ANNUAL REPORT & FINANCIAL STATEMENTS 2017/2018

DRIVING THE TRANSFORMATIVE AGENDA THROUGH MANUFACTURING

East African Portland Cement PLC

Holding Life Together

OUR VISION

To be the regional leader in the provision of cement, innovative cement products and solutions.

OUR MISSION

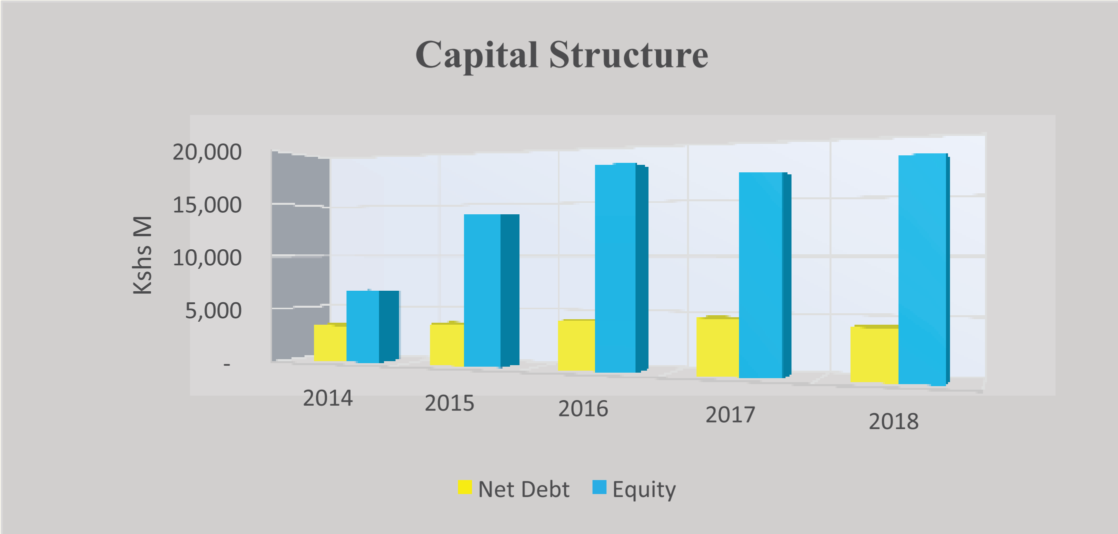
To provide Cement for Infrastructural solutions to the satisfaction of our stakeholders.

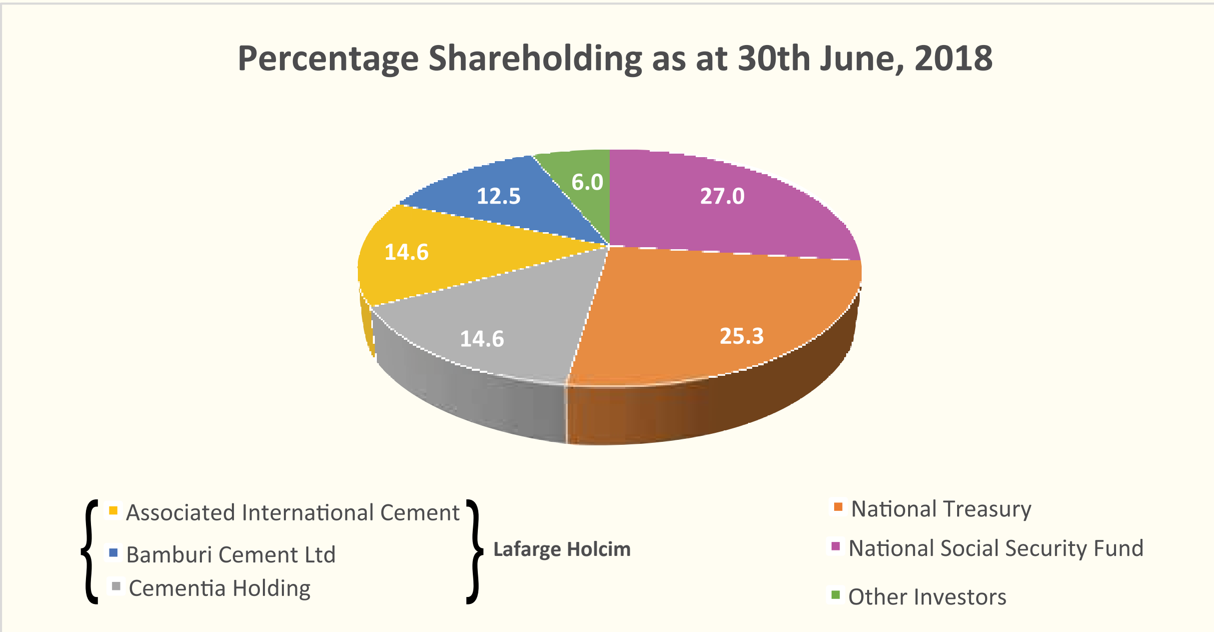
CONTENTS

FINANCIAL REVIEW

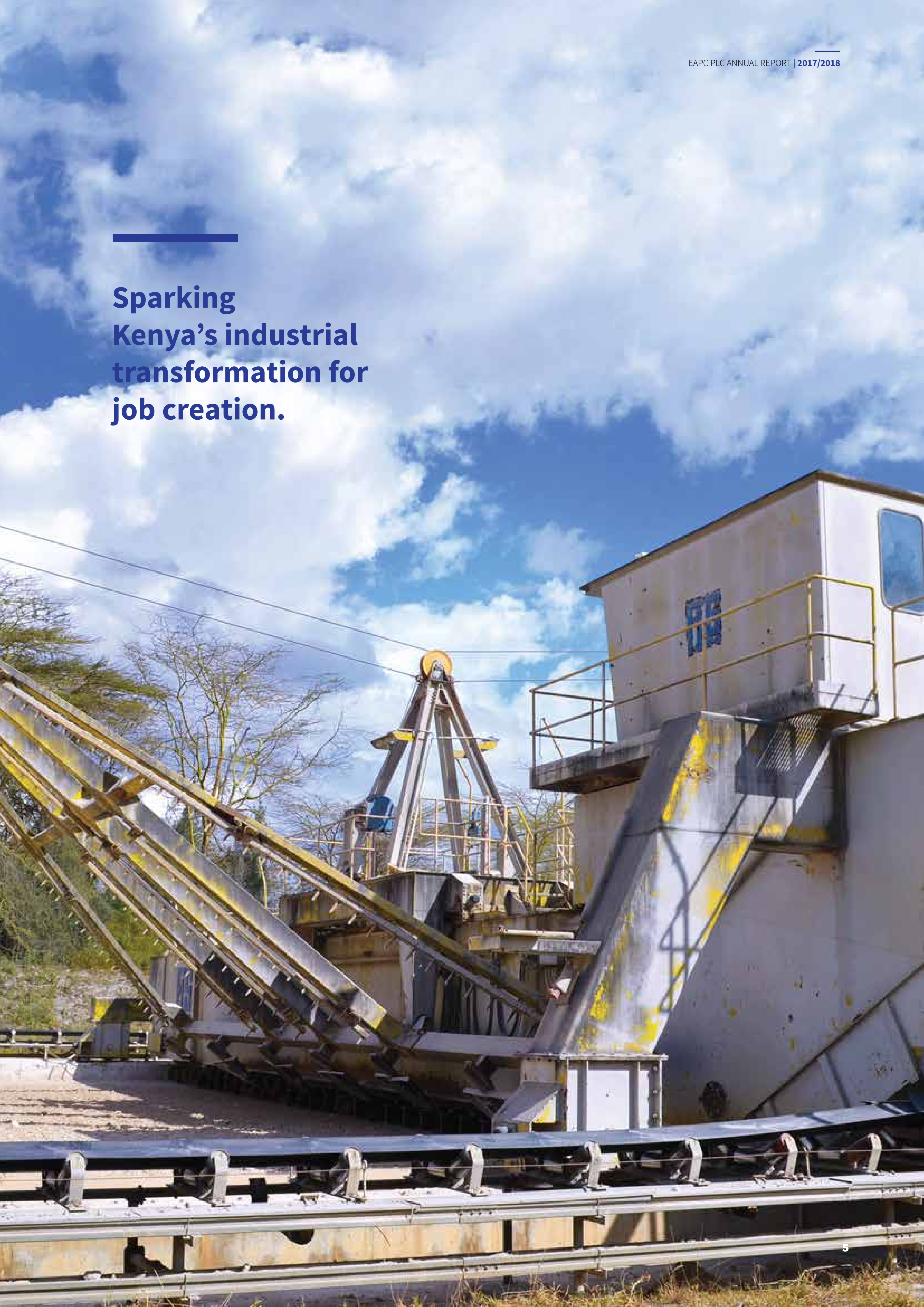
FIVE YEAR FINANCIAL HIGHLIGHTS

	2018 Shs'000	2017 Shs'000	2016 Shs'000	2015 Shs'000	2014 Shs'000
Turnover	5,182,721	6,928,307	8,871,456	8,417,621	9,057,292
Operating Profit	(3,558,907)	(1,316,283)	(1,584,571)	(577,579)	(92,955)
Foreign Currency Exchange gain/ (loss)	21,233	134,018	(305,706)	174,834	36,769
Profit / (Loss) Before Tax	6,962,123	(1,712,903)	3,734,752	7,342,071	(373,700)
Taxation Credit /(Charge)	835,424	241,542	411,003	(185,001)	(12,931)
Profit /(Loss) Attributable to Members	7,797,547	(1,471,361)	4,145,755	7,157,070	(386,631)
Dividends	-	-	-	-	-
Capital Employed					
Assets					
Non Current	36,041,881	25,408,293	25,727,272	19,955,246	12,548,202
Current	1,985,639	1,949,095	2,114,848	3,157,336	3,242,531
Total assets	**38,027,520**	**27,357,388**	**27,842,120**	**23,112,582**	**15,790,733**
Equity & Liabilities					
Shareholders Funds	24,696,045	16,890,983	17,946,760	13,809,593	6,781,054
Non Current Liabilities	5,338,440	4,270,192	4,933,240	5,537,618	5,500,293
Current Liabilities	7,993,035	6,196,213	4,962,120	3,765,371	3,509,386
Total Equity & Liabilities	**38,027,520**	**27,357,388**	**27,842,120**	**23,112,582**	**15,790,733**
Ratio Analysis					
Profitability and Efficiency Ratios					
Gross Profit Margin	-2%	11%	18%	22%	26%
Operating Profit Margin	-69%	-19%	-18%	-7%	-1%
Net Profit Margin	150%	-21%	47%	85%	-4%
Return on Assets	21%	-5%	15%	31%	-2%
Return on Equity	32%	-9%	23%	52%	-6%
Liquidity Ratios /working capital					
Current Ratio	0.25	0.31	0.43	0.84	0.92
Quick Ratio	0.09	0.11	0.15	0.35	0.32
Net Debt to Equity	0.23	0.29	0.24	0.27	0.50
Earnings Per Share (Basic and diluted)	86.64	(16.35)	46.06	79.52	(4.30)


Capital Structure
Kshs M
20,000
15,000
10,000
5,000
-
2014
2015
2016
2017
2018
Net Debt
Equity


Percentage Shareholding as at 30th June, 2018
6.0
12.5
27.0
14.6
14.6
25.3
Associated International Cement
Bamburi Cement Ltd
Cementia Holding
Lafarge Holcim
National Treasury
National Social Security Fund
Other Investors

Sparking Kenya's industrial transformation for job creation.



CORPORATE INFORMATION

DIRECTORS	Edwin M. Kinyua	- Chairman
	Simon Peter Ole Nkeri	- Managing Director
	Kungu Gatabaki	
	Prof. Sarone Ole Sena	
	Henry Rotich	- Cabinet Secretary, National Treasury (Alternate Director – Humphrey Muhu)
	National Social Security Fund (NSSF)	- (Represented by Dr. Anthony Omerikwa)
	Betty Maina	- Principal Secretary, State Department of Investment and Industry, Ministry of Industry, Trade and Cooperatives (Alternate Director – Charles W. Mahinda)

SECRETARY

Sheila Kahuki
Certified Public Secretary (Kenya)
P. O. Box 40101 - 00100
Nairobi

REGISTERED OFFICE

L R 337/113/1
Namanga Road, off Mombasa Road
P. O. Box 40101 - 00100
Nairobi

REGISTRARS

Haki Registrars
P. O. Box 40868 - 00100
Nairobi

BANKERS

KCB Bank Kenya Limited Moi Avenue Branch P. O. Box 30081 - 00100 Nairobi	Standard Chartered Bank Kenya Limited Kenyatta Avenue P. O. Box 30003 - 00100 Nairobi
Citibank, N.A Citibank House P. O. Box 30711 - 00100 Nairobi	The Co-operative Bank of Kenya Limited Athi River Branch P. O. Box 321 - 00204 Athi River
Stanbic Bank Limited Kimathi Street P. O. Box 30550 - 00100 Nairobi	Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 7111 Kampala
Equity Bank Limited Kenyatta Avenue P. O. Box 104860 - 00100 Nairobi	KCB Bank Uganda Limited 6th Street Industrial Area P. O. Box 28568 Kampala

PRINCIPAL AUDITOR

The Auditor General
Anniversary Towers
P. O. Box 30084 - 00100 GPO
Nairobi

DELEGATED AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P. O. Box 40092 - 00100 GPO
Nairobi

Board of Directors

Mr. Edwin M. Kinyua, MBS

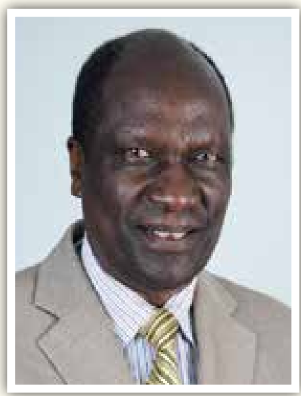
Chairman

Mr. Edwin M. Kinyua, MBS was appointed as the Chairman and Director of EAPC PLC with effect from 20th September, 2018. Mr. Kinyua has over 20 years' experience in Senior Management and Leadership positions in Kenya and in the Region. He served as the Managing Director/Chief Executive Officer of Kenya Wine Agencies Limited (KWAL) for 7 years from 2009 to 2016. During his term KWAL was in 2012 rated as the best State Corporation under the Performance Contracting system in Government. The Company also made tremendous achievements under his Leadership including increasing revenue by more than 2 ½ times to Ksh 4.4bn and profitability by more than double.

At a very difficult moment for KWAL, he successfully negotiated from 2010 to December 2014, to ensure KWAL remained strong by bringing on board as shareholder, Distell Limited of South Africa which had been the anchor supplier since 1998. The negotiations and other deliberations were held in South Africa, the Privatization Commission, Nairobi, the National Treasury, Cabinet Committee on Public Finance and Administration, the Presidency and defended in Parliament. In 2012, he was honored by the Head of State with the award of the Moran of the Order of the Burning Spear (MBS) for dedicated service to the Nation.

Mr. Kinyua has also demonstrated excellent leadership and Management skills through other positions that he held previously. Before joining KWAL, he worked at KenolKobil Group for over 17 years up to 2008. He held amongst other positions; Head of Retail Network, Group Business Development Manager, rising to the position of Country Director-Uganda and later as Head of Group Corporate Division for East and Central Africa. During his time at KenolKobil, the Group's annual turnover was in the excess of USD 2.5 billion. He was in the Group Management Team that catapulted the Company to become the biggest Oil Company in East Africa by Year 2000.

Mr. Kinyua is a graduate of Bachelor of Commerce-Business Administration from the University of Nairobi. In 1997 he worked at Paz Oil and Sonol Petroleum in Tel Aviv, Israel under an African leadership and exchange programme and in 1998 won a scholarship to study Local Economic Development and Project planning at The Development Study Centre, Rehovot - Israel. He is trained in Corporate Governance under the Centre for Corporate Governance. He is also an entrepreneur in diverse sectors of the Kenyan economy, a Strategy and Management consultant and currently serves as a Director of Brett Communications Ltd and Akens Capital Ltd.



Prof Sarone Ole Sena

Prof. Sarone Ole Sena is a Professor of Strategic Management and Leadership at ESAMI. He holds a PhD in Business Education and Community Development. He has worked as a Business Consultant for 20 years and is currently a Director of EAPC PLC, Chairman of the staff pension scheme as well as Chairman of the Board HR and Remuneration Committee.

Board of Directors

Mr Henry K. Rotich

Cabinet Secretary, The National Treasury

Mr. Henry K. Rotich is currently the Cabinet Secretary for the National Treasury in Kenya. In this portfolio, Mr. Rotich is charged with managing Kenya's national government finances, including spearheading an efficient and sustainable public financial management under a new devolved system of governance, which is fundamental for promoting equitable socio-economic development and efficient delivery of services to Kenyans. Prior to his elevation as a Cabinet Secretary, Mr. Rotich was the Head of Macroeconomics at the Ministry of Finance, since March 2006. Before joining the Ministry of Finance, Mr. Rotich also worked at the Research Department of the Central Bank of Kenya since 1994. He was later attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist from 2001 to 2004.

Mr. Rotich has also served in other senior positions. He was a Director in several Boards of State Corporations, including; Insurance Regulatory Board; Industrial Development Bank; Communications Authority of Kenya; and Kenya National Bureau of Statistics. Mr. Rotich holds a Masters Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University, USA. He holds a Masters Degree in Economics and a Bachelor's Degree in Economics, both from University of Nairobi, Kenya

Mr Simon Peter Ole Nkeri

Managing Director

Mr. Simon Peter Ole Nkeri has served as Managing Director of East African Portland Cement PLC since August 5, 2016. He has worked for Barclays where he was the Head of Commercial Services. His other corporate experience includes stints at the Capital Markets Authority where he was at one time the acting CEO and the National Social Security Fund where he was the General Manager (Operations). He holds an MBA from the Birmingham Business School (UK) and a Bachelor of Laws (LLB) and a BA Public Finance and International Relations from the University of Nairobi. He is also a Certified Public Accountant with good standing within the Institute of Certified Public Accountants of Kenya (ICPAK) where he currently serves as a member of the Disciplinary Committee and Chairman of ICPAK Appeals Committee. He is an Advocate of the High Court of Kenya and member of LSK and ICPSK. Mr. Ole Nkeri is a trained and Certified PPP Specialist from IP3 institute (Washington DC, USA).

Ms. Betty Maina

Principal Secretary, State Department of Investment and Industry, Ministry of Industry, Trade and Cooperatives

Ms. Betty Maina is the Principal Secretary, State Department of Investment and Industry in the Ministry of Industry, Trade and Cooperatives having been appointed in January 2018. Before the latest appointment, she served as the Principal Secretary, State Department of East African Integration in the Ministry of East African Community, Labour and Social Protection from December 2015 to March 2017. Ms Betty Maina has more than 20 years' experience in Organisational Leadership and Development, with an ability to prepare and implement Strategic Business Plans and mobilise resources for implementation. She attained a Master of Science Degree in Development Administration and Planning from the University College of London in 1998, having studied Land Economics at the University of Nairobi where she attained her undergraduate degree in 1988.
She has also undertaken short courses in several key areas, among them Budgeting and Financial Management (Harvard University), Developing Anti-Corruption Strategies (World Bank, Washington), Gender and Development Planning (University College of London), and the Role of Public Policy in Private Sector Development (Strathmore University College), to name just a few. Her achievements at KAM and other organisations earned her the Kenyan presidential honour in 2013, giving her the title: Moran of the Order of the Burning Spear (MBS).

Board of Directors

Dr Anthony Omerikwa

National Social Security Fund

Dr. Omerikwa is the Acting Managing Trustee/CEO of the National Social Security Fund. Prior to his current position, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement. He holds a Doctoral degree of the University of Georgia, a specialist advanced degree in Workforce Development from Pittsburgh State University, Masters of Science degree in Human Resource Development from Pittsburgh State University, a Bachelor of Arts degree in Economics and a diploma in IT of the Institute for the Management of Information Systems (UK). Dr. Omerikwa is a member of the Institute of Human Resource Management, Institute of Directors and the Kenya Institute of Management.

Mr Kungu Gatabaki

Mr Kungu Gatabaki holds an honors degree in Economics from Legon University Ghana and post graduate Diploma in Project Management and Finance from Bradford University UK. A long experienced Corporate Director over 40 years Mr Gatabaki has chaired various Boards of Directors in Kenya and Africa including Housing Finance Group; Micro Africa, Jacaranda Hotels and Kenya Capital Markets Authority. His other past directorships include: The Pan African Mortgage Institution Shelter Afrique African Reinsurance Corporation (SA), Sudan Rural Development Company, Tanzania Development Finance Co, Mumias Sugar Co; Kenya Safari Lodges and Hotels, Serena Hotels Group, Kenya Tea Development Authority, Sony Sugar Company and Development Bank of Kenya.

Mr Gatabaki is currently a director of Grain Bulk Handlers in Kenya and Chairman of Letshego Kenya and Rwanda (both owned by the Pan African Letshego Holdings listed on Botswana Securities Exchange and operating in ten countries in Africa.

Mr Gatabaki worked for 30 years with the Commonwealth Development Corporation and Actis

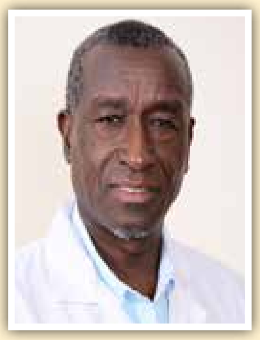
Sheila Kahuki

She is the Secretary to the Board of Directors and the Company's Legal Services Manager. She holds a Bachelor of Law Degree (LL. B Hons) from the University of Nairobi and a post graduate diploma in Law from the Kenya School of Law. She is an advocate of the High Court of Kenya and a Certified Public Secretary.

A strong manufacturing base for any economy is the foundation upon which long-lasting economic frameworks are made.

