



BOC KENYA PLC 2017 ANNUAL REPORT & FINANCIAL STATEMENTS

 **BOC GASES**
A Member of The Linde Group

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FORM OF PROXY

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventy-Seventh Annual General Meeting of BOC Kenya Plc will be held at the Company's Head Office and factory site, Kitui Road, Industrial Area, Nairobi, on Thursday 21 June 2018, 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 2017, together with the reports of the Chairman, Directors and Auditors thereon.
2. To confirm the interim dividend of KES 2.20 per ordinary share paid on 13 October 2017 and to declare a final dividend of KES 3.00 per ordinary share, payable, net of Withholding Tax, on or about 18 July 2018 to Shareholders on the Register at the close of business on 18 May 2018.
3. To elect Directors:
 - (i) Mr. N. Kiuna retires as a Non-Executive Director and Chairman of the Board and does not offer himself for re-election.
 - (ii) Mr. A. Kamau and Mr. M. Kruger retire by rotation and both being eligible, offer themselves for re-election in accordance with Article 29 of the Articles of Association.
4. To approve the remuneration of Directors and the Directors Remuneration Report for the year ended 31 December 2017.
5. To reappoint KPMG Kenya to continue in office as External Auditors of the Company by virtue of Section 721(2) of the Companies Act 2015 and to authorise the Directors to fix their remuneration.

By Order of the Board

R. T. Ngobi (Ms.)

Company Secretary
Kitui Road, Industrial Area
PO Box 18010 – 00500
Nairobi
17 April 2018

Notice of annual general meeting - *continued*

NOTES:

1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his behalf. Such proxy need not be a member of the Company.
2. A proxy form is provided with this report. The proxy form can also be obtained from the Company's website (www.boc.co.ke). Shareholders who do not propose to be at the Annual General Meeting and intend to appoint a proxy are requested to do the following:
 - Complete the form provided and attach a copy of your National ID and a copy of the National ID of the proxy appointed.
 - Return the form (plus copies of the National ID's) to the Company's Registrar, Custody & Registrars, 6th Floor, Bruce House, Standard Street, PO Box 8484 – 00100, Nairobi or alternatively to the Registered Office of the Company so as to arrive not later than **2:30 p.m. on 19 June 2018**.Duly signed proxy forms together with ID copies may also be emailed to proxy@candrgroup.co.ke in PDF format.
3. In accordance with the Company's Articles of Association, a copy of the entire Annual Report and Financial Statements may be viewed and or downloaded from the Company's website (www.boc.co.ke).

EXPLANATORY NOTES TO RESOLUTIONS TO BE PASSED

ORDINARY BUSINESS

Agenda Item 1 – Report and Accounts 2017

Resolution 1:

THAT the Report of the Directors and the Financial Statements for the year ended 31 December 2017, as audited and reported by the Company's Auditors now submitted to this meeting be and are hereby approved and adopted.

The Report and Accounts are for the year ended 31 December 2017.

Agenda Item 2 – Declaration of Final Dividend

Resolution 2:

THAT the interim dividend of KES 2.20 per ordinary share paid on 13 October 2017 be and is hereby confirmed and that a final dividend of KES 3 per ordinary share, payable, net of Withholding Tax, on or about 18 July 2018 to Shareholders on the Register at the close of business on 18 May 2018 be and is hereby approved.

The Company paid an interim dividend of KES 2.20 per Ordinary Share on 13 October 2017. The Board recommends a final dividend of KES 3 per Ordinary Share, bringing the total dividend for the year to KES 5.20 per Ordinary Share. Subject to approval by Shareholders, the final dividend will be paid on 18 July 2018 to Shareholders on the Register on 18 May 2018.

Agenda Item 3 – Directors not seeking re-election

Mr. N. Kiuna joined the Board in October 1993 and has held the position of Chairman of the Board since May 2012. After nearly 25 years of distinguished service to the Board Mr. N. Kiuna wishes to retire and will therefore not seek re-election.

Agenda Item 3 – Directors seeking re-election

Resolution 3:

THAT Mr. A. Kamau be and is hereby re-elected an Executive Director of the Company in accordance with Article 29 of the Company's Articles of Association.

Mr. A. Kamau retires by rotation and offers himself for re-election in accordance with Article 29 of the Company's Articles of Association.

Resolution 4:

THAT Mr. M. Kruger be and is hereby re-elected a Non-Executive Director of the Company in accordance with Article 29 of the Company's Articles of Association.

Mr. M. Kruger retires by rotation and offers himself for re-election in accordance with Article 29 of the Company's Articles of Association.

In relation to the re-election of all the above named Non-Executive Directors the Chairman has confirmed that the Nominations Committee and the Board has determined that each of them continue to perform effectively and demonstrates commitment to their roles, and that they are all influential individuals in their respective fields and backgrounds. Their balance of knowledge and skills combined with their diversity and business experience, makes a major contribution to the proper functioning of the Board and its Committees. Biographical details of the Directors seeking re-election are set out on page 15 of the Annual Report 2017.

Copies of the Directors' letters of appointment are available for inspection during normal business hours at the company's registered office on any business day.

Agenda Item 4 – Directors Remuneration

Resolution 5:

THAT the Directors remuneration as stated in Note 32 (f) to the Financial Statement and the Remuneration Report set out on page 31 of the Annual Report 2017 be and are hereby Approved.

Resolution 5 is an advisory vote to approve the Directors' remuneration as stated on Note 32 (f) to the Financial Statements and to approve the Director's Remuneration Report as prescribed by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public.

The Remuneration Report is set out on page 31 of the Annual Report 2017.

Agenda Item 5 – Re-Appointment of Auditors and Auditors Remuneration

Resolution 6:

THAT in accordance with Section 721(2) of the Companies Act 2015, KPMG Kenya be and are hereby re-appointed as the Auditors of the Company and that the Directors be and are hereby authorised to fix their remuneration.

KPMG Kenya having expressed their willingness to continue in office as the Companies External Auditors in accordance with the provisions of Section 721(2) KPMG Kenya offer themselves for re-appointment and it is proposed that the Directors be authorized to fix Auditors remuneration and their terms of engagement for the ensuing financial year.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. N. Kiuna*	Chairman
Mrs. M. Onyonyi	Managing Director
Mr. A. Kamau	Finance Director
Mr. R. Mbugua**	
Mr. M. Kruger*	
Mrs. L. Njoroge**	
Mrs. C. Wetende**	
Mr. A. Gouws*	

AUDIT AND RISK COMMITTEE

Mr. R. Mbugua**	(Chairman)
Mr. M. Kruger*	
Mrs. L. Njoroge**	
Mrs. C. Wetende**	
Mr. M. Onyonyi	(Permanent invitee)
Mr. A. Kamau	(Permanent invitee)
Ms. R.T. Ngobi	(Secretary)

NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE

Mr. N. Kiuna*	(Chairman)
Mr. M. Kruger*	
Mr. R. Mbugua**	
Mrs. M. Onyonyi	(Permanent invitee)
Ms. R.T. Ngobi	(Secretary)

RETIREMENT AND REMUNERATIONS COMMITTEE

Mrs. L. Njoroge**	(Chairman)
Mr. A. Gouws*	
Mrs. C. Wetende**	
Mrs. M. Onyonyi	(Permanent invitee)
Mr. A. Kamau	(Permanent invitee)
Mrs. S. Onyoni	(Permanent invitee)
Ms R.T. Ngobi	(Secretary)

*Non- Executive Directors

**Independent Non-Executive Directors

AUDITOR

KPMG Kenya
ABC Towers
ABC Place
Waiyaki Way
PO Box 40612 – 00100
NAIROBI

TRANSFER AGENTS

Custody & Registrar Services Limited,
Bruce House, 6th Floor, Standard Street,
PO Box 8484 – 00100,
NAIROBI

ADVOCATES

Kaplan & Stratton,
Williamson House,
4th Ngong Avenue,
PO Box 4011 – 00100
NAIROBI

Daly & Inamdar Advocates
ABC Towers, 6th Floor,
ABC Place
Waiyaki Way
PO Box 40034 – 00100
NAIROBI

BANKERS

Citibank NA
Standard Chartered Bank Kenya Limited
Barclays Bank of Kenya Limited

SECRETARY AND REGISTERED OFFICE

Ms. R.T. Ngobi (CPS No. 726)
Company Secretary
Kitui Road, Industrial Area
PO Box 18010 – 00500
Nairobi

STRATEGIC REPORTS

ABOUT US

BOC Kenya Plc (BOC) is a leading supplier of industrial, medical and special gases in Kenya, Tanzania and Uganda. The Company set up in Kenya in 1940 and listed on the Nairobi Securities Exchange in 1969. Established in 1886 in Britain, the BOC organisation has been producing industrial gases for more than 120 years.

Internationally we are a member of The Linde Group, a world leading gases and engineering company with approximately 64,500 employees working in more than 100 countries worldwide. The Company's immediate majority shareholder is BOC Holdings UK, which became a member of the Linde Group in 2002.

The Company's portfolio includes dozens of different gases and mixtures, as well as related equipment and services. The Company's customer base cuts across a large spectrum and includes public and private hospitals, food processors, civil and mechanical engineering contractors, motor vehicle body builders, hotels and restaurants, the informal business sector ("Jua Kali") and small and medium enterprises.

Our product range includes:

- Bulk gases (liquid oxygen and liquid nitrogen).

BOC boasts of the only Air Separation Unit (ASU) in Kenya capable of producing liquid gases with purity levels of 99.95%. We provide gas solutions in high pressure cryogenic vessels, tailored for specific applications.

- Packaged (cylinder) gases

These comprise the Company's primary product line and include medical gases, industrial gases, special gas mixtures and liquefied petroleum gas.

- Engineering services

Supply of medical equipment, construction of medical and other gas pipelines, LPG installations - tanks and pipelines, industrial gas storage and pipeline installations and related maintenance services.

BOC has a team of highly qualified engineers and technicians who provide Customer Engineering Services (CES) to the highest international standards including the following: Medical Oxygen KS 2170 – 1:2009; Medical Air – KS 2170 – 2008; Medical Nitrous oxide – KS – 2170 -3:2008 and Medical Carbon Dioxide – KS -2170-4:2009

Safety at BOC is non-negotiable. We pay great attention to the safety of operations, products, distribution fleet and our customers.

We conduct rigorous tests on our cylinders before any filling operation to ensure safety of products and users. Medical cylinders are subjected to more stringent tests and cleaning in line with health care standards.

All staff receive regular general safety and role specific training. Employees have access to the web-based Linde Group Learning Management System (TRACCESS) on which they study and undertake tests on subjects relevant for their respective roles in the Company.

The Company's distribution fleet drivers are continuously trained in vehicle safety, including heavy commercial vehicle anti-rollover training in South Africa.

Completion of core training is mandatory before an employee is allowed to execute particular tasks.



VISION AND VALUES

Our vision gives us direction, articulates what we want to achieve and focuses our energy on reaching our aspiration.

Our values and principles express what we stand for and what will differentiate us from our competitors. They are well embedded in our organisation and resonate in everything we do, no matter which part of the business or geography we are in.

Our values are:

- Empowering people: People are given the space to contribute and grow.
- Innovating for customer: We relentlessly pursue new ways to add value to external customers.
- Thriving through diversity: Being a global organization, diversity results in enriched collaboration and enhanced solutions.
- Passion to excel: We have the commitment and drive to pursue ever higher standards of excellence and we celebrate success.

STRATEGY

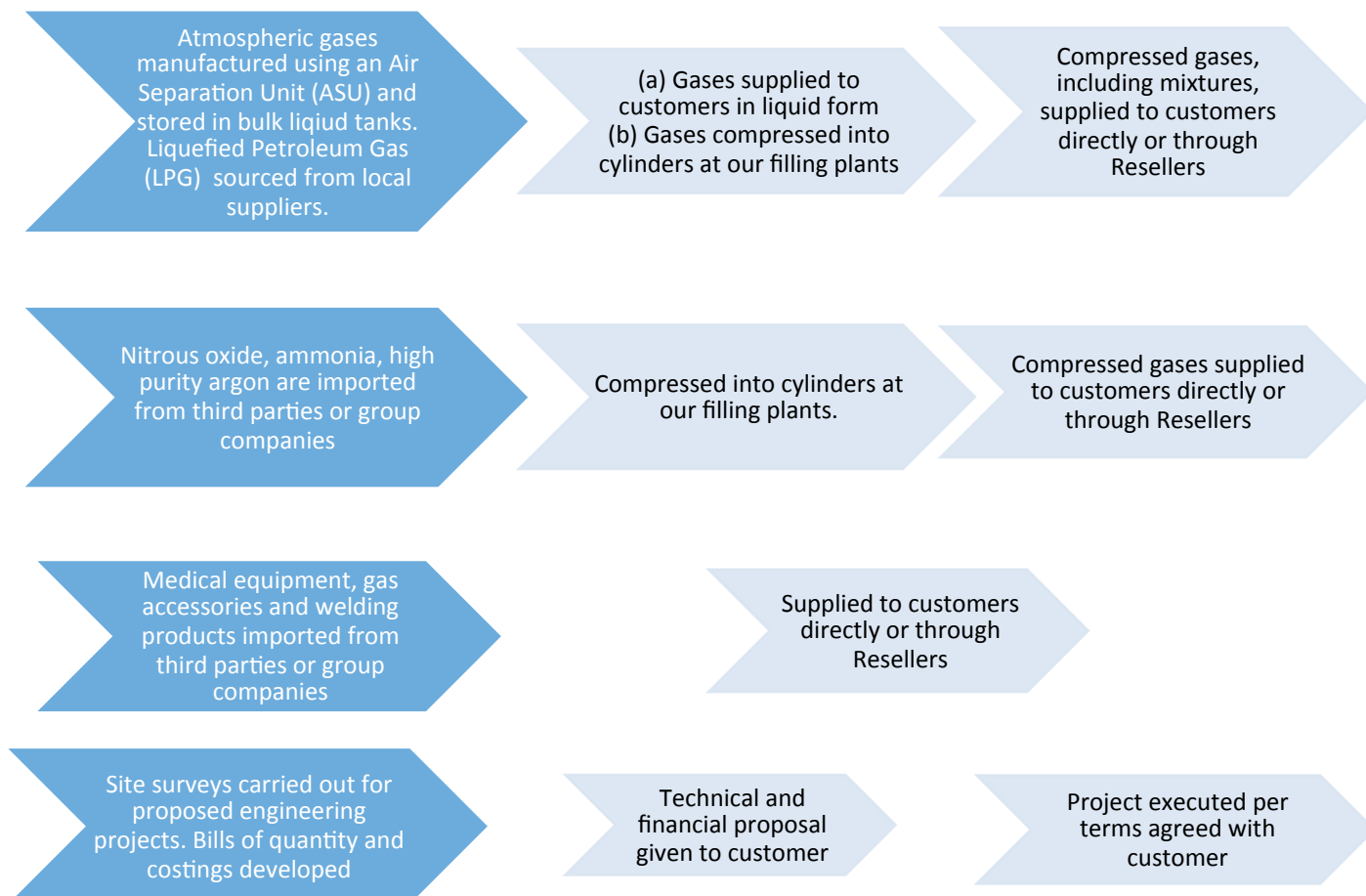
The strategy of the Company is geared towards long-term profitable growth and focuses on the provision of forward-looking products and services that support our customers in their various areas of operations.

The Company acts responsibly towards its shareholders, business partners, employees, society and the environment in every one of its business areas and locations.

In line with the Linde Group vision we seek to be the leading gases and engineering Company in our region, admired for its people, who provide innovative solutions that make a difference in the World.

BUSINESS MODEL

The Company's business model may be summarised as follows:



CHAIRMAN'S STATEMENT



“
The Company will endeavour to maintain its acknowledged reputation for integrity, product quality and safety standards
 ”

The Directors are pleased to submit the annual financial statements of BOC Kenya Plc and its subsidiaries for the year ended 31 December 2017. The financial results are discussed in the Managing Directors report.

Business overview


As noted on the Managing Director's report on Page 10, the Company's financial performance in 2017 was below that of prior year. The Board is reviewing the various factors that have contributed to this performance and is working with Management to address the issues.

Key external business challenges remain competition from low cost competitors in a sector with minimal regulatory oversight, illegal filling of the Company's cylinders by other parties, lack of enforcement of standards for medical oxygen, competition from imported liquid oxygen and slow and delayed settlement of trade debt by many public sector customers.

