



**RHINO**  
CEMENT

**ARM**  
ARM CEMENT PLC

**Annual Report**  
And Financial Statement  
for the Year 2017

**44<sup>th</sup>**

**2017**  
**QUALITY**  
**CAPACITY**  
**INFRASTRUCTURE**

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

Corporate information	v - vi
Chairman's statement	1 - 3
Managing Director's statement	4 - 5
Directors Profiles	6 - 7
Report of the Directors	8 - 11
Corporate governance statement	12 - 16
Directors remuneration report	17 - 19
Statement of directors' responsibilities	20
Independent auditors' report	21 - 22
<b>Financial statements:</b>	
Consolidated statement of profit or loss and other comprehensive income	23
Company statement of profit or loss and other comprehensive income	24
Consolidated statement of financial position	25
Company statement of financial position	26
Consolidated statement of changes in equity	27
Company statement of changes in equity	28
Consolidated statement of cash flows	29
Company statement of cash flows	30
Notes to the consolidated financial statements	31 - 81

# TABLE OF CONTENTS



# NOTICE OF THE 2018 ANNUAL GENERAL MEETING

NOTICE is hereby given that the **2018 Annual General Meeting** of the ARM Cement PLC will be held at the **Laico Regency Hotel, Nairobi**, on **Friday, 29 June 2018 at 10.00 a.m.** to transact the following business:-

## ORDINARY BUSINESS

1. To read the notice convening the meeting, table the proxies received and confirm the presence of a quorum.
2. To confirm and adopt the minutes of the Annual General Meeting held on 15 June 2017 and of the Extra-ordinary General meeting held on 22 January 2018.
3. To receive, consider and, if thought fit, adopt the Audited Financial Statements for the year ended 31 December 2017 together with the reports of the Directors and Auditors thereon.
4. To note that no dividend is recommended for the financial year ended 31 December 2017.
5. To approve the Remuneration Policy and the Remuneration Report of the Board as detailed in the Annual Report for the Financial Year ended 31 December 2017.
6. Election of Directors
  - i) In accordance with Clause 2.5.1 of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, Mr Wilfred Murungi, a director having attained the age of over seventy years, retires from office and offers himself for re-election.
  - ii) In accordance with Articles 95 of the Company's Articles of Association, Mr John Ngumi retires by rotation and, being eligible, offers himself for re-election;
  - iii) In accordance with Articles 93 of the Company's Articles of Association, the following directors retire at this meeting and, being eligible, offer themselves for re-election.
    - a) Ms Aliya Shariff
    - b) Mr Rohit Anand
    - c) Ms Sofia Bianchi
    - d) Mr Konstantin Makarov
7. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit, Risk and Compliance Committee be elected individually to continue serving as members of the Committee:-
  - a) Mr. L Mususa
  - b) Mr. John Ngumi
  - c) Mr. Rohit Anand
8. To re-appoint Messrs Deloitte & Touche as auditors of the Company in accordance with the provisions of Section 721 (2) of the Companies Act, 2015 and to authorize the Directors to fix the Auditors' remuneration for the ensuing Financial Year in accordance with the provisions of Section 724 of the Companies Act, 2015.

## BY ORDER OF THE BOARD

**J L G MAONGA**  
**COMPANY SECRETARY**

**DATE 31 May 2018**

### Note:

1. In accordance with Section 298 of the Companies Act, 2015, a member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

A Proxy Form may be obtained from the Company's Share Registrar, Co-operative Bank of Kenya Ltd, CIC Plaza Wing2, Upper Hill or at the Company's Registered Office, The Westwood, 9th Floor L.R No. 1870/1/443 Ring Road, Westlands or the Company's website: [www.armcement.com](http://www.armcement.com).

To be valid, a Form of Proxy must be duly completed by the member and must be returned to the Shares Registrars on the above address so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid. In the case of a corporate body, the proxy form must be executed under its common seal or under the hand of duly authorised officer or an attorney of such corporation.

2. A copy of the entire Annual Report and Accounts may be viewed at the Company's website at [www.armcement.com](http://www.armcement.com) or a printed copy may be obtained from the Shares Registrars on the above address.

**ARM CEMENT PLC**  
**PROXY FORM**

I/WE \_\_\_\_\_

of \_\_\_\_\_

Being a member/s of ARM Cement PLC, hereby appoint:

\_\_\_\_\_

of \_\_\_\_\_

or failing him/her \_\_\_\_\_

of \_\_\_\_\_

as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 29<sup>th</sup> June 2018 at the Laico Regency Hotel Nairobi at 10.00 am and at any adjournment thereof.

Number of Shares held \_\_\_\_\_

Account number of member \_\_\_\_\_

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2018

Signature \_\_\_\_\_

**Important notes**

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not be a member of the Company.
2. In case of a member being a corporation, this form must be completed either under common seal, or under the hand of an offer or authorized attorney
3. To be valid, the proxy form must be completed either under its common seal or under the hand of an offer or duly authorized attorney
4. To be valid, the proxy form must be deposited at the registered office of the Company or the company Share Registrar, Co-operative Bank of Kenya Ltd, CIC Plaza Wing 2 Upper Hill not less than 48 hours before the time fixed for the meeting





## CORPORATE INFORMATION

Directors	Mr W Murungi	-	Chairman
	Mr P H Paurana	-	Group Managing Director
	Mr S L Bhatia *	-	Deputy Managing Director
	Mr R M Ashley**	-	Executive Director (Resigned on 3 May 2018)
	Mr J Ngumi		
	Mr L Mususa***		
	Mr S Mukherjee	-	(Alternate to Mr K Gordhan)
	Ms A F Shariff****	-	Appointed on 17 June 2017
	Ms. N Paurana	-	Appointed on 17 June 2017 (Alternate to Mr P H Paurana)
	Mr A Alli****	-	Resigned on 17 June 2017
	Ms S Bianchi*****	-	Appointed on 25 May 2018
	Mr R Anand**	-	Appointed on 25 May 2018
	Mr K Marakov*****	-	Appointed on 25 May 2018
	Mr K P P Meijer	-	Resigned on 25 May 2018
	Mr K Gordhan	-	Resigned on 25 May 2018

\* Indian

\*\* British

\*\*\*Tanzanian

\*\*\*\*Nigerian

\*\*\*\*\* Canadian

\*\*\*\*\*Italian

\*\*\*\*\*American

Audit and Risk Committee	Mr L Mususa	-	Chairman
	Mr W Murungi		
	Mr K Gordhan		

Nomination, Remuneration and Human Resources Committee	Mr W Murungi	-	Chairman
	Mr R Ashley		
	Mr K Gordhan		
	Mr J Ngumi		

Environmental Social and Governance Committee	Mr J Ngumi	-	Chairman
	Mr K P P Meijer		
	Mr P H Paurana		
	Mr S L Bhatia		

Secretary	Mr. J. Maonga		
	Certified Public Secretary (Kenya)		
	Jadala Place, 3rd Floor, Ngong Lane, Ngong Road		
	P O Box 73248 -00200		
	Nairobi		



## CORPORATE INFORMATION (Continued)

Registered Office	The Westwood, 9th Floor LR No. 1870/1/443 Ring Road, Westlands P O Box 41908 - 00100 Nairobi
Auditors	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi
Bankers	Stanbic Bank Limited Stanbic Bank Centre, Westlands Road, Chiromo P O Box 72833 - 00200 Nairobi  UBA Kenya Bank Limited Apollo Centre (1 <sup>st</sup> Floor) Ring Road, Vale Close, Westlands P O Box 34154 - 00100 Nairobi  Barclays Bank of Kenya Limited The West End Level 4, Waiyaki Way P O Box 30120 - 00100 Nairobi  Guaranty Trust Bank (Kenya) Limited Plot 1870, Woodvale Close, Westlands P O Box 20613 - 00200 Nairobi
Lawyers	Coulson Harney ICEA Lion Centre, Riverside Park P O Box 10643 - 00100 Nairobi  Mohammed Muigai Advocates K-Rep Center, Wood Avenue, Kilimani P O Box 61323 - 00200 Nairobi

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I present to you my report for the Financial Year ended 31st December 2017.

## Background

As you are aware ARM Cement PLC was founded in 1973. It started as a mineral mining company, which processed the minerals it mined into value added products. The Company, over the years increased the degree of value addition to the minerals it mined and finally started a cement-manufacturing unit in 1996. Cement manufacturing is a capital extensive business and to support the expansion into the cement business the company went public and listed its shares on the Nairobi Stock Exchange in 1997.

The Company saw a rapid growth in its cement production capacity in the period 2005 - 2015, during which period, the Company expanded its cement manufacturing capacity nearly 10 fold. The Company built five new state of the art modern technology cement plants in the region. The Company also diversified its operations with cement plants in Tanzania and Rwanda and the acquisition of Mafeking Cement Company in South Africa.

The rapid growth was driven by the increased cement demand throughout the region. The entire East African region's cement demand had tripled since the year 2000 and was growing at an average growth rate of 14% per annum. During those years, ARM not only set up new cement capacity to meet the increased local demand from housing and infrastructure, but also built the largest clinker capacity in the region to reduce the region's dependence on imported clinker. Currently, 40% of the region's clinker requirement is met through imports.

The investment into the growth of capacity was funded through dollar-based debt instruments. In the middle of 2015, the economy saw some major macroeconomic changes. There was a sharp depreciation in both the Kenyan and Tanzanian currencies. Interest rates doubled and the liquidity in the markets reduced significantly. This impacted negatively on the cash flow of the Company. The economic climate was further weakened by the developments in the banking sector in Kenya in 2016 and the power situation in Tanzania. As these issues were resolved at the end of 2016, and the Company's Balance sheet was strengthened by CDC's investment of one hundred and forty million USD in September 2016.

## Economic & Business Review

The year 2017 was challenging for the Group owing to several factors. Demand for cement in Kenya was subdued, largely due to the elections. The first elections were held in August 2017 and the Presidential repeat in November 2017 which had tremendous impact on demand, especially in the second half of the year. The liquidity in the Kenyan market was tight and the excess capacity in the market resulted in price pressures with every manufacturer embarking on price reduction strategy to maintain volumes. The construction sector in Kenya declined and the overall demand for cement dropped by about 7.8%.

The Tanzanian cement industry was also operating in a very challenging environment. The Tanzania government banned coal imports and this led to significant impact on production at the Tanga clinker plant. Production of coal in Tanzania is located in Songea, about 1400 kilometers away from the Tanga Clinker plant and logistics planning was a major challenge for the Company. In addition, new cement players started operations in Southern Tanzania who increased capacity and the overall cement supply was significantly higher than demand. In such a competitive market, some of the manufacturers used a price reduction strategy in an attempt to maintain or increase sales and this resulted in cement prices falling by more than 30% in Tanzania. The net impact was that the Group performance was impacted by coal in terms of capacity utilization and price in terms of profitability. The Group continued to operate in selected market segments to ensure market presence and market stability.

## Sale of Non-Cement Business

In 2016, a strategic review was carried out and Board decided to sell the entire Non Cement Businesses of ARM in order to focus on and grow the cement business.

On 7 September 2017, the Company announced that an agreement had been executed with Omya and PHL Mauritius, subject to shareholders' approval and approvals by CMA and the Competition Authority of Kenya, to sell a 100 per cent of the issued share capital of Mavuno to Omya and PHL Mauritius after completion of the transfer of ARM's industrial minerals, fertilisers business, mining business and silicates business to Mavuno

## CHAIRMANS STATEMENT (Continued)

Fertilizers Limited and its subsidiaries for sixteen million USD. On 22nd January 2018 an EGM was held where this transaction was approved by you. We expect this transaction to be completed in the third quarter of 2018. The expected proceeds from this transaction will be applied towards repayment of outstanding debt of the Company.

### Changes in the Board

The Board is in the process of being strengthened to bring in more financial and turnaround expertise. Accordingly CDC nominated Ms Sofia Bianchi and Mr Rohit Anand, who bring in substantial experience in turnaround situations and financial restructuring in emerging markets. In addition, Mr Konstantin Makarov was appointed to bring on board his experience in Merger and Acquisitions.

### Outlook 2018

The Kenyan cement market is expected to grow driven by the evidenced stability of the Government and investment in infrastructure and housing. The power supply in Kenya has been stable and volumes as well as prices have stabilized on the back of growing markets.

The Group has engaged with the Tanzania Government and other stake holders to resolve the coal situation so as to improve availability. The Coal production at the existing mine and the supply position has improved. In the meanwhile, the prices have firmed up and stabilized and demand has started growing driven mainly by the investments in the infrastructure segment and the construction of the new SGR. The Group has started supplying clinker to several cement manufacturers in Tanzania, Kenya, Rwanda, Burundi and DRC. The Group hopes to significantly improve the capacity utilization in Tanzania this year.

The Directors have embarked on a financial restructuring plan of the Group which includes equity injection and replacement of the expensive short-term loans with long-term loan facilities.

### Environment, Safety and Governance

ARM continues to improve standards in areas such as energy efficiency, health and safety and its engagement with local communities, in particular, supporting the Groups' excellent provision of health, education and environmental services to local communities through the Rhino Cement Foundation.

### Ethical Business and Anti Corruption Policy

The Board and the Group are committed to observing the best practices. The ethics policy is based on 4 pillars which are as under

1. Conducting business in an honest and ethical manner.
2. Zero tolerance to bribery and corruption
3. Acting fairly and with Integrity in all our business dealings
4. Enforcing effective systems to counter bribery.

The Group is also undertaking a policy review to ensure that all practices are fully aligned with international best practise and the revised governance and ethics policy statement will be signed by employees at all levels. The Group has also started identifying areas which could create potential risks and has developed mechanisms to address these risks. The Group will undertake training programs to effectively implement the ethics policy throughout the company and to with all our business partners. The Group has also developed a 'straight information' policy which will allows staff to directly communicate confidentially to the Board and/or the MD, on non-compliance with the Ethics policy.

### Shareholder Value and Share Performance

The Board is focused on the debt restructure and working with the DFI who has offered us the long term package. This will allow the Company to increase the tenure and reduce the cost of finance. The long term facility will provide the optimum capital structure to strengthen the operations and come back to profitability.

## CHAIRMANS STATEMENT (Continued)

I take this opportunity to thank management and all our employees for their perseverance and efforts during the difficult operating conditions and their unwavering commitment to the vision of the Group.

I also acknowledge the guidance and support of my Boards in Kenya and in Tanzania for their wise counsel remains to your Group's progress.

Sincerely,

Eng. Wilfred Murungi

# MANAGING DIRECTOR'S STATEMENT

2017 has been the most difficult year for the Company in the past 2 decades. The challenges we have faced were a combination of operational, market, political and regulatory environment, and as a result financial challenges as well.

## Kenya

In Kenya for the first time in the last 2 decades, the cement market and the construction sector declined in 2017. The GDP growth rate declined from 5.9% in the previous year to 4.9% during the year. The primary reason was the extended election season, from July to early December. During this period economic activity slowed down, investor sentiment in the construction sector was cautious, and demand for cement subdued. December being a festive month is generally low in sales and hence the markets virtually saw a full half year of slow demand. This impacted not only sales but also the circulation of money in the market. To ensure that volumes did not drop, many competitors resorted to price discounting and increased credit terms as market share retention and sales strategy. The net impact on the industry, and on the Company, was a combination of reduced prices, lower volume sales and a higher credit cycle. This trend continued into the 1st quarter of 2018, and impacting margins and cash cycle.

Cement consumption is growing again with renewed commitment by the Government to investment in housing and infrastructure. The increased demand has also resulted in improved cement prices and price stability. The credit cycles have started reducing and we believe that all these factors will contribute to improved performance going forward.

## Tanzania

Tanzania continued to be a loss maker for the Group in 2017. The ban on coal imports was the single largest factor which impacted the company's performance in 2017. The 4,000 tons per day Tanga clinker plant requires 500 tons of coal per day. Trucking this from the newly established coal mine, 1,300 kms from Tanga proved to be a tremendous challenge, particularly as local supplies were also hampered due poor infrastructure and lack of heavy duty haulage trucks at the coal mines. The clinker plant therefore operated intermittently, at about 35% of the annual capacity of 1,200,000 tons per year – depriving much needed clinker for the Company's grinding plant in Athi River. The coal supply began to improve late in 2017, but by this time, the price wars in the Tanzania market had taken an unprecedented turn. The price war brought on by severe excess capacity in the Tanzania market, in a year when economic growth and cement consumption remained flat, so prices plunge by mid year to below manufacturing cost. Cement prices in Dar es Salaam declined from an average of \$90 a ton in 2016 to around \$60 a ton by July 2017. The impact of these prices was significant on the performance of all the cement companies in Tanzania. The trend turned the last quarter of the year as cement consumption began growing at around 11% from the previous year, and prices have since firmed up to earlier levels, around \$90 per ton. However, the damage done in the early part of 2017 has impacted the Group balance sheet, having depleted working capital and led to increased debt.

The Government of Tanzania has been championing local industrialization in a recent emphasis on private sector led economic growth. Clinker imports were banned to allow excess clinker capacity to be consumed locally by independent grinding plants. This has created an opportunity for our Tanga clinker plant to sell surplus clinker to other Tanzanian and regional cement companies. Meanwhile, cement consumption is growing again at around 10%, and boosted by various infrastructure projects, most notably the SGR railway. This together with the investment in the Uganda oil pipeline and major developments in the capital city Dodoma, will ensure a growing market over the next few years.

## Financial Performance & Balance sheet Restructure

As a result of the above mentioned economic and operating conditions Group turnover declined by 32% from KES 12.8 billion in 2016 to KES 8.7 billion in 2017. The Group made a loss after tax of KES 6.5 billion for the year ending 31st-December 2017 and earnings per share consequently dropped to a negative KES 6.83 per share. Whilst our debt was reduced by KES 14 billion from new share issue to CDC Group in September 2016, we began the last quarter of 2016 with a net debt of KES 25.5 billion. In the 3 months to Dec 2016, the net debt had decreased by KES12.3 billion. We began the year 2017 with a net debt of KES 13.2 billion and net assets of KES 27.7 billion

The decline in business in 2017 had a significant impact on the balance sheet. Net debt increased by KES 1.2 billion to KES 14.4 billion as at the year end. Reduced business activity and lower cash generation during the year led to a reduction in net working capital.

During the year, with increased debt levels, and increase in interest charges due to delays in debt service resulted in increased interest burden on the company. Interest burden during 2017 was therefore significantly higher than budgeted.

## MANAGING DIRECTOR'S STATEMENT (Continued)

Reduced cashflow had a spiralling effect on the company's available working capital and ability to operate to optimum capacity further contributing to the poor performance during the year.

### Balance Sheet Restructure

The company recognised, early in the year, the impending deterioration in cashflows and its impact on the balance sheet. In April 2017, the Board requested IFC to provide a long term debt and equity structure solution. Whilst IFC considered supporting the company with a \$120m debt refinancing over a 10 year term. The ideal structure that was recommended by IFC required an equity injection of around \$50m, a \$90m term loan with a 3 year moratorium, and further working capital lines of upto \$30m.

