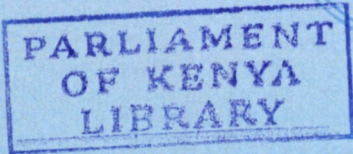


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

PAPER LAID BY THE
LEADER OF THE
MAJORITY PARTY (LORD
ADEN DUALE, MP) ON
25/01/2017
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REPORT

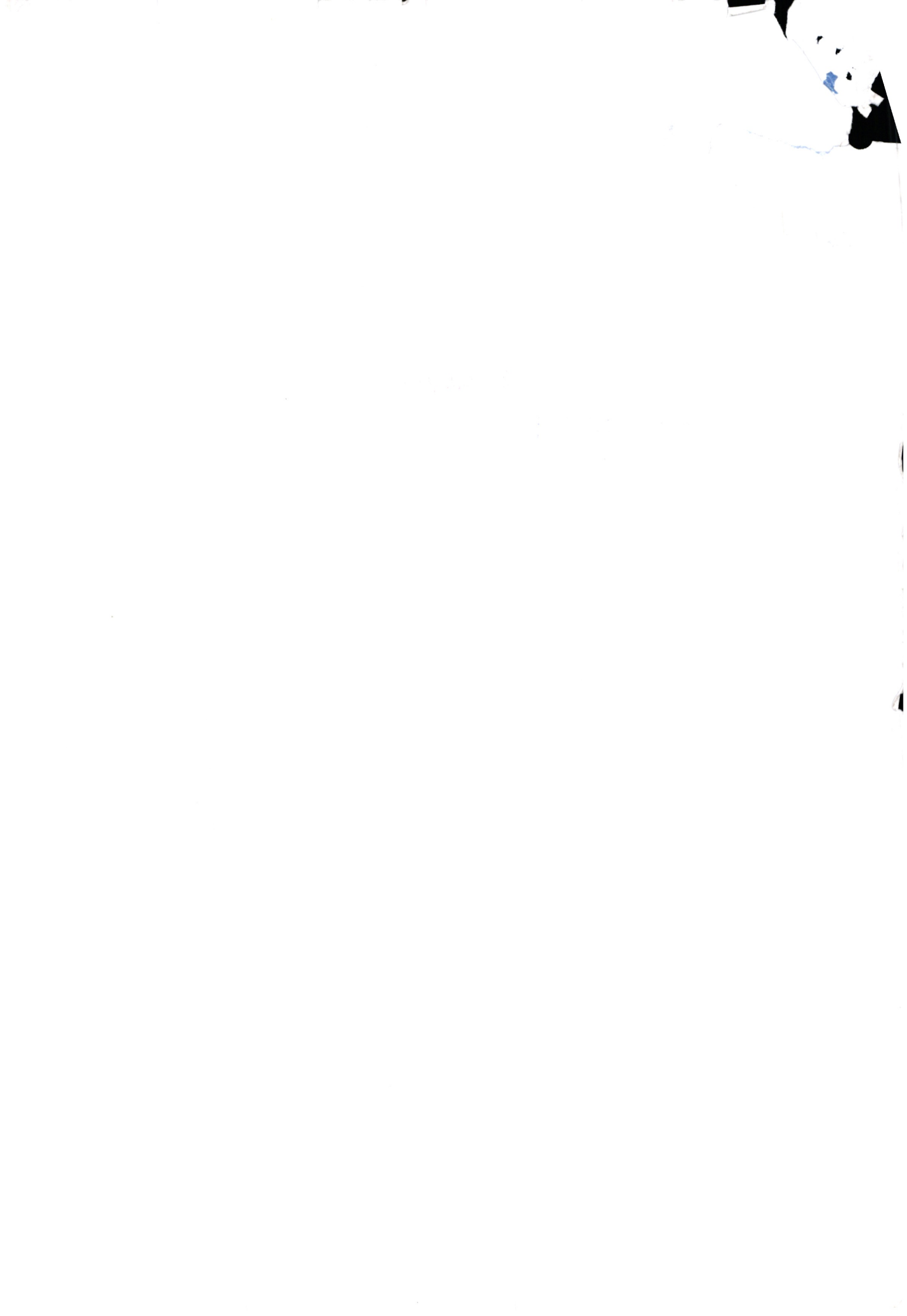
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
EAST AFRICAN PORTLAND CEMENT
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2016**



Deloitte.

**THE EAST AFRICAN PORTLAND
CEMENT COMPANY LIMITED**

**AUDITED ANNUAL REPORT AND
FINANCIAL STATEMENTS**

30 JUNE 2016

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
CORPORATE INFORMATION

DIRECTORS	William Lay Simon Peter Ole Nkeri Kungu Gatabaki Prof. Sarone Ole Sena Henry Rotich National Social Security Fund (NSSF) Julius Korir	- Chairman - Managing Director - Cabinet Secretary, National Treasury (Alternate - J. Kinyanjui) - (Represented by Dr. Anthony Omerikwa - Principal Secretary, Ministry of Industrialization, State Department of Industry and Enterprise Development (Alternate - Charles 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 Citibank, N.A Citibank House P. O. Box 30711 -00100 Nairobi Stanbic Bank Limited Kimathi Street P. O. Box 30550 -00100 Nairobi Equity Bank Limited Kenyatta Avenue P. O. Box 104860 - 00100 Nairobi	Standard Chartered Bank Kenya Limited Kenyatta Avenue P. O. Box 30003 - 00100 Nairobi The Co-operative Bank of Kenya Limited P. O. Box 321 - 00204 Athi River Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 7111 Kampala KCB Bank Uganda Limited 6 th 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	

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2016

The Directors present their report together with the audited financial statements of The East African Portland Cement Company Limited (“the company”) and its subsidiary (together, “the Group”) for the year ended 30 June 2016 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.

GROUP FINANCIAL RESULTS

	2016 Sh'000
Profit before taxation	3,734,752
Taxation credit	411,003
	<hr/>
Profit for the year transferred to retained earnings	4,145,755
	<hr/> <hr/>

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the current year (2015: KShs nil).

DIRECTORS

The present directors are shown on page 1. The following changes have taken place since 1 July 2015:


Mr. Simon Peter Ole Nkeri was appointed to the Board of Directors on 5 August 2016 and Mr. Kephur L. Tande retired from the Board of Directors on the same date.

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 2016 and report to the Auditor General.

By Order of the Board


Secretary

Nairobi

31 October 2016

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED


STATEMENT OF DIRECTORS' RESPONSIBILITIES

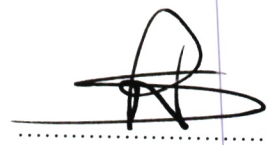
The Kenyan Companies Act requires the Directors to prepare the consolidated and company financial statements ("financial statements") for each financial year which give a true and fair view of the state of affairs of the Group and of the company as at the end of the financial year and of their operating results for that year. It also requires the Directors to ensure that the company and its subsidiary keep proper accounting records which disclose with reasonable accuracy at any time their financial position. They are also responsible for safeguarding the assets of the Group.

The Directors are responsible for the preparation of financial statements that give a true and fair view of the company and its subsidiary in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the company and of their operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Disclosures regarding going concern are provided in note 2 to these financial statements. No other matters have come to the attention of the Directors to indicate that the company and its subsidiary will not remain going concern for at least the next 12 months from the date of this statement.


.....
Director


.....
Director

31 October 2016

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of East African Portland Cement Company Limited set out on pages 7 to 66, which comprise the consolidated and Company's statements of financial position as at 30 June 2016, and the consolidated and Company's statements of profit and loss and other comprehensive income, consolidated and Company's statements of changes in equity and consolidated and Company's statements 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 and in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the statement that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

Report of the Auditor-General on East African Portland Cement Company Limited for the year ended 30 June 2016

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects the financial position of the East African Portland Cement Company Limited as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Companies Act, 2015 of the Laws of Kenya.

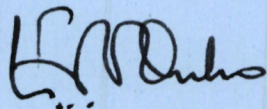
Emphasis of Matter

I draw attention to note 2 to the financial statements, which indicates that the Group incurred a loss from operations of Kshs.1,584,571,000 during the year ended 30 June 2016 (2015 – Kshs.577,579,000) and, as of that date, the Group's current liabilities exceeded its current assets by Kshs.2,847,272,000 (2015 – Kshs.608,035,000). These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. My opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



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

Nairobi

08 November 2016

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	GROUP		COMPANY	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
REVENUE	5	8,871,456	8,417,621	8,822,902	8,308,592
COST OF SALES	6	(7,283,948)	(6,591,115)	(7,259,108)	(6,460,440)
GROSS PROFIT		1,587,508	1,826,506	1,563,794	1,848,152
Other operating income	7	78,768	208,751	78,768	255,309
		1,666,276	2,035,257	1,642,562	2,103,461
EXPENSES					
Selling and distribution	8	(297,734)	(453,733)	(282,659)	(420,288)
Administration and establishment	9	(1,937,310)	(1,811,901)	(1,922,736)	(1,794,787)
Other operating expenses	10	(1,015,803)	(347,202)	(982,636)	(339,918)
		(3,250,847)	(2,612,836)	(3,188,031)	(2,554,993)
LOSS FROM OPERATIONS		(1,584,571)	(577,579)	(1,545,469)	(451,532)
INTEREST INCOME	11	4,357	4,068	4,208	3,751
FINANCE COSTS	12	(618,125)	(369,327)	(618,125)	(369,327)
EXCHANGE (LOSS)/GAIN ON FOREIGN CURRENCY LOAN	14	(305,706)	174,834	(305,706)	174,834
GAIN ON LAND COMPULSORILY ACQUIRED BY THE GOVERNMENT FOR THE STANDARD GAUGE RAILWAY PROJECT		-	836,962	-	836,962
FAIR VALUE GAIN ON INVESTMENT PROPERTY	21	6,238,797	7,273,113	6,238,797	7,273,113
PROFIT BEFORE TAXATION	13	3,734,752	7,342,071	3,773,705	7,467,801
TAXATION CREDIT/(CHARGE)	16(a)	411,003	(185,001)	411,003	(180,348)
PROFIT FOR THE YEAR		4,145,755	7,157,070	4,184,708	7,287,453

