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East African Portland Cement Co. Ltd

Holding Life Together

2013
2014

EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

VISION

To be the Regional Leader in the Provision of Cement,
Innovative Cement Products and Solutions

MISSION

To Provide Cement for Infrastructural Solutions to the
Satisfaction of our Stakeholders



VALUES

Teamwork: We promote respect, unity and commonness of purpose amongst staff. We also promote and encourage exchange of ideas and openness.

Integrity: We embrace a culture that promotes honesty, transparency, accountability and professional ethics.

Customer Focus: We are dedicated to meeting customer expectations.

Timeliness: We promote timely delivery of high quality products.

Innovativeness: We encourage creativity, embrace positive change and reward innovation.

Commitment: We ensure peak performance, enthusiasm and excitement for work.



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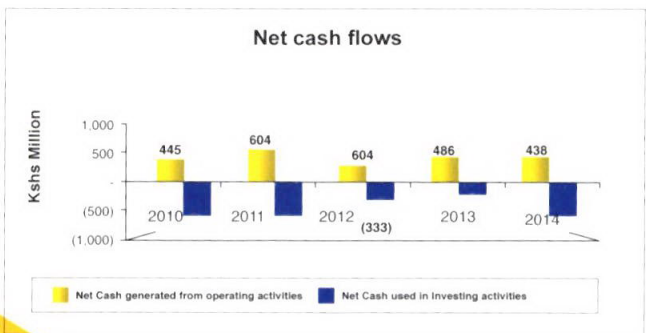
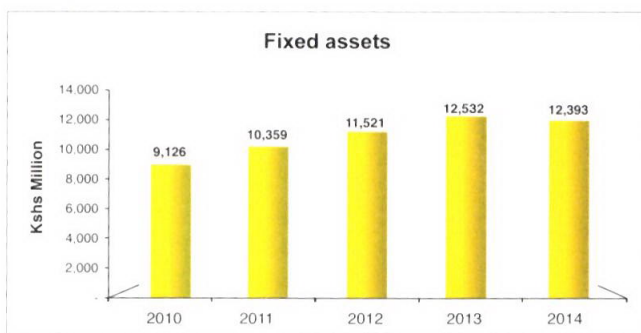
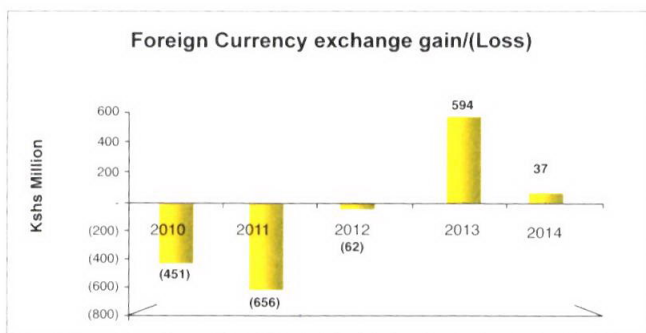
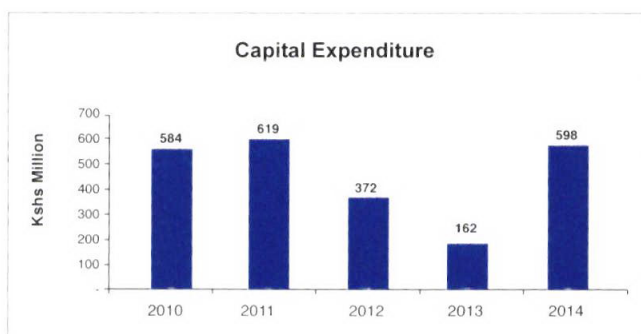
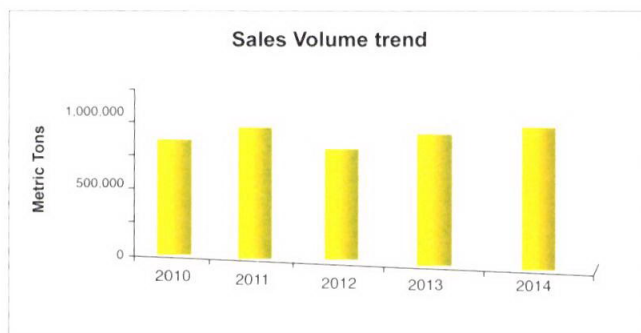
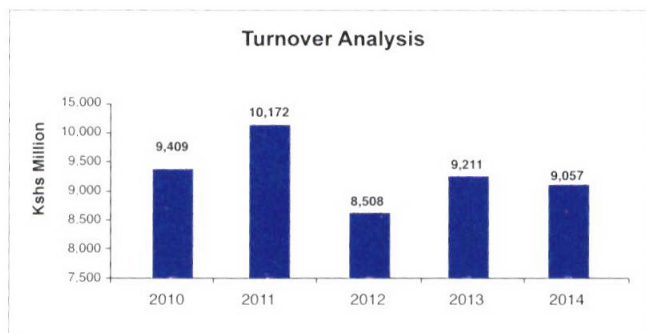
FIVE YEAR FINANCIAL REVIEW

	2014 Kshs'000	2013 Kshs'000	2012 Kshs'000 restated	2011 Kshs'000 restated	2010 Kshs'000
Turnover	9,057,292	9,211,462	8,508,120	10,172,140	9,408,711
Operating (loss)/profit	(92,955)	340,931	(793,714)	653,640	90,015
Foreign currency exchange gain/(loss)	36,769	594,113	(61,575)	(655,909)	(451,176)
(Loss)/Profit before tax	(373,700)	1,419,478	(1,032,914)	(119,059)	(338,571)
Taxation (charge)/credit	(12,931)	355,905	60,199	120,776	54,520
Other comprehensive income	1,049	713,451	2,958	-	-
(Loss)/Profit attributable to members	(385,582)	2,488,834	(969,757)	1,717	(284,051)
Dividends	-	67,500	-	45,000	-
<i>Capital Employed</i>					
Assets					
Non current	12,393,196	12,531,640	11,520,764	10,358,801	9,125,885
Current	3,324,061	3,602,063	2,456,031	3,085,332	2,911,680
Total assets	15,717,257	16,133,703	13,976,795	13,444,133	12,037,565
Equity & Liabilities					
Shareholders' funds	6,704,675	7,090,257	4,601,423	5,616,180	5,701,201
Non current liabilities	5,500,293	5,723,968	6,976,194	5,727,774	4,499,714
Current liabilities	3,512,289	3,319,478	2,399,178	2,100,179	1,836,650
Total Equity & Liabilities	15,717,257	16,133,703	13,976,795	13,444,133	12,037,565
Ratio Analysis					
<i>Profitability and Efficiency Ratios</i>					
Gross profit margin	26%	25%	13%	23%	22%
Operating profit margin	-1%	4%	-9%	6%	1%
Net profit margin	-4%	19%	-11%	0%	-3%
Return on assets	-2%	11%	-7%	0%	-2%
Return on Equity	-6%	25%	-21%	0%	-5%
<i>Liquidity Ratios /Working capital</i>					
Current ratio	0.95	1.09	1.02	1.47	1.59
Quick ratio	0.32	0.43	0.30	1.20	1.20
(Loss)/Earnings per Share (Basic and diluted)	(4.30)	19.73	(10.81)	0.02	(3.16)
Dividends per share (Kshs)					
Interim Paid	-	-	-	-	-
Final & proposed	-	0.75	-	0.50	-
Total	-	0.75	-	0.50	-

THREE YEAR FINANCIAL REVIEW

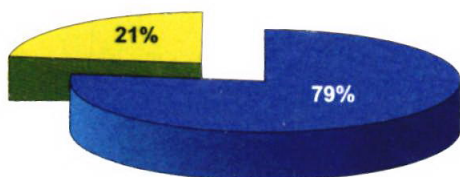
	2014 Kshs'000	2013 Kshs'000	2012 Kshs'000
Revenue	9,057,292	9,211,462	8,508,303
(Loss)/profit before tax	(373,700)	1,419,478	(1,032,914)
(Loss)/profit attributable to the shareholders of East African Portland Cement Company Limited	(386,630)	2,488,834	(972,715)
Dividends	-	67,500	-
Share Capital and Shareholders' funds			
Ordinary Share Capital	450,000	450,000	450,000
Shareholders' funds	6,704,675	7,090,257	4,601,423
Earnings and Dividend per share			
(Loss)/Earnings per share (basic and diluted)	(4.30)	19.73	(10.81)
Dividend per share			
Final & proposed	-	0.75	-
Total	-	0.75	-

FINANCIAL HIGHLIGHTS

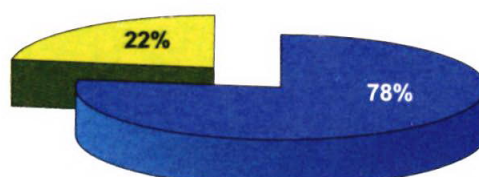


DISTRIBUTION OF ASSETS

2014



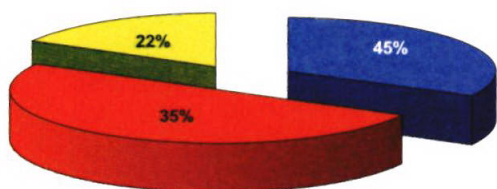
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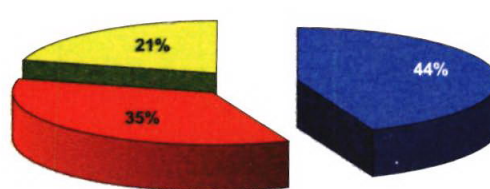
	2014 Kshs M	2013 Kshs M
Non-current Assets	12,393	12,532
Current Assets	3,324	3,602
Total Assets	15,717	16,134

DISTRIBUTION OF EQUITY AND LIABILITIES

2014



2013



	2014 Kshs M	2013 Kshs M
Shareholders' funds	6,705	7,090
Non-current liabilities	5,500	5,724
Current liabilities	3,512	3,320
Total Assets and Liabilities	15,717	16,134



William Lay
Chairman

“To bring the Company back to sustainable profitability, the Company is implementing projects valued at Kshs 2.5 Billion that are expected to be completed by end of next financial year”

Chairman's Statement

I have the pleasure to welcome all of you to the 82nd Annual General Meeting of the East African Portland Cement Company Limited and to present to you the Annual Report and Financial Statements for the year ended 30 June 2014.

Let me start by acknowledging the service of former Chairman Mr. Mark Karbolo who left the EAPCC board in January. I'm pleased to have joined the EAPCC Group following my appointment on 22 January 2014 as Chairman of the Board of Directors by H.E. President Uhuru Kenyatta. I look forward to working together with my colleagues on the Board, Management and Staff to grow the business and contribute to its continued success.

The Company's performance in the year reflects the consequence of a competitive environment where the installed industry production capacity is increasing faster than the market consumption, which resulted in declining cement prices. Our top priority is to bring the company back to sustainable profitability. To this end, we are working on an ambitious plan to increase production capacity while reducing fixed costs. The company, with support from international cement experts, conducted a technical audit and we are well underway with the implementation of the recommendations from that report. The company is also addressing the critical issue of plant maintenance to ensure smooth and uninterrupted production. We are also working closely with KPLC to stabilize the supply of electricity to our Athi River complex.

The first half of the year was also characterized by low infrastructure spending as the new devolved Governance structures were establishing in the counties. Revenue decreased by 2% but Gross Profit margin increased to 26% from 25% recorded in the previous year and cost of production declined by 3%. This is attributed to ongoing cost reduction initiatives that are also in line with the 2011-2016 Strategic Plan.

Economic Outlook

The GDP recorded a growth rate of 4.7% in 2013. The year began with an inflation rate of 9.4% and ended with an inflation rate of 5.7%. This was largely attributed to improved supply of basic foodstuffs and stable domestic prices of petroleum products. The Central Bank rate remained stable at 8.5% during the year. The Kenya shilling gained marginally to the US Dollar. The building and construction sector saw increased activity registering a growth of 5.5% in 2013 up from 4.8% in the year 2012. The growth is attributed to increased bank credit to the sector, increased foreign investment in building and

construction and continued implementation of the Vision 2030 flagship projects. EAPCC continues to be a key supplier of cement to key infrastructure projects and will continue working closely with the government to this end.

Cement Market and Competition

Kenya's cement consumption rose by 21% to 4.7 million tons compared to 3.9 million tons consumed in the previous year. The rapidly growing middle class and ongoing infrastructure projects continue to drive cement demand. Entrance of other players in the cement industry had the effect of increasing cement milling capacity from 7 million tons to 9 million tons. Consequently, price competition will continue to weigh down prices. Cheap imports particularly from energy-subsidized economies continue to have an adverse effect on prices in the industry.

EAPCC's market share slipped to 17% in the year, a decline from 20% recorded in the previous year. The Company has embarked on aggressive capacity enhancement initiatives to unlock installed capacity by 400,000 MT per annum in the next two years. This will improve capacity to 1,200,000 MT of cement per year.

Regionally, the earmarked infrastructure projects such as the LAPSETT project linking South Sudan to the Lamu port, phase one of the Standard Gauge Railway line from Mombasa to Nairobi and recently successful oil and other mineral explorations in Kenya and Uganda will see an increased interest in foreign investment in the region.

Performance

The business environment in the year continued to present challenges such as competition, high energy costs and importation of cheap cement into the market which reduced sales in the local and regional markets.

The Group's performance in the year was affected by these factors resulting to a loss of Kshs 385 million. Earnings per share reduced to a loss of Kshs (4.30) from Kshs 19.73 in the year 2013. Clinker production increased in the year reducing the quantity of purchased clinker by 39%.

To bring the Company back to sustainable profitability, the Company is implementing projects valued at Kshs 2.5 Billion that are expected to be completed by end of next financial year. Included in this plan are the installation of an additional cement packer to enhance cement dispatch; raw material sheds

to increase throughput; an air pollution control system to ensure production activities comply with the Company's and regulators' environmental standards and installation of a pre-cast plant for the production of paving blocks that will see a further diversification of the Company's product portfolio as well as increase the revenue base.

Energy

During the financial year under review the Kenya shilling remained relatively stable against the US dollar, ensuring that the cost of electricity and coal (two main sources of energy) on account of foreign currency adjustments remained relatively stable. However, the cost of electric power increased marginally from Kshs 12.70 per kwh to Kshs 13.36 per kwh during the year. Overall energy costs still compare very unfavorably to some cement producing Northern African economies that enjoy significant energy subsidies. As noted above, EAPCC and KPLC are working on a plan to stabilize the supply of power in Athi River and we expect improvements during the next financial year.

The Company is embarking on energy efficiency processes with emphasis being placed on capital projects that will reduce energy loss and or optimize energy usage such as the use of alternative fuels.

Yen Denominated Loan

The Company continues to service the Yen denominated loan, which will be fully repaid in year 2020. The amount outstanding at the end of the year was 2,557 million Japanese Yen. Half of the loan has been hedged in a USD: JPY currency swap to minimize exchange rate fluctuations. In the financial year under review, the hedge was effective in countering adverse exchange rate movements posed by the Yen loan.

Risks

The Company continues to implement a risk management plan as guided by Board approved risk management policies. The risk management framework is documented in the Risk Manual and various departments have been tasked with execution of the risk management procedures. The Board Audit Committee in collaboration with Internal Audit monitors the appropriateness of these processes to respond to the Company's evolving risk environment from time to time.

Taxation

As a responsible corporate citizen, EAPCC continued to honor its tax obligations and made payments in excess of Kshs 450 million in both direct and indirect taxes to the exchequer during the year in focus.

