b>						
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
<b>Total other comprehensive income</b>	-	-	<b>522,376</b>	<b>6,556</b>	-	<b>528,932</b>
<b>Total comprehensive income for the year</b>	-	-	<b>522,376</b>	<b>6,556</b>	<b>202,636</b>	<b>731,568</b>
<b>Transactions with owners, recognised directly in equity</b>						
Dividends to equity holders						
- Final for 2012 paid	-	-	-	-	( 59,553)	( 59,553)
- Interim for 2013 paid	-	-	-	-	( 50,766)	( 50,766)
<b>Balance at 31 December 2013</b>	<b>97,627</b>	<b>2,554</b>	<b>739,606</b>	<b>( 3,462)</b>	<b>1,239,735</b>	<b>2,076,060</b>

The notes set out on pages 26 to 67 form an integral part of these financial statements.

## Statement of changes in equity of the Company

Year ended 31 December 2014	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 2014	97,627	2,554	739,606	1,065,116	1,904,903
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	220,050	220,050
<b>Other comprehensive income, net of tax</b>					
Change in available- for-sale financial assets	-	-	(443,064)	-	( 443,064)
Deferred tax on available for sale assets	-	-	( 14,085)	-	( 14,085)
<b>Total other comprehensive income</b>	-	-	<b>(457,149)</b>	-	<b>( 457,149)</b>
<b>Total comprehensive income for the year</b>	-	-	<b>(457,149)</b>	<b>220,050</b>	<b>( 237,099)</b>
<b>Transactions with owners, recognised directly in equity</b>					
Dividends:					
- Final for 2013 paid	-	-	-	( 50,766)	( 50,766)
- Interim for 2014 paid	-	-	-	( 42,956)	( 42,956)
<b>Balance at 31 December 2014</b>	<b>97,627</b>	<b>2,554</b>	<b>282,457</b>	<b>1,191,444</b>	<b>1,574,082</b>

The notes set out on pages 26 to 67 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
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	198,309	198,309
<b>Other comprehensive income, net of tax</b>					
Change in available-for-sale financial assets	-	-	522,016	-	522,016
Deferred tax on change in available-for-sale financial asset	-	-	360	-	360
<b>Total other comprehensive income</b>	-	-	<b>522,376</b>	-	<b>522,376</b>
<b>Total comprehensive income for the year</b>	-	-	<b>522,376</b>	<b>198,309</b>	<b>720,685</b>
<b>Transactions with owners, recognised directly in equity</b>					
Dividends:					
- Final for 2012 paid	-	-	-	( 59,553)	( 59,553)
- Interim for 2013 paid	-	-	-	( 50,766)	( 50,766)
<b>Balance at 31 December 2013</b>	<b>97,627</b>	<b>2,554</b>	<b>739,606</b>	<b>1,065,116</b>	<b>1,904,903</b>

The notes set out on pages 26 to 67 form an integral part of these financial statements.

## Statements of cash flows

	Notes	GROUP		COMPANY	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
<b>Cash flows from operating activities</b>					
Cash generated from operating activities	28	212,362	299,311	209,535	289,628
Tax paid	21	(109,037)	(160,119)	( 96,136)	(155,820)
Net cash from operating activities		103,325	139,192	113,399	133,808
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	14	(127,863)	( 56,429)	(124,639)	( 52,404)
Purchase of intangibles	15	( 475)	( 1,140)	( 475)	( 1,140)
Proceeds from disposal of equipment		2,671	9,526	2,349	9,526
Net proceeds on available for sale financial assets		125,011	( 4,277)	125,011	( 45,458)
Interest received		60,868	39,011	49,617	31,183
Dividends received		10,395	11,880	10,395	11,880
Net cash from / (used in) investing activities		70,607	( 1,429)	62,258	( 46,413)
<b>Cash flows from financing activities</b>					
Dividends paid		( 93,722)	(110,319)	( 93,722)	(110,319)
Net cash used in financing activities		( 93,722)	(110,319)	( 93,722)	(110,319)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>80,210</b>	<b>27,444</b>	<b>81,935</b>	<b>( 22,924)</b>
<b>Movement in cash and cash equivalents</b>					
At the beginning of year		406,611	379,167	208,424	231,348
Increase/(decrease) in cash and cash equivalents		80,210	21,138	81,935	( 22,924)
Effects of exchange rate changes on foreign cash and cash equivalents		( 8,663)	6,306	-	-
<b>At the end of year</b>	<b>23</b>	<b>478,158</b>	<b>406,611</b>	<b>290,359</b>	<b>208,424</b>

The notes set out on pages 26 to 67 form an integral part of these financial statements.

# Notes to the financial statements

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## 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 2014 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 Company's shares are listed on the Nairobi Securities Exchange.

The ultimate holding company of BOC Kenya Limited is Linde A.G, which is 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.

For Kenyan Companies Act reporting purposes, the balance sheet is represented in these financial statements by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income.

### (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 where otherwise 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.

# Notes to the financial statements *continued*

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## **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, less impairment in the separate financial statements.

#### ***(ii) Transactions eliminated on consolidation***

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. 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 Group 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.

# Notes to the financial statements *continued*

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## **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 finance costs**

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.

A deferred tax asset and liability are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or other tax assets and liabilities will be realised simultaneously.

# Notes to the financial statements *continued*

## **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 asset's 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 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 or 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) are 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. If the purchase or production cost is higher than the net realisable value, inventories are written down to the net realisable value.

# Notes to the financial statements *continued*

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## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### (j) Cash and cash equivalents

Cash and cash equivalents includes cash in 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.

### (k) 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 as 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.

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 of trade and other payables and balances due to related parties.

#### (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.

#### (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 all trading 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.

Loans and receivables are recognised on the date they are originated.

# Notes to the financial statements *continued*

## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### (k) 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.

### (l) 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 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.

## Notes to the financial statements *continued*

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### 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

#### (m) 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.

##### (iv) *Short term employee benefits*

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

#### (n) 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.

#### (o) Dividends

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

#### (p) 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.

# Notes to the financial statements *continued*

## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### (q) 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.

### (r) Comparative Information

Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year.