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016 (Continued)

	Note	GROUP		COMPANY	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
PROFIT FOR THE YEAR		4,145,755	7,157,070	4,184,708	7,287,453
OTHER COMPREHENSIVE INCOME					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operation		(8,588)	15,348	-	-
TOTAL OTHER COMPREHENSIVE INCOME		(8,588)	15,348	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,137,167	7,172,418	4,184,708	7,287,453
EARNINGS PER SHARE					
- Basic and diluted (KShs)	17	46.06	79.52	46.50	80.97

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	GROUP		COMPANY	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
ASSETS					
NON CURRENT ASSETS					
Property, plant and equipment	18(a)	8,464,905	8,687,860	8,462,691	8,684,752
Capital work- in- progress	19	178,973	154,604	178,973	154,604
Prepaid operating leases	20	9,221	9,348	9,221	9,348
Investment properties	21	15,736,956	9,498,159	15,736,956	9,498,159
Investment in subsidiary	22	-	-	2,500	2,500
Loan swap asset	23	1,305,321	1,573,964	1,305,321	1,573,964
Restricted deposits	24	31,896	31,311	31,896	31,311
		<u>25,727,272</u>	<u>19,955,246</u>	<u>25,727,558</u>	<u>19,954,638</u>
CURRENT ASSETS					
Inventories	25	1,346,118	1,856,282	1,335,538	1,841,959
Trade and other receivables	26	525,574	1,089,453	399,452	942,775
Amount due from related parties	27	474	474	402,613	366,250
Taxation recoverable	16(c)	76,811	79,241	72,169	78,398
Short term deposits	24	36,553	33,673	36,553	33,673
Bank balances and cash	28	129,318	98,213	104,939	80,481
		<u>2,114,848</u>	<u>3,157,336</u>	<u>2,351,264</u>	<u>3,343,536</u>
TOTAL ASSETS		<u>27,842,120</u>	<u>23,112,582</u>	<u>28,078,822</u>	<u>23,298,174</u>
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)	1,465,726	1,666,628	1,465,726	1,666,628
Retained earnings		15,370,759	11,024,102	15,621,989	11,236,379
Foreign currency translation reserve	29(d)	12,275	20,863	-	-
TOTAL EQUITY		<u>17,946,760</u>	<u>13,809,593</u>	<u>18,185,715</u>	<u>14,001,007</u>
NON CURRENT LIABILITIES					
Loan swap liability	23	1,186,082	1,430,280	1,186,082	1,430,280
Staff gratuity	31	1,088,970	1,035,653	1,088,696	1,035,346
Long - term loan	32(c)	2,176,606	2,172,077	2,176,606	2,172,077
Deferred taxation	34	481,582	899,608	481,582	899,608
		<u>4,933,240</u>	<u>5,537,618</u>	<u>4,932,966</u>	<u>5,537,311</u>
LIABILITIES					
Current portion of long - term loans	32(c)	716,751	847,142	716,751	847,142
Post import finance loans	32(d)	-	300,906	-	300,906
Obligations under finance leases	33	-	16,331	-	16,331
Bank overdraft	34	1,606,770	556,003	1,606,770	556,003
Trade and other payables	36	2,536,919	1,943,309	2,534,940	1,937,794
Dividends payable	37	101,680	101,680	101,680	101,680
		<u>4,962,120</u>	<u>3,765,371</u>	<u>4,960,141</u>	<u>3,759,856</u>
TOTAL EQUITY AND LIABILITIES		<u>27,842,120</u>	<u>23,112,582</u>	<u>28,078,822</u>	<u>23,298,174</u>

The financial statements on pages 7 to 66 were approved and authorised for issue by the board of directors on 31 October 2016 and were signed on its behalf by:

)
) Directors
)

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Retained earnings			Foreign currency translation reserve** KShs'000	Total KShs'000
				Investment property revaluation gains KShs'000	Realised profits KShs'000	Total retained earnings KShs'000		
At 1 July 2014	450,000	648,000	1,884,722	2,224,054	1,492,384	3,716,438	5,515	6,704,675
Transfer of excess depreciation	-	-	(287,003)	-	287,003	287,003	-	-
Deferred tax on excess depreciation	-	-	86,101	-	(86,101)	(86,101)	-	-
Transfer of revaluation surplus on disposal of equipment (net of deferred tax)	-	-	(17,192)	-	17,192	17,192	-	-
Dividends paid	-	-	-	-	(67,500)	(67,500)	-	(67,500)
Profit for the year	-	-	-	6,798,255	358,815	7,157,070	-	7,157,070
Other comprehensive income	-	-	-	-	-	-	15,348	15,348
Total comprehensive income for the year	-	-	-	6,798,255	358,815	7,157,070	15,348	7,172,418
At 30 June 2015	450,000	648,000	1,666,628	9,022,309	2,001,793	11,024,102	20,863	13,809,593
At 1 July 2015	450,000	648,000	1,666,628	9,022,309	2,001,793	11,024,102	20,863	13,809,593
Transfer of excess depreciation	-	-	(287,003)	-	287,003	287,003	-	-
Deferred tax on excess depreciation	-	-	86,101	-	(86,101)	(86,101)	-	-
Profit/(loss) for the year	-	-	-	4,367,158	(221,403)	4,145,755	-	4,145,755
Other comprehensive income	-	-	-	-	-	-	(8,588)	(8,588)
Total comprehensive income for the year	-	-	-	4,367,158	(221,403)	4,145,755	(8,588)	4,334,316
At 30 June 2016	450,000	648,000	1,465,726	13,389,467	1,981,292	15,370,759	12,275	17,946,760

* 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

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
 COMPANY STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2016

	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Retained earnings			Total KShs'000
				Investment property revaluation gains KShs'000	Realised profit KShs'000	Total Retained earnings KShs'000	
At 1 July 2014	450,000	648,000	1,884,722	2,224,054	1,574,278	3,798,332	6,781,054
Transfer of excess depreciation	-	-	(287,003)	-	287,003	287,003	-
Deferred tax on excess depreciation	-	-	86,101	-	(86,101)	(86,101)	-
Transfer of revaluation surplus on disposal of equipment (net of deferred tax)	-	-	(17,192)	-	17,192	17,192	-
Dividends paid	-	-	-	-	(67,500)	(67,500)	(67,500)
Profit for the year	-	-	-	6,798,255	489,198	7,287,453	7,287,453
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	6,798,255	489,198	7,287,453	7,287,453
At 30 June 2015	450,000	648,000	1,666,628	9,022,309	2,214,070	11,236,379	14,001,007
At 1 July 2015	450,000	648,000	1,666,628	9,022,309	2,214,070	11,236,379	14,001,007
Transfer of excess depreciation	-	-	(287,003)	-	287,003	287,003	-
Deferred tax on excess depreciation	-	-	86,101	-	(86,101)	(86,101)	-
Profit for the year	-	-	-	4,367,158	(182,450)	4,184,708	4,184,708
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	4,367,158	(182,450)	4,381,857	4,184,708
At 30 June 2016	450,000	648,000	1,465,726	13,389,467	2,232,522	15,621,989	18,185,715

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

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	GROUP		COMPANY	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from/(used in) operations	38(a)	829,567	(39,326)	810,682	(19,590)
Interest paid	38(c)	(470,979)	(351,273)	(470,979)	(351,273)
Interest received		4,357	1,045	4,208	728
Income tax paid	16(c)	(4,593)	(7,476)	(794)	(917)
Net cash generated from/(used in) operating activities		358,352	(397,030)	343,117	(371,052)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	18	(467,001)	(545,651)	(467,001)	(542,251)
Additions to capital work-in-progress	19	(101,186)	(409,320)	(101,186)	(409,320)
Proceeds of sale of land		-	836,970	-	836,970
Proceeds of sale of motor vehicles		4,070	4,624	4,070	4,624
Net cash used in investing activities		(564,117)	(113,377)	(564,117)	(109,977)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	30	-	(3,899)	-	(3,899)
Receipt of asset finance loan	38(b)	323,636	1,083,751	323,636	1,083,751
Repayment of asset finance loan	38(b)	(425,324)	(216,333)	(425,324)	(216,333)
Loan repayment	38(b)	(383,504)	(347,482)	(383,504)	(347,482)
Receipt of post import finance loans	38(b)	700,288	300,906	700,288	300,906
Repayment of post import finance loans	38(b)	(1,001,194)	(324,274)	(1,001,194)	(324,274)
Repayment of finance lease obligation	38(d)	(16,331)	(37,158)	(16,331)	(37,158)
Net cash (used in)/generated from financing activities		(802,429)	455,511	(802,429)	455,511
DECREASE IN CASH AND CASH EQUIVALENTS		(1,008,194)	(54,896)	(1,023,429)	(25,518)
Effects of exchange rate changes on the balance of cash		(8,588)	15,348	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(424,117)	(384,569)	(441,849)	(416,331)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	38(e)	(1,440,899)	(424,117)	(1,465,278)	(441,849)

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
 NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
 (Continued)

1. GENERAL INFORMATION

East African Portland Cement Company Limited 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 reported a loss from operations of Kshs 1.6Billion (2015: Kshs 578Million) with staff costs representing 31% of its revenue at Kshs 2.7Billion (2015: Kshs 2.6Billion). The current liabilities exceeded current assets by Kshs 2.9Billion with the available unutilized working capital facilities at Kshs 45Million.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Management has put in place various strategies and has sought the appropriate necessary support from the government towards raising the required financing. This is meant to support capitalization of the business, 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.