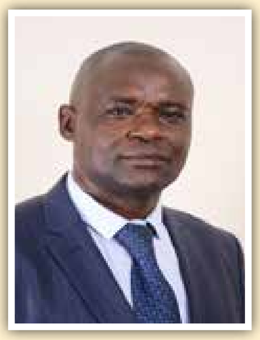
Senior Management Team

Name	**Simon Peter Ole Nkeri**
Position	Managing Director
Date Joined	5th August, 2016
Profession	Accountant/Advocate/Economist
Key Qualifications	MBA from the Birmingham Business School; Bachelor of Laws (LLB) (UoN); B.A. Public Finance and International Relations from the University of Nairobi; CPA (K); CPS (K) and Dip. in Law (KSL).



Name	**Timothy Ruhiu**
Position	Head Of Production Operations
Date Joined	5th January, 1987
Profession	Mechanical Engineer
Key Qualifications	Msc. Mechanical Engineering

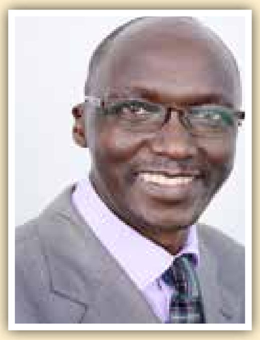
Name	**Janerose Karanja**
Position	Head of Human Resources
Date Joined	10th July, 2017
Profession	Human Resources Management
Key Qualifications	MBA (Human Resource Management); Bachelor's Degree (Education)



Name	**Stephen Kyalo Nthei**
Position	Head of Financial Management
Date Joined	1st April, 2007
Profession	Accountant
Key Qualifications	BCom (Accounts); MBA; CPA(K); AMP

Name	**Ngala Oloitiptip**
Position	Manager Supply Chain
Date Joined	1st July, 2008
Profession	Procurement
Key Qualifications	BA (Econ); MSC (Proc & Logistics); MCIPS; MKISM

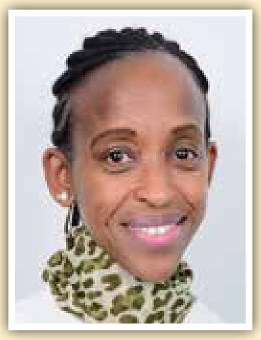
Senior Management Team



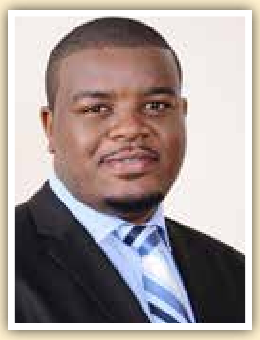
Name	**Daniel Kipyator Kiprono**
Position	Internal Audit Manager
Date joined	1st August, 2000
Profession	Accountant/Auditor
Key Qualifications	BCOM; MBA; CPA(K)

Name	**Joseph Solitei Karosei**
Position	Business Controller
Date Joined	12th November, 2014
Profession	Finance/Accountant
Key Qualifications	Bcom (Finance); CPA K; CIA I; CFA I

Name	**Purity Wairimu Gachimu**
Position	Manager Business Support Services
Date Joined	1991
Profession	Accountant / Auditor
Key Qualifications	MBA (Strategic Management); B. Com (Finance); CPA-K; PMD; ISO Lead Auditor



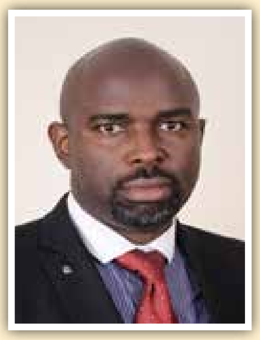
Name	**Sheila Kahuki**
Position	Company Secretary/Legal Services Manager
Date Joined	2006
Profession	Advocate
Key Qualifications	Bachelors of Laws Degree; Post graduate Diploma in Law; Certified Public Secretary



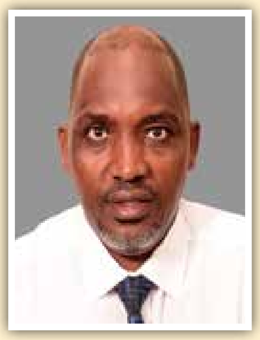
Name	**Bruno M. Mochumbe**
Position	Manager, ICT
Date Joined	5th April, 2013
Profession	ICT
Key Qualifications	Bachelor of Science Degree - IT; MBA -Strategic Management; Certified Information Systems Auditor (CISA)

Name	**Gertrude Chanya Chombo**
Position	Manager – Ethics & Investigations
Date Joined	3rd January, 2012
Profession	Ethics and Governance Practitioner
Key Qualifications	MBA (Strategic Management); Masters of Development Studies (Community Development); B. Education (Arts); Higher Diploma in Human Resource Management; Ethics Officer Certification and Investigations.

Senior Management Team

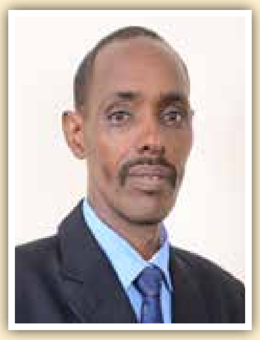


Name	**Francis Tsuma Leli**
Position	Manager-Sales
Date Joined	1st July 2000
Profession	Sales and Marketing
Key Qualifications	MBA-Strategic Management; Bsc; International Business Administration-USIU; Program for Management Development-SBS



Name	**Jonathan Kulei**
Position	Administration Manager
Date Joined	June 2012
Profession	Civil Engineer
Key Qualifications	B.Phil. Civil Eng.; HND Building Construction (Structure Option)

Name	**Haron P. Kisemei**
Position	Manager – Corporate Affairs
Date Joined	November, 2012
Profession	Communications and PR Practitioner
Key Qualifications	Bachelors Degree - Daystar University; MPRSK; ISO Lead Auditor



Name	**Bonaya Duba Huka**
Position	Security Manager
Date Joined	15th January 2013
Profession	Criminology & Security
Key Qualifications	Masters Degree in ICM (UoN); Security & Forensic Skills

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KAA GANGARI!

SISITIZA BLUE TRIANGLE.
SIMITI ORIJI

CUSTOMERS CAN NOW BUY CEMENT WITH BONGA POINTS.

BELOW ARE THE STEPS;

1. DIAL *126# FROM YOUR SAFARICOM LINE
2. SELECT 'LIPA NA BONGA POINTS'
3. SELECT 'BUY GOODS'
4. ENTER THE TILL NUMBER E.G. 886875 - EAPCC-FACTORY SHOP-ATHIRIVER
5. ENTER THE AMOUNT {IN KSHS}
6. CONFIRM PAYMENT
7. ENTER SERVICE PIN (IF YOU'VE FORGOTTEN YOUR SERVICE PIN, YOU CAN RESET IT)
8. YOU WILL RECEIVE A CONFIRMATION MESSAGE

STRONG. DURABLE. BRIGHT

East African Portland Cement PLC

Holding Life Together

Safaricom Business

CHAIRMAN'S STATEMENT

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended 30 June 2018.

Economic Outlook, Industry and Company position

The world economy grew at 3.6% in 2017 and is projected to be at 3.7% by close of 2018 attributed to growth in international trade; rise in oil and commodity prices and improved market confidence. The return of growth by the US and China economies driven by increased household incomes coupled with fiscal support offset deceleration in the United Kingdom on the backdrop of weaker aggregate demand propelled by uncertainty regarding Brexit negotiations. Locally, GDP growth shrunk to 4.9% in 2017 from 5.9% in 2016 mainly driven by adverse weather conditions leading to drought, extended electioneering in the period under review and stifled private sector credit. This is higher than the Sub-Saharan growth rate of 2.6% but slightly lower than the East African Community growth rate of 5.4%. Inflation increased by 1.7% to 8.0% largely attributable to widespread drought leading to subdued crop production, animal rearing and generation of hydroelectric power. The Monetary Policy Committee of the Central Bank of Kenya focused on achieving and maintaining stability in the general price levels in the economy by lowering the Central Bank Rate (CBR) from 10% to 9.5% in March 2018 resulting in a marginal decline in interest rates to 13.5% compared to 13.64% in a similar period in 2017. The Kenya shilling strengthened against the US dollar to trade at Kshs.101 to the dollar compared to Kshs 103 to the dollar the previous year.

Kenya's external trade position declined significantly mainly driven by high import bill which grew by 20% compared to a 2.8% increase in value of exports resulting in a closing trade deficit of Kshs. 1,131.5 billion in 2017 from Kshs. 853.7 billion recorded in 2016. The import bill was significantly impacted by rise in oil prices, sugar importation on the backdrop of acute market shortage, increased demand for motor vehicles and industrial machinery coupled with related construction material i.e. iron and steel. During the financial year under review, the company revamped the exports market by dispatching and selling products in Uganda, Congo and their environs.

The building and construction sector posted a growth rate of 8.6% in 2017 substantially down from 9.2% in 2016. Cement consumption decreased by 8.2% from 6.3 million tonnes in 2016 to 5.8 million tonnes in 2017. The slowdown of growth in the sector is directly attributable to prolonged election period.

EAPC PLC Cement Production for the year declined by 17% whereas Revenue for the year declined by 25%. Even though Industry challenges and unfavourable macroeconomic environment contributed to the poor performance, the inability to

CHAIRMAN'S STATEMENT (Continued)

procure critical engineering spares and the requisite Raw material owing to lack of enough working capital precipitated this position. The Board of Directors are committed to remedy this situation and turn around the fortunes of the business by unlocking value through sale of the idle land and by leveraging on the ownership structure to regain market leadership by supporting the Affordable housing and Manufacturing pillars of the Big Four Agenda.

Investment Property Valuation

The Company continues to face immense challenges due to illegal invasion of the investment property detailed in note 21 of the financial statements. The invasion has made it more difficult for the Company to carry out its normal operations due to increased security risk and cost of operations in the utilization of the land. The Company has sought the Government's approval to unlock value of its idle assets to support implementation of its turnaround efforts. The Company is currently engaged in structured discussions with the government on a special scheme that will allow the Government to secure the land for its future projects and to purchase the land over an agreed period of time at an agreed price.

Dividend

The directors have not recommended a dividend in the current year.

Our Focus

The Board remains focused in its effort to steer the Company back to sustainable profitability.
To achieve these various strategic initiatives have been adopted that includes:

i) Capacity enhancement to increase cement production and packing capacity.
ii) Initiatives to reduce costs in all areas of operations, administrative overheads, improved production efficiencies and waste reduction.
iii) Finance cost reduction through sourcing for cheaper funds for the remaining key priority projects and financial restructuring to reduce the cost burden of existing debt.

HIV/Aids

During the year under review, the Company rolled out various programmes and activities to create awareness amongst staff and community, to embrace positive behaviour change so as to reduce the negative impact of the HIV pandemic on our society. The peer educators' team has been trained and empowered to continue with the roll out of HIV/AIDS initiatives to our key third party suppliers and contractors.

Corporate Governance

Good governance continues to be a key pillar in our business operations at all levels. The company has a properly constituted Board of Directors with the four Board Committees with properly set out terms of reference. The Board Charter in place contributes in guiding the interaction between the Board and other stakeholders. All the directors, except the Managing Director, are independent, and meet regularly with the senior management to review the effectiveness and appropriateness of the corporate strategy. All employees have signed a code of conduct that guides the interaction amongst employees themselves and interaction with the other stakeholders.

Energy

During the financial year under review, global commodity prices continued to rally as market actors continued to monitor geopolitical effects on future production outputs thereby adjusting current production outputs to match pre-set price patterns. This effectively increased the cost of coal and imported clinker. Cost of power increased by 33% due to reliance on thermal energy occasioned by drought experienced in the region. The Company has implemented an EMS 14001 Environmental Management System which has impacted positively on energy consumption.

The Board

As I acknowledge the invaluable contribution made by the members of the Board of Directors during the past year, we wish to bring to the attention of our stakeholders changes that occurred within the year. We would like to sincerely thank William Lay for his steadfast leadership as Chairman who retired in November 2017. We wish him well in his future endeavours. Ms. Betty Maina replaced Eng. Patrick Nduati Mwangi following her appointment in January 2018 as Principal Secretary, State Department of Industry and Investment, Ministry of Industry, Trade and Cooperatives. We look forward to her contribution in the foreseeable future.

Appreciation

On behalf of the Board of Directors, I would like to extend my sincere thanks to the shareholders for their continued contribution and loyalty; the Board for its dedication and visionary leadership; to the National Government for its support and guidance; and to Management for their tireless dedication to implementation of the company's business plan. I also extend my gratitude to all our business partners and customers for their continued loyalty and support to the Blue Triangle brand.

Many Thanks.

Edwin M. Kinyua
Chairman of the Board of Directors

MANAGING DIRECTOR'S STATEMENT

Business Performance

This year marks the conclusion of a challenging period for the Company due to slow market uptake as the economy battled with headwinds arising from protracted elections, prolonged drought and interest rate capping that mopped liquidity from the market (especially for SMEs and distressed companies). The second phase of the current financial year presents a critical juncture for the Company in its pursuit to reclaim its glory and place in the market through a balance sheet restructuring that is at an advanced stage.

Production for the year declined by 17% owing to weather related challenges that impacted throughput coupled with the challenges of an ageing plant. These encounters combined with downward pressure on retail prices due to supply glut weighed down on sales revenues which posted 25% reduction. Energy efficiency deteriorated in the year due to 15% increase in the price of coal however, cost of sales reduced by 14% over the same period last year on account of volumes. In order to increase Clinker production, stabilize the Kiln's run time and reduce maintenance costs, the Company is in advanced stages of selling fully mined idle land to realise these objectives.

Selling and distribution costs reduced by 31% as a result of concerted efforts to ensure that the company operates within its means and to curtail unwarranted wastage. General administration costs reduced by 7% driven by renewed cost optimization measures. Other operating expenses increased significantly owing to a provision arising from Employment and Labour Relations Court Award expounded on in details in the notes to the financial statements. Consequently, the operating loss increased by 61% to Kshs. 3.6 billion in the period compared to Kshs. 2.2 billion the previous year.

The Company reported profit before tax of Kshs 7.5 billion, which included a gain on revaluation of investment property amounting to Kshs 11.8 billion. The gain arose from revaluation of three properties in Athi River and One property in Kikambala that are classified as investment property as required by the International Accounting Standards.

The investment property, consisting of three parcels of land in Athi River has continued to suffer from encumbrances by invaders who continue to pose a risk to realization of value. As disclosed in the notes to the financial statements, the company provisioned reasonable costs to be incurred in the eviction of the invaders who in addition to depressing the gains made on the valuations, persistently continue to hamper the company's access to the adjacent quarries thereby depriving it of essential

MANAGING DIRECTOR'S STATEMENT cont'd

raw material. The Company has continued in its pursuit of legal eviction of the invaders and has created public awareness of the illegality of the incursion through the media.

Employment & Labor Relations - Wage Dispute

The Kenya Chemical and Allied Workers Union (KCAAWU) filed a case against the Company allegedly for non-inclusion of contract staff in the Collective Bargaining Agreement (CBA). The Company's contract staff have in the past not been covered under the Collective Bargaining Agreement. Management has had different mutual payment arrangements with them. The industrial court delivered a ruling on the 6th of July 2015 which noted that the claimant's case had merit and ordered that the Company implements the Collective Bargaining Agreement to include contract staff subject however to negotiation between the parties should the Company's finances not allow the implementation of the award. The Company lost an appeal to the court decision and consequently a provision of Kshs 1.55 Billion has therefore been made in these accounts.

Corporate Strategy

The company is formulating a second phase Medium Term Strategic Plan to cover the period 2018/19 to 2020/21. The main purpose for the Medium Term Strategic Plan is to fast track the achievements of specific milestones supporting the turnaround of the company. Delayed funding of the capital expenditure as envisioned in the medium term Plan (MTP) has significantly affected the operations of the business.

The delayed implementation of the MTP (due to the delay in realization of value from sale of idle land) has increased the vulnerability of the business to competitive pressure resulting in a decline in market share from 19% in 2012 to 11% in 2018 representing a cumulative annual decline of 0.1% when the industry cement demand grew at a cumulative annual growth rate of 9% in the same period.

The company however managed to complete the construction of the Lorry park, relocated the cement customers weighbridge and constructed a ring road at 14% of the MTP's CAPEX budget (Kshs 15M against the MTP budget of 110Million). The Company also reduced the turnaround time by 46% in the 6-month period of the year under review compared to a similar period of the previous financial year. The Implementation of the strategic objectives and the Capital expenditure Plan of the MTP has now been carried forward to the second phase MTP.

The company has also restructured its route to market in order to ensure close touch and connection to the final consumers of its products. This will ensure that customer needs are quickly identified and appropriate solutions provided. To this end the company has expanded its depot operations to cover a wider area by creating five additional depots hence increasing its presence across ten counties within Eastern, Western, Nyanza, Nairobi and Rift valley regions.

Financing Strategy

The Company has financed its latest developments from internally generated funds and commercial loans which currently stand at approximately Kshs 4.8 billion. However, due to increasing interest rate burden, the Company is seeking cheaper sources of finance. To this end the company is looking for ways of restructuring its finances as part of long-term strategy for growth.

Quality Management Process

We remain committed to customer satisfaction through quality of our products. Complying with the requirements of ISO 9001:2008 ensures that the Company not only retains its status as an ISO 9001:2008 certified organization but also continuous improvement, research and development and ongoing review of processes is systematically done to ensure that our processes and strategies remain current and relevant in the evolving business environment. In the long run, there is a positive impact on revenue, quality, costs and customer satisfaction. During the year the company was recertified as ISO compliant after expiry of the first term of certification.

Training

Staff development remains a key strategy to enhance the value of human capital. During the financial year, trainings have been carried out across all cadres of staff to ensure that identified training needs are addressed to develop skills relevant to the Company's business. These include talent management trainings, Continuous professional development, energy management, corporate culture change, integrity awareness, corporate governance for managers, just to mention a few. More emphasis has been placed also on training of trainers to build internal capacity to undertake routine trainings to new staff.

Risk Management

The Company's operations and earnings are subject to various risks related to the changing competitive, economic, political, legal, social, industry, business and financial conditions. These risks expose the Company to real threats of financial and non-financial loss. Some of these risks include credit risk, price risk, liquidity risk, foreign currency risk and interest rate risk. Given the

MANAGING DIRECTOR'S STATEMENT cont'd

regional operations the Company is also faced with Country risk.

The Company's overall risk management program focuses on the effective mitigation of the various risks and seeks to minimize potential adverse effects on corporate performance using a variety of techniques. These include credit assessment and bank guarantees for the major accounts receivables, price surveys in the market to confirm appropriateness of prices charged and/ or paid, hedging of Forex exposure, and review of our foreign operations to adopt the best business model.

The Company also takes a risk-based approach when designing, evaluating and monitoring the internal control environment. There are procedures designed to ensure business objectives are realized and ensure business continuity in case of process failures. Related requirements are set out in the Corporate Risk Management Manual and Business Continuity Plan. The manual describes the methodology to be followed to manage risks and the risk-based standards that provide a common approach to enterprise-wide risks. The Business Continuity Plan establishes alternatives to normal established processes in instances of process failures.

The following processes are used for the continuous monitoring and evaluation of the Company's risk management and Internal Control activities:

- A structured process to identify and review risks for the achievement of corporate objectives
- A risk-based audit of the Company's operations and systems
- A business control incidence reporting and provisioning process
- An ethics and compliance program.

The established mechanisms allow the Board, through the Board Audit Committee, to regularly consider the overall effectiveness of the internal control system and to perform a full annual review.

The Company has also put in place whistle blowing measures to discourage corrupt and unethical practices among its employees. This is designed to guarantee the safety and well-being of the Company's resources and assets.

Corporate Social Responsibility

The Company has continuously recognized the strategic nature its Corporate Social Investment has played on it business. That is the reason why we have retained our engagement with the communities and various stakeholders. During the reporting period, the Company has invested in various projects around the themes of education, health, water, economic empowerment and environmental conservation. The Company has put these efforts together to aid in assisting the surrounding communities improve the quality of life. This is in realization of the great need that is evident in the localities we operate in and as a responsible corporate we are obligated to impact the said communities. This has worked for us as a Company to create a mutual relationship with the Communities we work with.

Safety, Health and Environment

EAPC PLC strongly adheres to Safety and Health practice at the workplace. This is demonstrated by implementation and certification for OHSAS 18001:2007. The OHSAS management system has been actively and effectively maintained for the last eight (8) years. This has been achieved through active top management leadership and adequate commitment of resources. The Company believes that through good safety performance, other performances in quality, plant reliability, competitiveness and profitability will consequently improve. The hazard risk assessment and control program that has been put in place has resulted in significant reduction of work-related incidents and ill health. Robust management plans, including behavioral safety and PPEs Policy compliance, have also improved further the safety performance of the Company.

The Company's safety management systems have been evaluated and recognized by the British Safety Council. We are thus privileged to be a recognized member of the elite safety institution. Locally, the Company is regarded as a centre of good safety and health practices. This has been demonstrated by several organizations visiting the Company to benchmark and borrow from our efforts and successes on safety and health at work.

FUTURE OUTLOOK

The Company foresees continuing growth in the construction sector, driven by ongoing major infrastructural projects and a fast expanding real estate sector. Accordingly, the Company expects to benefit from this increasing demand by leveraging its new investments in additional capacity brought about by the recently completed new cement packing line and cement mills feeding system. The Company is in consultation with and awaiting requisite approvals from the National Government for the sale of a portion of its fully mined and idle land to raise funds to refinance the Company. In June 2018, the Board of Directors undertook a staff rationalization exercise to bolster productivity and competitiveness to facilitate the turnaround strategies.

MANAGING DIRECTOR'S STATEMENT cont'd

The Company has re-modelled the distribution channels for its products to place emphasis on Company managed Depots that avail EAPC PLC products directly to retail customers at competitive prices.

Other investments lined up to improve production include installation of a new clinker Cooler for the Kiln which is designed to stabilize clinker production. The major infrastructural projects and the expanding real estate sector will continue to drive industry growth in the foreseeable future. The company will continue to deliver improved services to its customers and maximize value for shareholders in line with the corporate values of team work, quality and innovation. Emphasis will be placed on cost reduction through efficient use of plant and working capital resources.