### (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 2014. The nature and effects of the changes are explained below:

- Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities (2011)
- Investment Entities: Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)
- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets (2013)
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21: Levies (2013)

#### (i) **IAS 32 'Offsetting financial assets and financial liabilities'**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

The adoption of the amendments did not have a significant impact on the financial statements of the Group.

#### (ii) **IFRS 10, IFRS 12 and IAS 27 'Investment entities'**

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

The adoption of the amendments did not have a significant impact on the financial statements of the Group or Company.

#### (iii) **IAS 36 'Disclosure of recoverable amount for non-financial assets'**

The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The adoption of the amendments did not have any impact on the financial statements of the Group or Company.

## Notes to the financial statements *continued*

### 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

#### (s) New standards and interpretations adopted *continued*

##### (iv) IFRIC 21 'Levies'

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs.

The adoption of the amendments did not have any impact on the financial statements of the Group or Company.

##### (v) IAS 39 'Novation of Derivatives and Continuation of Hedge accounting'

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedge 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.

The adoption of the amendments did not have any impact on the financial statements of the Group or Company.

#### (t) New and amended standards and interpretations in issue but not yet effective

New standard or amendments	Effective for annual periods beginning on or after
• Defined Benefit Plans - Employee Contributions (Amendments to IAS 19)	1 July 2014
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
• Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
• Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
• Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
• Disclosure Initiative (Amendments to IAS 1)	1 January 2016
• IFRS 15 Revenue from Contracts with Customers	1 January 2017
• IFRS 9 Financial Instruments (2014)	1 January 2018

# Notes to the financial statements *continued*

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## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### (t) **New and amended standards and interpretations in issue but not yet effective** *continued*

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

#### (i) ***Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations***

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes would not affect the amounts and disclosures of the Group's or Company's interests in joint operations.

#### (ii) ***Amendments to IAS 27: Equity Method in separate Financial Statements***

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's or Company's interests in other entities.

#### (iii) ***Amendments to IFRS 10, IFRS 12 and IAS 28***

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

# Notes to the financial statements *continued*

## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### (t) New and amended standards and interpretations in issue but not yet effective *continued*

#### (iv) *Amendments to IAS 1: Disclosure Initiative*

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

#### (v) *IFRS 15 Revenue from Contracts with Customers*

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

The adoption of these changes will not have any impact on the financial statements of the Group or Company.

#### (vi) *IFRS 9: Financial Instruments (2014)*

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

#### (vii) *Defined benefit plans – Employee contributions (Amendments to IAS 19)*

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for the practical expedient, the bank is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted.

The amendment will not have a significant impact on the Group's financial statements, as the Group does not have a defined benefit plan.

# Notes to the financial statements *continued*

## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### (t) New and amended standards and interpretations in issue but not yet effective *continued*

#### (viii) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised

The amendments will be effective from annual periods commencing on or after 1 January 2016.

The amendment will not have a significant impact on the Group's financial statements, as the Group does not have associates and joint ventures.

#### (ix) *Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)*

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

The new requirements are effective from 1 January 2016, with earlier adoption permitted.

The amendment will not have a significant impact on the Group's financial statements as the Group does not have bearer plants.

#### (x) *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's property, plant and equipment and intangible assets.

#### (xi) *IFRS 14 Regulatory Deferral Accounts*

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The adoption of this standard is not expected to have an impact the financial statements of the Bank given that it is not a first time adopter of IFRS.

# Notes to the financial statements *continued*

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## **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 judgment 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, plant 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 Board 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 Board 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 Board 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 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:

	2014		2013	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Available-for-sale financial assets	120,970	120,970	242,033	242,033
Term deposits	24,812	24,812	27,522	27,522
Trade and other receivables	306,624	322,026	312,680	326,239
Cash and cash equivalents	478,158	290,359	406,611	208,424
	930,564	758,167	988,846	804,218

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

	2014		2013	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Kenya	291,599	291,599	288,861	288,861
Uganda	18,690	-	23,962	-
Tanzania	30,857	-	32,556	-
	341,146	291,599	345,379	288,861

The ageing of trade receivables at the reporting date was:

	2014		2013	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Not past due	28,971	29,537	22,207	22,040
Past due 0-30 days	68,483	64,703	43,532	36,354
Past due 31-90 days	110,468	100,004	115,823	108,975
More than 90 days	133,224	97,355	163,817	121,492
	341,146	291,599	345,379	288,861
Neither past due nor impaired	28,971	29,537	22,207	22,040

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

## Notes to the financial statements *continued*

### 5 FINANCIAL RISK MANAGEMENT *continued*

#### (a) Credit risk *continued*

##### Impairment losses

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
<b>Trade receivables</b>				
Balance at 1 January	112,603	95,809	78,143	65,091
Impairment of trade receivables	5,152	16,794	7,554	13,052
Bad debts written off	(23,729)	-	(23,729)	-
Balance at 31 December (Note 20)	94,026	112,603	61,968	78,143

#### (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 2014 and 2013 to the contractual maturity date.

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

Group	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities (2014)</b>						
Trade and other payables	30,805	119,666	402,661	-	-	553,132
Liquidity gap - 2014	30,805	119,666	402,661	-	-	553,132
<b>Liabilities (2013)</b>						
Trade and other payables	26,582	122,567	394,862	-	-	544,011
Liquidity gap - 2013	26,582	122,567	394,862	-	-	544,011

# Notes to the financial statements *continued*

## 5 FINANCIAL RISK MANAGEMENT *continued*

### (b) Liquidity risk *continued*

Company	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities (2014)</b>						
Trade and other payables	27,677	95,265	361,452	-	-	484,394
Liquidity gap - 2014	27,677	95,265	361,452	-	-	484,394
<b>Liabilities (2013)</b>						
Trade and other payables	26,985	92,869	352,375	-	-	472,229
Liquidity gap - 2013	26,985	92,869	352,375	-	-	472,229

### (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 Great Britain Pound (GBP), Uganda Shillings (Ushs) and Tanzania Shillings (TShs).

