

REPUBLIC OF KENYA



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REPORT

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THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2017**

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**THE EAST AFRICAN PORTLAND
CEMENT COMPANY LIMITED**

**AUDITED ANNUAL REPORT AND
FINANCIAL STATEMENTS**

30 JUNE 2017



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

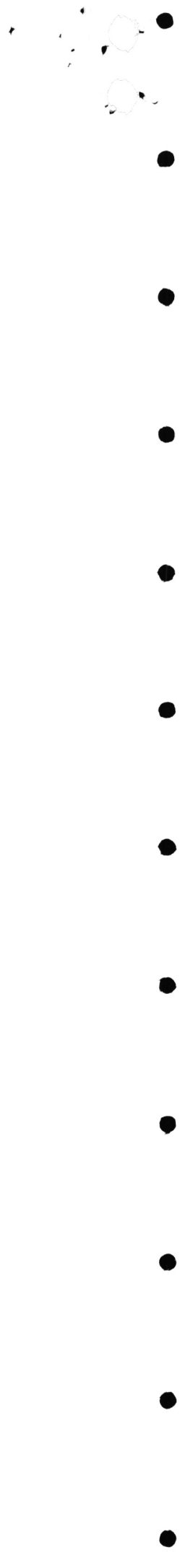
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
CORPORATE INFORMATION

DIRECTORS	William Lay Simon Peter Ole Nkeri Kungu Gatabaki Prof. Sarone Ole Sena Henry Rotich National Social Security Fund (NSSF) Eng. Patrick N. Mwangi	- Chairman - Managing Director - Cabinet Secretary, National Treasury (Alternate Director– Humphrey Muhu) - (Represented by Dr. Anthony Omerikwa - Principal Secretary, State Department of Investment and Industry, Ministry of Industry, Trade and Cooperatives (Alternate Director – Charles W. Mahinda)
SECRETARY	Sheila Kahuki Certified Public Secretary (Kenya) P. O. Box 40101 - 00100 Nairobi	
REGISTERED OFFICE	L R 337/113/1 Namanga Road, off Mombasa Road P. O. Box 40101 - 00100 Nairobi	
REGISTRARS	Haki Registrars P. O. Box 40868 - 00100 Nairobi	
BANKERS	KCB Bank Kenya Limited Moi Avenue Branch P. O. Box 30081 - 00100 Nairobi Citibank, N.A Citibank House P. O. Box 30711 -00100 Nairobi Stanbic Bank Limited Kimathi Street P. O. Box 30550 -00100 Nairobi Equity Bank Limited Kenyatta Avenue P. O. Box 104860 - 00100 Nairobi	Standard Chartered Bank Kenya Limited Kenyatta Avenue P. O. Box 30003 - 00100 Nairobi The Co-operative Bank of Kenya Limited P. O. Box 321 - 00204 Athi River Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 7111 Kampala KCB Bank Uganda Limited 6 th Street Industrial Area P. O. Box 28568 Kampala
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P. O. Box 30084 - 00100 GPO Nairobi	
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P. O. Box 40092 - 00100 GPO Nairobi	



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CHAIRMAN'S STATEMENT

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended 30 June 2017.

Economic Outlook

The world economy grew at 3.2% in 2016 and is projected to be at 3.5% by close of 2017 attributed to modest recovery in advanced economies combined with declining inflation in both advanced economies as well as several emerging economies such as Brazil, India and Russia. GDP growth in Kenya was 5.8% in 2016 marginally up from 5.7% in 2015. This is higher than the Sub-Saharan growth rate of 1.6% but slightly lower than the East African Community growth rate of 6.3%. The electioneering process in 2017 is expected to curtail the economic growth rate further. Inflation declined by 0.3% to 6.3% largely attributable to reduction in the cost of transportation; housing and utilities; and communication. The Monetary Policy Committee of the Central Bank of Kenya focused on achieving and maintaining stability in the general price levels in the economy by lowering the Central Bank Rate (CBR) twice in the period to close at 10%. This combined with capping of interest rates to a maximum of 4% above CBR rate in September 2016 resulted in a significant decline in interest rates to 13.84% compared to 16.75% in a similar period in 2015. The Kenya shilling depreciated against the US dollar to trade at Kshs.103 to the dollar compared to Kshs 101 to the dollar the previous year.

The building and construction sector posted a growth rate of 9.2% in 2016 substantially down from 13.2% in 2015. The slowdown of growth in the sector is directly attributable to increased uncertainty over the looming general elections coupled with contraction of credit advanced to the sector from Kshs 106.3 billion in 2015 to Kshs 104.8 billion in 2016. The Company will continue to use its ownership structure to leverage against competitive pressure while positioning itself to regain its market leadership and as the key supplier for infrastructure projects. This will be realised by working closely with the National Government and key shareholders in order to turnaround the fortunes of the company.

International Trade

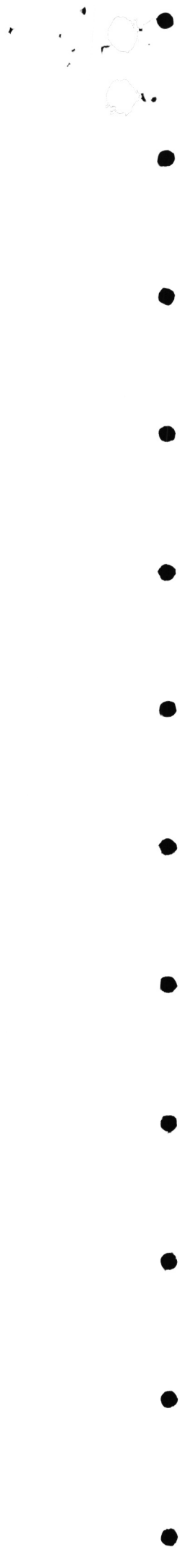
Kenya's external trade position improved significantly as the value of exports declined marginally while total imports declined by 9.2%. which resulted in an improved current account deficit of Kshs 853.7 billion in 2016 from Kshs 997 billion recorded in 2015. The improvement was due to lower import bill on account of reduction in petroleum products, enhanced earnings from tea and horticulture and finally diaspora remittances. These helped narrow the current account deficit thereby offering support to the foreign exchange market. During the financial year under review, the company re-entered the exports market by dispatching and selling products in Uganda, Congo and their environs.

Investment Property Valuation

The investment property as detailed in note 21 has seen amplified activity from trespassers who are increasingly making it more difficult for the company to carry out its normal operations. This invasion has therefore increased the security risk in the invaded area and also increased the cost of operations in the utilization of the land. The Company is seeking for Government's approval to unlock value of its idle assets to support implementation of its Medium Term Plan. To this end, EAPCC is in structured discussions with the government on a special scheme that will allow the Government to secure the land for its future projects and to purchase the land over an agreed period of time at an agreed price.

Dividend

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

Our Focus

The focus of the Board remains singular; to steer the Company back to sustainable profitability.

Towards this end, a multi-pronged approach has been adopted that includes:

- i) Capacity enhancement to increase cement production and packing capacity.
- ii) Cost reduction in all areas of operations, including increasing production efficiencies and reducing administrative overheads.
- iii) Reducing finance costs, sourcing for cheaper funds for the remaining key priority projects and financial restructuring to reduce the cost burden of existing debt.

Taxation

As a responsible corporate citizen, EAPCC continued to honor its tax obligations and made payments in excess of Kshs 840 million in both direct and indirect taxes to the exchequer.

HIV/Aids

The company is committed to undertake programmes and activities that shall create awareness amongst staff and community, to embrace positive behavior change so as to reduce the negative impact of the HIV pandemic on our society. We have strengthened the peer educators team so that we can roll out our HIV/AIDS initiatives to our key third party suppliers and contractors.

Corporate Governance

The Company continues to believe in the importance of good governance and sees it as imperative to our business at all levels. The Board of Directors is served by four Board Committees with properly set out terms of reference. All the directors, except the Managing Director, are independent, and meet regularly with the senior management to review the effectiveness and appropriateness of the corporate strategy. 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.

Energy

During the financial year under review, the Kenya shilling depreciated against the dollar. This effectively increased the cost of coal and imported clinker. Cost of power increased from Kshs. Kshs. 12.00per kWh to Kshs 12.20 per kWh due to reliance on thermal energy occasioned by drought experienced in the region. Plans to engage KPLC to stabilize the supply of power bore fruit with a dedicated power line completed in the first quarter of financial year 2017/18. The Company has implemented an EMS 140001 Environmental Management System which has impacted positively on energy consumption.

Yen Denominated Loan

The Company sought assistance from The National Treasury on repayment of the Yen denominated loan, which will be fully repaid in year 2020. The amount outstanding at the end of the financial year was 1,095 million Japanese Yen. Half of the loan has been hedged in USD: JPY currency swap to minimize foreign exchange risk exposure. In the financial year under review, favourable exchange rate movements by the Yen offset adverse effects of the depreciation of the shilling against the US dollar.

Outlook

Global growth in 2016 remained fairly stable at 3.2%, largely mirroring global inflation which remained steady at 2.9% in the period. The return of growth in the euro zone combined with impressive growth recorded in Asia offset deceleration by the US and China economies. Locally, uncertainty surrounding the general elections resulted in depressed economic activity in the period. However, this did not severely affect the building and construction industry as the domestic market grew by 4.6%. Infrastructure development projects driven by both the national and county governments are expected to supplement the current boom in real estate development in the country. Investments in the construction industry are likely to remain robust but challenges regarding tight liquidity remain. Regionally, our markets in Uganda, Congo and Sudan continue to be served by our Ugandan subsidiary that has



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

depots in Kampala and Mbale 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 Company will address the critical issue of competitiveness with a focus on improving efficiency, reducing costs and increasing market share and the Board will continue to make Management accountable towards these goals in the near term.

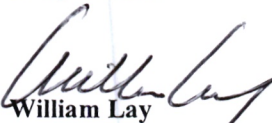
The Board

As I acknowledge the invaluable contribution made by the members of the Board of Directors during the past year, we look forward to their contribution in the foreseeable future.

Appreciation

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

Many Thanks.



William Lay
Chairman of the Board of Directors



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

MANAGING DIRECTOR'S STATEMENT

Financial and Business Performance

This year's performance was adversely impacted by the difficult trading environment that was characterized by price competition, high operating costs and uncertainty over the general elections. The Company's market share exhibited an upward trajectory in the year while the cement market registered an overall growth of 4.6%.

Cement production for the company declined by 16% in the period owing to challenges of an ageing plant. These challenges coupled with downward pressure on retail prices due to excessive supply impacted adversely on sales revenues which declined by 22%. The Cost of energy increased by 5% in the year driven by increase in coal prices in the year. In order to increase Clinker production, stabilize the Kiln's run time and reduce maintenance costs, the Company has invested in a number of equipment whose installation before the end of the second quarter of the financial year 2017/18 is expected to enhance productivity and market competitiveness.

Selling and distribution costs reduced by 56% as a result of a revamped distribution model aimed at lowering fixed selling costs as well as concerted efforts to ensure that the company operates within its means and to curtail unwarranted wastage. The company has revamped its distribution network in strategic regional locations to cater for our customer requirements. General administration costs reduced by 4% driven by renewed cost optimization measures. Other operating expenses declined by 71% as a result of a one off inventory adjustment charge incurred in the financial year 2015/16. The operating loss reduced by 17% to Kshs. 1.3 billion in the period compared with 1.6 billion the previous year due to renewed cost control measures initiated during the period. The hedging strategy for managing the foreign currency exchange risk posed by the Japanese Yen denominated loan performed reasonably well. The Kenya shilling strengthened against the Japanese Yen but weakened against the US dollar. This resulted in a net foreign exchange gain of Kshs 134 Million, compared to Kshs 306 Million foreign exchange loss in the previous year.

The Company's investment property, consisting of two parcels of land in Athi River has continued to suffer from encumbrances by illegal squatters who continue to pose a risk to realization of value. The Company has continued in its pursuit of legal eviction of the invaders and has created public awareness of the illegality of the incursion through the media. Notwithstanding these challenges, the Company continues to restructure its business processes for the purposes of eliminating unwarranted wastage and reducing costs. To bring the Company back to sustainable profitability, the Company is in the process of initiating several projects that are expected to impact positively on the performance going forward. These projects include the installation of:

- A New Cement Mill 6 that will enhance cement production
- New Pre-grinder for the existing Mill 5 to increase performance of cement production; and
- Installation of a grate cooler retrofit into the existing Kiln line

These measures will substantially reduce cooler reliability and thus improve kiln run factor. The Company is engaging with the National Government and other shareholders to design and implement the requisite financing modalities for these key projects.

Cement Market and Competition

Cement consumption in Kenya went up by 10.4% in 2016 from 5.7M tons to 6.3M tons in 2017. The increased consumption is attributable to increased demand for residential and non-residential structures in urban centers. This increased level of activity is also reflected in the 7.6% increase in value of reported new private and public buildings from 70.9 billion in 2015 to 76.2 billion in 2016. Entrance of other players in the cement industry had the effect of increasing cement milling capacity to 9.7 million tons per annum from 9 million tons in the prior year. This beckoned further downward pressure on cement prices that is expected to remain unchanged in the near term. EAPCC's market share remained stable and depicted an upward trajectory during the period, as the company continues to implement the Medium Term Plan with reviews on route to market strategies with specific focus on achievement of greater market share by June 2018. The industry is also expected to sustain the bullish trend and support domestic growth due to ongoing infrastructure projects and continued investment in residential and non-residential assets by the private sector.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

MANAGING DIRECTOR'S STATEMENT (Continued)

Corporate Strategy

The company embarked on implementation of the 3 year Medium Term Strategic Plan developed using the Balance Scorecard Framework. The main purpose for the Medium Term Strategic Plan of 3 years was to fast track the achievements of specific milestones supporting the turnaround of the company, which include but not limited to:

- I. Reduction of Turnaround time to 2 hrs by June 2018
- II. Increase of sales volume to 1.3 million metric tonnes by June 2018.
- III. Achievement of revenue of 16 Billion by June 2018.
- IV. Achievement of an EBITDA of 3.2 billion by June 2018.