Finally let me appreciate the support accorded to Management by the Company's Board of Directors, Suppliers, employees, customers, shareholders and communities that we worked with throughout the year. I call upon all stakeholders to join hands in support of the transformation of this great National Heritage.

God bless you. God bless EAPC PLC

Thank you.

Simon Peter Ole Nkeri
Managing Director

SUSTAINABILITY REPORT

EAPC PLC Head of production operations Mr. Timothy Ruhiu explains the cement making process to shareholders during a factory plant tour.

As EAPC PLC continues to strengthen the concept of sustainability it has become clear that Business growth and the long term plans of the business will strongly depend on the Company's engagement with the key pillars identified as drivers of the turnaround strategies put in place.
These are premised on the 5Cs

1. Company
2. Colleagues
3. Customers
4. Communities
5. Controls

Additionally, the five pillars have been mainstreamed in all processes including decision making and competitiveness and this has contributed to the organization gaining deep insight and to identify and mitigate the potential risks in a dynamic business environment as well as promoting corporate governance and business operations.

COMPANY

EAPC PLC has continued to embrace high levels of professionalism, transparency and integrity in managing its affairs. In its quest to be a world-class cement manufacturer, the Company has adopted the new internationally recognized Integrated Management Systems (IMS) which bring together ISO 14001:2015 Environmental Management Systems (EMS) and ISO 9001:2015 Quality Management Systems (QMS).

This makes EAPC PLC among the few companies that have charted this path which is geared towards effectiveness of processes and focus on delivery of the strategic objectives of the company. It also places EAPC PLC in a pole position to ensure its processes are customer facing and thereby removing unnecessary bottlenecks and bureaucracy that slows delivery as per our expected goals.

The Company is geared towards a performance based institution that also rewards hard work with clear deliverables for every employee.

The Company, as aligned itself with His Excellency the President, Uhuru Kenyatta agenda on the four priority areas of affordable housing, universal healthcare, manufacturing and food security.

EAPC PLC as a leading cement manufacturing company has aligned itself to the President's four pillars of developmental agenda of affordable housing through provision of quality cement at competitive price as well as adoption of modern technology in its manufacturing to ensure we create jobs for our young people. This has been achieved through our

SUSTAINABILITY REPORT cont'd

operational chain; from mine to market where third party job opportunities have been created since a lot of people benefit indirectly through services needed by the company like consultations at various stages of our operations, transport services as well as supplies of basic raw materials for cement making process.

EAPC PLC Head of Financial Management, Mr. Stephen Nthei receives ISO 9001:2015 and EMS 14001:2015 certificate from KEBS Ag. MD, Mr. Bernard Guyo

COLLEAGUES

Among the most critical assets of an organization is the Human Resources. At EAPC PLC, Colleagues are highly valued and the Company has put in place measures to ensure that all employees continue to operate in a conducive work environment for maximum productivity. The adoption of a new H.R Policy effected on 1st March 2018 is geared towards ensuring Colleagues are well managed with the modern pragmatic policies. The same Policy has also ensured that the welfare of all Colleagues is taken care of with a view of boosting their morale. The Company has also put in place measures to ensure that Colleagues are not only working, but are engaged in the Company's Sustainable development agenda as well. In the reporting period, the following activities were undertaken in regard to Colleagues' welfare and their contribution to sustainable development.

Trainings

The Company believes in empowering its workforce and therefore the need for training. Training not only helps to improve the Colleagues' skills making them more productive, but also has an impact on their personal lives a good example being Personal Financial Management Trainings. In the reporting period, the Company invested in various trainings both internal and external. The return on this investment has been seen in both Colleague performance and motivation.

The Company has also committed to training Integrity Assurance Officers from various departments which is all geared at creating awareness of what is expected of every employee who in this case are public officers.

Teambuilding Activities

The Company has been in the forefront in advocating for teambuilding activities among Colleagues. This ensures that there is a good working relationship among Colleagues a factor that greatly contributes to their output. During the reporting period, at least 15 Departmental Teambuilding activities took place. The results, which can be proven is harmonious working relationships among the Colleagues involved.

A Teambuilding Activity ongoing

Long Service Award

It has been a tradition at EAPC PLC to honor and recognize employees that have served the company for a long period of time. The Award is done annually and it serves to encourage those that have served from a minimum of 5 years and also to encourage those that have recently joined the company.

MD's Award

Once every year the Managing Director of EAPC PLC gives this award to employees based on outstanding performance, innovation, integrity, teamwork, timeliness, and commitment to service. The Awardees are normally nominated through Departmental structures where a

SUSTAINABILITY REPORT cont'd

nomination vote is run across each department.

CUSTOMERS

EAPC PLC has put a very keen focus on meeting its customers' expectations. In this endeavor, the Company has invested heavily in improving its Customer relationships. Communication on product availability has also been kept prompt.

Service Delivery, which has been a key focus area for EAPC PLC saw the Company invest in a new and shorter road to the packing plant that has reduced the distance the customers cover to collect cement by 3.2 KM. This has gone a long way in enhancing customer satisfaction.

EAPC PLC has also introduced faster and convenient ways of order payment i.e. the Company has put into operation Till Numbers which enable its Customers to enjoy the luxury of making payments from the comfort of their phones. For more convenience to our Customers, the Company has also entered into a partnership with Kenya's leading Telco Safaricom in which customers can also buy Cement using their Safaricom *Bonga Points*.

Managing Director Simon Peter Ole Nkeri Commissioning the new road

The reorganization of Sales and Distribution models has also improved efficiency and service delivery to our Customers. A new form of Direct Sales platform named the Colleagues Sales Promotion Programme that encourages Colleagues to sell cement has really boosted Company Sales as well as Customer Satisfaction. To ensure that our product is conveniently available to the Customer, we have also invested in Virtual Depots as well as Company owned Depots in different parts of the Country. We have also opened a Factory Shop where walk in customers can come and purchase the product. All these efforts are in line with our strategy to cast our market net as wide as possible as well as to ensure Customer delight.

The Company has participated in a lot of marketing activities including Nairobi Innovation week, The Blue Triangle Homes Expo, exhibitions and trade fairs as well as marketing campaigns, both media and electronic to bolster its Corporate Image and offer Product Knowledge to our esteemed Customers. EAPC PLC has also created a section within its Company structure that is dedicated fully on Customer service.

COMMUNITIES

It is by design of our business that we have a strong relationship with the communities within which we work. Our key raw materials are mined right at the centre of communities within us. By this fact the community is thus at the centre of our business. We believe that if we have a strong and healthy relationship with the communities around us, the good will that emanates from this gives us a "license to operate". This therefore means that the success of our business directly depends on our relationship with the community. This can only be achieved if our communities are living comfortably.

Our community engagement strategy has been designed to focus on the following key result areas including;

Education

Bursaries and Scholarships

Education has consistently remained to be an indisputable fortunes changer in the society today. Many lives from the poor and marginalized communities have been changed through education. In the same realization, the Company has continued to place support for education at the center of its CSR investments. During the period the company has supported needy student in the two counties of Kajiado and Machakos and has disbursed bursaries to a tune of 3,368,590.50 which benefited needy cases.

Bursary Cheque presentation to Nkama Community in Kibini where most of the Limestone is mined

SUSTAINABILITY REPORT cont'd

Our philosophy as a Company, is safety; with our slogan of "**safety first**" in the recent past, cases of fire out breaks in schools have risen to worrying levels and this prompted the Company to introduce a fire safety in schools project where we form safety clubs in schools, train members of these clubs on basic fire safety skills including different types of fires, how to prevent fire outbreaks as well as how to respond in case of a fire incident. After training has been done, the Company donates assorted firefighting equipment to these schools.

In order to motivate pupils at Kibini Hill area and especially from EAPC PLC Kibini Primary school, the Company rolled out a full scholarship programme for the top students in KCPE; those who will achieve 350 Marks and above. During the reporting period, three students benefitted from the scheme.

Student Mentorship Programme

During the period as part of the newly introduced Make a Difference Day (MADD) program, the Company started a mentorship program for Kibini Primary School's 2018 Kenya Certificate of Primary Educations (KCPE) Candidates whereby Colleagues from the Corporate Affairs Department visited the school on several occasions to mentor the pupils and even went to an extent of providing them with some basic learning materials that they lacked. The programme is ongoing.

In order to retain girls in schools and have them motivated as well, the Company through Colleagues' initiative rolled out a sanitary pads supply programme to school going girls both in secondary and primary schools.

Water Access to Communities

The Company continued to honor its obligation to provide water to communities within the Kibini Hill area. The company runs 6 boreholes by providing fuel and paying electricity bills for those connected with power. The Company also undertook a few repairs and normal servicing on all boreholes during the period. This is a long term Company commitment initiative that has seen many community members benefit from access to clean water for domestic and livestock use. The Company also continues to employ Borehole attendants to ensure that these boreholes are well looked after so that they can serve the community better. The Company also supplies clean water to several Communities through the Company owned Water Bowser.

Health and safety

As a company with a philosophy of safety first, the safety and health of our Colleagues and the communities around us continues to be top in our agenda as has always been.

To make this a reality, the Company has continued to run a Community Dispensary in Oleleshua, Bissil. This is one of the areas where the Company mines its limestone. Company resources in health like Clinics and Ambulances are also shared with the communities within us in cases of need.

The Company runs Staff Clinics both at the Main Factory in Athi River and at the Kibini Hill Quarry. These Clinics cater for all Colleagues and their dependants in need of medical attention. Cases that are beyond our clinic capacities are referred to high level hospitals at the Company's expense. Additionally, the clinic at Kibini Hill Quarry was relocated to ensure that the Community around can also easily access it as well as to facilitate the Clinic's upgrade to provide laboratory and pharmaceutical services.

Oleleshua Health Centre in Bissil where EAPC PLC mines Limestone

To ensure that Colleagues remain in good health and productive, the Company conducts an Annual Medical Examination for all Colleagues. This is usually done by an external service provider, preferably a reputable hospital. This exercise helps identify any health issues that employees may have and act on them in time. It also ensures that Colleagues are fit for their respective roles within the organization and if found to be unfit (especially for Production Operations Colleagues), job rotations are done to ensure that the Colleagues work in positions that do not pose any health risks to them.

The Company also has a Voluntary Counseling and Testing (VCT) Centre that aims at sensitizing Colleagues on issues of HIV and AIDS, a pandemic that has claimed a lot of lives in the Country. The Centre is fully equipped to conduct these tests and has two Counselors, a man and a woman, both qualified in this very sensitive field. Through this centre, the Company conducts Moonlight Testing Programmes at least twice a year, an exercise that involves pitching a tent outside the Company premises to extend

SUSTAINABILITY REPORT cont'd

the VCT Services to external Publics like Truck Drivers and even the Community. The VCT team also goes around the Local Community sensitizing people about HIV and AIDS as well as offering free tests to those who want to get tested. All these activities contribute to the nationwide fight against HIV and AIDS.

On a regular basis, the Company sensitizes Colleagues on matters to do with Drug and Substance Abuse. This is usually done in liaison with the staff clinic. The sensitization also aims at encouraging Colleagues with Drug and Substance Abuse problems to come out and seek help with a promise of confidentiality and non victimization. Here, the Company goes as far as assisting Colleagues who come out with their problems to get professional help like Drug Rehabilitation Services.

To ensure that the Safety and Health of the organization is well monitored, two internal and two external Organizational Health and Safety Assessment Series (OHSAS) audits were conducted during the reporting period. The internal ones were conducted by Colleagues who have been trained on these audits while the external ones were conducted by the Kenya Bureau of Standards (KEBS) the authority mandated to conduct these audits in the Country as well as train auditors.

Environment

EAPC PLC entirely depends on the environment for the sustainability of its business operations. We therefore see as part of our responsibility to invest in environmental activities so that the mutual relationship can continue. Destruction of forests nationally has seen the government of Kenya start a spirited campaign to rehabilitate and protect the existing forests. Currently the forest cover has gone down to 7% from the recommended 10%. As a responsible corporate body, the Company has put in place efforts and activities to ensure that we join the rest of Kenyans in rebuilding our forest cover. Forests and wetlands are important catchment areas for water sources for our flora and fauna. To achieve this, the Company undertakes tree planting initiatives in schools as well as donating tree seedling to various institutions to help protect the environment. During the reporting period, the Company donated 7,310 seedlings to various institutions around the country. The Company also encourages its employees to plant trees within the company premises as well as in their respective communities. The Company donates tree seedlings to Colleagues to facilitate these activities. To ensure the sustainability of this initiative, the Company has its own nursery that hosts at least 5000 seedlings at any one given time.

Colleagues planting trees in the Company premises

Cement and Cement Products Donations

The company has consistently donated cement to various projects that impact on society positively; these include religious institution, educational institutions as well as Government institutions. During the reporting period the Company spent Ksh. 936,802 in these donations.

Institution	Donation
Kajiado County Commissioner's Office	100 Bags
Ilkiremisho Primary School	100 Bags
New Life Mission Church	200 Bags
Athi River G.K Prison	100 Bags
ABC Kiatineni Secondary School	100 Bags
Olkejuado High School	100 Bags
DCIO Athi River	50 Bags
Bondeni Children Rescue Centre	50 Bags
Ngoleni Secondary School	200 Bags
AIC Orng'arua	50 Bags
Kajiado County Commissioner's Office	450 M^2 (Paving Blocks)

SUSTAINABILITY REPORT cont'd

CONTROLS

In order to achieve its mandate, EAPC PLC has put in place models and structures that govern its operations for controlled performance; the controls implemented this year are as listed below;

1. New look performance management system to control performance
2. Procedures and work instructions
3. Biometric system to control time and attendance
4. Leave Management
5. Automation e.g. JDE, Track it etc.
6. Centralizing communication (Newsdesk)
7. Accountability – employees held directly responsible for their actions
8. Limiting incidents of unacceptable behavior by use of behavioral constraints
9. Setting up of a new and more advanced weighbridge that has helped ensure that any cement that leaves the factory is the actual amount that has been paid for. This control helps protect the Company's Revenues

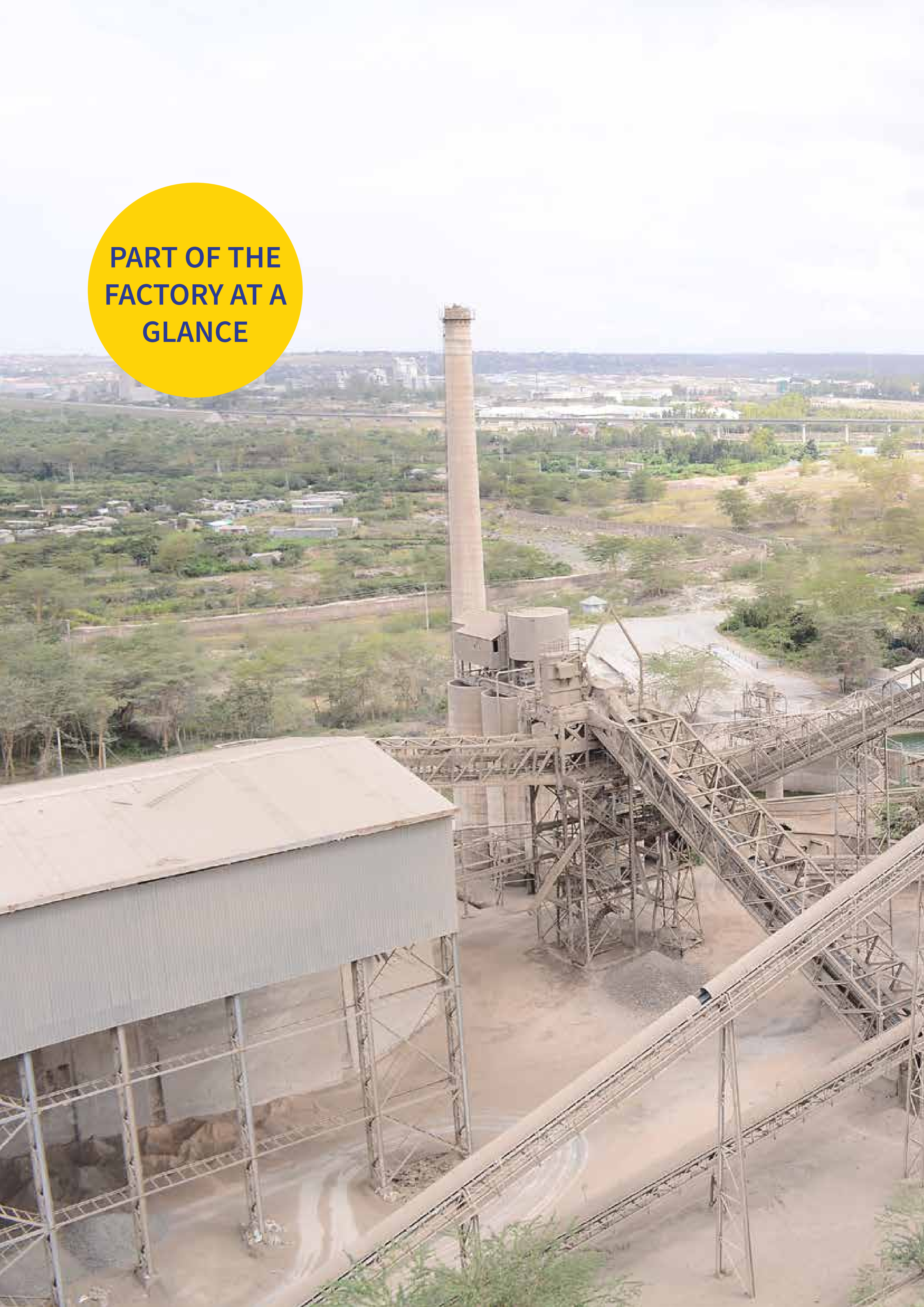
MD Simon Peter Ole Nkeri (Right) receives the Completion Certificate for the new weighbridge

CS Ministry of Industry, Trade and Cooperatives, Hon. Peter Munya, EGH, MD Simon Peter Ole Nkeri, Other Ministry Officials, EAPC PLC Top Management and Members of the Board of Directors when the CS visited EAPC PLC offices

EAPC PLC Top Management going through integrity training facilitated by EACC.

His Excellency President Uhuru Kenyatta, CGH and other government officials during the destruction of illicit, contraband and counterfeit goods function held on EAPC PLC grounds

PART OF THE FACTORY AT A GLANCE



CORPORATE GOVERNANCE STATEMENT

Introduction

The Company continues to upholding high standards of corporate governance in order to enhance and protect value and ensure the sustainability of the business. The Board of Directors seeks to discharge its duties and responsibilities in the best interests of the Company, its shareholders, customers, suppliers, financiers, the Government and the wider community.

Compliance statement

The Company is guided by the Capital Markets Authority Guidelines on Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, the Public Officer Ethics Act, 2003, other laws relevant to its operations, the '*Mwongozo'* Code of Governance for State Corporations and other best practice principles as contained in the Board Charter.

Responsibilities of the Board

The primary role of the Board is to provide leadership and strategic direction to the Company to enhance shareholder value. Its main responsibilities are the establishment of strategy and general policy, ensuring preparation of statutory financial statements, reviewing and monitoring the performance of the Company and of senior Management and ensuring that there are adequate internal controls to ensure business continuity. The Board has delegated authority for the conduct of day to day business to the Managing Director and the Management Committee. The Board of Directors has access to the Company Secretary as well as timely and relevant information from Management to discharge its duties effectively. Directors are also empowered to seek independent professional advice on Company affairs at its expense where necessary.

The Composition of the Board is set out on pages 7.

The Board is made up of the Chairman, Managing Director and four non-executive directors. The non-executive directors are independent of management and are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, the directors receive an induction covering the company's business and operations. The directors are advised of the legal, regulatory and other obligations of a director of a listed company. The directors' responsibilities are set out in the Statement of Directors Responsibilities on page 40.

The Board meets regularly and directors receive appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues.

The roles of the Chairman and the Managing Director are clearly defined and have been approved by the Board.

The Board members have a wide range of skills and experience and each brings an independent judgment and considerable knowledge to the Board discussions. The Board recognizes that at the core of the corporate governance system, it is ultimately accountable and responsible for the performance and affairs of the Company. Towards this end, the directors in fulfilment of their fiduciary duty act always in the best interest of the Company and shareholders. The Board understands the significance of corporate governance and continuously strives to provide competitive strategic leadership.

The Company Secretary is a member of the Institute of Certified Public Secretaries of Kenya. She supports the Board on procedural and regulatory matters while ensuring the Company adheres to the Board policies and procedures.

The following table shows the number of Board meetings held during the year and the attendance of individual directors.

Director	Board (scheduled)	Board (Special)	82nd AGM
Chairman – William Lay	2	1	0
Managing Director	3	3	1
CS Treasury or his alternate	2	3	1
PS Ministry of Industry, Trade & Co-operatives	2	3	1
NSSF	3	3	1
Kungu Gatabaki	3	3	1
Professor Sarone ole Sena	2	3	1
Company Secretary	3	3	1

During the year, seven (7) Board meetings were held.

The Board is of the opinion that there is a balance between independent executive and non-executive directors as required by the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.

Delegation of Authority

Board Sub Committees

The Board has four Sub Committees with specific delegated authorities. These are the Audit, Finance, Technical and the Human Resources & Remuneration Committees while Management has an Executive Management Committee

The Board Committees assist the Board in discharging its responsibilities. The Committees have clear defined roles

CORPORATE GOVERNANCE STATEMENT cont'd

and terms of reference that have been approved by the Board. The Committees are chaired by non-executive directors.

Details of these committees and membership are shown below.

Audit Committee

The Committee reviews quarterly, half year and annual financial statements, external audit plans, audit findings, internal audit and operations and findings and risks affecting the Company. External auditors have unrestricted access to the Managing Director and Chairman of Audit Committee.