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)

2014	Group:	USD	GBP	Euro	Rand	Total
	<b>Assets</b>					
	Trade and other receivables	6,575	-	-	-	6,575
	At 31 December 2014	6,575	-	-	-	6,575
	<b>Liabilities</b>					
	Trade and other payables	-	(38,694)	(5,211)	(44,864)	(88,769)
	At 31 December 2014	-	(38,694)	(5,211)	(44,864)	(88,769)
	Net position - 2014	6,575	(38,694)	(5,211)	(44,864)	(82,194)

## Notes to the financial statements *continued*

### 5 FINANCIAL RISK MANAGEMENT *continued*

#### (c) Market risk *continued*

##### (i) Currency risk *continued*

2014	Company:	USD	GBP	Euro	Rand	Total
	<b>Assets</b>					
	Trade and other receivables	4,572	-	-	-	4,572
	At 31 December 2014	4,572	-	-	-	4,572
	<b>Liabilities</b>					
	Trade and other payables	-	(38,694)	(5,184)	(36,487)	(80,365)
	At 31 December 2014	-	(38,694)	(5,184)	(36,487)	(80,365)
	Net balance sheet position - 2014	4,572	(38,694)	(5,184)	(36,487)	(75,793)

2013	Group:	USD	GBP	Euro	Rand	Total
	<b>Assets</b>					
	Trade and other receivables	8,316	-	-	763	9,079
	At 31 December 2013	8,316	-	-	763	9,079
	<b>Liabilities</b>					
	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)

2013	Company:	USD	GBP	Euro	Rand	Total
	<b>Assets</b>					
	Trade and other receivables	8,316	-	-	763	9,079
	At 31 December 2013	8,316	-	-	763	9,079
	<b>Liabilities</b>					
	Trade and other payables	(8,411)	(17,290)	(5,845)	(11,958)	(43,504)
	At 31 December 2013	(8,411)	(17,290)	(5,845)	(11,958)	(43,504)
	Net balance sheet position - 2013	( 95)	(17,290)	(5,845)	(11,195)	(34,425)

# Notes to the financial statements *continued*

## 5 FINANCIAL RISK MANAGEMENT *continued*

### (c) Market risk *continued*

#### (i) *Currency risk* *continued*

The following exchange rates were applied in the respective periods:

	Annual average rates		Closing rates	
	2014	2013	At 31 December 2014	At 31 December 2013
US Dollar	87.90	86.15	90.55	86.45
Sterling Pound	144.86	134.72	141.03	143.14
South African Rand	8.11	8.92	7.83	8.24
Euro	116.77	114.41	109.55	118.83

#### Sensitivity analysis

A 10 percent strengthening of the Kenyan Shilling against the following currencies at 31 December 2014 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, remains constant. The analysis has been performed on the same basis as in 2013

Group	Profit or Loss	
	2014 KShs '000	2013 KShs '000
<b>As at 31 December</b>		
US Dollar	(657)	10
GBP	3,869	1,729
Euro	521	584
Rand	4,486	1,450
<b>Net Impact</b>	<b>8,219</b>	<b>3,773</b>

Company	Profit or Loss	
	2014 KShs '000	2013 KShs '000
<b>As at 31 December</b>		
US Dollar	(457)	10
GBP	3,869	1,729
Euro	518	584
Rand	3,649	1,120
<b>Net Impact</b>	<b>7,579</b>	<b>3,443</b>

A 10 percent weakening of the Shilling against the above currencies at 31 December 2014 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.

## Notes to the financial statements continued

### 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.

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	Non-interest bearing KShs'000	Total KShs'000
<b>As at 31 December 2014</b>								
<b>ASSETS</b>								
Available-for-sale financial assets	10	-	120,970	45,880	-	-	-	166,850
Shares in Carbacid	-	-	-	-	-	-	322,988	322,988
Trade and other receivables	-	-	-	-	-	-	320,957	320,957
Term deposits	5	-	24,812	-	-	-	-	24,812
Cash and cash equivalents	10	-	427,022	-	-	-	51,136	478,158
		-	<b>427,022</b>	<b>145,782</b>	<b>45,880</b>	-	<b>695,081</b>	<b>1,313,765</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	-	553,132	553,132
<b>As at 31 December 2013</b>								
<b>ASSETS</b>								
Available-for-sale financial assets	11	-	242,033	48,434	-	-	-	290,467
Shares in Carbacid	-	-	-	-	-	-	764,775	764,775
Trade and other receivables	4	-	27,522	-	-	-	-	323,352
Term deposits	9	-	319,076	-	-	-	87,535	27,522
Cash and cash equivalents		-	-	-	-	-	-	406,611
		-	<b>319,076</b>	<b>269,555</b>	<b>48,434</b>	-	<b>1,175,662</b>	<b>1,812,727</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	-	544,011	544,011

# Notes to the financial statements continued

## 5 FINANCIAL RISK MANAGEMENT continued

### (c) Market risk continued

#### (ii) Interest rate risk

Company	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	Non-interest bearing KShs'000	Total KShs'000
<b>As at 31 December 2014</b>								
<b>ASSETS</b>								
Available-for-sale financial assets	-	-	120,970	45,880	-	-	-	166,850
Shares in Carbacid	-	-	-	-	-	-	322,988	322,988
Trade and other receivables	-	-	-	-	-	-	333,200	333,200
Term deposits	5	-	24,812	-	-	-	-	24,812
Cash and cash equivalents	-	-	269,271	-	-	-	21,088	290,359
		-	<b>269,271</b>	<b>145,782</b>	<b>45,880</b>	-	<b>677,276</b>	<b>1,138,209</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	-	484,394	484,394
<b>As at 31 December 2013</b>								
<b>ASSETS</b>								
Available-for-sale financial assets	11	-	242,033	48,434	-	-	-	290,467
Shares in Carbacid	-	-	-	-	-	-	764,775	764,775
Trade and other receivables	-	-	-	-	-	-	334,813	334,813
Term deposits	4	-	27,522	-	-	-	-	27,522
Cash and cash equivalents	9	-	158,535	-	-	-	49,889	208,424
		-	<b>158,535</b>	<b>269,555</b>	<b>48,434</b>	-	<b>1,149,477</b>	<b>1,626,001</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	-	472,229	472,229

## Notes to the financial statements *continued*

### 5 FINANCIAL RISK MANAGEMENT *continued*

#### (c) Market risk *continued*

##### (ii) Interest rate risk - *continued*

##### Sensitivity analysis

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 2013.