To this end, the Company reviewed its sales walkthrough operations to identify opportunities to increase efficiency. The company has completed the development of a new ring road and a new weighbridge from the factory gate to the packing plant meant to reduce the turnaround time.

The new customer access road has reduced the distance from the lorry park to the packing plant from the previous 3.2 km to 800 metres. This has significantly reduced the turnaround time to less than two hours. This project was implemented one year ahead of schedule and most importantly it was done at less than 10% of the originally envisaged cost as incorporated in the MTP as prepared two years ago.

Through the MTP the Company is looking to:

- Delight its customers;
- Grow the business;
- Achieve operational excellence; and
- Develop talent that would enhance market competitiveness.

Financing Strategy

The company is in consultations with the major stakeholders to seek innovative solutions to finance the realization of the medium term plan. Successful realization of these engagements should enable the company to reposition itself for future growth.

Effectiveness and Efficiency

The Company continues to undertake programs that ensure it remains efficient and competitive in the carrying out of its activities. We will continue to reorganize for better effectiveness in the coming year and we will improve on our efficiency within the business so that overheads are kept under control whilst good governance and compliance will remain uncompromised. Investments aimed at renewing the plant and making it more reliable and efficient and improve production include installation of a new clinker Cooler for the Kiln expected in the last quarter of 2017 and a new cement mill.

Quality Management Process

We remain committed to customer satisfaction through manufacture of high quality products. Complying with the requirements of ISO 9001:2008 ensures that the organization not only retains its status as an ISO 9001:2008 certified organization but that continuous improvement, research and development ongoing review of processes is systematically done to ensure that our processes and strategies remain current and relevant in the evolving business environment. The Company is cognizant of the recent changes in the quality management systems standards globally and has embarked on the process of upgrading to ISO 9001:2015, while pursuing the integration of quality management system (QMS 9001:2015) with the environmentally management system (EMS 14001:2015) by the first quarter of 2018

Human Capital Training

EAPCC trains its employees on a continuous basis to keep them up to date with skills and enhance the Company's efficiency. In this financial year, trainings were undertaken across all cadres of employees to ensure that identified training needs are addressed to develop skills relevant to the Company's business. These trainings covered at least 30 different courses and subject areas. They included Behavioural Safety and Health Training, QMS Internal Auditors Training, Defensive Driving Training, Customer Service Improvement and Integrity Training. Employees are being trained to become trainers in order to build on internal capacity for the future.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

MANAGING DIRECTOR'S STATEMENT (Continued)

Risk Management

The Company's operations and earnings are subject to various risks relating to the changing competitive economic, political, legal, social, industrial, business and financial conditions. These risks expose the Company to real threats of financial and nonfinancial loss. Some of these risks include credit risk, price risk, liquidity risk, foreign currency risk and interest rate risk. Given its regional operations, the Company is also faced with country risk. The Company's overall risk management program focuses on the effective mitigation of the various risks and seeks to minimize potential adverse effects on corporate performance using a variety of techniques. These include credit assessment and bank guarantees for the major accounts receivables; price surveys in the market to confirm appropriateness of prices charged and/or paid, hedging of forex exposure, and review of foreign operations to adopt best business models or practices. The Company also takes a risk-based approach when designing, evaluating and monitoring its 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 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 to achieve of corporate objectives
- A risk-based audit of the Company's operations and systems
- A business control incidence reporting and provisioning process
- An ethics and compliance program.

The established mechanisms allow the Board, through the Board Audit Committee, to regularly consider the overall effectiveness of the internal control system and to perform a full annual review. The Company has put in place whistle blowing mechanisms to discourage corrupt and unethical practices among its employees. This process has been augmented by adding a facility to the website where anonymous reporting can be done from anywhere in the world. The Company has also strengthened the capacity of the Integrity Assurance Office to conduct investigations and provide capacity enhancement programs to all employees through anti-corruption training.

Corporate Social Responsibility

In the last financial year, the Company continued to contribute to the improvement of education, health, water, economic empowerment and environmental conservation in keeping with the business focus area of Community. A deliberate and concerted decision was made to focus on areas where the company generates its raw materials. This new focus and strategic decision ensures that the communities that live in areas where the company operates in obtain substantial benefits through CSR activities. All activities geared towards benefiting the communities are identified directly by the communities themselves through local committees.

Safety, Health and Environment

Environmental Commitment

East African Portland Cement Company has continually demonstrated its commitment to improve its environmental performance through adoption of best manufacturing practices, implementing international standards of environmental management, establishing policies and programmes for conducting business operations in an environmentally sound manner. Despite operating in a competitive environment, we uphold environmental sustainability in all our operations.

Green Partnership Program

The company has been at the forefront in supporting the local community, employees and other interested parties in increasing the forest cover through issuance of free tree seedlings. This green partnership program is line with Kenya's Constitution Chapter Five; article 69 which requires the state to work to achieve and maintain a tree cover of at least ten per cent of the land area of Kenya.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

MANAGING DIRECTOR'S STATEMENT (Continued)

Environmental Management System (EMS) 14001:2004 Certification and Transition to 14001:2015

The Company has adopted Environmental Management System (EMS) implementation and certification. This has provided a systematic framework to manage the immediate and long term environmental aspects of our products, processes and services. EMS will accelerate the momentum towards a low-carbon economy and a more Sustainable Future by creating a framework for developing concrete approaches to minimize environmental impacts, improve compliance with current and future statutory and regulatory requirements, increase leadership involvement and engagement of employees, improve Company reputation and the confidence of stakeholders through strategic communication, achieve strategic business aims by incorporating environmental issues into business management, provide a competitive and financial advantage through improved efficiencies and reduced costs, encourage better environmental performance of suppliers by integrating them into the organization's business systems, speed deployment of new cleaner technologies, and enhance the Company's response to the growing impact of climate change.

The Company has begun the process of transiting from EMS 14001:2004 to 14001:2015 by June 2018. EMS 14001:2015 will have a positive impact on environmental performance because it has greater focus on leadership and increases prominence of environmental management within the organization's strategic planning processes and lifecycle.

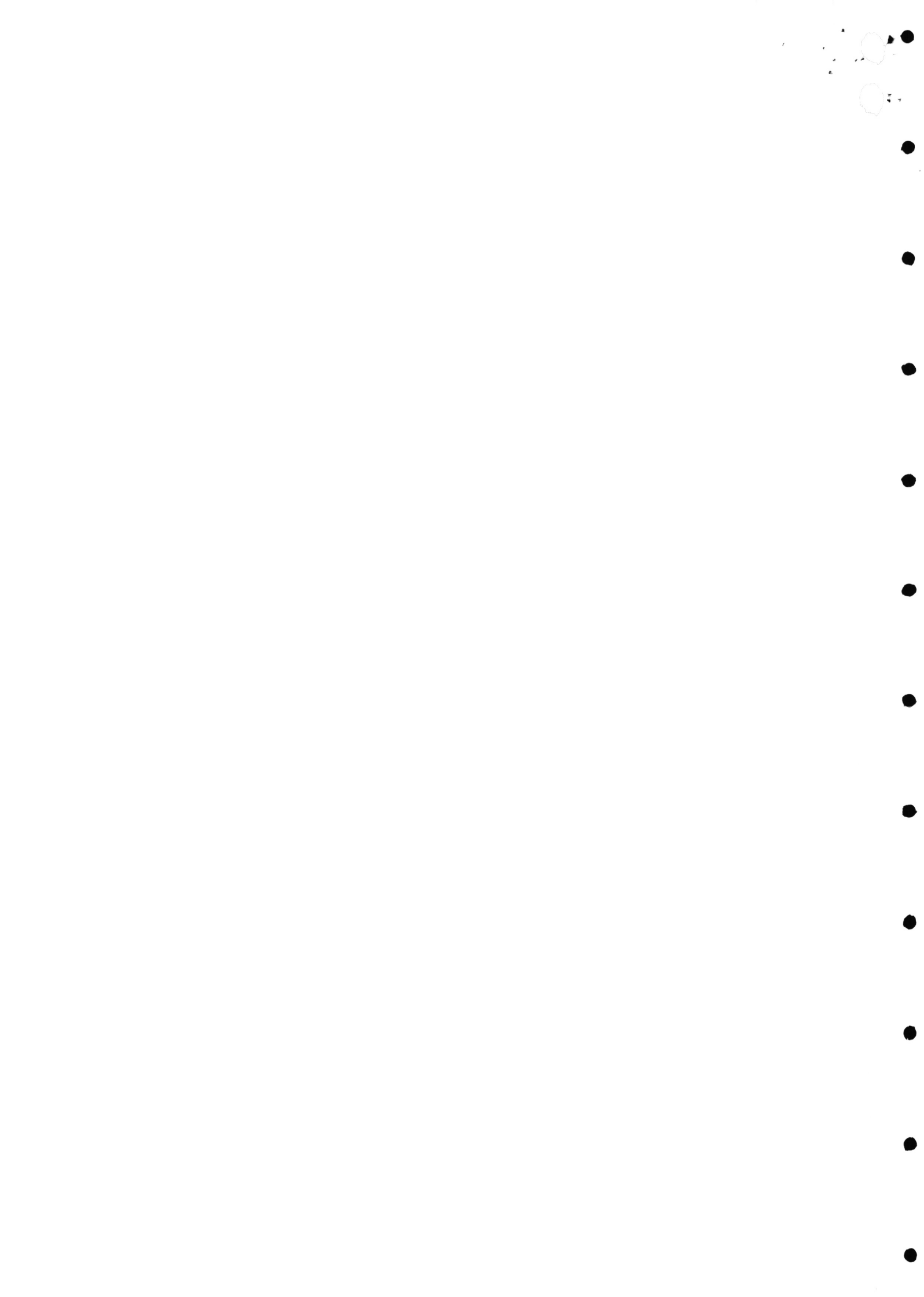
Future Outlook

The year has been characterised by protracted electioneering wrangles coupled with negative sentiments that are not necessarily geared towards a conducive business environment thereby creating depressed economic activities as major investment decisions have been shelved until after the elections. State projects (both National and devolved units) as well as residential and commercial demand is expected to drive the cement market in the near future as the country continues to improve its infrastructure. This however depends on the Macroeconomic environment that is expected to grow by 5.5% according to both the World Bank and the IMF. Regrettably, continued capacity expansion investments in the sector combined with potential new market entrants signals downward pressure on prices in the long term. Consequently, future competitive advantage will be predicated against increased output, cost leadership and capacity utilization. Let me take this golden opportunity to recognize and appreciate the relentless support accorded to Management by the Company's Board of Directors, employees, customers, shareholders and communities that we work with during this tumultuous but difficult financial year. The future looks bright and together with all stakeholders, we can help to transform the oldest cement manufacturing Company in Kenya and ensure that it regains its lost market share through the consistent availability of the Blue Triangle Brand which is renowned for its strength, durability and brightness.

God Bless You All.



Simon Peter Ole Nkeri
Managing Director



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT

Introduction

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

Compliance statement

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

Responsibilities of the Board

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

The Composition of the Board is set out on page 2.

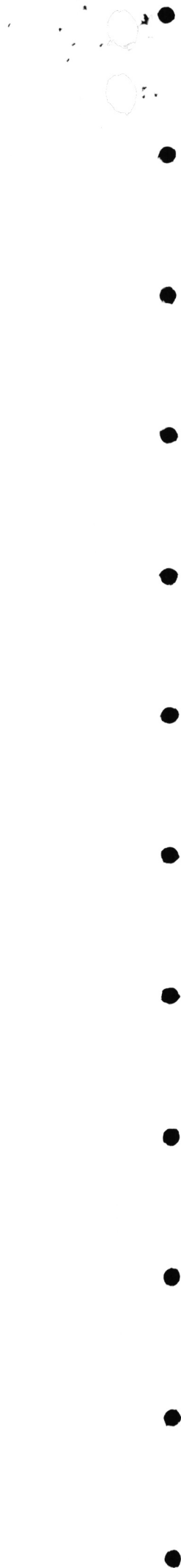
The Board is made up of the Chairman, Managing Director and four non-executive directors. The non-executive directors are independent of management and are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, the directors receive an induction covering 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 22.

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

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

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

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

Director	Board (scheduled)	Board (Special)	82 nd AGM
Chairman	4	8	1
Managing Director	4	5	1
CS Treasury or his alternate	4	6	1
PS Ministry of Industry, Trade & Co-operatives	4	4	1
NSSF	4	7	1
Kungu Gatabaki	4	7	1
Professor Sarone ole Sena	3	3	-
Company Secretary	4	8	1

During the year, sixteen (16) Board meetings were held. The Board found it necessary to increase the number of special meetings in order to enhance supervision of the Company in view of the declining performance.

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

Delegation of Authority

Board Sub Committees

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

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

Details of these committees and membership are shown below.