The above initiatives among other strategies which the management has put in place are expected to increase turnover and turn around the business.

On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

3. ACCOUNTING POLICIES

Statement of compliance

The consolidated and separate financial statements ("financial statements") are prepared in accordance and comply with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years and are set out below:

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

(i) New standards and amendments to published standards effective for the year ended 30 June 2016

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

IFRS 13 Fair Value Measurement	The amendment to the basis for conclusions of IFRS 13 clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.
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The application of the amendments has had no impact on the disclosures or on the amounts recognised in the financial statements.

IAS 16 Property, Plant and Equipment; IAS 38 Intangible Assets	The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
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As the company has not revalued its plant and equipment and intangible assets with indefinite useful lives, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the financial statements.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

3. ACCOUNTING POLICIES (Continued)

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

(i) *New standards and amendments to published standards effective for the year ended 30 June 2016 (Continued)*

IAS 24 Related Party Disclosures	The amendment clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.
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The application of this standard has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

(ii) *New standards and amendments to published standards effective for the year ended 30 June 2016*

Annual Improvements 2011- 2013	<p>The annual improvements 2011-2013 cycle makes amendments to the following standards:</p> <ul style="list-style-type: none">• IFRS 3 — The amendment clarifies that IFRS 3 does not apply to the accounting for the formation of joint arrangement in the financial statements of the joint arrangement itself.• IFRS 13 — The amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.• IAS 40 — The amendment clarifies that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring an investment property must determine whether:<ul style="list-style-type: none">(a) the property meets the definition of investment property in accordance with IAS 40; and(b) the transaction meets the definition of a business combination in accordance with IFRS 3.
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An entity should apply the amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts the amendment. Consequently, accounting for acquisitions of investment property in prior periods should not be restated. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred prior to the beginning of the first annual period occurring on or after the effective date (i.e. 1 July 2014) if and only if information needed to apply the amendment to earlier transactions is available to the entity.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2016.

The new terminologies have been adopted in these financial statements. In other respects the application of the amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
 NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
 (Continued)

3. ACCOUNTING POLICIES (Continued)

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

(ii) *Relevant new and amended standards in issue but not yet effective in the year ended 30 June 2016 (continued)*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 1	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS's Annual improvements	1 January 2016

(iii) *Impact of new and amended standards on the financial statements for the year ended 30 June 2016 and future annual periods*

IFRS 9 Financial Instruments

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

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

(iii) *Impact of new and amended standards on the financial statements for the year ended 30 June 2016 and future annual periods(Continued)*

IFRS 9 Financial Instruments (Continued)

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk 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 FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as 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 no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

3. ACCOUNTING POLICIES (Continued)

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

(iii) *Impact of new and amended standards on the financial statements for the year ended 30 June 2016 and future annual periods(Continued)*

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.

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if IFRS 9 is early adopted).

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle 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. 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

Far more prescriptive guidance has been introduced by the new revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.
- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

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 company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial statements.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

3. ACCOUNTING POLICIES (Continued)

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

(iii) Impact of new and amended standards on the financial statements for the year ended 30 June 2016 and future annual periods(Continued)

Amendments to IAS 1 (Disclosure Initiative)

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement. Certain key highlights in the amendments are as follows:

- An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
- In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the following items:
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

Application of the amendments need not be disclosed. The directors of the company anticipate that the application of IAS 1 in the future may not have a significant impact on amounts reported in respect of the company's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

3. ACCOUNTING POLICIES (Continued)

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

(iii) *Impact of new and amended standards on the financial statements for the year ended 30 June 2016 and future annual periods(Continued)*

Annual Improvements 2012-2014 Cycle

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 introduces specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendment clarifies that such a change is considered as a continuation of the original plan of disposal and accordingly an entity should not apply paragraphs 27-29 of IFRS 5 regarding changes to a plan of sale in those situations.

The amendments to IFRS 7 provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. Also, the amendment clarifies that the offsetting disclosures are not specifically required for all interim periods. However, the disclosures may need to be included in the condensed interim financial statements to satisfy the requirements in IAS 34 *Interim Financial Reporting*.

The amendments to IAS 19 clarifies that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The basis for conclusions to the amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level which is consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market in such high quality bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency should be used.

The directors of the company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements.

(iii) *Early adoption of relevant standards*

The company did not early-adopt any new or amended standards in the year.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

3. ACCOUNTING POLICIES (Continued)

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.

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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

3. ACCOUNTING POLICIES (Continued)

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 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 EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax (continued)

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 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 five years. The property, plant and equipment were revalued as at 30 June 2013.

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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

3. ACCOUNTING POLICIES (Continued)

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to 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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

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 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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

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 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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

3. ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

The Company holds derivative financial instruments to manage exposures to interest rate and foreign currency risks. These derivatives 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

i) 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 amortised 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 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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Impairment (Continued)

(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 40).

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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

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 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.

Comparatives

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

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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(Continued)

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.

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. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated.

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
5. REVENUE				
Bagged cement – local	8,071,528	7,745,416	8,071,528	7,745,416
Bagged cement – export	219,982	395,430	171,428	286,401
Bulk cement – local	565,049	276,775	565,049	276,775
Paving blocks	14,897	-	14,897	-
	<u>8,871,456</u>	<u>8,417,621</u>	<u>8,822,902</u>	<u>8,308,592</u>
6. COST OF SALES				
Raw materials used	2,419,160	2,154,026	2,419,160	2,154,026
Furnace oil	87,049	72,599	87,049	72,599
Coal	979,010	875,570	979,010	875,570
Factory staff costs	1,196,079	1,188,874	1,196,079	1,188,874
Power	936,677	872,009	936,677	872,009
Factory depreciation	585,367	431,720	585,367	431,720
Maintenance costs	374,832	245,727	374,832	245,727
Raw materials transport	229,394	188,753	229,394	188,753
Transport and import duty	24,840	130,675	-	-
Factory direct supplies	51,884	104,344	51,884	104,344
Fuel and repairs	151,875	150,862	151,875	150,862
Factory insurance	33,054	15,426	33,054	15,426
Exploration expenses	4,651	12	4,651	12
Explosives	6,487	5,531	6,487	5,531
Royalties	120,645	108,712	120,645	108,712
Factory water	26,261	20,474	26,261	20,474
Factory land rates and rent	3,828	3,620	3,828	3,620
Consultancy fees	13,257	12,167	13,257	12,167
Hired equipment	37,961	7,800	37,961	7,800
Other production overheads	1,637	2,214	1,637	2,214
	<u>7,283,948</u>	<u>6,591,115</u>	<u>7,259,108</u>	<u>6,460,440</u>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
7. OTHER OPERATING INCOME				
Exchange gain on foreign currency transactions	-	5,673	-	52,231
Rent and electricity recovery	19,199	20,126	19,199	20,126
Sundry income	59,569	182,952	59,569	182,952
	<u>78,768</u>	<u>208,751</u>	<u>78,768</u>	<u>255,309</u>
8. SELLING AND DISTRIBUTION EXPENSES				
Cement transport	127,910	240,789	127,869	240,281
Advertising and sales commissions	22,234	107,088	19,213	107,081
Fuel and repairs	19,913	24,832	19,913	24,832
Depot rent	27,276	26,847	25,485	24,890
Public relations costs	13,047	28,191	12,836	28,191
Provision for bad and doubtful debts	87,357	25,986	77,343	(4,987)
	<u>297,734</u>	<u>453,733</u>	<u>282,659</u>	<u>420,288</u>
9. ADMINISTRATION AND ESTABLISHMENT EXPENSES				
Staff costs	1,539,809	1,429,522	1,528,473	1,415,699
Depreciation of property, plant and equipment	98,830	123,068	98,030	122,670
Amortisation of intangible assets	-	-	-	-
Amortisation of prepaid operating leases	127	141	127	141
Office supplies	36,383	34,656	36,100	34,248
Travelling expenses	27,278	21,414	27,176	21,104
Hired services	78,608	67,943	78,016	67,402
Telephone and postage	14,933	11,527	14,666	11,290
Company functions	1,414	2,104	1,414	2,104
Board expenses	7,952	7,643	7,952	7,643
Printing and stationery	6,991	9,003	6,802	8,763
Motor vehicle expenses	7,352	8,629	7,154	8,297
Computer expenses	48,977	34,158	48,917	34,124
Electricity	1,763	2,145	1,637	2,018
Office general expenses	66,893	59,948	66,272	59,284
	<u>1,937,310</u>	<u>1,811,901</u>	<u>1,922,736</u>	<u>1,794,787</u>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
10. OTHER OPERATING EXPENSES				
Professional fees	35,416	148,775	35,113	142,850
Subscriptions	1,884	2,272	1,884	2,272
Donations	-	1,502	-	1,502
Bank charges	17,728	55,030	17,553	54,829
Miscellaneous expenses	602	21,945	602	21,945
Auditors' remuneration	8,868	7,908	7,832	6,750
Inventory provisions	790,945	109,770	790,945	109,770
Exchange loss on other foreign currency transactions and balances	160,360	-	128,707	-
	<u>1,015,803</u>	<u>347,202</u>	<u>982,636</u>	<u>339,918</u>
11. INTEREST INCOME				
Interest income	<u>4,357</u>	<u>4,068</u>	<u>4,208</u>	<u>3,751</u>

Interest income was earned on short term and restricted deposits which were held with Kenya Commercial Bank Limited and Housing Finance Company Limited respectively during the year.