HIV/Aids

The implementation of our HIV/Aids awareness program continues through a team of Peer Educators working with our staff and the local community. This is geared towards reducing the negative impact of the disease to the workforce and the community. Towards these efforts, the Company has remained steadfast in non-discrimination policy over one's HIV status in its employment practices

Corporate Social Responsibility

During the year, the Company continued to engage with the community to identify opportunities where the Company can create a positive impact to the environment, the community and other stakeholders. Our long history of corporate social responsibility activities has helped us build strong partnerships with communities in contributing to their sustainable future. We continue to support projects in education, sports, water and sanitation, famine relief, environmental conservation and infrastructure.

Corporate Governance

The Company has continued to improve on its governance structures to ensure it plays its proper role as a responsible corporate citizen to its stakeholders. The Board has continued to ensure proper and elaborate governance practices are in place. The Board is served by four active board committees each with properly set terms of reference. All the directors, except the Managing Director, are independent but meet regularly with the senior management to review corporate strategy. The Board Charter in place contributes in guiding the interaction between the Board and other stakeholders. All employees sign a code of conduct that guides the interaction amongst employees themselves and interaction with the other stakeholders.

Dividend

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

Transformation

As a Company, we have set out on a change management program with the aim of enhancing industrial relations and at the same time creating positive behavior change within our teams. We expect that this will increase employee efficiency and reduce instances of industrial unrest that have caused disruptions in the past.

Future Outlook

The global economy seems to have weathered the storm as indicated by the euro zone's return to growth and the impressive

growth recorded in Asia. Locally, the economy continues to build momentum as the devolved county governments take to their roles in implementation of development programs. The economic outlook in the coming year is expected to retain the growth rates achieved in the previous year, with inflation and interest rates remaining stable. Investments in the construction industry are likely to remain robust against a backdrop of stable interest rates. The ongoing government infrastructural projects will be supplemented by the current boom in real estate development in the country.

Regionally, our markets in Uganda and Sudan continue to be served by our Uganda subsidiary and are expected to grow in line with the cement needs of the various infrastructure projects earmarked in the coming year.

In addition to the market opportunities noted above, the EAPCC Board will work closely with management to address the critical issue of competitiveness with a focus on improving efficiency, reducing costs and increased market share. This additional support from the Board of Directors will ensure accountability as the company works through the challenges we will face in the near term.

The Board

As noted earlier, I joined the Board on January 22, 2014 replacing Mark Karbolo. The NSSF representative H.Mwashumbe was

replaced by R. Langat from 9 June 2014. H. W. Keith retired on 17 December 2013. I acknowledge the invaluable contribution made by the members of the Board of Directors during the past year and look forward to their contribution in the future.

Appreciation

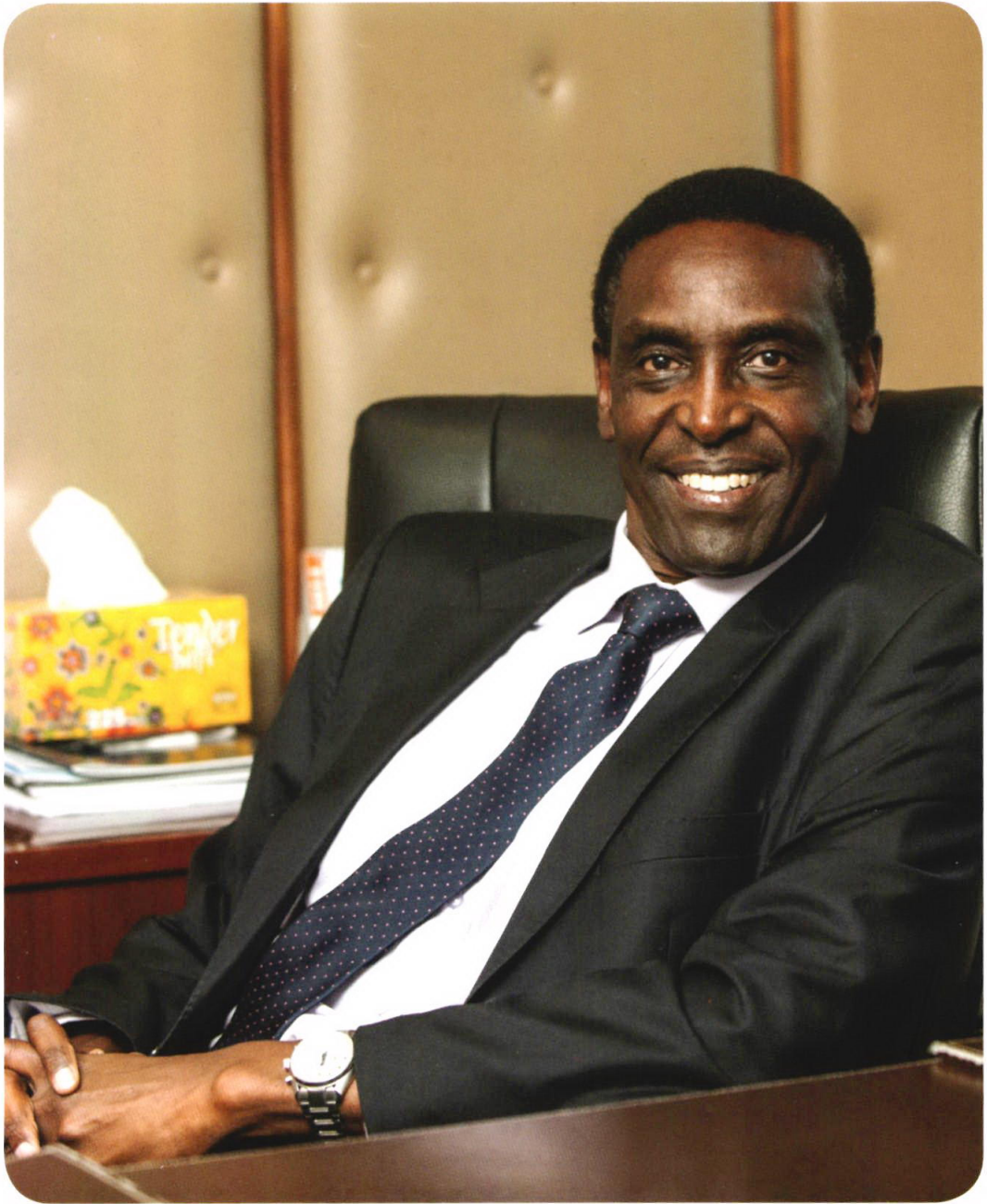
On behalf of the Board, I would like to extend my sincere thanks to the shareholders for their continued contribution, the Board for its dedication and visionary leadership and to management for their tireless dedication to implementation of the company's business plans.

Lastly, I would like to extend my gratitude to all our business partners and customers for their continued loyalty and support to the Blue Triangle brand.
God Bless you all.



William Lay

Chairman of the Board of Directors



Kephah L. Tande
Managing Director

“ We enter 2014 with a reenergized economy and an expectation of an increase in government infrastructure spending. We will relentlessly continue to build our brand, our range of building solutions and their mode of delivery to our customers through our core values of innovativeness, teamwork and customer focus ”

Managing Director's Business Review

Performance

This year's performance was adversely impacted by the difficult trading environment that was characterised by price competition, high operating costs, a declining share of regional market and a weakening shilling. Sales volume increased by 2% but this was offset by a 3% reduction in prices resulting in a 2% decrease in turnover over prior year.

During the year, the Company improved the run factor on its machinery and equipment. This spurred production of clinker compared to the previous year when a substantial amount of clinker was purchased to sustain cement production, saw clinker production improve by over 20% over the previous year. The improved clinker production thus reduced the Company's reliance on purchased clinker by 39%, further enhancing utilization of capacity. However, increase in cement production was hampered by performance of critical equipment that is currently being addressed through new investments.

Major improvements in production efficiencies however resulted in 3% savings in cost of production. However, the cost of energy increased marginally the year averaging Kshs.13.36 per kWh compared to Kshs 12.70 per kWh in 2013. Power consumption averaged 69.1 million kwh in the current year compared to 67.7 million kwh in the previous year resulting in additional costs of Kshs. 70 million during the year in focus due to the higher production of clinker. As a result of the cost savings, Gross Margin returned an impressive 26% despite a 3% slump in cement prices.

Administrative and Selling Costs increased by Kshs 700m (or 34%) attributed to higher staff and administration expenses incurred in the year. There was an increase in staff costs driven by restructuring management levels and staff compensation in line

with job evaluation which accounted for approximately Kshs 100m. An increase in staff gratuity for contract staff amounting to Kshs. 300m has been provided for during the year. Further, the Company paid penalties on cases that went for arbitration in relation to disputed contracts amounting to Kshs 200 million.

Management has put in place measures to contain costs in various aspects of the business in the ongoing cost rationalization initiatives to optimize use of resources, eradication of wastage and identification of cost reduction opportunities. Towards this end, the entire value chain is undergoing comprehensive review through various programs among them being mine to market cost analysis review and Total Productive Maintenance (TPM), to ensure value maximization and improved efficiencies in all processes.

The hedging strategy for managing the foreign currency exchange risk posed by our Japanese Yen denominated loan also performed reasonably well. The Kenya shilling marginally strengthened against the Japanese Yen but weakened against the US dollar in the year. This resulted in a net foreign exchange gain of Kshs. 36 million, demonstrating the gains on the USD swap were more or less offset by the losses on the JPY leg.

For the year under review, the Company returned an operating loss of Kshs. 92 million compared to prior year operating profit of Kshs. 340 million while the loss before tax was Kshs. 374 million compared to a profit before tax of Kshs. 1,419 million the previous year. The previous year's results included Fair Value Gain on revaluation of the investment property amounting to Kshs. 730 million.

Cash flows generated from operations remained relatively stable at above Kshs 700 million similar to the previous year. Investments in long term capital projects

used up Kshs. 597 million while servicing of loan obligations used up another Kshs. 541 million during the year.

Corporate Strategy

Price competition in the domestic and regional cement markets persisted in the year. The Company has responded by expanding and utilizing capacity so as to benefit from scale economies while reengineering business processes to build efficiency and reduce operating costs. This strategy will ensure the ex-factory cement price is competitive for the prevailing market conditions, and foster faster market recovery and growth. This financial year the improvement in systems and processes has already resulted in a 3% reduction in cement production costs.

Implementation of the five year (2011-2016) strategy is focused on increasing production capacity in both clinker and cement. In this regard, the following projects are at various implementation stages:

- Kiln shell replacement needed to sustain and increase clinker production capacity
- Installation of an additional cement packer
- Installation of a Bag House (an air pollution control system to contain dust emission)
- Installation of a pre-cast plant for product diversification and value addition ready for commissioning in Q1, FY 2014-15
- Acquisition of new limestone reserves in Kitui and Kajiado Counties among others.

The behavior change program, which is part of the 2011-2016 Strategic Plan, was geared towards reorienting the work force towards the values and strategy of the business and to ensure

that the work culture is dynamic and responsive to the evolving business environment. The Company undertook several training sessions under the Uungwana Change Program that has now come to a close. The new Change Management Office will carry through with the Uungwana Change program principles and ensure sustainability of the results so far achieved, including but not limited to improved information flow, positive work ethics, improved team work through kazi kikaos and positive impact on productivity.

Ongoing efforts on innovation and product diversification will also see the commercialization of the cabro manufacturing plant, thereby introducing a new product to the existing Company's product portfolio which serves to increase the revenue base. The new department of Research and Development will spearhead all product related innovations and improvements.

Quality Management Process

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

Training

Staff training remains at the heart of our human resource strategy. In this financial year, trainings have been carried out across all cadres of staff to ensure that identified training needs are addressed to develop skills relevant to the Company's business. These

include talent management trainings, Management Development Program for executives, Energy Management, Corporate Culture Change, Integrity Awareness, Corporate Governance for Board members, just to mention but a few. More emphasis has been placed also on training of trainers to build internal capacity to undertake routine trainings to new staff. Budgetary allocations are prioritized in human capital development and initiatives.

Risk Management

The Company's operations and earnings are subject to various risks relating to the changing competitive, economic, political, legal, social, industry, business and financial conditions.

These risks expose the Company to real threats of financial and non financial loss. Some of these risks include credit risk, cement price risk, liquidity risk, foreign currency risk and interest rate risk.

Given the regional presence in Uganda and Southern Sudan, and plans to venture into Tanzania, the Company is also faced with Country risk, although to a small, but growing extent. The Company's overall risk management program focuses on the effective mitigation of the various risks and seeks to minimize potential adverse effects on corporate performance using a variety of techniques.

Under the policies approved by the Board of Directors, the Company has developed policies and procedures designed to aid in the identification, evaluation and adoption of appropriate responses to various risks. The Company also takes a risk-based approach when designing, evaluating and monitoring the internal control environment. There are procedures designed to ensure business objectives are realized and ensure business continuity in case of process failures. Related requirements are set out in the Corporate Risk Management

Manual and Business Continuity Plan. The manual describes the methodology to be followed to manage risks and the risk-based standards that provide a common approach to enterprise-wide risks. The Business Continuity Plan establishes alternatives to normal established processes in instances of process failures.

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

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

The established mechanisms allow the Board through the Board Audit Committee, to regularly consider the overall effectiveness of the internal control system and to perform a full annual review. In the year under review the Company terminated the services of 33 members of staff due to unethical conduct.

The Company has also put in place whistle blowing measures to discourage corrupt and unethical practices among its employees. This guarantees the safety and wellbeing of the Company's resources and assets as suspected corrupt cases are reported immediately. The Company's toll-free corruption reporting hotline continues to be used and is managed outside the control of Management. It is designed in such a way that the information shared is held in confidence and is not used to punish the whistle blower.

Corporate Social Responsibility

Our philosophy of "holding life together" has meant that the Company continues to engage with the communities through supporting sustainable initiatives that address the social economic challenges of such communities. Some of the CSR projects the Company has sponsored include Community based programs such as building schools, developing community water projects, construction of community access roads, paying school fees for needy children and sports sponsorships. During this financial year, the Company spent over Kshs. 50 million on such programs.

Safety, Health and Environment

EAPCC aims to be among the leading companies that champion best health and safety practices in the region. We pride ourselves in being among the pioneer companies in Kenya to be OHSAS 18001:2007 certified. This is a world recognized Health & Safety management system to which we have continued to excel and retain certification.

The Company is also an active member of the British Safety Council, with which it shares and benchmarks with world class organizations. The Company recognizes that through good safety performance, other performance in quality, reliability, competitiveness and profitability will be enhanced positively.

To this end the Company has adopted demonstrable safety leadership from top management, implemented a system of risk assessment and control in all its activities and actively maintains its OHSAS 18001 management system. The results are that the Company has achieved a significant reduction in both the frequency and the gravity of work-

related accidents and ill health.

FUTURE OUTLOOK

Market Environment

The market continues to be very competitive, with 9 million metric tons total installed cement production capacity surpassing the annual market demand of 4.7 million metric tons. However, with the planned infrastructure projects and the construction boom that is seeing investments in real estate developments across the country, it is expected that the cement market demand will steadily tend to the installed production capacity in the coming years with the effect of stabilizing cement market prices.

Regionally, it is expected that our presence in Uganda should bolster revenues with the earmarked infrastructure projects in the coming financial year. The South Sudan market outlook remains uncertain as the country recovers from the political turmoil experienced in the past year.