Audit Committee

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

The members of the Committee are:

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

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

Board Technical Committee

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

The members of the Committee are:

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

The Committee has four scheduled meetings each year and receives reports on all aspects of technical operations of the Company. During the year the Committee's meetings were suspended and the agenda included in the full Board meetings.

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

Board Human Resources & Remuneration Committee

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

The Members of the Committee are:

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

The Committee has four scheduled meetings during the year. During the year three (3) meetings were held.

Finance Committee

The Board constituted the Committee on 22 February 2017 in order to enhance supervision of the finance and financing activities of the Company. The Committee is responsible for recommending financial policies, goals, and budgets that support the mission, values, and strategic goals of the Company. It also reviews the Company's financial performance against its goals and proposes major transactions and programs to the Board. The members of the Committee are:

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

The Committee held one (1) meeting during the year



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

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

Director	Audit	Finance	HR & Remuneration
Number of meetings			
CS Treasury / Alternate	5	1	-
PS Ministry of Industry, Trade & Co-operatives	-	1	3
NSSF	5	1	3
MD	-	1	3
Kungu Gatabaki	5	1	-
Prof. Sarone ole Sena	4	-	3
Company Secretary	5	1	3

Management Committee

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

The Committee meets at least once a week.

Directors' shareholding

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

Directors' remuneration and loans

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

Board Performance Evaluation

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

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

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

Skills and experience of the Board

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

Code of Conduct

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

Conflict of Interest

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

Appointments to the Board

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

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

Interaction with Management

The EAPCC Board has a high level of regular interaction with management thereby enabling directors to infuse their considerable experience, professional knowledge of the target market into the strategic direction. There is a policy of open communication between Board and Management and this ensures that the Board is fully informed of major matters concerning 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 2016/2017, the membership of the Board Committees was reviewed in line with the requirements of the Board charter which provides that committee memberships and chairs be reviewed annually.

Communication

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2017

The Directors present their report together with the audited financial statements of The East African Portland Cement Company Limited (“the company”) and its subsidiary (together, “the Group”) for the year ended 30 June 2017 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

	2017 Sh’000
Loss before taxation	(1,712,903)
Taxation credit	241,542
	<hr/>
Loss for the year charged to retained earnings	(1,471,361) <hr/> <hr/>

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the current year (2016: KShs nil).

DIRECTORS

The present directors are shown on page 1. The following changes have taken place since 1 July 2016:

Eng. Patrick Nduati Mwangi was appointed to the Board of Directors on 30 March 2017 and Mr. Julius Korir retired from the Board of Directors on the same date.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

ENHANCED BUSINESS REVIEW

Financial Performance

The performance of the business was impacted adversely by a number of factors in the year. The gross profit margin dropped from 18% in 2016 to 11% in 2017. Increased competitive pressure coupled with excess supply against demand led to downward movement in prices thus constraining net revenue. Increases in prices of key inputs further dampened the margins.

The operating loss ratio increased marginally to -19% up from -18% in 2016. Despite the significant drop in gross profit, concerted efforts to manage the costs led to only a marginal worsening of the loss from operations ratio. Earnings per share decreased to Kshs -16.35 in 2017 down from Kshs 46.06 in 2016. The EPS in 2016 was driven largely by fair value gains from the investment properties. There were no significant gains in investment property in 2017 due to stabilization of the property values in relation to the properties in question after completion of the Standard Gauge Railway in the vicinity.

The total assets of the company decreased marginally from Kshs 27,842 million in 2016 to Kshs 27,357 million in 2017 mainly due to depreciation.

Risk Management

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

The environment

The company is actively involved in afforestation initiatives through issue of seedlings to the local community. The company has also complied with NEMA requirements including the recent installation of dust emission system. The company is certified for both environment and safety management systems being EMS 14001:2004 and OHSAS 18001:2007 respectively.

Human Capital

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

Corporate social responsibility

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

Future outlook

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

Investment property

Included in the financial statements are leasehold properties that no longer hold any mining materials. As indicated in Note 20, there are 4,121 acres of land recorded at cost but whose market value has been independently and professionally placed at Kshs. 10.8 billion. The Board of Directors will liaise with the external auditors with a view to transferring the 4,121 acres of fully mined parcels of land from leasehold property to investment property. Thereafter the Company will seek for the relevant National Government approval on the best usage of this land and others hitherto recorded as investment property that have been fully mined in a bid to facilitate refinancing of the Company so as to turn its fortunes and to create value for the shareholders of the Company.

DISCLOSURE OF INFORMATION TO AUDITORS

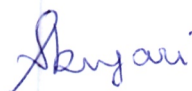
Each Director confirms that, so far as he is aware, there is no relevant audit information of which the Corporation's auditors are unaware and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish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

AUDITORS

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

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2017 and report to the Auditor General.

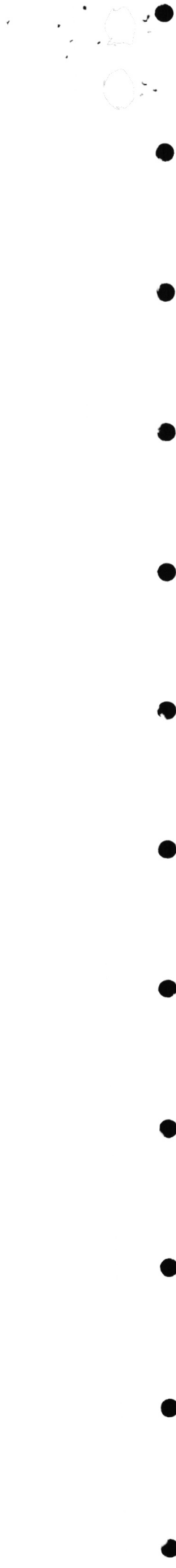
By Order of the Board



Sheila Kahuki
Secretary

Nairobi

30 October 2017



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

DIRECTORS REMUNERATION REPORT

The Board of Directors congratulates the dedicated investors for the gallant support accorded to the Company in the just completed financial year. The business environment for the company was harder than previous years due to a number of factors, both internal and external. As a result the group turnover dipped by 22% compared to previous year. However the company controlled the expenses to ensure better cost efficiency than previous year. Due to the challenges faced and the need to consistently design responsive mitigating actions, the Board of Directors undertook various activities on behalf of the Company which led to an increase in Directors emoluments by 23% from last year.

The Director's remuneration policy at a glance

Executive Directors

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

Non-Executive Directors

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

Directors' shareholding

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

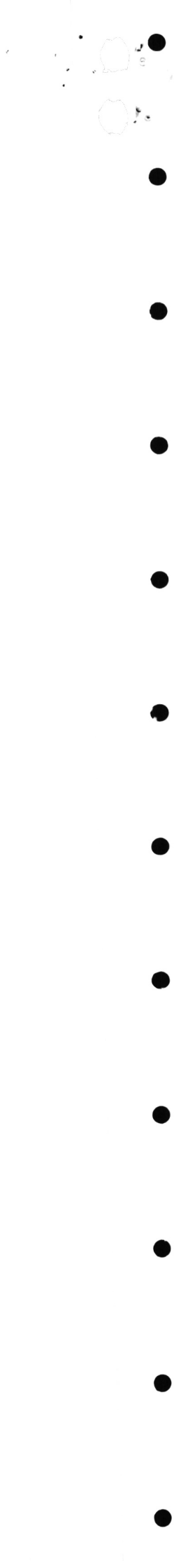
There will be no changes to these policies in the next financial year.

Directors Contract of service

The tenures of the directors in office at the end of the last financial year are tabulated below.

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
DIRECTORS REMUNERATION REPORT (Continued)

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

DIRECTORS REMUNERATION FOR THE YEAR 2016/17

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

The allowances and salaries for the executive directors is reflected in the statements under note 13 and note 15.

DIRECTORS REMUNERATION FOR THE YEAR 2015/16

DIRECTOR	SALARY	ALLOWANCES	BONUSES	FEES	COMPENSATI ON FOR LOSS OF OFFICE	TOTAL
Kephar Tande	14,580	2,280	-	-	-	16,860
Anthony Omerikwa	-	986	-	160	-	1,146
Moses Cheseto	-	129	-	-	-	129
Kungu Gatabaki	-	563	-	160	-	723
Humphrey Muhi	-	43	-	-	-	43
Julius Korir kiplangat	-	300	-	160	-	460
Jackson Kinyanjui	-	471	-	160	-	631
Wilson Songa	-	86	-	-	-	86
Prof. Sarone Ole Sena	-	900	-	160	-	1,060
David Komen	-	165	-	-	-	165
William Lay	-	2,201	-	208	-	2,409
Total	14,580	8,124	-	1,008	-	23,712

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

Akyani
Company Secretary

30 October

2017



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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


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

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgments that are reasonable in the circumstances.

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

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

Approved by the board of directors on 30th October, 2017 and signed on its behalf by:


.....
William Lay
Director


.....
Simon Peter Ole Nkeri
Director



REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated and company financial statements of The East African Portland Cement Company Limited ("the Company") and its subsidiary (together "the Group") set out on pages 27 to 83, which comprise the consolidated and Company's statements of financial position as at 30 June 2017, and the consolidated and Company's statements of profit and loss and other comprehensive income, consolidated and Company's statements of changes in equity and consolidated and Company's statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained. In my opinion, the financial statements present fairly, in all material respects, the financial position of the East African Portland Cement Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). I have fulfilled my other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audit of the financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Material uncertainty related to going concern

I draw your attention to Note 2 in the financial statements, which indicates that the Group incurred a loss from operations of Kshs.1,316,283,000 (2016-

Report of the Auditor-General on the Financial Statements of East African Portland Cement Company Limited for the year ended 30 June 2017

Kshs.1,584,571,000) during the year ended 30 June 2017 and, as of that date, the Group's current liabilities exceeded its current assets by Kshs.4,247,118,000 (2016-Kshs.2,847,272,000). As stated in note 2, these events or conditions, along with other matters as set forth in note 6, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. My opinion is not qualified in respect of this matter.

Key Audit Matters

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

	Key Audit Matter	How the audit addressed the key audit matter
1.	<p>Valuation of Investment Properties</p> <p>As at 30 June 2017, the group's investment properties were valued at Kshs.15.9 Billion representing 58% of the total assets of the group.</p> <p>The investment properties were professionally valued as at the end of the reporting period, and after adjusting for the cost of evicting squatters and securing the properties, the net fair value gain recognized in the statement of profit or loss was Kshs.84 Million.</p> <p>The group's investment properties comprise land held for capital appreciation. The group uses</p>	<p>I assessed the competence, capabilities and objectivity of the Group's independent valuers and verified their qualifications. In addition, I discussed the scope of their work with the directors and reviewed their terms of engagement to determine that there were no matters that affected their objectivity or imposed scope of limitation upon them. I confirmed that the approaches they used are consistent with International Financial Reporting Standards (IFRS) and the industry norms.</p> <p>I evaluated the valuers' judgements in relation to</p>

		<p>found to be appropriate.</p> <p><i>Obsolescence</i></p> <ul style="list-style-type: none"> • I assessed the directors' assessment of the carrying value of inventory relative to its net realisable value (NRV). • I observed the physical verification exercise carried out by management to ascertain the reliability of the process in identifying obsolete inventories. • I performed procedures to test the accuracy and completeness of the assessment of the slow moving inventory in consultation with operational personnel. <p>I found that the models used for the obsolete inventory management of inventories to be appropriate and reasonable. In addition, the disclosures in the consolidated and company financial statements pertaining to the valuation and measurement were found to be appropriate.</p>
--	--	--

Other Information

The directors are responsible for the other information which comprises the Chairman's statement, Managing Director's statement, the statement of corporate governance, Report of the directors, Director's Remuneration Report and the statement of directors' responsibilities. The other information does not include the consolidated and company financial statements and the auditor's report thereon.

My opinion on the consolidated and company financial statements does not cover other information and I do not express an audit opinion or any form of assurance thereon.

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

Director's Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and company financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. The directors and those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

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

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

I communicate with the directors regarding, among others, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

From the matters communicated to the directors, I determine those matters which were of most significance in the audit of the consolidated and company financial statements of the current period, and are therefore the key audit matters. These matters are described in my auditor's report unless the law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

The Companies Act, 2015 requires me to report if in my opinion:

- a) the company has not kept adequate accounting records, and returns adequate for the audit have been received from the branches not visited ; and
- b) the company's individual financial statements are not in agreement with its accounting records and returns;

I have nothing to report in this regard.

In my opinion the information given in the report of the directors on pages 16 to 18 is consistent with the financial statements.

In my opinion the auditable part of the director's remuneration report on pages 19 to 20 has been prepared in accordance with the Kenyan Companies Act, 2015.