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
12. FINANCE COSTS				
Interest on overdraft	140,868	156,547	140,868	156,547
Interest charged on loans	315,591	124,159	315,591	124,159
Interest on loan swap liability	57,672	62,023	57,672	62,023
Interest on lease obligation	724	1,370	724	1,370
Fair value loss on derivatives (note 23)	103,270	87,738	103,270	87,738
Less: Amounts included in the cost of qualifying assets (note 32(e))	-	(62,510)	-	(62,510)
	<u>618,125</u>	<u>369,327</u>	<u>618,125</u>	<u>369,327</u>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
13. PROFIT BEFORE TAXATION				
The profit before taxation is arrived at after charging:				
Directors' emoluments:				
- Fees	1,008	940	1,008	940
- Other emoluments	6,938	6,280	6,938	6,280
Auditors' remuneration	16,422	7,908	15,386	6,750
Staff costs (note 15)	2,735,888	2,612,325	2,724,552	2,604,573
Depreciation (note 18)	687,477	554,787	686,583	554,390
Prepaid operating lease rentals (note 20)	127	141	127	141
Inventory provisions	790,945	109,770	790,945	109,770
Interest expense	514,855	281,589	514,855	281,589
Fair value loss on derivatives	103,270	87,738	103,270	87,738
Foreign exchange loss on foreign currency transactions and balances	160,360	-	128,707	-
Foreign exchange loss on foreign currency loan	305,706	-	305,706	-
Provision for doubtful debts (note 26)	50,453	77,342	128,707	-
And after crediting:				
Foreign exchange gain on loans	-	174,834	-	174,834
Provision for doubtful debts (note 26)	-	-	-	4,987
Gain on land compulsorily acquired by the government for the standard gauge railway project	-	836,962	-	836,962
Gain on disposal of property	1,426	613	1,426	613
Fair value gain on investment property (note 21)	6,238,797	7,273,113	6,238,797	7,273,113
Interest income (note 11)	4,357	4,068	4,208	3,751
	=====	=====	=====	=====

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

The exchange (loss)/gain on the loan arises mainly from the translation of the Japanese Yen denominated loan to Kenya Shillings at the year-end. The loss resulted from the depreciation of the Kenya Shilling by 8.3% (2015 – appreciation of 7%) against the Japanese Yen during the year. However, 50% (2015 – 50%) of the loan was swapped with a USD loan (see note 23).

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
15. STAFF COSTS				
Salaries and wages	2,456,058	2,298,493	2,444,783	2,290,872
Provision for staff gratuity (note 31)	211,364	251,609	211,303	251,478
Pension contributions	64,548	58,535	64,548	58,535
National Social Security Fund (NSSF) costs	3,918	3,688	3,918	3,688
	=====	=====	=====	=====
	2,735,888	2,612,325	2,724,552	2,604,573
	=====	=====	=====	=====

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
16. TAXATION				
(a) Taxation charge				
Current tax based on the adjusted profit for the year at 30%	7,023	11,605	7,023	6,952
Prior year under provision (note 16(c))	-	32,818	-	32,818
	<u>7,023</u>	<u>44,423</u>	<u>7,023</u>	<u>39,770</u>
Deferred taxation				
- Credit for the year (note 34)	(729,966)	(282,349)	(729,966)	(282,349)
- Prior year over provision	-	(51,931)	-	(51,931)
- On revaluation surplus of investment Properties - current year	311,940	363,656	311,940	363,656
- prior year under provision	-	111,202	-	111,202
	<u>(418,026)</u>	<u>140,578</u>	<u>(418,026)</u>	<u>140,578</u>
	<u>(411,003)</u>	<u>185,001</u>	<u>(411,003)</u>	<u>180,348</u>
(b) Reconciliation of expected tax based on accounting profit to the tax charge				
Accounting profit before taxation	<u>3,734,752</u>	<u>7,342,071</u>	<u>3,773,705</u>	<u>7,467,801</u>
Tax at the applicable rate of 30%	1,120,426	2,202,621	1,132,113	2,240,340
Tax effect of items not deductible for tax purposes	100,823	126,038	100,823	126,038
Tax effects on non-taxable income	(1,643,937)	(2,245,301)	(1,643,937)	(2,240,340)
Deferred tax credit not recognised	11,685	42,372	-	-
Prior year deferred tax under provision	-	59,271	-	59,271
	<u>(411,003)</u>	<u>185,001</u>	<u>(411,003)</u>	<u>180,348</u>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
16. TAXATION (Continued)				
(c) Taxation recoverable				
At beginning of year	79,241	116,188	78,398	117,251
Charge for the year (note 16(a))	(7,023)	(11,605)	(7,023)	(6,952)
Prior year under provision (note 16(a))	-	(32,818)	-	(32,818)
Paid in the year	4,593	7,476	794	917
	<u>76,811</u>	<u>79,241</u>	<u>72,169</u>	<u>78,398</u>
At end of year	<u>76,811</u>	<u>79,241</u>	<u>72,169</u>	<u>78,398</u>

17. EARNINGS PER SHARE

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

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Earnings for purposes of basic and diluted earnings per share	<u>4,145,755</u>	<u>7,157,070</u>	<u>4,184,708</u>	<u>7,287,453</u>
Number of ordinary shares (thousands)	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>
Earnings per share basic and diluted (KShs)	<u>46.06</u>	<u>79.52</u>	<u>46.50</u>	<u>80.97</u>

There were no potentially dilutive ordinary shares outstanding at 30 June 2016 or 30 June 2015. Therefore a diluted earnings per share is the same as the basic earnings per share.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
 NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT
 (a) Year ended 30 June 2016

GROUP	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 2015	260,325	1,225,382	7,148,798	878,556	148,991	9,662,052
Additions	100,000	-	360,948	2,284	3,769	467,001
Transfer from Work in progress (note 19)	-	3,017	-	-	-	3,017
Disposals	-	-	-	(13,970)	-	(13,970)
At 30 June 2016	360,325	1,228,399	7,509,746	866,870	152,760	10,118,100
COMPRISING:						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	206,506	-	3,870,948
Cost	167,437	139,965	5,126,626	660,364	152,760	6,247,152
At 30 June 2016	360,325	1,228,399	7,509,746	866,870	152,760	10,118,100
DEPRECIATION						
At 1 July 2015	-	56,106	613,172	253,282	51,632	974,192
Charge for the year	-	31,134	459,630	164,677	32,036	687,477
Eliminated on disposals	-	-	-	(8,474)	-	(8,474)
At 30 June 2016	-	87,240	1,072,802	409,484	83,668	1,653,195
NET CARRYING AMOUNT						
At 30 June 2015	260,325	1,169,276	6,535,626	625,274	97,359	8,687,860
At 30 June 2016	360,325	1,141,159	6,436,944	457,386	69,092	8,464,905

The property, plant and equipment were revalued by Transcountry Valuers Limited, registered valuers, as at 30 June 2013. 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 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 35.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Year ended 30 June 2015

GROUP	Computers, office equipment, furniture and fittings					Total KShs'000
	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	KShs'000	
COST OR VALUATION						
At 1 July 2014	260,325	1,122,167	5,926,922	808,611	110,960	8,228,985
Additions	-	19,898	348,737	138,985	38,031	545,651
Transfer from work in progress (note 19)	-	83,317	873,139	-	-	956,456
Disposals	-	-	-	(7,039)	-	(7,039)
Disposal of leased vehicles	-	-	-	(62,001)	-	(62,001)
At 30 June 2015	260,325	1,225,382	7,148,798	878,556	148,991	9,662,052
COMPRISING:						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	206,506	-	3,870,948
Cost	67,437	136,948	4,765,678	672,050	148,991	5,791,104
At 30 June 2015	260,325	1,225,382	7,148,798	878,556	148,991	9,662,052
DEPRECIATION						
At 1 July 2014	-	28,054	294,733	139,077	22,570	484,434
Charge for the year	-	28,052	318,439	179,234	29,062	554,787
Eliminated on disposals	-	-	-	(3,028)	-	(3,028)
Eliminated on disposal of leased vehicles	-	-	-	(62,001)	-	(62,001)
At 30 June 2015	-	56,106	613,172	253,282	51,632	974,192
NET CARRYING AMOUNT						
At 30 June 2015	260,325	1,169,276	6,535,626	625,274	97,359	8,687,860

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Year ended 30 June 2016

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 2015	260,325	1,225,382	7,148,798	875,156	148,810	9,658,471
Additions	100,000	-	360,948	2,284	3,769	467,001
Transfer from work in progress (note 19)	-	3,017	-	-	-	3,017
Disposals	-	-	-	(13,970)	-	(13,970)
At 30 June 2016	360,325	1,228,399	7,509,746	863,470	152,579	10,114,519
COMPRISING						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	206,506	-	3,870,948
Cost	167,437	139,965	5,126,626	656,964	152,579	6,243,571
At 30 June 2016	360,325	1,228,399	7,509,746	863,470	152,579	10,114,519
DEPRECIATION						
At 1 July 2015	-	56,106	613,172	252,924	51,517	973,719
Charge for the year	-	31,134	459,630	163,794	32,025	686,583
Eliminated on disposal	-	-	-	(8,474)	-	(8,474)
At 30 June 2016	-	87,240	1,072,802	408,244	83,542	1,651,828
NET CARRYING AMOUNT						
At 30 June 2016	360,325	1,141,159	6,436,944	455,226	69,037	8,462,691

The property, plant and equipment were revalued by Transcountry Valuers Limited, registered valuers, as at 30 June 2013. 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 five years (refer to note 3).