The Board and the management have taken several steps to recapitalize the company. The injection of new equity and conversion of short term debt into long term debt will ensure that the company will once again have the capacity to run its existing operations to capacity and develop its raw material resources into cement assets going forward. We are confident that the measures taken will restore the financial health of the company and place it on a high growth path once again.

Sincerely,

Pradeep Paunrana

## DIRECTORS PROFILES

### Eng. Wilfred Murungi, Chairman, Non-Executive Director

Eng. Murungi is a qualified electrical engineer. He started his career with Kenya Power and Lighting Company Limited before joining British American Tobacco (“BAT”) where he held the position of Technical Director. In 1985 he started his own company Mastermind Tobacco. Eng. Murungi serves on the Boards of Athi River Power Company Limited, Greenlands Agro producers Limited, NGM Company Limited, Continental Tobacco Group of Companies in Malawi, Uganda, Tanzania and Sudan, Nanyuki Ranching Limited, Ozzbeco Breweries (K) Ltd, Remu Limited (Microfinance Bank), Mitithiru Limited and Tobacco Commodities (Canada) Inc.

He is the Chairman of the Chuka University College Council, and also a member of the National Economic and Social Council. He has also served on the Boards of Kenya Association of Manufacturers, Kenya Bureau of Standards and the Energy Regulatory Board. He was awarded the EBS (Elder of Burning Spear) decoration by the President of the Republic of Kenya in 2005. Eng. Murungi is on the Board of ARM, Mavuno Fertilizers Limited, ARM Tanzania Limited and Maweni Limestone Limited. He Chairs the Remuneration and Nomination Committee and is also a member of the Audit Committee of ARM.

### Mr. Pradeep H Paurana, Group Managing Director

Mr. Paurana joined ARM in 1984 after graduating with an MBA from NYU Stern School of Business. Pradeep’s main academic interest at NYU and earlier at Manchester University was financial modelling and cash flow accounting. Mr. Paurana was able to combine his business education with the entrepreneurial passion and energy of his late father in growing the Company. Over the years, Mr. Paurana built a team of professionals with a deep culture of transparency, diligence, and innovation to execute the vision of transforming ARM, a small producer of agricultural lime into a publicly listed cement company.

Mr. Paurana plays an active role in several policy and advocacy institutions, and has chaired and participated in task forces in the energy, environment and agriculture sectors. He is chairman of the Kenya Association of Manufacturers, a Trustee of the Tree Biotechnology Trust, Chairman of the Nairobi Greenline Trust and member of several charitable organizations. In 2010, Mr. Paurana was awarded the Africa Business Leader of Innovation by Africa Investor.

### Mr. Surendra Bhatia, Deputy Managing Director

Mr. Bhatia holds a degree in electrical engineering from South Gujarat University and an MMS from Bombay University in India. He graduated at the top of his Master’s Degree class at Bombay University. Mr. Bhatia has attended many executive education programmes, including an Executive program in Leadership at the Harvard Business School. Mr. Bhatia started his management career with TATA Group, India’s largest manufacturing Group, and subsequently developed his professional career with the Bhawan Group in the Middle East and Africa.

He joined the ARM Board in the year 2000, bringing a wealth of experience in the field of strategic and corporate planning, and has been instrumental in building the company’s core business of cement manufacturing, from technical design and evaluation of plants and machinery, to strengthening the company’s presence in key markets and implementing best business practices in the company operations. As Deputy Managing Director, Mr. Bhatia shares a major responsibility with the Group Managing Director in articulating and delivering the Company’s strategic plans, and growing long term shareholder value. He represents the Company at many national and regional forums, and at investor conferences in Africa, Europe and North America. Mr. Bhatia is a trustee of several charitable organizations, and actively participates in community and cultural activities.

### Sofia Bianchi, Non-Executive Director

From 2007 to 2016 Sofia worked at Blue Crest Capital, one of the Europe’s largest hedge funds, she was head of Special Situations.

Sofia brings a wealth of experience in investment roles over the years and her experience covers multiple sectors from mining to telecommunications. She also has significant experience in Board positions for an equally diverse group of companies over the last nine years. Sofia has an MBA from The Wharton School of Business.

### Rohit Anand, Non-Executive Director

Rohit has over 11 years of experience investing in emerging markets across Asia and Africa. He has invested in sectors

across infrastructure, telecoms, manufacturing, logistics and healthcare. He is currently responsible for the Industrial Businesses equity investments team covering manufacturing, real estate and logistics across South Asia and Africa.

Prior to joining CDC, Rohit worked with IDFC Private Equity in Mumbai where he was part of a team managing \$1.3bn focused on growth capital investments in infrastructure in India. Rohit started his career with Ernst & Young's corporate finance team in India.

Rohit is a CFA charter holder, holds an MBA from Indian Institute of Management and a Bachelors degree in Electronics and Communication Engineering from University of Delhi.

**Mr. Leonard Mususa, Non-Executive Director**

Mr. Mususa is Fellow of the Association of Chartered Certified Accountants and Fellow Certified Public Accountant (Tanzania) He has over 35 years' experience at PricewaterhouseCoopers, predominantly in Tanzania, where, from 2000 until his retirement in 2014, he was the Country Senior Partner. He was the engagement partner for many top tier companies in Tanzania in the energy and mining sector, banking, insurance, agriculture, telecommunications and manufacturing. His position involved cross-border African assignments, and also regional roles, including most recently Head of Risk, Independence and Quality for the East African Region. He holds a number of other board memberships including National Media Group Limited, National Microfinance Bank Plc, Reliance Insurance Tanzania Limited, Tanzania Breweries Limited and the CEO Roundtable in Tanzania.

**Konstantin Makarov, Non-Executive Director**

Konstantin has over fifteen years of experience in the financial markets in general and emerging markets in particular. He brings a holistic approach in addressing challenges facing companies operating in the emerging and frontier economies. He is responsible for launch of African practice and oversight of all sub-Saharan African and South East Asian transactions at StratLink Africa.

Previously, he was directly responsible for market entry of US and CIS based companies into sub-Saharan Africa and has been involved in a wide scope of activity focusing on emerging economies in Africa and South East Asia. He holds a Master of Science in Risk Management from Stern School of Business, New York University and Amsterdam Institute of Finance and a Bachelor of Science in Marketing from University of Massachusetts, Amherst.

**John Ngumi, Non-Executive Director**

John is one of Kenya's pioneer investment bankers. After graduating with a BA 1st Class Honours degree in Philosophy, Politics & Economics from the University of Oxford, England, he started on his banking career at National Westminster Bank, London, and has since worked variously for Grindlays Bank, Barclays Bank, Citibank and CfC Stanbic Bank/Standard Bank of South Africa. In between he also co-founded one of Africa's first indigenous investment banking groups, Loita Capital Partners. John left CfC Stanbic Bank last year upon his appointment by President Uhuru Kenyatta as non executive chair of the Board of Directors, Kenya Pipeline Company Limited

**Aliya Shariff, Non-Executive Director**

Aliya is a Director of Investments at Kagiso Tiso Holdings a leading African investment holding company based in South Africa. She leads the firm's international (ex-South Africa) investments. Over her career, Aliya has lived and worked on three continents, and led investments across a variety of sectors including financial services, healthcare, industrials, and infrastructure. Prior to her current role, Aliya worked with Africa Finance Corporation based in Lagos, and as a strategy consultant in Rwanda and the Caribbean. She is originally from Canada, and started her career in corporate research and advisory with CEB Inc (now Gartner) in Washington, DC. Aliya holds a Bachelor of Arts from Princeton University and a Master's in Business Administration from the Harvard Business School.

# REPORT OF THE DIRECTORS

The Directors present their report together with the audited consolidated and company financial statements of ARM Cement Plc (“the company”) and its subsidiaries (together, “the Group”) for the year ended 31 December 2017, which disclose the state of their financial affairs.

## CHANGE OF COMPANY'S NAME

In compliance with the Kenyan Companies Act, 2015, ARM Cement Limited changed its name to ARM Cement Plc in the year under review.

## PRINCIPAL ACTIVITIES

The principal activities of the company and its subsidiaries are the manufacture and sale of cement, mining and processing of industrial minerals and chemicals, trading in other building products and the sale of fertilisers.

## GROUP FINANCIAL RESULTS

	2017 Sh'000	2016 Sh'000
Loss before taxation	(7,521,366)	(3,978,831)
Taxation credit	971,554	1,178,656
	-----	-----
<b>Loss for the year transferred to retained earnings</b>	<b>(6,549,812)</b>	<b>(2,800,175)</b>
	=====	=====

## DIVIDENDS

The Directors do not propose the payment of a dividend in respect of the year ended 31 December 2017 (2016 - nil).

## DIRECTORS

The present Directors are shown on page v. Ms A F Shariff and Ms N Paurana were appointed as Directors on 17 June 2017. Ms N Paurana is an alternate director to Mr P H Paurana. Mr A Alli resigned from the Board on 17 June 2017.

## SECRETARY

Mr Ramesh Vora resigned as Company Secretary on 27 April 2018. In his place, the Board appointed Mr. J. Maonga effective 27 May 2018.

## BUSINESS REVIEW

### Economic & Business Review

Financial year 2017 has been an extremely challenging for the Group, notably due to decreased demand for cement in Kenya due to the impact of the prolonged electioneering period in Kenya as well as increased challenges in Tanzania. Whilst electricity supply normalised, the Tanzania government's ban on importation of coal at the end of 2016, in favour of local procurement, not only increased manufacturing cost, but also impacted on optimal capacity utilization of the clinker plant at Tanga due to chronic undersupply of coal. This is further discussed in detail below.

### Kenya

The economy in Kenya grew by 4.9% in 2017, compared to 5.9% growth in 2016. The slowdown in the performance of the economy was partly attributable to uncertainty associated with the prolonged electioneering period coupled with adverse effects of weather conditions. The construction sector in Kenya also declined with volumes dropping in 2017 by

### BUSINESS REVIEW (Continued)

8.2% from 6.7 million in 2016 to 6.2 million in 2017 and consumption dropping by 8.2% from 6.3 million tonnes in 2016 to 5.7 million tonnes in 2017.

The demand for cement was subdued due to the negative impact of the elections on the economy. The first election being held in August and the re-run in November had a tremendous impact on demand especially in the second half of the year. The liquidity in the Kenyan market was tight and the excess capacity in the market resulted in price pressures with every manufacturer embarking on price strategy to maintain volumes.

### Tanzania

Tanzania's cement industry has been operating in a very challenging environment. The demand in 2017 remained the same as in the previous year with only a marginal growth. Capacity in Tanzania increased significantly with a new cement player entering the market and the commissioning of a clinker plant in Mtwara in the previous year. Two existing players also increased their capacity resulting in a significant over-capacity in the market. Competition between the manufacturers for market share has resulted in cement prices falling significantly to a low of around \$60 per ton in the previous year. This price prevailed for the better part of the current year but the prices started to stabilize at the last quarter of the year.

The electricity situation improved significantly in Tanzania and did help in operating the Tanga clinker plant more consistently. However the increase of production at Tanga clinker plant was constrained by the coal import ban which was effected by the Government of Tanzania.

The production of coal in Tanzania is in Songea which is about 1,400 kilometers away from the Tanga clinker plant and the logistics planning is a major exercise undertaken by the company. Further, the local coal supplier's capacity is unable to meet the demand for coal in Tanzania. The Company has been engaging with the Government and the other stakeholders in Tanzania and the Government of Tanzania has initiated several actions which will hopefully resolve the coal situation in Tanzania fully during this year. The company continues to operate in selected market segments in Tanzania and to operate its plant at a reasonable level of capacity utilization. The strategy going forward is to increase capacity utilization without adding to the price volatility of the Tanzanian market and leverage our strength in terms of quality and capacity.

### Financial Performance

Group Turnover for 2017 was 32% lower than the previous year, primarily due to low demand in Kenya as a result of the prolonged electioneering period and increased competition resulting in low cement selling prices in Tanzania, and constrained production due to coal unavailability in Tanga.

During the year the Group made a loss after tax of Sh 6.7 billion. The Interest burden reduced substantially in 2017, at Sh 1.7 billion, down by nearly Sh 1.3 billion over the previous year.

The company's cash flow was strained throughout the year due to its high debt burden.

Total assets of the company remained at KES 43 billion shillings as the company did not invest in any further new capital projects. Cash generated from operations before working capital in 2017 stood at Sh -2.5 billion.

### Non-Cement Divisions

In order to remain focused on the cement business, the Company has decided to exit all of our non-cement businesses. After going through a due selection process, the Company has entered into an agreement for the sale of the non-cement businesses and assets and liabilities to a strategic investor. The sale was approved in the EGM held in the first quarter on this year and we expect to close the sale during the second quarter of this year.

### Risk Management

The Group as a business will always face Risks which could impact the performance of the Group in short term or long term, if timely measures for mitigation of the risks are not taken. The Directors always review the risks facing the business including Strategic Risks, Market Risks, Operational Risks, Financial Risks, and Compliance Risks. There have been some challenges in these areas which have been faced by the Group. The Change of regulations with respect to Coal in Tanzania has impacted the performance in Tanzania. The Group has coordinated with the stakeholders in Tanzania to increase coal production at the existing coal mine and worked towards developing new sources of coal supply. The overcapacity in the cement market in Tanzania has impacted the prices. The new entrants adopted the price entry strategy and this impacted the profitability of the business in Tanzania and the Liquidity position of the Group. The Group has embarked on

## REPORT OF THE DIRECTORS (Continued)

### BUSINESS REVIEW (Continued)

a financial restructure program which should strengthen the Groups balance sheet to manage such risks. The Group has developed an elaborate risk management program to manage the current and future risks that threaten the business.

#### Human Capital

Our employees are a key part of our success and we believe in providing an environment where we have the opportunity to develop and challenge ourselves. We believe in allowing every member of the team to be part of our innovation process, contribute to our business and build a strong human capital base in the Company.

The Company's main goal is to deliver excellence in product quality and customer service. To ensure quality and plant efficiencies are maintained, the Company has built a work culture around the notion of supporting one another. This support has been expressed through targeted training, skill development programs and community service. The employee statistics are included below:

	2017	2016
Directors	3	3
Key management	8	9
Permanent employees	1,075	1,172
Casuals	877	1,571
	<u>1,963</u>	<u>2,755</u>

#### Environment, Safety and Governance

The Company places a strong emphasis on its environment, health and safety programmes and is improving standards in areas such as energy efficiency, health and safety and its engagement with local communities, in particular supporting the company's excellent provision of health, education and environmental services to local communities through the Rhino Cement Foundation.

#### Business Integrity and Compliance

Over the years, ARM has continued to enhance its audit, risk and compliance practices. In light of the changing business and legal environment, the Board of Directors, through the Executive Management team, Compliance and Internal Audit functions, and with the assistance of an external consultant, conducted a review of our business operations which will culminate in a robust business integrity and compliance programme consistent with laws and regulations applicable to ARM and its group of companies, the Code of Ethics for Business in Kenya and global standards.

#### Corporate Governance Practices

The Company is fully committed to the principles of transparency, integrity and accountability. The Board takes overall responsibility for the Group and is ultimately accountable to all stakeholders for ensuring that the Group's business is conducted in accordance with high standards of corporate governance.

The Board is taking steps to ensure that the Group adopts and remains compliant with the Capital Markets Authority's Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 ("Code"). To this end, the Board has oversight of implementation of the Code and, in particular, its mandatory requirements and receives regular updates on implementation status.

The Board will continue to review and enhance the Group's corporate governance framework with a view of ensuring its relevance in meeting future challenges whilst discharging its responsibilities to enhance shareholder value, long term sustainable business growth and protect the interests of its stakeholders.

#### Outlook 2018

2018 is a year of financial and operational consolidation for the Company. The management Team has been significantly strengthened and is confidently executing a plan for renewed profitability and growth as a leading regional cement company. This includes a deep focus on managing cost chains, improving operational efficiencies, strengthening distribution channels and developing new routes to markets and customer service.

Whilst the Tanzania market has been over-supplied and overly competitive, the Tanzania government has embarked on a major infrastructure development programme, including the high speed Dar es Salaam - Morogoro SGR electrified railway, which is likely to spur economic growth and demand for cement.

### BUSINESS REVIEW (Continued)

As part of the profitability improvement plan, the company will make better use of its strategic location in Tanga to supply clinker to Kenya and Rwanda, and cement in the central and northern Tanzania markets. The company believes that, in the medium term, Tanzania's cement consumption will return to the double-digit growth rate seen over the past 15 years, led by housing and infrastructure sectors.

The company's balance sheet remains an area of focus. The company intends to reduce further current debt levels and has initiated a process to restructure the balance sheet with view to reducing the short term nature of the debt. The company is in advanced stages of discussions with development finance institutions in this regard.

The Board of Directors believes that this will strengthen the financial position of the company and lay the foundation for the continued growth of the cement business in the region.

### DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

### AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of the Kenyan Companies Act. The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

### BY ORDER OF THE BOARD

Secretary

Nairobi

30 May 2018

# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

ARM Cement Plc is fully committed to the principles of transparency, integrity and accountability. The Board takes overall responsibility for the group and ultimately accountable to all stakeholders for ensuring that the Group's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Group are the observance of shareholders' interest, efficient practices, significant investment decisions, identifying key risk areas and reviewing key management performance. The directors also confirm that they have complied with the corporate governance guidelines as issued by Capital Market Authority (CMA).

## SEPARATION OF RESPONSIBILITIES

The roles and responsibilities of the Board of Directors and those of management are clearly set out. The Board of Directors takes the overall responsibility of the Group. It exercises leadership and sound judgement in directing the Group to achieve sustainable growth and acts in the best interests of the shareholders. The Group has a schedule of matters that are reserved for the Board of Directors. Further, the role of the chair and the Group Managing Director are separate in line with best practice. The board meets regularly to review the business performance.

## BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page v.

The Board is responsible for formulating Group policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Group and implements corporate governance policies of the Group.

The Board comprises executive and non-executive Directors. The Directors have diverse skills and are drawn from various sectors of the economy. The Board Chairman and Chairmen of Board committees are non-executive Directors.

The Board meets regularly, at least four times annually. Notices of Board meetings are issued in advance in accordance with the company's Statutes and General By-Laws and are distributed together with the agenda and Board papers to all the Directors beforehand.

The Company Secretary is always available to the Board of Directors.

### a) Directors' Emoluments

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in the directors' remuneration report.

### b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the company and its Directors or Management except those disclosed in note 26 to the financial statements for the year ended 31 December 2017.

## ROLES AND RESPONSIBILITIES

### Chairman of the Board

The Chairman of the Board is responsible for the operation, leadership and governance of the Board, ensuring the Board is efficient, focused and operates as a unit. He is the facilitator of the Board and shareholders' meetings ensuring flow of opinion and leading discussions to ensure robust and constructive challenge and debate among those present.