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

Nairobi

02 November 2017

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

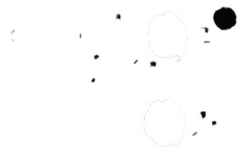
	Note	GROUP		COMPANY	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
REVENUE	5	6,928,307	8,871,456	6,923,749	8,822,902
COST OF SALES	6	(6,165,496)	(7,283,948)	(6,163,025)	(7,259,108)
GROSS PROFIT		762,811	1,587,508	760,724	1,563,794
Other operating income	7	21,527	78,768	21,527	78,768
Inventory provisions written back		183,277	-	183,277	-
		967,615	1,666,276	965,528	1,642,562
EXPENSES					
Selling and distribution	8	(131,068)	(297,734)	(140,265)	(282,659)
Administration and establishment	9	(1,857,343)	(1,937,310)	(1,841,134)	(1,922,736)
Other operating expenses	10	(295,487)	(1,015,803)	(261,945)	(982,636)
		(2,283,898)	(3,250,847)	(2,243,344)	(3,188,031)
LOSS FROM OPERATIONS		(1,316,283)	(1,584,571)	(1,277,816)	(1,545,469)
INTEREST INCOME	11	2,136	4,357	2,070	4,208
FINANCE COSTS	12	(617,017)	(618,125)	(617,017)	(618,125)
EXCHANGE GAIN/(LOSS) ON FOREIGN CURRENCY LOAN	14	134,018	(305,706)	134,018	(305,706)
FAIR VALUE GAIN ON INVESTMENT PROPERTY	21	84,243	6,238,797	84,243	6,238,797
(LOSS)/PROFIT BEFORE TAXATION	13	(1,712,903)	3,734,752	(1,674,502)	3,773,705
TAXATION CREDIT	16(a)	241,542	411,003	241,542	411,003
(LOSS)/PROFIT FOR THE YEAR		(1,471,361)	4,145,755	(1,432,960)	4,184,708



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 June 2017 (Continued)

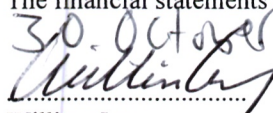
	Note	GROUP		COMPANY	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(LOSS)/PROFIT FOR THE YEAR		(1,471,361)	4,145,755	(1,432,960)	4,184,708
OTHER COMPREHENSIVE INCOME					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Revaluation surplus		572,793	-	572,793	-
Deferred tax on revaluation of property, plant & equipment		(171,838)		(171,838)	-
		400,955		400,955	
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operation		14,629	(8,588)	-	-
TOTAL OTHER COMPREHENSIVE INCOME		415,584	(8,588)	400,955	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(1,055,777)	4,137,167	(1,032,005)	4,184,708
(LOSS)/EARNINGS PER SHARE - Basic and diluted (KShs)	17	(16.35)	46.06	(15.92)	46.50

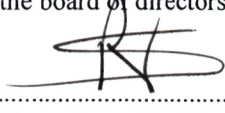


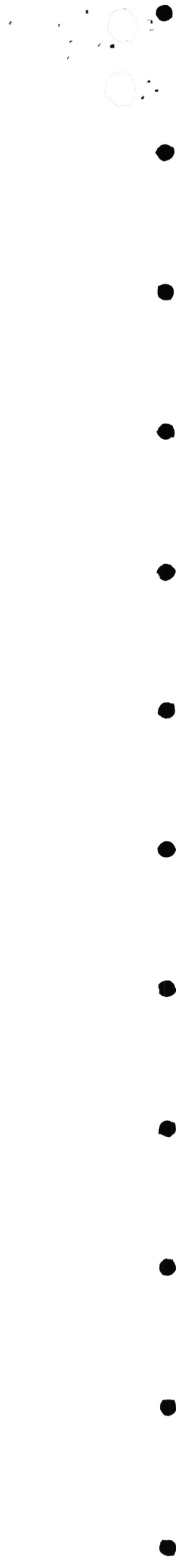
THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL
POSITION AS AT 30 JUNE 2017

	Note	GROUP		COMPANY	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
ASSETS					
NON CURRENT ASSETS					
Property, plant and equipment	18(a)	8,352,683	8,464,905	8,352,711	8,462,691
Capital work- in- progress	19	184,232	178,973	184,232	178,973
Prepaid operating leases	20	9,116	9,221	9,116	9,221
Investment properties	21	15,867,999	15,736,956	15,867,999	15,736,956
Investment in subsidiary	22	-	-	2,500	2,500
Loan swap asset	23	994,263	1,305,321	994,263	1,305,321
Restricted deposits	24	-	31,896	-	31,896
		<u>25,408,293</u>	<u>25,727,272</u>	<u>25,410,821</u>	<u>25,727,558</u>
CURRENT ASSETS					
Inventories	25	1,290,102	1,346,118	1,287,843	1,335,538
Trade and other receivables	26	401,750	525,574	326,328	399,452
Amount due from related parties	27	-	474	350,397	402,613
Taxation recoverable	16(c)	66,885	76,811	67,023	72,169
Short term deposits	24	38,672	36,553	38,672	36,553
Bank balances and cash	28	151,686	129,318	144,690	104,939
		<u>1,949,095</u>	<u>2,114,848</u>	<u>2,214,953</u>	<u>2,351,264</u>
TOTAL ASSETS		<u><u>27,357,388</u></u>	<u><u>27,842,120</u></u>	<u><u>27,625,774</u></u>	<u><u>28,078,822</u></u>
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Share capital	29(a)	450,000	450,000	450,000	450,000
Share premium	29(b)	648,000	648,000	648,000	648,000
Asset revaluation reserve	29(c)	1,650,387	1,465,726	1,650,387	1,465,726
Retained earnings		14,115,692	15,370,759	14,405,323	15,621,989
Foreign currency translation reserve	29(d)	26,904	12,275	-	-
TOTAL EQUITY		<u>16,890,983</u>	<u>17,946,760</u>	<u>17,153,710</u>	<u>18,185,715</u>
NON CURRENT LIABILITIES					
Loan swap liability	23	882,792	1,186,082	882,792	1,186,082
Staff gratuity	31	1,205,875	1,088,970	1,205,608	1,088,696
Long - term loan	32(c)	1,776,595	2,176,606	1,776,595	2,176,606
Deferred taxation	33	404,930	481,582	404,930	481,582
		<u>4,270,192</u>	<u>4,933,240</u>	<u>4,269,925</u>	<u>4,932,966</u>
LIABILITIES					
Current portion of long - term loans	32(c)	862,029	716,751	862,029	716,751
Post import finance loans	32(d)	308,878	-	308,878	-
Bank overdraft	34	2,069,634	1,606,770	2,069,634	1,606,770
Trade and other payables	35	2,853,992	2,536,919	2,859,918	2,534,940
Dividends payable	36	101,680	101,680	101,680	101,680
		<u>6,196,213</u>	<u>4,962,120</u>	<u>6,202,139</u>	<u>4,960,141</u>
TOTAL EQUITY AND LIABILITIES		<u><u>27,357,388</u></u>	<u><u>27,842,120</u></u>	<u><u>27,625,774</u></u>	<u><u>28,078,822</u></u>

The financial statements on pages 27 to 83 were approved and authorised for issue by the board of directors on 30 October 2017 and were signed on its behalf by:


William Lay


Simon Peter Ole Nkeri

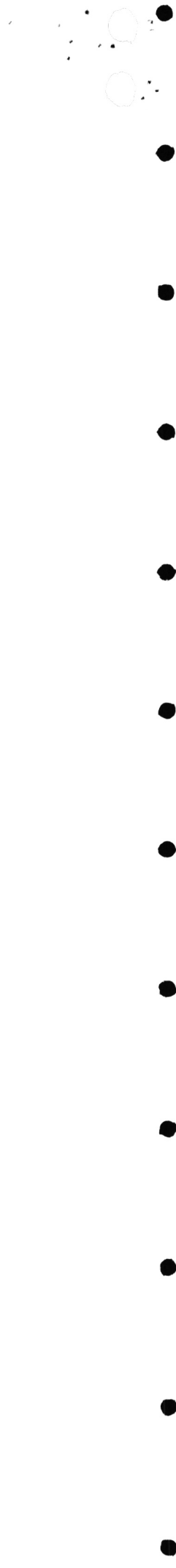


THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 June 2017

	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Retained earnings			Foreign currency translation reserve** KShs'000	Total KShs'000
				Investment property revaluation gains KShs'000	Realised profits KShs'000	Total retained earnings KShs'000		
At 1 July 2015	450,000	648,000	1,666,628	9,022,309	2,001,793	11,024,102	20,863	13,809,593
Transfer of excess depreciation	-	-	(287,003)	-	287,003	287,003	-	-
Deferred tax on excess depreciation	-	-	86,101	-	(86,101)	(86,101)	-	-
Profit/(loss) for the year	-	-	-	4,367,158	(221,403)	4,145,755	-	4,145,755
Other comprehensive income	-	-	-	-	-	-	(8,588)	(8,588)
Total comprehensive income for the year	-	-	-	4,367,158	(221,403)	4,145,755	(8,588)	4,137,167
At 30 June 2016	450,000	648,000	1,465,726	13,389,467	1,981,292	15,370,759	12,275	17,946,760
At 1 July 2016	450,000	648,000	1,465,726	13,389,467	1,981,292	15,370,759	12,275	17,946,760
Transfer of excess depreciation	-	-	(308,992)	-	308,992	308,992	-	-
Deferred tax on excess depreciation	-	-	92,698	-	(92,698)	(92,698)	-	-
Profit/(loss) for the year	-	-	-	58,970	(1,530,331)	(1,471,361)	-	(1,471,361)
Other comprehensive income	-	-	572,793	-	-	-	14,629	587,422
Deferred tax on revaluation surplus	-	-	(171,838)	-	-	-	-	(171,838)
Total comprehensive income for the year	-	-	400,955	58,970	(1,530,331)	(1,471,361)	14,629	(1,055,777)
At 30 June 2017	450,000	648,000	1,650,387	13,448,437	667,255	14,115,692	26,904	16,890,983

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

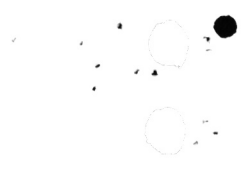
** The translation reserve represents the effect of the change in exchange rates at the beginning of the year and at the close of the year on translation



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED
 COMPANY STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 June 2017

	Share capital KShs'000	Share premium KShs'000	Asset revaluation reserve* KShs'000	Retained earnings			Total KShs'000
				Investment property revaluation gains KShs'000	Realised profit KShs'000	Total Retained earnings KShs'000	
At 1 July 2015	450,000	648,000	1,666,628	9,022,309	2,214,070	11,236,379	14,001,007
Transfer of excess depreciation	-	-	(287,003)	-	287,003	287,003	-
Deferred tax on excess depreciation	-	-	86,101	-	(86,101)	(86,101)	-
Transfer of revaluation surplus on disposal of equipment (net of deferred tax)	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Profit for the year	-	-	-	4,367,158	(182,450)	4,184,708	4,184,708
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	4,367,158	(182,450)	4,184,708	4,184,708
At 30 June 2016	450,000	648,000	1,465,726	13,389,467	2,232,522	15,621,989	18,185,715
At 1 July 2016	450,000	648,000	1,465,726	13,389,467	2,232,522	15,621,989	18,185,715
Transfer of excess depreciation	-	-	(308,992)	-	308,992	308,992	-
Deferred tax on excess depreciation	-	-	92,698	-	(92,698)	(92,698)	-
Profit for the year	-	-	-	58,970	(1,491,930)	(1,432,960)	(1,432,959)
Other comprehensive income	-	-	572,793	-	-	-	572,793
Deferred tax on revaluation surplus	-	-	(171,838)	-	-	-	(171,838)
Total comprehensive income for the year	-	-	400,955	58,970	(1,491,930)	(1,432,960)	(1,032,005)
At 30 June 2017	450,000	648,000	1,650,387	13,448,437	956,886	14,405,323	17,153,710

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 June 2017

	Note	GROUP		COMPANY	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash (used in)/generated from operations	37(a)	(29,053)	829,567	8,931	810,682
Interest paid	37(c)	(536,217)	(470,979)	(536,217)	(470,979)
Interest received	11	2,136	4,357	2,070	4,208
Income tax paid	16(c)	(2,302)	(4,593)	(1,801)	(794)
Net cash (used in)/generated from operating activities		(565,886)	358,352	(527,017)	343,117
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	18	(84,314)	(467,001)	(84,314)	(467,001)
Additions to capital work-in-progress	19	(5,258)	(101,186)	(5,258)	(101,186)
Redemption of restricted deposits		31,896		31,896	
Proceeds of sale of motor vehicles		8,786	4,070	1,930	4,070
Net cash used in investing activities		(48,890)	(564,117)	(55,746)	(564,117)
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipt of Government Debt		371,984		371,984	-
Receipt of asset finance loan	37(b)	175,000	323,636	175,000	323,636
Repayment of asset finance loan	37(b)	(387,450)	(425,324)	(387,450)	(425,324)
Loan repayment	37(b)	(306,643)	(383,504)	(306,643)	(383,504)
Receipt of post import finance loans	37(b)	563,493	700,288	563,493	700,288
Repayment of post import finance loans	37(b)	(254,614)	(1,001,194)	(254,614)	(1,001,194)
Repayment of finance lease obligation	37(d)	-	(16,331)	-	(16,331)
Net cash (used in)/generated from financing activities		161,770	(802,429)	161,770	(802,429)
DECREASE IN CASH AND CASH EQUIVALENTS		(453,006)	(1,008,194)	(420,994)	(1,023,429)
Effects of exchange rate changes on the balance of cash		14,629	(8,588)	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(1,440,899)	(424,117)	(1,465,278)	(441,849)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	37(e)	(1,879,276)	(1,440,899)	(1,886,272)	(1,465,278)



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

1. GENERAL INFORMATION

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

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

2. GOING CONCERN

The Group reported a loss from operations of Kshs 1.3 Billion (2016: Kshs 1.6Billion) with staff costs representing 41% of its revenue at Kshs 2.8 Billion (2016: Kshs 2.7Billion). The current liabilities exceeded current assets by Kshs 4.2 Billion (2016: Kshs 2.8 Billion).