Properties owned by the company, Land Reference numbers 337/639, 8649, 9767 and 8786, and plant and machinery have been charged to secure loan facilities as disclosed under note 35.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Year ended 30 June 2015

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 2014	260,325	1,122,167	5,926,922	808,611	110,779	8,228,804
Additions	-	19,898	348,737	135,585	38,031	542,251
Transfer from work in progress (note 19)	-	83,317	873,139	-	-	956,456
Disposals	-	-	-	(7,039)	-	(7,039)
Disposal of leased vehicles	-	-	-	(62,001)	-	(62,001)
At 30 June 2015	260,325	1,225,382	7,148,798	875,156	148,810	9,658,471
COMPRISING:						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	206,506	-	3,870,948
Cost	67,437	136,948	4,765,678	668,650	148,810	5,787,523
At 30 June 2015	260,325	1,225,382	7,148,798	875,156	148,810	9,658,471
DEPRECIATION						
At 1 July 2014	-	28,054	294,733	139,078	22,493	484,358
Charge for the year	-	28,052	318,439	178,875	29,024	554,390
Eliminated on disposals	-	-	-	(3,028)	-	(3,028)
Eliminated on disposal of leased vehicles	-	-	-	(62,001)	-	(62,001)
At 30 June 2015	-	56,106	613,172	252,924	51,517	973,719
NET CARRYING AMOUNT						
At 30 June 2015	260,325	1,169,276	6,535,626	622,232	97,293	8,684,752

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

- (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 2016						
Cost	167,437	1,190,194	10,208,793	1,504,446	546,868	13,617,738
Accumulated depreciation	-	(352,407)	(5,273,556)	(1,237,025)	(483,812)	(7,346,800)
Net carrying amount	<u>167,437</u>	<u>837,787</u>	<u>4,935,237</u>	<u>267,421</u>	<u>63,056</u>	<u>6,270,938</u>
30 June 2015						
Cost	67,437	1,187,177	9,847,845	1,516,132	543,099	13,161,690
Accumulated depreciation	-	(324,284)	(4,943,722)	(1,132,174)	(454,548)	(6,854,728)
Net carrying amount	<u>67,437</u>	<u>862,893</u>	<u>4,904,123</u>	<u>383,958</u>	<u>88,551</u>	<u>6,306,962</u>

- (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:

GROUP

As at 30 June 2016

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Property, plant and equipment	-	8,464,905	-	8,464,905

As at 30 June 2015

Property, plant and equipment	-	8,687,860	-	8,687,860
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There were no transfers between Levels 1, 2 and 3 in the period.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(e) Fair value hierarchy: (Continued)

COMPANY

As at 30 June 2016

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Property, plant and equipment	-	8,462,691	-	8,462,691

As at 30 June 2015

Property, plant and equipment	-	8,684,752	-	8,684,752
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There were no transfers between Levels 1, 2 and 3 in the period.

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

	GROUP AND COMPANY	
	2016	2015
	KShs'000	KShs'000
COST		
At the beginning of the year	154,604	701,740
Additions	101,186	409,320
Impairment charge	(73,800)	-
	181,990	1,111,060
Transfers to property, plant and equipment (note 18)	(3,017)	(956,456)
	178,973	154,604

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

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

		GROUP AND COMPANY	
		2016	2015
		KShs'000	KShs'000
20.	PREPAID OPERATING LEASES		
	COST		
	At the beginning of the year	12,877	12,886
	Disposal	-	(9)
	At end of the year	12,877	12,877
	AMORTISATION		
	At the beginning of the year	3,529	3,388
	Charge for the year	127	141
	At the end of the year	3,656	3,529
	NET CARRYING AMOUNT		
	At end of the year	9,221	9,348

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 two pieces of leasehold land held by the Group under long-term lease arrangements. The land was valued at KShs 15.7 billion by Vineyard Valuers Limited, accredited independent valuers, as at 30 June 2016. 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. The fair value of the two properties without any restrictions on use arising from the invasion of squatters is KShs 17.2 billion.

		GROUP AND COMPANY	
		2016	2015
		KShs'000	KShs'000
	At the beginning of the year	9,498,159	2,225,046
	Gain on fair value	6,238,797	7,273,113
	At end of year	15,736,956	9,498,159

Parts of the investment properties are currently occupied by squatters. Court orders have in the past been granted in favour of the Group and Company. The Group and Company continue to pursue several avenues to reclaim the occupied properties.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

21. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy:

GROUP AND COMPANY

As at 30 June 2016

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Investment properties	-	15,736,956	-	15,736,956

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

GROUP AND COMPANY

As at 30 June 2015

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Investment properties	-	9,498,159	-	9,498,159

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	2016 KShs'000	2015 KShs'000
The 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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

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.

	GROUP AND COMPANY	
	2016 KShs'000	Restated 2015 KShs'000
Assets		
Cross currency swap	1,305,321	1,573,964
	=====	=====
Liabilities		
Cross currency swap	1,186,082	1,430,280
	=====	=====

The group 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 103,270,000 as at 30 June 2016 (2015 - loss of KShs 87,738,000). The derivative instruments are carried in the books of account at fair value. The swaps will mature on 20 March 2020.

	GROUP AND COMPANY	
	2016 KShs'000	2015 KShs'000
24. DEPOSITS		
Short-term deposits:		
Kenya Commercial Bank Limited	36,553	33,673
Restricted deposits:		
Housing Finance Company Limited	31,896	31,311
	-----	-----
	68,449	64,984
	=====	=====

The short-term deposits mature within three months and the weighted average interest rate earned on the deposits at 30 June 2016 was 10.5% (2015 – 8.5%).

The deposits with Housing Finance Company Limited have been held as collateral for staff mortgages. The weighted average interest rate earned on the deposits at 30 June 2016 was 2.37% (2015 - 2.37%).

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
25. INVENTORIES				
Consumables	2,131,916	1,751,989	2,131,916	1,751,988
Raw materials	138,740	189,477	138,740	189,477
Work-in-progress	17,351	4,626	17,351	4,626
Finished products	46,188	107,322	35,608	93,000
	<hr/>	<hr/>	<hr/>	<hr/>
	2,334,195	2,053,414	2,323,615	2,039,091
Provision for obsolete inventories	(988,077)	(197,132)	(988,077)	(197,132)
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>1,346,118</u>	<u>1,856,282</u>	<u>1,335,538</u>	<u>1,841,959</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was KShs 2.4 billion (2015: KShs 2.1 billion).

No inventory was written off in the current year.

26. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Gross trade receivables	592,295	805,408	459,912	641,380
Impaired trade receivables	(328,577)	(278,124)	(286,652)	(217,399)
	<hr/>	<hr/>	<hr/>	<hr/>
Net trade receivables	263,718	527,284	173,260	423,981
Staff receivables	115,714	115,282	115,665	115,233
Deposits, prepayments and other receivables	146,142	446,887	110,527	403,561
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>525,574</u>	<u>1,089,453</u>	<u>399,452</u>	<u>942,775</u>

Trade receivables are non-interest bearing. The average credit period on sales of finished goods is 24 days (2015 – 21 days). 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.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

26. TRADE AND OTHER RECEIVABLES (Continued)

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

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Neither past due nor impaired	178,800	312,575	121,406	275,471
Past due but not impaired trade receivables:				
Between 15 and 30 days	24,343	57,000	30,934	57,613
Between 31 and 60 days	20,920	89,537	20,920	27,268
Over 60 days	39,655	68,172	-	63,629
Total trade receivables not impaired	263,718	527,284	173,260	423,981
Impaired trade receivables	328,577	278,124	286,652	217,399
Gross trade receivables	592,295	805,408	459,912	641,380

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:

GROUP	Trade receivables KShs'000	Other receivables KShs'000	Total KShs'000
Year ended 30 June 2016			
At the beginning of the year	278,124	54,512	332,636
Additions	79,265	8,089	87,354
Reversals	(28,812)	-	(28,812)
At end of the year	328,577	62,601	391,178
Year ended 30 June 2015			
At the beginning of the year	252,138	54,512	306,650
Additions	28,474	-	28,474
Reversals	(2,488)	-	(2,488)
At end of the year	278,124	54,512	332,636
COMPANY			
Year ended 30 June 2016			
At the beginning of the year	217,399	54,512	271,911
Additions	69,253	8,089	77,342
At end of the year	286,652	62,601	349,253

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

26. TRADE AND OTHER RECEIVABLES (Continued)

COMPANY (Continued)

	Trade receivables KShs'000	Other receivables KShs'000	Total KShs'000
Year ended 30 June 2015			
At the beginning of the year	222,386	54,512	276,898
Reversals	(4,987)	-	(4,987)
	<u>217,399</u>	<u>54,512</u>	<u>271,911</u>

27. RELATED PARTIES

Outstanding balances arising from transactions with related companies.