We are hopeful that with the extended 2017 electioneering period now behind us and the likelihood of a review of the legislated interest rate regime, business activity will begin to grow above the current levels, creating an increase in demand for industrial gases and related products.

We also expect that the health sector – which has been growing in recent years, though periodically depressed by strikes by public health worker strikes – will continue to grow. The sector is a key stakeholder of the Company as we supply many of the hospitals requirements of high quality medical gases, both bulk and cylinder.

In the past year the Company has been reviewing its route-to-market focussing on larger distributors with an effective reach to customers.



We expect that the benefits of this initiative will begin to be realised in the coming months. In addition the Company has identified various cost-saving initiatives whose implementation is being closely monitored on an ongoing basis by Management.

This is being done while ensuring internal efficiency and adequate resourcing to meet customer expectations. The Company will endeavour to maintain its acknowledged reputation for integrity, product quality and safety standards.

Appreciation

Since the last Annual General Meeting on 21 June 2017 there have been no changes on the Board of Directors.

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

The Company will continue to make the necessary investments in order to maintain the high operational and safety standards and product quality, which have held us in good stead with our customers who trust our brands – to them we remain grateful.

Finally, as is indicated on the notice of AGM on page 2, my term as a Director of the Company, comes to an end on 21 June 2018 and I shall not be seeking re-election.

I would therefore like to thank you – the shareholders – as well as my fellow Directors for the opportunity that I have had over the years to be of service to the Company as part of its oversight leadership. I would also like to acknowledge the management team and our employees for their dedication and hard work over the years and wish the team success in the years that lie ahead. Kwaheri and good-bye!

Ngugi Kiuna

Chairman

17 April 2018

MANAGING DIRECTOR'S REPORT



Principles

We remain committed to our foundational principles of safety, integrity, sustainability and respect.

Safety, Health & Environment

Safety principles is reflected in 100% of our behaviour. Safety remains our highest priority and we are glad we ensured the safety and health of our employees, customers and communities in which we operate.

Integrity

All our staff are expected to live up to universally accepted moral and ethical principles. We continue to uphold and expect honesty and fairness from one another and in our dealings with customers, suppliers and other stakeholders.

Sustainability

We are focused on today's success, but accept our responsibility for future generations. We treat our people and the environment with respect.

We believe in creating long-term relationships with our stakeholders. Our success is linked to turning business challenges into positive outcomes for our customers and the community.

Respect

We treat each other with courtesy and dignity regardless of seniority, age, gender, ethnicity, religion or any other difference. We behave in accordance with the detail and spirit of the Universal Declaration of Human rights of the United Nations.

Customer focus

Customers are the reason we exist. We are constantly seeking ways to innovate to retain existing customers and gain a foothold in new markets and customer segments. We offer excellent services to internal customers so that they can provide better service for external customers.

Outlook

We expect the East African countries to continue registering positive growth as they have done over the past years.

While the landscape is expected to continue being very competitive and the playing field not necessarily even, the Management is taking various steps to arrest the decline in turnover. These include reviewing our route-to-market in all the three East Africa countries that we operate in, increasing our product range outside of industrial and medical gases, greater focus on customer engineering services, upskilling employees so that we can continue to meet and exceed the expectations of our customers and constantly seeking out cost saving that will not be detrimental to the business.

Effort will also be made to improve the control of our cylinders once they are in the market place to forestall illegal filling.

Revenue over the five year period has declined at annual average rate of 6.1% primarily due to price rationalisation in an increasingly competitive market. This has resulted in an erosion of net earnings. In particular 2017 was a difficult year because of depressed market demand, partly arising from the longer-than-

Managing Director's Report - *continued*

Key performance indicators

	2013	2014	2015	2016	2017	CAGR, change or total
Revenue	1,242,602	1,296,679	1,186,420	1,076,719	967,626	-6.1%
Gross profit	51.9%	48.5%	49.2%	51.5%	53.7%	-5.4%
Distribution costs	112,275	112,012	101,093	102,617	128,100	3.4%
Selling & Admin costs	310,406	318,986	325,199	319,428	368,786	4.4%
Operating profit	231,833	200,850	160,175	132,368	29,677	-45.4%
Operating Profit / Sales	18.7%	15.5%	13.5%	12.3%	2.4%	-5.5%

Quick Assets ³	676,166	623,940	710,661	715,326	761,137
Quick ratio	1.2	1.1	1.2	1.4	1.2
Liquidity ratio	2.2	2.1	2.1	2.3	2.0
Debt to Equity Ratio	0.27	0.32	0.35	0.24	0.38
Long term debt	Nil	Nil	Nil	Nil	Nil

Dividends	101,532	101,532	101,532	101,532	101,532
Dividend per share (Kshs)	5.20	5.20	5.20	5.20	5.20
Capital expenditure	56,429	127,863	110,032	85,017	110,539
Return on total assets	7.7%	10.0%	6.4%	5.7%	1.4%

1. CAGR = Compound Annual Growth Rate
2. All figures in Kenya shilling thousands (KShs 000) unless indicated otherwise
3. Quick assets comprise bank balances, term deposits and treasury bills. Trade debt is excluded.

usual national and presidential election period and difficulties faced by sugar companies, to which the Company supplies industrial gases, welding equipment and other products.

Distribution costs and selling and administration expenses increased on account of a 14% rise in diesel prices from prior year together with higher depreciation charges because of the Company's much newer distribution fleet. Selling and administrative expenses costs were impacted by increased bad debt provisioning primarily on delayed payments by sugar and public sector customers.

The Company continues to have a cash healthy position with quick assets (cash and cash equivalents, bank deposits and investments in treasury bills) of KShs 761 Million 31 December 2017. Current assets have remained at twice current liabilities.

During the four financial years from 2013 to 2016 the Company declared and paid dividends amounting to KShs. 406 Million.

An asset renewal programme has been in place for the last several years with a capital spend of KShs 490 Million in the last five years.

The decrease in net earnings has led to a decline in the return on assets in 2017. As noted in the Chairman's report, the initiatives to

grow the business and contain costs are underway in order to reverse this low assets utilisation.

Appreciation

Finally I wish to thank our customers for their continuing custom and trust in our products and services, our employees for their individual and collective contribution to the business over the years, members of the Board of Directors for their invaluable guidance and our shareholders who have placed their investment in our hands. We will continue to strive towards greater achievements in 2018 and in the coming years.

Finally, as has previously been announced, I will be leaving the Company on 30 April 2018. I would like to thank the Directors and staff for the support that they have accorded me in the three years that I have served as Managing Director and wish the Company good success as it continues to diligently meet the needs of its customers.

Millicent Onyonyi

Managing Director
17 April 2018

SUSTAINABILITY REPORT – HEALTH, ENVIRONMENT, QUALITY AND SECURITY

The Company operates a management system for safety and environmental protection based on guidelines and standards which apply worldwide. The company focuses on minimising safety risks and reducing its environmental impact as well as on ensuring efficient use of energy, resources and materials. Our products and technologies also support customers' efforts to make their business processes safer, more efficient and more environmentally friendly.



The Company is audited by both external bodies and Linde Group auditors to verify compliance with the prescribed standards. In order to identify areas of weakness, we record incidents which have particular relevance for safety and environmental protection. In addition, near misses from which we can learn lessons are documented. To ensure that it is prepared for events such as natural disasters, serious crime and pandemics, the company also draws up risk management plans. Our top priority is the protection of employees, business partners, neighbours and property. The company cooperates with the authorities in the areas surrounding its business locations on safety and environmental protection. People are the most important assets we have in the BOC system. We believe everyone possesses a fundamental human right to safety and it is our duty to respect and foster that right. Hence we take measurable steps to continuously improve safety practices across the organisation.

We have set ourselves ambitious goals for occupational and process safety, quality, environmental sustainability as well as health protection. We stipulate globally mandatory standards for safety, security and health protection. A worldwide network of experts supports us in their implementation. Tried-and-true processes and solutions are documented and made globally available through networks and structured exchange. We regularly conduct audits on safety, security, health and environmental protection in order to monitor progress toward our goals. Risk-conscious working behaviour is promoted for every individual through measures like systematic hazard assessments, specific qualification measures and safety initiatives rolled out periodically. Based on our corporate values, leaders serve as safety role models for our employees. Together, they contribute to the constant development of our safety culture.

A total of 9 incidents (1 major, 1 notable and 7 minor) were reported in 2017 compared to 9 minor incidents in 2016. These translated into an increase in work-related accidents per one million working-hours index, of from 6.193 in 2017 compared to 3.76 in 2016. The Management team is continuously reviewing all incidents and applying the lessons learnt to improve SHEQ performance. The company is committed to Goal Zero: occasioning no harm to People, Society and the Environment and operating on a sustainable basis. Going forward, the company is enhancing its SHEQ in the Line approach. This strategy was rolled out to enhance SHEQ ownership and broaden SHEQ across the entire company. In SHEQ in the Line, each employee and their respective Line Manager are directly responsible and accountable for SHEQ in their line of duty.

We will continue to equip our staff with the required training and ensure continued certification and transition of the International Standards from the 2008 versions to ISO 9001:2015 (Quality management system standard), ISO 14001:2015 (Environmental Management system standard) and OHSAS 18001:2007 (Occupational Health and Safety Assessment Series).



GOVERNANCE

BOARD OF DIRECTORS AND DIRECTORS' PROFILES



Mr. Ngugi Kiuna (age 69)
 Non-Executive Chairman
 Kenyan

Position: Chairman since May 2012; Non-Executive Director since October 1993; and Chairman of the Nominations and Corporate Governance Committee.

Skills and experience: Mr. Kiuna is an engineer by profession. 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. He graduated with a BSc (Hons) degree in Mechanical Engineering from Portsmouth Polytechnic, England.

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.

Key Appointments: He is currently a Non-executive Director of Proctor & Allan (EA) Limited, XRX Technologies Limited and Cooper K-Brands Limited.



Mrs. Millicent Onyonyi (age 51)
 Managing Director
 Kenyan

Position: Appointed as Managing Director in April 2016.

Skills and experience: Millicent is an accomplished Senior Executive possessing 25 years of local and international experience, predominantly in the oil industry. Prior to joining BOC she worked in various management positions in ExxonMobil Limited and most recently, she held the position of Corporate Retail Coordinator Libya Oil Africa, responsible for coordinating retail activities in 18 countries across Africa. Millicent holds a Bachelor of Commerce (Honours) Degree (Business Administration and Marketing) from Nairobi University.

Key Appointments: Millicent is a Non-Executive Director of Kenya National Trading Corporation Limited.



Mr. Arthur Kamau
(age 52)
Finance Director
Kenyan

Position: Appointed Finance Director in December 2010.

Skills and experience: He has extensive experience in financial management and served in various senior management roles over the last eleven 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 Kenya.

Key Appointments: Arthur does not hold any other directorships. He is a member of the Institute of Certified Public Accountants of Kenya.



Mr. Robert N. Mbugua
(age 50)
Independent Non-Executive
Director
Kenyan

Position: Appointed to the Board in May 2012. He is the Chairman of the Audit and Risk Committee and a Member of the Nominations and Corporate Governance Committee.

Skills and experience: Robert is the Co- Founder and Chief Executive of Fleet Africa (EA) Limited. This is the East Africa subsidiary of JSE Listed Super 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).

Key Appointments: He holds directorships in Fleet Africa (EA) Limited, UAP Holdings and Old Mutual Kenya Holdings.



Mr. Marius Kruger (age 48)
Non-Executive Director
South African

Position: Appointed to the Board in August 2013. He is a Member of the Audit and Risk Committee and the Nominations and Corporate Governance Committee.

Skills and experience: Marius is based at African Oxygen Limited, BOC's sister Company in South Africa, and is the General Manager responsible for Linde Group Companies in emerging 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.

Key Appointments: Marius holds directorships in BOC Zimbabwe Limited, Afrox Mozambique Lda and Les Gaz Industriels Limited in Mauritius. He is an associate member of the Chartered Institute of Management Accountants in the United Kingdom.



Mrs. Lucy Njoroge (age 51)
Independent Non-Executive
Director
Kenyan

Position: Appointed to the Board in September 2014. She is the Chairman of the Retirements and Remuneration Committee and a Member of the Audit and Risk Committee.

Skills and experience: Lucy is a Founder member and Managing Director of XR 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.

Key Appointments: Lucy does not hold any other listed company directorships.

Board of Directors and Directors' Profiles - *continued*



Mrs. Cosima Wetende
(age 43)
*Independent Non-Executive
Director
Kenyan*

Position: Appointed to the Board in March 2016. She is a Member of the Audit and Risk Committee and the Retirements and Remuneration Committee.

Skills and experience: Cosima is an Advocate of the High Court of Kenya of 14 years standing and is currently a Partner in the firm of Kaplan & Stratton Advocates. She practices mainly in areas relating to civil and commercial litigation, arbitration and mediation.

She holds Bachelor of Laws and Master of Law degrees from the University of Nairobi in addition to a Bachelor of Arts (Hons) Degree in Social Sciences.

Key Appointments: Cosima does not hold any other directorships. She is a Member of the Law Society of Kenya, the International Bar Association and a Fellow of the Chartered Institute of Arbitrators (Kenya Branch).



Mr. Andy Gouws (62)
*Non-Executive Director
South African*

Position: Appointed to the Board in November 2016. He is a Member of the Retirements and Remuneration Committee.

Skills and experience: Andy is a qualified Aeronautical Engineer by professions. He holds a Bachelor's Degree in Mechanical Engineering, an MSc in Chemical Engineering as well as a MBA from Henley Management College. He currently holds the position of Commercial and Business Development Manager at African Oxygen Limited, a company within the Linde Group. He has regional responsibility for sales, marketing and new business development across a number of African countries.

Key Appointments: Andy is a Non-Executive Director and Chairman of Afrox Malawi. He is a member of the South African Institute of Mechanical Engineers.



Ms. R. T. Ngobi (age 57)
*Company Secretary
Kenyan*

Position: Company Secretary since August 2012

Skills and Experience: Ms. Ngobi 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.

Key Appointments: She is a Non-Executive Director on the Boards of Stanbic Bank Limited, Stanbic Holdings Limited and SBG Securities Limited.

MANAGEMENT TEAM

The Company's Management team comprises the Managing Director and the Finance Director (see page 14 and 15) together with:



James Njoroge
Operations Manager

James is in charge of the Company's production and cylinder filling facilities as well as other physical infrastructure. Key production facilities comprise the Air Separation Unit (ASU), Dissolved Acetylene Plant and the LPG Filling Plant.

He is also in charge of the Customer Engineering Service (CES) Department, which works closely with the Sales and Marketing Department to deliver engineering projects to customers. These include the installation of cryogenic gas tanks, onsite gas generators and construction of medical gases and liquefied petroleum gas pipelines.

Having joined the business in 1994 immediately after graduating from the University of Nairobi with a Mechanical Engineering degree, James has gained invaluable experience on BOC's and Linde Group processes and standards, all of which are built on a bedrock of safety.



Brian Simiyu
SHEQ Manager

Brian is in charge of Safety, Health, Environment and Quality (SHEQ) at the Company. Prior to that he was in charge of Sales and Marketing since joining the company in October 2013.

He holds a Masters of Business Administration (MBA) in Strategic Management from Strathmore Business School and a Bachelors' Degree in Mechanical Engineering from JKUAT. He has over eighteen years' experience in industrial/commercial sales and marketing as well as engineering and technical support from the oil industry. While at Linde, he has received training in Modified Gas Applications.



Patrick Riungu
Sales Manager

Patrick is in charge of the sales and customer service functions in Kenya, Uganda and Tanzania. He joined the company in September 2016 coming from the oil industry.

A graduate of University of Nairobi, Bachelor's degree (1st class honours) in Mechanical Engineering, he brings a wealth of sales and marketing expertise to BOC. He has over fifteen years' experience in retail service station sales, industrial and wholesale selling, lubricant sales, technical training, engineering support, design & branding, Information technology and administration.



Sarah Onyoni
Human Resource Manager

Sarah joined the company in November 2008. She has extensive experience gained in the health care and manufacturing sectors. She is responsible for talent acquisition and retention management, compensation and benefits, communicating and enforcing company values, promoting process improvement, talent development, succession planning and management of change.

Prior to joining the company she worked in the same/similar roles at the International Livestock Research Institute, Aga Khan University Hospital and Unga Group. She has Bachelors' degree in Economics and a Masters' degree in Personnel Management. She is an alumni of Symbiosis Institute of Business Management and is a Member of the Institute of Human Resources Management.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017 in accordance with the Kenyan Companies Act, 2015, which disclose the state of affairs of BOC Kenya Plc (the 'Company') and its subsidiaries (together the 'Group').