Management has put in place various strategies and has sought the appropriate necessary support from the government and other key shareholders towards raising the required financing. This is meant to support capitalization of the business, modernization of the ageing plant and enhancement of the current working capital facilities for importation of bulk raw materials to enable optimization of the current installed cement milling and packing capacity.

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

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

3. ACCOUNTING POLICIES

Statement of compliance

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

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

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

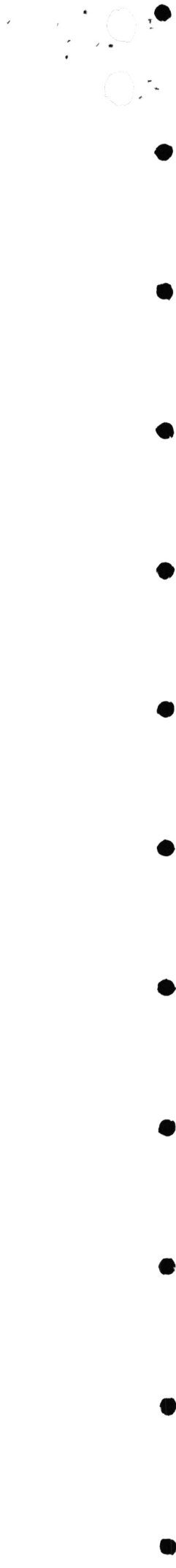
Application of new and revised International Financial Reporting Standards (IFRSs)

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2017*

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	The amendments to IAS 12 Income Taxes clarify the following aspects: Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
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The amendments to the standard has had no impact on the Group's financial statements.



3. 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 2017(Continued)*

Annual Improvements 2010-2012 The annual improvements to IFRSs 2012-2014 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 5 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

Amendments to IAS 7 Disclosure Initiative The amendments to IAS 7 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
- c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- d) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

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



3. 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 2017*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning or after</i>
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 7: Disclosure Initiative	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Annual Improvements to 2014-2016 cycle	1 January 2017

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2017 and future annual periods*

IFRS 9 Financial Instruments

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

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

Key requirements of IFRS 9:

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

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



3. ACCOUNTING POLICIES (Continued)

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

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2017 and future annual periods (Continued)*

IFRS 9 Financial Instruments (Continued)

Key requirements of IFRS 9: (Continued)

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

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

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the directors of the Group have performed a preliminary assessment of the impact of IFRS 9 to the Group's financial statements as follows:

Classification and measurement

Loans carried at amortised cost as disclosed in note 23: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

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

Impairment

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

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

Hedge accounting

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

It should be noted that this assessment was made based on an analysis of the Group's financial assets and financial liabilities as at 30 June 2017 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.



4. ACCOUNTING POLICIES (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2017 and future annual periods (Continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the Group do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

(iii) Early adoption of standard

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Basis of preparation

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

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

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

Basis of consolidation

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

- has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns
- The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

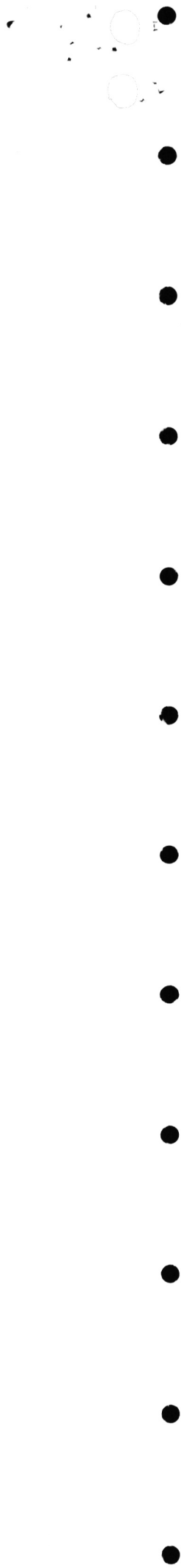
When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances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

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

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

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Revenue recognition

(i) Sale of goods

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

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

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

(ii) Interest income

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

Borrowing costs

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

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

Taxation

Current tax

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

Deferred tax

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

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

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.



NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax (continued)

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

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

Foreign currencies

In preparing the financial statements of each group entity, transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences arising, if any, are recognized in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical costs are not retranslated.

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated to Kenya shillings using exchange rates prevailing at the end of reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the Group's translation reserve. Such differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

Property, plant and equipment

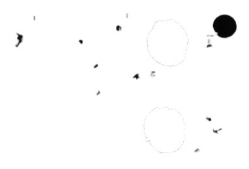
Property, plant and equipment are initially recognised at cost and subsequently stated at professionally revalued amounts less accumulated depreciation and impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its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

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

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

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

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



3. ACCOUNTING POLICIES (Continued)

Capital work in progress

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

Depreciation

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

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

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

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

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

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

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

Leases

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

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

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

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

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

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Inventories

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

Intangible assets

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

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

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

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

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

Investment properties

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

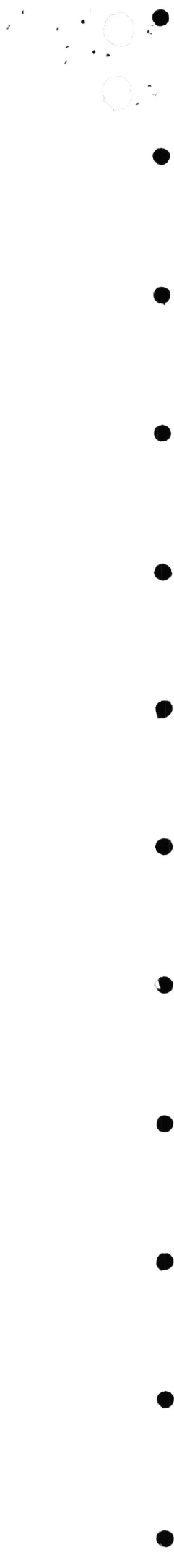
Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit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

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

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

Leasehold land

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



NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

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

Financial assets at fair value through profit or loss

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

Financial assets held to maturity

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

Loans and receivables

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

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

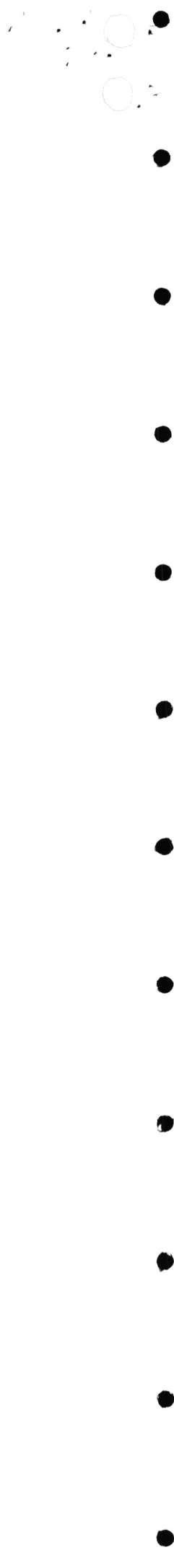
For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from date of disbursement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

Borrowings

Interest bearing loans are recorded at the fair value of the proceeds received. Finance charges are recognised on the accrual basis and are added to the carrying amount of the related instrument to the extent that they are not settled in the period they arise.

Trade payables

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



3. ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

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

Derecognition

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

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

Offsetting

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

Dividends payable

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

Mining and exploration costs

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

Impairment

i) Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

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

Impaired debts are derecognized when they are assessed as uncollectible.

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



NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

3. ACCOUNTING POLICIES (Continued)

Impairment (Continued)

(ii) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision maker (Board of Directors). Management allocates resources to and assess the performance of the operating segments of the Group. The operating segments are based on the Group's management and internal reporting structure. In accordance with IFRS 8 the Group has the following geographical segments; Kenya and Regional market segments (see note 40).

Provisions

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

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

Provision for employee entitlements

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. ACCOUNTING POLICIES (Continued)

Employee benefits

i) Short-term benefits

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

A provision is recognised for the amount expected to be paid under a short-term cash bonus only if the group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and if the obligation can be measured reliably.

ii) Retirement benefit costs

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

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

Comparatives

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key areas of judgement and sources of estimation uncertainty

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

a) Critical judgements in applying accounting policies.

Deferred income tax

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

(Continued)

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

b) *Key sources of estimation uncertainty*

Property, plant and equipment and intangible assets

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

Investment properties

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

Inventories

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

Impairment

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

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

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
5. REVENUE				
Bagged cement – local	6,350,611	8,071,528	6,350,611	8,071,528
Bagged cement – export	20,272	219,982	15,714	171,428
Bulk cement – local	548,640	565,049	548,640	565,049
Paving blocks	8,784	14,897	8,784	14,897
	<u>6,928,307</u>	<u>8,871,456</u>	<u>6,923,749</u>	<u>8,822,902</u>



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

	2017	GROUP	COMPANY	
	2016	2017	2016	
	KShs'000	KShs'000	KShs'000	KShs'000
6. COST OF SALES				
Raw materials used	1,448,686	2,419,160	1,448,686	2,419,160
Furnace oil	50,211	87,049	50,211	87,049
Coal	888,088	979,010	888,088	979,010
Factory staff costs	1,285,318	1,196,079	1,285,318	1,196,079
Power	854,370	936,677	854,370	936,677
Factory depreciation	617,688	585,367	617,688	585,367
Maintenance costs	362,477	374,832	362,477	374,832
Raw materials transport	244,568	229,394	244,568	229,394
Transport and import duty	2,471	24,840	-	-
Factory direct supplies	81,042	51,884	81,042	51,884
Fuel and repairs	116,274	151,875	116,273	151,875
Factory insurance	24,704	33,054	24,704	33,054
Exploration expenses	2,463	4,651	2,463	4,651
Explosives	6,025	6,487	6,025	6,487
Royalties	100,687	120,645	100,687	120,645
Factory water	18,789	26,261	18,789	26,261
Factory land rates and rent	3,309	3,828	3,309	3,828
Consultancy fees	(1,212)	13,257	(1,212)	13,257
Hired equipment	58,120	37,961	58,120	37,961
Other production overheads	1,418	1,637	1,419	1,637
	<u>6,165,496</u>	<u>7,283,948</u>	<u>6,163,025</u>	<u>7,259,108</u>
7. OTHER OPERATING INCOME				
Rent and electricity recovery	21,086	19,199	21,086	19,199
Sundry income	441	59,569	441	59,569
	<u>21,527</u>	<u>78,768</u>	<u>21,527</u>	<u>78,768</u>
8. SELLING AND DISTRIBUTION EXPENSES				
Cement transport	27,869	127,910	27,869	127,869
Advertising and sales commissions	25,042	22,234	25,042	19,213
Fuel and repairs	19,159	19,910	19,158	19,913
Depot rent	23,044	27,276	22,034	25,485
Public relations costs	11,638	13,047	11,638	12,836
Provision for bad and doubtful debts	24,316	87,357	34,524	77,343
	<u>131,068</u>	<u>297,734</u>	<u>140,265</u>	<u>282,659</u>



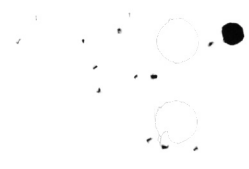
THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
(Continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
9. ADMINISTRATION AND ESTABLISHMENT EXPENSES				
Staff costs	1,555,356	1,539,809	1,545,658	1,528,473
Depreciation of property, plant and equipment	83,873	98,830	83,212	98,030
Amortisation of prepaid operating leases	106	127	106	127
Office supplies	23,917	36,383	23,859	36,100
Travelling expenses	27,354	27,278	27,342	27,176
Hired services	55,806	78,608	55,659	78,016
Telephone and postage	12,801	14,933	12,701	14,666
Company functions	2,247	1,414	2,247	1,414
Board expenses	9,945	7,952	9,945	7,952
Printing and stationery	4,631	6,991	4,533	6,802
Motor vehicle expenses	3,968	7,352	3,939	7,154
Computer expenses	18,989	48,977	18,929	48,917
Electricity	1,561	1,763	1,453	1,637
Office general expenses	56,789	66,893	51,551	66,272
	<u>1,857,343</u>	<u>1,937,310</u>	<u>1,841,134</u>	<u>1,922,736</u>
10. OTHER OPERATING EXPENSES				
Professional fees	47,807	35,416	47,300	35,113
Subscriptions	4,077	1,884	4,078	1,884
Donations	20	-	20	-
Bank charges	39,129	17,728	39,071	17,553
Miscellaneous expenses	-	602	-	602
Auditors' remuneration	8,868	8,868	7,832	7,832
Tax provisions	152,090	-	152,090	-
Inventory provisions	-	790,945	-	790,945
Loss on disposal of plant and equipment	9,637	-	9,637	-
Exchange loss on other foreign currency transactions and balances	33,859	160,360	1,917	128,707
	<u>295,487</u>	<u>1,015,803</u>	<u>261,945</u>	<u>982,636</u>
11. INTEREST INCOME				
Interest income	<u>2,136</u>	<u>4,357</u>	<u>2,070</u>	<u>4,208</u>

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





THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
16. TAXATION				
(a) Taxation charge				
Current tax based on the adjusted profit for the year at 30%	6,947	7,023	6,947	7,023
Deferred taxation				
- Credit for the year (note 33)	(252,701)	(729,966)	(252,701)	(729,966)
- On revaluation surplus of investment properties	4,212	311,940	4,212	311,940
	(248,489)	(418,026)	(248,489)	(418,026)
	(241,542)	(411,003)	(241,542)	(411,003)
(b) Reconciliation of expected tax based on accounting profit to the tax charge				
Accounting profit before taxation	(1,712,903)	3,734,752	(1,674,501)	3,773,705
Tax at the applicable rate of 30%	(513,871)	1,120,426	(502,350)	1,132,113
Tax effect of items not deductible for tax purposes	48,103	100,823	48,103	100,823
Tax effect on varying tax rates	212,706	(1,643,937)	212,705	(1,643,937)
Deferred tax credit not recognised	11,520	11,685	-	-
	(241,542)	(411,003)	(241,542)	(411,003)
16. TAXATION (Continued)				
(c) Taxation recoverable				
At beginning of year	76,811	79,241	72,169	78,398
Charge for the year (note 16(a))	(6,947)	(7,023)	(6,947)	(7,023)
Prior year under provision (note 16(a))	(5,281)	-	-	-
Paid in the year	2,302	4,593	1,801	794
At end of year	66,885	76,811	67,023	72,169



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

17. (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	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(Loss)/earnings for purposes of basic and diluted earnings per share	(1,471,361)	4,145,755	(1,432,959)	4,184,708
Number of ordinary shares (thousands)	90,000	90,000	90,000	90,000
(Loss)/earnings per share basic and diluted (KShs)	(16.35)	46.06	(15.92)	46.50

There were no potentially dilutive ordinary shares outstanding at 30 June 2017 or 30 June 2016. Therefore a diluted earnings per share is the same as the basic earnings per share.