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
(a) Amount due from related parties:				
The East African Portland Cement Company Uganda Limited	-	-	402,139	365,776
Bamburi Cement Limited	474	474	474	474
	<u>474</u>	<u>474</u>	<u>402,613</u>	<u>366,250</u>

East African Portland Cement Uganda Limited is wholly owned subsidiary of The East African Portland Cement Company Limited. 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 Company Limited.

The amount owing from Bamburi Cement Limited relates to deposits made by East African Portland Cement Company Limited for the purchase of clinker as well as the use of the company's clinic by Bamburi staff. No interest is charged on balances due from related companies.

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

(b) Transactions with related parties:

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Sales to The East African Portland Cement Uganda Limited	-	-	167,793	247,187
Purchase of clinker from Cementia Trading AG and Lafarge SA	758,177	-	758,177	-

(c) Directors' remuneration:

Fees for services as directors	1,008	940	1,008	940
Other emoluments	6,938	6,280	6,938	6,280
	<u>7,946</u>	<u>7,220</u>	<u>7,946</u>	<u>7,220</u>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

27. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
(d) Key management compensation:				
Short-term employee benefits	81,902	82,848	81,902	82,848
Post employment benefits	6,938	10,744	6,938	10,744
	<u>88,840</u>	<u>93,592</u>	<u>88,840</u>	<u>93,592</u>

28. BANK AND CASH BALANCES

Bank balances	99,137	97,000	98,840	79,335
Cash on hand	30,181	1,213	6,099	1,146
	<u>129,318</u>	<u>98,213</u>	<u>104,939</u>	<u>80,481</u>

Bank balances do not earn any interest.

29. SHARE CAPITAL AND RESERVES

(a) Share capital				
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, The East African Portland Cement Uganda Limited.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

	GROUP AND COMPANY	
	2016 KShs'000	2015 KShs'000
30. DIVIDENDS PAID		
Dividends payable at the beginning of the year	101,680	38,079
Final dividend for 2014 (2015 - Nil)	-	67,500
Paid during the year (Final dividend for 2014 (2015 - Nil))	-	(3,899)
	<hr/>	<hr/>
As at 30 June	101,680	101,680
	<hr/>	<hr/>
Approved at the annual general meeting (recognized as a liability as at 30 June)		
Final dividend for 2014 (2016 and 2015 - Nil)	101,680	101,680
	<hr/>	<hr/>
Payment of dividend is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders respectively.		

31. 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:

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Balance at the beginning of the year	1,035,653	917,954	1,035,346	917,954
Paid during the year	(158,047)	(102,060)	(157,953)	(102,060)
Provision for the year	211,364	219,759	211,303	219,452
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,088,970	1,035,653	1,088,696	1,035,346
	<hr/>	<hr/>	<hr/>	<hr/>

32. 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 1,461,280,000 (2015 – JPY 1,826,600,000).

	GROUP AND COMPANY	
	2016 KShs'000	2015 KShs'000
Loan principal	1,525,086	1,544,106
Accrued interest	4,811	5,102
	<hr/>	<hr/>
As at end of year	1,529,897	1,549,208
	<hr/>	<hr/>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

32. LONG - TERM LOANS (Continued)

(b) ASSET FINANCE LOANS

The Group made no purchases of plant and machinery financed through a facility from Stanbic Bank Limited (2015: cost of KShs 28,000,000). The interest rate during the year was at 10.5% (2015 - 10.5%). The loan was secured against the assets financed.

The group obtained an asset based finance loan of KShs 323,636,000(2015: KShs 1,083,751,000) from KCB Bank Kenya Limited at annual interest rates of 15.3 %(2015 - 14%).The asset based finance 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.

	GROUP AND COMPANY	
	2016	2015
	KShs'000	KShs'000
Loans principal	1,363,067	1,464,754
Accrued interest	393	5,257
	<hr/>	<hr/>
As at end of year	1,363,460	1,470,011
	<hr/> <hr/>	<hr/> <hr/>

(c) MATURITY ANALYSIS OF LONG TERM LOANS:

Japanese loan	1,529,897	1,549,208
Asset finance loans	1,363,460	1,470,011
	<hr/>	<hr/>
Total loans	2,893,357	3,019,219
Less: repayable within one year	(716,751)	(847,142)
	<hr/>	<hr/>
Repayable after one year	2,176,606	2,172,077
	<hr/> <hr/>	<hr/> <hr/>

(d) POST IMPORT FINANCE LOANS

The Group purchased imported bulk raw materials at a cost of KShs 700,288,000 (2015: KShs 300,906,000) financed through a post import finance facility from KCB Bank Kenya Limited. The interest rate during the year was at 15.3% (2015 - 14%). The loans are repayable within 6 months and secured under the composite facility with Kenya Commercial Bank Limited (refer to note 35).

	GROUP AND COMPANY	
	2016	2015
	KShs'000	KShs'000
As at end of year	-	300,906
	<hr/> <hr/>	<hr/> <hr/>

(e) The borrowing costs capitalized in relation to construction and installation of qualifying assets during the year amount to KShs Nil (2015 – Kshs 62,510,041).

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

33. OBLIGATIONS UNDER FINANCE LEASES - GROUP AND COMPANY

The group had commercial leases on certain motor vehicles. These leases had an average life of three years with the option of a one year renewal but no purchase options were included in the contracts. There were no restrictions placed on the group by entering into these leases. Future minimum payments under the finance leases together with the present value of the net minimum lease payments were as follows:

	Minimum payments KShs'000	2016 Present value of lease payments KShs'000	Minimum payments KShs'000	2015 Present value of lease payments KShs'000
Within one year	-	-	17,300	16,331
After one year but not more than five years	-	-	-	-
Total minimum lease payments	-	-	17,300	16,331
Less: amounts representing finance charges	-	-	(969)	-
Present value of minimum lease payments	-	-	16,331	16,331

The interest rate applicable to the above leases is variable and was at an average of 10.5% (2015 - 10.5%) over the period, which is the rate used by the bank to determine the periodic lease payments. The mobile plant held under finance leases contract at 30 June 2016 was fully depreciated (2015: carrying value KShs 105,884,000). There were no additions during the year.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

34. DEFERRED TAXATION

GROUP AND COMPANY 2016

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

	1 July 2015 KShs'000	Through profit or loss KShs'000	Other comprehensive income KShs'000	At 30 June 2016 KShs'000
Deferred tax liabilities				
Property, plant and equipment	2,067,265	(44,858)	-	2,022,407
Investment properties	474,858	311,940	-	786,798
	<u>2,542,123</u>	<u>267,082</u>	<u>-</u>	<u>2,809,205</u>
Deferred tax assets				
Tax loss (business)	(1,086,106)	(674,989)	-	(1,761,095)
Provision for staff leave	(32,769)	6,406	-	(26,363)
Provision for staff gratuity	(310,604)	(16,005)	-	(326,609)
Inventories provision	(59,140)	54,956	-	(4,184)
Staff debts provision	(16,353)	(2,427)	-	(18,780)
Bad debts provision	(137,223)	(47,962)	-	(185,185)
Unrealised exchange loss	(320)	(5,087)	-	(5,407)
	<u>(1,642,515)</u>	<u>(685,108)</u>	<u>-</u>	<u>(2,327,623)</u>
Balance as at end of year	<u>899,608</u>	<u>(418,026)</u>	<u>-</u>	<u>481,582</u>

GROUP AND COMPANY 2015

Deferred tax liabilities

Property, plant and equipment	1,812,429	254,836	-	2,067,265
Investment properties	-	474,858	-	474,858

	<u>1,812,429</u>	<u>729,694</u>	<u>-</u>	<u>2,542,123</u>
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Deferred tax assets

Tax loss (business)	(464,210)	(621,896)	-	(1,086,106)
Provision for staff leave	(28,835)	(3,934)	-	(32,769)
Provision for staff gratuity	(275,386)	(35,218)	-	(310,604)
Inventories provision	(26,209)	(32,931)	-	(59,140)
Staff debts provision	(16,372)	19	-	(16,353)
Bad debts provision	(138,719)	1,496	-	(137,223)
Unrealised exchange loss	(103,668)	103,348	-	(320)

	<u>(1,053,399)</u>	<u>(589,116)</u>	<u>-</u>	<u>(1,642,515)</u>
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Balance as at end of year

	<u>759,030</u>	<u>140,578</u>	<u>-</u>	<u>899,608</u>
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THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

		GROUP AND COMPANY	
		2016	2015
		KShs'000	KShs'000
35.	BANK OVERDRAFT		
	Kenya Commercial Bank Limited	1,606,770	556,003
		<u> </u>	<u> </u>

The group has a composite working capital facility for bank overdraft, post import finance, letters of credit and guarantees with the Kenya Commercial Bank Limited. The approved limit as at year-end was KShs 1,800,000,000(2015:Ksh 1,500,000,000) 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.