### Group Managing Director

The Group Managing Director is responsible for the day to day management of the Group including implementation of policies and strategy and ensuring good balance of stakeholders is maintained in the Group. Board authority delegated to management is through the Group Managing Director, who is supported in this role by the executive committee.

### Company Secretary

The Company Secretary provides the Board of Directors with detailed guidance on the discharge of their duties in terms of legislation and regulatory requirements of relevant jurisdictions. The company secretary is the central source of information and advice to the Board and within the Group on matters of good governance and business ethics ensuring that the proceedings and affairs of the Board, the company itself and its shareholders are properly administered.

### BOARD TRAINING

Regular board trainings are held to ensure that the Board remains up to date on new legislation, best practice, changing risks together with the ever changing operating and business environment.

### BOARD COMMITTEES

The Board has in place three main committees, namely Audit and Risk Committee, Nomination, Remuneration & Human Resources (HR) Committee and Environment and Governance committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the Group's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the Group is delegated to the Managing Director.

#### a) Audit and Risk Committee

The Audit Committee is chaired by a non-executive Director, Mr. L. Mususa and meets at least three times a year. Other members are non-executive Directors, Mr. W. Murungi and Mr K Gordhan. The responsibilities of this committee are analysing and overseeing business risk management, review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors and also monitors implementation of audit recommendations, on behalf of the Board.

#### b) Nomination, Remuneration & HR committee.

The Nomination, Remuneration & HR committee is chaired by a non-executive Director, Mr. W. Murungi. The other members are non-executive directors of the Board, Mr. R. Ashley, K.Gordhan and Mr. J.Ngumi. The Committee meets at least two times a year and is responsible for assisting in, and making recommendations on, the formulation by the Board and review of the general administrative and procurement policies of the Company and the Company's Policies on Human Resource requirements.

#### c) Environmental Social and Governance Committee

The Environmental Social and Governance Committee is chaired by a non-executive Director, Mr. J. Ngumi. The other members are one non-executive director of the Board, Mr. K.Meijer, and two Executive Directors, Mr. P. Paurana and Mr S. Bhatia. The Committee meets at least four times a year and is responsible for assisting in, and making recommendations on environmental social and governance issues.

### CONFLICT OF INTEREST

Business transactions with all parties, directors or their related parties are carried out at arm's length. The Directors are under fiduciary duty to act honestly and in the best interest of the Group. The Directors have submitted their annual declaration of interests which include:

- An acknowledgment that should it come to his/her attention that a matter concerning the Group may result in a conflict of interest, the Director is obliged to declare the same and will exclude himself/herself from any discussion over the matter in question.
- An acknowledgement that should the director be appointed to the board or acquire a significant interest in business competing with the Group, the director will be obliged to offer his/her resignation.
- An acknowledgement that the forgoing also applies to interests of the immediate family members of the directors.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

Business transactions with the directors or their related parties are disclosed in note 26 to the consolidated and company financial statements for the year ended 31 December 2017.

### **BUSINESS ETHICS**

The company conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

Management, in consultation with the Board Committees, is responsible for the company's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by senior management and the Board. This process is also reviewed by the Internal Auditor. The internal Auditor reports administratively to the Managing Director and functionally to the Audit and Risk Committee. As part of the independence required by the Group's governance policies, the Internal Audit annual work program and budget are separately approved by the Audit and Risk Committee, which also reviews and approves audit reports and internal audit annual report. The company has put in place a chain of controls which include, but are not limited to, an annual budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board and a review of quarterly financial and operating information by Management and the Board.

### **RESPONSIBILITY FOR STAFF WELFARE AND TRAINING**

As part of its policy, the company recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The company assists its staff to undertake continuous professional and development training programmes to fulfil their potential. This process is appropriately managed to align staff development with the company's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

### **COMPLIANCE**

The Group operates within the requirements of its Statutes and General By-Laws and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its consolidated and company financial statements in accordance with International Financial Reporting Standards (IFRS).

### **COMMUNICATION**

The Group subscribes to the principles of objective, honest, prompt, balanced, relevant and clear communication of its strategy and activities. To this end, the Group continues to promote dialogue with shareholders, media and investors. Shareholders are encouraged to attend the Annual General Meeting which provides the shareholders with the opportunity to question the Board.

## CORPORATE GOVERNANCE STATEMENT (Continued)

### 2017 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

#### 2017 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Audit & Risk Comm	Hr,Nom & Rem Comm	Esg Comm
Mr. W. Murungi	Non-Executive	Chairman of the Board Nomination & Remuneration Committee	Membership	√	√	√	n/a
			Attendance	14/16	3/3	2/2	n/a
Mr. R. Ashley	Executive Director	Executive Director & Chairman Investments and Strategy Committee	Membership	√	√	2/2	n/a
			Attendance	16/16	2/3	n/a	n/a
Mr. P. H. Paunrana	Executive Director	Managing Director	Membership	√	n/a	n/a	√
			Attendance	16/16	n/a	n/a	1/1
Mr. S. L. Bhatia	Executive Director	Deputy Managing Director	Membership	√	n/a	n/a	√
			Attendance	16/16	n/a	n/a	1/1
Mr. A. Alli	Non-Executive	Director	Membership	√	n/a	n/a	n/a
			Attendance	NIL	n/a	n/a	n/a
Mr. L. Mususa	Non-Executive	Chairman Audit & Risk Committee	Membership	√	√	n/a	n/a
			Attendance	11/16	3/3	n/a	n/a
Mr. K. P. Pieter Meijer	Non-Executive	Chairman Tech Comm.	Membership	√	n/a	n/a	√
			Attendance	15/16	n/a	n/a	1/1
Mr. J. Ngumi	Non-Executive	Chairman ESG Comm.	Membership	√	n/a	√	√
			Attendance	13/16	n/a	2/2	1/1
Mr. K. M. Gordhan	Non-Executive	Director	Membership	√	√	√	n/a
			Attendance	14/16	3/3	2/2	n/a
Ms A F Shariff	Non-Executive	Director	Membership	√	n/a	n/a	n/a
			Attendance	10/16	n/a	n/a	n/a
Mr. S. Mukherjee	Non-Executive	Alt. to K. M. Gordhan	Membership	√	√	√	n/a
			Attendance	2/16	NIL	n/a	n/a

√ Member of respective committee

Where a Director did not attend a Board or Board Committee meeting, an acceptable apology was received by the Chairman well in advance of the scheduled meeting.

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Directors' shareholding

The following directors have a direct stake in the Company as follows;

Director	Total Shares	% Shareholding
P H Paurana	89,680,000	9.34%

The following directors have an indirect stake in the Company as follows;

Director	Investment Vehicle	Total Shares	% Shareholding
P H Paurana	Amanat Investments Limited	137,481,245	14.32%
Wilfred Murungi	Tannel World Limited	5,834,310	0.61%

### SHAREHOLDING PROFILES

The company, through its Registrar, files returns regularly in line with Capital Markets Authority and the Nairobi Securities Exchange under the listing regulations on transactions related to shareholders.

#### a) Principal Shareholders

The top 10 major shareholders, based on the company's share register as at 31 December 2017, are as follows:

Name	No of Shares	%
Standard Chartered Kenya Nominees A/C Ke002883	353,665,200	36.84
Amanat Investments Limited	137,481,245	14.32
Athi River Mining Employee Share Ownership Plan	131,435,335	13.69
Paurana Pradeep Harjivandas	89,680,000	9.34
Standard Chartered Nominees Ac Ke15615	21,757,541	2.27
SCB A/C Pan African Unit Linked Fd	17,676,409	1.84
Stanbic Nominees Ltd A/C Nr1030820	14,945,300	1.56
Standard Chartered Nominees Non-Resident A/C 9866	14,249,900	1.48
Stanbic Nominees Limited A/C R57601	7,958,800	0.83
Tannel World Limited	5,834,310	0.61
Others (6,347 shareholders)	165,256,160	17.22
	-----	-----
<b>Total</b>	<b>959,940,200</b>	<b>100</b>
	=====	=====

#### b) Distribution Schedule

Category	No. of Shareholders	No. of Shares	%
Less than 500	1,931	489,424	0.05
501-5,000	2,272	5,232,960	0.54
5001-10,000	1,210	8,237,318	0.86
10,0001-100,000	705	21,544,504	2.24
100,001 - 1,000,000	192	62,068,052	6.47
Over 1,000,000	47	862,367,942	89.84
	-----	-----	-----
<b>Total</b>	<b>6,357</b>	<b>959,940,200</b>	<b>100</b>
	=====	=====	=====

Wilfred Murungi

Chairman

30 May 2018

Surendra Bhatia

Deputy Managing Director

# DIRECTORS REMUNERATION REPORT

INFORMATION NOT SUBJECT TO AUDIT

ARM Cement Plc presents the Director's Remuneration report for the year ended 31 December, 2017 in line with The Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 which provides guidelines on Director's remuneration and in line with the provisions of The Companies Act, 2015.

## Executive Directors

Executive Directors' remuneration is in accordance with the staff remuneration policy and approved by the Nominations, Remuneration and Human Resources Committee. This committee is made up of non-executive directors who review the Company's Policies on Human Resource requirements. In a situation where an executive director is part of this committee, their remuneration is discussed and approved in their absence.

As per the staff remuneration policy, the remuneration package comprises a basic salary, gratuity and other benefits designed to recognize skills, experience and attention required to run the Company. The Executive Directors are also entitled to performance based remuneration in form of a share option plan. See further details below.

## Non-Executive Directors

Non-Executive Directors receive fees in recognition of their contribution to the Company for Board and Committee meetings. The fees per director vary and are agreed upon at the date of appointment. They are approved by Shareholders at Annual General Meetings and are payable one month in arrears. The Non-Executive Directors do not receive any performance-based remuneration. No pension contributions are payable on their emoluments. The Company caters for travel and accommodation expenses related to attendance of the Board meetings.

## Employee share option plan

The Company established a share option scheme for the purpose of encouraging or facilitating the holding of shares in the Company by or for the benefit of employees of the Company and its subsidiaries. The options are held in trust and will be granted on fulfilment of certain conditions outlined in the ESOP deed.

The vesting conditions are summarised follows;

Vesting Conditions;	Status	ESOP Shares
Recognition of employee's contribution to the Company's growth up to the year ending 2007.  Transfer to the beneficiaries will be done upon receiving payment.	Vested, allocated but not transferred to the beneficiaries.	20,435,335
Entitlement to shares subject to completion of Tanzania plants.  To be exercised at the employee's discretion	Vested, allocated but not exercised	21,000,000
To be allotted when the employees entitled to the options meet the stipulated conditions and part of the investment agreement during the CDC equity investment.	Not vested	90,000,000
<b>Total ESOP Shares</b>		<b>131,435,335</b>

## DIRECTORS RENUMERATION REPORT (Continued)

INFORMATION NOT SUBJECT TO AUDIT (Continued)

The table below presents the interest of Directors in the share option scheme as at 31 December 2017 and 31 December 2016;

Director	Options Vested, allocated but not transferred	Options vested, allocated but not exercised	Options not vested
P H Paurana	15,529,100	16,000,000	55,000,000
S L Bhatia	4,100,000	5,000,000	5,000,000
N Paurana	-	-	10,000,000
	<b>19,629,100</b>	<b>21,000,000</b>	<b>70,000,000</b>

### Directors' Contract of service

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

#### Executive Directors

	Start of Contract	Duration
Pradeep Harjivandas Paurana	1 January 2017	3 year contract
Surendra L. Bhatia	1 September 2017	3 year contract
Rick Ashley	1 October 2017	6 months contract

#### Non-executive Directors

The non-executive directors are not under contract but are subject to retirement by rotation in Annual General Meeting (AGM)

	Year of 1st Appointment
Wilfred Murungi (Chairman)	30 May 1994
Rick Ashley*	26 June 2009
Klaas P Meijer	25 August 2016
Ketso Gordhan	25 August 2016
John Ngumi	25 August 2016
Andrew Alli**	01 October 2012
Leonard Mususa	17 July 2014
A F Shariff	17 June 2017
S Mukherjee	01 November 2016

\*Resigned as non-executive Director on September 2017

\*\*Resigned as non-executive Director on 17 June 2017

## DIRECTORS REMUNERATION REPORT (Continued)

### INFORMATION SUBJECT TO AUDIT

The remuneration paid to Directors in the period under review and the prior is summarised in the tables below.

#### 31 December 2017

Director	Salary Sh '000	Allowances* Sh '000	Fees Sh '000	Total Sh '000	Amounts payable as at end of the year Shs '000
P H Paunrana	94,050	20,728	-	114,778	20,913
S L Bhatia**	67,606	5,665	-	73,271	26,438
R Ashley***	9,291	-	2,800	12,091	-
N Paunrana	9,841	-	-	9,841	-
W Murungi	-	-	1,400	1,400	-
K P P Meijer	-	-	1,642	1,642	-
K Gordhan	-	-	1,642	1,642	-
J Ngumi	-	-	1,642	1,642	-
L Mususa	-	-	2,222	2,222	-
D Ndonge****	-	-	700	700	-
A F Shariff	-	-	821	821	-
	-----	-----	-----	-----	-----
<b>Total</b>	<b>180,788</b> =====	<b>26,393</b> =====	<b>12,869</b> =====	<b>220,050</b> =====	<b>47,351</b> =====

#### 31 December 2016

Director	Salary Shs '000	Allowances* Shs '000	Fees Shs '000	Total Shs '000	Amounts payable as at end of the year Shs '000
P H Paunrana	94,050	-	-	94,050	-
S L Bhatia	60,440	12,053	-	72,493	-
A Mathur	7,133	-	-	7,133	-
R Ashley	-	-	2,800	2,800	-
W Murungi	-	-	1,400	1,400	-
K P P Meijer	-	-	553	553	-
K Gordhan	-	-	553	553	-
J Ngumi	-	-	553	553	-
D Ndonge	-	-	1,400	1,400	-
L Mususa	-	-	2,238	2,238	-
M Turner	-	-	3,788	3,788	-
	-----	-----	-----	-----	-----
<b>Total</b>	<b>161,623</b> =====	<b>12,053</b> =====	<b>13,285</b> =====	<b>186,961</b> =====	<b>-</b> =====

\* The allowances relate to encashment of eligible leave days.

\*\*There was no salary increment in the year; the increase in salary to the Director relates to dollar depreciation adjustment.

\*\*\*The salary payable to Rick Ashley is in respect of services rendered in his capacity as an Executive Director following his appointment in October 2017.

\*\*\*\*Daniel Ndonge resigned as Director on 25 August 2016. The amounts accrued in the year relates to his former services as a Director in the company.

Company Secretary

Nairobi,

30 May 2018

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare the consolidated and company financial statements for each financial year that give a true and fair view of the financial position of the Company and its subsidiaries (together, the "Group) 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 maintains proper accounting records that are sufficient to show and explain the transactions of the Group and disclose, with reasonable accuracy, the financial position of the company and its subsidiaries. The directors are also responsible for safeguarding the assets of the Group, 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, 2015. 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 judgements that are reasonable in the circumstances.

Having made an assessment of the Group's ability to continue as a going concern, the directors acknowledge that the continued existence of the company as a going concern depends on continued support from the shareholders and the measures that the directors are putting in place to return the group to profitability. The directors are of the view that the group will remain a going concern for at least the next twelve months from the date of this statement.

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

Approved by the board of directors on 30th May 2018 and signed on its behalf by:

Wilfred Murungi  
Chairman

Surendra Bhatia  
Deputy Managing Director

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARM CEMENT PLC (FORMERLY ARM CEMENT LIMITED)

### Report on the consolidated and company Financial Statements

#### Disclaimer of Opinion

We were engaged to audit the consolidated and company financial statements of ARM Cement Plc (the "Company") and its subsidiaries (together the "Group"), set out on pages 19 to 74, which comprise the consolidated and company statements of financial position as at 31 December 2017, and the consolidated and company statements of profit or loss and other comprehensive income, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying consolidated and company financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and company financial statements.

#### Basis for Disclaimer of Opinion

As noted in Note 3, the consolidated and company financial statements have been prepared on the assumption that the Group and Company will be able to continue as a going concern. For the year ended 31 December 2017, the Group and Company incurred a net loss amounting to Sh. 6,549,812,000 (2016: Sh. 2,800,175,000) and Sh. 4,224,684,000 (2016: Sh. 899,805,000) respectively and, as at that date, the Group's current liabilities exceeded its current assets by Sh. 13,471,057,000 (31 December 2016: Sh 5,873,764,000) and accumulated losses amounted to Sh 2,948,977,000 (2016 – accumulated surplus of Sh 2,521,988,000).

The note states that the ability of the Group and Company to continue as a going concern is dependent on the assumption that the directors will restructure their balance sheet and loans.

We have not obtained sufficient appropriate audit evidence to support this assumption as it is premised on future events, the outcome of which are inherently uncertain. By the time of concluding the audit, we had not obtained sufficient appropriate evidence that any of the initiatives implemented by the directors had been concluded on that will reasonably guarantee the ongoing operations of the business to meet its future obligations as they fall due.

Consequently we were unable to confirm or dispel whether it is appropriate to prepare the consolidated and company financial statements using the going concern basis of accounting.

Furthermore, the Company's Statement of Financial Position as at 31 December 2017 include amounts due from a subsidiary, Maweni Limestone Limited, of Sh 21,559,651,000, which have been long outstanding but have not been provided for in the financial statements. No subsequent payments have been received from the subsidiary as at the date of this report and we were unable to obtain sufficient appropriate audit evidence about the recoverability of these amounts. Had management adjusted for the impairment, the provision for doubtful debts in the Company's profit or loss and accumulated provision for doubtful debts in the Company statement of financial position would have been increased by Sh 21,559,651,000. The adjustments would have had no effect on the Group's loss for the year as reported.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARM CEMENT PLC (Continued)

## Report on the consolidated and company Financial Statements (Continued)

### Basis for Disclaimer of Opinion (Continued)

Furthermore, within the Group's statement of financial position as at 31 December 2017 are amounts of property, plant and equipment of Sh 38,603,863,000. Following an analysis of the value in use and recoverable amounts of the property, plant and equipment, it was observed that the assets belonging to Maweni Limestone Limited with a carrying value of Sh 26,420,844,000 exhibited certain impairment indicators in which the carrying value as stated in the financial statements exceeded the value in use as well as the recoverable amounts of these assets. We have not been provided with sufficient information and explanations to assess whether any impairment in value should be recognised in respect of the above mentioned property, plant and equipment. Any adjustments found to be necessary might have consequential effects on property, plant and equipment, revaluation surplus and accompanying deferred tax liability.

### Key Audit Matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. Because of the significance of the matters described in the Basis for Disclaimer of Opinion, we do not include a report on key audit matters.