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

18. PROPERTY, PLANT AND EQUIPMENT
 (a) Year ended 30 June 2017

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

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Year ended 30 June 2016

GROUP	Freehold	Buildings	Plant and	Motor	Computers, office	Total
	land		machinery	vehicles	equipment,	
	KShs'000	KShs'000	KShs'000	KShs'000	furniture and	KShs'000
					fittings	
					KShs'000	
COST OR VALUATION						
At 1 July 2015	260,325	1,225,382	7,148,798	878,556	148,991	9,662,052
Additions	100,000	-	360,948	2,284	3,769	467,001
Transfer from Work in progress (note 19)	-	3,017	-	-	-	3,017
Disposals	-	-	-	(13,970)	-	(13,970)
At 30 June 2016	360,325	1,228,399	7,509,746	866,870	152,760	10,118,100
COMPRISING:						
Valuation as at 30 June 2013	192,888	1,088,434	2,383,120	206,506	-	3,870,948
Cost	167,437	139,965	5,126,626	660,364	152,760	6,247,152
At 30 June 2016	360,325	1,228,399	7,509,746	866,870	152,760	10,118,100
DEPRECIATION						
At 1 July 2015	-	56,106	613,172	253,282	51,632	974,192
Charge for the year	-	31,134	459,630	164,677	32,036	687,477
Eliminated on disposals	-	-	-	(8,474)	-	(8,474)
At 30 June 2016	-	87,240	1,072,802	409,485	83,668	1,653,195
NET CARRYING AMOUNT						
At 30 June 2015	260,325	1,169,276	6,535,626	625,274	97,359	8,687,860
At 30 June 2016	360,325	1,141,159	6,436,944	457,385	69,092	8,464,905



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

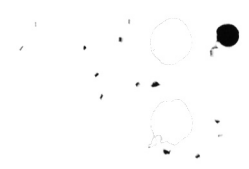
NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Year ended 30 June 2017

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Year ended 30 June 2016

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Computers office equipment, furniture and fittings KShs'000	Total KShs'000
30 June 2017						
Cost	167,437	1,190,194	10,434,137	1,513,359	549,536	13,854,663
Accumulated depreciation	-	(380,530)	(5,603,390)	(1,341,876)	(513,076)	(7,838,872)
Net carrying amount	<u>167,437</u>	<u>809,664</u>	<u>4,830,747</u>	<u>171,483</u>	<u>36,460</u>	<u>6,015,791</u>
30 June 2016						
Cost	167,437	1,190,194	10,208,793	1,504,446	546,868	13,617,738
Accumulated depreciation	-	(352,407)	(5,273,556)	(1,237,025)	(483,812)	(7,346,800)
Net carrying amount	<u>167,437</u>	<u>837,787</u>	<u>4,935,237</u>	<u>267,421</u>	<u>63,056</u>	<u>6,270,938</u>

(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 2017

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Property, plant and equipment	-	8,352,683	-	8,352,683

As at 30 June 2016

Property, plant and equipment	-	8,464,905	-	8,464,905
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There were no transfers between Levels 1, 2 and 3 in the period.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(e) Fair value hierarchy: (Continued)

COMPANY

As at 30 June 2017

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Property, plant and equipment	-	8,352,711	-	8,352,711

As at 30 June 2016

Property, plant and equipment	-	8,462,691	-	8,462,691
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There were no transfers between Levels 1, 2 and 3 in the period.

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

GROUP AND COMPANY
2017
KShs'000

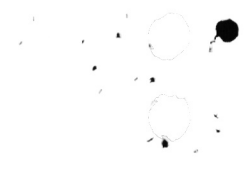
2016
KShs'000

19. CAPITAL WORK-IN-PROGRESS

COST

At the beginning of the year	178,973	154,604
Additions	5,259	101,186
Impairment charge	-	(73,800)
Transfers to property, plant and equipment (note 18)	184,232	181,990
At end of the year	-	(3,017)
	<u>184,232</u>	<u>178,973</u>

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

	GROUP AND COMPANY	
	2017	2016
	KShs'000	KShs'000
20. PREPAID OPERATING LEASES		
COST		
At the beginning and at the end of the year	12,877	12,877
AMORTISATION		
At the beginning of the year	3,656	3,529
Charge for the year	105	127
At the end of the year	3,761	3,656
NET CARRYING AMOUNT		
At end of the year	9,116	9,221

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

Included in prepaid operating leases are three parcels of land measuring 7,071 acres, with low grade limestone deposits. Out of this land, 2,950 acres currently hold minable raw materials according to assessment by the Company's Geologists. The 7,071 acre land parcels are carried in the financial statements at cost despite the current material holding level. The fully mined portion of this land (4,121 Acres) has a current market value of Kshs. 10.8 Billion according to valuation carried out by Knight Frank certified valuers, along with the valuation of the other three investment properties held by the Company. The land parcels are adjacent to other two properties already classified as investment properties.

21. INVESTMENT PROPERTIES

Investment properties relate to three pieces of leasehold land held by the Group under long-term lease arrangements and a freehold parcel in Kikambala. The land was valued at KShs 15.8 billion by Knight Frank Valuers Limited, accredited independent valuers, as at 30 June 2017. The fair value was determined based on the comparable market approach that reflects the recent transaction prices for similar properties and restrictions on use of parts of the properties due to invasion by squatters.

	GROUP AND COMPANY	
	2017	2016
	KShs'000	KShs'000
At the beginning of the year	15,736,956	9,498,159
Reclassified from freehold land (note 18)	46,800	-
Gain on fair value	84,243	6,238,797
At end of year	15,867,999	15,736,956

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

During the year, the directors assessed the use of some of the group's properties and on this basis, reclassified one parcel held for capital appreciation from freehold land to investment properties.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

21. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy:

GROUP AND COMPANY

As at 30 June 2017

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair value KShs '000
Investment properties	-	15,867,999	-	15,867,999

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

GROUP AND COMPANY

As at 30 June 2016

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

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

The fair value was determined based on the comparable market approach that reflects the recent transaction prices for similar properties and restrictions on use of parts of the properties due to invasion by squatters.

22. INVESTMENT IN SUBSIDIARY

Company	Beneficial ownership	Country of incorporation	2017 KShs'000	2017 KShs'000
The East African Portland Cement Company Uganda Limited	100%	Uganda	2,500	2,500

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

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

23. LOAN SWAP

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

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

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

	GROUP AND COMPANY	
	2017 KShs'000	2016 KShs'000
Assets		
Cross currency swap	994,263	1,305,321
Liabilities		
Cross currency swap	882,792	1,186,082

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 62,434,756 as at 30 June 2017 (2016 - loss of KShs 103,270,000). The derivative instruments are carried in the books of account at fair value. The swaps will mature on 20 March 2020.

24. DEPOSITS

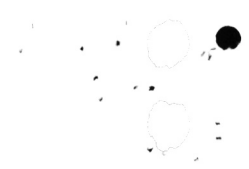
Short-term deposits:

	GROUP AND COMPANY	
	2017 KShs'000	2016 KShs'000
KCB Bank Kenya Limited	38,672	36,553
Restricted deposits:		
Housing Finance Company Limited	-	31,896
	38,672	68,449

Restricted deposits:

The short-term deposits mature within three months and the weighted average interest rate earned on the deposits at 30 June 2017 was 10.5% (2016 – 8.5%).

The deposits with Housing Finance Company Limited have been held as collateral for staff mortgages which was redeemed in March 2017. The weighted average interest rate earned on the deposits at 30 June 2017 was 2.37% (2016 - 2.37%).



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
25. INVENTORIES				
Consumables	1,895,737	2,131,916	1,895,737	2,131,916
Raw materials	115,165	138,740	115,165	138,740
Work-in-progress	12,149	17,351	12,149	17,351
Finished products	71,851	46,188	69,592	35,608
	<u>2,094,902</u>	<u>2,334,195</u>	<u>2,092,643</u>	<u>2,323,615</u>
Provision for obsolete inventories	(804,800)	(988,077)	(804,800)	(988,077)
	<u>1,290,102</u>	<u>1,346,118</u>	<u>1,287,843</u>	<u>1,335,538</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was KShs 1.4 billion (2016: KShs 2.4 billion).

No inventory was written off in the current year.

26. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Gross trade receivables	544,681	592,295	453,830	459,912
Impaired trade receivables	(349,209)	(328,577)	(318,438)	(286,652)
	<u>195,472</u>	<u>263,718</u>	<u>135,392</u>	<u>173,260</u>
Net trade receivables	195,472	263,718	135,392	173,260
Staff receivables	86,473	115,714	86,237	115,665
Deposits, prepayments and other receivables	119,805	146,142	104,699	110,527
	<u>401,750</u>	<u>525,574</u>	<u>326,328</u>	<u>399,452</u>

Trade receivables are non-interest bearing. The average credit period on sales of finished goods is 24 days (2016 – 21 days). The bulk of the trade receivables are covered by bank guarantees in favour of the group. For terms and conditions relating to related party receivables, refer to note 27.

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

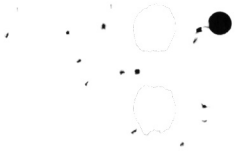
26. TRADE AND OTHER RECEIVABLES (Continued)

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

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Neither past due nor impaired	130,688	178,800	90,520	121,406
Past due but not impaired trade receivables:				
Between 15 and 30 days	19,833	24,343	13,737	30,934
Between 31 and 60 days	30,875	20,920	21,385	20,920
Over 60 days	14,076	39,655	9,750	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total trade receivables not impaired	195,472	263,718	135,392	173,260
Impaired trade receivables	349,209	328,577	318,438	286,652
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross trade receivables	<u>544,681</u>	<u>592,295</u>	<u>453,830</u>	<u>459,912</u>

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 2017			
At the beginning of the year	328,577	62,601	391,178
Additions	20,632	-	20,632
	<u> </u>	<u> </u>	<u> </u>
At end of the year	<u>349,209</u>	<u>62,601</u>	<u>411,810</u>
Year ended 30 June 2016			
At the beginning of the year	278,124	54,512	332,636
Additions	79,265	8,089	87,354
Reversals	(28,812)	-	(28,812)
	<u> </u>	<u> </u>	<u> </u>
At end of the year	<u>328,577</u>	<u>62,601</u>	<u>391,178</u>
COMPANY			
Year ended 30 June 2017			
At the beginning of the year	286,652	62,601	349,253
Additions	31,786	-	31,786
	<u> </u>	<u> </u>	<u> </u>
At end of the year	<u>318,438</u>	<u>62,601</u>	<u>381,039</u>



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

26. TRADE AND OTHER RECEIVABLES (Continued)

COMPANY (Continued)

	Trade receivables KShs'000	Other receivables KShs'000	Total KShs'000
Year ended 30 June 2016			
At the beginning of the year	217,399	54,512	271,911
Additions	69,253	8,089	77,342
At end of the year	<u>286,652</u>	<u>62,601</u>	<u>349,253</u>

27. RELATED PARTIES

Outstanding balances arising from transactions with related companies.

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(a) Amount due from related parties:				
The East African Portland Cement Company Uganda Limited	-	-	350,397	402,139
Bamburi Cement Limited	-	474	-	474
	<u>-</u>	<u>474</u>	<u>350,397</u>	<u>402,613</u>

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

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

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

(b) Transactions with related parties:

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Sales to the East African Portland Cement Uganda Limited	-	-	13,723	167,793
Purchase of clinker from Cementia Trading AG and Lafarge SA	-	758,177	-	758,177

(c) Directors' remuneration:

Fees for services as directors	1,100	1,008	1,100	1,008
Other emoluments	47,222	22,704	47,222	22,704
	<u>48,322</u>	<u>23,712</u>	<u>48,322</u>	<u>23,712</u>



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

27. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(d) Key management compensation:				
Short-term employee benefits	80,717	81,902	80,717	81,902
Post-employment benefits	14,720	6,938	14,720	6,938
	<u>95,437</u>	<u>88,840</u>	<u>95,437</u>	<u>88,840</u>
(e) Due to Government of Kenya:				
Long-term loan	<u>371,984</u>	<u>-</u>	<u>371,984</u>	<u>-</u>

28. BANK AND CASH BALANCES

Bank balances	142,336	99,137	142,261	98,840
Cash on hand	9,350	30,181	2,429	6,099
	<u>151,686</u>	<u>129,318</u>	<u>144,690</u>	<u>104,939</u>

Bank balances do not earn any interest.