1. Principal activities

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

2. Results and business overview

The net profit for the year of KShs. 39.4 Million (2016 – KShs 126.3 Million) has been added to retained earnings. During the year an interim dividend of KES 2.20 (2016 – KES 2.20) was paid. The Directors recommend the approval of a final dividend of KES 3.0 per ordinary share, payable, net of Withholding Tax, on or about the 18 July 2018, to Shareholders on the Register at the close of business on 18 May 2018.

Significant factors contributing to the decline in earnings were:

- A write-back to income in 2016 of excess stock provisions arising from a change in the methodology used by the Company to calculate stock obsolescence provisions.
- An increase in bad debt provisions due to delayed payments by customers in the sugar sector as well as government.
- Depressed business environment due to an extended electioneering period in 2017.

Further business overview is contained in the Managing Director's report on pages 10 and 11.

3. Dividend

During the year an interim dividend of KShs 2.20 was paid (2016: KShs 2.20).

The Directors recommend the approval of a final dividend of KShs 3.00 per ordinary share, payable, net of withholding tax, on or about the 18 July 2018, to shareholders on the Register at the close of business on 18 May 2018.

The total dividend for the year is therefore KShs 5.20 per share (2016: KShs 5.20) amounting to a total of KShs 101,532,320 (2016: KShs 101,532,320).

4. Board of Directors

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

- Mrs. M. Onyonyi has tendered her resignation as Managing Director of the Company effective from 30 April 2018.
- Mr. N. Kiuna retires as a Non-Executive Director and Chairman of the Board and does not offer himself for re-election.
- Mr. A. Kamau and Mr. M. Kruger retire by rotation and being eligible, offer themselves for re-election in accordance with Article 29 of the Articles of Association.

5. Board Audit and Risk Committee

In accordance with the provisions of Section 769 of the Kenyan Companies Act 2016 the Directors recommend that, Mr. R. Mbugua, Mr. M. Kruger, Mrs. L. Njoroge and Mrs. C. Wetende, being members of the Board's Audit Committee, be elected to continue to serve as members of the said Committee.

6. Auditors

The auditor's KPMG Kenya have expressed their willingness to continue in office in accordance with Section 721(2) of the Kenyan Companies Act, 2015.

7. Relevant Audit Information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

8. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 17 April 2018.

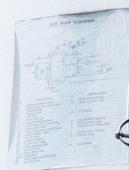
By order of the Board

R.T. Ngobi (Ms.)

Company Secretary
17 April 2018

**BOC
GASES**

**LIQUID OXYGEN
VIT 1139
MAX 90,000M³**



**VALVES NO12-13
TO BE KEPT
SHUT AFTER
DECANTING**

LIQUID OXYGEN
1073
2



BOC GASES

**Liquid Oxygen
No Smoking**



GOVERNANCE REPORT - LEADERSHIP AND RESPONSIBILITIES

Overview

BOC Kenya Plc is committed to the highest standards of corporate governance and has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organization. Throughout the year ended 31 December 2017 and to the date of this Annual Report, the Company endeavoured to comply with the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code). 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.

The Role of the Board

The Board is comprised of six (6) Non-Executive Directors including the Chairman and two (2) Executive Directors. Its' principal duty is to create and deliver sustainable shareholder value through setting the Company's strategy and overseeing its implementation. In so doing due regard is paid to matters that will affect the future of BOC, such as the effect the Board's decisions may have on employees, the environment, surrounding communities and relationships with suppliers.

The Board ensures that Management achieves the right balance between promoting long-term growth and delivering short-term objectives. The existing corporate governance framework embeds the right culture, values and behaviours throughout the Group and supports the Boards role in determining strategic objectives and policies.

In addition to setting strategy and overseeing its implementation, the Board is also responsible for ensuring that Management maintains an effective system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with law and regulation.

The key responsibilities of the Board include:

- To provide overall strategic direction and major corporate actions to be taken by the Company;
- Approval and adoption of the strategic and annual business plans, the setting of objectives and review of key risk and performance areas;
- Approval of commitments outside the authority delegated to the executive management, committees and individual directors;
- To review, at regular Board meetings, Managements performance against annual business plans and set objectives.
- To review periodic financial reports and approve the Annual Report;
- Declaring an interim dividend and recommending final dividends;
- Reviewing risk management and internal controls;

- To establish appropriate systems of corporate governance in the Company;
- Establishing and monitoring compliance with the Company's Code of Ethics, other Group Policies, programmes and procedures for safety, health and environment and laws and regulations; and
- Reviewing and agreeing Board succession plans and those of Senior Management Staff.

Board Governance framework

The Board has established three principal Board Committees namely, the Audit and Risk Committee, the Nominations and Corporate Governance Committee, and the Retirement and Remunerations Committee. Under the authority of the Company's Articles of Association, each Board Committee has specific responsibilities delegated to it by the Board. Each Committee has its own terms of reference which are reviewed annually and updated as appropriate. The roles, membership and activities of these Committees are described in more detail later in this Report.

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

Division of Responsibilities

The roles and responsibilities of the Chairman and the Managing Director are separate with each having clearly defined duties and responsibilities. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness and for facilitating the productive contribution of both Executive and Non-Executive Directors. He sets the agenda for Board meetings in consultation with the Managing Director and the Company Secretary. He is also responsible for ensuring that the interests of the Company's shareholders are safeguarded and that there is effective communication with them. The Chairman is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for overall supervision of the policies governing the conduct of the business.

The Managing Director is responsible for the day-to-day management of the Company and is also responsible for the performance of the Group and is supported in this role by the Executive team. She provides leadership to enable successful planning and execution of the objectives and strategies agreed by the Board. She is also responsible for stewardship of the Company's assets and, jointly with the Chairman, for representation of the Company externally.

Non-Executive Directors

The Board had six (6) Non-Executive Directors as at 31 December 2017 and as at the date of this Report. The role of the Non-Executive Director is to help develop strategy, review management proposals, scrutinise performance of Management, to bring an external perspective to the Board, monitor reporting of performance and to be available to meet with shareholders and key stakeholders as

Governance Report - *continued*

appropriate.

The Executive Team

The Executive team led by the Managing Director is responsible for overseeing the implementation of the strategy and policies set by the Board, and for creating the framework for their successful day-to-day operation. Their profiles are set out on page 17 of the Annual Report.

Principle Executive Team roles include:

- Developing strategy for approval by the Board;
- Developing guidelines for the Company's functions;
- Ensuring functional strategies are effective and aligned;
- Managing functions;
- Reviewing functional budgets;
- Monitoring Company operating performance; and
- Overseeing the management and development of talent.

Attendance

Members of the Board are expected to attend each Board meeting. In 2017 Members attended Board meetings and the Annual General Meeting as disclosed in the table below. If, owing to exceptional circumstances a Director was not able to attend a Board meeting they ensured that their views were made known to the Chairman in advance of the meeting.

Attendance at Board and Annual General Meetings in 2017

Name	Meetings Attended	Meetings Eligible to Attend
Mr. N. Kiuna (Chairman)	6	6
Mrs. M. Onyonyi (Managing Director)	6	6
Mr. A. Kamau (Finance Director)	6	6
Mr. R. Mbugua	6	6
Mr. M. Kruger	5	6
Mrs. L. Njoroge	5	6
Mrs. C. Wetende	6	6
Mr. A. Gouws	5	6



Governance Report - *continued*

Board Effectiveness

Composition of the Board of Directors

In line with the requirements of the Code a majority of the Board are Non-Executive Directors with Independent Non-Executive Directors making up one third of the total number of Directors.

The Board currently comprises the Chairman, who is Non-Executive, two Executive Directors and five Non-Executive Directors. As at the date of this Annual Report the composition of the Board is as set out on pages 14 to 16. The Independence of the Non-Executive Directors is considered annually by the Board Nominations and Corporate Governance Committee using the independence criteria set out in the Code.

The Board Nominations and Corporate Governance Committee also considers Board succession planning and regularly reviews the composition of the Board and the Board Committees to ensure that there is an appropriate balance and diversity of skills, experience, independence and knowledge. The size of the Board is not fixed and may be revised from time to time to reflect the changing needs of the business.

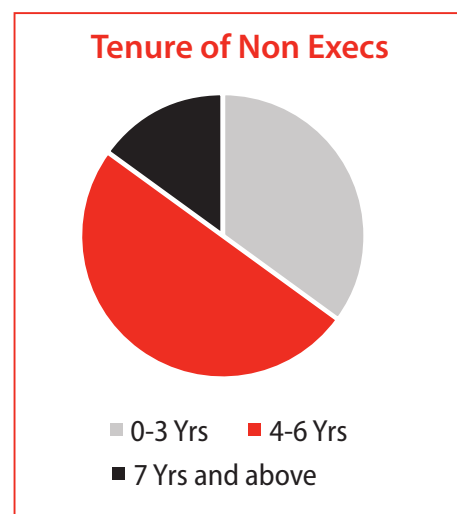
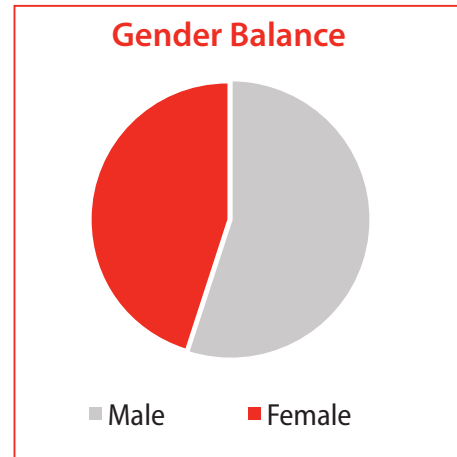
The Board appreciates the benefits of diversity in all its forms, within its own membership and at all levels of the Company. The Board promotes diversity and also encourages initiatives to improve gender diversity in Senior Management roles. The Board Nominations and Corporate Governance Committee consider the balance of skills and experience of current Directors when considering a proposed appointment. The Board's Diversity Policy can be read on the Company's website (www.boc.co.ke).

The Directors biographies containing their relevant skills and experience, Board Committee membership and other principal appointments can be found on pages 14 to 16. The service contracts for the Executive Directors and the letters of appointment for the Chairman and Non-Executive Directors are available for inspection, upon Notice, at the Company's registered office.

Board Evaluation

The Board conducts a critical evaluation of its effectiveness and that of its Committees, the Executive and Non-Executive Directors, Chairman, the Managing Director and the Company Secretary. The evaluation is conducted by each Director completing a Board Effectiveness Evaluation Form. This information is thereafter collated by the Company Secretary and presented to the Nominations and Corporate Governance Committee with a view to identifying and recommending areas for improvement. The findings from the Board Evaluation exercise are subsequently presented to the full Board and recommendations for improvement discussed and if thought fit, approved.

The evaluation for 2016 was conducted in 2017. Whilst the Board and each of its Committees were considered to be effective, opportunities for improvement were identified and recommendations and fresh action points were identified for implementation.



Governance Report - *continued*

All Board members were considered to have performed well and each was considered to be making an effective contribution to the Board. Individual feedback was given to all Board members by the Chairman. Feedback on the Chairman's own performance was given to him by the Nominations and Corporate Governance Committee.

Re-election

The Non-Executive Directors do not have service contracts with the Company but instead have Letters of Appointment for three years; subsequent reappointment is subject to endorsement by the Board. In accordance with the Articles of Association of the Company, all Directors offer themselves for re-election at regular intervals. At this year's AGM, on 21 June 2018, the Company will submit all eligible Directors to re-election.

Time commitment

It is expected that in order to discharge their responsibilities effectively all Directors allocate sufficient time to their roles on the Board. Directors are expected to attend, and to be well prepared for, all Board and Board Committee meetings, as well as making time to understand the business, meet with executives and regulators as appropriate, and complete ongoing training. The Chairman and other Non-Executive Directors endeavor to ensure that they have adequate time to discharge their responsibilities to the Board effectively.

Board Induction

On appointment to the Board all Directors receive induction which is tailored to the new Director's individual requirements. The induction schedule is designed to quickly provide the new Director with an understanding of how the BOC Group works and the key issues that it faces. On completion of the induction programme the Director should have sufficient knowledge and understanding of the nature of the business, and the opportunities and challenges facing BOC to enable them to effectively contribute to strategic discussions and oversight of the Group.

Training and development

In order to continue to contribute effectively to Board and Board Committee meetings, Directors are encouraged to continually update their skills and knowledge of the business. The Directors are also provided with the opportunity to take part in training and development. As part of the annual one-on-one performance review with the Chairman, any particular development needs that can be met are discussed.

The Company Secretary organizes a training schedule for the year which includes both formal training and function or topic specific briefings which is approved by the Board.

In February 2017 the CMA conducted a two-day training on Corporate Governance under the Code. All Directors attended. During 2017, each Director was able to secure more than twelve hours training on areas of governance as prescribed by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.

Conflict of Interest

The Board has formal procedures for managing conflict of interest in accordance with the Companies Act 2015 and the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015

Any conflict of interest or apparent conflict of interest between the Company and its Directors is avoided. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the BOC Group. 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 2017 no conflict of interest was declared by any Director.

Financial and Business Reporting

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Company's position through the Annual Report. It is appropriate to treat this business as a going concern as there is sufficient existing financing available to meet expected requirements in the foreseeable future. The Audit Committee is assigned to review financial, audit and internal control issues in supporting the Board of Directors which is responsible for the financial statements and all information in the Annual Report.

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

Governance Report - *continued*

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

The Board, with advice from its Audit Committee, completed its annual review of the effectiveness of the system of risk management and internal control for the period since 1 January 2017. No significant failings or weaknesses were identified and the Board is satisfied that, where specific areas for improvement have been identified, processes are in place to ensure that the necessary remedial action is taken and that progress is monitored.

Remuneration

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements of the Chairman, Executive Directors, Non-Executive Directors, other senior executives and certain Group employees to the Board Retirement and Remuneration Committee. The Board as a whole considers recommendations from the Board Retirement and Remuneration Committee on the fees to be paid to Non-Executive Directors. Information on the activities of the Board Retirement and Remuneration Committee in 2017 can be found on pages 28 and the Directors Remuneration Report is on page 31.

Communication with Shareholders and 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 and distribution of annual reports. Investor briefings are held as appropriate.

The Board and the Executive Team continue to consider the AGM as a key date in the diary. The AGM provides a useful opportunity to the Board to engage with shareholders on key issues facing the Group and any questions they may have. The Chairman, all Directors and Executive Team members were available at the 2017 AGM for informal discussions with shareholders either before or after the meeting. All resolutions which were proposed at the 2017 AGM were passed unanimously. Concerns raised by shareholders during question time were considered and discussed by the Board at its subsequent meeting held in August 2017.

The 2018 AGM will be held on 21 June 2018 at the Company's Head Office, Kitui Road, Industrial Area. The Notice of the AGM is on page 2 of this Report.

Directors Loans

There were no loans made to Directors at any time during the year (2016 – Nil).

Governance Audit

In compliance with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, the Board appointed Ms. Catherine Musakali to conduct a Governance Audit

for the period ended 31 December 2017 which will form the basis of an ongoing governance compliance program in order to ensure that the Board's goals, structure and operations are consistent with the latest developments in Corporate Governance. The Report of the Independent Governance Auditor will be published on the Company's website (www.boc.co.ke) upon completion of the audit.

Strategic Board Activities in 2017

- Reviewing and agreeing a re-articulation of the Company's strategy;
- Endorsing the direction and activities proposed by Management to achieve the strategy and ensuring that Management was on track to deliver the Company's strategy;
- Discussing and improving the Board's understanding of key risks facing the Company and considering the potential impact on the business of specific risk factors in consultation with the Board Audit Committee;
- Keeping the Company's trading and performance under review. Monitoring operational key performance indicators;
- Keeping the competitive landscape under review;
- Reviewing operations of the subsidiary companies, BOC Tanzania Limited and BOC Uganda Limited;
- Reviewing Limits of Authority;
- Monitoring Safety, Health, Environment and Quality (SHEQ) incidents;
- Exploring savings and productivity opportunities;
- Monitoring the status of the Company's litigation proceedings;
- Monitoring compliance with the Companies Act 2015 and the new Code;
- Monitoring compliance with the Company's Code of Ethics;
- Reviewing succession planning at Board Level including Executive Directors and the Executive Team;
- Reviewing headcount and the establishment. Reviewing the talent pipeline;
- Reviewing shareholder concerns raised at the AGM held on 21 June 2017;
- Reviewing 2018 Budget; and
- Consideration of Director 2018 Training Plans.