Priorities

Our priorities in 2014-2015 will include:

- Improvement of productivity and capacity Utilization
- Completion of the kiln shell and nose ring replacements
- Construction of the new packer and the crane feeding system for cement mills
- Risk management
- Value addition initiatives by introduction of pre-cast plant as part of our building solutions for our markets

- Development of our talent and leadership capability

- To finalize implementation of Total Productive Maintenance (TPM) quality management program to ensure we grow revenues and cut down costs

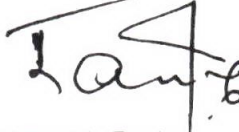
- Improvement of our customer service processes to improve the EAPCC customer experience as a competitive strategy

- Continuing the implementation of the 2011-2016 strategic plan with a view to achieving competitiveness and reclaiming our market share

We enter 2014 with a reenergized economy and an expectation of an increase in government infrastructure spending. We will relentlessly continue to build our brand, our range of building solutions and their mode of delivery to our customers through our core values of innovativeness, teamwork and customer focus.

I would like to thank our customers, shareholders and all our stakeholders for their support and our staff for their tremendous efforts during the year. I am confident that in this coming year and in the future, we can build on our successes by nudging the corporate strategy to align even closer to market dynamics as we strive to build sustainability and innovation in the business.

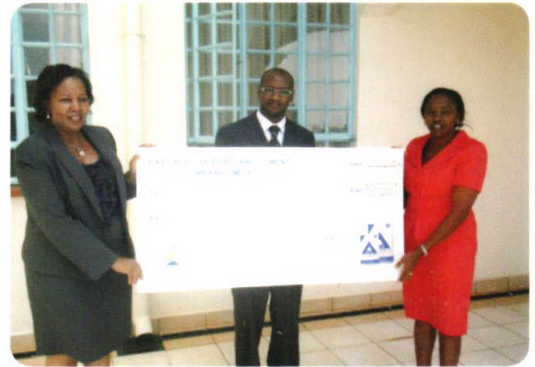
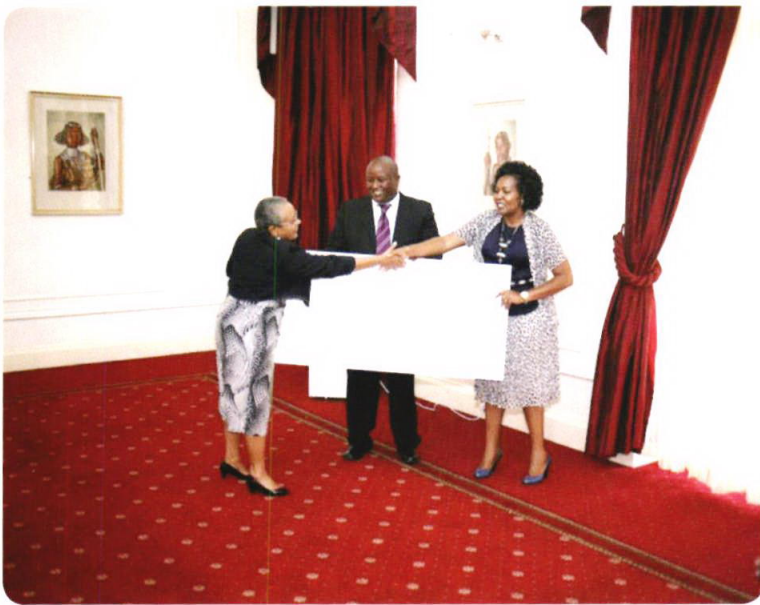
Thank you.



Keph L. Tande
Managing Director



CSR



CORPORATE SOCIAL RESPONSIBILITY

For the year ended 30 June 2014

East African Portland Cement Company Limited has a mandate to integrate and manage social and environmental concerns in its business practice and operations while mutually interacting with its stakeholders. It involves achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment. In line with the Company's policy we continually seek to make positive contributions to communities through engaging in various development projects carried out in partnership with the beneficiaries.

EAPCC's CSR policy pillars include:

- Community Development and Economic Advancement
- The Environment
- Health
- Education
- Talent development

Community Development and Economic Advancement

Economic Empowerment

The Company has partnered with organizations and communities to support initiatives in income generation. During the financial year, the Company supported women groups through table banking initiatives. Among the groups that were supported this year were Belgut Women empowerment project and Joyful Women Organization.

Health

In its commitment to improving health among local communities, the Company contributed towards improving access to quality and affordable health care for the local communities. This was achieved mainly through partnerships in constructing and equipping health facilities and provision of mobile medical services. During the year, funding for running of a health facility at Oleleshua in Kajiado County was provided. The Company also supported an initiative by Kenya's First Lady, the Beyond Zero campaign, whose objective is to reduce maternal deaths. The Company also partnered with the Chase Group Foundation to raise funds in aid of training midwives to enhance safe deliveries.

Education

Education is one of the core elements of the Company's CSR focus, believing that the best investment a society can make is the equipping of young people with intellectual and technical skills. Towards this end, the Company, during the current financial year, supported the construction of classrooms to enhance access to education by disadvantaged children. A classroom and an office were constructed for Elerai Primary School while Noompopong' and Oleleshua Primary schools have been identified to get an additional class room each in the next

financial year. Other activities to support access to education by the Company include cement donation to various institutions in aid of ongoing construction of facilities and provision of bursaries and scholarships to needy and deserving cases across the country. During the year, a total of 225 students were beneficiaries of scholarships and bursaries. The Company also supported Elerai Girls Secondary School to acquire a school bus.

Water

The Company draws its crucial raw materials from regions that are coincidentally water scarce. The Company has implemented community-based water projects that provide access to reliable and safe water for neighboring communities. This initiative involves the running and maintenance of 6 boreholes for the Kibini community. The Company also supplies water to Kasuu residents next to the factory at Athi River. During the year, the Company dug three dams at Enderkesi, Ilmao and Engo'osua moi. MCK Elerai Girls Secondary School also benefited with a kilometers pipeline extension, from a nearby borehole to the school compound.

Environmental Conservation

The Company continues to provide sustainable support for the preservation of the Kenyan environment and the management of her natural resources. This is achieved through provision of sustainable support for the preservation of Kenya's environment and natural resources. The Company engages communities in partnerships to grow forest cover and participation in environmental beautification activities with a view to conserve biodiversity.



EAPCC Managing Director Kephur Tande joins the EAPCC team that comprised of staff and their children who had just completed the 21st 2014 edition of the Beyond Zero Marathon. The Company contributed Kshs 1 Million towards the initiative by the First Lady H.E. Margaret Kenyatta to reduce maternal deaths.

Three Tier Green Partnership Program.

The three tier program aims to engage corporates, employees

and the community in environmental conservation programs with the Company playing a leading role. The Company continues to devise ways to protect ecosystems and reverse any damage caused due to adverse human and industrial activity. This is demonstrated through rehabilitation of mined out quarries with green cover. A tree nursery is operated by the Company to guarantee sustainability of these programs.

The need to green the planet cannot be overemphasized due to the impact of climate change. It is in light of this that the Company has initiated the green homes program so as to engage its employees. During the FY ending June 2014, the Company realized planting of 6,300 tree seedlings across the three tiers, i.e. corporates, employees and the community.

Beyond Green Compliance; EMS 14001:2004 Implementation

The Company carried out compliance projects to help in defining meaningful goals for a cleaner and greener workplace; more specifically to ascertain whether all environmental aspects within our business operations are fully compliant with regulatory requirements. The compliance projects included:

- Annual Environmental audit
- Water quality and effluent analysis
- Air quality assessment
- Noise survey
- Water resource audit



EAPCC staff load trees onto a Machakos County Government pickup to be planted along the highway in line with Three Tier Green Partnership program.

The audits assisted in identifying areas for improvement in environmental sustainability. The Company has reshaped itself from the bottom up, improving its environmental profile and the public image by integrating green criteria in its strategic plan through initiating the implementation of EMS 14001:2004 which is targeted for certification by June 2015. The EMS 14001:2004 will make a great contribution to the enormous task of moving towards a sustainable future while maintaining a natural capital base.

Cleaner product: ESP to Bag House Conversion

The Company is focused on promoting environmental

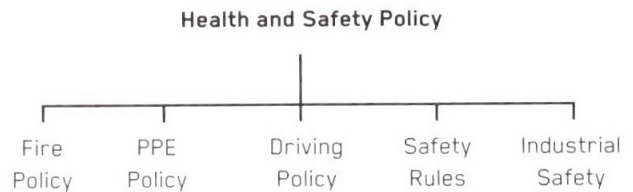
stewardship and sustainability by implementing innovative environmental technologies and practices. "Clean and healthy workplace" is a philosophy the Company endeavors to uphold. It is in this spirit that the Company is currently converting its electrostatic precipitators (ESP), used in dust emission control, to a bag house system. This project which is already ongoing will greatly improve dust management processes and enable the Company to conform to regulatory requirements on dust control, emission and management.

Employees and the Workplace

EAPCC has a comprehensive policy to safeguard its employees, their dependants and surrounding communities in terms of health and safety as embodied in the health and safety policies. The health and safety policies currently in place include:

1. Fire policy
2. Industrial safety
3. Driving policy
4. Employee's general safety rules
5. Personal Protective Equipment (PPE) policy

EAPCC's safety architecture



Safety and Health

Health and safety remains the pillar of the Company's strategy. The slogan "safety first in anything you do" and "safety begins with me" underscores the Company's commitment to achieving high safety standards and consciousness.

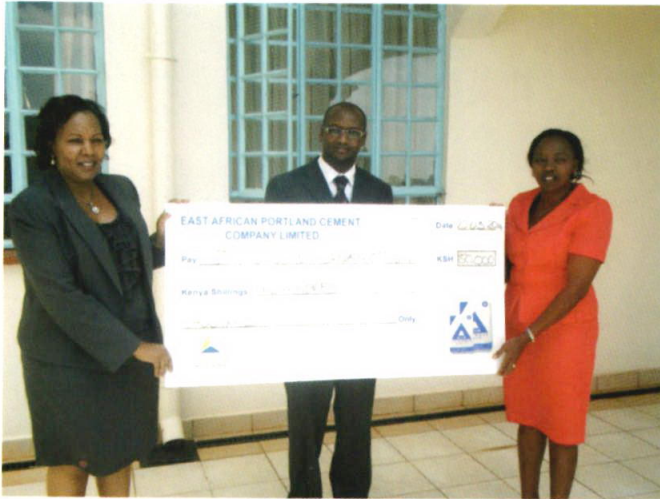
The Company aims to attain and maintain zero fatalities in its operations in all sectors. To achieve this, the Company continues to comply with the Occupational Healthy and Safety Act, 2007.

Road safety Campaigns

The Company continued with road safety campaigns during the year. The Company experienced a general drop in incidents over the last one year. This was achieved through vigorous training and sensitization of drivers on defensive driving coupled with printed information on the Company billboards. Safety marshals have been re-deployed across the Company to help identify safety hazards.

In the last financial year, the Company purchased and donated reflector jackets to over 500 boda boda operators within Athi River and Kitengela towns. The beneficiaries were also trained on road safety measures.

The Company has also partnered with other stakeholders such as the Kenya Red Cross in providing safety training and information.



Mrs Lucy Molonket-Meitiaki, the EAPCC Head of Sales and Marketing, presents a cheque of Kshs. 150,000/- to the patron of Joyful Women Organisation, H.E. Rachel Ruto, to support various women groups under the organisation. Looking on is the CSR Officer Mr Haron Kisemei.

Sustainability

EAPCC is contemplating formation of a foundation with the main objective of promoting technical skills that enhance empowerment of the local Community and enhance environmental sustainability. This will be done through engaging strategic partners and the County Committee.

The Company’s sustainability ambitions are clear and measurable. The ambitions are meant to drive the Company’s attainment of industry leadership while building an exemplary record of environmental protection, social responsibility and corporate governance.

Sponsorships

Support for the Sofapaka football club has continued for the

5th year running. We have seen the team growing both in size and stature. The team uniforms are branded with the Blue Triangle logo and serves to build publicity. The seasonal football tournament continues to attract millions of local football enthusiasts. The sponsorship has given the Company an opportunity to positively contribute to soccer development in the region. EAPCC also participates in other tournaments like volleyball in both men and women categories, darts, netball, and golf tournaments.

Training

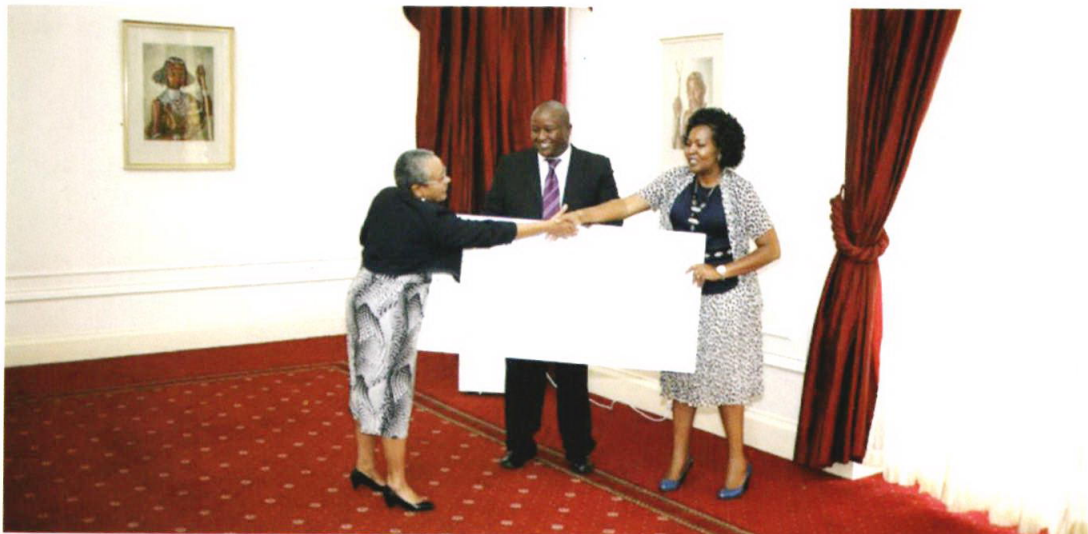
EAPCC trains its employees on a continuous basis to keep them up to date with skills and enhance the Company’s efficiency. In the last financial year, employees received training in Quality Management Systems as well as Culture Change training.

Employee Participation

Staff participation is critical for any organization’s CSR not only because of the cash and kind donations that they give but because it provides an opportunity for them to connect with the communities. This year members of staff came together to raise funds to support the treatment of children with a rare disease who had been admitted at the Kenyatta National Hospital. Plans are underway to present staff with such direct opportunities to participate more in the Company’s CSR activities.

Sports

The organization continues to provide opportunities for the integration of education and life skills into sport as a means of promoting talent development amongst the youth. During the year, the Company organized a tournament dubbed The Moral World Cup. A number of teams drawn from different parts of Kajiado County participated in the tournament. As a result of the tournament many young people got opportunities, some to further their education through scholarships while some got employment opportunities.

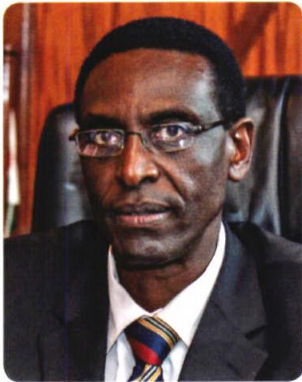


H.E. Margaret Kenyatta receives a cheque of Kshs 1 million from Mrs Lucy Molonket-Meitiaki, the EAPCC Head of Sales and Marketing, towards the Beyond Zero campaign whose objective is to reduce maternal deaths. Looking on is the Corporate Communications Officer, Casper Waitaha, at State House Nairobi.