### Responsibilities of the Directors for the Consolidated and Company Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine are necessary to enable the preparation of consolidated and 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 group's and the company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company and its subsidiaries or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements

Our responsibility is to conduct an audit of the consolidated and company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the company in accordance with the Institute of Certified Public Accountants of Kenya Code of ethics (ICPAK Code of Ethics), which is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Report on other matters prescribed by the Kenya Companies Act, 2015

#### *Report of the Directors*

Due to the basis of disclaimer in our report on the consolidated and company financial statements, we cannot express an opinion on the consistency of the information given in the Report of the Directors on pages 8 to 11.

#### *Directors' Remuneration Report*

In our opinion, the auditable part of the Directors' Remuneration report presented on pages 17 to 19 has been prepared in accordance with the Kenyan Companies Act, 2015.

*The engagement partner responsible for the audit resulting in this independent auditors' report is CPA F Okwiri – P/No 1699.*



Certified Public Accountants (Kenya)

Nairobi, Kenya

30 May 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Sh'000	2016 Sh'000
REVENUE		8,697,333	12,823,826
COST OF SALES		(9,961,422)	(10,850,639)
GROSS (LOSS)/PROFIT		(1,264,089)	1,973,187
Other operating income		26,838	24,054
Net foreign exchange losses		(57,389)	(653,313)
Distribution costs		(207,402)	(441,440)
Administrative expenses		(2,819,647)	(1,875,114)
Finance costs	5	(1,736,497)	(3,012,286)
Finance income	6	3,157	6,081
Impairment of property, plant and equipment	13(a)	(1,395,325)	-
Impairment of goodwill	16	(71,012)	-
LOSS BEFORE TAXATION	7	(7,521,366)	(3,978,831)
TAXATION CREDIT	9(a)	971,554	1,178,656
LOSS FOR THE YEAR	10	(6,549,812)	(2,800,175)
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(206,647)	68,413
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Changes in revaluation of property, plant and equipment		-	(664,990)
Deferred tax attributable to gain on revaluation of property, plant and equipment		-	199,497
Revaluation deficit arising from impairment of assets		(318,768)	-
Deferred tax on revaluation deficit of impaired assets		95,630	-
		(223,138)	(465,493)
Other comprehensive loss for the year, net of income tax		(429,785)	(397,080)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(6,979,597)</b>	<b>(3,197,255)</b>
Loss for the year is attributable to:			
Owners of the company		(6,560,374)	(2,800,968)
Non-controlling interests	17(b)	10,562	793
		(6,549,812)	(2,800,175)
Total comprehensive loss is attributable to:			
Owners of the company		(6,990,159)	(3,198,048)
Non-controlling interests		10,562	793
		<b>(6,979,597)</b>	<b>(3,197,255)</b>
<b>LOSS PER SHARE</b>			
Loss per share – Basic and diluted (Sh)	11	(6.83)	(2.92)

## COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Sh'000	2016 Sh'000
REVENUE		6,925,294	9,635,876
COST OF SALES		(6,682,636)	(7,232,780)
		-----	-----
GROSS PROFIT		242,658	2,403,096
Net foreign exchange losses		413,894	(433,261)
Other operating income		4,193	1,620
Distribution costs		(171,074)	(282,771)
Administrative expenses		(3,145,645)	(1,346,718)
Finance costs	5	(541,761)	(1,593,772)
Finance income	6	-	3,438
Impairment of property, plant and equipment	13(b)	(1,395,325)	-
Impairment of investment in subsidiaries	17(a)	(530,864)	-
		-----	-----
LOSS BEFORE TAXATION	7	(5,123,924)	(1,248,368)
TAXATION CREDIT	9(a)	899,240	348,563
		-----	-----
LOSS FOR THE YEAR	10	(4,224,684)	(899,805)
		-----	-----
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation deficit arising from impairment of assets		(318,768)	-
Deferred tax on revaluation deficit of impaired assets		95,630	-
		-----	-----
Other comprehensive loss for the year, net of income tax		(223,138)	-
		-----	-----
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(4,447,822)	(899,805)
		=====	=====
<b>LOSS PER SHARE</b>			
Loss per share – Basic and diluted (Sh)	11	(4.40)	(0.94)
		=====	=====

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

ASSETS	Notes	2017 Sh'000	2016 Sh'000
<b>Non-current assets</b>			
Property, plant and equipment	13(a)	38,603,863	42,168,147
Operating lease prepayments	14	97,561	156,325
Intangible assets	15	274,156	229,684
Goodwill	16	-	71,012
Deferred tax asset	23	-	147,963
		-----	-----
		38,975,580	42,773,131
		-----	-----
<b>Current assets</b>			
Inventories	18	1,145,974	3,274,363
Trade and other receivables	19	2,303,024	4,619,367
Due from Employee Share Ownership Plan (ESOP)	20	38,555	38,555
Due from related parties	26(b)	2,406	110,617
Corporate tax recoverable	9(c)	85,751	85,605
Cash and bank balances	25(e)	147,777	157,164
		-----	-----
		3,723,487	8,285,671
		-----	-----
<b>Total assets</b>		<b>42,699,067</b>	<b>51,058,802</b>
		=====	=====
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	21(a)	959,940	959,940
Share premium	21(a)	14,094,970	14,094,970
Treasury shares	21(b)	(111,000)	(111,000)
Revaluation surplus		8,995,791	10,308,338
Translation reserve		(191,726)	14,921
Retained earnings		(2,948,977)	2,521,988
		-----	-----
Equity attributable to equity holders of the parent		20,798,998	27,789,157
Non - controlling interests	17(b)	16,526	5,964
		-----	-----
<b>Total equity</b>		<b>20,815,524</b>	<b>27,795,121</b>
		-----	-----
<b>Non-current liabilities</b>			
Borrowings	22(a)	1,409,520	4,574,785
Deferred tax liability	23	3,279,479	4,529,461
		-----	-----
		4,688,999	9,104,246
		-----	-----
<b>Current liabilities</b>			
Dividends payable	12(b)	1,975	1,975
Corporate tax payable	9(c)	13,026	13,301
Borrowings	22(a)	13,027,990	8,668,723
Trade and other payables	24	4,004,151	5,228,989
Due to related parties	26(d)	147,402	246,447
		-----	-----
		17,194,544	14,159,435
		-----	-----
<b>Total equity and liabilities</b>		<b>42,699,067</b>	<b>51,058,802</b>
		=====	=====

The consolidated financial statements on pages 23 to 81 were approved and authorised for issue by the Board of Directors on 30th May 2018 and were signed on its behalf by:

Wilfred Murungi

Chairman

Surendra Bhatia

Deputy Managing Director



# COMPANY STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2017

	Notes	2017 Sh'000	2016 Sh'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13(b)	11,849,455	13,832,321
Operating lease prepayments	14	1,467	1,535
Intangible assets	15	875	1,185
Investment in subsidiaries	17(a)	-	530,864
		-----	-----
		11,851,797	14,365,905
<b>Current assets</b>			
Inventories	18	828,929	2,366,178
Trade and other receivables	19	2,104,512	3,163,292
Due from Employee Share Option Plan (ESOP)	20	38,555	38,555
Due from related parties	26(c)	21,891,796	20,792,590
Corporate tax recoverable	9(c)	85,751	85,605
Cash and bank balances	25(e)	34,374	38,370
		-----	-----
		24,983,917	26,484,590
		-----	-----
<b>Total assets</b>		<b>36,835,714</b>	<b>40,850,495</b>
		=====	=====
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	21(a)	959,940	959,940
Share premium	21(a)	14,094,970	14,094,970
Treasury shares	21(b)	(111,000)	(111,000)
Revaluation surplus		2,822,002	3,171,379
Retained earnings		3,086,468	7,184,913
		-----	-----
<b>Total equity</b>		<b>20,852,380</b>	<b>25,300,202</b>
		-----	-----
<b>Non-current liabilities</b>			
Borrowings	22(b)	1,023,982	5,065,783
Deferred tax liability	23	1,728,382	2,723,542
		-----	-----
		2,752,364	7,789,325
		-----	-----
<b>Current liabilities</b>			
Dividends payable	12(b)	1,975	1,975
Borrowings	22(b)	9,819,216	4,716,541
Trade and other payables	24	2,239,620	2,033,553
Due to related parties	26(e)	1,170,159	1,008,899
		-----	-----
		13,230,970	7,760,968
		-----	-----
<b>Total equity and liabilities</b>		<b>36,835,714</b>	<b>40,850,495</b>
		=====	=====

The consolidated financial statements on pages 23 to 81 were approved and authorised for issue by the Board of Directors on 30th May 2018 and were signed on its behalf by:

Wilfred Murungi  
Chairman

Surendra Bhatia  
Deputy Managing Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Sh'000	Share premium Sh'000	Treasury Shares Sh'000	Revaluation surplus* Sh'000	Translation reserve** Sh'000	Retained earnings Sh'000	Attributable to equity holders of the parent Sh'000	Non-controlling interest Sh'000	Total Sh'000
At 1 January 2016	495,275	302,027	-	11,082,676	(53,492)	5,014,111	16,840,597	5,171	16,845,768
Loss for the year	-	-	-	-	-	(2,800,968)	(2,800,968)	793	(2,800,175)
Other comprehensive loss for the year	-	-	-	(465,493)	68,413	-	(397,080)	-	(397,080)
Total comprehensive loss for the year	-	-	-	(465,493)	68,413	(2,800,968)	(3,198,048)	793	(3,197,255)
Issue of shares (note 21(a))	353,665	13,792,943	-	-	-	-	14,146,608	-	14,146,608
Issue of shares to employee share ownership scheme (note 21(b))	111,000	-	(111,000)	-	-	-	-	-	-
Transfer of excess depreciation	-	-	-	(441,209)	-	441,209	-	-	-
Deferred tax on excess depreciation	-	-	-	132,363	-	(132,363)	-	-	-
<b>At 31 December 2016</b>	<b>959,940</b>	<b>14,094,970</b>	<b>(111,000)</b>	<b>10,308,338</b>	<b>14,921</b>	<b>2,521,988</b>	<b>27,789,157</b>	<b>5,964</b>	<b>27,795,121</b>
At 1 January 2017	959,940	14,094,970	(111,000)	10,308,338	14,921	2,521,988	27,789,157	5,964	27,795,121
Loss for the year	-	-	-	(223,138)	(206,647)	(6,560,374)	(6,560,374)	10,562	(6,549,812)
Other comprehensive loss for the year	-	-	-	(223,138)	(206,647)	(6,560,374)	(429,785)	-	(429,785)
Total comprehensive loss for the year	-	-	-	(223,138)	(206,647)	(6,560,374)	(6,990,159)	10,562	(6,979,597)
Transfer of excess depreciation	-	-	-	(1,556,299)	-	1,556,299	-	-	-
Deferred tax on excess depreciation	-	-	-	466,890	-	(466,890)	-	-	-
<b>At 31 December 2017</b>	<b>959,940</b>	<b>14,094,970</b>	<b>(111,000)</b>	<b>8,995,791</b>	<b>(191,726)</b>	<b>(2,948,977)</b>	<b>20,798,998</b>	<b>16,526</b>	<b>20,815,524</b>

\* The revaluation surplus represents the cumulative 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 of the net assets of foreign subsidiaries from the functional currencies of the foreign operations to the presentation currency (Kenya Shillings).

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Sh'000	Share premium Sh'000	Treasury Shares Sh'000	Revaluation surplus* Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2016	495,275	302,027	-	3,480,225	7,775,872	12,053,399
Total comprehensive loss for the year	-	-	-	-	(899,805)	(899,805)
Issue of shares (note 21(a))	353,665	13,792,943	-	-	-	14,146,608
Issue of shares to employees share ownership scheme (note 21(b))	111,000	-	(111,000)	-	-	-
Transfer of excess depreciation	-	-	-	(441,209)	441,209	-
Deferred tax on excess depreciation	-	-	-	132,363	(132,363)	-
	-----	-----	-----	-----	-----	-----
<b>At 31 December 2016</b>	<b>959,940</b>	<b>14,094,970</b>	<b>(111,000)</b>	<b>3,171,379</b>	<b>7,184,913</b>	<b>25,300,202</b>
	=====	=====	=====	=====	=====	=====
At 1 January 2017	959,940	14,094,970	(111,000)	3,171,379	7,184,913	25,300,202
Total comprehensive loss for the year	-	-	-	(223,138)	(4,224,684)	(4,447,822)
Transfer of excess depreciation	-	-	-	(180,341)	180,341	-
Deferred tax on excess depreciation	-	-	-	54,102	(54,102)	-
	-----	-----	-----	-----	-----	-----
<b>At 31 December 2017</b>	<b>959,940</b>	<b>14,094,970</b>	<b>(111,000)</b>	<b>2,822,002</b>	<b>3,086,468</b>	<b>20,852,380</b>
	=====	=====	=====	=====	=====	=====

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

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Sh'000	2016 Sh'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	25(a)	473,720	1,610,738
Interest paid	25(f)	(999,332)	(2,812,379)
Interest received	6	3,157	6,081
Corporation tax paid	9(c)	(436)	(83,455)
		-----	-----
Net cash used in operating activities		(522,891)	(1,279,015)
		-----	-----
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	25(c)	(215,732)	(226,853)
Capitalised mine development costs	15(a)	(14,987)	(14,953)
Purchase of intangible assets - software	15(b)	(466)	(429)
Additions to operating leases	14	-	(264)
Proceeds from disposal of property, plant and equipment		7,044	-
		-----	-----
Net cash used in investing activities		(224,141)	(242,499)
		-----	-----
<b>Cash flows from financing activities</b>			
Dividends paid	12(b)	-	(6,588)
Issue of shares	21	-	14,146,608
Borrowings received	25(d)	482,391	-
Repayment of amounts borrowed	25(d)	(2,339,984)	(10,782,726)
		-----	-----
Net cash (used in)/ generated from financing activities		(1,857,593)	3,357,294
		-----	-----
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,604,625)</b>	<b>1,835,780</b>
		=====	=====
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>			
<b>Cash and cash equivalents 1 January</b>		<b>(2,125,406)</b>	<b>(3,382,783)</b>
Net (decrease)/increase in cash and cash equivalents		(2,604,625)	1,835,780
Effect of translation adjustments		319,266	(578,403)
		-----	-----
<b>Cash and cash equivalents 31 December</b>	25(e)	<b>(4,410,765)</b>	<b>(2,125,406)</b>
		=====	=====

## COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Sh'000	2016 Sh'000
<b>Cash flows from operating activities</b>			
Cash used in operations	25(b)	407,848	(1,151,432)
Interest paid	25(f)	(505,375)	(1,568,245)
Interest received	6	-	3,438
Corporation tax paid	9(c)	(436)	(82,659)
		-----	-----
Net cash used in operating activities		(97,963)	(2,798,898)
		-----	-----
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	25(c)	(207,551)	(161,823)
Purchase of intangible assets	15	(466)	(429)
Proceeds from disposal of property, plant and equipment		7,044	-
		-----	-----
Net cash used in investing activities		(200,973)	(162,252)
		-----	-----
<b>Cash flows from financing activities</b>			
Dividends paid	12(b)	-	(6,588)
Issue of shares	21	-	14,146,608
Borrowings received	25(d)	482,391	-
Repayment of amounts borrowed	25(d)	(1,044,886)	(10,470,123)
		-----	-----
Net cash (used in)/generated from financing activities		(562,495)	3,669,897
		-----	-----
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(861,431)</b>	<b>708,747</b>
		=====	=====
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>			
<b>Cash and cash equivalents 1 January</b>		<b>(1,244,640)</b>	<b>(1,953,387)</b>
Net (decrease)/increase in cash and cash equivalents		(861,431)	708,747
		-----	-----
<b>Cash and cash equivalents 31 December</b>	25(e)	<b>(2,106,071)</b>	<b>(1,244,640)</b>
		=====	=====

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

## 1 ACCOUNTING POLICIES

### Statement of compliance

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

For purposes of 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.

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

#### (i) *New and revised standards and amendments to published standards effective for the year ended 31 December 2017*

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

Amendments  
to 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 the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The application of these amendments has had no impact on the Group's and Company's financial statements as the Group already assesses the sufficiency of the future taxable profits in a way that is consistent with these amendments.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

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

Annual Improvements to 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. It 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 consolidated and company financial statements.

#### (i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2017*

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 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 consolidated and company financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

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

##### (ii) *New and amended standards in issue but not yet effective in the year ended 31 December 2017*

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

##### (iii) *Impact of new and amended standards on the financial statements for the year ended 31 December 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 amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

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

#### (iii) *Impact of new and amended standards on the financial statements for the year ended 31 December 2017 and future annual periods (Continued)*

##### IFRS 9 Financial Instruments (Continued)

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. Based on an analysis of the Group's and Company's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the Directors of the Company have performed a preliminary assessment of the impact of IFRS 9 to the Group's and Company's financial statements as follows:

##### ***Classification and measurement***

All the 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 trade and other receivables balances and are currently assessing the potential impact.

### 1. ACCOUNTING POLICIES (Continued)

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

##### (iii) *Impact of new and amended standards on the financial statements for the year ended 31 December 2017 and future annual periods (Continued)*

#### IFRS 9 Financial Instruments (Continued)

##### *Hedge accounting*

As 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, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon the application of IFRS 9.

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

#### IFRS 15 Revenue from Contracts with Customers

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

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

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.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

The Group recognises revenue mainly from sale of cement, fertilisers and minerals for which revenue is recognised upon delivery to customers. Based on preliminary assessment, the Directors do not anticipate that the application of IFRS 15 will have any significant impact on the financial position and/or financial performance of the Group.

#### IFRS 16 Leases

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

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

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

##### (iii) *Impact of new and amended standards on the financial statements for the year ended 31 December 2017 and future annual periods (Continued)*

###### **IFRS 16 Leases (Continued)**

use asset and a corresponding liability be recognised for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

###### **IFRS 17 Insurance Contracts**

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

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

##### (iii) Impact of new and amended standards on the financial statements for the year ended 31 December 2017 and future annual periods (Continued)

###### IFRS 17 Insurance Contracts (Continued)

The entity:

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

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

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

The adoption of this standard will not have an impact on the consolidated and company financial statements since the Group does not issue insurance contracts.

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

The amendments clarify the following:

- (i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.
- (ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- (iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
  - The original liability is derecognised;
  - The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
  - Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors of the Group do not anticipate that the application of the amendments in future will have a significant impact on the consolidated and company financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

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

##### (iii) *Impact of new and amended standards on the financial statements for the year ended 31 December 2017 and future annual periods (Continued)*

#### IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements as the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

#### IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

#### Annual Improvements to IFRS Standards 2015-2017 Cycle

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

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

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

### 1. ACCOUNTING POLICIES (Continued)

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

##### (iv) *Early adoption of standards*

The Group did not early-adopt new or revised standards in 2017.