##### Effect in Kenyan Shillings thousands

	Profit or loss			
	Group		Company	
	2014 KShs	2013 KShs	2014 KShs	2013 KShs
Interest bearing assets	6,187	6,371	4,610	4,765

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.

##### (iii) 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 2014 and 2013 is as follows:

	2014 KShs	2013 KShs
<b>Group and Company</b>		
Shares in quoted Company (Note 17)	322,988	764,775

##### 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	
	2014 KShs	2013 KShs
<b>Group and company</b>		
Shares in quoted Company	(32,299)	(76,478)

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.

## Notes to the financial statements continued

### 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.

Group	Loans and receivables KShs '000	Available for sale KShs '000	Other amortised cost KShs '000	Total carrying value KShs '000	Fair Value KShs '000
<b>2014</b>					
<b>Financial Assets</b>					
Available for sale financial assets	-	489,838	-	489,838	489,838
Trade and other receivables	320,957	-	-	320,957	320,957
Term deposits	24,812	-	-	24,812	24,812
Cash and cash equivalents	478,158	-	-	478,158	478,158
	<b>823,927</b>	<b>489,838</b>	<b>-</b>	<b>1,313,765</b>	<b>1,313,765</b>
<b>Financial Liabilities</b>					
Trade and other payables	-	-	553,132	553,132	553,132
<b>2013</b>					
<b>Financial Assets</b>					
Available for sale financial assets	-	1,055,242	-	1,055,242	1,055,242
Trade and other receivables	323,352	-	-	323,352	323,352
Term deposits	27,522	-	-	27,522	27,522
Cash and cash equivalents	406,611	-	-	406,611	406,611
	<b>757,485</b>	<b>1,055,242</b>	<b>-</b>	<b>1,812,727</b>	<b>1,812,727</b>
<b>Financial Liabilities</b>					
Trade and other payables	-	-	532,892	532,892	532,892

## Notes to the financial statements continued

### 5 FINANCIAL RISK MANAGEMENT continued

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

Company	Loans and receivables KShs '000	Available for sale KShs '000	Other amortised cost KShs '000	Total carrying value KShs '000	Fair Value KShs '000
<b>2014</b>					
<b>Financial Assets</b>					
Available for sale financial assets	-	489,838	-	489,838	489,838
Trade and other receivables	333,200	-	-	333,200	333,200
Term deposits	24,812	-	-	24,812	24,812
Cash and cash equivalents	290,359	-	-	290,359	290,359
	<b>648,371</b>	<b>489,838</b>	<b>-</b>	<b>1,138,209</b>	<b>1,138,209</b>
<b>Financial Liabilities</b>					
Trade and other payables	-	-	484,394	484,394	484,394
<b>2013</b>					
<b>Financial Assets</b>					
Available for sale financial assets	-	1,055,242	-	1,055,242	1,055,242
Trade and other receivables	334,813	-	-	334,813	334,813
Term deposits	27,522	-	-	27,522	27,522
Cash and cash equivalents	208,424	-	-	208,424	208,424
	<b>570,759</b>	<b>1,055,242</b>	<b>-</b>	<b>1,626,001</b>	<b>1,626,001</b>
<b>Financial Liabilities</b>					
Trade and other payables	-	-	472,229	472,229	472,229

## Notes to the financial statements *continued*

### 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 2014:

31 December 2014:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
<b>Assets</b>				
Available-for-sale financial assets	322,988	166,850	-	489,838
<b>Total assets</b>	<b>322,988</b>	<b>166,850</b>	<b>-</b>	<b>489,838</b>
<b>31 December 2013:</b>	<b>Level 1 KShs'000</b>	<b>Level 2 KShs'000</b>	<b>Level 3 KShs'000</b>	<b>Total KShs'000</b>
<b>Assets</b>				
Available-for-sale financial assets	764,775	290,467	-	1,055,242
<b>Total assets</b>	<b>764,775</b>	<b>290,467</b>	<b>-</b>	<b>1,055,242</b>

##### Valuation technique and significant observable inputs

Type	Valuation technique	Significant observable inputs	Interrelationships between the significant observable inputs and fair value measurements
Treasury bonds	Market comparison technique 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 2014	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Sales	1,223,756	97,242	47,371	(71,690)	1,296,679
Operating profit/(loss)	199,156	5,062	(2,675)	( 693)	200,850
Net finance income	64,631	8,774	3,729	-	77,134
Profit/(loss) before income tax	263,787	13,836	1,054	( 693)	277,984
Income tax expense	( 43,737)	( 4,306)	( 316)	-	( 48,359)
<b>Profit/(loss) for the year</b>	<b>220,050</b>	<b>9,530</b>	<b>738</b>	<b>( 693)</b>	<b>229,625</b>

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 before income tax	299,207	5,208	5,570	( 1,593)	308,392
Income tax expense	( 100,898)	( 3,158)	( 1,700)	-	( 105,756)
<b>Profit/(loss) for the year</b>	<b>198,309</b>	<b>2,050</b>	<b>3,870</b>	<b>( 1,593)</b>	<b>202,636</b>

## Notes to the financial statements *continued*

### 6 SEGMENT INFORMATION *continued*

Other segment items included in the profit or loss are:

#### Year ended 31 December 2014

	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total KShs'000
Depreciation	45,407	2,297	856	48,560
Amortisation of intangible assets	550	-	-	550
Amortisation of operating leases	105	-	-	105
Impairment of inventories	36,224	3,237	412	39,873
Impairment of trade receivables-Note 5(a)	7,554	548	(2,950)	5,152

#### 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)

The segment assets and liabilities at 31 December 2014 and capital expenditure for the period then ended are as follows:

Year ended 31 December 2014	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Assets	2,010,029	142,385	135,702	(56,259)	2,231,857
Liabilities	484,394	67,534	55,266	(54,062)	553,132
Capital expenditure:					
(i) Additions to property, plant and equipment	174,482	3,225	-	-	177,707
(ii) Additions to intangible assets	475	-	-	-	475