	GROUP		COMPANY		
	2016	2015	2016	2015	
	KShs'000	KShs'000	KShs'000	KShs'000	
36.	TRADE AND OTHER PAYABLES				
	Trade payables	1,724,261	1,337,396	1,724,261	1,337,396
	Other payables and accruals	777,044	557,963	775,065	552,448
	Advance receipts from customers	35,614	47,950	35,614	47,950
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Balance as at end of year	2,536,919	1,943,309	2,534,940	1,937,794
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

Trade and other payables are non-interest bearing. The average credit period on purchases is 80 days (2015 – 76 days). The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

		GROUP AND COMPANY	
		2016	2015
		KShs'000	KShs'000
37.	DIVIDENDS PAYABLE		
	Dividend payable	101,680	101,680
		<u> </u>	<u> </u>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

38. STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operations

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Profit before taxation	3,734,752	7,342,071	3,773,705	7,467,801
Adjustments for:				
Depreciation (note 18)	687,477	554,787	686,583	554,390
Impairment charge on work in progress (note 19)	73,800	-	73,800	-
Amortisation on prepaid operating leases (note 20)	127	141	127	141
Loss/(gain) on sale of property, plant and equipment	1,426	(837,575)	1,426	(837,575)
Fair value gain on investment property (note 21)	(6,238,797)	(7,273,113)	(6,238,797)	(7,273,113)
Exchange gain/(loss) on foreign currency loan	305,706	(174,834)	305,706	(174,834)
Staff gratuity provision (note 31)	211,364	219,759	211,303	219,452
Interest expense				
-Long term loan	18,986	17,460	18,986	17,460
-Bank overdraft	140,868	156,547	140,868	156,547
-Interest on lease obligations	724	1,370	724	1,370
-Derivative instrument	57,672	62,023	57,672	62,023
-Asset finance loan	229,795	44,189	229,795	44,189
Interest income	(4,357)	(4,068)	(4,208)	(3,751)
Fair value loss on derivative instrument	103,270	87,738	103,270	87,738
Working capital changes:				
Decrease in inventories	510,164	190,624	506,421	198,289
Decrease/(increase) in trade and other receivables	563,879	(244,230)	543,323	(321,723)
Decrease/(increase) in trade and other payables	593,610	(80,155)	597,146	(82,767)
Decrease in bonus and legal fees		-		-
Increase in related party balances		-	(36,363)	(33,167)
Staff gratuity paid (note 31)	(158,047)	(102,060)	(157,953)	(102,060)
Cash generated from/(used in) operations	829,567	(39,326)	810,682	(19,590)

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

38. STATEMENT OF CASH FLOWS (Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
(b) Movement in loans				
(i) Japanese loan				
Balance at the beginning of the year	1,544,106	2,009,187	1,544,106	2,009,187
Foreign currency exchange loss/(gain)	305,706	(174,834)	305,706	(174,834)
Repayments during the year	(325,944)	(290,247)	(325,944)	(290,247)
Balance at end of year	1,523,868	1,544,106	1,523,868	1,544,106
Payment of swap loans	(326,205)	(228,626)	(326,205)	(228,626)
Receipt from swap asset	268,645	171,391	268,645	171,391
Total loan repayment	(383,504)	(347,482)	(383,504)	(347,482)
(ii) Asset finance loans				
Balance at the beginning of the year	1,464,754	597,336	1,464,754	597,336
Receipts during the year	323,636	1,083,751	323,636	1,083,751
Repayment of asset finance loan	(425,324)	(216,333)	(425,324)	(216,333)
Balance at end of year	1,363,066	1,464,754	1,363,066	1,464,754
(iii) Post import finance loans				
Balance at the beginning of the year	300,906	324,274	300,906	324,274
Receipts during the year	700,288	300,906	700,288	300,906
Repayments during the year	(1,001,194)	(324,274)	(1,001,194)	(324,274)
Balance at end of year	-	300,906	-	300,906
(c) Interest paid on borrowings				
Balance at the beginning of the year	5,102	8,564	5,102	8,564
Interest charge on long-term loan	18,986	17,460	18,986	17,460
Accrued as at 30 June (note 32)	(4,811)	(5,102)	(4,811)	(5,102)
Interest paid on long-term loan	19,277	20,922	19,277	20,922
Interest paid on overdraft	140,868	156,546	140,868	156,546
Interest paid on asset finance loan	237,039	105,706	237,039	105,706
Interest paid on lease obligations	3,879	4,525	3,879	4,525
Interest on loan swap liabilities	69,916	63,574	69,916	63,574
Interest paid on borrowings	470,979	351,273	470,979	351,273

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

38. STATEMENT OF CASH FLOWS (Continued)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
(d) Movement in lease obligations				
Balance at the beginning	16,331	53,489	16,331	53,489
Repayments during the year	(16,331)	(37,158)	(16,331)	(37,158)
Balance at end of the year	-	16,331	-	16,331
(e) Analysis of cash and cash equivalents				
Short term deposits (note 24)	36,553	33,673	36,553	33,673
Bank and cash balances (note 28)	129,318	98,213	104,939	80,481
Bank overdraft (note 35)	(1,606,770)	(556,003)	(1,606,770)	(556,003)
	(1,440,899)	(424,117)	(1,465,278)	(441,849)

39. 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 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 64,544,000 (2015 – KShs 58,536,000).

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 3,918,000 (2015 – KShs 3,688,000).

40. REVENUE ANALYSIS AND SEGMENTAL REPORTING

	2016 KShs'000	2015 KShs'000
The group revenues are derived from sales in the following markets:		
Local market – Kenya	8,651,474	8,022,192
Regional market (East Africa)	219,982	395,429
	8,871,456	8,417,621

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 % (2015 – 95%) of the total revenue hence there is only one reportable segment.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. 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.

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

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Share capital	450,000	450,000	450,000	450,000
Share premium	648,000	648,000	648,000	648,000
Asset valuation reserve	1,465,726	1,666,628	1,465,726	1,666,628
Retained earnings	15,370,759	11,024,102	1621,989	11,236,379
	<u>17,934,485</u>	<u>13,788,730</u>	<u>18,185,715</u>	<u>14,001,007</u>
Debt (ii)	2,893,357	3,336,456	2,893,357	3,336,456
Add: cash and cash equivalents (note 37(e))	1,440,899	424,117	1,465,278	441,849
	<u>4,334,256</u>	<u>3,760,573</u>	<u>4,358,635</u>	<u>3,778,305</u>
Net debt				
	<u>4,334,256</u>	<u>3,760,573</u>	<u>4,358,635</u>	<u>3,778,305</u>
Total capital	<u>22,268,741</u>	<u>17,549,303</u>	<u>22,544,350</u>	<u>17,779,312</u>
Gearing ratio	<u>19%</u>	<u>21%</u>	<u>19%</u>	<u>21%</u>

(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 22).

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

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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
GROUP				
At 30 June 2016				
Trade receivables	178,800	84,918	328,577	592,295
Amount due from related party	-	474	-	474
Bank balances	99,137	-	-	99,137
Deposits	68,449	-	-	68,449
	=====	=====	=====	=====
At 30 June 2015				
Trade receivables	312,575	214,709	278,124	805,408
Amount due from related party	-	474	-	474
Bank balances	97,000	-	-	97,000
Deposits	64,984	-	-	64,984
	=====	=====	=====	=====
COMPANY				
At 30 June 2016				
Trade receivables	121,406	51,854	286,652	459,912
Amount due from related parties	-	402,613	-	402,613
Bank balances	98,840	-	-	98,840
Deposits	68,449	-	-	68,449
	=====	=====	=====	=====
At 30 June 2015				
Trade receivables	275,471	148,510	217,399	641,380
Amount due from related parties	-	366,250	-	366,250
Bank balances	79,335	-	-	79,335
Deposits	64,984	-	-	64,984
	=====	=====	=====	=====

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 2016 the Group held bank guarantees amounting to KSh 417,899,000 against trade receivables. There was no concentration risk.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity 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.