##### **Basis of preparation**

The consolidated and company financial statements have been prepared in accordance with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Group prepares its consolidated and company financial statements under the historical cost convention, except for certain items of property, plant and equipment that have been carried at revalued amounts.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the company and its subsidiaries. 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

#### Basis of consolidation (Continued)

##### *Changes in the Group's ownership interests in existing subsidiaries*

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

#### Revenue recognition

##### (i) *Sale of goods*

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

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

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

##### (ii) *Interest income*

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

#### Foreign currencies

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

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

#### 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.

**1. ACCOUNTING POLICIES (Continued)****Taxation**

The taxation charge represents the sum of the current taxation charge and the deferred taxation charge for the year.

Current tax is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's and the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**Property, plant and equipment**

The Group's Policy requires a revaluation of property, plant and equipment to be carried out by a professional valuer every 5 years.

Property, plant and equipment are initially recorded at cost. All property, plant and equipment, except computer equipment and furniture and fittings, are subsequently shown at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation and any accumulated impairment losses. Any revaluation increase arising on the revaluation of such property, plant and equipment is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued property, plant and equipment is recognised in profit or loss. Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset's original cost is transferred from the revaluation reserves to retained earnings. On the subsequent sale or retirement of a revalued item of property, plant and equipment, the attributable revaluation surplus remaining in the item's revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

**Depreciation**

Depreciation is calculated on the straight-line basis to write off the cost or valuation of property, plant and equipment in equal annual instalments over their estimated useful lives. The annual rates in use are:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

#### Depreciation (Continued)

Freehold land	Nil
Buildings	2.5%
Heavy commercial vehicles and quarrying equipment	10%
Plant, machinery and equipment	5% to 15%
Motor vehicles	10% to 25%
Furniture and fittings	7.5% to 15%
Computer hardware	20% to 30%
	=====

#### Capital work in progress

Capital work in progress relates to property and plant under construction. Cost includes materials, direct labour and any other direct expenses incurred including interest in respect of the project. The amounts are transferred to the appropriate property, plant and equipment categories once the project is completed and commissioned.

#### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to an entity within the Group as a lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value on the inception of the lease and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease so as to achieve a constant rate of interest on the outstanding liability over the remaining term of the lease.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on the straight-line basis over the period of the lease.

#### Intangible assets - capitalised mine development expenditure and mineral rights

Capitalised mine development expenditure and mineral rights comprise costs which are directly attributable to the acquisition of exploration licenses and subsequent exploration expenditures. Capitalised mine development expenditure and mineral rights are carried forward as an asset provided that one of the following conditions is met:

Such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale;

Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves and active and significant operations in relation to the area are continuing, or planned for the future.

#### Intangible assets-computer software costs

The costs incurred to acquire and bring to use specific computer softwares are capitalised. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

The costs are amortised on the straight line basis over the expected useful lives, from the date the software is available for use. Software is amortised for a period not more than five years. Amortisation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

**1. ACCOUNTING POLICIES (Continued)****Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

**Inventories**

Inventories are stated at lower of cost and net realisable values. Cost is calculated on the weighted average cost basis and includes direct production costs, labour and relevant transport costs. Work in progress comprises raw materials costs, direct labour costs, other direct costs and related production overheads. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date is expensed on a straight line basis over the vesting period based on the Group's estimate of equity instruments that will eventually vest with a corresponding utilisation of the treasury shares held.

**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 at an Annual General Meeting.

**Cash and cash equivalents**

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 the date of advance.

**Revaluation reserve**

The revaluation reserve arises on the revaluation of property, plant and equipment. Where revalued assets are sold, the portion of the properties' revaluation reserve that relates to those assets is effectively realised and transferred directly to retained earnings. Refer to note 13 (a) and 13 (b) for further disclosures on the determination of the revaluation surplus and subsequent measurement.

**Translation reserve**

The foreign exchange differences relating to the translation of balances from the functional currencies of the Group's foreign subsidiaries into the Kenya Shilling, which is the functional currency of the Group, are brought to account by entries made directly to the foreign currency translation reserve.

**Defined contribution plan**

The Group contributes to the statutory National Social Security Fund in Kenya and Tanzania. The Group's obligations under the schemes are determined by local statute and are currently at Sh 200 per employee per month in Kenya and 10% of the gross pay of each employee in Tanzania. The

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

#### Defined contribution plan (Continued)

Group's contributions are charged to the statement of profit or loss in the year to which they relate. ARMSA (Pty) Limited and Mafeking Cement (Pty) Limited do not contribute to any retirement benefits scheme for their employees.

#### Employee benefits

Employees' entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the statement of financial position date.

#### Treasury shares

Treasury shares represent the value of shares held by the ARM Cement Plc Employee Share Ownership Trust set up for purposes of issuing shares to employees as part of the Group's incentives package. The shares held by the Trust are recognised as treasury shares upon allotment by the Directors with approval of shareholders and held as such until they are vested.

#### Financial instruments

A financial asset or liability is recognised when the Group becomes party to the contractual provisions of the instrument.

#### Financial assets

##### Classification

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 financial assets and available-for-sale financial assets. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired. Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

##### i) *Financial assets at fair value through profit or loss ("FVTPL")*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management. The Group did not have any financial assets at fair value through profit or loss as at 31 December 2017.

##### ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

##### iii) *Held-to-maturity financial assets*

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. Where a sale occurs other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

##### iv) *Available-for-sale financial assets*

This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

**1. ACCOUNTING POLICIES (Continued)****Financial instruments (Continued)***Recognition of financial assets*

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

Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are dealt with in the statement of profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss.

*Derecognition of financial assets*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

**Financial liabilities**

Financial liabilities are classified at amortised cost.

*Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**Impairment**

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

#### Defined contribution plan (Continued)

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.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation.

#### Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision maker (Group management). 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 business segments; cement and lime and other products segments (see note 3).

#### Contingent liabilities

Contingent liabilities arise if there is a possible obligation; or a present obligation that may, but probably will not, require an outflow of economic resources; or there is a present obligation, but there is no reliable method to estimate the monetary value of the obligation.

#### Comparatives

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

### 2. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

#### IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, management is 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 only affects 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 consolidated and company 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:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (Continued)

#### 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. Refer to note 23 for further disclosures.

#### b) *Key sources of estimation uncertainty*

##### *Property, plant and equipment and intangible assets*

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

##### *Impairment*

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

Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately. Refer to Note 13(a) and 13(b) for further disclosures.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated as disclosed in Note 16.

### 3. GOING CONCERN

The Group and Company incurred a loss of Sh 6,549,812,000 (2016 – Sh 2,800,175,000) and Sh 4,224,684,000 (2016 – Sh 899,805,000) during the year. As of that date, the Group's current liabilities exceed its current assets by Sh 13,471,057,000 (2016 – Sh 5,873,764,000).

The Group has a total asset base of Sh 42,699,067,000 (2016 – Sh 51,058,802,000) against total liabilities of Sh 21,883,543,000 (2016 – Sh 23,236,681,000). Therefore, there is adequate cover in the company's asset base to be able to meet its obligations. However, a significant portion of the liabilities relates to borrowings of Sh 13,027,990,000 which are due for repayment. The Group is also non compliant with certain loan covenants as disclosed under Note 22.

The Directors are aware of the material uncertainties surrounding the ability of the Group and Company to continue as going concerns as a result of the above factors and are implementing certain restructuring initiatives to improve the Group's and Company's liquidity and solvency position. The measures include:

1. Equity injection through identified strategic investors to reduce the financial leverage of the Group, reduce the debt level, create a capital structure that will strengthen the company balance sheet and support the Group to operate its assets to capacity and trade its own balance sheet going forward.
2. Boosting liquidity by negotiating with creditors to convert short term borrowings into a long term debt with a repayment schedule that allows cash and working capital availability for the Group to run its plants at normalized levels.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. GOING CONCERN (Continued)

The Directors have taken concrete actions under the above planned initiatives to restructure the balance sheet and loan structure. In this regard, the Group has engaged with all its financial stakeholders to seek their support as the Group restructuring efforts. The Group has also appointed advisors to facilitate the onboarding of investors and discussions are in progress with several potential equity investors, both strategic and financial. The Group is also in advanced discussions with Development Finance Institutions to restructure its short term loan into a long term loan with loan repayment tenure of about 7-10 years.

The Group has also finalized the sale of its non-cement business. The legal agreements have been completed and the Group hopes to close the transaction in immediate future. The proceeds from this sale should improve liquidity and reduce the Group debt.

The Group is also discussing further support from the key shareholders as it completes the equity and debt restructure process. CDC Africa Plc advanced a shareholder loan of USD 4 million in March 2018.

The Directors have reviewed the current trading and cash flow projections and after considering the above initiatives have a reasonable expectation that the assumption of the Group continuing as a going concern is appropriate. The Directors also believe that once the balance sheet restructuring is complete, it will improve the Groups profitability, cash flow and Liquidity position, and given the strong asset base position throughout the region continue as a going concern in future also.

### 4. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance

The bulk of the Group operations are within Kenya, Tanzania and South Africa. The critical business segments are:

- Cement and lime.
- Other products.

	Cement and Lime		Other products		Total	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Sales	6,934,805	10,388,239	1,762,528	2,435,587	8,697,333	12,823,826
Expenditure	(14,007,050)	(14,866,366)	(2,211,649)	(1,936,291)	(16,218,699)	(16,802,657)
Loss before taxation	(7,072,245)	(4,478,127)	(449,121)	499,296	(7,521,366)	(3,978,831)
Total assets	38,276,314	44,117,313	4,422,753	6,941,489	42,699,067	51,058,802
Total liabilities	19,121,830	21,814,613	2,761,713	1,449,068	21,883,543	23,263,681
Depreciation and amortisation	1,696,066	1,522,042	12,294	123,690	1,708,360	1,645,732
Capital expenditure	165,604	233,797	65,582	16,751	231,186	250,548

Revenue reported above represents revenue generated from external customers.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4. OPERATING SEGMENTS (Continued)

#### Geographical information

31 December 2017	Kenya Sh'000	Tanzania Sh'000	South Africa Sh'000	Rwanda Sh'000	Eliminated on consolidation Sh'000	Total Sh'000
Sales and other income	6,929,487	2,021,212	3,157	28,534	(255,062)	8,727,328
Cost of sales and other expenditure	(12,058,468)	(5,855,093)	12,546	(81,941)	1,734,262	(16,248,694)
Loss before taxation	<u>(5,128,981)</u>	<u>(3,833,881)</u>	<u>15,703</u>	<u>(53,407)</u>	<u>1,479,200</u>	<u>(7,521,366)</u>
Assets	<u>36,835,714</u>	<u>28,909,409</u>	<u>329,027</u>	<u>401,563</u>	<u>(23,776,646)</u>	<u>42,699,067</u>
Liabilities	<u>15,983,334</u>	<u>29,730,165</u>	<u>409,486</u>	<u>556,552</u>	<u>(24,795,994)</u>	<u>21,883,543</u>
Depreciation and amortisation	<u>565,896</u>	<u>1,103,011</u>	<u>-</u>	<u>39,453</u>	<u>-</u>	<u>1,708,360</u>
Capital expenditure	<u>208,018</u>	<u>8,181</u>	<u>14,987</u>	<u>-</u>	<u>-</u>	<u>231,186</u>
<b>31 December 2016</b>						
Sales and other income	9,640,934	3,763,087	2,643	84,025	(636,728)	12,853,961
Cost of sales and other expenditure	(10,889,302)	(6,350,591)	(94)	(233,533)	636,728	(16,832,792)
Loss before taxation	<u>(1,248,368)</u>	<u>(2,587,504)</u>	<u>2,549</u>	<u>(149,508)</u>	<u>-</u>	<u>(3,978,831)</u>
Assets	<u>40,850,495</u>	<u>31,228,091</u>	<u>286,862</u>	<u>542,249</u>	<u>(21,848,895)</u>	<u>51,058,802</u>
Liabilities	<u>15,550,293</u>	<u>29,128,682</u>	<u>369,566</u>	<u>582,265</u>	<u>(22,367,125)</u>	<u>23,263,681</u>
Depreciation and amortisation	<u>540,242</u>	<u>1,103,534</u>	<u>38</u>	<u>1,918</u>	<u>-</u>	<u>1,645,732</u>
Capital expenditure	<u>14,435</u>	<u>236,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,548</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		COMPANY	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
<b>5 FINANCE COSTS</b>				
Interest payable on:				
- Loans, bonds and income notes	1,352,763	1,360,033	308,513	218,049
- Bank overdrafts	256,652	430,809	106,166	154,279
- Commercial papers	127,082	1,221,444	127,082	1,221,444
	-----	-----	-----	-----
Total borrowing costs	1,736,497	3,012,286	541,761	1,593,772
	=====	=====	=====	=====
<b>6 FINANCE INCOME</b>				
Interest receivable	3,157	6,081	-	3,438
	=====	=====	=====	=====
<b>7 LOSS BEFORE TAXATION</b>				
The loss before taxation is arrived at after charging:				
Depreciation on property, plant and equipment (note 13(a) and 13(b))	1,667,516	1,645,130	559,995	539,978
Impairment of property, plant and equipment (note 13(a) and 13(b))	1,395,325	-	1,395,325	-
Provision for stock obsolescence	213,216	48,036	136,986	47,213
Amortisation of operating lease prepayments (note 14)	40,069	366	68	68
Amortisation of intangible assets (note 15)	776	236	776	196
Operating lease rentals - motor vehicles	239,497	333,732	72,470	64,107
Directors' emoluments:				
- fees (non-executive)	12,869	13,285	12,869	13,285
- other emoluments (executive)	207,181	173,676	207,181	173,676
Staff costs (note 8)	1,544,771	1,529,388	1,085,806	1,081,174
Auditors' remuneration - company	5,978	5,698	5,978	5,698
- subsidiaries	4,865	4,865	-	-
Loss on disposal of equipment	16,183	-	16,183	-
	=====	=====	=====	=====
<b>8 STAFF COSTS</b>				
Wages and salaries	1,145,561	1,190,679	809,843	819,666
Social security cost (NSSF)	42,078	43,028	3,939	4,885
Pension	8,743	8,952	8,743	8,952
Leave pay (write back)/provision	(1,072)	5,474	(1,072)	5,475
Other staff costs	142,280	107,579	57,172	68,520
	-----	-----	-----	-----
	1,337,590	1,355,712	878,625	907,498
Executive directors' emoluments	207,181	173,676	207,181	173,676
	-----	-----	-----	-----
	1,544,771	1,529,388	1,085,806	1,081,174
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9. TAXATION

#### a) Taxation credit

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Current taxation charge based on taxable income:	-	1,031	-	1,031
Prior year under provision	290	-	290	-
	-----	-----	-----	-----
	290	1,031	290	1,031
	-----	-----	-----	-----
Deferred tax:				
- Credit (note 23)	(1,877,731)	(1,158,142)	(1,054,702)	(349,594)
- Prior year over provision (note 23)	727,104	(21,545)	155,172	-
- Deferred tax assets derecognised	178,783	-	-	-
	-----	-----	-----	-----
	(971,844)	(1,179,687)	(899,530)	(349,594)
	-----	-----	-----	-----
	(971,554)	(1,178,656)	(899,240)	(348,563)
	=====	=====	=====	=====
<b>b) Reconciliation of continuing operations tax credit to expected taxation based on accounting loss:</b>				
Loss before taxation	(7,494,102)	(3,978,831)	(5,123,924)	(1,248,368)
	=====	=====	=====	=====
Tax calculated at a tax rate of 30%	(2,248,231)	(1,193,649)	(1,537,177)	(374,510)
Tax effect of:				
- Expenses not deductible for tax purposes	370,500	36,538	482,475	25,947
Prior year deferred taxation under/(over) provision	727,104	(21,545)	155,172	-
Prior year current tax under provision	290	-	290	-
Deferred tax assets derecognised	178,783	-	-	-
	-----	-----	-----	-----
Taxation credit	(971,554)	(1,178,656)	(899,240)	(348,563)
	=====	=====	=====	=====
<b>c) Corporate tax payable/(recoverable)</b>				
At 1 January	(72,304)	9,567	(85,605)	(3,977)
Tax expense (note 9(a))	-	1,031	-	1,031
Prior year tax under provision (note 9(a))	290	-	290	-
Tax paid during the year	(436)	(83,455)	(436)	(82,659)
Exchange difference	(275)	553	-	-
	-----	-----	-----	-----
At 31 December	72,725	(72,304)	(85,751)	(85,605)
	=====	=====	=====	=====
<b>Comprising</b>				
Income tax payable	13,026	13,301	-	-
Income tax recoverable	(85,751)	(85,605)	(85,751)	(85,605)
	-----	-----	-----	-----
	72,725	(72,304)	(85,751)	(85,605)
	=====	=====	=====	=====

Tax balances for the Group have not been offset in the statement of financial position as the Group does not have a legal right of offset.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10. LOSS FOR THE YEAR

The loss attributable to shareholders dealt with in the company financial statements for the year ended 31 December 2017 is Sh 4,224,684,000 (2016 – Sh 899,805,000).

### 11. EARNINGS PER SHARE

Loss per share has been calculated by dividing the loss for the year from attributable to equity holders of the parent company by the number of ordinary shares in issue at the reporting date. The basic and diluted earnings per share are the same as there are no dilutive effects on earnings.

	GROUP		COMPANY	
	2017	2016	2017	2016
Loss attributable to owners of the Company (Sh '000)	(6,549,812)	(2,800,968)	(4,224,684)	(899,805)
	=====	=====	=====	=====
Weighted average number of ordinary shares in issue (note 21)	959,940,200	959,940,200	959,940,200	959,940,200
	=====	=====	=====	=====
Basic and diluted loss per ordinary share (Sh)	(6.83)	(2.92)	(4.40)	(0.94)
	=====	=====	=====	=====

### 12. DIVIDENDS

#### (a) Dividends per share

The Directors do not propose the payment of a dividend in respect of the year ended 31 December 2017 (2016 – nil).