The members of the Committee are:

Anthony Omerikwa (representing NSSF)	Chairman
Kungu Gatabaki	
CS, Treasury	
Prof. Sarone ole Sena	
S Kahuki	Secretary

The Committee held five (5) meetings during the year.

***Experts and business representatives are invited on a need-basis.**

Board Technical Committee

The Committee reviews the Company's capital expenditure plans, Sales and Marketing strategies, Technology and Research.

The members of the Committee are:

PS Ministry of Industry, Trade & Co-operatives	Chairperson
Anthony Omerikwa	Representing NSSF
Kungu Gatabaki	
Managing Director	
S. Kahuki	Secretary

The Committee did not meet during the year.

***Experts and business representatives are invited on a need-basis.**

Board Human Resources & Remuneration Committee

The Committee is responsible for the formulation and review of the human resource policies and organisation structure, appointment of and terms of conditions of senior management, promotion and disciplinary matters relating to senior staff, the remuneration and benefits structure and approval of performance based rewards.

The Members of the Committee are:

Prof. Sarone ole Sena	Chairman
Anthony Omerikwa	Representing NSSF
PS Ministry of Industry, Trade & Co-operatives	
Managing Director	
S. Kahuki	Secretary

The Committee held four meetings during the year.

Finance Committee

The Board constituted the Committee on 22 February 2018 in order to enhance supervision of the finance and financing activities of the Company. The Committee is responsible for recommending financial policies, goals, and budgets that support the mission, values, and strategic goals of the Company. It also reviews the Company's financial performance against its goals and proposes major transactions and programs to the Board.

The members of the Committee are:

Kungu Gatabaki	Chairman
CS, Treasury	
PS Ministry of Industry, Trade & Co-operatives	
Anthony Omerikwa	Representing NSSF
Managing Director	
S. Kahuki	Secretary

The Committee held two meetings during the year.

The table below shows the number of committee meetings held during the year and attendance by individual directors.

Director	Audit	Finance	HR & Remuneration
Number of meetings	5	2	4
CS Treasury / Alternate	5	1	0
PS Ministry of Industry, Trade & Co-operatives	0	2	2
NSSF	5	2	4
MD	0	2	4
Kungu Gatabaki	5	2	0
Prof. Sarone ole Sena	5	0	4
Company Secretary	5	2	4

CORPORATE GOVERNANCE STATEMENT cont'd

Management Committee

The Management Committee is the link between the Board and Management. The Committee assists the Managing Director in giving overall direction to the business. The Committee is responsible for the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, proposals, identification and management of key risk and opportunities. The Committee also reviews and approves guidelines for employees' remuneration.

The Committee meets at least once a week.

Directors' shareholding

No member of the Board holds shares in his or her personal capacity that exceeds 1% of the total shareholding of the Company.

Directors' remuneration and loans

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party, whereby directors might get benefits by means of acquisition of the Company's shares. Information on aggregate amount of emoluments and fees paid to directors are disclosed in note 27 of the financial statements.

Board Performance Evaluation

Under the guidelines of Performance Contracting and the Board Charter, the Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors. The evaluation of Performance Contracting is conducted quarterly and annually and the results of the evaluation are provided to the Ministry of Industrialization and Office of the President as required under Performance Contracting.

Going concern

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the Company continues to adopt the going concern basis when preparing the financial statements. The Company has received approval to derive value from its idle assets. The Board has reviewed the operating results for the next one year and is confident that the company will remain a going concern.

Internal controls

The Board has a collective responsibility for the establishment and maintenance of a system of internal control that provides reasonable assurance of effective and efficient operations. However, it recognizes that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board attaches great importance to maintaining a strong control environment and the company's system of internal controls includes the assessment of non financial risks and controls. The Board has reviewed the Company's internal control policies and procedures and is satisfied that appropriate procedures are in place.

The Company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include the segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

All employees have a copy of the Code of Ethics and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Company operates. This forms part of the Company's compliance structure, which sets policies and standards for compliance with rules, regulations and legal requirement.

The Board will continue to play its role effectively under the corporate governance structure. The non-executive directors will maintain oversight on management of the Company through Board meetings as well as various Board Committees.

Relations with shareholders

The Board recognizes the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report are

CORPORATE GOVERNANCE STATEMENT cont'd

used as the opportunity to communicate with shareholders. The Company gives shareholders adequate notice of the AGM as provided for in the Kenyan Companies Act and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also during the AGM.

In upholding and protecting shareholders' rights, the Board recognizes that every shareholder has a right to participate and vote at the general shareholders' meeting. The Board also allows shareholders to seek clarity on the Company's performance in general meetings.

Skills and experience of the Board

Our Directors have among other attributes the following skills and experience.

Corporate governance and legal knowledge
Diverse age profiles
Cement industry experience
Diverse and Complementary skills

Code of Conduct

The Board has approved a Code of Ethics, which sets out the Company's core values relating to the lawful and ethical conduct of business.

Conflict of Interest

All directors are under duty to avoid conflict of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business. Any potential or actual conflicts of interest are promptly reported to the Company Secretary.

Appointments to the Board

Directors retire by rotation annually, and, if eligible, their names are submitted for re-election at the annual general meetings.

All director appointments are subject to confirmation by shareholders at the annual general meetings. In addition to the induction program for new directors, there are specific training workshops that directors participate that are accredited by the Centre for Corporate Governance.

Interaction with Management

The EAPC PLC Board has a high level of regular interaction with management thereby enabling directors to infuse their considerable experience, professional knowledge of the target market into the strategic direction. There is a policy of open communication between Board and Management and this ensures that the Board is fully informed of major matters concerning EAPC PLC and its business. There is a procedure which allows for directors to suggest additional items for discussion at meetings and to call for additional information or a briefing on any topic prior to the meeting.

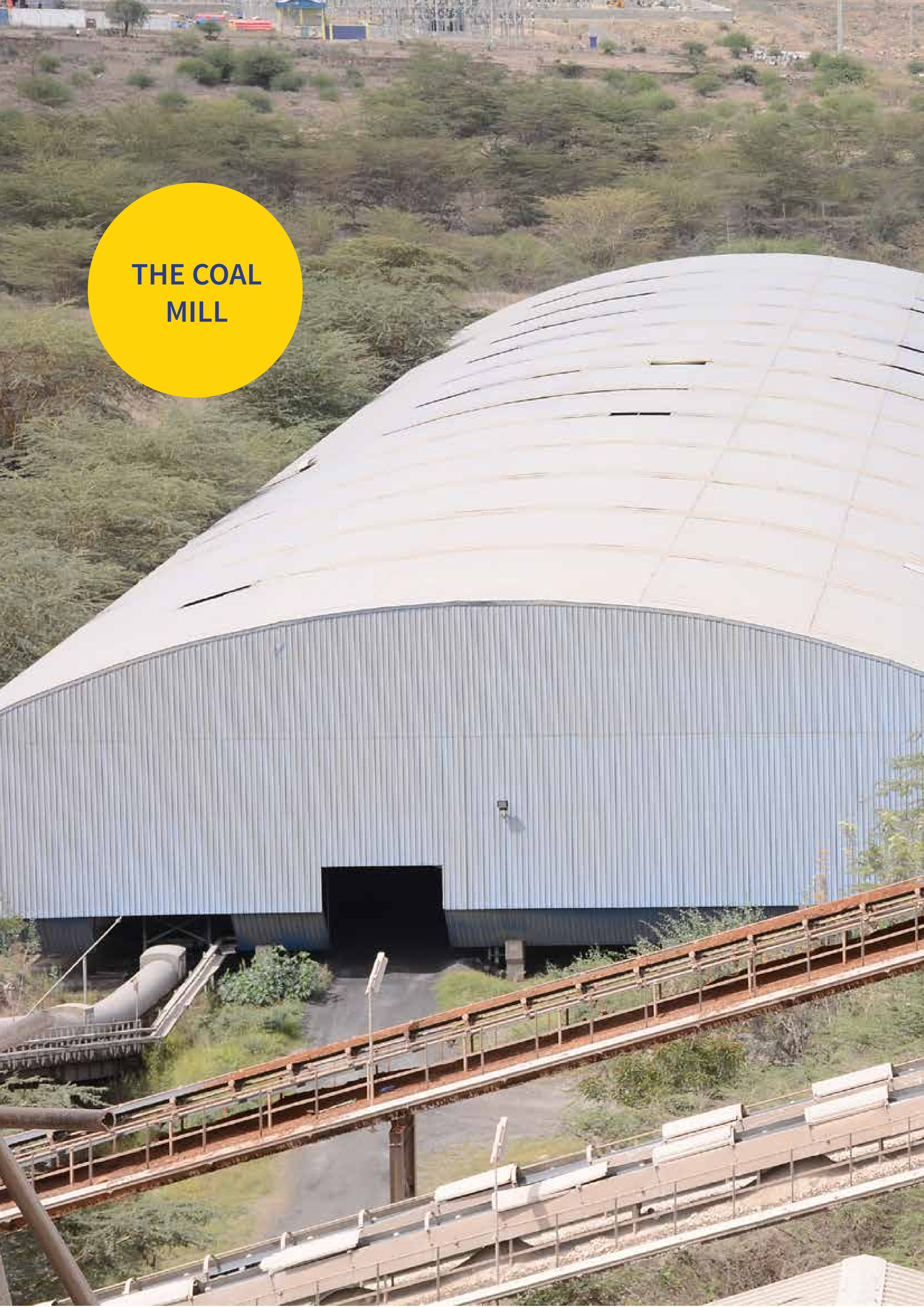
During the year 2017/2018, the membership of the Board Committees was reviewed in line with the requirements of the Board charter which provides that committee memberships and chairs be reviewed annually.

Communication

The Board is satisfied that decision – making capability and the accuracy of its reporting and financial results are maintained at a high level at all times to ensure adequate disclosure and transparency. The Board relies on the external group of Auditors and Audit Committee to raise any issues of financial concern.

The Company provides timely and appropriate information to shareholders through publication of periodic accounts and the Annual Report and holds an annual face-to-face briefing. Shareholders are also advised of all important events that impact the Company's operation.

THE COAL MILL



REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2018

The Directors present their report together with the audited financial statements of East African Portland Cement PLC ("the company") and its subsidiary (together, "the Group") for the year ended 30 June 2018 which show their state of affairs.

PRINCIPAL ACTIVITY

The principal activity of the parent company is the manufacture and sale of cement.

The principal activity of the company's wholly owned subsidiary, East African Portland Cement Uganda Limited, is the sale of cement purchased from the parent company.

CHANGE OF NAME

The name of the Company was changed from The East African Portland Cement Company Limited to East African Portland Cement PLC with effect from 01 October 2018 in conformity with the requirements of the Kenyan Companies Act, 2015.

CONSOLIDATED FINANCIAL RESULTS

	2018 Sh'000
Profit before taxation	6,962,123
Taxation credit	835,424
Profit for the year transferred to retained earnings	7,797,547

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the current year (2017: KShs nil).

DIRECTORS

The present directors are shown on page 8-10. The following changes have taken place since 1 July 2017:

William Lay retired from the Board of Directors on 16 November 2017. Edwin M. Kinyua was appointed to the Board of Directors on 20 September 2018.

ENHANCED BUSINESS REVIEW

Financial Performance

The performance of the business was impacted adversely by unfavourable political environment, adverse weather conditions, prevailing challenges of access to credit due to the effects of interest rate capping which cumulatively led to a contraction in cement consumption, an occurrence last seen 17 years ago. The gross profit margin dropped from 11% in 2017 to a gross loss of 2% in 2018. Increased competitive pressure coupled with excess supply against demand led to downward movement in prices thus constraining net revenue. Increases in prices of key inputs further dampened the margins.

The operating loss ratio increased to 69% up from 19% in 2017. The sharp rise was driven by crystallization of the impact of a wage dispute lodged in 2015, with the company losing in its appeal in the financial year. This led to a provision of Kshs 1.55 Billion. Earnings per share increased to Kshs 86.64 in 2018 from Kshs -16.35 in 2017. The EPS in 2018 was driven largely by fair value gains from the investment properties. There were no significant gains in investment property in 2017 due to stabilization of the property values in relation to the properties in question after completion of the Standard Gauge Railway in the vicinity.

The total assets of the company increased from Kshs 27,357 million in 2017 to Kshs 38,028 million in 2018 mainly due to investment property.

Risk Management

The company and group face a number of risks that are likely to affect the performance of the company if not appropriately and timely mitigated. The continued oversupply of cement in the domestic market and increase in the number of cement players adopting price entry strategy continue to impact on downward pressure on price and thus profitability of the business. The increasing competition also affects the credit risk as more players seek to gain market share through credit incentives. These factors combine to adversely impact on the liquidity risk of the business. Investment in capacity expansion and efficiency remain a major risk in countering the impact of new entrants. Management has developed an elaborate risk management programme to manage the current and future risks that threaten the business.

The environment

The company is actively involved in afforestation initiatives through issue of seedlings to the local community. The company has also complied with NEMA requirements. The company is certified for both environment and safety management systems being EMS 14001:2015 and OHSAS 18001:2007 respectively.

Human Capital

The company values the contribution employees

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2018 CONT'D

put towards realization of corporate objectives and enhancement of shareholder value. The company seeks to empower its employees through carefully targeted training and development programs. The Company technical team obtains diverse knowledge transfer from suppliers of critical installations in the factory. The employee statistics are included below:

	2017	2018
Permanent	477	448
Contract	788	488
Total Establishment	**1,265**	**936**

Corporate social responsibility

The company is strongly involved in community issues as detailed in the corporate social responsibility report as a corporate citizen focused to returning value to the partnering communities.

Future outlook

The construction sector in the region is expected to continue on an upward trend. The expected infrastructural developments driven by both county and national governments will continue to drive growth in this sector. Downward pressure on prices is expected to continue as the existing plants continue to expand and using price as a penetration strategy. Cost leadership and innovation will be the main drivers of competitiveness and success in the future. The company is positioning itself to advance in these areas of competence.

Investment property

As indicated in our notes last year, there are 4,121 acres of land recorded at cost but whose market value has been independently and professionally placed at Kshs. 11.8 billion. The Board of Directors approved the transfer of the 4,121 acres of fully mined parcels of land from leasehold property to investment property. Thereafter the Company will seek for the relevant National Government approval on the best usage of this land and others hitherto recorded as investment property that have been fully mined in a bid to facilitate refinancing of the Company so as to turn its fortunes and to create value for the shareholders of the Company.

DISCLOSURE OF INFORMATION TO AUDITORS

Each Director confirms that, so far as he is aware, there is no relevant audit information of which the Corporation's auditors are unaware and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Corporation's auditors are aware of that information.

AUDITORS

The Auditor General is responsible for the statutory audit of the Company's books of account in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf.

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2018 and report to the Auditor General.

By Order of the Board

Secretary
Nairobi

14 November 2018

DIRECTORS REMUNERATION REPORT

The Board of Directors congratulates the dedicated investors for the gallant support accorded to the Company in the just completed financial year. The business environment for the company was harder than previous years due to a number of factors, both internal and external. As a result the group turnover dipped by 25% compared to previous year. However the company controlled the expenses to ensure better cost efficiency than previous year. Due to the challenges faced and the need to consistently design responsive mitigating actions, the Board of Directors undertook various activities on behalf of the Company which led to a decrease in Directors emoluments by 46% from last year.

The Director's remuneration policy at a glance

Executive Directors

The Managing Director is the only Executive Director of the Company within the confines of the Company's act. His remuneration is in accordance with the staff remuneration policy as approved by the Board of Directors. His remuneration package comprises a basic salary, gratuity and other benefits designed to recognize his skills, experience and attention required to run the Company.

Non-Executive Directors

Non-Executive Directors receive fees and other emoluments in recognition of their contribution to the Company for Board and Committee meetings. The fees are approved by Shareholders at Annual General Meetings and is payable after the occurrence of the meetings. The Non-Executive Directors do not receive any performance-based remuneration. No pension contributions are payable on their emoluments. The Company reimburses travel and accommodation expenses related to attendance at Board meetings.

Directors' shareholding

No member of the Board holds shares in his or her personal capacity in the Company. However, the directorships mirror representation of key shareholders of the Company. The National Treasury is represented by the Cabinet secretary with a nominated alternate while the parent ministry is represented by the Principal Secretary with a nominated alternate. The National Social Security Fund as a director is represented by the Managing Trustee with a nominated alternate.

There will be no changes to these policies in the next financial year.

Directors Contract of service

The tenures of the directors in office during the last financial year are tabulated below:

DIRECTORS CONTRACT OF SERVICE

Director	Start of contract	End of Contract	Notice Period	Payable
William Lay	16 November 2014	16 November 2017	Not Applicable	Not Applicable
Simon Peter Ole Nkeri	05 August 2016	04 August 2019	6 Months	Six months in Lieu
Kungu Gatabaki	Shareholder rep	Shareholder rep	Not Applicable	Not Applicable
Prof. Sarone Ole Sena	Shareholder rep	Shareholder rep	Not Applicable	Not Applicable
Henry Rotich	Shareholder rep	Shareholder rep	Not Applicable	Not Applicable
National Social Security Fund	Shareholder rep	Shareholder rep	Not Applicable	Not Applicable
Betty Maina	Parent ministry	Parent ministry	Not Applicable	Not Applicable

In the previous Annual general meeting shareholders voted for the adoption of the Director's remuneration through proposal and secondment on the floor of the AGM. The remuneration policy was not on the agenda for discussion hence was not voted for given that there was no anticipated change except the routine approval of the Directors remuneration in the financial year.

DIRECTORS REMUNERATION REPORT cont'd

The remuneration paid to directors in the year under review and the prior year is summarized in the table below.

DIRECTORS REMUNERATION FOR THE YEAR 2017/18					
DIRECTOR	SALARY Kshs'000	ALLOWANCES Kshs'000	BONUSES Kshs'000	FEES Kshs'000	TOTAL Kshs'000
Simon Peter Ole Nkeri	15,612	3,978	-	-	19,590
William Lay	-	737	-	300	1,037
Kungu Gatabaki	-	886	-	160	1,046
Anthony Omerikwa	-	686	-	160	846
Prof. Sarone Ole Sena	-	1,597	-	160	1,757
Betty Maina	-	129	-	160	289
Humphrey Muhu	-	969	-	160	1,129
Charles Mahinda	-	726	-	-	726
Moses Cheseto	-	429	-	-	429
Patrick Mwangi Nduati	-	43	-	-	43
Total	**15,612**	**10,179**	**-**	**1,100**	**26,891**

The allowances and salaries for the executive directors is reflected in the statements under staff costs note 15.

DIRECTORS REMUNERATION FOR THE YEAR 2016/17						
DIRECTOR	SALARY Kshs'000	ALLOWANCES Kshs'000	BONUSES Kshs'000	FEES Kshs'000	COMPENSATION FOR LOSS OF OFFICE	TOTAL Kshs'000
Kephar Tande	1,215	11,390	-	-	12,838	25,443
Simon Peter Ole Nkeri	10,980	2,106	-	-	-	13,086
William Lay	-	3,108	-	300	-	3,408
Kungu Gatabaki	-	1,174	-	160	-	1,334
Anthony Omerikwa	-	1,114	-	160	-	1,274
Prof. Sarone Ole Sena	-	956	-	160	-	1,116
Jackson Kinyanjui	-	600	-	160	-	760
Humphrey Muhu	-	716	-	-	-	716
Julius Korir kiplangat	-	510	-	160	-	670
Charles Mahinda	-	300	-	-	-	300
Moses Cheseto	-	86	-	-	-	86
Patrick Mwangi Nduati	-	86	-	-	-	86
Chris Kiptoo	-	43	-	-	-	43
Total	**12,195**	**22,189**	**-**	**1,100**	**12,838**	**48,322**

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party, whereby Directors might get benefits by means of acquisition of the Company's shares. Information on aggregate amount of emoluments and fees paid to directors are disclosed in note 27 of the financial statements.

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Company Secretary 14 November 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the group and company as at the end of the financial year and of their profit or loss for that year. It also requires the directors to ensure that the group and company maintain proper accounting records that are sufficient to show and explain the transactions of the group and company and disclose, with reasonable accuracy, their financial position. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgments that are reasonable in the circumstances.

The directors are aware of the negative working capital position and the recurring losses from operations as disclosed in note 2 to the financial statements. The directors acknowledge that the continued existence of the group and company as a going concern depends on the measures that the directors will put in place to return the company to profitable operations. The directors are therefore of the view that the company will remain a going concern for at least the next twelve months from the date of this report.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 14 November 2018 and signed on its behalf by:

....

Edwin M. Kinyua
Director

Simon Peter Ole Nkeri
Director

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF EAST AFRICAN PORTLAND CEMENT PLC FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated and the company financial statements of East Africa Portland Cement PLC ("the company") and its subsidiary ("together with the group") set out on pages 48 to 100, which comprise the consolidated and the company's statement of financial position as at 30 June 2018, and the consolidated and the company statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of East Africa Portland Cement PLC as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of East Africa Portland Cement PLC in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). I have fulfilled my other ethical responsibilities in accordance with the IESBA code and in accordance with other ethical requirements applicable to performing audit of other financial institutions and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

Material Uncertainty Related to Going Concern

I draw attention to note 2 in the consolidated and company financial statements, which indicates that the Group and Company incurred a loss from operations of Kshs.3,558,907,000 (2017: Kshs.1,316,283,000) and Kshs.3,883,780,000 (2017: KShs.1,277,816,000) respectively and, as at that date, the group's current liabilities exceeded its current assets by Kshs.6,007,396,000 (2017: Kshs.4,247,118,000) while the Company's current liabilities exceeded its current assets by Kshs.6,079,900,000 (2017: Kshs.3,987,186,000).