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BOC GASES

BOARD COMMITTEES

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

Audit and Risk Committee

Current Members

Mr. R. Mbugua (Chairman)
 Mr. M. Kruger
 Mrs. L. Njoroge
 Mrs. C. Wetende
 Ms. R.T. Ngobi (Secretary)

Attendance at meetings in 2017

Name	Meetings Attended	Meetings Eligible to Attend
Mr. R. Mbugua	3	3
Mr. M. Kruger	3	3
Mrs. L. Njoroge	2	3
Mrs. C. Wetende	3	3
Mrs. M. Onyonyi	3	3
Mr. A. Kamau	3	3

Mrs. M. Onyonyi and Mr. A. Kamau attended as Permanent Invitees.

Mandate and Role of the Audit and Risk Committee

The Board Audit and Risk Committee assists the Board of Directors in carrying out its responsibilities with respect to the management of business risks and internal controls and the conduct of business in accordance with the Code of Ethics.

The Committee is comprised of three Independent Non-Executive Directors and one Non-Executive Director. The Committee met three times during 2017. Attendance included internal and external auditors, as well as permanent invitees from Management.

The Audit Committee is responsible for monitoring the integrity of the financial statements and any formal announcements relating to the Company's performance, considering any significant issues and judgements reflected in them before submission to the Board. The Committee keeps under review the consistency of the accounting policies applied by the Company, reviews the effectiveness of the accounting, internal control and business risk systems of the Company and, when appropriate, making recommendations to the Board on business risks, internal controls and compliance.

The Committee is also responsible for monitoring compliance with the Company's Code of Ethics, laws and regulations, monitoring and reviewing the effectiveness of the Company's internal controls; and monitoring and reviewing the performance of the Company's external auditors by keeping under review their independence and objectivity, making recommendations as to their reappointment (or, where appropriate, making recommendations for change), and approving their terms of engagement and the level of audit fees payable to them.

The Board has an obligation to establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the external auditors, which is delivered through the Audit Committee.

The Audit Committee is also responsible for monitoring and reviewing the effectiveness of the internal audit arrangements. The Group internal audit manager is a permanent invitee to the committee. The Group internal audit manager presents a report to the Committee on the audit plan for the year as well as updates on ongoing and completed audits. Further, the Audit Committee meets separately with the external auditors representatives at the end of every meeting without Management.

Board Committees - *continued*

Key Audit Committee activities in 2017

The Board Audit Committee's agenda in 2017 continued to include its responsibilities for overseeing the performance and effectiveness of internal and external audit. The Committee also continued to exercise its responsibilities for ensuring the integrity of BOC's published financial information by debating and challenging the judgements made by Management and the assumptions upon which they are based.

Matters considered by the Committee during 2017 include the following:

- The Company's 2016 full year and 2017 half year financial results;
- The external auditor's report;
- Progress on 2017 Internal Audit Plan;
- Updates on both local and Regional Process Audits, the management responses and plans being put in place to address any concerns raised;
- Updates on key risks facing the business and mitigating steps put in place;
- Quarterly reports on security risks, frauds and losses;
- Updates on significant legal cases, Safety, Health & Environment issues;
- Reports on compliance with the Company's Code of Ethics;
- 2018 External Auditor's Audit plan;
- Annual review of external auditors' independence; and
- 2018 Internal Audit Plan;

External Auditors

The Board Audit Committee oversees the effectiveness of BOC's external auditors. KPMG Kenya is the Company's external auditors. The Audit Committee considers that the relationship with the auditors worked well during the period and remains satisfied with their effectiveness. The external auditors are required to rotate the audit partners responsible for the audit at least every five years. The current lead audit partner has been in the position since 2014.

Auditor Independence

The Committee has an established policy aimed at safeguarding and supporting the independence and objectivity of the Company's external auditors, which is regularly reviewed and updated. The basic principle of the policy is that the Company's external auditors may be engaged to provide additional services only in cases where those services do not impair their independence and objectivity. KPMG Kenya reconfirms its independence on an annual basis.

Nominations and Corporate Governance Committee

Current Members

Mr. N. Kiuna (Chairman)
Mr. R. Mbugua
Mr. M. Kruger
Mrs. C. Wetende
Ms. R. T. Ngobi (Secretary)

Attendance at meetings in 2017

Name	Meetings Attended	Meetings Eligible to Attend
Mr. N. Kiuna	3	3
Mr. R. Mbugua	3	3
Mr. M. Kruger	3	3
Mrs. M. Onyonyi	3	3

Mrs. M. Onyonyi attended as a Permanent Invitee.

Board Committees - *continued*

Mandate and Role of the Nominations and Corporate Governance Committee

The Nominations and Corporate Governance 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 as espoused by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. The process of identification of candidates to fill vacancies to the Board is guided by the Board's Policy on Appointments to the Board and includes an evaluation of the skills and experience sought by the Board prior to recruitment. Suitable candidates are interviewed by the Committee and its Chairman and recommended to the Board for appointment.

The Nominations and Corporate Governance Committee is also charged with the responsibility of assessing the independence of Non-Executive Directors on an annual basis and evaluating the effectiveness of the Board and the effectiveness of the Directors in the discharge of their responsibilities.

The Committee also evaluates and makes recommendations with regard to the composition of all Board Committees.

Key Nominations and Corporate Governance Committee activities in 2017

- Reviewing succession planning for the Board Executive Directors and the Executive Team;
- Reviewing the effectiveness of the Board following the Board Evaluation exercise and making recommendations to the Board on actions to be adopted towards improvement;
- Monitoring implementation of the actions adopted by the Board following the Board Evaluation exercise;
- Reviewing the Independence of Directors against the criteria set under the CMA Code;
- Reviewing the Corporate Governance Statement for the 2016 Annual Report;
- Reviewing the Composition of the Board's Committees;
- Reviewing the CMA Corporate Governance Compliance Reporting requirements; and
- Review of the Board's Diversity Policy and the Nominations Committee's Terms of Reference.

Retirement and Remuneration Committee

Current Members

Mrs. L. Njoroge (Chairman)

Mrs. C. Wetende

Mr. A. Gouws

Ms. R.T. Ngobi (Secretary)

Attendance at meetings in 2017

Name	Meetings Attended	Meetings Eligible to Attend
Mrs. L. Njoroge	2	3
Mrs. C. Wetende	3	3
Mr. A. Gouws	3	3
Mrs. M. Onyonyi	3	3
Mr. A. Kamau	3	3

Mrs. M. Onyonyi and Mr. A. Kamau attended as Permanent Invitees.

Mandate and Role of the Retirement and Remuneration Committee

The Retirement and Remuneration Committee determines and makes recommendations to the Board on the remuneration policies of the Company, and the terms and conditions of employment of the Executive Directors and Senior Management. The Committee 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.

Board Committees - continued

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 32 (f) of the financial statements. The Directors Remuneration Report is on page 31 of this Report.

All members of the Committee are Non-Executive Directors.

Key Retirement and Remuneration Committee activities in 2017

- Reviewing the application and continuing impact of the Remuneration Policy during 2017;
- Reviewing succession planning of Executive Directors and the Executive Team and the talent pipeline;
- Reviewing the development of leaders in the Company and in particular activities to embed a high-performance leadership culture;
- Making recommendations on annual salary increments for approval by the Board;
- Reviewing Non-Executive remuneration and making recommendations to the Board for approval; and
- Review of the performance of the Companies two provident funds.

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.

Governance policies

Board Charter

The Board is governed by a Board Charter which stipulates the roles and responsibilities of the Board and its members, the composition of the Board and its Committees and respective Terms of Reference. The Board Charter is published on the Company's website (www.boc.co.ke).

Code of Ethics

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.

Whistle Blowing and Staff Helpline

The Company has a whistleblowing policy which enables staff, in confidence, to raise concerns and to report incidents they consider to be against our established code of conduct without fear of reprisal. This facility is managed by an independent third party organization to further protect confidentiality. The Committee receives periodic reports on whistleblowing incidents, if any. The Audit Committee remains satisfied that the Company's policy and procedures enable proportionate and independent investigation of matters raised and ensures that appropriate follow-up action is taken.

Board Committees - *continued*

Statement on Insider Dealing

The Company is obligated by law and by its Code of Ethics to ensure that Directors and certain other employees, with insider information, do not abuse or place themselves under suspicion of abusing insider information that they may have or thought to have. This is especially key in periods leading up to an announcement of financial results. To this end, the Company has a Share Trading Policy which sets out the requirements for BOC insiders, in dealing in shares of the Company.

In compliance with the Companies Act, 2015, the Company communicates 'open' and 'closed' periods for trading in its shares to the Directors and its employees at key periods during the year. To the best of the Company's knowledge, there were no insider dealings during the 2017 financial year. The Company's Share Trading Policy is published on the Company's website (www.boc.co.ke).

Health, Safety and Environment (HSE) Policy

Our principles:

- Health, safety and care for the environment are foundational principles of our businesses.
- The health and safety of our colleagues, 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 at all levels throughout Group.
- HSE principles shall be reflected in 100% of our behaviour, 100% of the time.

Our 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.

Our commitment:

- Comply with applicable legal, regulatory, industry and corporate requirements.
- 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.
- Work with our business partners and our relevant industries to actively promote and enforce compliance with this policy.
- Promote open communication and learning with all stakeholders and sharing of HSE knowledge.
- Provide resources, training, equipment and other support to enable fulfilment of this policy.

The Board is committed to the implementation of this HSE policy.

DIRECTORS' REMUNERATION REPORT 2017

The Directors Remuneration Policy and Remuneration Report for the Executive and Non-Executive Directors applicable in 2017 were approved by the Shareholders at the 2016 Annual General Meeting held on 21 June 2017. The Report has been prepared in accordance with the relevant provisions of both the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code) on Directors remuneration and the Kenyan Companies Act, 2015.

Principles of remuneration policy 2017

The Retirement and Remuneration Committee considers the remuneration policy annually to ensure that it remains aligned to business needs and is appropriately positioned relative to the market. Its overriding objective is to reward the delivery of the Company's strategy in a manner that is simple, straightforward and understandable.

Executive Directors

The Executive Directors remuneration package comprises core fixed elements (basic salary, retirement and other benefits) designed to recognize the skills and experience of the Executive Directors and to ensure current and future market competitiveness in attracting talent.

Executive Directors are eligible to participate in the Company's Short Term Incentive Plan which is anchored on achievement of key business performance indicators.

The table below outlines the key components of the Executive Directors remuneration packages as compensation for their role as key senior management within the BOC Group.

The Company has a Directors and Officers insurance covering all Directors and Officers for the aggregate sum of Kenya Shillings 50 million.

Reward	Purpose and link to strategy	Mechanics of reward	Performance metrics
Basic Salary	Attract and retain high calibre individuals to deliver the Company's strategic plans by offering market competitive remuneration to reflect an individual's skills and experience.	<ul style="list-style-type: none"> - Paid in 12 equal monthly instalments during the year and is pensionable. - Reviewed annually with salary changes effective from April depending on performance. 	Individual and business performance
Pension	Provide competitive post-retirement benefit arrangements so as to attract and retain high calibre talent to drive delivery of strategy.	Annual contribution up to the 10% of basic salary.	None
Other benefits	Provide market competitive benefits which: <ul style="list-style-type: none"> - facilitate the attraction and retention of high calibre talent to deliver the Group's strategic plans; and - recognise that such talent is global in source and that the availability of certain benefits are key enablers for attraction and retention. 	Range of benefits include: <ul style="list-style-type: none"> - Housing allowance - Transport allowance - Medical insurance - Personal life and accident insurance 	None
Short term Incentives Plan	Incentivise the attainment of corporate targets aligned to the strategic objectives of the Group on an annual basis.	<ul style="list-style-type: none"> - Payout is done annually in April after measurements and approval of results. - 100% of the bonus is paid in cash. - Payout is 25% of annual Salary for Managing Director and 15% for Finance Director 	Targets are set annually based on the group and company business plans.

Directors' Remuneration Report 2017 - continued

Service contracts – Executive Directors

Duration of current contracts	The Managing Director and the Finance Director are on permanent and pensionable contracts of employment.
Notice Period	Three months
Provision for early termination of contracts	On early termination of contracts, the executive directors are eligible for redundancy packages as follows: - Salary in lieu of notice (if notice is not given) - Redundancy payment as per Kenya's labour laws In the event that the contract is terminated for cause (such as gross misconduct), the Company may terminate the contract with immediate effect and no compensation would be payable.

Executive Directors' remuneration and compensation for the year ended 31 December 2017

The following table shows a summary of remuneration for the Executive Directors in respect of qualifying services as directors and compensation as key management for the year ended 31 December 2017 together with comparative figures for 2016:

Name	Basic Salary		Housing & Other allowances		Retirement benefits		Bonus		Leave pay		Grand Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Millicent Onyonyi	14,681	10,613	10,500	7,875	3,758	1,234	-	-	-	-	28,939	19,722
Arthur Kamau	9,539	9,138	4,257	4,407	1,486	1,411	981	544	-	-	16,263	15,499
Maria Msiska	-	953	-	590	-	422	-	-	-	2,674	-	4,639
Total	24,220	20,703	14,757	12,871	5,244	3,068	981	544	0	2,674	45,201	39,860

All figures in KShs' 000

The Chairman and Non-Executive Directors

The Company looks to recruit, as Non-Executive Directors, those who have a wide range of strategic and operational experience gained from other businesses or organizations. A Non-Executive Director is required, as a minimum, to make an annual time commitment of about 20 days and is expected to attend all Board and Committee meetings, and AGM, a strategic budgeting session as well as maintaining an appropriate level of knowledge about the business and its operations. As a Listed Company, the quantum and structure of Non-Executive Directors' remuneration will primarily be assessed against the same remuneration comparator group of companies used for setting the remuneration for Executive Directors.

The remuneration components for Non-Executive Directors' are as follows:

Reward	Purpose and link to strategy	Mechanics of reward	Performance metrics
Fees	Fees for Non-Executive Directors need to be sufficient to attract, motivate and retain individuals with skills and senior-level experience to drive the Company's strategy forward.	- Fixed monthly retainer - Sitting allowance for every committee or board meeting. - Reviewed annually and adjusted as required.	As per Annual Board Evaluation.

Directors' Remuneration Report 2017 - continued

Other terms – Non Executive Directors

Shareholding requirements	- There are no formal requirements for the Non-Executive Directors to hold shares in the Company. However, Non-Executive Directors are encouraged to acquire a small interest during the initial years after their date of appointment. - The Non-Executive Directors do not participate in the Company's Short Term Incentive Plan and are not members of any of its provident fund.
Terms of appointment	The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment, which are available for inspection at the Company's registered office upon notice.
Terms of termination	On termination, at any time, a Non-Executive Director is entitled to any accrued but unpaid Director's fees but not to any other compensation.

The table below outlines the key components of the Non-Executive Directors remuneration packages during 2017.