29. SHARE CAPITAL AND RESERVES

(a) Share capital				
Authorised:				
126,000,000 shares of KShs 5 each	<u>630,000</u>	<u>630,000</u>	<u>630,000</u>	<u>630,000</u>
Authorised, issued and fully paid:				
90,000,000 shares of KShs 5 each	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>

(b) Share premium

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

(c) Asset revaluation reserve

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

(d) Foreign currency translation reserve

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

		GROUP AND COMPANY	
		2017	2016
		KShs'000	KShs'000
30.	DIVIDENDS PAID		
	Dividends payable at the beginning and at the end of the year	101,680	101,680
		<u> </u>	<u> </u>

Payment of dividend is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders respectively.

31. STAFF GRATUITY

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

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Balance at the beginning of the year	1,088,970	1,035,653	1,088,696	1,035,346
Paid during the year	(213,132)	(158,047)	(212,858)	(157,953)
Provision for the year	330,037	211,364	329,770	211,303
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of year	1,205,875	1,088,970	1,205,608	1,088,696
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

32. LONG - TERM LOANS

(a) JAPANESE LOAN

The Overseas Economic Co-operation Fund of Japan (JICA) loan guaranteed by Kenya Government is denominated in Japanese Yen and is repayable in 41 half yearly instalments by 20 March 2020 with interest accruing at 2.5% per annum. The principal loan balance as at year end was – JPY 1,095,960,000 (2016 – JPY 1,461,280,000).

		GROUP AND COMPANY	
		2017	2016
		KShs'000	KShs'000
Loan principal		1,050,994	1,525,086
Accrued interest		3,641	4,811
		<u> </u>	<u> </u>
As at end of year		1,054,635	1,529,897
		<u> </u>	<u> </u>



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

32. LONG - TERM LOANS (Continued)

(b) ASSET FINANCE LOANS

The interest rate during the year was at 10.5% (2016 - 10.5%). The loan was secured against the assets financed.

The group obtained an asset based finance loan of KShs 175,000,000(2016: KShs 323,636,000) from KCB Bank Kenya Limited at annual interest rates of 15.3 % (2016 – 15.3%).The asset based finance and composite working capital facilities are secured by an all asset debenture over all the assets of the Company and a legal charge over certain properties owned by the company, Land Reference numbers 337/639, 8649, 9767 and 8786, and a fixed and floating debenture over the company's assets to an aggregate value of KShs 4,224,000,000.

	GROUP AND COMPANY	
	2017	2016
	KShs'000	KShs'000
Loans principal	1,187,001	1,363,067
Accrued interest	-	393
	<u> </u>	<u> </u>
As at end of year	<u>1,187,001</u>	<u>1,363,460</u>

(c) MATURITY ANALYSIS OF LONG TERM LOANS:

Japanese loan	1,054,635	1,529,897
Asset finance loans	1,187,001	1,363,460
Government Debt (note 27 (e))	371,984	-
Insurance Premium Financing	25,004	-
	<u> </u>	<u> </u>
Total loans	2,638,624	2,893,357
Less: repayable within one year	(862,029)	(716,751)
	<u> </u>	<u> </u>
Repayable after one year	<u>1,776,595</u>	<u>2,176,606</u>

(d) POST IMPORT FINANCE LOANS

The Group purchased imported bulk raw materials at a cost of KShs 563,493,000 (2016: KShs 700,288,000) financed through a post import finance facility from KCB Bank Kenya Limited. The interest rate during the year was at 15.3% (2016 – 15.3%). The loans are repayable within 6 months and secured under the composite facility with KCB Bank Kenya Limited (refer to note 35).

	GROUP AND COMPANY	
	2017	2016
	KShs'000	KShs'000
As at end of year	<u>308,878</u>	<u>-</u>

(e) The borrowing costs capitalized in relation to construction and installation of qualifying assets during the year amount to KShs Nil (2016 – Kshs 62,510,041).



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

33. DEFERRED TAXATION

GROUP AND COMPANY 2017

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

	1 July 2016 KShs'000	Through profit or loss KShs'000	Other comprehensive income KShs'000	At 30 June 2017 KShs'000
Deferred tax liabilities				
Property, plant and equipment	2,022,407	44,097	171,838	2,238,342
Investment properties	786,798	4,212	-	791,010
	<u>2,809,205</u>	<u>48,309</u>	<u>171,838</u>	<u>3,029,352</u>
Deferred tax assets				
Tax loss (business)	(1,761,095)	(293,823)	-	(2,054,918)
Provision for staff leave	(26,363)	7,206	-	(19,157)
Provision for staff gratuity	(326,609)	(35,074)	-	(361,683)
Inventories provision	(4,184)	(5,098)	-	(9,282)
Staff debts provision	(18,780)	(679)	-	(19,459)
Bad debts provision	(185,185)	(9,536)	-	(194,721)
Unrealised exchange loss	(5,407)	40,205	-	34,798
	<u>(2,327,623)</u>	<u>(296,799)</u>	<u>-</u>	<u>(2,624,422)</u>
Balance as at end of year	<u>481,582</u>	<u>(248,490)</u>	<u>171,838</u>	<u>404,930</u>

GROUP AND COMPANY 2016

Deferred tax liabilities

Property, plant and equipment	2,067,265	(44,858)	-	2,022,407
Investment properties	474,858	311,940	-	786,798
	<u>2,542,123</u>	<u>267,082</u>	<u>-</u>	<u>2,809,205</u>

Deferred tax assets

Tax loss (business)	(1,086,106)	(674,989)	-	(1,761,095)
Provision for staff leave	(32,769)	6,406	-	(26,363)
Provision for staff gratuity	(310,604)	(16,005)	-	(326,609)
Inventories provision	(59,140)	54,956	-	(4,184)
Staff debts provision	(16,353)	(2,427)	-	(18,780)
Bad debts provision	(137,223)	(47,962)	-	(185,185)
Unrealised exchange loss	(320)	(5,087)	-	(5,407)
	<u>(1,642,515)</u>	<u>(685,108)</u>	<u>-</u>	<u>(2,327,623)</u>

Balance as at end of year

	<u>899,608</u>	<u>(418,026)</u>	<u>-</u>	<u>481,582</u>
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THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

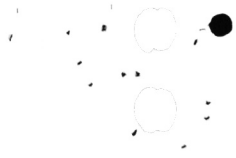
		GROUP AND COMPANY	
		2017	2016
		KShs'000	KShs'000
34.	BANK OVERDRAFT		
	KCB Bank Kenya Limited	2,069,634	1,606,770
		<u> </u>	<u> </u>

The group has a composite working capital facility for bank overdraft, post import finance, letters of credit and guarantees with the KCB Bank Kenya Limited. The approved limit as at year-end was KShs 2,030,000,000(2016:Ksh 1,800,000,000) and drawings against this facility attract interest at market rates. The composite working capital facility and asset based finance facilities are secured by an all asset debenture over all the assets of the Company and a legal charge over certain properties owned by the company, Land Reference numbers 337/639, 8649, 9767 and 8786, and a fixed and floating debenture over the company's assets to an aggregate value of KShs 4,224,000,000. .

	GROUP		COMPANY		
	2017	2016	2017	2016	
	KShs'000	KShs'000	KShs'000	KShs'000	
35.	TRADE AND OTHER PAYABLES				
	Trade payables	2,174,063	1,724,261	2,183,483	1,724,261
	Other payables and accruals	643,460	777,044	639,965	775,065
	Advance receipts from customers	36,469	35,614	36,470	35,614
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Balance as at end of year	2,853,992	2,536,919	2,859,918	2,534,940
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

Trade and other payables are non-interest bearing. The average credit period on purchases is 80 days (2016 – 80 days). The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

		GROUP AND COMPANY	
		2017	2016
		KShs'000	KShs'000
36.	DIVIDENDS PAYABLE		
	Dividend payable	101,680	101,680
		<u> </u>	<u> </u>



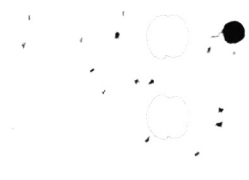
THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

37. STATEMENT OF CASH FLOWS

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

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(Loss)/profit before taxation	(1,712,903)	3,734,752	(1,674,501)	3,773,705
Adjustments for:				
Depreciation (note 18)	701,561	687,477	700,900	686,583
Impairment charge on work in progress (note 19)	-	73,800	-	73,800
Amortisation on prepaid operating leases (note 20)	106	127	106	127
Loss/(gain) on sale of property, plant and equipment	(9,637)	1,426	(9,637)	1,426
Fair value gain on investment property (note 21)	(84,243)	(6,238,797)	(84,243)	(6,238,797)
Exchange (gain)/loss on foreign currency loan	(134,018)	305,706	(134,018)	305,706
Staff gratuity provision (note 31)	330,037	211,364	330,037	211,303
Interest expense				
-Long term loan	30,740	18,986	30,740	18,986
-Bank overdraft	289,111	140,868	289,111	140,868
-Interest on lease obligations	-	724	-	724
-Derivative instrument	44,102	57,672	44,102	57,672
-Asset finance loan	171,094	226,943	171,094	226,943
Interest income	(2,136)	(4,357)	(2,070)	(4,208)
Fair value loss on derivative instrument	62,435	103,270	62,435	103,270
Working capital changes:				
Decrease in inventories	56,016	510,164	47,695	506,421
Decrease/(increase) in trade and other receivables	123,824	563,879	73,124	543,323
Decrease/(increase) in trade and other payables	317,066	593,610	324,972	597,146
Decrease in bonus and legal fees		-		-
Increase in related party balances	474	-	52,216	(36,363)
Staff gratuity paid (note 31)	(213,132)	(158,047)	(213,132)	(157,953)
Net cash (used in)/generated from operations	<u>(29,503)</u>	<u>829,567</u>	<u>8,931</u>	<u>810,682</u>



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

37. STATEMENT OF CASH FLOWS (Continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(b) Movement in loans				
(i) Japanese loan				
Balance at the beginning of the year	1,523,868	1,544,106	1,523,868	1,544,106
Foreign currency exchange loss/(gain)	(134,018)	305,706	(134,018)	305,706
Repayments during the year	(338,856)	(325,944)	(338,856)	(325,944)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	1,050,994	1,523,868	1,050,994	1,523,868
	<hr/>	<hr/>	<hr/>	<hr/>
Payment of swap loans	(547,488)	(326,205)	(547,488)	(326,205)
Receipt from swap asset	579,701	268,645	579,701	268,645
	<hr/>	<hr/>	<hr/>	<hr/>
Total loan repayment	(306,643)	(383,504)	(306,643)	(383,504)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
(ii) Asset finance loans				
Balance at the beginning of the year	1,363,066	1,464,754	1,363,066	1,464,754
Receipts during the year	175,000	323,636	175,000	323,636
Repayment of asset finance loan	(351,065)	(425,324)	(351,065)	(425,324)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	1,187,001	1,363,066	1,187,001	1,363,066
	<hr/>	<hr/>	<hr/>	<hr/>
(iii) Post import finance loans				
Balance at the beginning of the year	-	300,906	-	300,906
Receipts during the year	563,493	700,288	563,493	700,288
Repayments during the year	(254,614)	(1,001,194)	(254,614)	(1,001,194)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	308,879	-	308,879	-
	<hr/>	<hr/>	<hr/>	<hr/>
(c) Interest paid on borrowings				
Balance at the beginning of the year	4,811	5,102	4,811	5,102
Interest charge on long-term loan	30,740	18,986	30,740	18,986
Accrued as at 30 June (note 32)	(3,641)	(4,811)	(3,641)	(4,811)
	<hr/>	<hr/>	<hr/>	<hr/>
Interest paid on long-term loan	31,910	19,277	31,910	19,277
Interest paid on overdraft	289,111	140,868	289,111	140,868
Interest paid on asset finance loan	171,094	237,039	171,094	237,039
Interest paid on lease obligations	-	3,879	-	3,879
Interest on loan swap liabilities	44,102	69,916	44,102	69,916
	<hr/>	<hr/>	<hr/>	<hr/>
Interest paid on borrowings	536,217	470,979	536,217	470,979
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

37. STATEMENT OF CASH FLOWS (Continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(d) Movement in lease obligations				
Balance at the beginning	-	16,331	-	16,331
Repayments during the year	-	(16,331)	-	(16,331)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of the year	-	-	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
(e) Analysis of cash and cash equivalents				
Short term deposits (note 24)	38,672	36,553	38,672	36,553
Bank and cash balances (note 28)	151,686	129,318	144,690	104,939
Bank overdraft (note 35)	(2,069,634)	(1,606,770)	(2,069,634)	(1,606,770)
	<hr/>	<hr/>	<hr/>	<hr/>
	(1,879,276)	(1,440,899)	(1,886,272)	(1,465,278)
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

38. RETIREMENT BENEFITS OBLIGATIONS

The Group, with effect from 1 July 2006, operates a defined contribution pension scheme for senior and supervisory staff. The scheme was previously a non-contributory defined benefits pension scheme. The scheme is administered independently by Zamara Kenya (formerly known as Alexander Forbes Financial Services (E.A) Limited), while its investments are managed by Stanbic Investments Services (East Africa) Limited. Contributions to this scheme during the year amounted to KShs 64,089,942 (2016 – KShs 64,544,000).