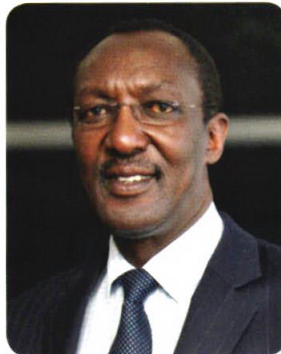
BOARD OF DIRECTORS



WILLIAM LAY
CHAIRMAN



KEPHAR L. TANDE
MANAGING DIRECTOR



DR. T. NAIKUNI
DIRECTOR



HENRY ROTICH
CS TREASURY



DR. WILSON SONGA
DIRECTOR



RICHARD LANGAT
DIRECTOR



SHEILA KAHUKI
COMPANY SECRETARY

MANAGEMENT EXECUTIVE TEAM



KEPHAR L. TANDE
MANAGING DIRECTOR



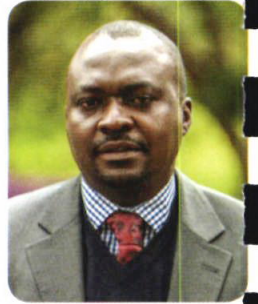
CHARLES CHARO
HEAD OF RESEARCH &
DEVELOPMENT



JOHN KIMANJOI
HEAD OF HUMAN RESOURCES
& ADMINISTRATION



ENOS AUCH
HEAD OF FINANCIAL
MANAGEMENT



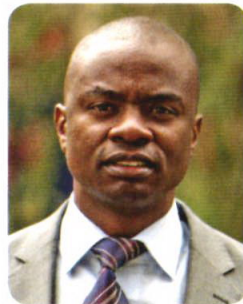
ISAAC MUTUA
HEAD OF ICT



LUCY MOLONKET - MEITIAKI
HEAD OF SALES & MARKETING



STEPHEN NTHEI
HEAD OF INTERNAL AUDIT AND
RISK MANAGEMENT



JOSEPH KOMBO
HEAD OF PRODUCTION
OPERATIONS



ABRAHAM KIPROTICH
SUPPLY CHAIN MANAGER

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

Introduction

The Board of East African Portland Cement Company Limited is committed to upholding high standards of corporate governance in order to enhance and protect value and ensure the sustainability of the business.

Corporate Governance is the system of rules, practices and processes by which a Company is directed and controlled. It involves balancing the interests of the many stakeholders in a Company, including shareholders, customers, suppliers, financiers, government and the community.

Principles and Guidelines Governing the Board

The Company is guided by the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya, the Public Officer Ethics Act, 2003, and other best practice principles as contained in the Board Charter.

The Board

The Composition of the Board is set out on page 19. The Board is made up of the Chairman, Managing Director and four non-executive directors. The non-executive directors are independent of management and are subject to periodic re-appointment in accordance with the Company's Articles of Association.

On appointment, the directors receive an induction covering the Company's business and operations. The directors are advised of the legal, regulatory and other obligations of a director of a listed Company. The directors' responsibilities are set out in the Statement of Directors Responsibilities on page 29.

The Board meets at least four times a year to deliberate in a formal schedule of matters. The directors receive appropriate and timely information so that they can maintain

full and effective control over strategic, financial, operational, compliance and governance issues.

The Board provides leadership and strategic direction to the Company. Its main responsibilities are the establishment of strategy and general policy, ensuring preparation of statutory financial statements, reviewing and monitoring the performance of the Company and of senior Management and ensuring that there are adequate internal controls to ensure business continuity.

The Board has delegated authority for the conduct of day to day business to the Managing Director and the Management Committee. The Board of Directors has access to the Company Secretary as well as timely and relevant information from Management to discharge its duties effectively. Directors are also entitled to seek independent professional advice on Company affairs at its expense where necessary.

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

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

The Board understands the significance of corporate governance and continuously strives to provide competitive strategic leadership.

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

Director	Board (scheduled)	Board (Special)	81st AGM
Chairman	3	4	1
Managing Director	3	4	1
CS Treasury	1	2	1
PS Ministry of Industrialization	2	4	1
NSSF	2	2	1
Dr. T Naikuni	3	2	1
H. W. Keith (Mr. Keith retired on 17th December 2013)	1	2	1
Company Secretary	3	4	1

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

The Board is of the opinion that there is a balance between independent executive and non-executive directors as required by clause 2.1.4 of the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya.

Delegation of Authority

Board Sub Committees

The Board has four Sub Committees with specific delegated authorities. These are Board Audit Committee, Board Technical Committee, Board Human Resources Committee and Remuneration Committee, and Board Tender and Procurement Oversight Committee (the last of which has since been abolished) while Management has an Executive Management Committee and Management Tender Committee.

The Board Committees assist the Board in discharging its responsibilities. The Committees have clear defined roles and terms of reference that have been approved by the Board. The Committees are chaired by non-executive directors.

Details of these committees and membership are shown below.

Board Audit Committee

The Committee reviews quarterly, half year and annual financial statements, external audit plans, audit findings, internal audit

on operations, findings and risks affecting the Company. External auditors have unrestricted access to the Managing Director and Chairman of Audit Committee.

The members of the Committee are:

Mr. Richard Langat (representing NSSF)	Chairman
Dr. Titus Naikuni	
CS, Treasury	
Mrs. Sheila Kahuki	Secretary

The Committee meets at least four times a year and held five (5) meetings during the year.

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

Board Technical Committee

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

The members of the Committee are:

Dr. Titus Naikuni	Chairman
PS, Ministry of Industrialization	
CS, Treasury	
Mr. Richard Langat	Representing NSSF
Mr. Kephah Tande	Managing Director
Mrs. Sheila Kahuki	Secretary

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

	Audit Committee	Technical Committee	Human Resources and Remuneration Committee	Tender and Procurement Oversight Committee
Number of Meetings	5	5	7	3
CS Treasury	5	2	*	*
PS Ministry of Industrialization	*	3	7	3
NSSF	5	4	6	3
Managing Director	-	5	7	3
Dr. T Naikuni	5	5	*	*
H Keith	2			2

The Committee has four scheduled meetings each year and receives reports on all aspects of the technical operations of the Company. During the year five (5) meetings were held.

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

Board Human Resources and Remuneration Committee

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

The Members of the Committee are:

PS, Ministry of Industrialization	Chairman
Mr. Richard Langat	Representing NSSF
Mr. Kephah Tande	Managing Director
Mrs. Sheila Kahuki	Secretary

The Committee has four scheduled meetings during the year. During the year seven (7) meetings were held.

Board Tender and Procurement Oversight Committee

The Committee was abolished by the Board on 5th September 2014)

The role of the Committee was as follows:

- To consider and approve all the annual procurement plans prepared by Tender and Procurement Committees prior to submission to the Board.
- To receive and discuss all the quarterly procurement reports before they are submitted to the Board.
- To guide Tender Committee as necessary.

To deal with any other procurement issues that may come from time to time.

To ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

The members of the committee were:

PS, Ministry of Industrialization	Chairman
Mr. Richard Langat	Representing NSSF
Mr. Kephah Tande	Managing Director
Mrs. Sheila Kahuki	Secretary

The Committee held three (3) meetings during the year.

Management Tender Committee

The Committee meets weekly or as required and its composition and responsibilities are as per the Public Procurement and Disposal Act 2005. There is also a Disposal Committee responsible for the disposal of the Company's significant non-operating assets.

Management Committee

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

The Committee meets at least once a week.

Directors' remuneration and loans

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

Board Performance Evaluation

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

Going concern

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the Company continues to adopt the going concern basis when preparing the financial statements.

Internal controls

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

material misstatement or loss.

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

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

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

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

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

Relations with shareholders

The Board recognizes the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report are used as the opportunity to communicate with shareholders. The Company always gives shareholders adequate notice of the AGM as required under the Kenyan Companies Act and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM.

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

Skills and experience of the Board

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

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

Code of Conduct

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

Conflict of Interest

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

Appointments to the Board

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

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

Interaction with Management

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

During the year 2013 /2014, the membership of the Board Committees was reviewed in line with the requirements of the Board charter which provides that committee memberships and chairs be reviewed annually.

COMMUNICATION

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

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

CORPORATE GOALS

ENVIRONMENT, HEALTH & SAFETY

The Company is committed to protecting the health and safety of all individuals affected by its activities, including employees, contractors and the public. We emphasize environmental protection and stewardship and recognize that pollution prevention, biodiversity and resource conservation are key to a sustainable environment. We effectively integrate these concepts into our business decision-making by ensuring compliance with NEMA requirements.

STAKEHOLDER RELATIONS

We Endeavour to engage stakeholders clearly, honestly and respectfully, and are committed to timely and meaningful dialogue with all of them.

SHAREHOLDERS' INFORMATION

Top ten shareholders as at 30 June 2014		Shares	Percentage
1	BOARD OF TRUSTEES NATIONAL SOCIAL SECURITY FUND	24,300,000	27
2	THE PERMANENT SECRETARY TO THE TREASURY	22,799,505	25.33
3	CEMENTIA HOLDINGS AG	13,180,442	14.64
4	ASSOCIATED INTERNATIONAL CEMENT LTD	13,144,442	14.6
5	NAIROBI NOMINEES LTD A/C BCL	11,265,068	12.52
6	KESTREL CAPITAL NOMINEES LTD A/C 006	725,627	0.81
7	GIDJOY INVESTMENTS LIMITED	591,253	0.66
8	KESTREL CAPITAL NOMINEES LTD A/C 007	496,380	0.55
9	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 885	450,000	0.5
10	NAIROBI NOMINEES LTD A/C MSV	218,500	0.24

SHARE DISTRIBUTION SCHEDULE AS AT 30 JUNE 2014

Category	No. of Shareholders	Shares Held	Percentage
1-1,000	816	272,088	0.30
1,001-5,000	239	573,297	0.64
5,001-10,000	43	314,254	0.35
10,001-50,000	37	781,006	0.87
50,001-100,000	4	254,038	0.28
Over 100,000	14	87,805,317	97.56
	1,153	90,000,000	100.00

SHARE ANALYSIS BY DOMICILE AS AT 30 JUNE 2014

DOMICILE	NUMBER OF SHARES	%	NUMBER OF HOLDERS
Foreign Institutions and Individuals	26,622,276	29.58%	29
East African Community Investors	25,325	0.03%	9
Local Institutions	61,801,366	68.67%	133
Local Individuals	1,551,033	1.72%	982
TOTAL	90,000,000	100.00%	1,153

THE BOARD AND STATUTORY INFORMATION

Directors	William Lay	- Chairman
	Kephar L. Tande	- Managing Director
	Dr. Titus T. Naikuni	
	Henry Rotich	- Cabinet Secretary, National Treasury (Alternate - Jackson Kinyanjui)
	National Social Security Fund (NSSF)	- (Represented by Richard Langat)
	Dr. Wilson Songa	- Principal Secretary, Ministry of Industrialization (Alternate - Julius Korir)

SECRETARY	Sheila Kahuki Certified Public Secretary (Kenya) P. O. Box 40101 - 00100 Nairobi
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REGISTERED OFFICE	L R 337/113/1 Namanga Road, off Mombasa Road P. O. Box 40101 - 00100 Nairobi
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REGISTRARS	Haki Registrars P. O. Box 40868 - 00100 Nairobi
-------------------	---

BANKERS	Kenya Commercial Bank Limited Moi Avenue & Kitengela Branches P. O. Box 30081 - 00100 Nairobi	CfC Stanbic Bank Limited Kimathi Street P. O. Box 30550 - 00100 Nairobi
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Standard Chartered Bank Kenya Limited Kenyatta Avenue P. O. Box 30003 - 00100 Nairobi	Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 7111 Kampala
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Citibank, N.A Citibank House P. O. Box 30711 - 00100 Nairobi	Equity Bank Limited Kenyatta Avenue P. O. Box 104860 - 00100 Nairobi
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The Co-operative Bank of Kenya Limited P. O. Box 321 - 00204 Athi River	Kenya Commercial Bank Uganda Limited 6th Street Industrial Area P. O. Box 28568 Kampala
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PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P. O. Box 30084 - 00100 GPO Nairobi
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DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P. O. Box 40092 00100 GPO Nairobi
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REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2014

The Directors present their report together with the audited financial statements of East Africa Portland Cement Company Limited ("the Company") and its subsidiary (together, "the Group") for the year ended 30 June 2014 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

	2014 Kshs'000	2013 Kshs'000
(Loss)/profit before taxation	(373,700)	1,419,478
Taxation (charge)/credit	(12,931)	355,905
	-----	-----
(Loss)/profit for the year transferred to retained earnings	(386,631)	1,775,383
	-----	-----

DIVIDENDS

The directors do not recommend a dividend in the current year. (2013: 67,500,000).

DIRECTORS

The present directors are shown on page 27. The following changes have taken place since 1 July 2013:

M. Karbolo was replaced by W. Lay with effect from 22 January 2014. The NSSF representative H. Mwashumbe was replaced by R. Langat from 5 June 2014. H. W Keith retired on 17 December 2013.

SECRETARY

John LG Maonga resigned as the Company secretary on 21 February 2014 and was replaced by Sheila Kahuki 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 14 and Section 39(i) of the Public Audit Act, 2003, which empowers the Auditor-General to nominate other auditors to carry out the audit on his behalf.

Deloitte & Touche were nominated by the Auditor-General to carry out the audit for the year ended 30 June 2014.

By Order of the Board



Secretary

22/ 10 / 2014

Nairobi

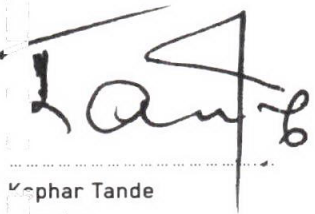
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE CONSOLIDATED FINANCIAL STATEMENTS

The Kenyan Companies Act requires the Directors to prepare 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 subsidiaries 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.

Nothing has come to the attention of the Directors to indicate that the Company and its subsidiary will not remain going concerns for at least the next twelve months from the date of this statement.



Kaphar Tande
Director
22 October 2014



Director
22 October 2014

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of East African Portland Cement Company Limited set out on pages 33 to 90, which comprise the consolidated and Company's statements of financial position as at 30 June 2014, and the consolidated and Company's statements of comprehensive income, statement of changes in equity and statement of cash flows for the period 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 39 of the Public Audit Act, 2003. 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

The 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 financial statements 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 13 of the Public Audit Act, 2003.

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 15 of the Public Audit Act, 2003 and submit the audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements 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 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.