Name	Category	2017			2016		
		Fees	Sitting Allowance	Total	Fees	Sitting Allowance	Total
		KShs 000	KShs 000	KShs 000	KShs 000	KShs 000	KShs 000
Ngugi Kiuna	Chairman Non-Executive	2,280	700	2,980	1,669	428	2,097
Robert Mbugua	Non-Executive	1,680	840	2,520	1,247	570	1,817
Lucy Njoroge	Non-Executive	1,680	630	2,310	1,247	475	1,722
Cosima Wetende	Non-Executive	1,680	910	2,590	1,039	333	1,372
Marius Kruger*	Non-Executive	-	-	-	-	-	-
Andy Gouws*	Non-Executive	-	-	-	-	-	-
Totals		7,320	3,080	10,400	5,202	1,806	7,008

* Marius Kruger and Andy Gouws are Directors nominated by the Company's Shareholder (BOC Holdings, UK) and do not earn any personal remuneration for being on the Board. Instead an annual director's fee of KShs 425,496 per director (2016 – 425,496 per director) is paid to their employer, African Oxygen Limited, South Africa (Afrox), a sister company, where both are senior members of management

By order of the Board

R.T. Ngobi (Ms.)
Company Secretary
17 April 2018

SHAREHOLDING STRUCTURE AS AT 17 APRIL 2018

Major shareholders

Shareholder Name	Total Shares	Percentage Shareholding
BOC Holdings (UK)	12,765,582	65.38%
Standard Chartered Kenya Nominees Ltd A/C Ke002670	1,046,600	5.36%
Ngugi Kiuna	1,025,220	5.25%
Standard Chartered Kenya Nominees Ltd, A/C Ke20510	472,986	2.42%
Best Investment Decisions Ltd	276,500	1.42%
Standard Chartered Kenya Nominees Ltd A/C Ke002012	224,356	1.15%
Standard Chartered Kenya Nominees Ltd Ac Ke001966	169,000	0.87%
Saraj Properties Limited	162,500	0.83%
Allied Storage Limited	126,279	0.65%
Rohin Jayandralal Chandaria & Sujal Rohin Chandaria	116,200	0.60%
Total for the 10 top shareholders	16,385,223	83.92%
Other shareholders	3,140,223	16.08%
Total for all shareholders	19,525,446	100.00%

Domicile analysis

Domicile	Shares	%	Holders
Foreign Companies	14,678,624	75.18%	6
Foreign Individuals	353,210	1.81%	27
Local Companies	941,070	4.82%	78
Local Individuals	3,552,542	18.19%	796
Total	19,525,446	100.00%	907

Number of Shares

Number of Shares	Shares	%	Holders
1 - 500	81,545	0.42%	425
501 - 5,000	691,943	3.54%	362
5,001 - 10,000	327,575	1.68%	46
10,001 - 100,000	1,828,736	9.37%	62
100,001 - 1,000,000	1,758,245	9.00%	9
>1,000,000	14,837,402	75.99%	3
Totals	19,525,446	100.00%	907

Directors' shareholding

Shareholder Name	Total Shares	Percentage Shareholding
Ngugi Kiuna	1,025,220	5.3%
Lucy M Njoroge	79,000	0.4%

STATEMENT OF **DIRECTORS RESPONSIBILITIES**

The Directors are responsible for the preparation and fair presentation of the Group and Company financial statements of BOC Kenya Plc set out on pages 40 to 92 which comprise the Group and Company statements of financial position at 31 December 2017, 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, 2015 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, 2015 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, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position and profit or loss 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 were approved and authorised for issue by the Board of Directors on 17 April 2018.

Ngugi Kiuna
Chairman
17 April 2018

Millicent Onyonyi
Managing Director

REPORT OF THE **THE INDEPENDENT AUDITORS TO THE MEMBERS OF BOC KENYA PLC**

Report on the audit of the Group and Company financial statements

Opinion

We have audited the Consolidated and Separate financial statements of BOC Kenya Plc (the 'Group' and 'Company') set out on pages 40 to 92, which comprise the Group and Company statements of financial position as at 31 December 2017, 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 notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the Consolidated and Separate financial position of BOC Kenya Plc as at 31 December 2017, and its Consolidated and Separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Group and Company Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Report of The Independent Auditors to the Members of BOC Kenya PLC - *continued*

Report on the audit of the Group and Company financial statements - *continued*

Key audit matters - *continued*

Impairment of trade receivables	
See Note 3 (l) on the Group's and Company's accounting policy on valuation of trade receivables and disclosures on Note 21.	
The key audit matter	How the matter was addressed in our audit
<p>Trade receivables constitute a significant portion of the total assets of the Group and Company. The profile of the customers who constitute the trade receivables balance varies in character and risk. Amounts due from customers may be outstanding for long periods of time before being received by the Group and Company thus potentially exposing the Group and Company to impairment losses.</p> <p>Impairment of trade receivables is considered a key audit matter because the directors make subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> — Assessing the appropriateness of the accounting policy and whether it had been applied correctly; — Testing, on a sample basis, the controls over credit monitoring; — Testing the ageing of trade receivables and recomputing the trade receivables provision on the basis of the accounting policy; and — Testing a sample of receivables for the settlement of trade receivables balances outstanding as at 31 December 2017 for post year end receipts.
Valuation of inventory	
See Note 3 (i) on the Group's and Company's accounting policy on valuation of inventory and disclosures on Note 20.	
The key audit matter	How the matter was addressed in our audit
<p>The Group and Company holds a significant amount of inventory which comprises finished goods, items for the processing of gases and spare parts. Inventory may be held for long periods of time before utilisation making it vulnerable to obsolescence.</p> <p>Valuation of inventory is considered a key audit matter because the assessment and application of inventory provisions and the determination of realisable value are subject to significant judgment, made by the directors.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> — Assessing the appropriateness of the accounting policy and whether it had been applied correctly; — Attending the inventory count at the year end and observing if there were any obsolete or slow moving items; — Inspecting the inventory ageing report and recomputing the inventory provision on the basis of the accounting policy; and — Testing a sample of stock items to assess whether they were held at the lower of cost and net realisable value, and evaluating management judgment with regards to the application of provisions for inventory obsolescence.

Report of The Independent Auditors to the Members of BOC Kenya PLC - *continued*

Report on the audit of the Group and Company financial statements - *continued*

Key audit matters - *continued*

Provisions for tax liabilities	
See Note 4 (a) (ii) on the Group's and Company's critical accounting estimates and judgments on taxes and note 29 on contingent liabilities.	
The key audit matter	How the matter was addressed
<p>The Group and Company is subject to tax reviews and claims made by the relevant tax regulatory authorities within the jurisdictions in which it operates.</p> <p>Management applies significant judgement when considering whether, and how much, to provide for the potential exposures arising from each claim.</p> <p>Provision for tax liabilities is considered a key audit matter because of the magnitude of the potential exposures across the Group, and the complexity and judgement necessary to determine whether to provide for, disclose or not disclose certain exposures.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> — Discussing with management and the Group's tax advisors the nature of ongoing claims and reviews, and validating the latest status of the claims to assess the consequent accounting and disclosure implications; — Inspecting correspondence with the tax authorities and from the Group's external tax advisors relating to significant tax reviews and claims in order to assess completeness of provisioning and disclosure; — Assessing relevant historical information and recent trends by tax authorities in the jurisdictions in which the Group operates; and — Considering the adequacy and completeness of the Group's disclosures made in relation to contingent liabilities where provisions are not required.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report and financial statements, but does not include the Group and Company financial statements and our auditors' opinion thereon.

Our opinion on the Group and Company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the Group and Company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group and Company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the Group and Company financial statements

As stated on page 35, the Directors are responsible for the preparation of the Group and Company financial statements that give a true and fair view in accordance with IFRSs, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of the Group and Company financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are responsible for overseeing the financial reporting process.

Report of The Independent Auditors to the Members of BOC Kenya PLC - *continued*

Report on the audit of the Group and Company financial statements - continued

Auditors' responsibilities for the audit of the Group and Company financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that:

- i) In our opinion, the information in the directors' report on page 18 is consistent with the financial statements;
- ii) The auditable part of the directors' remuneration report on pages 31 to 33 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and
- iii) Our report on the consolidated and separate financial statements is unqualified.

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

FINANCIAL STATEMENTS

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	GROUP		COMPANY	
		2017 KShs '000	2016 KShs '000 Restated	2017 KShs '000	2016 KShs '000 Restated
Revenue	7	967,626	1,076,719	872,666	1,010,649
Cost of sales	8 (b)	(450,200)	(524,047)	(413,715)	(502,961)
Gross profit		517,426	552,672	458,951	507,688
Other income	8 (a)	9,137	1,741	9,137	1,623
Distribution costs	8 (b)	(128,100)	(102,617)	(122,936)	(110,474)
Selling and administrative expenses	8 (b)	(368,786)	(319,428)	(302,414)	(267,623)
Operating profit		29,677	132,368	42,738	131,214
Finance income	9 (a)	73,784	71,863	68,508	63,930
Finance costs	9 (b)	(19,848)	(13,549)	(13,452)	(760)
Profit before tax	10	83,613	190,682	97,794	194,384
Tax expense	11	(44,234)	(64,359)	(37,017)	(59,914)
Profit for the year		39,379	126,323	60,777	134,470
Other comprehensive income					
<i>Items that are or may be reclassified to profit or loss:</i>					
Translation differences arising from foreign operations		1,272	(6,872)	-	-
Change in fair value of available-for-sale financial assets		(18,062)	(42,366)	(18,062)	(42,366)
Deferred tax on available for sale financial assets		576	(210)	576	(210)
Total other comprehensive income for the year net of tax		(16,214)	(49,448)	(17,486)	(42,576)
Total comprehensive income for the year		23,165	76,875	43,291	91,894
Earnings per share (KShs per share)					
- Basic and diluted	12	2.02	6.47	3.11	6.89

The notes set out on pages 47 to 92 form an integral part of these financial statements.

Financial Statements - continued

STATEMENTS OF FINANCIAL POSITION

	Note	GROUP		COMPANY	
		2017 KShs'000	2016 KShs'000 Restated	2017 KShs'000	2016 KShs'000 Restated
ASSETS					
Non-current assets					
Property, plant and equipment	14	803,933	773,122	747,703	709,545
Intangible assets	15	437	697	437	631
Investments in subsidiaries	16	-	-	60	60
Available-for-sale financial assets	17	189,974	209,601	189,974	209,601
Deferred tax asset	18	24,976	27,528	23,835	22,442
Prepaid operating leases	19	3,188	3,293	3,188	3,293
Total non-current assets		<u>1,022,508</u>	<u>1,014,241</u>	<u>965,197</u>	<u>945,572</u>
Current assets					
Inventories	20	140,829	141,969	128,258	127,553
Available-for-sale financial assets	17	520,698	512,106	520,698	512,106
Trade and other receivables	21	259,604	320,284	287,340	364,159
Tax recoverable	22	44,591	49,221	29,397	39,662
Term deposits	23	143,283	106,064	66,936	-
Cash and cash equivalents	24	97,156	79,953	17,761	43,431
Total current assets		<u>1,206,161</u>	<u>1,209,597</u>	<u>1,050,390</u>	<u>1,086,911</u>
TOTAL ASSETS		<u>2,228,669</u>	<u>2,223,838</u>	<u>2,015,587</u>	<u>2,032,483</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	25(a)	97,627	97,627	97,627	97,627
Share premium	25(b)	2,554	2,554	2,554	2,554
Other reserves	26	125,557	141,771	156,028	173,514
Retained earnings		1,385,344	1,447,497	1,235,755	1,276,510
Total equity		<u>1,611,082</u>	<u>1,689,449</u>	<u>1,491,964</u>	<u>1,550,205</u>
Non-current liability					
Deferred tax	18	265	-	-	-
Current liabilities					
Bank overdraft	24	23,767	8,536	23,767	8,536
Trade and other payables	27	593,555	525,853	499,856	473,742
Total current liabilities		<u>617,322</u>	<u>534,389</u>	<u>523,623</u>	<u>482,278</u>
TOTAL EQUITY AND LIABILITIES		<u>2,228,669</u>	<u>2,223,838</u>	<u>2,015,587</u>	<u>2,032,483</u>

The financial statements on pages 40 to 92 were approved and authorised for issue by the Board of Directors on 17 April 2018 and signed on its behalf by:

Ngugi Kiuna
Chairman

Millicent Onyonyi
Managing Director

The notes set out on pages 47 to 92 form an integral part of these financial statements.

Financial Statements - *continued*

STATEMENT OF CHANGES IN EQUITY OF THE GROUP

Year ended 31 December 2017	Share capital KShs'000	Share capital 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 2017	97,627	2,554	173,514	(31,743)	1,447,497	1,689,449
Total comprehensive income						
Profit for the year	-	-	-	-	39,379	39,379
Other comprehensive income, net of tax						
Foreign currency translation differences	-	-	-	1,272	-	1,272
Change in available-for-sale financial assets	-	-	(18,062)	-	-	(18,062)
Deferred tax on available for sale financial assets	-	-	576	-	-	576
Total other comprehensive income	-	-	(17,486)	1,272	-	(16,214)
Total comprehensive income for the year	-	-	(17,486)	1,272	39,379	23,165
Transactions with owners, recognised directly in equity						
Dividends to equity holders						
- Final for 2016 paid	-	-	-	-	(58,576)	(58,576)
- Interim for 2017 paid	-	-	-	-	(42,956)	(42,956)
Balance at 31 December 2017	<u>97,627</u>	<u>2,554</u>	<u>156,028</u>	<u>(30,471)</u>	<u>1,385,344</u>	<u>1,611,082</u>

The notes set out on pages 47 to 92 form an integral part of these financial statements.

Financial Statements - continued

STATEMENT OF CHANGES IN EQUITY OF THE GROUP - continued

Year ended 31 December 2016	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 2016	97,627	2,554	216,090	(24,871)	1,422,706	1,714,106
Total comprehensive income						
Profit for the year	-	-	-	-	126,323	126,323
Other comprehensive income, net of tax						
Foreign currency translation differences	-	-	-	(6,872)	-	(6,872)
Change in available-for-sale financial assets	-	-	(42,366)	-	-	(42,366)
Deferred tax on available for sale financial assets	-	-	(210)	-	-	(210)
Total other comprehensive income	-	-	(42,576)	(6,872)	-	(49,448)
Total comprehensive income for the year	-	-	(42,576)	(6,872)	126,323	76,875
Transactions with owners, recognised directly in equity						
Dividends to equity holders						
- Final for 2015 paid	-	-	-	-	(58,576)	(58,576)
- Interim for 2016 paid	-	-	-	-	(42,956)	(42,956)
Balance at 31 December, 2016	<u>97,627</u>	<u>2,554</u>	<u>173,514</u>	<u>(31,743)</u>	<u>1,447,497</u>	<u>1,689,449</u>

The notes set out on pages 47 to 92 form an integral part of these financial statements.

Financial Statements - continued
STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Share capital KShs'000	Share premium KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
Year ended 31 December 2017					
Balance at 1 January 2017	97,627	2,554	173,514	1,276,510	1,550,205
Total comprehensive income					
Profit for the year	-	-	-	60,777	60,777
Other comprehensive income, net of tax					
Change in available- for-sale financial assets	-	-	(18,062)	-	(18,062)
Deferred tax on available for sale assets	-	-	576	-	576
Total other comprehensive income	-	-	(17,486)	-	(17,486)
Total comprehensive income for the year	-	-	(17,486)	60,777	43,291
Transactions with owners, recognised directly in equity					
Dividends:					
- Final for 2016 paid	-	-	-	(58,576)	(58,576)
- Interim for 2017 paid	-	-	-	(42,956)	(42,956)
Balance at 31 December 2017	<u>97,627</u>	<u>2,554</u>	<u>156,028</u>	<u>1,235,755</u>	<u>1,491,964</u>

The notes set out on pages 47 to 92 form an integral part of these financial statements.

Financial Statements - continued

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY - continued

	Share capital KShs'000	Share premium KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
Year ended 31 December 2016					
Balance at 1 January 2016	97,627	2,554	216,090	1,243,572	1,559,843
Total comprehensive income					
Profit for the year	-	-	-	134,470	134,470
Other comprehensive income, net of tax					
Change in available- for-sale financial assets	-	-	(42,366)	-	(42,366)
Deferred tax on available for sale assets	-	-	(210)	-	(210)
Total other comprehensive income	-	-	(42,576)	-	(42,576)
Total comprehensive income for the year	-	-	(42,576)	134,470	91,894
Transactions with owners, recognised directly in equity					
Dividends:					
- Final for 2015 paid	-	-	-	(58,576)	(58,576)
- Interim for 2016 paid	-	-	-	(42,956)	(42,956)
Balance at 31 December 2016	<u>97,627</u>	<u>2,554</u>	<u>173,514</u>	<u>1,276,510</u>	<u>1,550,205</u>

The notes set out on pages 47 to 92 form an integral part of these financial statements.