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

The Group also contributes to the statutory defined contribution pension schemes in Kenya and Uganda, the National Social Security Funds. Contributions to the statutory schemes are determined by statute in the respective countries and are limited to specific contributions legislated from time to time. The group's contributions are charged to profit or loss in the year to which they relate. Contributions to these schemes during the year amounted to KShs 3,029,200 (2016 – KShs 3,688,000).

39. REVENUE ANALYSIS AND SEGMENTAL REPORTING

	2017 KShs'000	2016 KShs'000
The group revenues are derived from sales in the following markets:		
Local market – Kenya	6,923,749	8,651,474
Regional market (East Africa)	4,558	219,982
	<hr/>	<hr/>
	6,928,307	8,871,456
	<u>=====</u>	<u>=====</u>

Sales to the regional market are done through the wholly owned subsidiary, The East African Portland Cement Uganda Limited, whose net assets constitute less than 5% of the group's total net assets. Segment reporting with respect to net assets is, therefore, not considered of any real value. In addition, the local sales are 99 % (2016 – 98%) of the total revenue hence there is only one reportable segment.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

40. 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	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Equity(i)	16,890,983	17,946,760	17,153,710	18,185,715
Debt (ii)	2,947,503	2,893,357	2,947,503	2,893,357
Add: cash and cash equivalents (note 37(e))	1,879,276	1,440,899	1,886,272	1,465,278
Net debt	4,826,779	4,334,256	4,833,775	4,358,635
Gearing ratio	29%	24%	28%	24%

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

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

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

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

	Neither past due nor impaired KShs'000	Past due but not impaired KShs'000	Impaired KShs'000	Total KShs'000
GROUP				
At 30 June 2017				
Trade receivables	169,668	25,804	349,209	544,681
Amount due from related party	-	-	-	-
Bank balances	151,686	-	-	151,665
Deposits	38,672	-	-	38,672
	=====	=====	=====	=====
At 30 June 2016				
Trade receivables	178,800	84,918	328,577	592,295
Amount due from related party	-	474	-	474
Bank balances	99,137	-	-	99,137
Deposits	68,449	-	-	68,449
	=====	=====	=====	=====
COMPANY				
At 30 June 2017				
Trade receivables	160,374	301,888	318,438	780,699
Amount due from related parties	-	18,188	-	18,188
Bank balances	144,690	-	-	144,690
Deposits	38,672	-	-	38,672
	=====	=====	=====	=====
At 30 June 2016				
Trade receivables	121,406	51,854	286,652	459,912
Amount due from related parties	-	402,613	-	402,613
Bank balances	98,840	-	-	98,840
Deposits	68,449	-	-	68,449
	=====	=====	=====	=====

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 2017 the Group held bank guarantees amounting to KSh 417,899,000 against trade receivables. There was no concentration risk.

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued) *Liquidity risk*

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

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

	Up to 1 month KShs'000	1 – 3 Months KShs'000	3 – 12 Months KShs'000	1 – 5 years KShs'000	Total KShs'000
GROUP					
At 30 June 2017					
<i>Financial assets</i>					
Trade receivables	283,627	118,123	-	-	401,750
Amount due from related party	-	-	-	-	-
Bank balances and cash	151,686	-	-	-	151,686
Loan swap asset	-	129,520	127,868	736,874	994,262
Deposits	38,672	-	-	-	38,672
Total financial assets	473,985	247,643	127,868	736,874	1,586,370
<i>Financial liabilities</i>					
Trade and other payables	847,489	1,019,526	307,048	-	2,174,063
Borrowings:					
- Long term loan	-	231,432	228,480	1,316,683	1,776,595
- Loan swap liability	-	119,596	116,816	646,380	882,792
- Asset finance loan	32,597	112,639	415,376	590,004	1,150,616
- Bank overdraft	2,069,634	-	-	-	2,069,634
Total financial liabilities	2,949,720	1,483,193	1,067,720	2,553,067	8,053,700
Net liquidity gap	(2,475,735)	(1,235,550)	(939,852)	(1,816,193)	(6,467,330)

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

GROUP	Up to 1 month KShs'000	1 – 3 Months KShs'000	3 – 12 Months KShs'000	1 – 5 years KShs'000	Total KShs'000
At 30 June 2016					
<i>Financial assets</i>					
Trade receivables	413,495	178,800	-	-	592,295
Amount due from related party	-	474	-	-	474
Bank balances and cash	129,318	-	-	-	129,318
Loan swap asset	-	98,931	97,669	562,843	759,443
Deposits	36,553	-	-	-	36,553
Total financial assets	579,366	278,205	97,669	562,843	1,518,083
<i>Financial liabilities</i>					
Trade and other payables	539,452	989,364	195,445	-	1,724,261
Borrowings:					
- Long term loan	-	197,861	195,337	1,125,686	1,518,884
- Loan swap liability	-	141,165	137,883	762,952	1,042,000
- Asset finance loan	50,980	176,162	649,630	922,741	1,799,513
- Bank overdraft	1,606,770	-	-	-	1,606,770
Total financial liabilities	2,197,202	1,504,552	1,178,295	2,811,379	7,691,428
Net liquidity gap	(1,617,836)	(1,226,347)	(1,080,626)	(2,248,536)	(6,173,345)
COMPANY					
At 30 June 2017					
<i>Financial assets</i>					
Trade receivables	200,361	126,508	-	-	326,869
Amount due from related party	-	350,397	-	-	350,397
Bank balances and cash	144,690	-	-	-	144,690
Loan swap asset	-	129,520	127,868	736,874	994,262
Deposits	38,672	-	-	-	38,672
Total financial assets	383,723	606,425	127,868	736,874	1,854,890
<i>Financial liabilities</i>					
Trade and other payables	848,098	1,028,117	307,268	-	2,183,483
Borrowings:					
Long term loan	-	231,432	228,480	1,316,683	1,776,595
Loan swap liability	-	119,596	116,816	646,380	882,792
Asset finance loan	32,597	112,639	415,376	590,004	1,150,616
Bank overdraft	2,069,634	-	-	-	2,069,634
Total financial liabilities	2,950,329	1,491,784	1,067,940	2,553,067	8,063,120
Net liquidity gap	(2,566,606)	(885,359)	(940,072)	(1,816,193)	(6,208,230)



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	Up to 1 month KShs'000	1 – 3 Months	3 - 12 Months KShs'000	1 – 5 years KShs'000	Total KShs'000
COMPANY					
At 30 June 2016					
<i>Financial assets</i>					
Trade receivables	281,912	178,000	-	-	459,912
Amount due from related party	-	402,613	-	-	402,613
Bank balances and cash	104,939	-	-	-	104,939
Loan swap asset	-	98,931	97,669	562,843	759,443
Deposits	36,553	-	-	-	36,553
Total financial assets	423,404	679,544	97,669	562,843	1,763,460
<i>Financial liabilities</i>					
Trade and other payables	539,452	989,364	195,445	-	1,724,261
Borrowings:					
Long term loan	-	197,861	195,337	1,125,686	1,518,884
Loan swap liability	-	141,165	137,883	762,952	1,042,000
Asset finance loan	50,980	176,162	649,630	922,741	1,799,513
Bank overdraft	1,606,770	-	-	-	1,606,770
Total financial liabilities	2,197,202	1,504,552	1,178,295	2,811,379	7,691,428
Net liquidity gap	(1,773,798)	(825,008)	(1,080,626)	(2,248,536)	(5,927,968)



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk

(i) Foreign exchange risk

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

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

	UShs KShs'000	US\$ KShs'000	JPY KShs'000
30 June 2017			
Assets			
Bank and cash balances	5,151	1,712	-
Loan swap asset	-	-	994,263
Trade receivables and other receivables	74,135	9,425	-
	<u>79,286</u>	<u>11,137</u>	<u>994,263</u>
Liabilities			
Borrowings	-	-	1,504,635
Loan swap liability	-	882,792	-
Trade and other payables	-	29,245	-
	<u>-</u>	<u>912,037</u>	<u>1,504,635</u>
30 June 2016			
Assets			
Bank and cash balances	12,226	12,373	-
Loan swap asset	-	-	1,305,321
Trade receivables and other receivables	126,122	12,712	-
	<u>138,348</u>	<u>25,085</u>	<u>1,305,321</u>
Liabilities			
Borrowings	-	-	1,529,897
Loan swap liability	-	1,186,082	-
Trade and other payables	-	28,553	-
	<u>-</u>	<u>1,214,635</u>	<u>1,529,897</u>



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. 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

	2017	2016		
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
	Effect on profit	Effect on equity	Effect on profit	Effect on Equity
Currency – Ugandan shillings				
+ 5% KShs movement	7,043	8,578	6,917	7,545
- 5% KShs movement	(7,043)	(8,578)	(6,917)	(7,545)
	=====	=====	=====	=====
Currency - US dollars				
+ 5% KShs movement	64,247	64,247	59,748	59,748
- 5% KShs movement	(64,247)	(64,247)	(59,748)	(59,748)
	=====	=====	=====	=====
Currency – JPY				
+ 5% KShs movement	14,248	14,248	11,229	11,229
-5% KShs movement	(14,248)	(14,248)	(11,229)	(11,229)
	=====	=====	=====	=====

(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 2017						
Assets						
Deposits	-	-	-	-	-	-
	=====	=====	=====	=====	=====	=====
Liabilities						
Borrowings	23,364	85,144	338,730	501,468	-	948,707
Bank overdraft	-	-	2,069,634	-	-	2,069,634
	=====	=====	=====	=====	=====	=====
At 30 June 2016						
Assets						
Deposits	-	-	31,896	-	-	31,896
	=====	=====	=====	=====	=====	=====
Liabilities						
Borrowings	33,576	122,358	486,780	720,646	-	1,363,360
Bank overdraft	-	-	1,606,770	-	-	1,606,770
	=====	=====	=====	=====	=====	=====

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. 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.

	2017	2016		
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
	Effect on profit	Effect on equity	Effect on profit	Effect on Equity
+5% Movement	(34,587)	(34,587)	(18,263)	(18,263)
-5 % Movement	34,587	34,587	18,263	18,263
	=====	=====	=====	=====

(iii) Fair values of financial instruments

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

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

Level 1

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

Level 2

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

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

Level 3

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

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



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Fair values of financial instruments (Continued)

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

GROUP AND COMPANY

At 30 June 2017

	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	-	994,263	-	994,263
Financial liabilities designated at fair value through profit and loss				
Long term loans	-	1,776,595	-	1,776,595
Loan swap liabilities	-	882,792	-	882,792
Total financial liabilities	-	2,659,387	-	2,659,387

GROUP AND COMPANY

At 30 June 2016

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

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

	GROUP AND COMPANY	
	2017	2016
	KShs'000	KShs'000
42. CONTINGENT LIABILITIES		
Employment & labour relations case	1,100,000	1,100,000
Tax assessment	473,000	473,000
Pending law suits	373,300	373,300
Guarantee of staff mortgages	-	31,311
Pending sale of land to Superior Homes case.	440,796	-
	<u>2,387,096</u>	<u>1,977,611</u>

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

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

Employment & labour relations court cause No.2119 of 2016

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

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

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

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

Tax Assessment

The Kenya Revenue Authority (KRA) carried out an audit of the company covering corporate tax, employee taxes, withholding tax and VAT for the period from 2005 to 2008 and raised an assessment on the company of KShs 2.5 billion on the tax heads mentioned above. Out of this assessment, KShs 1.7 billion has been solved with the tax authorities. The company has paid KShs 122 million and appealed against a further KShs 473 million through the Local Committee, which subsequently ruled in favour of the company. KRA however filed a notice to appeal in the High Court against the Local Committee ruling. The substantive appeal to the High Court has however not been filed by KRA. Consequently, no provision has been made for any tax liability that may arise from this assessment in these Consolidated Financial Statements.



THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

42. CONTINGENT LIABILITIES (Continued) -

Land and Environment Court case cause 931 of 2013

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

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

The Company has assessed the financial impact of the court ruling allowing 120 days for execution, which would result in disposal of the 337 acres at a price of Kshs. 2.226 million per acre (agreed on in year 2012) against the carrying value of the parcel at Kshs. 3.534 million per acre. If executed, this transaction shall translate to an impairment of the 337 acre portion by Kshs. 440.796 million (Kshs. 1.308 million per acre). The liability will only crystallize when the sale is executed per the consent entered into and when the required sanctions are provided.

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

	2017 KShs'000	2016 KShs'000
43. CAPITAL COMMITMENTS		
Authorised by the directors but not contracted for	1,003,888	2,564,817
Authorised by the directors and contracted for	36,022	64,352

44. 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:

	2017 KShs'000	2016 KShs'000
Within 1 year	23,862	25,758
Later than 1 year but not later than 2 years	22,938	24,761
	<u>46,800</u>	<u>50,519</u>

45. COUNTRY OF INCORPORATION

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

46. CURRENCY

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

47. EVENTS AFTER THE REPORTING DATE

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