Year ended 31 December 2013	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Assets	2,367,038	132,158	118,171	(19,553)	2,597,814
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) Transfer to intangible assets	1,140	-	-	-	1,140

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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Sale of medical and industrial gases	1,050,061	966,321	972,724	920,463
Equipment sales	117,095	123,025	108,550	104,326
Equipment and facilities rentals	75,628	82,742	70,683	82,190
Service and delivery revenue	53,895	70,514	71,799	67,895
	<b>1,296,679</b>	<b>1,242,602</b>	<b>1,223,756</b>	<b>1,174,874</b>

### 8 OTHER OPERATING INCOME AND EXPENSES

#### (a) Other income

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Profit on disposal of property, plant and equipment	2,671	9,526	2,349	9,526

#### (b) Expenses by nature

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Raw materials, products for resale and consumables	382,752	309,001	374,031	299,490
Employee benefits and other staff costs	232,553	222,522	225,814	211,479
Electricity costs	136,091	111,179	135,928	111,038
Depreciation	48,665	64,057	45,512	61,081
Amortization of intangible assets	550	1,115	550	1,115
Repairs and maintenance	45,122	54,643	44,407	54,205
Vehicle expenses	75,188	56,149	69,373	50,480
Management fee	42,880	27,336	23,041	24,813
Other expenses	134,699	174,293	108,293	139,009
<b>Total cost of sales, other expenses and overheads</b>	<b>1,098,500</b>	<b>1,020,295</b>	<b>1,026,949</b>	<b>952,710</b>

The expenses by function is made up of:

Cost of sales	667,502	597,614	657,638	584,037
Distribution costs	112,012	112,275	105,787	105,109
Selling and administrative expenses	318,986	310,406	263,524	263,564
	<b>1,098,500</b>	<b>1,020,295</b>	<b>1,026,949</b>	<b>952,710</b>

#### (c) Employee benefit expense

The following items are included within staff costs:

Social security benefits	738	313	229	230
Retirement benefits costs:				
- defined contribution scheme	16,576	15,525	16,439	15,396

The number of persons employed by the Group at the end of the year was 97 (2013: 102).

## Notes to the financial statements continued

### 9 FINANCE INCOME AND FINANCE COSTS

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
<b>(a) Finance income</b>				
Interest income	53,767	52,977	42,557	45,149
Dividend income	10,395	11,880	10,395	11,880
Foreign currency exchange gains	14,734	120,655	12,409	106,913
	<b>78,896</b>	<b>185,512</b>	<b>65,361</b>	<b>163,942</b>
<b>(b) Finance costs</b>				
Interest paid	669	708	669	708
Foreign currency exchange loss	1,093	108,245	61	95,717
	<b>1,762</b>	<b>108,953</b>	<b>730</b>	<b>96,425</b>

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

### 10 PROFIT BEFORE TAXATION

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Profit before taxation is arrived at after charging:				
Repairs and maintenance expenditure on property, plant and equipment	45,122	54,643	44,407	54,205
Directors' remuneration				
- Fees	4,405	3,844	3,650	3,844
- Salaries and short term benefits	36,594	34,122	36,594	34,122
Depreciation and amortisation of leasehold land	48,560	64,057	45,407	61,081
Impairment of trade receivables	5,152	16,794	7,554	( 13,052)
Amortisation of intangible assets	550	1,115	550	1,115
Operating leases charges				
- Rentals	8,824	8,315	1,000	1,000
- Amortisation	105	87	105	87
Auditors remuneration	4,811	4,743	3,777	3,693
And after crediting:				
Profit on disposal of property, plant and equipment	2,671	9,526	2,349	9,526

## Notes to the financial statements continued

11 INCOME TAX EXPENSE	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
<b>(a) Current tax expense</b>				
Current year (Note 21)	87,928	105,699	81,760	99,935
Prior year under-provision (Note 21)	-	4,214	-	4,406
	87,928	109,913	81,760	104,341
<b>(b) Deferred tax credit/(charge)</b>				
Increase in deferred tax liabilities (Note 26 (b))	6,548	( 4,157)	8,094	( 3,478)
Prior year deferred tax under provision (Note 26 (b))	(46,117)	-	(46,117)	35
	(39,569)	( 4,157)	(38,023)	( 3,443)
<b>Income tax expense</b>	<b>48,359</b>	<b>105,756</b>	<b>43,737</b>	<b>100,898</b>

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

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Profit before tax	277,984	308,392	263,787	299,207
Tax calculated at a tax rate of 30%	83,395	92,518	79,136	89,762
Tax effect of:				
Dividend income taxed at 5%	( 2,599)	( 2,970)	( 2,599)	( 2,970)
Expenses not deductible for tax purposes	13,469	11,959	13,317	9,665
Under provision of current tax in prior years	-	4,214	-	4,406
Under provision of deferred tax in prior years	( 46,117)	35	( 46,117)	35
Consolidation adjustment	211	-	-	-
<b>Income tax expense</b>	<b>48,359</b>	<b>105,756</b>	<b>43,737</b>	<b>100,898</b>

## 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 2014 or 31 December 2013. Therefore, the dilutive earnings per share and the calculation thereof equals the basic earnings per share.

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Net profit attributable to shareholders	229,625	202,636	220,050	198,309
Weighted average number of ordinary shares in issue	19,525	19,525	19,525	19,525
Basic and dilutive earnings per share (KShs)	11.76	10.38	11.27	10.16

## 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 2014 of KShs 3.00 per share (2013: KShs 2.60 per share), amounting to a total of KShs 58,576,338 (2013: KShs 50,766,160) is to be proposed.

During the year, an interim dividend of KShs 2.20 per share (2013: KShs 2.60 per share), amounting to a total of KShs 42,955,981 (2013: KShs 50,766,160) was paid. The total dividend for the year is therefore KShs 5.20 per share (2013: KShs 5.20), amounting to a total of KShs 101,532,320 (2013: KShs 101,532,320).