As stated in note 2, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Key Audit Matter

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of my audit of the consolidated and company financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. In addition to the matter described in the Emphasis of matter - Material Uncertainty Related to Going Concern section, I have determined the matter described below to be the key audit matter to be communicated in my report.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Valuation of investment properties As disclosed in note 21 of the financial statements, as at 30 June 2018, the company and group' investment properties were valued at Sh 27.18 Billion (2017: Sh 15.9 Billion) representing 71% (2017: 58%) of the total assets of the group and 72% (2017: 57%) of the total assets of the company. The investment properties were professionally valued as at the end of the reporting period and the net fair value gain recognized in the profit or loss was Sh 11.3 Billion.	I assessed the competence, capabilities and objectivity of the Group's independent valuers and verified their qualifications. In addition, I discussed the scope of their work with the directors and reviewed their terms of engagement to determine that there were no matters that affected their objectivity or imposed scope limitations upon them. I confirmed that the approaches they used are consistent with International Financial Reporting Standards (IFRS) and industry norms.
The group's investment properties comprise land held for capital appreciation. The group uses external independent valuers for valuation of investment properties. The fair value of land was determined on an open market basis using the	I evaluated the valuers' judgements in relation to the significant assumptions made in adjusting the open market prices of recent sales of neighbouring properties to

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
comparable sales approach, equating to the general land values where the properties are located.	take into account the size of the group's land. I also evaluated the inputs used by the valuer in coming up with a model for determining the effect of the cost of evicting squatters and securing the properties on the value of the land. I also reviewed directors' basis for reclassification of land that is no longer being mined and is separable.
Significant judgement is required by the external independent valuers in determining the fair value of investment properties and in determining the effect of the cost of evicting squatters and securing the properties on the value of the land. Significant judgement is also required by the board of directors in establishing portions of land that are no longer being mined and are separable (having distinct title deeds) for purposes of reclassification from either leasehold land or property, plant and equipment to investment property.	My audit procedures also focused on reviewing the reasonableness of assumptions made and methodologies used to ensure that they are reasonable and appropriate given my understanding of similar valuations.
I identified the valuation of investment properties as representing a key audit matter due to the significance of the balance to the consolidated and company financial statements as a whole, combined with the judgement associated with determining the fair values.	I found that the models used for the valuation of the investment properties were appropriate, the significant assumptions made, and methodology used to be reasonable and appropriate.
The inputs with the most significant impact on these valuations include assumptions made in adjusting values of recent sales of neighbouring properties to take into account the size of the group's land, the cost of evicting squatters and securing the properties and reclassification of portions of fully mined idle and separable from either leasehold land or property, plant and equipment to investment property.	I also concluded that the basis for reclassification of fully mined idle and separable land was reasonable. In addition, the disclosures pertaining to the investment properties were found to be appropriate and comprehensive in the financial statements in terms of International Accounting Standard (IAS) 40, Investment Property.

Other Information

The other information comprises the Chairman's Statement and the Managing Director Statement, which I obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which is expected to be made available to me after that date, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

When I read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

As required by Article 229(6) of the Constitution, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit that:

(i) In my opinion, the information given in the report of the directors on pages 36 to 37 is consistent with the financial statements.

(ii) In my opinion the auditable part of the directors' remuneration report on pages 38 to 39 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies

Act, 2015, and for such internal control as the Directors determine are necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the separate's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and its subsidiary or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for the submission of the financial statements to the Auditor General in accordance with the provision of Section 47 of the Public Audit Act, 2015.

Auditor-General Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provision of Section 48 of the Public Audit Act, 2015 and submit the report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated 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 my 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 management's 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 ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated 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 and business activities within the group to express an opinion on the consolidated and Company financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management 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.

I also provide management with a statement that I have complied with the 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.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

14 November, 2018

FINANCIAL STATEMENTS

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

		CONSOLIDATED		COMPANY	
	Notes	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
REVENUE	5	5,182,721	6,928,307	5,130,127	6,923,749
COST OF SALES	6	(5,272,608)	(6,165,496)	(5,218,092)	(6,163,025)
GROSS (LOSS)/PROFIT		(89,887)	762,811	(87,965)	760,724
Other operating income	7	398,235	21,527	398,235	21,527
Inventory provisions written back		-	183,277	-	183,277
		308,348	967,615	310,270	965,528
EXPENSES					
Selling and distribution	8	(157,435)	(131,068)	(510,446)	(140,265)
Administration and establishment	9	(3,279,404)	(1,857,343)	(3,265,981)	(1,841,134)
Other operating expenses	10	(430,416)	(295,487)	(417,623)	(261,945)
		(3,867,255)	(2,283,898)	(4,194,050)	(2,243,344)
LOSS FROM OPERATIONS		(3,558,907)	(1,316,283)	(3,883,780)	(1,277,816)
INTEREST INCOME	11	2,831	2,136	2,766	2,070
FINANCE COSTS	12	(845,278)	(617,017)	(845,278)	(617,017)
EXCHANGE GAIN ON FOREIGN CURRENCY LOAN	14	21,233	134,018	21,233	134,018
FAIR VALUE GAIN ON INVESTMENT PROPERTY	21	11,342,244	84,243	11,342,244	84,243
PROFIT/(LOSS) BEFORE TAXATION	13	6,962,123	(1,712,903)	6,637,185	(1,674,502)
TAXATION CREDIT	16(a)	835,424	241,542	835,424	241,542
PROFIT/(LOSS) FOR THE YEAR		7,797,547	(1,471,361)	7,472,609	(1,432,960)

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018 cont'd

		CONSOLIDATED		COMPANY	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
PROFIT/(LOSS) FOR THE YEAR		7,797,547	(1,471,361)	7,472,609	(1,432,960)
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Revaluation surplus		-	572,793	-	572,793
Deferred tax on revaluation of property, plant & equipment		-	(171,838)	-	(171,838)
		-	400,955	-	400,955
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operation		7,515	14,629	-	-
TOTAL OTHER COMPREHENSIVE INCOME		7,515	415,584	-	400,955
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		7,805,062	(1,055,777)	7,472,609	(1,032,005)
EARNINGS/(LOSS) PER SHARE					
- Basic and diluted (KShs)	17	86.64	(16.35)	83.03	(15.92)

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	CONSOLIDATED 2018 KShs'000	CONSOLIDATED 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
ASSETS					
NON CURRENT ASSETS					
Property, plant and equipment	18(a)	7,843,588	8,352,683	7,843,626	8,352,711
Capital work- in- progress	19	190,382	184,232	190,382	184,232
Prepaid operating leases	20	6,438	9,116	6,438	9,116
Investment properties	21	27,184,752	15,867,999	27,184,752	15,867,999
Investment in subsidiary	22	-	-	2,500	2,500
Loan swap asset	23	375,664	994,263	375,664	994,263
Deferred taxation	32	441,057	-	441,057	-
		36,041,881	25,408,293	36,044,419	25,410,821
CURRENT ASSETS					
Inventories	25	1,248,664	1,290,102	1,247,113	1,287,843
Trade and other receivables	26	632,355	401,750	549,361	326,328
Amount due from related parties	27(a)	-	-	10,914	350,397
Taxation recoverable	16(c)	55,573	66,885	55,697	67,023
Short term deposits	24	41,021	38,672	41,021	38,672
Bank balances and cash	28	8,026	151,686	4,596	144,690
		1,985,639	1,949,095	1,908,700	2,214,953
TOTAL ASSETS		38,027,520	27,357,388	37,953,119	27,625,774
		=========	=========	=========	=========
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Share capital	29(a)	450,000	450,000	450,000	450,000
Share premium	29(b)	648,000	648,000	648,000	648,000
Asset revaluation reserve	29(c)	1,506,107	1,650,387	1,506,107	1,650,387
Retained earnings		22,057,519	14,115,692	22,022,212	14,405,323
Foreign currency translation reserve	29(d)	34,419	26,904	-	-
TOTAL EQUITY		24,696,045	16,890,983	24,626,319	17,153,710
NON CURRENT LIABILITIES					
Loan swap liability	23	504,421	882,792	504,421	882,792
Staff gratuity	30	1,225,891	1,205,875	1,225,651	1,205,608
Long - term loan	31(c)	3,608,128	1,776,595	3,608,128	1,776,595
Deferred taxation	33	-	404,930	-	404,930
		5,338,440	4,270,192	5,338,200	4,269,925
LIABILITIES					
Current portion of long - term loans	31(c)	662,650	862,029	662,650	862,029
Post import finance loans	31(d)	347,927	308,878	347,927	308,878
Bank overdraft	33	1,074,697	2,069,634	1,074,697	2,069,634
Trade and other payables	34	5,806,081	2,853,992	5,801,646	2,859,918
Dividends payable	35	101,680	101,680	101,680	101,680
		7,993,035	6,196,213	7,988,600	6,202,139
TOTAL EQUITY AND LIABILITIES		38,027,520	27,357,388	37,953,119	27,625,774

The financial statements on pages 48 to100 were approved and authorized for issue by the Board of Directors on 14 November 2018 and were signed on its behalf by:

) Edwin M. Kinyua - Chairman

) Simon Peter Ole Nkeri – Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

				Retained earnings				
	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Investment property revaluation gains KShs'000	Realised Profits KShs'000	Total retained earnings KShs'000	Foreign currency translation reserve** KShs'000	Total KShs'000
At 1 July 2016	450,000	648,000	1,465,726	13,389,467	1,981,292	15,370,759	12,275	17,946,760
Transfer of excess depreciation	-	-	(308,992)	-	308,992	308,992	-	-
Deferred tax on excess depreciation	-	-	92,698	-	(92,698)	(92,698)	-	-
Profit/(loss) for the year	-	-	-	58,970	(1,530,331)	(1,471,361)	-	(1,471,361)
Other comprehensive income	-	-	572,793	-	-	-	14,629	587,422
Deferred tax on revaluation surplus	-	-	(171,838)	-	-	-	-	(171,838)
Total comprehensive income for the year	-	-	400,955	58,970	(1,530,331)	(1,471,361)	14,629	(1,055,777)
At 30 June 2017	450,000	648,000	1,650,387	13,448,437	667,255	14,115,692	26,904	16,890,983
	========	=======	=======	=======	=======	========	=======	========
At 1 July 2017	450,000	648,000	1,650,387	13,448,437	667,255	14,115,692	26,904	16,890,983
Transfer of excess depreciation	-	-	(206,112)	-	206,112	206,112	-	-
Deferred tax on excess depreciation	-	-	61,832	-	(61,832)	(61,832)	-	-
Profit/(loss) for the year	-	-	-	7,939,571	(142,024)	7,797,545		7,797,545
Other comprehensive income	-	-	-	-	-	-	7,515	7,515
Total comprehensive income for the year	-	-	-	7,939,571	(142,024)	7,797,545	7,515	7,805,060
At 30 June 2018	450,000	648,000	1,506,107	21,388,008	669,511	22,057,519	34,419	24,696,045
	========	=======	=======	========	=======	========	=======	========

* The asset revaluation reserve represents the surplus arising from revaluation of property, plant and equipment and is not distributable.

** The translation reserve represents the effect of the change in exchange rates at the beginning of the year and at the close of the year on translation.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018 CONT'D

				Retained earnings			
	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Investment property revaluation gains KShs'000	Realised Profits KShs'000	Total retained earnings KShs'000	Total KShs'000
At 1 July 2016	450,000	648,000	1,465,726	13,389,467	2,232,522	15,621,989	18,185,715
Transfer of excess depreciation	-	-	(308,992)	-	308,992	308,992	-
Deferred tax on excess depreciation	-	-	92,698	-	(92,698)	(92,698)	-
Profit/(loss) for the year	-	-	-	58,970	(1,491,930)	(1,432,960)	(1,432,960)
Other comprehensive income	-	-	572,793	-	-	-	572,793
Deferred tax on revaluation surplus	-	-	(171,838)	-	-	-	(171,838)
Total comprehensive income for the year	-	-	400,955	13,448,437	956,886	(1,432,960)	(1,032,005)
At 30 June 2017	450,000	648,000	1,650,387	13,448,437	956,886	14,405,323	17,153,710
At 1 July 2017	450,000	648,000	1,650,387	13,448,437	956,886	14,405,323	17,153,710
Transfer of excess depreciation	-	-	(206,112)	-	206,112	206,112	-
Deferred tax on excess depreciation	-	-	61,832	-	(61,832)	(61,832)	-
Profit/(loss) for the year	-	-	-	7,939,573	(466,964)	7,472,609	7,472,609
Other comprehensive income	-	-	-	-	-	-	
Deferred tax on revaluation surplus	-	-	-	-	-	-	
Total comprehensive income for the year	-	-	-	7,939,573	(466,964)	7,472,609	7,472,609
At 30 June 2018	450,000	648,000	1,506,107	21,388,010	634,202	22,022,212	24,626,319

* The asset revaluation reserve represents the surplus arising from revaluation of property, plant and equipment and is not distributable.

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	CONSOLIDATED 2018 KShs'000	CONSOLIDATED 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash generated from/(used in) operations	36(a)	(551,562)	(29,503)	(540,695)	8,931
Interest paid	36(c)	(450,300)	(536,217)	(450,300)	(536,217)
Interest received	11	2,831	2,136	2,766	2,070
Income tax paid	16(c)	(992)	(2,302)	(713)	(1,801)
Net cash used in operating activities		(1,000,023)	(565,886)	(988,942)	(527,017)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	18	(83,461)	(84,314)	(83,461)	(84,314)
Additions to capital work-in-progress	19	(6,150)	(5,259)	(6,150)	(5,259)
Redemption of restricted deposits		-	31,896	-	31,896
Proceeds of sale of motor vehicles		6,341	8,786	6,341	1,930
Net cash used in investing activities		(83,270)	(48,891)	(83,270)	(55,746)
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipt of Government debt	36(d)	363,045	371,984	363,045	371,984
Receipt of term loan	36(b)	1,566,726	175,000	1,566,726	175,000
Repayment of term loan	36(b)	-	(387,450)	-	(387,450)
Loan repayment	36(b)	(39,416)	(306,643)	(39,416)	(306,643)
Receipt of post import finance loans	36(b)	347,927	563,493	347,927	563,493
Repayment of post import finance loans	36(b)	(308,879)	(254,614)	(308,879)	(254,614)
Net cash generated from financing activities		1,929,403	161,770	1,929,403	161,770
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		846,110	(453,006)	857,191	(420,994)
Effects of exchange rate changes on the balance of cash		7,515	14,629	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(1,879,276)	(1,440,899)	(1,886,272)	(1,465,278)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	36(e)	(1,025,651)	(1,879,276)	(1,029,081)	(1,886,272)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

East African Portland Cement PLC is incorporated in Kenya under the Kenyan Companies Act. The company manufactures and sells cement in East Africa.

The shares of the company are listed on the Nairobi Securities Exchange.

2. GOING CONCERN

The group and company reported a loss from operations of Sh 3,558,907,000 (2017: Sh 1,316,283,000) and Sh 3,883,780,000 (2017: Sh 1,277,816,000) respectively and, as at that date, the group's current liabilities exceeded its current assets by Sh 6,007,396,000 (2017: Sh 4,247,118,000) while the company's current liabilities exceeded its current assets by Sh 6,079,900,000 (2017: Sh 3,987,186,000). The staff costs represented 49% of its revenue at Kshs 4.1 Billion (2017: Kshs 2.8 Billion). Included in staff costs is a lump sum amount of Kshs. 1.5 Billion being an industrial court award to the company's unionisable contract staff (Collective Bargaining Agreement 2012 – 2015), previously captured as a contingent liability. The current liabilities exceeded current assets by Kshs 6.0 Billion (2017: Kshs 4.2 Billion). Trade and other payables increased by Kshs 3 Billion in the year arising from continued support of the trade by creditors.

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. However, the Group's total assets exceeded the total liabilities by Kshs 24.7 Billion (2017: 16.8 Billion) in the year arising from Fair value gain on investment property. The total value of the company's investment property was Kshs 27 Billion against a total liability position of Kshs 13 Billion. The Board of Directors has purposed to extract value from disposal of part of the investment property to normalise its working capital. There is therefore, sufficient room that guarantees the Group's ability to meet its obligations.

The Board of Directors has put in place various strategies and sought the necessary support from the government and other key shareholders towards raising the required financing to address the liquidity gap. Key amongst these initiatives is disposal of idle assets to support the capitalization of the business. To this end, the Company has engaged with the National Government with a view to raise funds through the sale of a portion of its fully mined vast idle land. The funds raised will be used for modernization of the ageing plant and enhancement of the current working capital facilities for importation of bulk raw materials to enable optimization of the current installed cement milling and packing capacity. This is expected to increase product availability to the trade in line with the company installed milling capacity, supported by enhanced in-house clinker production and operating efficiencies, hence increase in sales revenue and profitability.

The company has taken decisive steps to reduce staff overheads with a reduction of 30% on monthly staff costs to be achieved from first quarter of 2018/2019. The company has also engaged its lenders to restructure and eventually retire the expensive loan obligations. The restructuring of the loans was granted in August 2018.

The requisite approvals for the disposal of the idle assets have been obtained and actualization of the benefits expected in the second quarter of the financial year ending 30th June 2019. Please refer to note 46 on subsequent events with respect to sale of land. Directors have reviewed the projections as based on the above strategies and the medium term plan and are confident that it is appropriate to prepare the financial statements on the going concern basis.

On the basis of the implementation of the various turnaround initiatives outlined above, the directors consider it appropriate to prepare the financial statements on the going concern basis.

3. ACCOUNTING POLICIES

Statement of compliance

The consolidated and company financial statements ("financial statements") are prepared in accordance and comply with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

The following new and revised standards and interpretations were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 12. The amendments to IAS 12 Income Taxes clarify the following aspects: Recognition of

Deferred Tax Assets for Unrealised Losses	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 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 amendments to the standard has had no impact on the group's financial statements.
Annual Improvements. 2010-2012	The annual improvements to IFRSs 2012-2014 cycle include a number of amendments to various IFRSs, which are summarised below: The amendments to IFRS 5 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements. The amendments to IAS 19 clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level). The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the group's financial statements.

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Amendments to IAS 7 Disclosure Initiative	The amendments to IAS 7 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;

c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and

d) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The amendments to the standard has had no impact on the Group's financial statements.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

New standards and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods

a) impairment requirements for financial assets and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the group's financial assets and financial liabilities as at 30 June 2018 on the basis of the facts and circumstances that exist at that date, the directors of the group have performed a preliminary assessment of the impact of IFRS 9 to the group's financial statements as follows:

Classification and measurement

Loans carried at amortised cost as disclosed in the notes to the financial statements: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortised cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9, finance lease receivables, amounts due from customer under construction contracts, and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

The group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 15. The group does not hold any listed redeemable notes, finance lease receivables, amounts due from customer under construction contracts or financial guarantee contracts. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the financial assets measured at amortised cost and are currently assessing the potential impact.

Hedge accounting

The new hedge accounting requirements will align

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

more closely with the group's risk management policies, with generally more qualifying hedging instruments and hedged items. The Group does not hold any hedging relationships, and therefore the directors do not anticipate that the application of the IFRS 9 hedge accounting requirements will have an impact on the Group's financial statements.

It should be noted that this assessment was made based on an analysis of the Group's financial assets and financial liabilities as at 30 June 2018 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(iv) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods (Continued)

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the Group anticipate that the application of IFRS 15 in the future may not have a significant impact on amounts reported in respect of the Group's financial statements because the Group does not engage in any complex revenue contracts.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognised for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease.
Furthermore, extensive disclosures are required by IFRS 16.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

The group is assessing the potential impact on the consolidated and company financial statements resulting from the application of these changes

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

(v) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods (Continued)

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows - the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
(b) the contractual service margin - the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Group and the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between Groups of contracts expected to be profit making and Groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Group and the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates.

The entity:
(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
(b) chooses where to present the effects of some changes in discount rates - either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 *Insurance Contracts*. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers.*

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

The amendments clarify the following:
(i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.

(ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
(iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

- The original liability is derecognised;

(iv) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods (Continued)

- The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
- Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. (e.g. a non-refundable deposit or deferred revenue)

The interpretation specifies that the date of transactions is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Group is assessing the potential impact on the consolidated and company financial statements resulting from the application of these changes.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

(v) Early adoption of standard

The Group did not early-adopt any new or amended standards in the period.

Basis of preparation

The financial statements are prepared under the historical cost convention as modified by revaluation of certain assets.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the company and its subsidiary. Control is achieved when the company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements for subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to the transactions between the members of the Group are eliminated in full on consolidation.

Revenue recognition

(i) Sale of goods

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Current tax

Current tax assets for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax

Deferred tax is provided for using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Foreign currencies

In preparing the financial statements of each Group entity, transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences arising, if any, are recognized in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical costs are not retranslated.

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Kenya shillings, which is the functional currency of the company and the presentation currency for the consolidated financial statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated to Kenya shillings

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

using exchange rates prevailing at the end of reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the Group's translation reserve. Such differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently stated at professionally revalued amounts less accumulated depreciation and impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Critical spare parts and standby equipment which are expected to be in use during more than one period are accounted for as property, plant and equipment.

The Group policy is to professionally revalue property, plant and equipment at least once every three to five years. The property, plant and equipment were revalued as at 30 June 2017.

Any surplus on revaluation is recognised in other comprehensive income and accumulated in the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Capital work in progress

Assets in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation

No depreciation is provided on freehold land as the useful life is considered to be indefinite. Depreciation on other items of property, plant and equipment is charged on the straight-line basis over the estimated useful lives of the assets.

Critical spares are depreciated over the period starting when the item is brought into service and continuing over the shorter of its useful life and the remaining expected useful life of the asset to which it relates.

The rates of depreciation used are based on the following estimated useful lives:

Buildings	40 years or period of lease, whichever is less
Plant and machinery	8 to 20 years
Motor vehicles	3 to 4 years
Office equipment, furniture and fittings	4 to 20 years
Computers	3 years

The residual values and useful lives are reassessed annually and adjusted prospectively if appropriate.

Where the residual value exceeds the carrying value, no depreciation is charged in the next year.