Financial Statements - continued

STATEMENTS OF CASH FLOWS

	Note	GROUP		COMPANY	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Cash flows from operating activities					
Cash generated from operating activities	28	213,262	164,900	194,676	197,086
Tax paid	22	(37,722)	(80,298)	(27,570)	(74,865)
Net cash from operating activities		<u>175,540</u>	<u>84,602</u>	<u>167,106</u>	<u>122,221</u>
Cash flows from investing activities					
Purchase of property, plant and equipment	14	(110,539)	(85,017)	(110,539)	(76,731)
Purchase of intangibles	15	-	(561)	-	(561)
Proceeds from disposal of equipment		9,519	4,196	9,519	4,079
Net proceeds on available for sale financial assets		(47,077)	(297,809)	(76,335)	(223,400)
Interest received		66,220	64,121	60,485	54,510
Dividends received	9(a)	<u>10,395</u>	<u>10,395</u>	<u>10,395</u>	<u>10,395</u>
Net cash used in investing activities		<u>(71,482)</u>	<u>(304,675)</u>	<u>(106,475)</u>	<u>(231,708)</u>
Cash flows from financing activities					
Dividends paid		<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>
Net cash used in financing activities		<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>
Increase / (Decrease) in cash and cash equivalents		<u>2,526</u>	<u>(321,605)</u>	<u>(40,901)</u>	<u>(211,019)</u>
Movement in cash and cash equivalents					
At the beginning of year		71,417	400,568	34,895	245,914
Increase / (Decrease) in cash and cash equivalents		2,526	(321,605)	(40,901)	(211,019)
Effects of exchange rate changes on foreign cash and cash equivalents		<u>(554)</u>	<u>(7,546)</u>	-	-
At the end of year	24	<u>73,389</u>	<u>71,417</u>	<u>(6,006)</u>	<u>34,895</u>

The notes set out on pages 47 to 92 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

The Company is incorporated as a limited liability company under the Kenyan Companies Act, 2015 and is domiciled in Kenya. Its registered address is at Kitui Road, PO Box 18010 – 00500 Nairobi Industrial Area. The consolidated financial statements of the Group as at and for the year ended 31 December 2017 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 (NSE).

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

2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated and separate financial statements (the ‘financial statements’) have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 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.

(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

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

(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

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

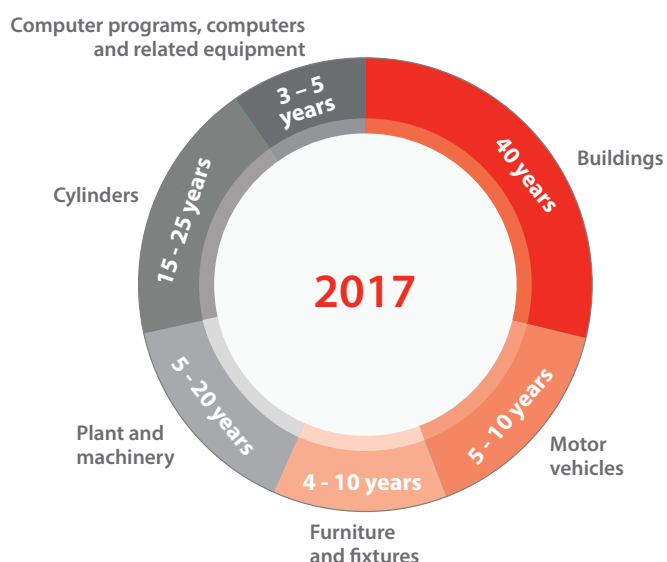
A deferred tax asset and liability are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle current tax liabilities and assets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

(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:



Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

(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, cash and cash equivalents and term deposits.

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.

Notes to the financial statements - *continued*

3 SIGNIFICANT ACCOUNTING POLICIES - *continued*

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 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.

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.

(I) 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

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

(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 Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(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.

(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 management team who make decisions (under supervision of the Board of Directors) about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(r) New standards, amendments and interpretations effective and adopted during the year

The Company has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with the date of initial application by the Company and Group being 1 January 2017. The nature and effects of the changes are as explained here in:

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

New standard or amendments	Effective for annual periods beginning on or after
— Disclosure Initiative (Amendments to IAS 7)	1 January 2017
— Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
— Annual improvements cycle (2014- 2016)	1 January 2017

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities “for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities”. It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

The adoption of these changes did not have a significant impact on the financial statements of the Company and Group.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard was effective for annual periods beginning on or after 1 January 2017 with early application permitted.

As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity.

The Board has not added additional transition relief for first-time adopters.

The adoption of these changes did not have a significant impact on the financial statements of the Company and Group.

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

Annual improvements cycle (2014-2016)

Standard	Amendments
Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)	<p>The disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.</p> <p>The amendment apply retrospectively for annual periods beginning on or after 1 January 2017.</p>

The adoption of these changes did not have a significant impact on the financial statements of the Company and Group.

(s) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below.

IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Income tax exposures	1 January 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
IFRS 17 Insurance contracts	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

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.

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Management is currently evaluating the impact of the new standard to the Group and Company's financial statements.

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 period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the Company and Group's financial statements.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

- *Accounting for cash-settled share-based payment transactions that include a performance condition*

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

- *Classification of share-based payment transactions with net settlement features*

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

The following clarifications and amendments are contained in the pronouncement:

- *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled*

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above. Management is currently evaluating the impact of the new standard to the Group and Company's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes will not affect the amounts and disclosures in of the Company and Group's financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

- (a) at fair value; or
- (b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

Management is currently evaluating the impact of the new standard to the Group and Company's financial statements.

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

The adoption of this standard will not have an impact on the financial statements of the Company.

The adoption of these changes will not affect the amounts and disclosures of the Group's and Company's financial statements.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.
- (b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
- (c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases. The standard does not require a company to recognise assets and liabilities for:

- (a) short-term leases (i.e. leases of 12 months or less) and;
- (b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied. Management is currently evaluating the impact of the new standard to the Group and Company's financial statements.

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about:

- (a) judgments made;
- (b) assumptions and other estimates used; and
- (c) potential impact of uncertainties not reflected.

Management is currently evaluating the impact of the new standard to the Group and Company's financial statements.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Management is currently evaluating the impact of the new standard to the Group and Company's financial statements.

Notes to the financial statements - continued

3 SIGNIFICANT ACCOUNTING POLICIES - continued

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The adoption of these changes will not affect the amounts and disclosures of the Company's and Group's financial statements.

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

Sale or Contribution of Assets between an Investor and its Associate or Company (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 Company 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 Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not affect the amounts and disclosures of the Company and Group's financial statements.

(t) Comparatives

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments 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.

Notes to the financial statements - *continued*

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - *continued*

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 judgments 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 and Risk 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 and Risk 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

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:

	2017		2016	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Available-for-sale financial assets	530,244	530,244	522,717	522,717
Term deposits	143,283	66,935	106,064	-
Trade and other receivables	238,181	274,847	303,778	357,094
Cash and cash equivalents	97,156	17,761	79,953	43,431
	<u>1,008,864</u>	<u>889,787</u>	<u>1,012,512</u>	<u>923,242</u>

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

	2017		2016	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Kenya	256,935	256,935	289,642	289,642
Uganda	10,595	-	10,955	-
Tanzania	28,447	-	18,574	-
Total (Note 21)	<u>295,977</u>	<u>256,935</u>	<u>319,171</u>	<u>289,642</u>

The ageing of trade receivables at the reporting date was:

	2017		2016	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Not past due	191,274	160,098	34,838	28,312
Past due 0-30 days	12,239	11,292	74,455	66,355
Past due 31-90 days	17,367	16,045	89,046	82,413
More than 90 days	75,097	69,500	120,832	112,562
	<u>295,977</u>	<u>256,935</u>	<u>319,171</u>	<u>289,642</u>
Neither past due nor impaired	<u>191,274</u>	<u>160,098</u>	<u>34,838</u>	<u>28,312</u>

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

Trade receivables

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Balance at 1 January	84,190	88,594	70,868	73,890
Impairment loss charge/(reversal) of trade receivables	19,909	(2,194)	17,230	(1,662)
Bad debts written off / (written back)	(21,150)	(1,208)	(19,001)	(1,208)
Bad debts recovered	-	(534)	-	(152)
Effect of exchange rates	(193)	(468)	-	-
Balance at 31 December (Note 21)	<u>82,756</u>	<u>84,190</u>	<u>69,097</u>	<u>70,868</u>

(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 2017 and 2016 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
Liabilities (2017)						
Bank overdraft	23,767	-	-	-	-	23,767
Trade and other payables	<u>215,531</u>	<u>177,961</u>	<u>200,063</u>	-	-	<u>593,555</u>
Liabilities (2016)						
Bank overdraft	8,536	-	-	-	-	8,536
Trade and other payables	<u>302,657</u>	<u>87,688</u>	<u>135,508</u>	-	-	<u>525,853</u>

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
Liabilities (2017)						
Bank overdraft	23,767	-	-	-	-	23,767
Trade and other payables	<u>181,904</u>	<u>150,654</u>	<u>167,298</u>	<u>-</u>	<u>-</u>	<u>499,856</u>
Liabilities (2016)						
Bank overdraft	8,536	-	-	-	-	8,536
Trade and other payables	<u>300,123</u>	<u>69,810</u>	<u>103,809</u>	<u>-</u>	<u>-</u>	<u>473,742</u>

(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)

2017	Group	USD	GBP	Euro	Rand	Total
Assets						
	Trade and other receivables	1,516	-	14,836	-	16,352
	At 31 December 2017	1,516	-	14,836	-	16,352
Liabilities						
	Trade and other payables	-	(25,115)	-	(48,568)	(73,683)
	At 31 December 2017	-	(25,115)	-	(48,568)	(73,683)
	Net position - 2017	<u>1,516</u>	<u>(25,115)</u>	<u>14,836</u>	<u>(48,568)</u>	<u>(57,331)</u>

Notes to the financial statements - continued

5 FINANCIAL RISK MANAGEMENT - continued

(c) Market risk - continued

(i) Currency risk - continued

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

2017	Company	USD	GBP	Euro	Rand	Total
	Assets					
	Trade and other receivables	160	-	7,631	-	7,791
	At 31 December 2017	160	-	7,631	-	7,791
	Liabilities					
	Trade and other payables	(1,138)	(25,115)	-	(29,180)	(55,433)
	At 31 December 2017	(1,138)	(25,115)	-	(29,180)	(55,433)
	Net balance sheet position - 2017	<u>(978)</u>	<u>(25,115)</u>	<u>7,631</u>	<u>(29,180)</u>	<u>(47,642)</u>

2016	Group	USD	GBP	Euro	Rand	Total
	Assets					
	Trade and other receivables	3,039	-	-	-	3,039
	At 31 December 2016	3,039	-	-	-	3,039
	Liabilities					
	Trade and other payables	(700)	(27,765)	(3,715)	(22,634)	(54,814)
	At 31 December 2016	(700)	(27,765)	(3,715)	(22,634)	(54,814)
	Net position - 2016	<u>2,339</u>	<u>(27,765)</u>	<u>(3,715)</u>	<u>(22,634)</u>	<u>(51,775)</u>

2016	Company	USD	GBP	Euro	Rand	Total
	Assets					
	Trade and other receivables	2,972	-	-	-	2,972
	At 31 December 2016	2,972	-	-	-	2,972
	Liabilities					
	Trade and other payables	-	(27,765)	(3,625)	(11,405)	(42,795)
	At 31 December 2016	-	(27,765)	(3,625)	(11,405)	(42,795)
	Net balance sheet position - 2016	<u>2,972</u>	<u>(27,765)</u>	<u>(3,625)</u>	<u>(11,405)</u>	<u>(39,823)</u>

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	
	2017	2016	At 31 December 2017	At 31 December 2016
US Dollar	103.47	103.48	103.20	107.76
Sterling Pound	130.57	143.15	139.47	126.43
South African Rand	7.79	6.63	8.34	7.46
Euro	<u>113.26</u>	<u>110.97</u>	<u>123.82</u>	<u>102.47</u>

Sensitivity analysis

A 10 percent strengthening of the Kenyan Shilling against the following currencies at 31 December 2017 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 2016.

Group	Profit or Loss / Equity	
	2017 KShs '000	2016 KShs '000
As at 31 December		
US Dollar	(150)	(234)
GBP	2,512	2,777
Euro	(1,484)	372
Rand	<u>4,857</u>	<u>2,263</u>
Net impact	<u>5,735</u>	<u>5,178</u>

Company	Profit or Loss / Equity	
	2017 KShs '000	2016 KShs '000
As at 31 December		
US Dollar	97	(297)
GBP	2,512	2,777
Euro	(763)	363
Rand	<u>2,918</u>	<u>1,141</u>
Net impact	<u>4,764</u>	<u>3,984</u>

A 10 percent weakening of the Shilling against the above currencies at 31 December 2017 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	Due within 3 months	Due within 3 and 12 months	Due between 1 and 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2017	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
ASSETS								
Available-for-sale financial assets	10.8	-	-	520,698	9,546	-	-	530,244
Shares in quoted company	-	-	-	-	-	-	180,428	180,428
Trade and other receivables	-	-	-	-	-	-	238,181	238,181
Term deposits	9.9	-	-	143,283	-	-	-	143,283
Cash and cash equivalents	-	-	-	-	-	-	97,156	97,156
		-	-	663,981	9,546	-	515,765	1,189,292
LIABILITIES								
Bank overdraft	13	23,767	-	-	-	-	-	23,767
Trade and other payables	-	-	-	-	-	-	593,555	593,555
As at 31 December 2016								
ASSETS								
Available-for-sale financial assets	11.4	-	-	511,637	11,080	-	-	522,717
Shares in quoted company	-	-	-	-	-	-	198,990	198,990
Trade and other receivables	-	-	-	-	-	-	303,778	303,778
Term deposits	8	-	-	106,064	-	-	-	106,064
Cash and cash equivalents	-	-	-	-	-	-	79,953	79,953
		-	-	617,701	11,080	-	582,721	1,211,502
LIABILITIES								
Bank overdraft	13	8,536	-	-	-	-	-	8,536
Trade and other payables	-	-	-	-	-	-	473,742	473,742

Notes to the financial statements - continued

5 FINANCIAL RISK MANAGEMENT - continued

(c) Market risk - continued

(ii) Interest rate risk - continued

Company	Effective interest rate	On demand	Due within 3 months	Due within 3 and 12 months	Due between 1 and 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2017	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
ASSETS								
Available-for-sale financial assets	11	-	-	520,698	9,546	-	-	530,244
Shares in quoted company	-	-	-	-	-	-	180,428	180,428
Trade and other receivables	-	-	-	-	-	-	274,847	274,847
Term deposits	8	-	-	66,936	-	-	-	66,936
Cash and cash equivalents	-	-	-	-	-	-	17,761	17,761
		-	-	587,634	9,546	-	473,036	1,070,216
LIABILITIES								
Bank overdraft	13	23,767	-	-	-	-	-	23,767
Trade and other payables	-	-	-	-	-	-	499,856	499,856
As at 31 December 2016								
ASSETS								
Available-for-sale financial assets	11.4	-	-	511,637	11,080	-	-	522,717
Shares in quoted company	-	-	-	-	-	-	198,990	198,990
Trade and other receivables	-	-	-	-	-	-	357,094	357,094
Term deposits	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	43,431	43,431
		-	-	511,637	11,080	-	599,515	1,122,232
LIABILITIES								
Bank overdraft	13	8,536	-	-	-	-	-	8,536
Trade and other payables	-	-	-	-	-	-	473,742	473,742

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 2016.

	Profit or loss			
	Group		Company	
	2017	2016	2017	2016
<i>Effect in Kenyan Shillings thousands</i>	KShs	KShs	KShs	KShs
Interest bearing assets	<u>6,498</u>	<u>6,202</u>	<u>5,734</u>	<u>5,142</u>

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 2017 and 31 December 2016 is as follows:

	2017	2016
<i>Effect in Kenyan Shillings thousands</i>	KShs	KShs
Group and Company		
Shares in quoted Company (Note 17)	<u>180,428</u>	<u>198,990</u>

Sensitivity analysis on equity prices

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

	Other Reserves	
	2017	2016
<i>Effect in Kenyan Shillings thousands</i>	KShs	KShs
Group and company		
Shares in quoted Company	<u>(18,043)</u>	<u>(19,891)</u>

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 other 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	Available for sale	Other amortised cost	Total carrying value	Fair value
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
2017					
Financial assets					
Available for sale financial assets	-	710,672	-	710,672	710,672
Trade and other receivables	238,181	-	-	238,181	238,181
Term deposits	143,283	-	-	143,283	143,283
Cash and cash equivalents	97,156	-	-	97,156	97,156
	<u>478,620</u>	<u>710,672</u>	<u>-</u>	<u>1,189,292</u>	<u>1,189,292</u>
Financial liabilities					
Bank overdraft	23,767	-	-	23,767	23,767
Trade and other payables	-	-	593,555	593,555	593,555
2016					
Financial assets					
Available for sale financial assets	-	721,707	-	721,707	721,707
Trade and other receivables	303,778	-	-	303,778	303,778
Term deposits	106,064	-	-	106,064	106,064
Cash and cash equivalents	79,953	-	-	79,953	79,953
	<u>489,795</u>	<u>721,707</u>	<u>-</u>	<u>1,211,502</u>	<u>1,211,502</u>
Financial liabilities					
Bank overdraft	8,536	-	-	8,536	8,536
Trade and other payables	-	-	525,853	525,853	525,853

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	Available for sale	Other amortised cost	Total carrying value	Fair value
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
2017					
Financial assets					
Available for sale financial assets	-	710,672	-	710,672	710,672
Trade and other receivables	274,847	-	-	274,847	274,847
Term deposits	66,936	-	-	66,936	66,936
Cash and cash equivalents	17,761	-	-	17,761	17,761
	<u>359,544</u>	<u>710,672</u>	<u>-</u>	<u>1,070,216</u>	<u>1,070,216</u>
Financial liabilities					
Bank overdraft	23,767	-	-	23,767	23,767
Trade and other payables	-	-	499,856	499,856	499,856
2016					
Financial assets					
Available for sale financial assets	-	721,707	-	721,707	721,707
Trade and other receivables	357,094	-	-	357,094	357,094
Term deposits	-	-	-	-	-
Cash and cash equivalents	43,141	-	-	43,141	43,141
	<u>400,235</u>	<u>721,707</u>	<u>-</u>	<u>1,121,942</u>	<u>1,121,942</u>
Financial liabilities					
Bank overdraft	8,536	-	-	8,536	8,536
Trade and other payables	-	-	473,742	473,742	473,742

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 2017:

Group and Company

31 December 2017:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets				
Available-for-sale financial assets	180,428	530,244	-	710,672
Total assets	180,428	530,244	-	710,672
31 December 2016:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets				
Available-for-sale financial assets	198,990	522,717	-	721,707
Total assets	198,990	522,717	-	721,707

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)

Notes to the financial statements - continued

5 FINANCIAL RISK MANAGEMENT - continued

(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).