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 2014

	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
<b>Cost</b>						
At 1 January 2014	114,707	668,515	599,451	38,541	10,059	1,431,273
Additions	-	65,808	99,671	1,019	11,209	177,707
Transfers	-	10,059	-	-	(10,059)	-
Currency translation differences	( 50)	( 1,170)	( 1,248)	( 102)	-	( 2,570)
At 31 December 2014	114,657	743,212	697,874	39,458	11,209	1,606,410
<b>Depreciation</b>						
At 1 January 2014	( 57,131)	(489,610)	(258,195)	(31,203)	-	( 836,139)
Charge for the year	2,259	( 23,175)	( 23,870)	( 3,774)	-	( 48,560)
Currency translation differences	50	543	540	161	-	1,294
At 31 December 2014	( 54,822)	(512,242)	(281,525)	(34,816)	-	( 883,405)
<b>Carrying value</b>						
<b>At 31 December 2014</b>	<b>59,835</b>	<b>230,970</b>	<b>416,349</b>	<b>4,642</b>	<b>11,209</b>	<b>723,005</b>

Additions in the year were KShs 177,707,000 of which KShs 127,863,000 had been paid for as at 31 December 2014. Unpaid amounts are included in creditor balances.

During the year, the Group received compensation of KShs 2,671,000 (2013 – Nil) from third parties for lost cylinders. The cylinders were fully depreciated as at 31 December 2014.

## Notes to the financial statements continued

### 14 PROPERTY, PLANT AND EQUIPMENT continued

#### (b) Group continued 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
<b>Cost</b>						
At 1 January 2013	114,280	655,658	586,583	37,319	-	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	668,515	599,451	38,541	10,059	1,431,273
<b>Depreciation</b>						
At 1 January 2013	(51,900)	(482,017)	(230,231)	(27,771)	-	(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)	(489,610)	(258,195)	(31,203)	-	(836,139)
<b>Carrying value At 31 December 2013</b>	<b>57,576</b>	<b>178,905</b>	<b>341,256</b>	<b>7,338</b>	<b>10,059</b>	<b>595,134</b>
<b>b) Company 2014</b>						
<b>Cost</b>						
At 1 January 2014	113,469	642,790	570,052	37,116	10,059	1,373,486
Additions	-	65,808	99,671	755	8,248	174,482
Transfers	-	10,059	-	-	(10,059)	-
At 31 December 2014	113,469	718,657	669,723	37,871	8,248	1,547,968
<b>Depreciation</b>						
At 1 January 2014	(55,892)	(477,361)	(246,527)	(29,840)	-	(809,620)
Charge for the year	2,259	(21,426)	(22,648)	(3,592)	-	(45,407)
At 31 December 2014	(53,633)	(498,787)	(269,175)	(33,432)	-	(855,027)
<b>Carrying value At 31 December 2014</b>	<b>59,836</b>	<b>219,870</b>	<b>400,548</b>	<b>4,439</b>	<b>8,248</b>	<b>692,941</b>

Additions in the year were KShs 174,482,000 of which KShs 124,639,000 had been paid for as at 31 December 2014. Unpaid amounts are included in trade and other payables balances.

During the year, the Company received compensation of KShs 2,349,000 (2013 - Nil) from third parties for lost cylinders. The cylinders were fully depreciated as at 31 December 2014.

## Notes to the financial statements continued

### 14 PROPERTY, PLANT AND EQUIPMENT continued

#### (b) Company continued 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
<b>Cost</b>						
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
<b>Depreciation</b>						
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)
<b>Carrying value</b>						
<b>At 31 December 2013</b>	<b>57,577</b>	<b>165,429</b>	<b>323,525</b>	<b>7,276</b>	<b>10,059</b>	<b>563,866</b>

Included in property, plant and equipment are assets with a gross value of KShs 342,719,812 (2013: KShs 345,061,895) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs. 45,489,450 (2013: KShs 44,683,664).

There were no idle assets at 31 December 2014 and 2013.

The Group had no property pledged as security as at 31 December 2014 and 31 December 2013.

### 15 INTANGIBLE ASSETS

Group and Company	2014 KShs'000	2013 KShs'000
<b>Cost</b>		
At beginning of year	22,069	20,842
Additions	475	1,140
Transfers from property, plant and equipment (Note 14)	-	87
At end of year	22,544	22,069
<b>Accumulated amortisation and impairment losses</b>		
At beginning of year	(18,432)	(17,317)
Charge for the year	( 550)	( 1,115)
At end of year	(18,982)	(18,432)
<b>Net carrying amount at 31 December</b>	<b>3,562</b>	<b>3,637</b>

## Notes to the financial statements continued

### 16 INVESTMENT IN SUBSIDIARIES

Company	Percentage shareholding	2014 KShs'000	2013 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	2014 KShs'000	2013 KShs'000
<b>Non-current:</b>		
Shares in quoted company	322,988	764,775
Treasury bonds	18,358	18,722
Corporate bonds	27,522	29,712
	<b>368,868</b>	<b>813,209</b>
<b>Current:</b>		
Treasury bills	<b>120,970</b>	<b>242,033</b>
<b>Total</b>	<b>489,838</b>	<b>1,055,242</b>

The weighted average effective interest rate on the treasury bills at year end was 10.35% (2013:11.48%), while that on treasury bonds was 8.35% (2013: 8.35%).

### 18 PREPAID OPERATING LEASES

Group and Company	2014 KShs'000	2013 KShs'000
<b>Leases expiring beyond five years</b>		
At the beginning of the year	3,503	3,590
Amortisation for the year	( 105)	( 87)
<b>At the end of the year</b>	<b>3,398</b>	<b>3,503</b>

## Notes to the financial statements continued

19 INVENTORIES	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Raw materials	22,186	12,855	22,186	12,855
Finished goods and other saleable stock	150,868	121,856	129,637	107,560
Plant spares	67,539	60,784	67,400	60,784
Goods in transit	16,874	16,137	16,874	16,137
Work in progress	-	649	-	649
Impairment allowance	(69,340)	(29,468)	(64,238)	(28,014)
	<b>188,127</b>	<b>182,813</b>	<b>171,859</b>	<b>169,971</b>

The cost of inventory recognised as an expense and included in cost of sales amounted to KShs 579,866,828 (2013: 578,045,376 KShs) for Group and KShs 576,041,908 (2013: KShs 567,735,210) for Company.