The excess annual depreciation attributable to revaluation surplus on property, plant and equipment is transferred annually from the asset revaluation reserve to the retained earnings. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Group as the lessee. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and the overheads incurred in bringing the inventories to their present location and condition. Costs of direct materials are determined on the first-in first-out basis, while those of general consumable stores are determined on the weighted average cost basis. Net realisable value represents the estimated selling price less the estimated cost to completion and costs to be incurred in marketing, selling and distribution. Work-in-progress, which comprises raw meal and clinker, is stated at the lower of production cost and net realisable value. Production cost comprises expenditure directly incurred in the manufacturing process and allocation of fixed and normal production overheads attributable to the process.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, amortisation and accumulated impairment losses are netted from the cost. Expenditure on internally generated intangible assets, excluding capitalised development costs, is reflected in profit or loss in the year in which it is incurred.

Intangible assets with finite lives are amortised on a straight line basis over their useful economic lives from the date they are available for use, up to a maximum of three years. Intangible assets are assessed for impairment whenever there is an indication that an intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Periodic software maintenance costs are recognised as an expense when incurred.

Gains or losses arising from derecognising of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Investment properties

Investment properties are measured initially at cost, including transaction costs, and excluding the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

only when there is a change in use.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model to recognise the asset. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model.

Leasehold land

Payments to acquire interests in leasehold land are treated as prepaid operating leases. They are stated at historical cost and are amortised over the term of the related lease.

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The Group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition and re-evaluates its portfolio every reporting date to ensure that all financial instruments are appropriately classified.

Purchase and sale of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place (regular way purchases) are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value. Gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise.

Financial assets held to maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held to maturity investments are measured at amortised cost using the effective interest rate method less any impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include receivables arising from day to day sale of goods and services. They are measured at amortised cost less impairment losses using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss.

Trade and other receivables consist of all receivables which are of short duration with no stated interest rate and are measured at amortised cost using the effective interest rate. An allowance is made for any unrecoverable amounts.

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from date of disbursement or confirmation of the advance. Cash and cash equivalents are measured at amortised cost.

Borrowings

Interest bearing loans are recorded at the fair value of the proceeds received. Finance charges are recognised on the accrual basis and are added to

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

the carrying amount of the related instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade and other payables consist of all payables which are of short duration with no stated interest rate and are measured at amortised cost using the effective interest rate.

Derivative financial instruments

The Company holds derivative financial instruments to manage exposures to interest rate and foreign currency risks. These derivates are initially recognised at fair value plus transaction costs. They are subsequently carried at fair value. A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities. They are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset and has transferred its right to cash flows from the asset or has assumed an obligation to pay the received cash flows without material delay to a third party under a 'pass through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another by the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts are recognised in the statement of comprehensive income.

Offsetting

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

Dividends payable

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

Mining and exploration costs

All exploration costs for the mining of limestone are expensed in the period that they occur and form part of cost of sales.

Impairment

Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or Group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows

(excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

Impaired debts are derecognized when they are assessed as uncollectible.

In relation to trade receivables, an allowance for

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

3. ACCOUNTING POLICIES CONT'D

impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Any subsequent reversal of an impairment loss is recognised in profit or loss.

(ii) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and Groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision maker (Board of Directors). Management allocates resources to and assess the performance of the operating segments of the Group. The operating segments are based on the Group's management and internal reporting structure. In accordance with IFRS 8 the Group has the following geographical segments; Kenya and Regional market segments (see note 38).

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation, discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date. The Group's unionisable staff who resign or whose services are terminated either due to illness or other reasons after completion of ten years of continuous and meritorious service are entitled to twenty one days' pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement. The Group's employees under contract terms are also entitled to gratuity at the rate of 25% of their annual basic salary for each completed year of service. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the consolidated financial statements at the present value of benefits payable as it accrues to each employee.

Employee benefits

i) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under a short-term cash bonus only

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and if the obligation can be measured reliably.

ii) Retirement benefit costs
The Group operates a funded defined contribution pension scheme for senior and supervisory staff, as well as an in-house gratuity scheme for unionisable employees. The Group also contributes to the statutory National Social Security Funds in Kenya and Uganda. These are defined contribution schemes registered under Acts of Parliament in the respective countries. Contributions are determined by local statutes in Kenya and Uganda. The Group's obligations under the schemes are limited to specific contributions legislated from time to time.

The Group's obligations to all staff retirement benefits schemes are charged to profit or loss as they fall due.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to 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 the revision and future periods if the revision affects both current and future periods.

Key areas of judgement and sources of estimation uncertainty

The following are the critical judgements and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have had the most significant effect on amounts recognised in the financial statements and that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) *Critical judgements in applying accounting policies*. *Deferred income tax*
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

b) *Key sources of estimation uncertainty*
Property, plant and equipment and intangible assets
The Group reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each reporting period.

Investment properties
Estimates are used in adjusting inputs with the most significant impact on valuations of investment properties and include assumptions made in adjusting values of recent sales of neighbouring properties to take into account the size of the Group's land and the cost of evicting squatters and securing the properties.

Inventories
The Group reviews the usability of spare parts at the end of each reporting period as part of assessment of the carrying value of inventory relative to its net realisable value (NRV).

Impairment
At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

5. REVENUE

	CONSOLIDATED		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Bagged cement – local	4,884,721	6,350,611	4,884,720	6,350,611
Bagged cement – export	178,687	20,272	126,094	15,714
Bulk cement – local	106,351	548,640	106,351	548,640
Paving blocks	12,962	8,784	12,962	8,784
	5,182,721	6,928,307	5,130,127	6,923,749

6. COST OF SALES

	CONSOLIDATED		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Raw materials used	994,568	1,448,686	994,568	1,448,686
Furnace oil	64,715	50,211	64,715	50,211
Coal	932,614	888,088	932,614	888,088
Factory staff costs	1,051,697	1,285,318	1,051,697	1,285,318
Power	850,472	854,370	850,472	854,370
Factory depreciation	474,669	617,688	474,669	617,688
Maintenance costs	265,479	362,477	265,479	362,477
Raw materials transport	234,268	244,568	234,268	244,568
Transport and import duty	54,516	2,471	-	-
Factory direct supplies	54,969	81,042	54,969	81,042
Fuel and repairs	113,848	116,274	113,848	116,273
Factory insurance	22,498	24,704	22,498	24,704
Exploration expenses	58	2,463	58	2,463
Explosives	5,284	6,025	5,284	6,025
Royalties	79,336	100,687	79,336	100,687
Factory water	18,092	18,789	18,092	18,789
Factory land rates and rent	2,867	3,309	2,867	3,309
Consultancy fees	1,820	(1,212)	1,820	(1,212)
Hired equipment	50,075	58,120	50,075	58,120
Other production overheads	763	1,418	763	1,419
	5,272,608	6,165,496	5,218,092	6,163,025

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

	CONSOLIDATED		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
7. OTHER OPERATING INCOME				
Rent and electricity recovery	22,748	21,086	22,748	21,086
Sundry income	9,010	441	9,010	441
Cement transport recoveries	64,146	-	64,146	-
Gain from sale of land	302,331	-	302,331	-
	398,235	21,527	398,235	21,527

8. SELLING AND DISTRIBUTION EXPENSES

Cement transport (recoveries)/costs	60,337	27,869	54,751	27,869
Advertising and sales commissions	36,660	25,042	36,660	25,042
Fuel and repairs	22,018	19,159	22,018	19,158
Depot rent	20,585	23,044	19,718	22,034
Public relations costs	4,531	11,638	4,531	11,638
Provision for bad and doubtful debts	13,304	24,316	372,768	w34,524
	157,435	131,068	510,446	140,265

9. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs	3,043,836	1,555,356	3,032,268	1,545,658
Depreciation of property, plant and equipment	52,305	83,873	52,296	83,212
Amortisation of prepaid operating leases	73	106	106	
Office supplies	35,186	23,917	34,885	23,859
Travelling expenses	14,915	27,354	14,815	27,342
Hired services	48,758	55,806	48,130	55,659
Telephone and postage	8,970	12,801	8,828	12,701
Company functions	2,079	2,247	2,079	2,247
Board expenses	7,661	9,945	7,661	9,945
Printing and stationery	4,834	4,631	4,718	4,533
Motor vehicle expenses	5,275	3,968	5,267	3,939
Computer expenses	27,464	18,989	27,380	18,929
Electricity	1,805	1,561	1,699	1,453
Office general expenses	26,243	56,789	25,882	51,551
	3,279,404	1,857,343	3,265,981	1,841,134

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

		CONSOLIDATED		COMPANY
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
10. OTHER OPERATING EXPENSES				
Professional fees	33,508	47,807	33,506	47,300
Subscriptions	631	4,077	631	4,078
Donations	-	20	-	20
Bank charges	117,118	39,129	117,003	39,071
Miscellaneous expenses	-	-	0	-
Auditors' remuneration	8,687	8,868	7,861	7,832
Tax penalty provisions	244,101	152,090	244,101	152,090
Fines and penalties	61	-	61	-
Loss on disposal of plant and equipment	-	9,637	-	9,637
Exchange loss on other foreign currency transactions and balances	26,310	33,859	14,460	1,917
	430,416	295,487	417,623	261,945
11. INTEREST INCOME				
Interest income	2,831	2,136	2,766	2,070

Interest income was earned on short term deposits which were held with KCB Bank Kenya Limited during the year.

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
12. FINANCE COSTS				
Interest on overdraft	219,485	289,111	219,485	289,111
Interest charged on loans	287,119	221,369	287,119	221,369
Interest on loan swap liability	32,067	44,102	32,067	44,102
Fair value loss on derivatives (note 23)	306,607	62,435	306,607	62,435
	845,278	617,017	845,278	617,017

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

	CONSOLIDATED		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
13. PROFIT/(LOSS)/BEFORE TAXATION				
The profit/(loss)/before taxation is arrived at after charging:				
Directors' emoluments:				
- Fees	1,100	1,100	1,100	1,100
- Other emoluments	25,791	47,222	25,791	47,222
Auditors' remuneration	8,687	8,868	7,861	7,832
Interest expense	538,671	554,582	538,671	554,582
Foreign exchange loss on foreign currency loan	306,607	62,435	306,607	62,435
And after crediting:				
Foreign exchange gain on loans	21,233	134,018	21,233	134,018
Inventory provision written back	-	183,277	-	183,277
Gain on disposal of property	302,331	9,637	302,331	9,637

14. EXCHANGE (LOSS)/GAIN ON FOREIGN CURRENCY LOAN

The exchange (loss)/gain on the loan arises mainly from the valuation of the Japanese Yen denominated loan to Kenya Shillings at the year-end which is on account of the movement in market rates. However, 50% (2017 – 50%) of the loan was swapped with a USD loan (see note 23).

	CONSOLIDATED		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
15. STAFF COSTS				
Salaries and wages	2,254,430	2,443,518	2,244,412	2,434,087
Provision for staff gratuity (note 30)	222,972	330,037	222,732	329,770
Provision for KCAAWU liability	1,552,298	-	1,552,298	-
Pension contributions	61,565	64,090	61,565	64,090
National Social Security Fund (NSSF)	2,953	3,029	2,953	3,029
	4,094,218	2,840,674	4,083,960	2,830,976

	CONSOLIDATED		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
16. TAXATION				
(a) Taxation charge				
Current tax based on the adjusted profit for the year at 30%	7,691	6,947	7,691	6,947
Deferred taxation				
- Credit for the year	(1,279,118)	(252,701)	(1,279,118)	(252,701)
- Prior year under provision	2,872	-	2,872	-
- On revaluation surplus of investment properties	433,131	4,212	433,131	4,212
	(843,115)	(248,489)	(843,115)	(248,489)
	(835,424)	(241,542)	(835,424)	(241,542)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

16. TAXATION CONT'D

	CONSOLIDATED			COMPANY
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
(b) Reconciliation of expected tax based on accounting profit to the tax charge				
Accounting profit before taxation	6,962,122	(1,712,903)	6,637,185	(1,674,501)
Tax at the applicable rate of 30%	2,088,637	(513,871)	1,991,156	(502,350)
Tax effect of items not deductible for tax purposes	277,984	48,103	375,465	48,103
Tax effect on varying tax rates	(3,204,917)	212,706	(3,204,917)	212,705
Deferred tax credit not recognised	-	11,520	-	-
Prior year over provision	2,872	-	2,872	-
	(835,424)	(241,542)	(835,424)	(241,542)

	CONSOLIDATED			COMPANY
(c) Taxation recoverable				
At beginning of year	66,885	76,811	67,023	72,169
Charge for the year (note 16(a))	(7,691)	(6,947)	(7,691)	(6,947)
Prior year under provision	(4,613)	(5,281)	(4,348)	-
Paid in the year	992	2,302	713	1,801
At end of year	55,573	66,885	55,697	67,023

17. EARNINGS/(LOSS) PER SHARE

Earnings/(loss)/ per share is calculated by dividing the (loss)/profit attributable to shareholders by the number of ordinary shares in issue during the year.

	CONSOLIDATED			COMPANY
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Earnings/(loss) for purposes of basic and diluted earnings per share	7,797,547	(1,471,361)	7,472,609	(1,432,959)
Number of ordinary shares (thousands)	90,000	90,000	90,000	90,000
Earnings/(loss) per share basic and diluted (KShs)	86.64	(16.35)	83.03	(15.92)

There were no potentially dilutive ordinary shares outstanding at 30 June 2018 or 30 June 2017. Therefore diluted earnings per share is the same as the basic earnings per share.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

18. PROPERTY, PLANT AND EQUIPMENT

(a) Year ended 30 June 2018

CONSOLIDATED	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor Vehicles KShs'000	Computers, office equipment, furniture and Fittings KShs'000	Total KShs'000
COST OR VALUATION						
At 1 July 2017	362,000	1,261,000	6,320,620	376,553	32,510	8,352,683
Additions	-	-	46,887	20,681	15,893	83,461
Disposals	-	-	-	(3,991)	-	(3,991)
Critical spares adjustment	-	-	(62,203)			(62,203)
At 30 June 2018	362,000	1,261,000	6,305,304	393,243	48,403	8,369,950
COMPRISING						
Valuation as at 30 June 2018	241,363	1,121,035	1,121,261	-	-	2,483,659
Cost	120,637	139,965	5,184,043	393,243	48,403	5,886,291
At 30 June 2018	362,000	1,261,000	6,305,304	393,243	48,403	8,369,950
DEPRECIATION						
At 1 July 2017	-	-	-	-	-	-
Charge for the year	-	31,525	420,349	66,674	8,425	526,973
Depreciation adjustments	-	-	-	-	90	90
Eliminated on disposal	-	-	-	(663)	(38)	(701)
At 30 June 2018	-	31,525	420,349	66,011	8,477	526,362
NET CARRYING AMOUNT						
At 30 June 2017	362,000	1,261,000	6,320,620	376,553	32,510	8,352,683
At 30 June 2018	362,000	1,229,475	5,884,995	327,232	39,926	7,843,588

The property, plant and equipment were revalued by Knight Frank Valuers Limited, registered valuers, as at 30 June 2017. The land was valued on an Open Market Value basis while the other assets were valued on a Depreciated Replacement Cost basis. The Group's policy is to revalue property, plant and equipment at least once every three to five years (refer to note 3).

Properties owned by the Group, Land Reference numbers 337/639, 8649, 9767 and 8786, and plant and machinery have been charged to secure loan facilities as disclosed under note 34.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

18. PROPERTY, PLANT AND EQUIPMENT CONT'D

(a) Year ended 30 June 2017

CONSOLIDATED

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Computers, office equipment, furniture and Fittings KShs'000	Total KShs'000
COST OR VALUATION						
At 1 July 2016	360,325	1,228,399	7,509,746	866,870	152,760	10,118,100
Additions	-	-	72,733	8,913	2,668	84,314
Disposals	-	-	-	(55,859)	-	(55,859)
Transfer to Investment Property	(46,800)	-	-	-	-	(46,800)
Surplus/(deficit) on revaluation	48,475	32,601	(1,261,859)	(443,371)	(122,918)	(1,747,072)
At 30 June 2017	362,000	1,261,000	6,320,620	376,553	32,510	8,352,683
COMPRISING						
Valuation as at 30 June 2017	241,363	1,121,035	1,121,261	-	-	2,483,659
Cost	120,637	139,965	5,199,359	376,553	32,510	5,869,024
At 30 June 2017	362,000	1,261,000	6,320,620	376,553	32,510	8,352,683
DEPRECIATION						
At 1 July 2016	-	87,240	1,072,802	409,485	83,668	1,653,195
Charge for the year	-	30,710	499,340	150,734	20,777	701,561
Depreciation adjustments				1,135	(137)	998
Eliminated on disposal	-	-	-	(35,888)	-	(35,888)
Written back on revaluation	-	(117,950)	(1,572,142)	(525,466)	(104,308)	(2,319,866)
At 30 June 2017	-	-	-	-	-	-
NET CARRYING AMOUNT						
At 30 June 2016	360,325	1,141,159	6,436,944	457,385	69,092	8,464,905
At 30 June 2017	362,000	1,261,000	6,320,620	376,553	32,510	8,352,683

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

18. PROPERTY, PLANT AND EQUIPMENT CONT'D

(b) **Year ended 30 June 2018**

COMPANY

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor Vehicles KShs'000	Computers, office equipment, furniture and Fittings KShs'000	Total KShs'000
COST OR VALUATION						
At 1 July 2017	362,000	1,261,000	6,320,620	376,762	32,329	8,352,711
Additions	-	-	46,888	20,681	15,892	83,461
Disposals	-	-	-	(3,991)	-	(3,991)
Critical spares adjustment	-	-	(62,203)			(62,203)
At 30 June 2018	362,000	1,261,000	6,305,304	393,452	48,221	8,369,978
COMPRISING						
Valuation as at 30 June 2018	241,363	1,121,035	1,121,261			2,483,687
Cost	120,637	139,965	5,184,043	393,452	48,221	5,886,291
At 30 June 2018	362,000	1,261,000	6,305,304	393,452	48,221	8,369,978
DEPRECIATION						
At 1 July 2017	-	-	-	-	-	-
Charge for the year	-	31,525	420,349	66,674	8,417	526,965
Depreciation adjustments	-	-	-	-	50	50
Eliminated on disposal	-	-	-	(663)	-	(663)
At 30 June 2018	-	31,525	420,349	66,011	8,467	526,352
NET CARRYING AMOUNT						
At 30 June 2017	362,000	1,261,000	6,320,620	376,762	32,329	8,352,711
At 30 June 2018	362,000	1,229,475	5,884,955	327,441	39,755	7,843,626

The property, plant and equipment were revalued by Knight Frank Valuers Limited, registered valuers, as at 30 June 2017. The land was valued on an Open Market Value basis while the other assets were valued on a Depreciated Replacement Cost basis. The Group's policy is to revalue property, plant and equipment at least once every three to five years (refer to note 3). Properties owned by the Group, Land Reference numbers 337/639, 8649, 9767 and 8786, and plant and machinery have been charged to secure loan facilities as disclosed under note 34.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

18. PROPERTY, PLANT AND EQUIPMENT CONT'D

(b) Year ended 30 June 2017

COMPANY

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Computers, office equipment, furniture and fittings KShs'000	Total KShs'000
COST OR VALUATION						
At 1 July 2016	360,325	1,228,399	7,509,746	863,470	152,579	10,114,519
Additions	-	-	72,733	8,913	2,668	84,314
Disposals	-	-	-	(52,250)	-	(52,250)
Transfer to Investment Property	(46,800)	-	-	-	-	(46,800)
Surplus/(deficit) on revaluation	48,475	32,601	(1,261,859)	(443,371)	(122,918)	(1,747,072)
At 30 June 2017	362,000	1,261,000	6,320,620	376,762	32,329	8,352,711
COMPRISING						
Valuation as at 30 June 2016	241,363	1,121,035	1,121,261	-	-	2,483,659
Cost	120,637	139,965	5,199,359	376,762	32,329	5,869,052
At 30 June 2018	362,000	1,261,000	6,320,620	376,762	32,329	8,352,711
DEPRECIATION						
At 1 July 2016	-	87,240	1,072,802	408,244	83,542	1,651,828
Charge for the year	-	30,710	499,340	150,084	20,766	700,900
Depreciation adjustments	-	-	-	1,136	-	1,136
Eliminated on disposal	-	-	-	(33,998)	-	(33,998)
Written back on revaluation	-	(117,950)	(1,572,142)	(525,466)	(104,308)	(2,319,866)
At 30 June 2017	-	-	-	-	-	-
NET CARRYING AMOUNT						
At 30 June 2016	360,325	1,141,159	6,436,944	455,226	69,037	8,462,691
At 30 June 2017	362,000	1,261,000	6,320,620	376,762	32,329	8,352,711

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

18. PROPERTY, PLANT AND EQUIPMENT CONT'D

(c) If the revalued property, plant and equipment were carried in the financial statements at historical cost, the balances at year-end would have been as follows:

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Computers office equipment, furniture and fittings KShs'000	Total KShs'000
30 June 2018						
Cost	120,637	139,965	5,184,043	393,452	48,222	5,886,319
Accumulated depreciation	-	(3,499)	(355,893)	(69,534)	(2,947)	(431,873)
Net carrying amount	120,637	136,466	4,828,150	323,918	45,275	5,454,466
30 June 2017						
Cost	167,437	1,190,194	10,434,137	1,513,359	549,536	13,854,663
Accumulated depreciation	-	(380,530)	(5,603,390)	(1,341,876)	(513,076)	(7,838,872)
Net carrying amount	**167,437**	**809,664**	**4,830,747**	**171,483**	**36,460**	**6,015,791**

(d) Finance leases

There were no additions made during the year under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

(e) Fair value hierarchy:

CONSOLIDATED

As at 30 June 2018

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Property, plant and equipment	-	-	7,843,588	7,843,588
As at 30 June 2017				
Property, plant and equipment	-	-	8,352,683	8,352,683

There were no transfers between Levels 1, 2 and 3 in the period.