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 2017	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Sales	<u>872,666</u>	<u>88,183</u>	<u>59,352</u>	<u>(52,575)</u>	<u>967,626</u>
Operating profit/(loss)	42,738	(18,528)	7,402	(1,935)	29,677
Net finance income/(expense)	<u>55,055</u>	<u>(4,487)</u>	<u>3,368</u>	-	<u>53,936</u>
Profit/(loss)before income tax	97,794	(23,016)	10,770	(1,935)	83,613
Income tax expense	<u>(37,017)</u>	<u>(3,729)</u>	<u>(3,488)</u>	-	<u>(44,234)</u>
Profit/(loss) for the year	<u>60,777</u>	<u>(26,745)</u>	<u>7,282</u>	<u>(1,935)</u>	<u>39,379</u>

Year ended 31 December 2016	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Sales	<u>1,010,649</u>	<u>71,634</u>	<u>61,828</u>	<u>(67,392)</u>	<u>1,076,719</u>
Operating profit/(loss)	131,214	(7,749)	9,322	(419)	132,368
Net finance income	<u>63,170</u>	<u>(2,966)</u>	<u>(1,890)</u>	-	<u>58,314</u>
Profit before income tax	194,384	(10,715)	7,432	(419)	190,682
Income tax expense	<u>(59,914)</u>	<u>(2,150)</u>	<u>(2,295)</u>	-	<u>(64,359)</u>
Profit/(loss) for the year	<u>134,470</u>	<u>(12,865)</u>	<u>5,137</u>	<u>(419)</u>	<u>126,323</u>

Notes to the financial statements - continued

6 SEGMENT INFORMATION - continued

Other segment items included in the profit or loss are

Year ended 31 December 2017	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total KShs'000
Depreciation	72,000	5,644	634	78,278
Amortisation of intangible assets	194	65	-	259
Amortisation of operating leases	105	-	-	105
Stock provisions and write-offs	5,761	1,353	(504)	6,610
Impairment of trade receivables (Note 5(a))	<u>17,230</u>	<u>3,012</u>	<u>(333)</u>	<u>19,909</u>

Year ended 31 December 2016	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total KShs'000
Depreciation	63,824	5,888	597	70,309
Amortisation of intangible assets	454	80	-	534
Amortisation of operating leases	105	-	-	105
Stock provisions and write-offs	9,443	(1,263)	921	9,101
Impairment of trade receivables	<u>(1,662)</u>	<u>(1,959)</u>	<u>1,427</u>	<u>(2,194)</u>

The segment assets and liabilities at 31 December 2017 and capital expenditure for the period then ended are as follows:

Year ended 31 December 2017	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Assets	2,015,588	169,972	124,841	(81,732)	2,228,699
Liabilities	523,623	147,996	25,440	(79,737)	617,322
Capital expenditure:					
Additions to Intangible assets	-	-	-	-	-
Additions to property, plant and equipment	<u>110,539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,539</u>

Year ended 31 December 2016	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Assets	2,032,483	158,823	126,061	(93,529)	2,223,838
Liabilities	482,279	109,258	34,087	(91,235)	534,389
Capital expenditure:					
Additions to Intangible assets	561	-	-	-	561
Additions to property, plant and equipment	<u>76,731</u>	<u>8,167</u>	<u>119</u>	<u>-</u>	<u>85,017</u>

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	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Sale of medical and industrial gases	784,415	928,634	720,670	857,575
Equipment sales	66,696	92,672	42,238	80,928
Equipment and facilities rentals	61,583	45,117	61,439	62,138
Service and delivery revenue	<u>54,932</u>	<u>10,296</u>	<u>48,319</u>	<u>10,008</u>
	<u>967,626</u>	<u>1,076,719</u>	<u>872,666</u>	<u>1,010,649</u>

Notes to the financial statements - continued

8 OTHER OPERATING INCOME AND EXPENSES

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(a) Other income				
Profit on disposal of property, plant and equipment	<u>9,137</u>	<u>1,741</u>	<u>9,137</u>	<u>1,623</u>
(b) Expenses by nature comprise:				
Raw materials, products for resale and consumables	230,745	231,125	197,543	225,913
Employee benefits and other staff costs	271,056	264,618	261,064	255,542
Electricity costs	98,345	124,755	98,218	124,583
Depreciation and amortisation of leasehold land	78,385	70,382	72,104	63,933
Amortization of intangible assets	259	534	194	454
Repairs and maintenance	24,930	66,256	24,759	65,585
Vehicle expenses	56,171	52,297	53,362	49,141
Bad debts expense/(credit)	19,922	(4,962)	17,230	(3,229)
Management fee	19,321	21,366	16,412	19,040
Other expenses	<u>147,952</u>	<u>119,721</u>	<u>98,179</u>	<u>80,096</u>
Total	<u>947,086</u>	<u>946,092</u>	<u>839,065</u>	<u>881,058</u>
Expenses by function comprise:				
Cost of sales	450,200	524,047	413,715	502,961
Distribution costs	128,100	102,617	122,936	110,474
Selling and administrative expenses	<u>368,786</u>	<u>319,428</u>	<u>302,414</u>	<u>267,623</u>
Total	<u>947,086</u>	<u>946,092</u>	<u>839,065</u>	<u>881,058</u>
(c) Employee benefit expense				
The following items are included within staff costs:				
Social security benefits	993	871	204	213
Retirement benefits costs:				
- defined contribution scheme	<u>18,369</u>	<u>17,075</u>	<u>18,369</u>	<u>17,028</u>

The number of employees at 31 December 2017 was 85 (2016: 94)

Notes to the financial statements - continued

9 FINANCE INCOME AND FINANCE COSTS

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(a) Finance income				
Interest income	63,389	58,992	58,113	51,059
Dividend income	10,395	10,395	10,395	10,395
Foreign currency exchange gains	-	2,476	-	2,476
Total	<u>73,784</u>	<u>71,863</u>	<u>68,508</u>	<u>63,930</u>
(b) Finance costs				
Interest paid	961	760	961	760
Foreign currency exchange loss	18,887	12,789	12,491	-
Total	<u>19,848</u>	<u>13,549</u>	<u>13,452</u>	<u>760</u>

10 PROFIT BEFORE TAXATION

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Profit before taxation is arrived at after (crediting) /charging:				
Repairs and maintenance expenditure on property, plant and equipment	24,930	66,256	24,759	65,585
Directors' remuneration:				
Fees and allowances	10,400	7,008	10,400	7,008
Salaries and short term benefits	39,957	36,792	39,957	36,792
Provident fund contributions	5,244	3,068	5,244	3,068
Depreciation	78,278	70,309	72,000	63,824
Impairment of trade receivables	19,922	(4,962)	17,230	(3,229)
Amortisation of intangible assets	259	534	194	454
Operating leases charges:				
Rentals expense	11,149	10,315	1,000	1,000
Auditors remuneration	5,315	5,315	4,347	4,347
And after crediting:				
Profit on disposal of property, plant and equipment	<u>9,137</u>	<u>1,741</u>	<u>9,137</u>	<u>1,623</u>

Notes to the financial statements - continued

11 INCOME TAX EXPENSE

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Current tax expense:				
Current year (Note 22)	<u>40,903</u>	<u>51,626</u>	<u>37,835</u>	<u>49,251</u>
Deferred tax credit/(charge):				
Decrease/(Increase) in deferred tax assets (Note 18)	3,331	13,285	(818)	10,753
Prior year deferred tax (under)/over provision (Note 18)	<u>-</u>	<u>(552)</u>	<u>-</u>	<u>(90)</u>
	<u>3,331</u>	<u>12,733</u>	<u>(818)</u>	<u>10,663</u>
Income tax expense	<u>44,234</u>	<u>64,359</u>	<u>37,017</u>	<u>59,914</u>

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	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Profit before tax	83,613	190,682	97,794	194,384
Tax calculated at a tax rate of 30%	25,084	57,205	29,338	58,315
Alternative Minimum tax	263	-	-	-
Tax effect of:				
Dividend income taxed at 5%	(2,599)	(2,599)	(2,599)	(2,599)
Expenses not deductible for tax purposes	17,465	4,578	10,278	4,288
Under provision of deferred tax in prior years (Note 18)	-	(552)	-	(90)
Tax losses not recognised	4,003	5,721	-	-
Translation differences	18	6	-	-
Income tax expense	<u>44,234</u>	<u>64,359</u>	<u>37,017</u>	<u>59,914</u>

Notes to the financial statements - *continued*

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 2017 or 31 December 2016. Therefore, the dilutive earnings per share and the calculation thereof equals the basic earnings per share.

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Net profit attributable to shareholders	39,379	126,323	60,777	134,470
Weighted average number of ordinary shares in issue	19,525	19,525	19,525	19,525
Basic and dilutive earnings per share (KShs)	<u>2.02</u>	<u>6.47</u>	<u>3.11</u>	<u>6.89</u>

13 DIVIDENDS PER SHARE

At the next annual general meeting a final dividend in respect of the year ended 31 December 2017 of KShs 3.00 per share (2016: KShs 3.00 per share), amounting to a total of KShs 58,576,338 (2016 – KShs 58,576,338) is to be proposed.

During the year an interim dividend of KShs 2.20 per share (2016: KShs 2.20 per share), amounting to a total of KShs 42,955,981 (2016 – KShs 42,955,981) was paid. The total dividend for the year is therefore KShs 5.20 per share (2016 – KShs 5.20), amounting to a total of KShs 101,532,320 (2016 – KShs 101,532,320).

Payment of dividends is subject to withholding tax at a rate of either 5% for resident shareholders or 10% in for non-resident shareholders.

Notes to the financial statements - continued

14 PROPERTY, PLANT AND EQUIPMENT

(a) Group

2017	Land & Buildings KShs'000	Plant & Machinery KShs'000	Motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost:							
At 1 January 2017	123,931	579,912	228,907	768,406	59,803	14,830	1,775,789
Transfers	-	-	10,059	85	-	(10,144)	-
Additions	-	10,962	10,612	47,381	531	41,053	110,539
Reallocation	-	50,688	-	(50,688)	-	-	-
Disposals	-	(3,015)	(24,142)	-	-	-	(27,157)
Currency translation differences	(203)	(691)	(454)	(211)	(58)	-	(1,617)
At 31 December 2017	123,728	637,856	224,982	764,973	60,276	45,739	1,857,554
Depreciation:							
At 1 January 2017	(60,296)	(407,901)	(115,825)	(368,481)	(50,164)	-	(1,002,667)
Charge for the year	(3,164)	(25,095)	(17,285)	(29,817)	(2,917)	-	(78,278)
Reallocation	-	(42,473)	-	42,473	-	-	-
On disposals	-	3,015	23,760	-	-	-	26,775
Currency translation differences	22	200	159	123	45	-	549
At 31 December 2017	(63,438)	(472,254)	(109,191)	(355,702)	(53,036)	-	(1,053,621)
Carrying value:							
At 31 December 2017	<u>60,290</u>	<u>165,602</u>	<u>115,791</u>	<u>409,271</u>	<u>7,240</u>	<u>45,739</u>	<u>803,933</u>

During the year, the Group received compensation of KShs 9,519,444 (2016: KShs 1,571,933) from third parties for lost cylinders and disposal of replaced trucks. The net book value of the disposed assets was KShs 382,032. Re-allocations were done in the year to correct the differences that existed in the fixed assets register between the gross book value of the different asset classes and the accumulated depreciation.

Notes to the financial statements - continued

14 PROPERTY, PLANT AND EQUIPMENT - continued

(a) Group - continued

2016	Land & Buildings KShs'000	Plant & Machinery KShs'000	Motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost:							
At 1 January 2016	123,716	548,322	231,322	754,308	54,529	32,549	1,744,746
Transfers	-	-	31,482	1,067	-	(32,549)	-
Additions	-	32,137	13,329	19,373	5,348	14,830	85,017
Reallocation	300	-	-	-	-	-	300
Removed from register	-	-	(45,638)	-	-	-	(45,638)
Disposals	-	-	(1,400)	(5,342)	-	-	(6,742)
Currency translation differences	(85)	(547)	(188)	(1,000)	(74)	-	(1,894)
At 31 December 2016	123,931	579,912	228,907	768,406	59,803	14,830	1,775,789
Depreciation:							
At 1 January 2016	(56,534)	(419,862)	(113,805)	(345,997)	(46,753)	-	(982,951)
Charge for the year	(3,467)	(23,503)	(14,002)	(25,852)	(3,485)	-	(70,309)
Reallocation	(300)	35,097	(35,097)	-	-	-	(300)
Removed from register	-	-	45,638	-	-	-	45,638
On disposals	-	-	1,400	2,887	-	-	4,287
Currency translation differences	5	367	41	481	74	-	968
At 31 December 2016	(60,296)	(407,901)	(115,825)	(368,481)	(50,164)	-	(1,002,667)
Carrying value:							
At 31 December 2016	<u>63,635</u>	<u>172,011</u>	<u>113,082</u>	<u>399,925</u>	<u>9,639</u>	<u>14,830</u>	<u>773,122</u>

Notes to the financial statements - continued

14 PROPERTY, PLANT AND EQUIPMENT - continued

(b) Company

2017	Land & Buildings	Plant & Machinery	Motor vehicles	Cylinders	Furniture and equipment	Capital work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost:							
At 1 January 2017	113,469	539,622	205,533	744,454	56,005	14,830	1,673,913
Transfers	-	-	10,059	85	-	(10,144)	-
Additions	-	10,962	10,612	47,381	531	41,053	110,539
Reallocation	-	50,688	-	(50,688)	-	-	-
Disposals	-	(3,015)	(24,142)	-	-	-	(27,157)
At 31 December 2017	113,469	598,257	202,062	741,232	56,536	45,739	1,757,295
Depreciation:							
At 1 January 2017	(59,336)	(393,702)	(108,444)	(355,777)	(47,108)	-	(964,367)
Reallocation	-	(42,473)	-	42,473	-	-	-
Charge for the year	(2,649)	(22,983)	(14,974)	(28,775)	(2,619)	-	(72,000)
Disposals	-	3,015	23,760	-	-	-	26,775
At 31 December 2017	(61,985)	(456,143)	(99,658)	(342,079)	(49,727)	-	(1,009,592)
Carrying value:							
At 31 December 2017	<u>51,484</u>	<u>142,114</u>	<u>102,404</u>	<u>399,153</u>	<u>6,809</u>	<u>45,739</u>	<u>747,703</u>

During the year, the Company received compensation of KShs 9,519,444 (2016 – KShs 4,078,138) from third parties for lost cylinders and disposal of replaced trucks.