#### (b) The movement in the dividends payable account is as follows:

	GROUP & COMPANY	
	2017	2016
	Sh'000	Sh'000
At 1 January	1,975	8,563
Dividends paid	-	(6,588)
	-----	-----
At 31 December	1,975	1,975
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13(a) PROPERTY, PLANT AND EQUIPMENT - GROUP

	Freehold land Sh'000	Buildings and leasehold land* Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware, plant motor vehicles, furniture and fittings Sh'000	Capital work in progress** Sh'000	Total Sh'000
<b>Cost or valuation</b>						
At 1 January 2016	480,220	13,936,350	287,180	23,877,356	6,690,639	45,271,745
Additions	149	2,254	1,287	62,130	161,033	226,853
Translation difference	-	(78,872)	(1,126)	(171,279)	198,762	(52,515)
	-----	-----	-----	-----	-----	-----
At 31 December 2016	480,369	13,859,732	287,341	23,768,207	7,050,434	45,446,083
	-----	-----	-----	-----	-----	-----
At 1 January 2017	480,369	13,859,732	287,341	23,768,207	7,050,434	45,446,083
Additions	56	6,536	2,351	16,055	190,734	215,732
Transfers	-	-	-	516,745	(516,745)	-
Disposals	-	-	(28,340)	(6,310)	-	(34,650)
Impairment losses***	-	-	-	(430,141)	(1,023,164)	(1,453,305)
Revaluation deficit on impairment***	-	-	-	(318,768)	-	(318,768)
Reclassifications****	(309,420)	309,420	-	-	-	-
Reclassified from inventory****	-	-	-	151,383	89,755	241,138
Translation difference	-	(616,752)	61,997	(399,517)	(107,792)	(1,062,064)
	-----	-----	-----	-----	-----	-----
At 31 December 2017	171,005	13,558,936	323,349	23,297,654	5,683,222	43,034,166
	-----	-----	-----	-----	-----	-----
<b>Depreciation</b>						
At 1 January 2016	-	693,790	9,174	911,738	-	1,614,702
Charge for the year	-	341,586	47,637	1,255,907	-	1,645,130
Translation difference	-	268,545	(138)	(250,303)	-	18,104
	-----	-----	-----	-----	-----	-----
At 31 December 2016	-	1,303,921	56,673	1,917,342	-	3,277,936
	-----	-----	-----	-----	-----	-----
At 1 January 2017	-	1,303,921	56,673	1,917,342	-	3,277,936
Charge for the year	-	343,991	46,876	1,276,649	-	1,667,516
Eliminated on disposal	-	-	(5,668)	(5,755)	-	(11,423)
Eliminated on impairment	-	-	-	(57,980)	-	(57,980)
Reclassified from inventory	-	-	-	44,485	-	44,485
Translation difference	-	(685,283)	63,067	131,985	-	(490,231)
	-----	-----	-----	-----	-----	-----
At 31 December 2017	-	962,629	160,948	3,306,726	-	4,430,303
	-----	-----	-----	-----	-----	-----

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13(a) PROPERTY, PLANT AND EQUIPMENT - GROUP (Continued)

	Freehold land Sh'000	Buildings and leasehold land* Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware, plant machinery, motor vehicles, furniture and fittings Sh'000	Capital work in progress** Sh'000	Total Sh'000
<b>NET BOOK VALUE (REVALUATION BASIS)</b>						
At 31 December 2017	171,005	12,596,307	162,401	19,990,928	5,683,222	38,603,863
	=====	=====	=====	=====	=====	=====
At 31 December 2016	480,369	12,555,811	230,668	21,850,865	7,050,434	42,168,147
	=====	=====	=====	=====	=====	=====
<b>NET BOOK VALUE (COST BASIS)</b>						
At 31 December 2017	40,981	9,163,320	94,238	10,857,311	5,683,222	25,839,072
	=====	=====	=====	=====	=====	=====
At 31 December 2016	115,132	9,119,331	113,053	10,915,227	7,050,434	27,313,177
	=====	=====	=====	=====	=====	=====

\* The asset class includes leasehold land held under 99 year leases which qualify as finance leases under the International Accounting Standards (IAS) 17 *Leases* as all the risks and rewards incidental to ownership of the land are significantly held by the Group.

\*\*The capital work in progress relates to the following projects being undertaken by the Group:

- i) Construction of cement grinding mill for the plant in Tanga, Tanzania;
- ii) Acquisition of property for construction of a clinkering facility in Kitui County, Kenya; and
- iii) Ongoing work in respect of additions to the Dar-es-salaam and Tanga plants in Tanzania as at year end

\*\*\*An impairment analysis was conducted as at year end and the recoverable amounts of certain assets was assessed to be lower than their carrying value leading to the booking of impairment losses amounting to Sh 1,395,325,000 (2016 – Sh nil) and utilization of revaluation surplus of Sh 318,768,000 (2016 – Sh nil) initially booked on those assets. The losses are broken down as follows:

- i) Sh 854,609,000 arose from analysis of expected proceeds from the sale of the non cement business assets. The assets deemed as impaired were previously used exclusively in the production process for the non cement products but were not part of the assets to be acquired by the prospective buyer. The assets were therefore deemed as having scrap value and the resulting impairment loss booked;
- ii) Sh 859,484,000 of the losses relates to certain capital work in progress projects that were deemed no longer viable and were effectively abandoned.

\*\*\*\* In 2017, the management conducted a full reconciliation between the property, plant and equipment register and the prior year disclosures in the consolidated and company financial statements. As a result, certain reclassification adjustments to the cost and accumulated depreciation within the notes have been made. The reclassification did not have an impact on the net book value of the assets disclosed in the 2016 financial statements.

Property, plant and equipment were last revalued on 31 December 2015, by Peter Huth, Registered Valuers and Estate Agents who are independent of the group. Land and buildings were valued on an open market value basis while plant and equipment were valued on a depreciated replacement cost basis.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13(a) PROPERTY, PLANT AND EQUIPMENT - GROUP (Continued)

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties in the neighbourhood.

The fair values of buildings and the other fixed assets were determined using the depreciated replacement cost basis. The significant inputs included the estimated construction and purchase costs and other ancillary expenditures, and appropriate depreciation factors. A slight increase in the depreciation factor would result in a significant decrease in the fair value of the assets, and a slight increase in the estimated construction and purchase costs would result in significant increase in the fair value of the assets, and vice versa.

All the assets of the Group with a net book value of Sh 38,603,863,000 (2016 – Sh 42,168,147,000) have been charged to secure banking facilities granted to the company as disclosed in note 22.

A full reconciliation of the property, plant and equipment register was carried out by management in 2016 following the commissioning of the Tanzania plant and machinery in the prior year. As a result of that reconciliation exercise, management made certain classification adjustments in the register and which made it necessary to adjust the value of revaluation reserve by Sh 664,990,000 in the year ended 31 December 2016.

Included above are assets with a total cost of Sh 81,743,000 (2016 – Sh 57,441,000) which were fully depreciated as at 31 December 2017. The normal depreciation charge would have been Sh 16,124,000 (2016 – Sh 12,343,000).

The Group specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Details of the fair value hierarchy for the group's property plant and equipment carried at fair value as at 31 December 2017 are as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13(a) PROPERTY, PLANT AND EQUIPMENT - GROUP (Continued)

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
<b>31 December 2017</b>				
Freehold land	-	171,005	-	171,005
Buildings on leasehold land	-	12,596,307	-	12,596,307
Heavy commercial vehicles and quarrying equipment	-	162,401	-	162,401
Plant and machinery	-	19,990,928	-	19,990,928
	-----	-----	-----	-----
	-	32,920,641	-	32,920,641
	=====	=====	=====	=====
<b>31 December 2016</b>				
Freehold land	-	480,369	-	480,369
Buildings on leasehold land	-	12,555,811	-	12,555,811
Heavy commercial vehicles and quarrying equipment	-	230,668	-	230,668
Plant and machinery	-	21,850,865	-	21,850,865
	-----	-----	-----	-----
	-	35,117,713	-	35,117,713
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13(b) PROPERTY, PLANT AND EQUIPMENT - COMPANY

	Freehold land Sh'000	Buildings and leasehold land* Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware, plant motor vehicles, furniture and fittings Sh'000	Capital work in progress** Sh'000	Total Sh'000
<b>Cost or valuation</b>						
At 1 January 2016	480,220	3,440,099	192,332	8,505,387	1,665,764	14,283,802
Additions	149	2,254	1,287	2,185	155,948	161,823
	-----	-----	-----	-----	-----	-----
At 31 December 2016	480,369	3,442,353	193,619	8,507,572	1,821,712	14,445,625
	-----	-----	-----	-----	-----	-----
At 1 January 2017	480,369	3,442,353	193,619	8,507,572	1,821,712	14,445,625
Additions	56	464	2,351	13,946	190,734	207,551
Transfers	-	-	-	516,745	(516,745)	-
Disposals	-	-	(28,340)	(422)	-	(28,762)
Write - offs	-	-	-	(5,888)	-	(5,888)
Impairment losses***	-	-	-	(430,141)	(1,023,164)	(1,453,305)
Revaluation deficit on impairment***	-	-	-	(318,768)	-	(318,768)
Reclassification**** Reclassified from inventory****	(309,420)	309,420	-	-	-	-
	-	-	-	151,383	-	151,383
	-----	-----	-----	-----	-----	-----
At 31 December 2017	171,005	3,752,237	167,630	8,434,427	472,537	12,997,836
	-----	-----	-----	-----	-----	-----
<b>Depreciation</b>						
At 1 January 2016	-	-	-	73,326	-	73,326
Charge for the year	-	86,031	19,265	434,682	-	539,978
	-----	-----	-----	-----	-----	-----
At 31 December 2016	-	86,031	19,265	508,008	-	613,304
	-----	-----	-----	-----	-----	-----
At 1 January 2017	-	86,031	19,265	508,008	-	613,304
Charge for the year	-	86,068	19,400	454,527	-	559,995
Eliminated on disposal	-	-	(5,668)	(211)	-	(5,879)
Eliminated on write-offs	-	-	-	(5,544)	-	(5,544)
Eliminated on impairment	-	-	-	(57,980)	-	(57,980)
Reclassified from inventory	-	-	-	44,485	-	44,485
	-----	-----	-----	-----	-----	-----
At 31 December 2017	-	172,099	32,997	943,285	-	1,148,381
	=====	=====	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13(b) PROPERTY, PLANT AND EQUIPMENT - COMPANY

	Freehold land Sh'000	Buildings and leasehold land* Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware, plant machinery, motor vehicles, furniture and fittings Sh'000	Capital work in progress** Sh'000	Total Sh'000
<b>NET BOOK VALUE (REVALUATION BASIS)</b>						
At 31 December 2017	171,005 =====	3,580,138 =====	134,633 =====	7,491,142 =====	472,537 =====	11,849,455 =====
At 31 December 2016	480,369 =====	3,356,322 =====	174,354 =====	7,999,564 =====	1,821,712 =====	13,832,321 =====
<b>NET BOOK VALUE (COST BASIS)</b>						
At 31 December 2017	40,981 =====	1,712,445 =====	66,470 =====	5,656,088 =====	472,537 =====	7,948,521 =====
At 31 December 2016	115,132 =====	1,677,942 =====	99,665 =====	5,717,772 =====	1,821,712 =====	9,432,223 =====

\* The asset class includes leasehold land held under 99 year leases which qualify as finance leases under the International Accounting Standards (IAS) 17 *Leases* as all the risks and rewards incidental to ownership of the land are significantly held by the Group.

\*\*The capital work in progress relates to the acquisition of property in Kitui County, Kenya for construction of a clinkering facility.

\*\*\*An impairment analysis was conducted as at year end and the recoverable amounts of certain assets was assessed to be lower than their carrying value leading to the booking of impairment losses amounting to Sh 1,395,325,000 (2016 – Sh nil) and utilization of revaluation surplus of Sh 318,768,000 (2016 – Sh nil) initially booked on those assets. The losses are broken down as follows:

- i) Sh 854,609,000 arose from analysis of expected proceeds from the sale of the non cement business assets. The assets deemed as impaired were previously used exclusively in the production process for the non cement products but were not part of the assets to be acquired by the prospective buyer. The assets were therefore deemed as having scrap value and the resulting impairment loss booked;
- ii) Sh 859,484,000 of the losses relates to certain capital work in progress projects that were deemed no longer viable and were effectively abandoned.

\*\*\*\* In 2017, the management conducted a full reconciliation between the property, plant and equipment register and the prior year disclosures in the consolidated and company financial statements. As a result, certain reclassification adjustments to the cost and accumulated depreciation within the notes have been made. The reclassification did not have an impact on the net book value of the assets disclosed in the 2016 financial statements.

Included above are assets with a total cost of Sh 81,743,000 (2016 – Sh 57,441,000) which were fully depreciated as at 31 December 2017. The normal depreciation charge would have been Sh 16,124,000 (2016 – Sh 12,343,000).

All the assets of the Company of Sh 11,849,455,000 (2016 – Sh 13,832,321,000) have been charged to secure banking facilities granted to the company as disclosed in note 22.

Details of the fair value hierarchy for both group's property plant and equipment carried at fair value as at 31 December 2017 are as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13(b) PROPERTY, PLANT AND EQUIPMENT - COMPANY

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
<b>31 December 2017</b>				
Freehold land	-	171,005	-	171,005
Buildings on leasehold land	-	3,580,138	-	3,580,138
Heavy commercial vehicles and Quarrying equipment	-	134,633	-	134,633
Plant and machinery	-	7,491,142	-	7,491,142
	-----	-----	-----	-----
	-	11,376,918	-	11,376,918
	=====	=====	=====	=====
<b>31 December 2016</b>				
Freehold land	-	480,369	-	480,369
Buildings on leasehold land	-	3,356,322	-	3,356,322
Heavy commercial vehicles and Quarrying equipment	-	174,354	-	174,354
Plant and machinery	-	7,999,564	-	7,999,564
	-----	-----	-----	-----
	-	12,010,609	-	12,010,609
	=====	=====	=====	=====

### 14. OPERATING LEASE PREPAYMENTS

	Group Sh'000	Company Sh'000
<b>COST</b>		
At 1 January 2016	157,597	2,707
Additions	264	-
Translation difference	464	-
	-----	-----
At 31 December 2016	158,325	2,707
	-----	-----
At 1 January 2017	158,325	2,707
Translation difference	(18,695)	-
	-----	-----
At 31 December 2017	139,630	2,707
	-----	-----
<b>AMORTISATION</b>		
At 1 January 2016	1,634	1,104
Charge for the year	366	68
	-----	-----
At 31 December 2016	2,000	1,172
	-----	-----
At 1 January 2017	2,000	1,172
Charge for the year	40,069	68
	-----	-----
At 31 December 2017	42,069	1,240
	-----	-----
<b>NET BOOK VALUE</b>		
At 31 December 2017	97,561	1,467
	=====	=====
At 31 December 2016	156,325	1,535
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15. INTANGIBLE ASSETS

Intangible assets consist of:

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Capitalised mine development costs (note 15(a))	273,281	228,499	-	-
Software (note 15 (b))	875	1,185	875	1,185
	-----	-----	-----	-----
	274,156	229,684	875	1,185
	=====	=====	=====	=====

a) Intangible assets: capitalised mine development costs - Group

Capitalised mine development expenditure and mineral rights comprise costs which are directly attributable to the acquisition of exploration licenses and subsequent exploration expenditures for Mafeking Cement (Proprietary) Limited in South Africa. The intangible assets not yet available for use and are tested for impairment annually, and whenever there is an indication that the asset may be impaired. The exploration and evaluation expenses related to the mine development incurred to date are as follows:

	2017 Sh'000	2016 Sh'000
At the beginning of year	228,499	189,572
Additions	14,987	14,953
Translation adjustment	29,795	23,974
	-----	-----
At end of year	273,281	228,499
	=====	=====

The value of Group's interest in the mine development is dependent upon the:

- Continuance of the economic entity rights to tenure of the areas of interest; (as at 31 December 2017, the Directors had sought for approval for extension of one year deadline set by the South African authorities for commencement of mining activity).
- Results of future exploration; and
- Recoupment costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

b) Intangible assets: software – Group and Company

#### COST

	2017 Sh'000	2016 Sh'000
At 1 January	25,464	25,035
Additions	466	429
	-----	-----
At 31 December	25,930	25,464
	-----	-----

#### AMORTISATION

	2017	2016
At 1 January	24,279	24,083
Charge for the year	776	196
	-----	-----
At 31 December	25,055	24,279
	-----	-----

#### NET BOOK VALUE

At 31 December	875	1,185
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 16. GOODWILL

On 24 January 2009, ARM Cement Limited acquired all the shares held by the minority shareholders in ARM Tanzania Limited. On 1 December 2015, ARM Cement Limited acquired 35% equity interest in and also effectively acquired control of Kigali Cement Company Limited whose principal activity is to buy raw materials and to produce finished cement for the Rwanda market.

Goodwill arising from the above transactions is shown below:

	2017 Sh'000	2016 Sh'000
Balance at 1 January	71,012	71,012
Impairment loss for the year	(71,012)	-
	-----	-----
Carrying value of goodwill	-	71,012
	=====	=====
Allocation of goodwill to the acquired subsidiaries		
ARM (Tanzania) Limited	-	50,908
Kigali Cement Company Limited	-	20,104
	-----	-----
	-	71,012
	=====	=====

The Directors assessed the recoverable amount of goodwill based on estimated discounted future cash flows and determined that the goodwill was impaired as the recoverable amount of the two cash generating units was estimated to have exceeded the carrying amount of the units. The impairment loss was recognised in profit or loss.

### 17 (a) INVESTMENT IN SUBSIDIARIES

	2017 Sh'000	2016 Sh'000
ARM (Tanzania) Limited	252,317	252,317
Kigali Cement Company Limited	163,222	163,222
Mafeking Cement (Pty) Limited	75,000	75,000
ARM SA (Pty) Limited	33,014	33,014
Mavuno Fertilizer Limited	7,259	7,259
Maweni Limestone Limited	52	52
	-----	-----
Impairment loss on investments in subsidiaries	530,864 (530,846)	530,864 -
	-----	-----
	-	530,864
	=====	=====

The investments in each of the subsidiaries were individually assessed as fully impaired on 31 December 2017 as the Directors do not expect the value of the investment to be recovered mainly due to the economic and operating conditions facing the subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17 (a) INVESTMENT IN SUBSIDIARIES (Continued)

Details of the subsidiary companies are as follows:

<i>Company</i>	<i>Percentage holding</i>	<i>Country of incorporation and domicile</i>	<i>Principal activity</i>
ARM (Tanzania) Limited	100%	Tanzania	Extraction and processing of limestone
ARMSA (Pty) Limited	100%	South Africa	Manufacture of silicate liquid
Mavuno Fertilizer Limited	100%	Kenya	Manufacture of fertiliser
Maweni Limestone Limited	100%	Tanzania	Manufacture of Cement
Mafeking Cement (Pty) Limited	70%	South Africa	Not yet operational
Kigali Cement Company Limited	100%	Rwanda	Manufacture of Cement
ARM Rwanda Limited	100%	Rwanda	Not operational
ARM Africa Cement (MAU) Limited	100%	Mauritius	Not operational
ARM Rhino Cement Limited	100%	Mauritius	Not operational
Sukam Development Company Limited	100%	Kenya	Not operational
ARM Energy Ltd	100%	Kenya	Not operational
ARM Minerals & Chemicals Ltd	100%	Kenya	Not operational
ARM Zambia Ltd	100%	Zambia	Not operational
	=====	=====	=====

ARM Cement Limited holds 100% of the equity interest in other companies which are all dormant. These are ARM Zambia Limited, ARM Energy Limited, ARM Mineral and Chemical Limited, Sukam Development Company Limited. These companies, together with ARM Africa Cement (Mau) Limited, ARM Rhino Cement Limited as shown above, have not yet commenced operations and have not been consolidated in view of the insignificance of the amounts involved.

### 17(b) NON-CONTROLLING INTEREST

The total non-controlling interest for the period is Sh 16,526,000 (2016: Sh 5,964,000), which is attributable to Mafeking Cement (Pty) Limited, which is not material for the group.