COMPANY

As at 30 June 2018

	Level 1 KShs '000	**Level 2 KShs '000**	**Level 3 KShs '000**	**Total fair value KShs '000**
Property, plant and equipment	-	-	7,843,626	7,843,626
As at 30 June 2017				
Property, plant and equipment	-	-	8,352,711	8,352,711

There were no transfers between Levels 1, 2 and 3 in the period.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

18. PROPERTY, PLANT AND EQUIPMENT CONT'D

The land was valued on an open market value basis while the other assets were valued on a depreciated replacement cost basis.

19. CAPITAL WORK-IN-PROGRESS

	CONSOLIDATED AND COMPANY	
COST	2018	2017
At the beginning of the year Additions	KShs'000	KShs'000
At end of the year	184,232	184,232
	6,150	6,150
	190,382	190,382

Work in progress mainly relates to costs incurred towards assembling a grate cooler for the kiln.

	CONSOLIDATED AND COMPANY	
	2018	2017
	KShs'000	KShs'000
20. PREPAID OPERATING LEASES		
COST		
At the beginning and at the end of the year	12,877	12,877
Reclassified to investment property	(2,636)	-
Disposal to Kenya National Highways Authority	(281)	-
	9,960	12,877
AMORTISATION		
At the beginning of the year	3,761	3,656
Charge for the year	(239)	105
At the end of the year	3,522	3,761
NET CARRYING AMOUNT		
At end of the year	6,438	9,116
	=======	=======

The Group and Company have entered into operating lease agreements for leasing of most of its land where it extracts limestone. These leases have an average life of 952 years with a renewal option on expiry of the contract.

21. INVESTMENT PROPERTIES

Investment properties relate to three pieces of leasehold land held by the Group under long-term lease arrangements and a freehold parcel in Kikambala. The land was valued at KShs 27.1 billion by Lloyd Masika Valuers, accredited independent valuers, as at 30 June 2018. The fair value was determined based on the comparable market approach that reflects the recent transaction prices for similar properties and restrictions on use of parts of the properties due to invasion by squatters.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

21. INVESTMENT PROPERTIES CONT'D

	CONSOLIDATED AND COMPANY	
	2018 KShs'000	2017 KShs'000
At the beginning of the year	15,867,999	15,736,956
Reclassified from freehold land	-	46,800
Reclassified from leasehold land	2,606	-
Disposal to Kenya National Highways Authority	(28,097)	-
	15,842,508	15,783,756
Gain on fair value of investment property in the books on 1 July 2017	6,063,949	84,243
Gain on fair value of property reclassified from leasehold land	5,278,295	-
Total fair value gain on investment property	11,342,244	84,243
At end of year	27,184,752	15,867,999

Parts of the investment properties are currently occupied by squatters. Court orders have in the past been granted in favour of the Company. The Company continues to pursue several avenues to reclaim the occupied properties. During the year, the directors assessed the use of some of the Group's properties and on this basis, reclassified one parcel held for capital appreciation from leasehold land to investment properties.

Fair value hierarchy:

CONSOLIDATED AND COMPANY

As at 30 June 2018

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Investment properties	-	27,184,752	-	27,184,752

There were no transfers between levels 1, 2 and 3 in the period.

CONSOLIDATED AND COMPANY

As at 30 June 2017	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Investment properties	-	15,867,999	-	15,867,999

There were no transfers between levels 1, 2 and 3 in the period.
The fair value was determined based on the comparable market approach that reflects the recent transaction prices for similar properties and restrictions on use of parts of the properties due to invasion by squatters.

22. INVESTMENT IN SUBSIDIARY

Company	Beneficial ownership	Country of incorporation	2018 KShs'000	2018 KShs'000
East African Portland Cement Company Uganda Limited	100%	Uganda	2,500	2,500

The principal activity of the subsidiary is the sale of cement purchased from the parent company.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The subsidiary has not issued any preference shares.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

23. LOAN SWAP

As part of its asset and liability management, the Group and Company use derivatives for hedging purposes in order to reduce its exposure to foreign currency risks. This is done by engaging in currency swaps.

Currency swaps relate to contracts taken out by the Group with a financial institution in which the Group either receives or pays cross currency to the financial institution. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities at year-end.

	CONSOLIDATED AND COMPANY	
	2018 KShs'000	2017 KShs'000
Assets		
Cross currency swap	375,664	994,263
Liabilities		
Cross currency swap	504,421	882,792

The consolidated exchanged a Japanese Yen loan payable of JPY 1,461,280,000 for a US$ 18,409,754 equivalent resulting in a loss of KShs 62,434,756 as at 30 June 2018 (2017 - loss of KShs 103,270,000). The derivative instruments are carried in the books of account at fair value. The swaps will mature on 20 March 2020.

	CONSOLIDATED AND COMPANY	
	2018 KShs'000	2017 KShs'000
24. DEPOSITS		
Short-term deposits:		
KCB Bank Kenya Limited	41,021	38,672
	41,021	38,672

The short-term deposits mature within three months and the weighted average interest rate earned on the deposits at 30 June 2018 was 10.5% (2017 – 10.5%).

	CONSOLIDATED		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
25. INVENTORIES				
Consumables	1,919,325	1,895,737	1,919,325	1,895,737
Raw materials	101,671	115,165	101,671	115,165
Work-in-progress	10,052	12,149	10,052	12,149
Finished products	32,217	71,851	30,666	69,592
	2,063,265	2,094,902	2,061,714	2,092,643
Provision for obsolete inventories	(814,601)	(804,800)	(814,601)	(804,800)
	1,248,664	1,290,102	1,247,113	1,287,843

The cost of inventories recognised as an expense during the year in respect of continuing operations was KShs 994 Million (2017: KShs 1.4 billion).

No inventory was written off in the current year.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

26. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Gross trade receivables	558,389	544,681	454,888	453,830
Impaired trade receivables	(379,378)	(349,209)	(331,742)	(318,438)
Net trade receivables	179,011	195,472	123,146	135,392
Staff receivables	45,142	86,473	44,977	86,237
Deposits, prepayments and other receivables	408,202	119,805	381,238	104,699
	632,355	401,750	549,361	326,328

Trade receivables are non-interest bearing. The bulk of the trade receivables are covered by bank guarantees in favour of the Group. For terms and conditions relating to related party receivables, refer to note 27.

Deposits, prepayments and other receivables are unsecured, non-interest bearing and their carrying amounts approximate their fair value.

As at 30 June, the aging analysis of trade receivables was as follows:

		CONSOLIDATED		
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Neither past due nor impaired	48,275	130,688	42,224	90,520
Past due but not impaired trade receivables:				
Between 15 and 30 days	8,061	19,833	8,061	13,737
Between 31 and 60 days	19,405	30,875	14,052	21,385
Over 60 days	103,270	14,076	58,809	9,750
Total trade receivables not impaired	179,011	195,472	123,146	135,392
Impaired trade receivables	379,378	349,209	331,742	318,438
Gross trade receivables	558,389	544,681	454,888	453,830

The Group has provided for all receivables that are impaired. These receivables are over 120 days old. The movement in the provision for credit losses is as set out below:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

26. TRADE AND OTHER RECEIVABLES CONT'D

CONSOLIDATED	Trade receivables KShs'000	Other receivables KShs'000	Total KShs'000
Year ended 30 June 2018			
At the beginning of the year	349,209	62,601	411,810
Additions	30,169	-	30,169
At end of the year	379,378	62,601	441,979
Year ended 30 June 2017			
At the beginning of the year	328,577	62,601	391,178
Additions	20,632	-	20,632
At end of the year	349,209	62,601	411,810
COMPANY			
Year ended 30 June 2018			
At the beginning of the year	318,438	62,601	381,039
Additions	13,304	-	13,304
At end of the year	331,742	62,601	394,343

	Trade receivables KShs'000	Other receivables KShs'000	Total KShs'000
Year ended 30 June 2017			
At the beginning of the year	286,652	62,601	349,253
Additions	31,786	-	31,786
At end of the year	318,438	62,601	381,039

27. RELATED PARTIES

Outstanding balances arising from transactions with related companies.

	CONSOLIDATED 2018 KShs'000	CONSOLIDATED 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
(a) Amount due from related parties:				
The East African Portland Cement Company Uganda Limited	-	-	370,378	350,397
Less : provision for impairment	-	-	(359,464)	-
		-	10,914	350,397

East African Portland Cement Uganda Limited is wholly owned subsidiary of East African Portland Cement Plc. Bamburi Cement Limited own 12.5% of the ordinary shares in East African Portland Cement Company Limited, Cementia Trading AG and Lafarge SA own 14.6% of the ordinary shares in East African Portland Cement Plc.

The following transactions were carried out with related parties during the year:-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

27. RELATED PARTIES CONT'D

(b) Transactions with related parties:

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Sales to the East African Portland Cement Uganda Limited	-	-	118,475	13,723

(c) Directors' remuneration:

	CONSOLIDATED 2018 KShs'000	CONSOLIDATED 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Fees for services as directors	1,100	1,100	1,100	1,100
Other emoluments	25,791	47,222	25,791	47,222
	26,891	48,322	26,891	48,322

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
(d) Key management compensation:				
Short-term employee benefits	68,832	80,717	68,832	80,717
Post-employment benefits	11,769	14,720	11,769	14,720
	80,601	95,437	80,601	95,437
(e) Due to Government of Kenya:				
Long-term loan	735,029	371,984	735,029	371,984

28. BANK AND CASH BALANCES

	CONSOLIDATED 2018 KShs'000	CONSOLIDATED 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Bank balances	2,984	142,336	2,181	142,261
Cash on hand	5,042	9,350	2,415	2,429
	8,026	151,686	4,596	144,690

Bank balances do not earn any interest.

29. SHARE CAPITAL AND RESERVES

(a) Share capital

	CONSOLIDATED 2018 KShs'000	CONSOLIDATED 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Authorised:				
126,000,000 shares of KShs 5 each	630,000	630,000	630,000	630,000
Authorised, issued and fully paid:				
90,000,000 shares of KShs 5 each	450,000	450,000	450,000	450,000

(b) Share premium

The share premium is not distributable and represents the amounts above the par value of shares received by the company on issue of ordinary shares.

(c) Asset revaluation reserve

The asset revaluation reserve is not distributable and is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decrease in value relates to an increase in value on the same asset previously recognised in equity.

(d) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of the foreign subsidiary, East African Portland Cement Uganda Limited.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

30. STAFF GRATUITY

This represents outstanding obligations in respect of staff gratuity payable under the Collective Bargaining Agreement for unionisable staff and staff on contract. The movement during the year was as follows:

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Balance at the beginning of the year	1,205,875	1,088,970	1,205,875	1,088,696
Paid during the year	(202,956)	(213,132)	(202,956)	(212,858)
Provision for the year	222,972	330,037	222,732	329,770
At end of year	1,225,891	1,205,875	1,225,651	1,205,608

31. LONG - TERM LOANS

(a) JAPANESE LOAN

The Overseas Economic Co-operation Fund of Japan (JICA) loan guaranteed by Kenya Government is denominated in Japanese Yen and is repayable in 41 half yearly instalments by 20 March 2020 with interest accruing at 2.5% per annum. The principal loan balance as at year end was – JPY 730,640,000 (2017 – JPY 1,095,960,000).

	CONSOLIDATED AND COMPANY	
	2018	2017
	KShs'000	KShs'000
Loan principal	690,010	1,050,994
Accrued interest	2,382	3,641
As at end of year	692,392	1,054,635

(b) TERM LOANS

The interest rate during the year was at 10.5% (2017 - 10.5%). The loan was secured against the assets financed.

The Group restructured its loans and obtained an additional financing to the tune of KShs 1,566,726,000(2017: KShs 175,000,000) from KCB Bank Kenya Limited at annual interest rates of 13% (2017 – 14%).The term loan and composite working capital facilities are secured by an all asset debenture over all the assets of the Company and a legal charge over certain properties owned by the company, Land Reference numbers 337/639, 8649, 9767 and 8786, and a fixed and floating debenture over the company's assets to an aggregate value of KShs 4,224,000,000.

	CONSOLIDATED AND COMPANY	
	2018	2017
	KShs'000	KShs'000
Loans principal	2,843,357	1,150,616
Accrued interest	-	36,385
As at end of year	2,843,357	1,187,001
(c) MATURITY ANALYSIS OF LONG TERM LOANS:		
Japanese loan	692,392	1,054,635
Asset finance loans	2,843,357	1,187,001
Government Debt (note 27 (e))	735,029	371,984
Insurance Premium Financing	-	25,004
Total loans	4,270,778	2,638,624
Less: repayable within one year	(662,650)	(862,029)
Repayable after one year	3,608,128	1,776,595

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

31. LONG - TERM LOANS CONT'D

(d) POST IMPORT FINANCE LOANS

The Group purchased imported bulk raw materials at a cost of KShs 563,493,000 (2017:

KShs 700,288,000) financed through a post import finance facility from KCB Bank Kenya Limited. The interest rate during the year was at 15.3% (2017 – 15.3%). The loans are repayable within 6 months and secured under the composite facility with KCB Bank Kenya Limited (refer to note 35).

	CONSOLIDATED AND COMPANY	
	2018	2017
	KShs'000	KShs'000
As at end of year	347,927	308,878

(e) The borrowing costs capitalized in relation to construction and installation of qualifying assets during the year amount to KShs Nil (2017 – Kshs 62,510,041).

32. DEFERRED TAXATION

CONSOLIDATED AND COMPANY 2018

Movements in deferred tax during the year were as follows:-

	1 July 2017 KShs'000	Through profit or loss KShs'000	Other comprehensive income KShs'000	At 30 June 2018 KShs'000
Deferred tax liabilities				
Property, plant and equipment	2,238,342	(135,098)	-	2,103,244
Investment properties	791,010	568,227	-	1,359,238
	3,029,352	433,130	-	3,462,482
Deferred tax assets				
Tax loss (business)	(2,054,918)	(692,031)	-	(2,746,949)
Provision for staff leave	(19,157)	(4,939)	-	(24,096)
Provision for staff gratuity	(361,683)	(6,012)	-	(367,695)
Inventories provision	(9,282)	(2,941)	-	(12,223)
Staff debts provision	(19,459)	-	-	(19,459)
Bad debts provision	(194,721)	(111,830)	-	(306,551)
Unrealised exchange loss	34,798	6,371	-	41,169
Accrued Staff liability	-	(465,689)	-	(465,689)
Accrued Pension provision	-	(518)	-	(518)
Realised exchange loss – trading	-	(1,528)	-	(1,528)
	(2,624,422)	(1,279,118)	-	(3,903,539)
Balance as at end of year	404,930	(845,987)	-	(441,057)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

32. DEFERRED TAXATION CONT'D

CONSOLIDATED AND COMPANY 2017				
Deferred tax liabilities				
Property, plant and equipment	2,022,407	44,097	171,838	2,238,342
Investment properties	786,798	4,212	-	791,010
	2,809,205	48,309	171,838	3,029,352
Deferred tax assets				
Tax loss (business)	(1,761,095)	(293,823)	-	(2,054,918)
Provision for staff leave	(26,363)	7,206	-	(19,157)
Provision for staff gratuity	(326,609)	(35,074)	-	(361,683)
Inventories provision	(4,184)	(5,098)	-	(9,282)
Staff debts provision	(18,780)	(679)	-	(19,459)
Bad debts provision	(185,185)	(9,536)	-	(194,721)
Unrealised exchange loss	(5,407)	40,205	-	34,798
	(2,327,623)	(301,010)	-	(2,624,422)
Balance as at end of year	481,582	(252,701)	171,838	404,930

Deferred tax asset of Sh 2.7 Billion (2017: Sh 2 Billion) arising from tax losses were assessed at the end of the reporting period and were recognised to the extent that it was probable that future taxable profit will allow the deferred tax asset to be recovered based on projected financial performance.

	CONSOLIDATED AND SEPARATE	
	2018	2017
	KShs'000	KShs'000
33. BANK OVERDRAFT		
KCB Bank Kenya Limited	1,074,697	2,069,634

The Group has a composite working capital facility for bank overdraft, post import finance, letters of credit and guarantees with the KCB Bank Kenya Limited. The approved limit as at year-end was

KShs 970,000,000 (2017: KShs 2,030,000,000) and drawings against this facility attract interest at market rates. The composite working capital facility and asset based finance facilities are secured by an all asset debenture over all the assets of the Company and a legal charge over certain properties owned by the company, Land Reference numbers 337/639, 8649, 9767 and 8786, and a fixed and floating debenture over the company's assets to an aggregate value of KShs 4,224,000,000.

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
34. TRADE AND OTHER PAYABLES				
Trade payables	3,301,100	2,174,063	3,310,639	2,183,483
Other payables and accruals	2,461,383	643,460	2,447,408	639,965
Advance receipts from customers	43,599	36,469	43,599	36,470
Balance as at end of year	5,806,081	2,853,992	5,801,646	2,859,918

Trade and other payables are non-interest bearing. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

	CONSOLIDATED AND COMPANY	
	2018	2017
	KShs'000	KShs'000
35. DIVIDENDS PAYABLE		
Dividend payable	101,680	101,680

36. STATEMENT OF CASH FLOWS

(a) Reconciliation of profit/(loss) before taxation to net cash from operations

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
(Loss)/profit before taxation	6,962,122	(1,712,903)	6,637,185	(1,674,501)
Adjustments for:				
Depreciation (note 18)	526,973	701,561	526,965	700,900
Amortisation on prepaid operating leases (note 20)	(239)	106	(239)	106
Loss/(gain) on sale of property, plant and equipment	(302,331)	(9,637)	(302,331)	(9,637)
Fair value gain on investment property (note 21)	(11,342,244)	(84,243)	(11,342,244)	(84,243)
Exchange (gain)/loss on foreign currency loan	(21,233)	(134,018)	(21,233)	(134,018)
Staff gratuity provision (note 30)	222,972	330,037	222,732	330,037
Interest expense				
-Long term loan	22,035	30,740	22,035	30,740
-Bank overdraft	219,485	289,111	219,485	289,111
-Interest on post import financing	33,654	-	33,654	-
-Interest on lease obligations	-	-	-	-
-Derivative instrument	32,067	44,102	32,067	44,102
-Asset finance loan	231,435	171,094	231,435	171,094
Interest income	(2,831)	(2,136)	(2,766)	(2,070)
Fair value loss on derivative instrument	306,607	62,435	306,607	62,435
Movements in working capital items:				
Inventories	41,438	56,016	40,731	47,695
Trade and other receivables	(230,605)	123,824	(223,033)	73,124
Trade and other payables	2,952,089	317,066	2,941,728	324,972
Bonus and legal fees				
Related party balances	-	474	339,483	52,216
Staff gratuity paid (note 30)	(202,956)	(213,132)	(202,956)	(213,132)
Net cash from operations	(551,562)	(29,503)	(540,695)	8,931

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

36. STATEMENT OF CASH FLOWS CONT'D

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
(b) Movement in loans				
(i) Japanese loan				
Balance at the beginning of the year	1,050,994	1,523,868	1,050,994	1,523,868
Foreign currency exchange loss/(gain)	(21,233)	(134,018)	(21,233)	(134,018)
Repayments during the year	(339,751)	(338,856)	(339,751)	(338,856)
Balance at end of year	690,010	1,050,994	690,010	1,050,994
Payment of swap loans	(378,371)	(547,488)	(378,371)	(547,488)
Receipt from swap asset	678,706	579,701	678,706	579,701
Total loan repayment	(39,416)	(306,643)	(39,416)	(306,643)
(ii) Term loans				
Balance at the beginning of the year	1,150,616	1,363,066	1,150,616	1,363,066
Receipts during the year	1,566,726	175,000	1,566,726	175,000
Repayment of asset finance loan	-	(387,450)	-	(387,450)
Balance at end of year	2,717,342	1,150,616	2,717,342	1,150,616
(iii) Post import finance loans				
Balance at the beginning of the year	308,879	-	308,879	-
Receipts during the year	347,927	563,493	347,927	563,493
Repayments during the year	(308,879)	(254,614)	(308,879)	(254,614)
Balance at end of year	347,927	308,879	347,927	308,879
(c) Interest paid on borrowings				
Balance at the beginning of the year	3,641	4,811	3,641	4,811
Interest charge on long–term loan	22,036	30,740	22,036	30,740
Accrued as at 30 June (note 32)	(2,382)	(3,641)	(2,382)	(3,641)
Interest paid on long–term loan	23,295	31,910	23,295	31,910
Interest paid on overdraft	219,485	289,111	219,485	289,111
Interest paid on asset finance loan	141,804	171,094	141,804	171,094
Interest paid on lease obligations	33,649	-	33,649	-
Interest on loan swap liabilities	32,067	44,102	32,067	44,102
Interest paid on borrowings	450,300	536,217	450,300	536,217
(d) Movement in Government debt				
Balance at the beginning	371,984	-	371,984	-
Receipts during the year	363,045	371,984	363,045	371,984
Balance at end of the year	735,029	371,984	735,029	371,984
(e) Analysis of cash and cash equivalents				
Short term deposits (note 24)	41,020	38,672	41,020	38,672
Bank and cash balances (note 28)	8,026	151,686	4,596	144,690
Bank overdraft (note 34)	(1,074,697)	(2,069,634)	(1,074,697)	(2,069,634)
	(1,025,651)	(1,879,276)	(1,029,081)	(1,886,272)

37. RETIREMENT BENEFITS OBLIGATIONS

The Group, with effect from 1 July 2006, operates a defined contribution pension scheme for senior and supervisory staff. The scheme was previously a non-contributory defined benefits pension scheme. The scheme is administered independently by Zamara Kenya (formerly known as Alexander Forbes Financial Services (E.A) Limited), while its investments are managed by Stanbic Investments Services (East Africa) Limited. Contributions to this scheme during the year amounted to KShs 62,391,673 (2017 – KShs 64,089,942).

The Group also operates an in-house gratuity scheme for unionisable employees. Contributions to this gratuity scheme are governed by a collective bargaining agreement that is reviewed triennially and was last reviewed on 30 June 2013. These contributions are not invested or managed as a separate fund, but are self-funded and are fully provided for in the Group financial statements.