20 TRADE AND OTHER RECEIVABLES	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Trade receivables	341,146	345,379	291,599	288,861
Allowance for impairment	(94,026)	(112,603)	(61,968)	(78,143)
	247,120	232,776	229,631	210,718
Prepayments	14,333	10,672	11,174	8,574
Receivables from related companies (Note 32(b))	-	-	54,063	36,596
Other receivables	59,504	79,904	38,332	78,925
	<b>320,957</b>	<b>323,352</b>	<b>333,200</b>	<b>334,813</b>

21 TAX (RECOVERABLE)/PAYABLE	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
At 1 January	(29,173)	21,154	(23,116)	28,363
Charge for the year (Note 11)	87,928	105,699	81,760	99,935
Prior year under-provision (Note 11)	-	4,214	-	4,406
Tax paid	(109,037)	(160,119)	(96,136)	(155,820)
Foreign currency translation	149	(121)	-	-
<b>At 31 December</b>	<b>(50,133)</b>	<b>(29,173)</b>	<b>(37,492)</b>	<b>(23,116)</b>

## 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 statement of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Cash at bank and in hand	51,136	87,535	21,088	50,316
Fixed and call deposits	427,022	319,076	269,271	158,108
	<b>478,158</b>	<b>406,611</b>	<b>290,359</b>	<b>208,424</b>

### 24 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital	Number of shares Thousands	Ordinary shares KShs'000
<b>Group and Company</b>		
Authorised	20,000	100,000
Issued and fully paid 2014 and 2013	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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Fair value reserve	282,457	739,606	282,457	739,606
Foreign currency translation reserve	( 11,088)	( 3,462)	-	-
	<b>271,369</b>	<b>736,144</b>	<b>282,457</b>	<b>739,606</b>

#### (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 (ASSET) / LIABILITY

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2013: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
At the beginning of year	6,916	11,501	13,022	16,825
Recognised in profit or loss (Note 11)	6,548	( 4,157)	8,094	( 3,478)
Prior year under /(over) provision	(46,117)	-	(46,117)	35
Unrealised gain/(loss) on available for sale financial assets	( 422)	( 360)	( 422)	( 360)
Deferred tax on capital gains	14,468	-	14,468	-
Currency translation differences	277	( 68)	-	-
<b>At end of year</b>	<b>(18,330)</b>	<b>6,916</b>	<b>(10,955)</b>	<b>13,022</b>
<b>Comprising:</b>				
Deferred tax asset	(18,330)	( 6,106)	(10,955)	-
Deferred tax liability	-	13,022	-	13,022
<b>At end of year</b>	<b>(18,330)</b>	<b>6,916</b>	<b>(10,955)</b>	<b>13,022</b>

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

Group		Year ended 31 December 2014					
	At 01.01.2014	Recognised in profit or loss Kshs '000	Foreign Currency translation differences Kshs '000	Prior year under provision Kshs '000	Recognised other in comprehensive income Kshs '000	At 31.12.2014 Kshs '000	
Property, plant and equipment	79,668	9,160	-	(34,444)	-	54,384	
Unrealised exchange (gains) / losses	( 205)	1,282	-	-	-	1,077	
Accrued expenses & provisions	(72,227)	( 3,894)	277	(11,673)	-	(87,517)	
Unrealised loss on available for sale financial assets	( 320)	-	-	-	( 422)	( 742)	
Deferred tax on capital gains	-	-	-	-	14,468	14,468	
	<b>6,916</b>	<b>6,548</b>	<b>277</b>	<b>(46,117)</b>	<b>14,046</b>	<b>(18,330)</b>	

The deferred tax asset of 6,106 and deferred tax liability of 13,022 at 31 December 2013 have been consolidated in arriving at the 1 January 2014 opening balance of 6,916.

## Notes to the financial statements continued

### 26 DEFERRED TAX (ASSET) / LIABILITY

Group continued

Year ended 31 December 2013

	At 01.01.2013 Kshs '000	Recognised in profit or loss Kshs '000	Prior year under provision Kshs '000	Foreign Currency translation differences Kshs '000	Recognised in other comprehensive income Kshs '000	At 31.12.2013
Property, plant and equipment	78,205	1,428	35	-	-	79,668
Unrealized loss on available for sale financial assets	40	-	-	-	(360)	( 320)
Accrued expenses & provisions	(67,198)	(4,962)	-	(68)	-	(72,228)
Unrealized exchange (Gains)/losses	454	( 658)	-	-	-	( 204)
<b>Total</b>	<b>11,501</b>	<b>(4,192)</b>	<b>35</b>	<b>(68)</b>	<b>(360)</b>	<b>6,916</b>

#### Company:

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2013: 30%). The movement on the deferred tax account is as follows:

	2014 KShs'000	2013 KShs'000
At the beginning of year	13,022	16,825
Recognised in profit or loss (Note 11)	8,094	( 3,478)
Prior year under / (over) provision	(46,117)	35
Unrealized gain/(loss) on available for sale financial assets	( 422)	( 360)
Deferred tax on fair value change on equity instruments	14,468	-
<b>At end of year</b>	<b>(10,955)</b>	<b>13,022</b>

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

## Notes to the financial statements continued

### 26 DEFERRED TAX (ASSET) / LIABILITY continued

Company continued

Year ended 31 December 2014:

	At 01.01.2014 Kshs '000	Recognised in profit or loss Kshs '000	Prior year under provision Kshs '000	Recognised in other comprehensive income Kshs '000	At 31.12.2014 Kshs '000
Property, plant and equipment	72,942	9,890	(34,444)	-	48,388
Unrealized loss on available for sale financial assets	( 320)	-	-	( 422)	( 742)
Accrued expenses & provisions	(59,019)	( 3,766)	(11,673)	-	(74,458)
Deferred tax on fair value change on equity instruments	-	-	-	14,468	14,468
Unrealised exchange (gains)/losses	( 581)	1,970	-	-	1,389
	<b>13,022</b>	<b>8,094</b>	<b>(46,117)</b>	<b>14,046</b>	<b>(10,955)</b>

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)
Accrued expenses & provisions	(56,565)	(2,454)	-	-	(59,019)
Unrealised exchange (gains)/losses	1,273	(1,854)	-	-	( 581)
	<b>16,825</b>	<b>(3,478)</b>	<b>35</b>	<b>(360)</b>	<b>13,022</b>