Notes to the financial statements - continued

14 PROPERTY, PLANT AND EQUIPMENT - continued

(b) Company - continued

2016	Land & Buildings KShs'000	Plant & Machinery KShs'000	Motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost:							
At 1 January 2016	113,169	515,260	207,760	729,356	51,168	32,549	1,649,262
Transfers	-	-	31,482	1,067	-	(32,549)	-
Reallocation	300	-	-	-	-	-	300
Additions	-	24,362	13,329	19,373	4,837	14,830	76,731
Removed from register	-	-	(45,638)	-	-	-	(45,638)
Disposals	-	-	(1,400)	(5,342)	-	-	(6,742)
At 31 December 2016	113,469	539,622	205,533	744,454	56,005	14,830	1,673,913
Depreciation:							
At 1 January 2016	(56,094)	(407,697)	(108,726)	(333,853)	(43,797)	-	(950,167)
Reallocation	(300)	35,097	(35,097)	-	-	-	(300)
Charge for the year	(2,944)	(21,096)	(11,660)	(24,810)	(3,314)	-	(63,824)
Removed from register	-	-	45,638	-	-	-	45,638
Disposals	-	-	1,400	2,886	-	-	4,286
At 31 December 2016	(59,338)	(393,696)	(108,445)	(355,777)	(47,111)	-	(964,368)
Carrying value:							
At 31 December 2016	<u>54,131</u>	<u>145,925</u>	<u>97,088</u>	<u>388,677</u>	<u>8,894</u>	<u>14,830</u>	<u>709,545</u>

Included in property, plant and equipment are assets with a gross value of KShs 310,682,260 (2016 – KShs 359,440,852) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs 37,192,728 (2016 – KShs 51,780,882).

There were no idle assets at 31 December 2017 and 2016. The Group had no property pledged as security as at 31 December 2017 and 31 December 2016.

Notes to the financial statements - continued

15 INTANGIBLE ASSETS

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Cost:				
At beginning of year	16,860	16,299	16,622	16,061
Additions	-	561	-	561
Translation differences	(3)	-	-	-
At end of year	<u>16,857</u>	<u>16,860</u>	<u>16,622</u>	<u>16,622</u>
Accumulated amortisation				
At beginning of year	(16,163)	(15,629)	(15,991)	(15,537)
Charge for the year	(259)	(534)	(194)	(454)
Translation differences	2	-	-	-
At end of year	<u>(16,420)</u>	<u>(16,163)</u>	<u>(16,185)</u>	<u>(15,991)</u>
Net carrying amount at 31 December	<u>437</u>	<u>697</u>	<u>437</u>	<u>631</u>

16 INVESTMENT IN SUBSIDIARIES

Company	Percentage shareholding	2017 KShs'000	2016 KShs'000
East African Oxygen Limited	100%	-	-
BOC Tanzania Limited	100%	10	10
BOC Uganda Limited	100%	50	50
Kivuli Limited	100%	-	-
Total		<u>60</u>	<u>60</u>

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 Plc.

Notes to the financial statements - continued

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group and Company	2017 KShs'000	2016 KShs'000
Non-current:		
Shares in quoted company	180,428	198,990
Treasury bonds	6,963	6,784
Corporate bonds	2,583	3,827
Total non-current	<u>189,974</u>	<u>209,601</u>
Current:		
Treasury bills	<u>520,698</u>	<u>512,106</u>

The weighted average effective interest rate on the treasury bills at year end was 10.77% (2016 – 11.46%), while that on treasury and corporate bonds was 10.5% (2016 – 11.13%).

18 DEFERRED TAX

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2016: 30%).

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Deferred tax asset	24,976	27,528	23,835	22,442
Deferred tax liability	(265)	-	-	-
Total	<u>24,711</u>	<u>27,528</u>	<u>23,835</u>	<u>22,442</u>

The movement on the deferred tax account is as follows:

At the beginning of year	27,528	40,605	22,442	33,315
Recognised in profit or loss (Note 11)	(3,331)	(13,285)	818	(10,753)
Prior year (over)/under provision (Note 11)	-	552	-	90
Unrealised gain/(loss) on available for sale financial assets	575	(210)	575	(210)
Deferred tax on fair value changes on equity instruments	-	-	-	-
Currency translation differences	(61)	(134)	-	-
At end of year	<u>24,711</u>	<u>27,528</u>	<u>23,835</u>	<u>22,442</u>

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

Notes to the financial statements - continued

18 DEFERRED TAX - continued

(a) Group

Year ended 31 December 2017	At 1 January Kshs '000	Recognised in profit or loss Kshs '000	Prior year under provision Kshs '000	Recognised in other comprehensive income Kshs '000	Foreign currency translation differences Kshs '000	At 31 December Kshs '000
Property, plant and equipment	(61,855)	(2,560)	-	-	101	(64,314)
Unrealized exchange (gains)\ losses	6,097	(4,270)	-	-	(77)	1,750
Accrued expenses and provisions	79,792	7,511	-	-	(18)	87,285
Unrealized loss on available for sale financial assets	(586)	-	-	576	-	(10)
Tax losses	4,080	(4,012)	-	-	(68)	-
Totals	<u>27,528</u>	<u>(3,331)</u>	<u>-</u>	<u>576</u>	<u>(62)</u>	<u>24,711</u>
Year ended 31 December 2016						
Property, plant and equipment	(56,067)	(6,040)	90	-	162	(61,855)
Unrealized exchange (gains)\ losses	2,532	3,569	-	-	(4)	6,097
Accrued expenses and provisions	91,404	(10,846)	(526)	-	(240)	79,792
Unrealized loss on available for sale financial assets	(376)	-	-	(210)	-	(586)
Tax losses	3,112	-	993	-	(25)	4,080
Deferred tax on fair value change on equity instruments	-	32	(5)	-	(27)	-
Totals	<u>40,605</u>	<u>(13,285)</u>	<u>552</u>	<u>(210)</u>	<u>(134)</u>	<u>27,528</u>

Notes to the financial statements - continued

18 DEFERRED TAX - continued

(b) Company

Year ended 31 December 2017	At 1 January Kshs '000	Recognised in profit or loss Kshs '000	Prior year under provision Kshs '000	Recognised in other comprehensive income Kshs '000	At 31 December Kshs '000
Property, plant and equipment	(54,913)	(2,145)	-	-	(57,058)
Unrealized loss on available for sale financial assets	(586)	-	-	576	(10)
Accrued expenses and provisions	77,906	1,092	-	-	78,998
Unrealised exchange (gains)/losses	35	1,871	-	-	1,906
Totals	<u>22,442</u>	<u>818</u>	<u>-</u>	<u>576</u>	<u>23,835</u>

Year ended 31 December 2016

Property, plant and equipment	(50,301)	(4,702)	90	-	(54,913)
Unrealized loss on available for sale financial assets	(376)	-	-	(210)	(586)
Accrued expenses and provisions	82,815	(4,909)	-	-	77,906
Unrealised exchange (gains)/losses	1,177	(1,142)	-	-	35
Totals	33,315	(10,753)	90	(210)	22,442

19 PREPAID OPERATING LEASES

Group and Company

	2017 KShs'000	2016 KShs'000
Leases expiring beyond five years		
At the beginning of the year	3,293	3,398
Amortisation for the year	(105)	(105)
At the end of the year	<u>3,188</u>	<u>3,293</u>

Notes to the financial statements - continued

20 INVENTORIES

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Raw materials	6,191	7,292	6,191	7,292
Finished goods and other saleable stock	131,461	126,423	112,072	105,383
Spares	47,740	50,546	47,696	50,474
Goods in transit	30,982	26,643	29,443	25,786
Impairment allowance	(75,545)	(68,935)	(67,144)	(61,382)
Total	<u>140,829</u>	<u>141,969</u>	<u>128,258</u>	<u>127,553</u>

The cost of inventory recognised as an expense and included in cost of sales amounted to KShs 424,604,333 (2016 – KShs 489,892,143) for Group and KShs 343,124,127 (2016 - KShs 416,978,447) for Company.

21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Trade receivables	295,977	319,171	256,935	289,642
Allowance for impairment	(82,756)	(84,190)	(69,097)	(70,868)
	213,221	234,981	187,838	218,774
Receivables from related companies (Note 32(c))	-	-	78,679	91,234
Prepayments	21,423	16,506	12,493	7,065
Other receivables	24,960	68,797	8,330	47,086
Total	<u>259,604</u>	<u>320,284</u>	<u>287,340</u>	<u>364,159</u>

22 TAX RECOVERABLE

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
At 1 January	49,221	20,562	39,662	14,048
Reclassified to other debtors	(1,347)	-	-	-
Charge for the year (Note 11)	(40,903)	(51,626)	(37,835)	(49,251)
Tax paid in respect of current year	37,722	82,152	27,570	76,719
Utilised in respect of prior years' liability	-	(1,854)	-	(1,854)
Foreign currency translation	(102)	(13)	-	-
At 31 December	<u>44,591</u>	<u>49,221</u>	<u>29,397</u>	<u>39,662</u>

Notes to the financial statements - continued

23 TERM DEPOSITS

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

24 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	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Cash at bank and in hand	97,156	54,548	17,761	18,027
Fixed and call deposits	-	25,405	-	25,404
Total	97,156	79,953	17,761	43,431
Bank overdraft	23,767	8,536	23,767	8,536
Net cash	<u>73,389</u>	<u>71,417</u>	<u>(6,006)</u>	<u>34,895</u>

25 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

	Number of shares	Share capital KShs'000
Group and Company:		
Authorised (ordinary shares)	20,000,000	100,000
Issued and fully paid 2017 and 2016	<u>19,525,446</u>	<u>97,627</u>

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.

26 OTHER RESERVES

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Fair value reserve	154,952	173,514	156,028	173,514
Foreign currency translation reserve	(29,395)	(31,743)	-	-
Total	<u>125,557</u>	<u>141,771</u>	<u>156,028</u>	<u>173,514</u>

Notes to the financial statements - continued

26 OTHER RESERVES - continued

(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.

(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.

27 TRADE AND OTHER PAYABLES

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Cylinder deposits	217,220	181,967	184,454	152,191
Trade payables	75,717	87,614	65,222	79,533
Amounts due to related companies (Note 32(d))	102,702	63,546	81,726	51,011
Accruals and other payables	198,034	192,726	168,354	191,007
Total	<u>593,555</u>	<u>525,853</u>	<u>499,856</u>	<u>473,742</u>

28 CASH GENERATED FROM OPERATIONS

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

	Note	Group		Company	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Profit before tax		83,613	190,682	97,794	194,384
Adjustments for:					
Depreciation	14	78,278	70,309	72,000	63,824
Amortisation of intangible assets	15	259	534	194	454
Operating lease charges	19	105	105	105	105
Profit on sale of property and equipment	8 (a)	(9,137)	(1,741)	(9,137)	(1,623)
Effect of foreign currency translations		3,059	1,748	-	-
Interest income	9 (a)	(63,389)	(58,992)	(58,113)	(51,059)
Dividend income	9 (a)	(10,395)	(10,395)	(10,395)	(10,395)
Changes in working capital:					
Trade and other receivables		60,680	39,317	76,819	52,341
Inventories		1,140	19,459	(705)	26,920
Trade and other payables		69,049	(86,126)	26,115	(77,865)
Cash generated from operating activities		<u>213,262</u>	<u>164,900</u>	<u>194,676</u>	<u>197,086</u>

Notes to the financial statements - *continued*

29 CONTINGENT LIABILITIES

At 31 December 2017, the Group and Company's Bankers had issued various guarantees in favour of third parties (primarily the Group and Company's public sector customers) amounting KShs 12,433,127 (31 December 2016: KShs 2,650,148).

The Company has the following bank facilities:

Facility description	Limit (US\$)
Letters of credit and guarantees	2,000,000
Working capital and advances	1,000,000
Foreign exchange	500,000

There are certain pending tax and legal claims brought against the Group and Company as at 31 December 2017 for which a provision has been made in the books. In the opinion of the Directors, after taking appropriate legal advice, the outcome of tax and 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 2017, the Group had capital commitments of KShs 47,440,422 (2016 – KShs 60,589,167).

31 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASE

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 operating leases are as follows:

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Not later than one year	9,800	10,167	1,000	1,000
Between 1 and 5 years	5,907	8,938	4,000	4,000
Longer than five years	26,000	27,000	26,000	27,000
Total	<u>41,707</u>	<u>46,105</u>	<u>31,000</u>	<u>32,000</u>

Amounts expensed during the year are disclosed in Note 10.

Notes to the financial statements - continued

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 Plc through common shareholdings or common Directorships.

The following transactions were carried out with related parties:

(a) Purchase of goods and services

	2017 KShs'000	2016 KShs'000
Group		
BOC Group plc	22,205	15,325
African Oxygen Limited	60,548	73,517
Cryostar France	4,612	8,176
Total	<u>87,365</u>	<u>97,018</u>
Company		
BOC Group plc	22,205	15,325
African Oxygen Limited	56,837	61,527
Cryostar France	4,612	8,176
Total	<u>83,654</u>	<u>85,028</u>

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

(b) Sales to subsidiaries

	Company	
	2017 KShs'000	2016 KShs'000
<i>Sales to subsidiaries:</i>		
BOC Tanzania Limited	23,283	38,909
BOC Uganda Limited	<u>29,292</u>	<u>28,483</u>
Total	<u>52,575</u>	<u>67,392</u>

(c) Outstanding balances included in receivables

	Company	
	2017 KShs'000	2016 KShs'000
<i>Due to BOC Kenya Plc:</i>		
BOC Tanzania Limited	75,882	73,467
BOC Uganda Limited	<u>2,997</u>	<u>17,767</u>
Total	<u>78,879</u>	<u>91,234</u>

Notes to the financial statements - continued

32 RELATED PARTY TRANSACTIONS - continued

(d) Outstanding balances arising from the purchase of goods and services

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
BOC Group plc	25,327	26,659	25,327	26,659
African Oxygen Limited	73,932	33,889	52,956	21,354
Linde A.G	3,443	2,998	3,443	2,998
Total	102,702	63,546	81,726	51,011

(e) Key management compensation

Group and Company	2017 KShs'000	2016 KShs'000
Salaries and short term benefits	44,739	45,400

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

(f) Directors' remuneration

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Fees	10,400	7,008	10,400	7,008
Salaries and short term benefits	39,957	36,792	39,957	36,792
Provident fund contributions	5,244	3,068	5,244	3,068
Total	55,601	46,868	55,601	46,868

(g) Dividends paid

Group and Company	2017 KShs'000	2016 KShs'000
BOC Group Plc	66,381	66,381

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.

Notes to the financial statements - *continued*

34 RESTATEMENT

During the year, the Group and Company restated the classification of certain items in the statement of financial position to achieve a more appropriate presentation as noted below:

At 31 December 2016	As previously stated	Reclassification	As restated
Non-current assets:			
Available for sale financial assets	210,070	(469)	209,601
Current assets:			
Available for sale financial assets	511,637	469	512,106
Cash and cash equivalents	71,417	8,536	79,953
Current liabilities:			
Bank overdraft	-	(8,536)	8,536
Company			
At 31 December 2016			
Non-current assets:			
Available for sale financial assets	210,070	(469)	209,601
Current assets:			
Available for sale financial assets	511,637	469	512,106
Cash and cash equivalents	34,895	8,536	43,431
Current liabilities:			
Bank overdraft	-	(8,536)	8,536



BOC GASES
Handigas



FLAMMABLE



NO SMOKING



NO OPEN FLAMES

SAFETY INSTRUCTIONS

Worker in high-visibility vest

FORM OF PROXY

To:
 The Secretary,
 BOC Kenya Plc,
 PO Box 18010 – 00500
 Nairobi

I/Weof PO Box

being member/members of BOC Kenya Plc 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 **21 June 2018 at 11:00am** at the Company's Head Office and factory site, Kitui Road, Industrial Area, or at any adjournment thereof.

As witness my/our hand/s thisday of.....2018

.....
 (Signature)

NOTES:

1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his behalf. Such proxy need not be a member of the Company.
2. Shareholders who do not propose to be at the Annual General Meeting and intend to appoint a proxy are requested to do the following:
 - **Complete this form and attach a copy of your National ID and a copy of the National ID of the proxy appointed.**
 - Return the form (plus copies of the National ID's) to the Company's Registrar, Custody & Registrars, 6th Floor, Bruce House, Standard Street, PO Box 8484 – 00100, Nairobi or alternatively to the Registered Office of the Company so as to arrive not later than **2:30 p.m. on 19 June 2018.**
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.
4. Duly signed proxy forms together with ID copies may also be emailed to **proxy@candrgroup.co.ke** in PDF format.

BOC Kenya Plc
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Fax: + 254 20 6944001
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