	Up to 1 month KShs'000	1 – 3 Months KShs'000	3 – 12 Months KShs'000	1 – 5 years KShs'000	Total KShs'000
GROUP					
At 30 June 2016					
<i>Financial assets</i>					
Trade receivables	413,495	178,800	-	-	592,295
Amount due from related party	-	474	-	-	474
Bank balances and cash	129,318	-	-	-	129,318
Loan swap asset	-	98,931	97,669	562,843	759,443
Deposits	36,553	-	-	-	36,553
Total financial assets	579,366	278,205	97,669	562,843	1,518,083
<i>Financial liabilities</i>					
Trade and other payables	539,452	989,364	195,445	-	1,724,261
Borrowings:					
- Long term loan	-	197,861	195,337	1,125,686	1,518,884
- Loan swap liability	-	141,165	137,883	762,952	1,042,000
- Asset finance loan	50,980	176,162	649,630	922,741	1,799,513
- Bank overdraft	1,606,770	-	-	-	1,606,770
Total financial liabilities	2,197,202	1,504,552	1,178,295	2,811,379	7,691,428
Net liquidity gap	(1,617,836)	(1,226,347)	(1,080,626)	(2,248,536)	(6,173,345)

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

GROUP	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 2015						
<i>Financial assets</i>						
Trade receivables	369,575	435,833	-	-	-	805,408
Amount due from related party	-	474	-	-	-	474
Bank balances and cash	98,213	-	-	-	-	98,213
Loan swap asset	-	142,467	146,154	1,285,343	-	1,573,964
Deposits	33,673	-	-	-	31,311	64,984
Total financial assets	501,461	578,774	146,154	1,285,343	31,311	2,543,043
<i>Financial liabilities</i>						
Trade and other payables	311,672	598,197	427,527	-	-	1,337,396
Borrowings:						
- Long term loan	-	163,962	161,831	1,218,313	-	1,544,106
- Finance leases obligations	4,517	-	11,814	-	-	16,331
- Loan swap liability	-	164,267	147,598	1,118,415	-	1,430,280
- Asset finance loan	-	120,706	357,991	870,977	115,080	1,464,754
- Post import finance loans	-	-	300,906	-	-	300,906
- Bank overdraft	556,003	-	-	-	-	556,003
Total financial liabilities	872,192	1,047,132	1,407,667	3,207,705	115,080	6,649,776
Net liquidity gap	(370,731)	(468,358)	(1,261,513)	(1,922,362)	(83,769)	(4,106,733)
COMPANY						
At 30 June 2016						
<i>Financial assets</i>						
Trade receivables	281,912	178,000	-	-	-	459,912
Amount due from related party	-	402,613	-	-	-	402,613
Bank balances and cash	104,939	-	-	-	-	104,939
Loan swap asset	-	98,931	97,669	562,843	-	759,443
Deposits	36,553	-	-	-	-	36,553
Total financial assets	423,404	679,544	97,669	562,843	-	1,763,460
<i>Financial liabilities</i>						
Trade and other payables	539,452	989,364	195,445	-	-	1,724,261
Borrowings:						
Long term loan	-	197,861	195,337	1,125,686	-	1,518,884
Loan swap liability	-	141,165	137,883	762,952	-	1,042,000
Asset finance loan	50,980	176,162	649,630	922,741	-	1,799,513
Bank overdraft	1,606,770	-	-	-	-	1,606,770
Total financial liabilities	2,197,202	1,504,552	1,178,295	2,811,379	-	7,691,428
Net liquidity gap	(1,773,798)	(825,008)	(1,080,626)	(2,248,536)	-	(5,927,968)

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	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
COMPANY						
At 30 June 2015						
<i>Financial assets</i>						
Trade receivables	333,084	308,296	-	-	-	641,380
Amount due from related party	366,250	-	-	-	-	366,250
Bank balances and cash	80,481	-	-	-	-	80,481
Loan swap asset	-	142,467	146,154	1,285,343	-	1,573,964
Deposits	33,673	-	-	-	31,311	64,984
Total financial assets	813,488	450,763	146,154	1,285,343	31,311	2,727,059
<i>Financial liabilities</i>						
Trade and other payables	311,672	598,197	427,527	-	-	1,337,396
Borrowings:						
Long term loan	-	163,962	161,831	1,218,313	-	1,544,106
Finance leases obligations	4,517	-	11,814	-	-	16,331
Loan swap liability	-	164,267	147,598	1,118,415	-	1,430,280
Asset finance loan	-	120,706	357,991	870,977	115,080	1,464,754
Post import finance loans	-	-	300,906	-	-	300,906
Bank overdraft	556,003	-	-	-	-	556,003
Total financial liabilities	872,192	1,047,132	1,407,667	3,207,705	115,080	6,649,776
Net liquidity gap	(58,704)	(596,369)	(1,261,513)	(1,922,362)	(83,769)	(3,922,717)

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2016			
Assets			
Bank and cash balances	12,226	12,373	-
Loan swap asset	-	-	1,305,321
Trade receivables and other receivables	126,122	12,712	-
	<u>138,348</u>	<u>25,085</u>	<u>1,305,321</u>
Liabilities			
Borrowings	-	-	1,529,897
Loan swap liability	-	1,186,082	-
Trade and other payables	-	28,553	-
	<u>-</u>	<u>1,214,635</u>	<u>1,529,897</u>
30 June 2015			
Assets			
Bank and cash balances	8,921	3,423	-
Loan swap asset	-	-	1,573,964
Trade receivables and other receivables	132	365,776	-
	<u>9,053</u>	<u>369,199</u>	<u>1,573,964</u>
Liabilities			
Borrowings	-	-	1,549,208
Loan swap liability	-	1,430,280	-
Trade and other payables	-	-	-
	<u>-</u>	<u>1,430,280</u>	<u>1,549,208</u>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

(i) Foreign exchange risk (Continued)

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.

GROUP AND COMPANY

	2016		2015	
	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	6,917	7,545	453	317
- 5% KShs movement	(6,917)	(7,545)	(453)	(317)
Currency - US dollars				
+ 5% KShs movement	59,748	59,748	53,054	53,054
- 5% KShs movement	(59,748)	(59,748)	(53,054)	(53,054)
Currency – JPY				
+ 5% KShs movement	11,229	11,229	1,493	1,493
-5% KShs movement	(11,229)	(11,229)	(1,493)	(1,493)

(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 group has negotiated a fixed interest rate on the borrowings. The group 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 group'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 2016						
Assets						
Deposits	-	-	31,896	-	-	31,896
Liabilities						
Borrowings	33,576	122,358	486,780	720,646	-	1,363,360
Bank overdraft	-	-	1,606,770	-	-	1,606,770
At 30 June 2015						
Assets						
Deposits	-	-	31,311	-	-	31,311
Liabilities						
Borrowings	4,517	284,668	832,542	2,089,290	115,080	3,326,097
Bank overdraft	-	-	556,003	-	-	556,003

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

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.

	2016		2015	
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
	Effect on profit	Effect on equity	Effect on profit	Effect on Equity
+5% Movement	(30,906)	(30,906)	(18,263)	(18,263)
-5 % Movement	30,906	30,906	18,263	18,263
	=====	=====	=====	=====

(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.

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 EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Fair values of financial instruments (Continued)

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

GROUP AND COMPANY

At 30 June 2016

	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	-	1,305,321	-	1,305,321
Financial liabilities designated at fair value through profit and loss				
Long term loans	-	2,893,357	-	2,893,357
Loan swap liabilities	-	1,186,082	-	1,186,082
Total financial liabilities	-	4,079,439	-	4,079,439

GROUP AND COMPANY

At 30 June 2015

Financial assets designated at fair value through profit and loss				
Loan swap asset	-	1,573,964	-	1,573,964
Financial liabilities designated at fair value through profit and loss				
Long term loans	-	3,019,219	-	3,019,219
Loan swap liabilities	-	1,430,280	-	1,430,280
Total financial liabilities	-	4,449,499	-	4,449,499

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

	GROUP AND COMPANY	
	2016	2015
	KShs'000	KShs'000
43. CONTINGENT LIABILITIES		
Employment & labour relations case	1,100,000	1,100,000
Tax assessment	473,000	473,000
Pending law suits	373,300	373,300
Guarantee of staff mortgages	31,896	31,311
	<u>1,978,196</u>	<u>1,977,611</u>

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.

The Guarantees of staff mortgages are secured by deposits with Housing Finance Company Limited held as collateral for staff mortgages and reported in the financial statements as restricted deposits as disclosed on note 24. The liability will only crystallize if the staff default on the secured mortgages.

Employment & labour relations court cause No.2119 of 2015

The Kenya Chemical and Allied Workers Union (KCAAWU) had filed a case against the Company allegedly for non-implementation of Collective Bargaining Agreement (CBA) terms to contract staff. The Company's contract staffs have in the past not been covered under the Collective Bargaining Agreement and management has had different mutual payment arrangements with them. The industrial court delivered a ruling on the 6th of July 2016 which noted that the claimant's case had merit and ordered that the company implements the collective bargaining agreement to include contract staff. The judge however noted that where there are problems of implementation for the reasons that the award is unsustainable, the company should renegotiate the implementation process for purposes of reaching an amicable settlement beneficial to all parties.

The Company has assessed the financial impact of the court award in the negotiated CBA for period 1st August, 2012 to 30th July, 2016 and this translates to an additional staff cost of KShs 1.1 billion, an amount which is considered unsustainable.

The Company has obtained a stay of the award from the court and at the same time continues to engage with the union on possibility of amicably resolving the issue. In case this negotiation fails to yield an amicable settlement, the matter will be progressed through the next legal avenue until determined. Accordingly no provision has been made in these financial statements for the award

The group has placed deposits with Housing Finance Company Limited as collateral for staff mortgages (see note 24). The liability would only crystallise if a staff member defaults on their mortgage payments.

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 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.

	2016	2015
	KShs'000	KShs'000
44. CAPITAL COMMITMENTS		
Authorised by the directors but not contracted for	-	2,564,817
Authorised by the directors and contracted for	-	64,352

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

45. 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:

	2016 KShs'000	2015 KShs'000
Within 1 year	23,862	25,758
Later than 1 year but not later than 2 years	22,938	24,761
	<u>46,800</u>	<u>50,519</u>

46. COUNTRY OF INCORPORATION

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

47. CURRENCY

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

48. EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report.