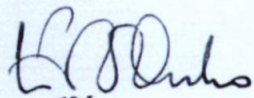
Opinion

In my opinion, the financial statements present fairly in all material respects, the financial position of the Group as at 30 June 2014, and of its financial performance and its cash flows for the period then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap.486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

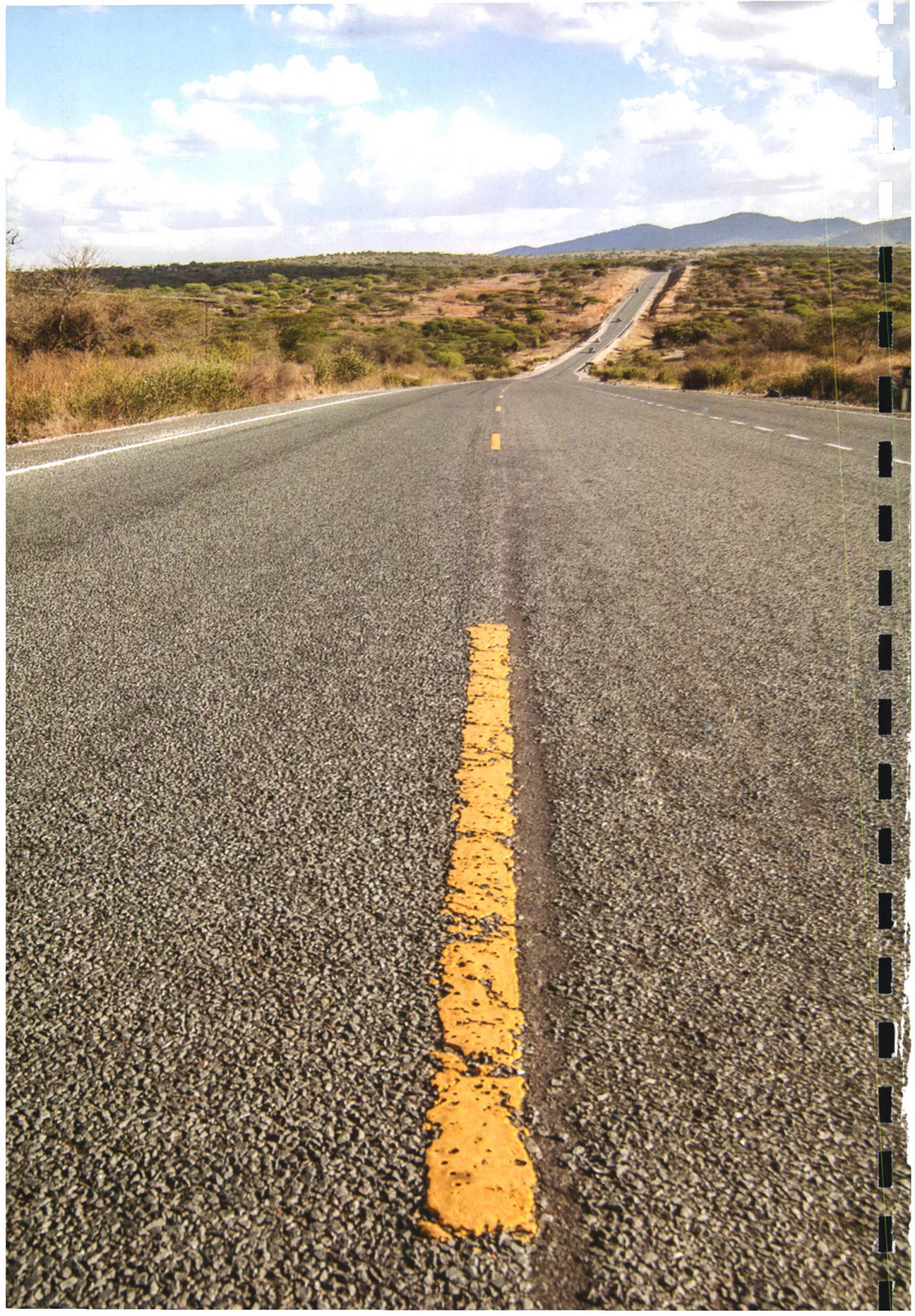
- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii. The Company's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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

22 October 2014



**CONSOLIDATED AND Company STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 30 JUNE 2014

	Note	GROUP		Company	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
REVENUE	4	9,057,292	9,211,462	8,914,256	8,958,001
COST OF SALES	5	(6,661,720)	(6,878,139)	(6,556,963)	(6,685,295)
GROSS PROFIT		2,395,572	2,333,323	2,357,293	2,272,706
Other operating income	6	267,792	36,388	257,043	36,388
Provisions written back		32,237	56,988	32,237	56,891
		2,695,601	2,426,699	2,646,573	2,365,985
EXPENSES					
Selling and distribution	7	(511,731)	(422,251)	(481,469)	(418,435)
Administration and establishment	8	(1,935,930)	(1,450,158)	(1,902,833)	(1,426,499)
Other operating expenses	9	(340,895)	(213,359)	(322,180)	(206,505)
		(2,788,556)	(2,085,768)	(2,706,482)	(2,051,439)
(LOSS)/PROFIT FROM OPERATIONS		(92,955)	340,931	(59,909)	314,546
FINANCE INCOME	10	1,427	66,000	700	60,886
FINANCE COSTS	11	(318,941)	(311,612)	(318,941)	(311,612)
EXCHANGE GAIN ON FOREIGN CURRENCY LOAN	13	36,769	594,113	36,769	594,113
FAIR VALUE GAIN ON INVESTMENT PROPERTY	21	-	730,046	-	730,046
(LOSS)/PROFIT BEFORE TAXATION	12	(373,700)	1,419,478	(341,381)	1,387,979
TAXATION (CHARGE)/CREDIT	15(b)	(12,931)	355,905	(11,868)	355,905
(LOSS)/PROFIT FOR THE YEAR		(386,631)	1,775,383	(353,249)	1,743,884

CONSOLIDATED AND Company STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME


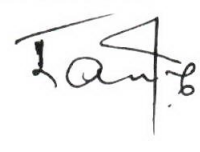
FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	Note	GROUP		Company	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(LOSS)/PROFIT FOR THE YEAR		(386,631)	1,775,383	(353,249)	1,743,884
OTHER COMPREHENSIVE INCOME					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Revaluation surplus	17	-	976,780	-	976,780
Deferred income tax on revaluation surplus	34	-	(264,837)	-	(264,837)
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operation		1,049	1,508	-	-
TOTAL OTHER COMPREHENSIVE INCOME		1,049	713,451	-	711,943
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(385,582)	2,488,834	(353,249)	2,455,827
(LOSS)/EARNINGS PER SHARE - Basic and diluted (KShs)	16	(4.30)	19.73	(3.93)	19.38

CONSOLIDATED AND Company STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	GROUP		Company	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	17	7,591,940	8,015,560	7,591,835	8,015,379
Capital work- in- progress	18	701,740	133,752	701,740	133,752
Intangible assets	19	-	39,977	-	39,977
Prepaid operating leases	20	9,498	11,497	9,498	11,497
Investment properties	21	2,225,046	2,225,046	2,225,046	2,225,046
Investment in subsidiary	22	-	-	2,500	2,500
Loan swap asset	23	1,834,377	2,044,066	1,834,377	2,044,066
Restricted deposits	24	30,595	61,742	30,595	61,742
		12,393,196	12,531,640	12,395,591	12,533,959
CURRENT ASSETS					
Inventories	25	2,199,517	2,191,123	2,192,859	2,172,290
Trade and other receivables	26	845,223	883,028	621,052	641,736
Amount due from related parties	27	474	6,030	333,083	398,077
Taxation recoverable	15(c)	116,188	119,262	117,251	119,262
Short term deposits	24	31,366	29,558	31,366	29,558
Bank balances and cash	28	131,293	373,062	99,531	265,482
		3,324,061	3,602,063	3,395,142	3,626,405
TOTAL ASSETS		15,717,257	16,133,703	15,790,733	16,160,364
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)	1,884,722	1,900,899	1,884,722	1,900,899
Retained earnings		3,716,438	4,086,892	3,798,332	4,135,404
Foreign currency translation reserve	29(d)	5,515	4,466	-	-
TOTAL EQUITY		6,704,675	7,090,257	6,781,054	7,134,303
NON-CURRENT LIABILITIES					
Loan swap liability	23	1,667,493	1,895,374	1,667,493	1,895,374
Staff gratuity	31	917,954	677,904	917,954	677,904
Long - term loan	32(c)	2,140,291	2,357,448	2,140,291	2,357,448
Obligations under finance leases	33	15,525	43,155	15,525	43,155
Deferred taxation	34	759,030	750,087	759,030	750,087
		5,500,293	5,723,968	5,500,293	5,723,968
CURRENT LIABILITIES					
Current portion of long - term loans	32(c)	477,679	324,945	477,679	324,945
Post import finance loans	32(d)	324,274	-	324,274	-
Obligations under finance leases	33	37,964	48,534	37,964	48,534
Bank overdraft	35	547,228	853,223	547,228	853,223
Trade and other payables	36	2,125,144	1,944,894	2,122,241	1,927,509
Provision for bonus and legal fees	37	-	147,882	-	147,882
		3,512,289	3,319,478	3,509,386	3,302,093
TOTAL EQUITY AND LIABILITIES		15,717,257	16,133,703	15,790,733	16,160,364

The financial statements on pages 33 to 90 were approved and authorised for issue by the board of directors on 22 October 2014 and were signed on its behalf by:

)
) Directors

STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2014

GROUP

	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Retained earnings KShs'000	Foreign currency translation reserve** KShs'000	Total KShs'000
At 1 July 2012	450,000	648,000	1,210,284	2,290,181	2,958	4,601,423
Transfer of excess depreciation	-	-	(30,468)	30,468	-	-
Deferred tax on excess depreciation	-	-	9,140	(9,140)	-	-
Profit for the year	-	-	-	1,775,383	-	1,775,383
Other comprehensive income	-	-	711,943	-	1,508	713,451
Total comprehensive income for the year	-	-	711,943	1,775,383	1,508	2,488,834
At 30 June 2013	450,000	648,000	1,900,899	4,086,892	4,466	7,090,257
At 1 July 2013	450,000	648,000	1,900,899	4,086,892	4,466	7,090,257
Transfer of excess depreciation	-	-	(23,110)	23,110	-	-
Deferred tax on excess depreciation	-	-	6,933	(6,933)	-	-
Loss for the year	-	-	-	(386,631)	-	(386,631)
Other comprehensive income	-	-	-	-	1,049	1,049
Total comprehensive loss for the year	-	-	-	(386,631)	1,049	385,582
At 30 June 2014	450,000	648,000	1,884,722	3,716,438	5,515	6,704,675

* The revaluation surplus 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 from the functional currency of the foreign operation to the presentation currency (Kenya Shillings).

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

Company

	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Retained earnings KShs'000	Total KShs'000
At 1 July 2012	450,000	648,000	1,210,284	2,370,192	4,678,476
Transfer of excess depreciation	-	-	(30,468)	30,468	-
	-	-	9,140	(9,140)	-
Profit for the year	-	-	-	1,743,884	1,743,884
Other comprehensive income	-	-	711,943	-	711,943
Total comprehensive income for the year	-	-	711,943	1,743,884	2,455,827
At 30 June 2013	450,000	648,000	1,900,899	4,135,404	7,134,303
At 1 July 2013	450,000	648,000	1,900,899	4,135,404	7,134,303
Transfer of excess depreciation	-	-	(23,110)	23,110	-
Deferred tax on excess depreciation	-	-	6,933	(6,933)	-
Profit for the year	-	-	-	(353,249)	(353,249)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(353,249)	(353,249)
At 30 June 2014	450,000	648,000	1,884,722	3,798,332	6,781,054

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

CONSOLIDATED AND Company STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	GROUP		Company	
		2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'00
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	38(a)	743,103	779,757	820,697	696,776
Interest paid	38(c)	(305,812)	(300,986)	(305,812)	(300,986)
Interest received		2,038	7,876	1,311	2,762
Income tax paid	15(c)	(914)	(1,086)	(914)	(1,086)
Net cash generated from operating activities		438,415	485,561	515,282	397,466
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	17	(62,264)	(139,089)	(62,264)	(139,089)
Additions to capital work-in-progress	18	(567,988)	(20,895)	(567,988)	(20,895)
Proceeds from sale of motor vehicle		1,600	-	1,600	-
Redemption of /(investment in) restricted deposits		31,147	(1,987)	31,147	(1,987)
Net cash used in investing activities		(597,505)	(161,971)	(597,505)	(161,971)
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipt of asset finance loan	38(b)	401,551	57,378	401,551	57,378
Repayment of asset finance loan	38(b)	(104,771)	(37,023)	(104,771)	(37,023)
Loan repayment	38(b)	(358,779)	(377,817)	(358,779)	(377,817)
Receipt of post import finance loans	38(b)	363,668	-	363,668	-
Repayment of post import finance loans	38(b)	(39,394)	-	(39,394)	-
Repayment of finance lease obligation	38(d)	(38,200)	(49,717)	(38,200)	(49,717)
Net cash generated from/(used in) financing activities		224,075	(407,179)	224,075	(407,179)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		64,985	(83,589)	141,852	(171,684)
Effect of foreign currency translation reserve		1,049	1,508	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(450,603)	(368,522)	(558,183)	(386,499)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	38(e)	(384,569)	(450,603)	(416,331)	(558,183)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

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. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

Relevant new standards and amendments to published standards effective for the year ended 30 June 2014

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.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendment had no effect on the Group's financial statements as the Group did not have any offsetting arrangements in place

New and revised standards on consolidation joint arrangements, associates and disclosures

In May 2011, a package of five standards in consolidation joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC 12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

Specifically, the Group has ownership interest in its subsidiary as disclosed under note 22. The directors concluded that the Company has control over the subsidiary on the basis of the Group's absolute size of holding in the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014(Continued)*

Impact of the application of IFRS 12

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

Application of these standards has not resulted in additional disclosures.

IFRS 13 Fair Value Measurement

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014(Continued)*

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

The application of the amendment had no effect on the Group's financial statements.

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The application of the amendment had no effect on the Group's financial statements as the Group does not operate a defined benefit plan.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognised as a non-current 'stripping activity asset' when certain criteria are met. The stripping activity asset is depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

The application of the standard had no effect on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014 (Continued)*

IAS 27 Separate Financial Statements (2011)

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments / IAS 39 Financial Instruments: Recognition and Measurement.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements

The application of the amendment had no effect on the Group's financial statements.

Annual Improvements 2009-2011 Cycle

Makes amendments to the following standards:

IFRS 1 – Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets

IAS 1 – Clarification of the requirements for comparative information

IAS 16 – Classification of servicing equipment

IAS 32 – Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes

IAS 34 – Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments.

The application of the amendment had no effect on the Group's financial statements.

Government Loans (Amendments to IFRS 1)

These amend IFRS 1 First-time Adoption of International Financial Reporting Standards to address how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. The amendments mirror the requirements for existing IFRS preparers in relation to the application of amendments made to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance in relation to accounting for government loans.

First-time adopters of IFRSs are permitted to apply the requirements in paragraph 10A of IAS 20 only to new loans entered into after the date of transition to IFRSs. The first-time adopter is required to apply IAS 32 Financial Instruments Presentation to classify the loan as a financial liability or an equity instrument at the transition date.

If it did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with IFRS requirements, it would be permitted to apply the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening IFRS statement of financial position. An entity would then apply IAS 39 or IFRS 9 in measuring the loan after the transition date

The application of the amendment had no effect on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (Continued)**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)***(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014*

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 32.	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	1 January 2014
Amendments to IFRS 9 and IFRS 7	1 January 2018
Amendments to IAS 16 and 38	1 January 2016
Amendments to IAS 19 Defined Benefit Plans :Employee Contributions	1 July 2014
Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014
Amendments to IFRS 11- Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
IFRIC 21 Levies	1 January 2014

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes 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 fair value through profit or loss is presented in profit or loss.

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. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

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

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014 (Continued)*

IFRS 14, Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

Note: Entities which are eligible to apply IFRS 14 are not required to do so, and so can choose to apply only the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards when first applying IFRSs. However, an entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements. IFRS 14 cannot be applied by entities that have already adopted IFRSs. The directors do not anticipate that the application of the standard will have a significant impact on the Group's financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the consolidated financial statements.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the group do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

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

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014 (Continued)*

Amendments to IAS 16 and IAS 36 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 and IAS 36 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment.

They introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The amendments add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 36 will have a significant impact on the Group's financial statements.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The directors of the Group do not anticipate that the application of these amendments to IAS 39 will have a significant impact on the group's financial statements

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 – Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 – Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 – Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 – Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 – Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 – Clarify how payments to entities providing management services are to be disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

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

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014 (Continued)*

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 – Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 – Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 – Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the Group do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Group's financial statements.

(iii) *Early adoption of standards*

The Company did not early-adopt any new or amended standards in 2014.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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 the statement of comprehensive income in the period in which they are incurred.

Taxation

Current tax

Current tax assets and liabilities 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

Taxation (Continued)

Deferred tax

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

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

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

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

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

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the tax authorities is included as part of accounts receivables or payables in the statement of financial position.

Foreign currencies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

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.

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.

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. 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.

The group's policy is to obtain valuation of investment properties by independent professional valuers at least once every three years. The investment properties were revalued as at 30 June 2013. The changes in valuation at 30 June 2014 have not been assessed as material to warrant a revaluation of the property as at this date.

Transfers are made to or from investment property only when there is a change in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

Investment properties (Continued)

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

Leasehold land

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

Financial instruments

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

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

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

Financial assets at fair value through profit or loss

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

Financial instruments (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

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.

(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. ACCOUNTING POLICIES (continued)

Provisions

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

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

Provision for employee entitlements

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

Employee benefits

i) Short-term benefits

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

A provision is recognised for the amount expected to be paid under a short-term cash bonus only 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. These are currently at Shs 200 per employee per month in Kenya and 10% of the employee's salary in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key areas of judgement and sources of estimation uncertainty

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

a) *Critical judgements in applying accounting policies.*

Deferred income tax

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

b) *Key sources of estimation uncertainty*

Property, plant and equipment and intangible assets

The Group reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
4. REVENUE				
Bagged cement - local	8,463,753	8,422,636	8,463,753	8,422,207
Bagged cement - export	362,784	689,589	219,748	436,557
Bulk cement - local	230,755	99,237	230,755	99,237
	9,057,292	9,211,462	8,914,256	8,958,001
5. COST OF SALES				
Raw materials used	1,681,471	1,816,136	1,681,471	1,816,136
Furnace oil	107,162	178,188	107,162	178,188
Coal	967,409	1,030,216	967,409	1,030,216
Factory staff costs	1,222,614	1,295,166	1,222,614	1,295,166
Power	933,368	863,912	933,368	863,912
Factory depreciation	408,015	431,733	408,015	431,733
Maintenance costs	434,293	366,522	434,293	366,522
Raw materials transport	278,843	321,917	278,843	321,917
Transport and import duty	104,756	192,844	-	-
Factory direct supplies	46,191	35,646	46,191	35,646
Fuel and repairs	235,257	199,450	235,257	199,450
Factory insurance	26,610	35,866	26,610	35,866
Exploration expenses	21	635	21	635
Explosives	3,308	6,870	3,308	6,870
Royalties	92,317	61,389	92,317	61,389
Factory water	14,663	12,796	14,663	12,796
Factory land rates and rent	3,513	4,892	3,513	4,892
Consultancy fees	21,008	4,125	21,008	4,125
Hired equipment	78,461	15,166	78,460	15,166
Other production overheads	2,440	4,670	2,440	4,670
	6,661,720	6,878,139	6,556,963	6,685,295
6. OTHER OPERATING INCOME				
Exchange gain on foreign currency transactions	144,912	-	144,912	-
Sale of scrap	-	613	-	613
Rent and electricity recovery	9,053	8,201	9,053	8,201
Other sundry income	113,827	27,574	103,078	27,574
	267,792	36,388	257,043	36,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
7. SELLING AND DISTRIBUTION EXPENSES				
Cement transport	260,423	275,294	259,849	275,294
Advertising and sales commissions	99,820	82,659	99,787	78,945
Fuel and repairs	38,334	29,816	38,334	29,816
Depot rent	24,422	21,673	23,138	21,673
Public relations costs	15,057	12,809	15,054	12,707
Provision for bad and doubtful debts	73,675	-	45,307	-
	511,731	422,251	481,469	418,435
8. ADMINISTRATION AND ESTABLISHMENT EXPENSES				
Staff costs	1,353,155	948,307	1,345,403	935,032
Depreciation of property, plant and equipment	76,382	136,347	76,343	136,347
Amortisation of intangible assets	39,977	40,582	39,977	40,582
Amortisation of prepaid operating leases	1,999	127	1,999	127
Office supplies	63,557	8,967	62,996	8,150
Travelling expenses	58,761	57,884	57,745	55,920
Hired services	79,972	50,387	79,183	43,913
Telephone and postage	15,494	10,906	15,191	10,285
Company functions	9,129	6,608	9,129	6,608
Board expenses	9,738	10,579	9,738	10,579
Printing and stationery	14,765	10,527	14,622	10,404
Motor vehicle expenses	13,350	11,297	12,472	11,297
Computer expenses	65,511	74,588	65,511	74,588
Electricity	10,201	11,278	10,128	11,278
Office general expenses	123,939	71,774	102,396	71,389
	1,935,930	1,450,158	1,902,833	1,426,499
OTHER OPERATING EXPENSES				
Professional fees	97,175	103,267	83,658	100,331
Subscriptions	1,913	3,407	1,913	3,407
Donations	950	1,794	950	1,794
Bank charges	26,173	19,803	25,881	19,246
Miscellaneous expenses	17,796	10,425	17,796	7,738
Auditors' remuneration	7,630	7,130	6,750	6,456
Valued Added Tax expensed	-	50,060	-	50,060
Fines and penalties	185,232	-	185,232	-
Exchange loss on other foreign currency transactions and balances	4,026	17,473	-	17,473
	340,895	213,359	322,180	206,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
10. FINANCE INCOME				
Interest income	1,427	7,876	700	2,762
Fair value gain on derivatives (note 23)	-	58,124	-	58,124
	1,427	66,000	700	60,886

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. The weighted average interest rate earned on the short-term deposits was 8.5% (2013 - 4.5%) while on the restricted deposits was 2.25% (2013 - 4.5%). Further details on the restricted deposits are provided in note 24.

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
11. FINANCE COSTS				
Interest on overdraft	146,852	117,940	146,852	117,940
Interest charged on loans	89,778	87,002	89,778	87,002
Interest on loan swap liability	68,800	78,886	68,800	78,886
Interest on lease obligation	9,674	27,784	9,674	27,784
Fair value loss on derivatives (note 23)	25,852	-	25,852	-
Less: Amounts included in the cost of qualifying assets (note 32(e))	(22,015)	-	(22,015)	-
	318,941	311,612	318,941	311,612

12. (LOSS)/PROFIT BEFORE TAXATION

The (loss)/profit before taxation is arrived at after charging/(crediting):

Directors' emoluments:

- Fees	1,100	1,100	1,100	1,100
- Other emoluments	8,638	9,479	8,638	9,479
Auditors' remuneration	7,630	7,130	6,750	6,456
Staff costs (note 14)	2,575,769	2,243,473	2,568,017	2,230,198
Depreciation (note 17)	484,434	568,079	484,358	568,079
Amortisation - software (note 19)	39,977	40,582	39,977	40,582
Prepaid operating lease rentals (note 20)	1,999	127	1,999	127
Provision for doubtful debts (note 26)	(60,085)	(56,988)	(88,117)	(56,891)
Interest expense	293,089	311,612	293,089	311,612
Fair value loss on derivatives	25,852	-	25,852	-
Foreign exchange loss	4,026	17,473	-	17,473

And after crediting:

Foreign exchange gain on loans	36,769	594,113	36,769	594,113
Fair value gain on investment property	-	730,046	-	730,046
Interest income (note 10)	1,427	7,876	700	2,762
Fair value gain on derivatives	-	58,124	-	58,124

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

13. EXCHANGE GAIN ON FOREIGN CURRENCY LOAN

The exchange gain on the loan arises mainly from the translation of the Japanese Yen denominated loan to Kenya Shillings at the year-end. The gain resulted from the appreciation of the Kenya Shilling by 4% (2013 - 18%) against the Japanese Yen during the year. However, 50% (2013 - 50%) of the loan was swapped with a USD loan (see note 23).

14. STAFF COSTS

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Salaries and wages	2,208,924	2,100,155	2,201,216	2,087,527
Provision for staff gratuity (note 31)	308,037	91,288	308,037	91,288
Pension contributions	55,916	48,228	55,916	48,228
Social security costs (NSSF)	2,892	3,802	2,848	3,155
	2,575,769	2,243,473	2,568,017	2,230,198

5. TAXATION

(a) Taxation charge/(credit)

Current tax based on the adjusted profit for the year at 30%	3,988	1,119	2,925	1,119
Deferred taxation				
- Credit (note 34)	(1,973)	(357,024)	(1,973)	(357,024)
- Prior year under provision	10,916	-	10,916	-
	8,943	(357,024)	8,943	(357,024)
	12,931	(355,905)	11,868	(355,905)

(b) Reconciliation of expected tax based on accounting (loss)/profit to the tax charge

Accounting (loss)/profit before taxation	(373,700)	1,419,478	(341,381)	1,387,979
Tax at the applicable rate of 30%	(112,110)	425,843	(102,414)	416,394
Tax effect of items not deductible for tax purposes	117,064	145,277	106,305	135,827
Tax effects on non-taxable income	(2,939)	(778,252)	(2,939)	(759,353)
Tax loss	-	(148,773)	-	(148,773)
Prior year deferred tax under provision	10,916	-	10,916	-
	12,931	(355,905)	11,868	(355,905)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
15. TAXATION (Continued)				
(c) Taxation recoverable				
At beginning of year	119,262	119,295	119,262	119,295
Charge for the year (note 15(a))	(3,988)	(1,119)	(2,925)	(1,119)
Paid in the year	914	1,086	914	1,086
At end of year	116,188	119,262	117,251	119,262

16. (LOSS)/EARNINGS PER SHARE

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

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(Loss)/Earnings for purposes of basic and diluted earnings per share	(386,631)	1,775,383	(353,635)	1,743,884
Number of ordinary shares (thousands)	90,000	90,000	90,000	90,000
(Loss)/Earnings per share basic and diluted (KShs)	(4.30)	19.73	(3.93)	19.38

There were no potentially dilutive ordinary shares outstanding at 30 June 2014 or 30 June 2013. Therefore, diluted earnings per share is the same as the basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

7. PROPERTY, PLANT AND EQUIPMENT

(a) Year ended 30 June 2014

	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
GROUP						
COST OR VALUATION						
At 1 July 2013	260,325	1,122,167	5,758,025	785,329	89,714	8,015,560
Additions	-	-	16,286	24,732	21,246	62,264
Disposals	-	-	-	(1,450)	-	(1,450)
At 30 June 2014	260,325	1,122,167	5,774,311	808,611	110,960	8,076,374
COMPRISING:						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	235,527	(468,228)	3,431,741
Cost	67,437	33,733	3,391,191	573,084	579,188	4,644,633
At 30 June 2014	260,325	1,122,167	5,774,311	808,611	110,960	8,076,374
DEPRECIATION AND IMPAIRMENT						
At 1 July 2013	-	-	-	-	-	-
Charge for the year	-	28,054	294,733	139,077	22,570	484,434
At 30 June 2014	-	28,054	294,733	139,077	22,570	484,434
NET CARRYING AMOUNT						
At 30 June 2014	260,325	1,094,113	5,479,578	669,534	88,391	7,591,940

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 2).

Certain 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Year ended 30 June 2014

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 2013	260,325	1,122,167	5,758,025	785,329	89,533	8,015,379
Additions	-	-	16,286	24,732	21,246	62,264
Disposals	-	-	-	(1,450)	-	(1,450)
At 30 June 2014	260,325	1,122,167	5,774,311	808,611	110,779	8,076,193
COMPRISING						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	235,527	(468,228)	3,431,741
Cost	67,437	33,733	3,391,191	573,084	579,007	4,644,452
At 30 June 2014	260,325	1,122,167	5,774,311	808,611	110,779	8,076,193
DEPRECIATION AND IMPAIRMENT						
At 1 July 2013	-	-	-	-	-	-
Charge for the year	-	28,054	294,733	139,078	22,493	484,358
At 30 June 2014	-	28,054	294,733	139,078	22,493	484,358
NET CARRYING AMOUNT						
At 30 June 2014	260,325	1,094,113	5,479,578	669,533	88,286	7,591,835

The property, plant and equipment were revalued by Transcountry Valuers Limited, registered valuers, as at 30 June 2014. 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 2).

Certain 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Year ended 30 June 2013

	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
GROUP						
COST OR VALUATION						
At 1 July 2012	166,335	1,124,964	6,430,162	845,460	286,446	8,853,367
Additions	-	725	58,371	58,728	21,265	139,089
Transfer from capital work-in progress (note 18)	-	4,060	-	-	-	4,060
Revaluation adjustment	93,990	(7,582)	(730,508)	(118,859)	(217,997)	(980,956)
At 30 June 2013	260,325	1,122,167	5,758,025	785,329	89,714	8,015,560
COMPRISING:						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	235,527	(468,228)	3,431,741
Cost	67,437	33,733	3,374,905	549,802	557,942	4,583,819
At 30 June 2013	260,325	1,122,167	5,758,025	785,329	89,714	8,015,560
DEPRECIATION AND IMPAIRMENT						
At 1 July 2012	-	84,374	895,401	312,075	97,807	1,389,657
Charge for the year	-	28,124	338,965	160,055	40,935	568,079
Eliminated on revaluation	-	(112,498)	(1,234,366)	(472,130)	(138,742)	(1,957,736)
At 30 June 2013	-	-	-	-	-	-
NET CARRYING AMOUNT						
At 30 June 2013	260,325	1,122,167	5,758,025	785,329	89,714	8,015,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Year ended 30 June 2013

	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
Company						
COST OR VALUATION						
At 1 July 2012	166,335	1,124,964	6,430,162	845,460	286,265	8,853,186
Additions	-	725	58,371	58,728	21,265	139,089
Transfer from capital work-in progress (note 18)	-	4,060	-	-	-	4,060
Revaluation adjustment	93,990	(7,582)	(730,508)	(118,859)	(217,997)	(980,956)
At 30 June 2013	260,325	1,122,167	5,758,025	785,329	89,533	8,015,379
COMPRISING:						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	235,527	(468,228)	3,431,741
Cost	67,437	33,733	3,374,905	549,802	557,761	4,583,638
At 30 June 2013	260,325	1,122,167	5,758,025	785,329	89,533	8,015,379
DEPRECIATION AND IMPAIRMENT						
At 1 July 2012	-	84,374	895,401	312,075	97,807	1,389,657
Charge for the year	-	28,124	338,965	160,055	40,935	568,079
Eliminated on revaluation	-	(112,498)	(1,234,366)	(472,130)	(138,742)	(1,957,736)
At 30 June 2013	-	-	-	-	-	-
NET CARRYING AMOUNT						
At 30 June 2013	260,325	1,122,167	5,758,025	785,329	89,533	8,015,379

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

7. 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 2014						
Cost	120,367	1,083,962	8,473,358	1,456,911	505,068	11,639,666
Accumulated depreciation	-	(296,232)	(4,625,550)	(1,017,969)	(425,486)	(6,365,237)
Net carrying amount	120,367	787,730	3,847,808	438,942	79,582	5,274,429
30 June 2013						
Cost	120,367	1,083,962	8,469,840	1,419,455	483,783	11,577,407
Accumulated depreciation	-	(268,178)	(4,330,817)	(878,891)	(402,995)	(5,880,881)
Net carrying amount	120,367	815,784	4,139,023	540,564	80,788	5,696,526

(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 2014

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Property, plant and equipment	-	7,591,940	-	7,591,940
As at 30 June 2013				
Property, plant and equipment	-	8,015,560	-	8,015,560

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

(e) Fair value hierarchy: (Continued)

Company

As at 30 June 2014

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Property, plant and equipment	-	7,591,835	-	7,591,835
As at 30 June 2013				
Property, plant and equipment	-	8,015,379	-	8,015,379

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

18. CAPITAL WORK-IN-PROGRESS

COST

At the beginning of the year

Additions

Transfers to property, plant and equipment (note 17)

Balance at 30 June

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
At the beginning of the year	133,752	116,917
Additions	567,988	20,895
Transfers to property, plant and equipment (note 17)	701,740	137,812
	-	(4,060)
Balance at 30 June	701,740	133,752

Capital work-in-progress relates to amounts incurred on construction of a packing plant, precast plant and ESP conversion to bag house. The construction is expected to be completed in financial year 2014/2015.