The Group also contributes to the statutory defined contribution pension schemes in Kenya and Uganda, the National Social Security Funds. Contributions to the statutory schemes are determined by statute in the respective countries and are limited to specific contributions legislated from time to time. The Group's contributions are charged to profit or loss in the year to which they relate. Contributions to these schemes during the year amounted to KShs 2,952,938 (2017 – KShs 3,029,200).

38. REVENUE ANALYSIS AND SEGMENTAL REPORTING

	2018 KShs'000	2017 KShs'000
The Consolidated revenues are derived from sales in the following markets:		
Local market – Kenya	5,130,127	6,923,749
Regional market (East Africa)	52,594	4,558
	5,182,721	6,928,307

Sales to the regional market are done through the wholly owned subsidiary, The East African Portland Cement Uganda Limited, whose net assets constitute less than 5% of the Group's total net assets. Segment reporting with respect to net assets is, therefore, not considered of any real value. In addition, the local sales are 98% (2017 – 99%) of the total revenue hence there is only one reportable segment.

39. CAPITAL MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while optimising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The Group does not have a gearing ratio target and it is not subject to any imposed capital requirements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

The constitution of capital managed by the Group is as follows:

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Equity(i)	24,696,045	16,890,983	24,626,319	17,153,710
Debt (ii)	4,618,705	2,947,503	4,618,705	2,947,502
Add: cash and cash equivalents				
(note 36(e))	1,025,651	1,879,276	1,029,081	1,886,272
Net debt	5,644,356	4,826,779	5,647,786	4,833,774
Gearing ratio	23%	29%	23%	28%

(i) Equity includes all capital and reserves of the Group that are managed as capital.

(ii) Debt is defined as long term and short term borrowings, post import finance and obligations under finance leases (excluding derivatives as described in note 23).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance/internal audit department under policies approved by the Board of Directors. The finance/internal audit department identifies, evaluates and mitigates financial risks. The board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of non derivative financial instruments and investing excess liquidity.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

Credit Risk

Credit risk arises from trade and other receivables, cash and cash equivalents, deposits with banks and amounts due from related parties. The Group management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for credit losses already recognized.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

39. CAPITAL MANAGEMENT CONT'D

The amount that best represents the Group's and Company's maximum exposure to credit risk is made up as follows:

	Neither past due nor impaired KShs'000	Past due but not impaired KShs'000	Impaired KShs'000	Total KShs'000
CONSOLIDATED				
At 30 June 2018				
Trade receivables	168,502	13,466	376,537	558,505
Amount due from related party	-	-	-	-
Bank balances	8,026	-	-	8,026
Deposits	41,021	-	-	41,021
At 30 June 2017				
Trade receivables	169,668	25,804	349,209	544,681
Amount due from related party	-	-	-	-
Bank balances	151,686	-	-	151,665
Deposits	38,672	-	-	38,672
COMPANY				
At 30 June 2018				
Trade receivables	123,432	8,722	328,901	461,055
Amount due from related parties	13,929	350,397	-	364,326
Bank balances	4,596	-	-	4,596
Deposits	41,021	-	-	41,021
At 30 June 2017				
Trade receivables	160,374	301,888	318,438	780,699
Amount due from related parties	-	18,188	-	18,188
Bank balances	144,690	-	-	144,690
Deposits	**38,672**	**-**	**-**	**38,672**

The customers under the fully performing category are paying their debts as they continue trading. The debt that is overdue is not impaired and continues to be paid. The finance department is actively following these debts. The impaired debt has been fully provided for. As at 30 June 2018 the Group held bank guarantees amounting to KSh 255 Million against trade receivables. There was no concentration risk.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables analyse the Group's and company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT'D

	Up to 1 month KShs'000	1 – 3 Months KShs'000	3 – 12 Months KShs'000	1 – 5 years KShs'000	Total KShs'000
CONSOLIDATED					
At 30 June 2018					
Financial assets					
Trade receivables	448,203	184,152	-	-	632,355
Amount due from related party	-	-	-	-	-
Bank balances and cash	8,026	-	-	-	8,026
Loan swap asset	-	48,936	48,313	278,415	375,664
Deposits	41,021	-	-	-	41,021
Total financial assets	497,250	233,087	48,313	278,415	1,057,066
Financial liabilities					
Trade and other payables	5,806,078	-	-	-	5,806,078
Borrowings:					
Long term loan	-	90,196	89,045	513,151	692,392
Loan swap liability	-	68,336	66,748	369,337	504,421
Asset finance loan	80,552	278,349	1,026,461	1,457,995	2,843,357
Bank overdraft	1,074,697	-	-	-	1,074,697
Government Debt	-	363,045	-	371,984	735,029
Total financial liabilities	6,961,478	799,926	1,182,254	2,712,467	11,655,974
Net liquidity gap	(6,464,077)	(566,838)	(1,133,941)	(2,434,052)	(10,598,908)
CONSOLIDATED					
At 30 June 2017					
Financial assets					
Trade receivables	283,627	118,123	-	-	401,750
Amount due from related party	-	-	-	-	-
Bank balances and cash	151,686	-	-	-	151,686
Loan swap asset	-	129,520	127,868	736,874	994,262
Deposits	38,672	-	-	-	38,672
Total financial assets	473,985	247,643	127,868	736,874	1,586,370
Financial liabilities					
Trade and other payables	847,489	1,019,526	307,048	-	2,174,063
Borrowings:					
- Long term loan	-	231,432	228,480	1,316,683	1,776,595
- Loan swap liability	-	119,596	116,816	646,380	882,792
- Asset finance loan	32,597	112,639	415,376	590,004	1,150,616
- Bank overdraft	2,069,634	-	-	-	2,069,634
Total financial liabilities	2,949,720	1,483,193	1,067,720	2,553,067	8,053,700
Net liquidity gap	(2,475,735)	(1,235,550)	(939,852	(1,816,193)	(6,467,330)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT'D

	Up to 1 month KShs'000	1 – 3 Months KShs'000	3 – 12 Months KShs'000	1 – 5 years KShs'000	Total KShs'000
COMPANY					
At 30 June 2018					
Financial assets					
Trade receivables	395,546	153,815	-	-	549,361
Amount due from related party	10,914	-	-	-	10,914
Bank balances and cash	8,026	-	-	-	8,026
Loan swap asset	-	48,937	48,313	278,414	375,664
Deposits	41,021	-	-	-	41,021
Total financial assets	455,507	202,752	48,313	278,414	984,986
Financial liabilities					
Trade and other payables	5,801,646	-	-	-	5,801,646
Borrowings:					
Long term loan	-	90,196	89,045	513,151	692,392
Loan swap liability	-	68,336	66,748	369,337	504,421
Asset finance loan	80,552	278,349	1,026,461	1,457,995	2,843,357
Bank overdraft	1,074,697	-	-	-	1,074,697
Government Debt	-	363,045	-	371,984	735,029
Total financial liabilities	6,956,895	799,926	1,182,254	2,712,467	11,651,542
Net liquidity gap	(6,501,388)	(591,123)	(1,133,941)	(2,434,052)	(10,660,505)

	Up to 1 month KShs'000	1 – 3 Months KShs'000	3 – 12 Months KShs'000	1 – 5 years KShs'000	Total KShs'000
COMPANY					
At 30 June 2017					
Financial assets					
Trade receivables	200,361	126,508	-	-	326,869
Amount due from related party	-	350,397	-	-	350,397
Bank balances and cash	144,690	-	-	-	144,690
Loan swap asset	-	129,520	127,868	736,874	994,262
Deposits	38,672	-	-	-	38,672
Total financial assets	383,723	606,425	127,868	736,874	1,854,890
Financial liabilities					
Trade and other payables	848,098	1,028,117	307,268	-	2,183,483
Borrowings:					
Long term loan	-	231,432	228,480	1,316,683	1,776,595
Loan swap liability	-	119,596	116,816	646,380	882,792
Asset finance loan	32,597	112,639	415,376	590,004	1,150,616
Bank overdraft	2,069,634	-	-	-	2,069,634
Total financial liabilities	2,950,329	1,491,784	1,067,940	2,553,067	8,063,120
Net liquidity gap	(2,566,606)	(885,359)	(940,072)	(1,816,193)	(6,208,230)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT'D

Market risk

(i) Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	UShs KShs'000	US$ KShs'000	JPY KShs'000
30 June 2018			
Assets			
Bank and cash balances	-	4,793	-
Loan swap asset	-	-	375,664
Trade receivables and other receivables	75,246	33,204	-
	75,246	37,997	375,664
Liabilities			
Borrowings	-	-	692,392
Loan swap liability	-	504,421	-
Trade and other payables	4,433	180,909	-
	4,433	685,330	692,392
30 June 2017			
Assets			
Bank and cash balances	5,151	1,712	-
Loan swap asset	-	-	994,263
Trade receivables and other receivables	74,135	9,425	-
	79,286	11,137	994,263
Liabilities			
Borrowings	-	-	1,504,635
Loan swap liability	-	882,792	-
Trade and other payables	-	29,245	-
	-	912,037	1,504,635

Foreign exchange risk – Appreciation/depreciation of Kenya shilling against other currency by 5%

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the reporting date with all other variables held constant.

CONSOLIDATED AND SEPARATE

		2018	2017	
	KShs' 000 Effect on profit	KShs' 000 Effect on equity	KShs' 000 Effect on profit	KShs' 000 Effect on Equity
Currency – Ugandan shillings				
+ 5% KShs movement	13,715	14,024	7,043	8,578
- 5% KShs movement	(13,715)	(14,024)	(7,043)	(8,578)
Currency - US dollars				
+ 5% KShs movement	42,247	42,247	64,247	64,247
- 5% KShs movement	(42,247)	(42,247)	(64,247)	(64,247)
Currency – JPY				
+ 5% KShs movement	23,774	23,774	14,248	14,248
-5% KShs movement	(23,774)	(23,774)	(14,248)	(14,248)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT'D

(ii) Interest rate risk

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. To minimise the exposure, the consolidated has negotiated a fixed interest rate on the borrowings. The consolidated closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the reporting date.

Included in the tables below are the consolidated's and company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month KShs'000	1-3 Months KShs'000	3-12 Months KShs'000	1-5 Years KShs'000	Over 5 years KShs'000	Total KShs'000
At 30 June 2018						
Assets						
Deposits	-	-	-	-	-	-
Liabilities						
Borrowings	105,177	383,291	1,524,855	2,257,455	-	4,270,778
Bank overdraft	-	-	1,074,697	-	-	1,074,697
At 30 June 2017						
Assets						
Deposits	-	-	-	-	-	-
Liabilities						
Borrowings	72.589	264,531	1,052,388	1,557,996	-	2,947,503
Bank overdraft	-	-	2,069,634	-	-	2,069,634

Interest rate risks – Increase / decrease of 5% in net interest margin

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the reporting date with all other variables held constant.

	KShs' 000 Effect on profit	2018 KShs' 000 Effect on equity	2017 KShs' 000 Effect on profit	KShs' 000 Effect on Equity
+5% Movement	(47,766)	(47,766)	(34,587)	(34,587)
-5 % Movement	47,766	47,766	34,587	34,587

(iii) Fair values of financial instruments

The Group had financial instruments whose subsequent measurement is at fair value.

Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover instruments measured at fair value.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT'D

Level 1

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Level 3

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group.

Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT'D

CONSOLIDATED AND COMPANY At 30 June 2018

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Financial assets designated at fair value through profit and loss				
Loan swap asset	-	375,664	-	375,664
Financial liabilities designated at fair value through profit and loss				
Long term loans	-	3,608,120	-	3,608,120
Loan swap liabilities	-	504,421	-	504,421
Total financial liabilities	-	4,112,541	-	4,112,541
CONSOLIDATED AND COMPANY				
At 30 June 2017				
Financial assets designated at fair value through profit and loss				
Loan swap asset	-	994,263	-	994,263
Financial liabilities designated at fair value through profit and loss				
Long term loans	-	1,776,595	-	1,776,595
Loan swap liabilities	-	882,792	-	882,792
Total financial liabilities	-	2,659,387	-	2,659,387

	CONSOLIDATED AND COMPANY	
	2018 KShs'000	2017 KShs'000
41. CONTINGENT LIABILITIES		
Tax assessment	473,000	473,000
Pending law suits	373,300	373,300
Pending sale of land to Superior Homes case.	440,796	440,796
	1,287,096	1,287,096

Pending law suits relate to legal proceedings involving the company for breach of contracts. However, in the opinion of the directors, no liability is likely to crystallise.

Tax Assessment

The Kenya Revenue Authority (KRA) carried out an audit of the company covering corporate tax, employee taxes, withholding tax and VAT for the period from 2005 to 2008 and raised an assessment on the company of KShs 2.5 billion on the tax heads mentioned above. Out of this assessment, KShs 1.7 billion has been solved with the tax authorities. The company has paid KShs 122 million and appealed against a further KShs 473 million through the

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

41. CONTINGENT LIABILITIES CONT'D

Local Committee, which subsequently ruled in favour of the company. KRA however filed a notice to appeal in the High Court against the Local Committee ruling. The substantive appeal to the High Court has however not been filed by KRA. Consequently, no provision has been made for any tax liability that may arise from this assessment in these Consolidated Financial Statements.

Land and Environment Court case cause 931 of 2013

The Company had filed a contest in the court of appeal challenging an extension of execution of a consent entered between the Company and Superior homes on the sale of 337 acres of land to be hived off from parcel Land Reference Number 8784/4. In the Company perspective, Superior Homes had defaulted on the provisions of the consent by not providing an acceptable Bank security within the period of the consent. Superior homes challenged this matter in the High court in 2013 and was granted a favorable ruling extending the execution period by 120 days from the date of the ruling. This is the ruling the Company contested in the court of appeal.

The Company lost the appeal and the court affirmed the execution period to be 120 days from the date of the ruling. The ruling noted existence of conditions which were to be met by the Company to facilitate the sale given its status as a State Corporation.

The Company has assessed the financial impact of the court ruling allowing 120 days for execution, which would result in disposal of the 337 acres at a price of Kshs. 2.226 million per acre (agreed on in year 2012) against the carrying value of the parcel at Kshs. 5.192 million per acre. If executed, this transaction shall translate to an impairment of the 337 acre portion by Kshs. 440.796 million (Kshs. 1.308 million per acre). The liability will only crystallize when the sale is executed per the consent entered into and when the required sanctions are provided.

The Company plans to progress the matter to the next legal avenue given the public interest tied to the State Corporation. Execution of the sale can only be finalized with the approval of the parent ministry and the cabinet, a change in policy that occurred way after the initial option granted to Superior Homes.

	2018 KShs'000	2017 KShs'000
42. CAPITAL COMMITMENTS		
Authorised by the directors but not contracted for	1,017,000	1,003,888
Authorised by the directors and contracted for	-	36,022

43. OPERATING LEASE RENTALS

The Group has entered into operating lease agreements for leasing of most of its depots. These leases have an average life of between 12 months to 36 months with a renewal option on expiry of the contract.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2018 KShs'000	2017 KShs'000
Within 1 year	22,242	23,862
Later than 1 year but not later than 2 years	21,524	22,938
	43,667	46,800

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONT'D

44. COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act and is listed on the Nairobi Securities Exchange.

45. CURRENCY

These financial statements are presented in thousands of Kenya Shillings (KShs '000).

46. EVENTS AFTER THE REPORTING DATE

Subsequent to year end, the company entered into an agreement to sell a portion of fully mined idle land for KShs. 5.2 Billion. No other material events or circumstances have arisen between the reporting date and the date of this report.

PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION

Principal shareholders and share distribution

The ten largest shareholdings in the Company and the respective number of shares held at 30 June 2018 are as follows:

	Shareholder Name & Address	No of Shares	Percentage
1	Board Of Trustees National Social Security Fund (NSSF)	24,300,000	27.0
2	The Permanent Secretary to The National Treasury	22,799,505	25.3
3	Cementia Holding AG	13,180,442	14.6
4	Associated International Cement Ltd	13,144,442	14.6
5	Nairobi Nominees Ltd A/C BCL	11,265,068	12.5
6	Kestrel Capital Nominees Ltd A/C 006	1,222,007	1.4
7	Gidjoy Investments Ltd	700,000	0.8
8	Kenya Commercial Bank Nominees Limited A/C 885	450,000	0.5
9	Nairobi Nominees Ltd A/C MSV	218,500	0.2
10	Kestrel Capital Nominees Ltd A/C Madrugada	215,800	0.2
	Total	**87,495,764**	**97.2**

Share Distribution As At June 30, 2018

Category	No of Shares	Shares Held	Percentage
1-1,000	1,003	304,495	0.34
1,001-5,000	234	564,708	0.63
5,001-10,000	43	308,860	0.34
10,000-50,000	30	608,111	0.68
50,001-100,000	4	270,662	0.30
Over 100,000	13	87,943,164	97.71
Total	**1,327**	**90,000,000**	**100.00**

NOTICE OF THE ANNUAL GENERAL MEETING

TO ALL SHAREHOLDERS
THE EAST AFRICAN PORTLAND CEMENT PLC

NOTICE is hereby given that the 86th Annual General Meeting of the Company will be held at the Company's Club House, Athi River on 11th January 2019 at 12 noon to transact the following business:-

AGENDA

1. To read the notice convening the meeting, table proxies and to confirm the presence of a quorum.
2. To confirm the minutes of the 85rd Annual General Meeting held on 15th December 2017.
3. To receive the Chairman's report.
4. To receive, consider and adopt the Financial Statements for the year ended 30th June 2018 together with the reports of the Directors and Auditors thereon.
5. To note that the Directors do not recommend payment of a dividend in respect of the financial year ended 30 June 2018.
6. To re-elect Mr. Edwin M. Kinyua, MBS as a Director of the Company, who retires at this meeting in accordance with Article 83 of the Company's Articles of Association, and being eligible, offers himself for re-election.
7. To re-elect the Principle Secretary (State Department for Investment and Industry), Ministry of Industry, Trade and Co-operatives, Ms. Betty Maina, MBS as a Director of the Company who retires at this meeting in accordance with Article 98 and 99 of the Company's Articles of Association, and being eligible, offers herself for re-election.
8. To re-elect the Cabinet Secretary of the National Treasury, Mr. Henry Rotich as a Director of the Company who retires at this meeting in accordance with Article 98 and 99 of the Company's Articles of Association, and being eligible, offers himself for re-election.
9. To approve the remuneration of the Directors as shown in the Financial Statements for the year ended 30 June 2018.
10. To note that the audit of the Company's book of accounts will continue to be undertaken by the Auditor-General or an audit firm appointed in accordance with Section 11 of the State Corporations Act (as amended by the Miscellaneous Law Amendment Act, 2002) , and Sections 14 and 39 (i) of the Public Audit Act, 2003.
11. To transact any other business of an annual general meeting of which due notice has been received.

BY ORDER OF THE BOARD

Sheila Kahuki
Company Secretary
29th November 2018

Note:- A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

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THE EAST AFRICAN PORTLAND CEMENT PLC

PROXY FORM

I/WE ____

OF ____

Being a member of the above Company, hereby appoint:

____

OF ____

Whom failing ____

OF ____

Or failing him, the Chairman of the Meeting, my/our proxy, to vote for me/us and my/our behalf at the Annual General Meeting of the Company to be held on 11th January 2019 at noon and at any adjournment thereof.

As witness my/our hand this ____________ day of ____________ 2019

Signed ____________________

Signed ____________________

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a Limited Company this form must be completed under its common seal or under the hand of an officer or attorney duly authorized in writing.
3. Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.

EAPC PLC DEPOTS

Eldoret - Located on Farmers Road off, KVDA Kiplombe Road
Kakamega - Paulina House Mumias Road opposite the Mosque
Bungoma - Mumias Road, KFA building
Nairobi - Rapid Kate Complex Mombasa Road opposite Cabanas Stage
Kisumu- Along Obote Road opposite KWAL Depot
Nyahururu - Located in Mbaria Complex, Kenyatta Avenue, Nakuru Roundabout Nyahururu Town
Kajiado Town - KCB Road, before down town oil well Petrol Station & Opposite Shiv Prabva H/w.
Karatina - Industrial Road along Magunas Supermarket opposite AFC
Machakos - Located on Mbolu-Malu Road, opposite Kenol Kobil off Kagundo Road
Meru - Meru Makutano, Maua Road opposite Kenya Power, near Equity Bank Makutano
Nakuru - KIE Nakuru, Lower Bedi Rd.

VIRTUAL DEPOTS

Naivasha General Masters
Naivasha Town
Jane- 0720322164

Saris HW
Kitengela
Allan - 0720 778388

The Option One Distributors
Keria
Munene - 0720 764030

Double Kei
Transporters& Gen
Karatina
James - 0720 955422

Franell Development Co
Githurai Kimbo
Francis - 0722 899417

Triscan Solutions
Kiambaa
Vincent - 0721 385582

City Link
Olkalou
Moses - 0723 285276

Makutano Stores
Matuu
Peter - 0728 661875

Huruma Stores
(Luka Gitonga)
Nkubu
Luka - 0724 859706

Genesis Chuma
Hardware
Zimmerman
Paul - 0721 922106

Speedcom
Kiambaa
Simon - 0722 360455

Wan Ikam
Wa Kimbo Flyover
Tharau - 0721 140529

Ceama
Utawala
Mbili - 0720 856710

Dhir Holdings Limited
Parklands
Dilip - 0722 606242

Nanek
Dagoretti
Nderitu - 0792 541519

Kamweru Mining
Chuka
Baabu - 0722 775732

Karanja G Murugi
Nakuru
Grace - 0721 866519

New Muthokinju
Hardware
Kasarani
Ben - 0718 244596

Elephant Hardware
Nakuru
Simon - 0721 585996

Shreeji Universal
Meru
Shreeji - 0702 388600

Pop Metal
Dagoretti
George - 0725 647572

Korbash Traders
Garissa
Korbash - 0722 123679

Winny Traders
Wangige
George - 0722 174141

East African Portland Cement PLC

Holding Life Together

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