### 27 TRADE AND OTHER PAYABLES

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Cylinder deposits	183,414	211,764	149,824	185,435
Trade payables	109,077	70,862	105,476	70,093
Amounts due to related companies (Note 31(c))	79,245	37,338	68,866	34,036
Accruals and other payables	181,396	224,047	160,228	182,665
	<b>553,132</b>	<b>544,011</b>	<b>484,394</b>	<b>472,229</b>

## Notes to the financial statements *continued*

### 28 CASH GENERATED FROM OPERATIONS

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

	Note	Group		Company	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Profit before tax		277,984	308,392	263,787	299,207
Adjustments for:					
Depreciation	14	48,560	64,057	45,407	61,081
Amortisation of intangible assets	15	550	1,115	550	1,115
Operating lease charges	18	105	87	105	87
Profit on sale of property and equipment	7	( 2,671)	( 9,526)	( 2,349)	( 9,526)
Effect of foreign currency translations		2,507	5,438	-	-
Interest income		( 53,767)	( 52,977)	( 42,557)	( 45,149)
Dividend income	9	( 10,395)	( 11,880)	( 10,395)	( 11,880)
Unrealised profit on closing stock		149	-	-	-
Changes in working capital:					
- trade and other receivables		2,395	( 75,994)	1,613	( 60,861)
- inventories		( 5,314)	21,454	( 1,888)	19,394
- trade and other payables		( 40,723)	49,145	( 37,679)	36,160
- Interest receivable		( 7,018)	-	( 7,059)	-
<b>Cash generated from operating activities</b>		<b>212,362</b>	<b>299,311</b>	<b>209,535</b>	<b>289,628</b>

### 29 CONTINGENT LIABILITIES

At 31 December 2014, the Company had given guarantees amounting to KShs 749,875 (2013: KShs 3,656,208) on behalf of third parties.

There are certain pending legal claims brought against the Company as at 31 December 2014 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 already provided in these financial statements.

### 30 CAPITAL COMMITMENTS

At 31 December 2014, the Company had capital commitments of KShs 70,324,830 (2013: KShs 22,958,713).

## Notes to the financial statements *continued*

### 31 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASE

#### Group

The Group leases certain of its premises under operating leases with an option to renew the lease after expiry date. Lease payments are increased periodically to reflect market rentals.

Total future minimum lease payments under non-cancellable leases operating leases are as follows:

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Not later than one year	4,961	8,824	1,000	1,000
Between 1 and 5 years	13,200	15,890	4,000	4,000
Longer than five years	28,000	30,906	28,000	29,000
	<b>46,161</b>	<b>55,620</b>	<b>33,000</b>	<b>34,000</b>

### 32 RELATED PARTY TRANSACTIONS

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

##### Group

	2014 KShs'000	2013 KShs'000
BOC Group plc	20,094	20,371
African Oxygen Limited	93,064	52,922
Cryostar Limited – France	1,170	3,532
Afrox Zambia Limited	116	3,533
	<b>114,444</b>	<b>80,358</b>

##### Company

	2014 KShs'000	2013 KShs'000
BOC Group plc	20,094	20,371
African Oxygen Limited	85,762	48,137
Cryostar Limited – France	1,170	3,532
Afrox Zambia Limited	116	3,533
	<b>107,142</b>	<b>75,573</b>

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.

## Notes to the financial statements continued

### 32 RELATED PARTY TRANSACTIONS continued

#### (b) Outstanding balances included in receivables

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
BOC Tanzania Limited	-	-	26,109	24,610
BOC Uganda Limited	-	-	27,954	11,986
	-	-	<b>54,063</b>	<b>36,596</b>

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

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
BOC Group plc	42,467	17,378	42,467	17,378
African Oxygen Limited	33,671	16,905	23,292	13,603
Afrox Zambia Limited	55	53	55	53
Linde A.G	3,048	2,998	3,048	2,998
BOC Zimbabwe Limited	4	4	4	4
	<b>79,245</b>	<b>37,338</b>	<b>68,866</b>	<b>34,036</b>

#### (d) Key management compensation

	2014 KShs'000	2013 KShs'000
<b>Group and Company</b>		
Salaries and short term benefits	39,930	31,982
Termination benefits	-	3,399
	<b>39,930</b>	<b>35,381</b>

Key management compensation relates to salary and benefits paid to senior members of management excluding executive directors (whose remuneration is disclosed below).

#### (e) Directors' remuneration

	2014 KShs'000	2013 KShs'000
<b>Group and Company</b>		
- Fees	4,405	3,844
- Salaries and short term benefits	36,594	34,122
	<b>40,999</b>	<b>37,966</b>

#### (f) Dividends paid

	2014 KShs'000	2013 KShs'000
BOC Group plc	61,275	72,126

### 33 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.







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

I/We .....

of Box.....

being a member/members of of BOC Kenya Limited appoint

.....

or failing him, the Chairman of the Meeting as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 19 June 2015 at the Company's Head Office and factory site, Kitui Road, Industrial Area, or at any adjournment thereof.

As witness my/our hand/s this ..... day of ..... 2015

Signature: .....

NOTES:

1. If a member is unable to attend this meeting personally this Form of Proxy should be completed and returned to reach the Registered Office of the Company OR Custody & Registrar Services Limited, Bruce House, 6th Floor, Standard Street, P. O. Box 8484-00100, Nairobi not later than 2:30 p.m. on 17 June 2015.
2. A person appointed to act as a proxy need not be a member of the Company.
3. If the appointer is a corporation, this Form of Proxy must be under its Common Seal or under the hand of the officer or attorney duly authorised in that behalf.

Fold 2

STICK  
STAMP  
HERE

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

Fold 1

Fold 3

Insert flap inside





BOC Kenya Limited  
Kitui Road Limited  
P.O. Box 18010  
00500 Industrial Area  
Nairobi, Kenya  
Tel: +254 20 6944000  
Fax: +254 20 6944001  
Email: [boceastafrica@boc.com](mailto:boceastafrica@boc.com)  
[www.boc.co.ke](http://www.boc.co.ke)