19. INTANGIBLE ASSETS

COST

At the beginning and end of the year

AMORTISATION

At the beginning of the year

Charge for the year

CARRYING AMOUNT

At 30 June

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
At the beginning and end of the year	171,517	171,517
At the beginning of the year	131,540	90,958
Charge for the year	39,977	40,582
CARRYING AMOUNT	171,517	131,540
At 30 June	-	39,977

Intangible assets relate to computer software in use by the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
10. PREPAID OPERATING LEASES		
COST		
At the beginning of the year	12,886	12,886
AMORTISATION AND IMPAIRMENT		
At the beginning of the year	1,389	1,262
Charge for the year*	1,999	127
At the end of the year	3,388	1,389
NET CARRYING AMOUNT		
At 30 June	9,498	11,497

The Company has entered into operating lease agreements for leasing of most of its land where it extracts limestone. These leases have an average life of 99 years with a renewal option on expiry of the contract.

* In the current year, a parcel of land whose ownership is disputed has had its lease prepayment amounting to KShs 1,884,000 fully amortised.

11. 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 2.225 billion by Transcountry Valuers Limited, registered valuers, as at 30 June 2013. The present value of the ground rent obligations is immaterial and thus, the valuation amount of KShs 2.225 billion is equivalent to the fair values of these properties. The changes in valuation at 30 June 2014 have not been assessed as material to warrant a revaluation of the property as at this date.

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
At the beginning of the year	2,225,046	1,495,000
Gain on fair value	-	730,046
At end of year	2,225,046	2,225,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

21. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy:

GROUP AND Company

As at 30 June 2014 and at 30 June 2013

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Investment properties	-	2,225,046	-	2,225,046

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

22. INVESTMENT IN SUBSIDIARY

Company	Beneficial ownership	Country of incorporation	2014 KShs'000	2013 KShs'000
East African Portland Cement Company Uganda Limited	100%	Uganda	2,500	2,500

The principal activity of the subsidiary is the sale of cement purchased from the parent Company. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent Company do not differ from the proportion of ordinary shares held. The parent Company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the group.

23. LOAN SWAP

As part of its asset and liability management, the group uses 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	
	2014 KShs'000	2013 KShs'000
Assets		
Cross currency swap	1,834,377	2,044,066
Liabilities		
Cross currency swap	1,667,493	1,895,374

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 25,852,000 as at 30 June 2014 (2013 - gain of KShs 58,124,045). The derivative instruments are carried in the books of account at fair value. The swaps will mature on 20 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
24. DEPOSITS		
Short-term deposits:		
Kenya Commercial Bank Limited	31,366	29,558
Restricted deposits:		
Housing Finance Company Limited	30,595	61,742
	61,961	91,300

The short-term deposits mature within three months and the weighted average interest rate earned on the deposits during the year was 8.5% (2013 - 4.5%).

The deposits with Housing Finance Company Limited have been held as collateral for staff mortgages. The weighted average interest rate earned on the deposits during the year was 2.25% (2013 - 4.5%).

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
25. INVENTORIES				
Consumables	1,959,686	1,826,197	1,959,686	1,826,197
Raw materials	230,752	343,482	230,752	343,482
Work-in-progress	3,170	2,158	3,170	2,158
Finished products	93,271	106,648	86,613	87,815
	2,286,879	2,278,485	2,280,221	2,259,652
Provision for obsolete inventories	(87,362)	(87,362)	(87,362)	(87,362)
	2,199,517	2,191,123	2,192,859	2,172,290

No inventory was written off or provided for in the current year.

26. TRADE AND OTHER RECEIVABLES				
Gross trade receivables	796,678	825,043	599,189	584,801
Impaired trade receivables	(252,138)	(316,511)	(222,386)	(314,791)
Net trade receivables	544,540	508,532	376,803	270,010
Staff receivables	67,369	97,263	67,369	97,263
Deposits, prepayments and other receivables	233,314	277,233	176,880	274,463
	845,223	883,028	621,052	641,736

Trade receivables are non-interest bearing. The average credit period on sales of finished goods is 32 days (2013 - 30 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

26. TRADE AND OTHER RECEIVABLES (Continued)

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

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Neither past due nor impaired	242,595	78,964	216,121	78,964
Past due but not impaired trade receivables:				
Between 15 and 30 days	46,477	54,047	31,834	18,607
Between 31 and 60 days	87,192	52,707	16,957	12,785
Over 60 days	168,276	322,813	111,891	159,654
Total trade receivables not impaired	544,540	508,532	376,803	270,010
Impaired trade receivables	252,138	316,511	222,386	314,791
Gross trade receivables	796,678	825,043	599,189	584,801

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 2014			
At the beginning of the year	316,511	50,224	366,735
Additions	78,960	4,288	83,248
Utilisation	(137,712)	-	(137,712)
Reversals	(5,621)	-	(5,621)
At 30 June 2014	252,138	54,512	306,650
Year ended 30 June 2013			
At the beginning of the year	373,499	50,224	423,723
Reversals	(56,988)	-	(56,988)
At 30 June 2013	316,511	50,224	366,735
Company			
Year ended 30 June 2014			
At the beginning of the year	314,791	50,224	365,015
Additions	50,928	4,288	55,216
Utilisation	(137,712)	-	(137,712)
Reversals	(5,621)	-	(5,621)
At 30 June 2014	222,386	54,512	276,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

i. TRADE AND OTHER RECEIVABLES (Continued)

Company (Continued)	Trade receivables KShs'000	Other receivables KShs'000	Total KShs'000
Year ended 30 June 2013			
Year ended 30 June 2013			
At the beginning of the year	371,682	50,224	421,906
Reversals	(56,891)	-	(56,891)
As at 30 June	314,791	50,224	365,015

27. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Outstanding balances arising from transactions with related companies.

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(a) Amount due from related parties:				
East African Portland Cement Uganda Limited	-	-	332,609	392,047
Bamburi Cement Limited	474	6,030	474	6,030
	474	6,030	333,083	398,077

East African Portland Cement Uganda Limited is wholly owned subsidiary of East African Portland Cement Company Limited while Bamburi Cement Limited owns 12.5% of the ordinary shares in The 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 clinic by Bamburi Cement Limited 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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Sales to East African Portland Cement Uganda Limited	-	-	207,364	412,672
Purchase of coal from Bamburi Cement Limited	34,812	76,450	34,812	76,450
Directors' remuneration:				
Fees for services as directors	1,100	1,100	1,100	1,100
Other emoluments	8,638	9,479	8,638	9,479
	9,738	10,579	9,738	10,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

27. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(d) Key management compensation:				
Short-term employee benefits	53,274	47,530	53,274	47,530
Post employment benefits	9,609	7,242	9,609	7,242
	62,883	54,772	62,883	54,772

28. BANK AND CASH BALANCES

Bank balances	116,578	371,581	85,030	264,264
Cash on hand	14,715	1,481	14,501	1,318
	131,293	373,062	99,531	265,482

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 relates to an increase on the same asset previously recognised in equity.

(d) Foreign currency translation reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
0. DIVIDENDS PAID		
Declared and paid during the year		
Final dividend for 2013 - Nil	-	-
Proposed for approval at the annual general meeting (not recognized as a liability as at 30 June)		
Final dividend for 2014 Nil (2013 - Kshs 0.75 per share)	-	67,500
(i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.		
(ii) Payment of dividend is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders respectively.		

The dividend proposals for the year ended 30 June 2013 have not yet been ratified at the Annual General Meeting.

1. 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 AND Company	
	2014 KShs'000	2013 KShs'000
Balance at the beginning of the year	677,904	639,024
Paid during the year	(67,987)	(52,408)
Provision for the year	308,037	91,288
At 30 June	917,954	677,904

2. 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 balance as at year end was - JPY 2,557,240,000 (2013 - JPY 2,922,560,000).

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
Loan principal	2,009,187	2,361,554
Accrued interest	8,564	9,405
As at 30 June	2,017,751	2,370,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

32. LONG - TERM LOANS (Continued)

(b) ASSET FINANCE LOANS

The Group purchased plant and machinery at a cost of KShs 27,106,000 (2013: KShs 221,631,000) financed through a facility from CFC Stanbic Bank Limited to the group. The interest rate during the year was at 10.5% (2013: 10.5%). The loan is secured against the assets financed. Additionally the group obtained a loan of KShs 374,445,000 advanced by Kenya Commercial Bank at an annual interest rate of 14% under the Asset Based Finance component of the composite facility with the Group (refer to note 35).

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
Loans principal	597,336	300,556
Accrued interest	2,883	10,878
As at 30 June	600,219	311,434
(c) MATURITY ANALYSIS OF LONG TERM LOANS:		
Japanese loan	2,017,751	2,370,959
Asset finance loans	600,219	311,434
Total loans	2,617,970	2,682,393
Less: repayable within one year	(477,679)	(324,945)
Repayable after one year	2,140,291	2,357,448

(d) POST IMPORT FINANCE LOANS

The Group purchased coal at a cost of KShs 324,274,000 (2013: Nil) financed through a post import finance facility from Kenya Commercial Bank Limited to the Group. The interest rate during the year was at 14% (2013 Nil). The loans are repayable within 3 months and secured under the composite facility with the Group (refer to note 35).

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
As at 30 June	324,274	-

- (e) The borrowing costs capitalized in relation to construction and installation of qualifying assets during the year amount to KShs 22,015,263 (2013 - Nil)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

3. OBLIGATIONS UNDER FINANCE LEASES - GROUP AND Company

The group has commercial leases on certain motor vehicles. These leases have an average life of three years with the option of a one year renewal but no purchase options are included in the contracts. There are 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 are as follows:

	2014 Present value of Minimum payments KShs'000	lease payments KShs'000	Minimum payments KShs'000	2013 Present value of lease payments KShs'000
Within one year	46,782	37,964	67,378	48,534
After one year but not more than five years	17,300	15,525	49,906	43,155
Total minimum lease payments	64,082	53,489	117,284	91,689
Less: amounts representing finance charges	(10,593)	-	(25,595)	-
Present value of minimum lease payments	53,489	53,489	91,689	91,689

The interest rate applicable to the above leases is variable and was at an average of 10.5% (2013- 10.5%) over the period, which is the rate used by the bank to determine the periodic lease payments. The carrying value of mobile plant held under finance leases contract at 30 June 2014 was KShs 105,884,000 (2013: KShs 121,011,000). There were no additions during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

34. DEFERRED TAXATION

GROUP AND Company 2014

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

	1 July 2013 KShs'000	Through profit or loss KShs'000	comprehensive income KShs'000	Other At 30 June 2014 KShs'000
Deferred tax liabilities				
Property, plant and equipment	1,928,586	(116,157)	-	1,812,429
Deferred tax assets				
Tax loss (business)	(483,781)	19,571	-	(464,210)
Provision for staff leave	(23,948)	(4,887)	-	(28,835)
Provision for staff gratuity	(203,371)	(72,015)	-	(275,386)
Provision for bonus	(33,449)	33,449	-	-
Obsolete stock provision	(26,209)	-	-	(26,209)
Staff debts provision	(15,068)	(1,304)	-	(16,372)
Bad debts provision	(164,285)	25,566	-	(138,719)
Legal fees provision	(10,916)	10,916	-	-
Unrealised exchange loss	(217,472)	113,804	-	(103,668)
	(1,178,499)	125,100	-	(1,053,399)
Balance as at 30 June	750,087	8,943	-	759,030
GROUP AND Company 2013				
	1 July 2013 KShs'000	Through profit or loss KShs'000	comprehensive income KShs'000	Other At 30 June 2014 KShs'000
Deferred tax liabilities				
Property, plant and equipment	1,783,614	(119,865)	264,837	1,928,586
Deferred tax assets				
Tax loss (business)	(632,553)	148,773	-	(483,780)
Provision for staff leave	(22,169)	(1,780)	-	(23,949)
Provision for staff gratuity	(191,887)	(11,484)	-	(203,371)
Provision for bonus	(26,457)	(6,992)	-	(33,449)
Obsolete stock provision	(26,209)	-	-	(26,209)
Staff debts provision	(15,068)	-	-	(15,068)
Bad debts provision	(62,131)	(102,154)	-	(164,285)
Legal fees provision	(10,916)	-	-	(10,916)
Unrealised exchange loss	46,050	(263,522)	-	(217,472)
	(941,340)	(237,159)	-	(1,178,499)
Balance as at 30 June	842,274	(357,024)	264,837	750,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

5. BANK OVERDRAFT	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
Kenya Commercial Bank Limited	547,228	853,223

The group has a composite facility with the Kenya Commercial Bank Limited. The approved limit as at year-end was KShs 1.2 billion and drawings against this facility attract interest at market rates. The facility is secured by a legal charge of KShs 1,244,000,000 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 of KShs 1,244,000,000.

6. TRADE AND OTHER PAYABLES	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Trade payables	1,313,116	1,352,823	1,313,116	1,352,823
Other payables and accruals	720,666	450,266	717,763	432,886
Unclaimed dividends	38,287	38,288	38,287	38,288
Advance receipts from customers	53,075	103,517	53,075	103,512
Balance as at 30 June	2,125,144	1,944,894	2,122,241	1,927,509

7. PROVISIONS FOR BONUS AND LEGAL FEES

Movement in provision for bonus:

	GROUP AND Company 2014 KShs'000	Company 2013 KShs'000
Balance at the beginning of the year	111,497	88,190
Additions	-	23,307
Paid during the year	(81,497)	-
Reversals	(30,000)	-
Balance at the end of the year	-	111,497

This represents provision for the incentive bonus to the employees which is earned and calculated based on the performance of the Company every month.