	<b>2017</b> <b>Sh'000</b>	<b>2016</b> <b>Sh'000</b>
Balance at beginning of the year	5,964	5,171
Share of the income for the year	10,562	793
Share of other comprehensive income for the year	-	-
	-----	-----
Balance at end of the year	<b>16,526</b> =====	<b>5,964</b> =====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18. INVENTORIES

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Raw materials	502,744	1,443,371	322,299	1,115,946
Finished goods	94,809	560,977	49,415	291,597
Packaging materials	85,951	104,388	41,068	61,282
Stores, spares, laboratory inventories and fuel	936,372	1,117,818	812,997	1,004,831
Work in progress	90,608	94,749	853	1,035
Goods in transit	-	107,701	-	45,306
Provision for obsolescence	(367,857)	(154,641)	(290,805)	(153,819)
	-----	-----	-----	-----
	1,342,627	3,274,363	935,827	2,366,178
Critical spares reclassified to property, plant and equipment (note 13 (a) and 13 (b))	(196,653)	-	(106,898)	-
	-----	-----	-----	-----
	1,145,974	3,274,363	828,929	2,366,178
	=====	=====	=====	=====

The cost of inventories recognised as an expense in respect of write down of inventories to net realisable value was Sh 213,216,000 (2016 – Sh 48,036,000) for the Group and Sh. 136,986,000 (2016 – Sh 47,213,000 for the Company).

### 19. TRADE AND OTHER RECEIVABLES

Trade receivables (net)	2,062,200	4,277,370	1,873,579	2,923,550
Other receivables and prepayments	240,824	341,997	230,933	239,742
	-----	-----	-----	-----
	2,303,024	4,619,367	2,104,512	3,163,292
	=====	=====	=====	=====

### 20. DUE FROM EMPLOYEE SHARE OPTION PLAN (ESOP) - LOAN AND RECEIVABLE

In 2005, the Company established an Employee Share Ownership Plan (ESOP) for purposes of encouraging employees to own shares in the Company. This is a separate trustee administered plan operating within the ESOP rules as contained in the plan's Trust Deed.

The amount due from ESOP is accounted for as a loan and receivable financial instrument. At each reporting period end, the Group reviews the outstanding balance from the ESOP to determine whether the receivable is impaired. Any impairment loss is recognised through profit or loss in the year in which it arises. The movement in the ESOP receivable balance during the year is as shown below;

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 20. DUE FROM EMPLOYEE SHARE OPTION PLAN (ESOP) - LOAN AND RECEIVABLE (Continued)

	GROUP & COMPANY	
	2017 Sh'000	2016 Sh'000
<b>Amount due from ESOP</b>		
At 1 January	38,555	58,767
Sale/transfer of shares	-	(20,212)
	-----	-----
At 31 December	38,555	38,555
	=====	=====

### 21 (a) SHARE CAPITAL

#### Authorised:

960,000,000 (2016: 960,000,000) ordinary shares of Sh 1 each	960,000	960,000
	=====	=====

#### Issued and fully paid:

959,940,200 (2016: 959,940,000) fully paid ordinary shares of Sh 1 each	959,940	959,940
	=====	=====

Movement in share capital and share premium is as follows:-

	No. of Shares '000	Share capital Sh'000	Share premium Sh'000	Total Sh'000
At 1 January 2016	495,275	495,275	302,027	797,302
Issue of shares	353,665	353,665	13,792,943	14,146,608
Issue of shares to employee share ownership scheme	111,000	111,000	-	111,000
	-----	-----	-----	-----
At 31 December 2016 and 31 December 2017	959,940	959,940	14,094,970	15,054,910
	=====	=====	=====	=====

At the 2008 Annual General Meeting held on 9 June 2008, the shareholders authorised Directors;

- to exercise borrowing powers of the Company to borrow money or raise capital or other finance (in any currency) for the purpose of facilitating the expansion of the Company's operations and to create and issue unsecured convertible bonds or notes to any person lending such money or granting such capital or finance and;
- in their sole discretion and as they deem fit and at such premium as they may determine (but subject to such regulatory and other authorisations, consents, filings and approvals as required by law), to allot and issue by way of private transaction or offer up to a maximum of 25,000,000 ordinary shares of Kenya shillings Five (Sh 5.00) each in the Capital of the Company, credited as fully paid and ranking pari passu in all respects with the existing ordinary shares of Kenya Shillings Five (Sh 5.00) each by way of redemption and in exchange for such convertible bonds or notes.

On 29 April 2016 the Company entered into a conditional investment agreement with CDC Africa Cement Limited (CDCAC), which is a wholly owned subsidiary of CDC Group Plc (a Development Finance institution wholly owned by the United Kingdom Government). Pursuant to this agreement, approved by the board on the same day, CDCAC invested USD 140 Million in the Company by subscribing for 353,665,200 ordinary shares of the Company at a price of Sh 40.00 per share equivalent to approximately 41.66% of the issued share capital of the Company upon completion of the subscription. This arrangement was approved at the Annual General Meeting (AGM) held on 28 August 2016.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 21(b) TREASURY SHARES

Treasury shares represent the unallocated shares in ARM Cement Plc that are held by the Trustees of the ARM Cement Employee Share Ownership Scheme, a trust set up for the purpose of incentivising employees through issuance of shares to employees as part of their remuneration package.

Under the scheme, eligible employees may be allotted the shares at the discretion of the Directors at discounted cost upon the satisfaction of certain conditions as determined by the Directors from time to time. None of the vesting conditions had been met by the employees as at 31 December 2017.

### 22(a) BORROWINGS - GROUP

	2017 Sh'000	2016 Sh'000
Bank loans	6,583,664	7,964,887
Aureos income note	1,487,569	1,342,554
Corporate bond	1,036,441	918,941
Commercial papers	771,294	734,556
	-----	-----
	9,878,968	10,960,938
Bank overdrafts	4,558,542	2,282,570
	-----	-----
	14,437,510	13,243,508
	=====	=====

The borrowings are repayable as follows:

On demand or within one year	13,027,990	8,668,723
After 1 year but within 5 years	1,409,520	4,574,785
	-----	-----
Total	14,437,510	13,243,508
Less: amount due for settlement within one year	(13,027,990)	(8,668,723)
	-----	-----
Amount due for settlement after one year	1,409,520	4,574,785
	=====	=====

#### Analysis of borrowings by currency

	Borrowings in US\$'000	Kshs Equivalent Sh'000	Borrowings in local currency Sh'000	Total borrowings Sh'000
<b>2017</b>				
Bank loans	63,667	6,572,402	11,262	6,583,664
Bank overdrafts	19,494	2,012,367	2,546,175	4,558,542
Aureos income note	14,410	1,487,569	-	1,487,569
Commercial papers	-	-	771,294	771,294
Corporate bond	-	-	1,036,441	1,036,441
	-----	-----	-----	-----
At 31 December 2017	97,571	10,072,338	4,365,172	14,437,510
	=====	=====	=====	=====
<b>2016</b>				
Bank loans	60,561	6,204,781	1,760,106	7,964,887
Bank overdrafts	12,468	1,277,720	1,004,850	2,282,570
Aureos income note	13,100	1,342,554	-	1,342,554
Commercial papers	-	-	734,556	734,556
Corporate bond	-	-	918,941	918,941
	-----	-----	-----	-----
At 31 December 2016	86,129	8,825,055	4,418,453	13,243,508
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22(a) BORROWINGS – GROUP (Continued)

The average interest rates incurred on the borrowings during the year were as follows:

	2017 %	2016 %
Bank overdrafts (Sh)	13.5	16.5
Bank overdrafts (US \$)	10.2	7.5
Bank loans (Sh)	13.5	18.0
Bank loans (US \$)	10.1	8.0
Corporate bonds	17.5	17.5
	=====	=====

### 22(b) BORROWINGS – COMPANY

	2017 Sh'000	2016 Sh'000
Bank loans	5,407,449	5,503,263
Aureos income note	1,487,569	1,342,554
Corporate bond	1,036,441	918,941
Commercial papers	771,294	734,556
	-----	-----
Bank overdrafts	8,702,753	8,499,314
	2,140,445	1,283,010
	-----	-----
	10,843,198	9,782,324
	=====	=====

The borrowings are repayable as follows:

On demand or within one year	9,819,216	4,716,541
After 1 year and within 5 years	1,023,982	5,065,783
	-----	-----
Total	10,843,198	9,782,324
Less: amount due for settlement within one year	(9,819,216)	(4,716,541)
	-----	-----
Amount due for settlement after one year	1,023,982	5,065,783
	=====	=====

Analysis of borrowings by currency

	Borrowings in US\$ '000	Kshs equivalent Sh'000	Borrowings in local currency Sh'000	Total Borrowings Sh'000
<b>2017</b>				
Bank loans	52,382	5,407,449	-	5,407,449
Bank overdrafts	11,312	1,167,715	972,730	2,140,445
Aureos income note	14,410	1,487,569	-	1,487,569
Corporate bond	-	-	1,036,441	1,036,441
Commercial paper	-	-	771,294	771,294
	-----	-----	-----	-----
At 31 December 2017	78,104	8,062,733	2,780,465	10,843,198
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22(b) BORROWINGS – COMPANY (Continued)

	Borrowings in US\$ '000	Kshs equivalent Sh'000	Borrowings in local currency Sh'000	Total Borrowings Sh'000
<b>2016</b>				
Bank loans	49,070	5,027,634	475,629	5,503,263
Bank overdrafts	-	-	1,283,010	1,283,010
Aureos income note	13,100	1,342,554	-	1,342,554
Corporate bond	-	-	918,941	918,941
Commercial paper	-	-	734,556	734,556
	-----	-----	-----	-----
At 31 December 2016	62,170	6,370,188	3,412,136	9,782,324
	=====	=====	=====	=====

The average interest rates incurred on the borrowing during the year were as follows:

	2017 %	2016 %
Bank overdrafts (Sh)	13.5	16.5
Bank overdrafts (US\$)	9.0	7.5
Bank loans (Sh)	13.5	18.0
Bank loans (US\$)	10.13	8.0
Corporate bonds	17.5	17.5
	=====	=====

### 22(c) BORROWINGS ANALYSED BY LENDING INSTITUTIONS

	2017 Sh'000	2016 Sh'000
<b>(i) ARM Cement Limited</b>		
<b>Loans</b>		
Stanbic Bank Kenya Limited	785,312	1,083,592
African Finance Corporation (AFC) *	4,622,137	4,146,892
Victoria Commercial Bank	-	272,779
<b>Bank overdrafts</b>		
Barclays Bank of Kenya Ltd	229,365	128,575
Stanbic Bank Kenya Limited	1,019,892	1,154,180
Guaranty Trust Bank Limited	550,709	-
UBA Bank Limited	340,479	-
Citibank NA	-	255
<b>Other borrowings</b>		
Commercial paper	771,294	734,556
Aureos income note	1,487,569	1,342,554
Corporate bond	1,036,441	918,941
	-----	-----
	10,843,198	9,782,324
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22(c) BORROWINGS ANALYSED BY LENDING INSTITUTIONS (Continued)

	2017 Sh'000	2016 Sh'000
<b>(ii) Maweni Limestone Limited</b>		
<b>Loans</b>		
Eastern and Southern African Trade and Development Bank (PTA Bank)	381,458	346,547
Development Bank of South Africa Limited	781,755	803,588
Stanbic Bank Limited	1,741	749,798
<b>Bank overdraft</b>		
Stanbic Bank Limited	1,573,444	1,258,930
Canara Bank Limited	20,554	-
Standard Bank Limited (Mauritius)	824,098	-
	-----	-----
	3,583,050	3,158,863
	=====	=====
<b>(iii) ARM (Rwanda) Limited -</b>		
Bank Commercial Du Rwanda Ltd - loan	11,262	-
	=====	=====

As at 31 December 2017, the company had outstanding letters of credit amounting to Sh 15,080,000 (2016 - Sh 143,472,000).

#### \* African Finance Corporation (AFC) facility

At an Annual General Meeting held on 12 June 2007, the shareholders approved and authorised the directors to raise new funding through a convertible debt. The offer to Africa Finance Corporation was approved by the regulatory authorities.

In 2012 the Company issued to Africa Finance Corporation 50 convertible notes of USD 1,000,000 each for a tenure of 6 years at an annual interest of 5% payable quarterly plus 2.5% interest accrued every quarter and payable on maturity.

The notes are redeemable at a premium of 10% on maturity or the holder may convert the notes into new ordinary shares at a fixed rate of \$0.64 per share any time during the six-year tenor.

During the year ended 31 December 2017, the company capitalised interest amounting to USD 4,310,999 (2016: USD 1,485,000) being total interest charged in the year which brought the total amount owed to the African Finance Corporation to USD 44,744,400 (2016: USD 40,463,401).

### (d) DETAILS OF SECURITIES

The general short term borrowings, letters of credit and foreign currency facilities with Stanbic Bank Limited are secured by a first ranking debenture over all the company's assets for Sh 225,000,000 and USD 19,134,000 together with a first legal charge for Sh 225,000,000 and USD 19,134,000 over the company's freehold and leasehold properties ranking pari passu with the legal charges in favour of other lenders, Barclays Bank of Kenya Limited, UBA Bank Kenya Limited and Bank of Africa Kenya Limited.

The overdraft facility and letters of credit with Bank of Africa Kenya Limited are secured by a pari passu debenture stamped for Sh 120,000,000 over all the assets of the company. The overdraft and loan facilities with Barclays Bank of Kenya Limited are secured by a legal charge over certain properties for Sh 264,000,000 and a debenture of Sh 264,000,000 over all the assets of the Group.

ARM Cement Limited is a guarantor to Maweni Limestone Limited's obligations to Eastern and Southern African Trade and Development Bank, Development Bank of Southern Africa Limited and East African Development Bank under facilities agreements amounting to US \$ 50,000,000.

The Aureos income note is unsecured and matures in 2018.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22(e) COVENANTS

The Company signed facilities with AFC, Stanbic Bank and Aureos which contain some financial covenants, which are monitored against the annual audited financial statements. The Group is in not in compliance with all the financial covenants but expects to receive waivers from the financiers. Though the terms of the loans have not changed, the Group has disclosed the loans due to these financiers as current pending receipt of the waivers.

### 23. DEFERRED TAXATION

Deferred income tax is calculated on all temporary differences under the liability method using the currently enacted tax rate of 30% for Kenya, Tanzania and Rwanda and 29% for South Africa.

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Sh'000</b>	<b>Sh'000</b>	<b>Sh'000</b>	<b>Sh'000</b>
The net deferred taxation liability is attributable to the following items:				
<b>Liabilities:</b>				
Accelerated capital allowances	2,789,511	3,048,708	1,864,660	2,040,776
Revaluation surplus on property plant and equipment	4,051,897	4,264,418	1,078,988	1,228,721
Unrealised exchange gains	-	43,785	-	14,538
	6,841,408	7,356,911	2,943,648	3,284,035
<b>Assets:</b>				
Leave pay provision	(3,564)	(3,885)	(3,564)	(3,885)
Unrealised exchange losses	(238,026)	(204,349)	(124,168)	(15,985)
Inventory impairment provision	(89,866)	(32,228)	(87,241)	(31,981)
General bad debt provisions	(553,928)	(43,270)	(501,690)	(41,466)
Other general provisions	(6,153)	(1,494)	(6,153)	(1,494)
Tax losses	(2,849,175)	(2,690,187)	(492,450)	(465,682)
	(3,740,712)	(2,975,413)	(1,215,266)	(560,493)
Deferred tax assets not recognised	178,783	-	-	-
	3,279,479	4,381,498	1,728,382	2,723,542
<b>Net deferred tax liability</b>	<b>3,279,479</b>	<b>4,381,498</b>	<b>1,728,382</b>	<b>2,723,542</b>
The movement on the deferred taxation account is as follows:				
At 1 January	4,381,498	5,789,242	2,723,542	3,073,136
Income statement credit (note 9(a))				
- current year credit	(1,877,731)	(1,158,142)	(1,054,702)	(349,594)
- prior year over provision	727,104	(21,545)	155,172	-
Other comprehensive income	(95,630)	(199,497)	(95,630)	-
Deferred tax assets not recognised	178,783	-	-	-
Exchange adjustment	(34,545)	(28,560)	-	-
	3,279,479	4,381,498	1,728,382	2,723,542
<b>Comprising of</b>				
Deferred tax asset	-	(147,963)	-	-
Deferred tax liability	3,279,479	4,529,461	1,728,382	2,723,542
	3,279,479	4,381,498	1,728,382	2,723,542

As at 31 December 2017, the Group had accumulated tax losses amounting to Sh 9,497,250,000 (2016 - Sh 8,967,289,000) available to be offset against future taxable profit. Under Kenyan legislation, tax losses can only be carried forward to a maximum of ten years. Deferred tax on tax losses relating to ARM Cement Plc and Maweni Limestone Limited of Sh 492,450,000 and Sh 2,171,375,000 respectively have been recognised based on management's projections of profits allowing the entities to utilise the tax losses within the relevant periods.