Movement for provision for legal fees and claims:

	GROUP AND Company 2014 KShs'000	Company 2013 KShs'000
Balance at the beginning of the year	36,385	36,385
Reversal	(36,385)	-
Balance at the end of the year	-	36,385
	-	147,882

Trade and other payables are non-interest bearing. The average credit period on purchases is 72 days (2013 - 72 days). The group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

38. STATEMENT OF CASH FLOWS

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

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(Loss)/profit before taxation	(373,700)	1,419,478	(341,381)	1,387,979
Adjustments for:				
Depreciation (note 17)	484,434	568,079	484,358	568,079
Amortisation of intangible assets (note 19)	39,977	40,582	39,977	40,582
Amortisation on prepaid operating leases (note 20)	1,999	127	1,999	127
Gain on sale of property, plant and equipment	(150)	-	(150)	-
Fair value gain on investment property (note 21)	-	(730,046)	-	(730,046)
Exchange gain on foreign currency loan	(34,356)	(594,113)	(34,356)	(594,113)
Staff gratuity provision (note 31)	308,037	91,288	308,037	91,288
Interest expense				
-Long term loan	25,876	33,528	25,876	33,528
-Bank overdraft	146,852	117,940	146,852	117,940
-Interest on lease obligations	9,674	27,784	9,674	27,784
-Derivative instrument	68,800	78,886	68,800	78,886
-Asset finance loan	41,887	53,474	41,887	53,474
Interest income	(1,427)	(7,876)	(700)	(2,762)
Fair value loss/(gain) on derivative instrument	25,852	(58,124)	25,852	(58,124)
Operating profit before working capital changes	743,755	1,041,007	776,725	1,014,622
Increase in inventories	(8,394)	(466,236)	(20,569)	(491,707)
Increase in trade and other receivables	37,805	(356,003)	20,684	(240,275)
Increase in trade and other payables	180,250	590,417	194,732	582,680
(Decrease)/increase in bonus and legal fees	(147,882)	23,307	(147,882)	23,307
Movement in related party balances	5,556	(327)	64,994	(139,443)
Staff gratuity paid (note 31)	(67,987)	(52,408)	(67,987)	(52,408)
Cash generated from operations	743,103	779,757	820,697	696,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

8. STATEMENT OF CASH FLOWS (Continued)

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(b) Movement in loans				
(i) Japanese loan				
Balance at the beginning of the year	2,361,554	3,318,776	2,361,554	3,318,776
Foreign currency exchange (gain)	(34,356)	(594,113)	(34,356)	(594,113)
Repayments during the year	(318,011)	(363,109)	(318,011)	(363,109)
Balance at 30 June	2,009,187	2,361,554	2,009,187	2,361,554
Payment of swap loans	(200,413)	(196,236)	(200,413)	(196,236)
Receipt from swap asset	159,645	181,528	159,645	181,528
Total loan repayment	(358,779)	(377,817)	(358,779)	(377,817)
(ii) Asset finance loans				
Balance at the beginning of the year	300,556	280,201	300,556	280,201
Receipts during the year	401,551	57,378	401,551	57,378
Repayment of asset finance loan	(104,771)	(37,023)	(104,771)	(37,023)
Balance at 30 June	597,336	300,556	597,336	300,556
(iii) Post import finance loans				
Receipts during the year	363,668	-	363,668	-
Repayments during the year	(39,394)	-	(39,394)	-
Balance at 30 June	324,274	-	324,274	-
(c) Interest paid on borrowings				
Balance at the beginning of the year	9,405	12,324	9,405	12,324
Interest charge on long-term loan	25,876	33,528	25,876	33,528
Accrued as at 30 June (note 32)	(8,564)	(9,405)	(8,564)	(9,405)
Interest paid on long-term loan	26,717	36,447	26,717	36,447
Interest paid on overdraft	146,853	117,940	146,853	117,940
Interest paid on asset finance loan	49,882	42,597	49,882	42,597
Interest paid on lease obligations	10,285	23,333	10,285	23,333
Interest on loan swap liabilities	72,075	80,669	72,075	80,669
Interest paid on borrowings	305,812	300,986	305,812	300,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

38. STATEMENT OF CASH FLOWS (Continued)

	GROUP		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(d) Movement in lease obligations				
Balance at the beginning	91,689	141,406	91,689	141,406
Repayments during the year	(38,200)	(49,717)	(38,200)	(49,717)
Balance at the close of the year	53,489	91,689	53,489	91,689
(e) Analysis of cash and cash equivalents				
Short term deposits (note 24)	31,366	29,558	31,366	29,558
Bank and cash balances (note 28)	131,293	373,062	99,531	265,482
Bank overdraft (note 35)	(547,228)	(853,223)	(547,228)	(853,223)
	(384,569)	(450,603)	(416,331)	(558,183)

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 55,916,000 (2013 - KShs 48,228,000).

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's financial statements.

The group also contributes to the statutory defined contribution pension schemes in Kenya and Uganda, the National Social Security Funds. Contributions to the statutory schemes are determined by statute in the respective countries and are limited to specific contributions legislated from time to time. The group's contributions are charged to profit or loss in the year to which they relate. Contributions to these schemes during the year amounted to KShs 2,848,000 (2013 - KShs 3,802,000).

40. REVENUE ANALYSIS AND SEGMENTAL REPORTING

The group revenues are derived from sales in the following markets;

	2014 KShs'000	2013 KShs'000
Local market - Kenya	8,694,508	8,521,873
Regional market (East Africa)	362,784	689,589
	9,057,292	9,211,462

Sales to the regional market are done through the wholly owned subsidiary, 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 96% (2013 - 97%) of the total revenue hence there is only one reportable segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Share capital	450,000	450,000	450,000	450,000
Share premium	648,000	648,000	648,000	648,000
Retained earnings	3,716,438	4,086,892	3,798,332	4,135,404
Equity	4,814,438	5,184,892	4,896,332	5,233,404
Total borrowings	4,663,226	4,669,456	4,663,226	4,669,456
Add: cash and cash equivalents (note 38(e))	384,569	450,603	416,331	558,183
Net debt	5,047,795	5,120,059	5,079,557	5,227,639
Total capital	9,862,233	10,304,951	9,975,889	10,461,043
Gearing ratio	51.2%	49.7%	50.9%	49.9%

The group net debt to equity ratio as at 30 June 2014 was 104.7% (2013 - 98.7%).

The group is implementing high impact capital projects in line with approved strategic plan that will be financed by a mix of debt and equity. The group has also implemented diverse and specific operating strategies and measures aimed at managing the group's net debt to equity ratio. The strategies are designed to reduce the loan to equity ratio as the projects currently under implementation will begin generating cash flows in the very near future.

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/audit department identifies, evaluates and mitigates financial risks. The board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of non derivative financial instruments and investing excess liquidity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (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 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				
As At 30 June 2014				
Trade receivables	242,595	301,945	252,138	796,678
Amount due from related party	-	474	-	474
Bank balances	116,578	-	-	116,578
Deposits	61,961	-	-	61,961
As At 30 June 2013				
Trade receivables	78,964	429,568	316,511	825,043
Amount due from related party	-	6,030	-	6,030
Bank balances	371,581	-	-	371,581
Deposits	91,300	-	-	91,300
Company				
As At 30 June 2014				
Trade receivables	216,121	160,682	222,386	599,189
Amount due from related parties	-	333,083	-	333,083
Bank balances	85,030	-	-	85,030
Deposits	61,961	-	-	61,961
As At 30 June 2013				
Trade receivables	78,965	191,045	314,791	584,801
Amount due from related party	-	398,077	-	398,077
Bank balances	264,264	-	-	264,264
Deposits	91,300	-	-	91,300

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 2014 the Group held bank guarantees amounting to KShs 452,928,000 against trade receivables. There was no concentration risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (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	Over 5 years KShs'000	Total KShs'000
GROUP						
At 30 June 2014						
<i>Financial assets</i>						
Trade receivables	289,072	255,468	252,138	-	-	796,678
Amount due from related party	-	474	-	-	-	474
Bank balances and cash	131,293	-	-	-	-	131,293
Loan swap asset	-	134,118	137,897	1,230,967	331,395	1,834,377
Deposits	31,366	-	-	-	30,595	61,961
Total financial assets	451,731	396,648	390,035	1,230,967	361,990	2,824,783
<i>Financial liabilities</i>						
Trade and other payables	571,489	135,173	606,454	-	-	1,313,116
Borrowings:						
- Long term loan	-	180,414	177,930	1,343,443	307,400	2,009,187
- Finance leases obligations	10,265	-	27,699	15,525	-	53,489
- Loan swap liability	-	145,649	146,282	1,111,118	246,310	1,649,359
- Asset finance loan	7,310	33,241	130,679	428,030	-	599,260
- Post import finance loans	-	324,274	-	-	-	324,274
Total financial liabilities	589,064	818,751	1,089,044	2,898,116	553,710	5,948,685
Net liquidity gap	(137,333)	(422,103)	(699,009)	(1,667,149)	(191,720)	(3,123,902)
GROUP						
At 30 June 2013						
<i>Financial assets</i>						
Trade receivables	133,011	375,521	316,511	-	-	825,043
Amount due from related party	-	-	327	5,703	-	6,030
Bank balances and cash	373,062	-	-	-	-	373,062
Loan swap asset	-	125,258	541,564	1,219,220	158,024	2,044,066
Deposits	29,558	-	-	-	61,742	91,300
Total financial assets	535,631	500,779	858,402	1,219,547	219,766	3,339,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (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
GROUP						
At 30 June 2013 (Continued)						
<i>Financial liabilities</i>						
Trade and other payables	483,635	461,285	288,323	119,580	-	1,352,823
Borrowings:						
Long term loan	-	229,752	260,923	2,243,024	372,201	3,105,900
Finance leases obligations	-	8,780	28,598	79,906	-	117,284
Loan swap liability	-	164,228	143,602	1,356,977	230,567	1,895,374
Asset finance loan	-	12,680	42,951	255,803	-	311,434
Total financial liabilities	483,635	876,725	764,397	4,055,290	602,768	6,782,815
Net liquidity gap	51,996	(375,946)	94,005	(2,824,337)	(383,002)	(3,443,314)
Company						
At 30 June 2014						
<i>Financial assets</i>						
Trade receivables	247,955	135,436	215,798	-	-	599,189
Amount due from related party	333,083	-	-	-	-	333,083
Bank balances and cash	99,531	-	-	-	-	99,531
Loan swap asset	-	134,118	137,897	1,230,967	331,395	1,834,377
Deposits	31,366	-	-	-	30,595	61,961
Total financial assets	711,935	269,554	360,283	1,230,967	361,990	2,934,729
<i>Financial liabilities</i>						
Trade and other payables	571,489	135,173	606,454	-	-	1,313,116
Borrowings:						
Long term loan	-	180,414	177,930	1,343,443	307,400	2,009,187
Finance leases obligations	10,265	-	27,699	15,525	-	53,489
Loan swap liability	-	145,649	146,282	1,111,118	246,310	1,649,359
Asset finance loan	7,310	33,241	130,679	428,030	-	599,260
Post import finance loans	-	324,274	-	-	-	324,274
Total financial liabilities	589,064	818,751	1,089,044	2,898,116	553,710	5,948,685
Net liquidity gap	122,871	(549,197)	(728,761)	(1,667,149)	(191,720)	(3,013,956)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. 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 2013						
<i>Financial assets</i>						
Trade receivables	97,572	172,438	314,791	-	-	584,801
Amount due from related party	392,047	-	327	5,703	-	398,077
Bank balances and cash	265,482	-	-	-	-	265,482
Loan swap asset	-	125,258	541,564	1,219,220	158,024	2,044,066
Deposits	29,558	-	-	-	61,742	91,300
Total financial assets	784,659	297,696	856,682	1,224,923	219,766	3,383,726
<i>Financial liabilities</i>						
Trade and other payables	466,140	474,888	292,215	119,580	-	1,352,823
Borrowings:						
Long term loan	-	229,752	260,923	2,243,024	372,201	3,105,900
Finance leases obligations	-	8,780	28,598	79,906	-	117,284
Loan swap liability	-	164,228	143,602	1,356,977	230,567	1,895,374
Total financial liabilities	466,140	890,328	768,289	4,055,290	602,768	6,782,815
Net liquidity gap	318,519	(592,632)	88,393	(2,830,367)	(383,002)	(3,399,089)

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	DKK KShs'000	EURO KShs'000
30 June 2014					
Assets					
Bank and cash balances	31,762	12,527	-	-	-
Loan swap asset	-	-	1,834,377	-	-
Trade receivables and other receivables	470,384	18,755	-	-	-
Total	502,146	31,282	1,834,377	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

(i) Foreign exchange risk

	UShs KShs'000	US\$ KShs'000	JPY KShs'000	DKK KShs'000	EUR KShs'000
30 June 2014					
Liabilities					
Borrowings	-	-	2,009,187	-	-
Loan swap liability	-	1,649,359	-	-	-
Trade and other payables	-	-	-	3,076	13,311
	-	1,649,359	2,009,187	3,076	13,313
30 June 2013					
Assets					
Bank and cash balances	103,115	23,636	-	-	-
Loan swap asset	-	-	2,044,066	-	-
Trade receivables and other receivables	445,274	93,183	-	-	-
	548,389	116,819	2,044,066	-	-
Liabilities					
Borrowings	-	-	2,370,959	-	-
Loan swap liability	-	1,895,374	-	-	-
Trade and other payables	-	-	26,966	3,414	1,647
	-	1,895,374	2,397,925	3,414	1,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. 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

	2014		2013	
	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	30,054	21,038	26,114	18,280
5% KShs movement	(30,054)	(21,038)	(26,114)	(18,280)
Currency - US dollars				
+ 5% KShs movement	80,904	56,633	88,928	63,385
5% KShs movement	(80,904)	(56,633)	(88,928)	(63,385)
Currency - JPY				
+ 5% KShs movement	8,741	6,118	(19,359)	(13,551)
5% KShs movement	(8,741)	(6,118)	19,359	13,551

(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 2014						
Assets						
Deposits	-	31,366	-	-	30,595	61,961
Liabilities						
Borrowings	7,310	357,515	130,679	428,030	-	923,534
Bank overdraft	-	-	547,228	-	-	547,228
At 30 June 2013						
Assets						
Deposits	-	29,558	-	-	61,742	91,300
Liabilities						
Borrowings	-	12,680	42,951	255,803	-	311,434
Bank overdraft	-	-	853,223	-	-	853,223

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (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.

	2014		2013	
	KShs' 000 Effect on profit	KShs' 000 Effect on equity	KShs' 000 Effect on profit	KShs' 000 Effect on Equity
+5% Movement	1,928	1,349	2,437	1,705
-5 % Movement	(1,928)	(1,349)	(2,437)	(1,705)

(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 service but where prices have not been determined in an active market, financial assets with fair values based on broker quote 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

2. 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

As at 30 June 2014

	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	-	1,834,377	-	1,834,377
Financial liabilities designated at fair value through profit and loss				
Long term loans	-	2,009,187	-	2,009,187
Loan swap liabilities	-	1,649,359	-	1,649,359
Total financial liabilities	-	3,658,546	-	3,658,546

GROUP AND Company

As at 30 June 2013

Financial assets designated at fair value through profit and loss				
Loan swap asset	-	2,044,066	-	2,044,066
Total financial assets	-	2,044,066	-	2,044,066
Financial liabilities designated at fair value through profit and loss				
Long term loans	-	2,682,393	-	2,682,393
Loan swap liabilities	-	1,895,374	-	1,895,374
Total financial liabilities	-	4,577,767	-	4,577,767

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

	GROUP AND Company	
	2014 KShs'000	2013 KShs'000
43. CONTINGENT LIABILITIES		
Pending law suits	360,859	226,702
Guarantee of staff mortgages	14,316	19,274
	375,175	245,976

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 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 head 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.

	2014 KShs'000	2013 KShs'000
	44. CAPITAL COMMITMENTS	
Authorised by the directors but not contracted for	1,555,150	1,625,805
Authorised by the directors and contracted for	686,000	414,566

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:

	2014 KShs'000	2013 KShs'000
Within 1 year	13,425	16,292
Later than 1 year but not later than 2 years	11,783	9,015
	25,208	25,307

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.