Deferred tax assets of Sh 95,457,000 and Sh 83,326,000 arising from the tax losses accumulated by ARM (Tanzania) Limited and Kigali Cement Company respectively have been derecognised because of the uncertainty regarding their' ability to. Generate sufficient taxable profits in the foreseeable future that will allow the tax losses to be utilised.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Trade payables	2,767,959	3,626,087	1,575,149	1,576,744
Other payables and accruals	1,224,313	1,589,951	652,592	443,858
Leave pay provision	11,879	12,951	11,879	12,951
	-----	-----	-----	-----
	4,004,151	5,228,989	2,239,620	2,033,553
	=====	=====	=====	=====

### 25. NOTES TO THE CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

#### (a) Reconciliation of loss before taxation to cash generated from operations - GROUP

	2017 Sh'000	2016 Sh'000
Loss before taxation from continuing operations	(7,521,366)	(3,978,831)
Adjustments:		
Depreciation of property, plant and equipment (note 13(a))	1,667,516	1,645,130
Impairment of assets	1,395,325	-
Amortisation of operating lease prepayments (note 14)	40,069	366
Amortisation of intangible assets (note 15)	776	236
Finance cost recognised in profit before taxation (note 5)	1,736,497	3,012,286
Finance income recognised in profit before taxation (note 6)	(3,157)	(6,081)
Net unrealised foreign exchange on borrowings (note 25(d))	38,458	751,776
Impairment of goodwill	71,012	-
Loss on disposal of property, plant and equipment	16,183	-
Working capital changes:		
Decrease in inventories	2,128,389	592,986
Inventory reclassified to property, plant and equipment (note 18)	(196,653)	-
Decrease/(increase) in trade and other receivables	2,316,343	(1,083,728)
Movement in related party balances	9,166	(55,516)
(Decrease)/increase in trade and other payables	(1,224,838)	711,902
Decrease in due from ESOP	-	20,212
	-----	-----
Cash generated from operations	473,720	1,610,738
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25. NOTES TO THE CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS (Continued)

#### (b) Reconciliation of loss before taxation to cash generated from operations - COMPANY

	2017 Sh'000	2016 Sh'000
Loss before taxation from continuing operations	(5,123,924)	(1,248,368)
Adjustments:		
Depreciation of property, plant and equipment (note 13(b))	559,995	539,978
Impairment of property, plant and equipment (note 13(b))	1,395,325	-
Amortisation of operating lease prepayments (note 14)	68	68
Amortisation of intangible assets (note 15)	776	196
Loss on disposal of property, plant and equipment	16,183	-
Finance cost recognised in profit before taxation (note 5)	541,761	1,593,772
Finance income recognised in profit before taxation (note 6)	-	(3,438)
Impairment of investment in subsidiaries	530,864	-
Net unrealised foreign exchange on borrowings (note 25(d))	52,194	704,415
Working capital changes:		
Decrease in inventories	1,537,249	62,863
Inventories reclassified to property, plant and equipment	(106,898)	-
Decrease/(increase) in trade and other receivables	1,058,780	(693,697)
Movement in related party balances	(260,592)	(1,378,796)
Decrease in trade and other payables	206,067	(748,637)
Decrease in due from ESOP	-	20,212
	-----	-----
Cash generated from/(used) in operations	407,848	(1,151,432)
	=====	=====

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
(c) <b>Analysis of additions to property, plant and equipment</b>				
Additions in the year (note 13(a) and (b))	215,732	226,853	207,551	161,823
	=====	=====	=====	=====
(d) <b>Analysis of cash flow by borrowings</b>				
At 1 January	10,960,938	20,791,981	8,499,314	18,239,495
Received during the year	482,391	-	482,391	-
Repayment during the year	(2,339,984)	(10,782,726)	(1,044,886)	(10,470,123)
Accrued interest	737,165	199,907	713,740	25,527
Unrealised exchange	38,458	751,776	52,194	704,415
	-----	-----	-----	-----
At 31 December	9,878,968	10,960,938	8,702,753	8,499,314
	=====	=====	=====	=====
(e) <b>Analysis of cash and cash equivalents</b>				
Cash and bank balances	147,777	157,164	34,374	38,370
Bank overdrafts (note 22(a) and (b))	(4,558,542)	(2,282,570)	(2,140,445)	(1,283,010)
	-----	-----	-----	-----
	(4,410,765)	(2,125,406)	(2,106,071)	(1,244,640)
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25. NOTES TO THE CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS (Continued)

	GROUP		COMPANY	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
(f) Analysis of interest paid				
Interest charged to profit or loss (note 5)	1,736,497	3,012,286	541,761	1,593,772
Less: Accrued interest (note 25(d))	(737,165)	(199,907)	(713,740)	(25,527)
Accrued interest recharged to Maweni Limestone Limited (note 25 (g))	-	-	677,354	-
	-----	-----	-----	-----
	999,332	2,812,379	505,375	1,568,245
	=====	=====	=====	=====
(g) Analysis of non cash transactions				
Movement in related party balances	9,116	(55,516)	(937,946)	(1,378,796)
Accrued interest recharged to Maweni Limestone Limited (note 25(d))	-	-	677,354	-
	-----	-----	-----	-----
	9,116	(55,516)	260,592	(1,378,796)
	=====	=====	=====	=====

### 26. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties also include the management personnel, their associates and close family members.

In the normal course of business, transactions are conducted with related parties at terms and conditions similar to those offered to other customers. Transactions with related parties during the year and related party outstanding balances as at the year-end are disclosed below;

#### (a) Transactions

	2017	2016
	Sh'000	Sh'000
<b>Company</b>		
Purchase of clinker from Maweni Limestone Limited	231,449	676,329
Sale of special products to Rhino Special Products Limited	57,248	69,234
Purchase of packaging material from Adpack Limited	425,497	491,535
Interest on late payment by Adpack Limited	36,722	-
	=====	=====
<b>Group</b>		
Sale of special products to Rhino Special Products Limited	57,248	69,234
Purchase of packaging material from Adpack Limited	545,454	660,370
Interest on late payment by Adpack Limited	68,996	-
	=====	=====

The outstanding balances arising from sale and purchase of goods and services between the company and its related parties are as shown below:

The balances due from and to related parties are unsecured, interest free and have no fixed repayment period.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 26. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

#### (b) Due from related parties – Group

	2017 Sh'000	2016 Sh'000
Rhino Special Products Limited	2,406	91,238
ARM Rhino Cement Limited	3,199	9,213
ARM Africa Cement (MAU) Limited	-	8,006
Royal Ceiling Limited	4,421	2,160
	-----	-----
	10,026	110,617
Provision for related party balances	(7,620)	-
	-----	-----
	<u>2,406</u>	<u>110,617</u>
	=====	=====

#### (c) Due from related parties – company

Maweni Limestone Limited	21,559,651	19,782,095
ARM (Tanzania) Limited	564,271	142,793
Kigali Cement Company Limited	403,235	398,432
Mafeking Cement Company Limited	315,950	305,592
ARMSA (Pty) Limited	51,117	53,218
Rhino Special Products Limited	16,920	91,081
ARM Rhino Cement Limited	3,199	9,213
ARM Africa Cement (MAU) Limited	-	8,006
Royal Ceiling Limited	4,421	2,160
	-----	-----
	22,918,764	20,792,590
Provision for doubtful related party receivables	(1,026,968)	-
	-----	-----
	<u>21,891,796</u>	<u>20,792,590</u>
	=====	=====

#### (d) Due to related parties – Group

Due to Directors	72,311	43,214
Rhino Special Products Limited	-	3,269
Adpack Limited	66,379	153,455
Amanat Investments Limited	8,295	46,139
Kenon Investments Limited	417	370
	-----	-----
	147,402	246,447
	=====	=====

#### (e) Due to related parties – company

Maweni Limestone Limited	1,056,583	820,913
Due to Directors	72,311	43,214
Adpack Limited	21,291	78,552
ARM (Rwanda) Limited	11,262	19,711
Amanat Investments Limited	8,295	46,139
Kenon Investments Limited	417	370
	-----	-----
	1,170,159	1,008,899
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 26. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

#### (f) Key management compensation

	2017 Sh'000	2016 Sh'000
Salaries and other benefits	317,778	247,788

#### (g) Directors' remuneration

Fees for services as Directors (non-executive)	12,869	13,285
Salaries and other benefits (executive Directors)	207,181	173,676
	-----	-----
	220,050	186,961

### 27. OPERATING LEASE COMMITMENTS

Rental payments during the year amounted to Sh 239,497,000 (2016 – Sh 333,732,000) for the Group and Sh 72,470,000 (2016 – Sh 64,107,000) for the Company. At the balance sheet date, the company had contracted for the following future lease payables:

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Within one year	156,081	233,482	63,740	65,747
In the second to fifth year inclusive	141,318	295,586	52,465	116,205
After five years	61,715	67,811	61,715	67,811
	-----	-----	-----	-----
	359,114	596,879	177,920	249,763

Leases are negotiated for an average term of five years and rentals are reviewed as per the provisions of the lease agreements. The leases are not cancellable unless one is in breach of the conditions provided for in the lease agreements.

### 28. CAPITAL COMMITMENTS

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Authorised and contracted for	-	349,314	-	349,314
	-----	-----	-----	-----
Authorised but not contracted for	-	1,687,000	-	1,065,000
	-----	-----	-----	-----

### 29. CONTINGENT LIABILITIES

Guarantees	19,700	19,500	19,700	19,500
	-----	-----	-----	-----

#### Guarantees

In the ordinary course of business, the Group's and Company's bankers have issued guarantees on behalf of the Group and Company in favour of third parties. In the opinion of the Directors, no liability is expected to crystallise in respect of these guarantees.

### 29. CONTINGENT LIABILITIES (Continued)

#### Tax matters

In April 2015, the Kenya Revenue Authority issued a tax assessment of Sh. 2.6 billion being principal tax of Sh. 1.4 billion, penalties of Sh. 275 million and interest of Sh 906 million. The assessment is in respect of the Company's corporate tax, Value Added Tax (VAT), employee Pay As You Earn (PAYE) deductions and withholding tax affairs for the years 2009, 2010, 2011 and 2014 financial years. In accordance with the tax legislation, the Company appealed to the Local Committee Tribunal. The basis of the Company objection relates to the specific matters of application and interpretation of tax legislation affecting the Company. The matters under appeal were heard in August 2016 and there have been no further communication from the tribunal since then. With the assistance of professional advice, the Directors have considered all matters in contention and are confident that the appeal will be successful and no material liability will accrue to the Company.

#### Other material litigations

The contingent liabilities in respect of the litigations relates to several legal cases brought against the Group which were pending determination by the courts as at 31 December 2017. The cases pending against the Group relate to those filed by former employees of the Group for unfair termination as well as Vehicle and Assets Leasing Limited in respect of overdue payments. It is not practicable to determine the timing and ultimate liabilities (if any) that may crystallise upon the resolution of the cases. Due to the nature of the cases, detailed disclosures have not been made for each case as these may be prejudicial to the Group.

### 30. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including credit, liquidity and market risks which mainly comprise effects of changes in foreign currency and interest rates risk. The Group's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Risk management is carried out by the Group's senior management under policies approved by the Board of Directors. Senior management identify, evaluate and where possible hedge financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the prior year.

#### Market risk

##### (i) Foreign currency exchange risk

The Group is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign currency exchange risk arises from future commercial transactions, recognised assets and liabilities. Monetary assets and liabilities held in foreign currencies are closely monitored to ensure that the risk of being materially affected by adverse foreign currency fluctuations is effectively managed and minimised.

The carrying amounts of the Group's USD denominated monetary assets and liabilities at the statement of financial position date are as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. FINANCIAL RISK MANAGEMENT (Continued)

31 December 2017	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>Assets</b>				
Trade receivables	1,405,994	1,937,213	181,060	882,589
Cash and bank balances	45,149	34,235	222	1,246
	-----	-----	-----	-----
	1,451,143	1,971,448	181,282	883,835
	=====	=====	=====	=====
<b>Liabilities</b>				
Borrowings	10,072,338	8,825,055	8,062,733	6,370,188
Trade creditors	1,866,938	1,485,458	625,399	769,019
	-----	-----	-----	-----
	11,939,276	10,310,513	8,688,132	7,139,207
	=====	=====	=====	=====
Net exposure	(10,488,133)	(8,339,065)	(8,506,850)	(6,255,372)
	=====	=====	=====	=====

At 31 December 2017, if the Kenya Shilling had weakened/strengthened by 5% against the

US dollar with all other variables held constant, the Group's pre-tax loss for the year would have been Sh 524,407,000 (2016: Sh 416,953,000) higher/lower, mainly as a result of translation of US dollar payables, loans, receivables and bank balances. The Company's pre-tax loss for the period would have been Sh 425,343,000 (2016: Sh 312,769,000) higher/lower.

#### (ii) Interest rate risk

The Group and Company is exposed to interest rate risk as it borrows funds both at fixed and floating interest rates. The risk is managed by the Group through a close management monitoring control. During the year, an increase/decrease of 5 percentage points on average borrowing rates would have resulted in an increase/decrease in pre-tax profit by Sh 89,825,000 (2016 - Sh 150,614,000) for the Group and Sh 27,088,000 (2016 - Sh 79,689,000) for the Company.

#### Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse geographical areas. On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

The carrying amount of financial assets carried in the financial statements representing the Group's and Company's maximum exposure to credit risk without taking account of the value of any collateral obtained is as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. FINANCIAL RISK MANAGEMENT (Continued)

Group	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
<b>At 31 December 2017</b>				
Trade receivables	698,825	2,179,522	(816,147)	2,062,200
Due from related parties	2,406	7,620	(7,620)	2,406
Due from ESOP		38,555	-	38,555
Bank balances	147,777	-	-	147,777
	-----	-----	-----	-----
	849,008	2,225,697	(823,767)	2,250,938
	=====	=====	=====	=====
<b>At 31 December 2016</b>				
Trade receivables	3,289,134	1,114,455	(126,219)	4,277,370
Due from related parties	110,617	-	-	110,617
Due from ESOP	38,555	-	-	38,555
Bank balances	157,164	-	-	157,164
	-----	-----	-----	-----
	3,595,470	1,114,455	(126,219)	4,583,706
	=====	=====	=====	=====
<b>Company</b>				
Company	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
<b>At 31 December 2017</b>				
Trade receivables	644,842	1,935,191	(706,454)	1,873,579
Due from related parties	-	22,918,764	(1,026,968)	21,891,796
Due from ESOP		38,555	-	38,555
Bank balances	34,374	-	-	34,374
	-----	-----	-----	-----
	679,216	24,892,510	(1,733,422)	23,838,304
	=====	=====	=====	=====
<b>At 31 December 2016</b>				
Trade receivables	2,437,923	730,699	(245,072)	2,923,550
Due from related parties	-	20,792,590	-	20,792,590
Due from ESOP	38,555	-	-	38,555
Bank balances	38,370	-	-	38,370
	-----	-----	-----	-----
	2,514,848	21,523,289	(245,072)	23,793,065
	=====	=====	=====	=====

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid.

The debt that is impaired has been fully provided for. However, the finance departments is following up on the impaired debt.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. FINANCIAL RISK MANAGEMENT (Continued)

#### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has developed and put in place 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 tables below 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 balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

#### Group:

At 31 December 2017	Less than 1 month Sh'000	Between 1 - 3 months Sh'000	Between 3 - 12 months Sh'000	Over 12 months Sh'000	Total Sh'000
<b>Assets</b>					
Trade receivables	339,935	405,015	1,317,250	-	2,062,200
Due from related parties	-	-	2,406	-	2,406
Due from ESOP	-	-	38,555	-	38,555
Bank balances	147,777	-	-	-	147,777
	-----	-----	-----	-----	-----
	487,712	405,015	1,358,211	-	2,250,938
	=====	=====	=====	=====	=====
<b>Liabilities</b>					
Borrowings	4,560,282	2,358,002	6,109,706	1,409,520	14,437,510
Trade payables	3,707,692	284,580	-	-	3,992,272
Due to related parties	66,379	81,023	-	-	147,402
	-----	-----	-----	-----	-----
	8,334,353	2,723,605	6,109,706	1,409,520	18,577,184
	=====	=====	=====	=====	=====
Net liquidity gap	(7,846,641)	(2,318,590)	(4,751,495)	(1,409,520)	(16,326,246)
	=====	=====	=====	=====	=====
<b>At 31 December 2016</b>					
<b>Assets</b>					
Trade receivables	705,086	840,074	2,605,991	126,219	4,277,370
Due from related parties	-	-	-	110,617	110,617
Due from ESOP	-	-	-	38,555	38,555
Bank balances	157,164	-	-	-	157,164
	-----	-----	-----	-----	-----
	862,250	840,074	2,605,991	275,391	4,583,706
	=====	=====	=====	=====	=====
<b>Liabilities</b>					
Borrowings	3,500,613	5,642,601	1,085,880	5,398,246	15,627,340
Trade payables	1,021,691	957,106	861,925	-	2,840,722
Due to related parties	-	-	-	46,483	46,483
	-----	-----	-----	-----	-----
	4,522,304	6,599,707	1,947,805	5,444,729	18,514,545
	=====	=====	=====	=====	=====
Net liquidity gap	(3,660,054)	(5,759,633)	658,186	(5,169,338)	(13,930,839)
	=====	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. FINANCIAL RISK MANAGEMENT (Continued)

Company:

	Less than 1 month Sh'000	Between 1 - 3 months Sh'000	Between 3 - 12 months Sh'000	Over 12 months Sh'000	Total Sh'000
<b>At 31 December 2017</b>					
<b>Assets</b>					
Trade receivables	308,843	367,970	1,196,766	-	1,873,579
Due from related parties	-	-	16,920	21,874,876	21,891,796
Due from ESOP	-	-	38,555	-	38,555
Bank balances	34,374	-	-	-	34,374
	-----	-----	-----	-----	-----
	343,217	367,970	1,252,241	21,874,876	23,838,304
	=====	=====	=====	=====	=====
<b>Liabilities</b>					
Borrowings	2,925,757	783,753	6,109,706	1,023,982	10,843,198
Trade payables	2,005,413	222,328	-	-	2,227,741
Due to related parties	21,291	92,285	-	1,056,583	1,170,159
	-----	-----	-----	-----	-----
	4,952,461	1,098,366	6,109,706	2,080,565	14,241,098
	=====	=====	=====	=====	=====
Net liquidity gap	(4,609,244)	(730,396)	(4,857,465)	19,794,311	9,597,206
	=====	=====	=====	=====	=====
<b>At 31 December 2016</b>					
<b>Assets</b>					
Trade receivables	481,921	574,184	1,867,445	-	2,923,550
Due from related parties	-	-	91,081	20,701,509	20,792,590
Due from ESOP	-	-	38,555	-	38,555
Bank balances	38,370	-	-	-	38,370
	-----	-----	-----	-----	-----
	520,291	574,184	1,997,081	20,701,509	23,793,065
	=====	=====	=====	=====	=====
<b>Liabilities</b>					
Borrowings	1,614,101	2,601,751	500,689	5,065,783	9,782,324
Trade payables	1,753,017	392,646	-	-	2,145,663
Due to related parties	78,552	-	109,434	820,913	1,008,899
	-----	-----	-----	-----	-----
	3,445,670	2,994,397	610,123	5,886,696	12,936,886
	=====	=====	=====	=====	=====
Net liquidity gap	(2,925,379)	(2,420,213)	1,386,958	14,814,813	10,856,179
	=====	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings and other services.

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.

Details of the Group's and Company's capital and gearing ratio are provided below;

	GROUP		COMPANY	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Share capital	959,940	959,940	959,940	959,940
Share premium	14,094,970	14,094,970	14,094,970	14,094,970
Treasury shares	(111,000)	(111,000)	(111,000)	(111,000)
Revaluation surplus	8,995,791	10,308,338	2,822,002	3,171,379
Retained earnings	(2,948,977)	2,521,988	3,086,468	7,184,913
Translation reserve	(191,726)	14,921	-	-
	-----	-----	-----	-----
Equity	20,798,998	27,789,157	20,852,380	25,300,202
	-----	-----	-----	-----
Total borrowings	14,437,510	13,243,508	10,843,198	9,782,324
Less: cash and cash equivalents	(147,777)	(157,164)	(34,374)	(38,370)
	-----	-----	-----	-----
Net debt	14,289,733	13,086,344	10,808,824	9,743,954
	-----	-----	-----	-----
Total capital	35,088,731	40,875,501	31,661,204	35,044,156
	=====	=====	=====	=====
Gearing	41%	32%	34%	28%
	=====	=====	=====	=====

### 32. INCORPORATION

The company is domiciled and incorporated in Kenya under the Kenyan Companies Act, Cap 486.

### 33. POST REPORTING DATE EVENTS

On 22 January 2018, the shareholders approved the sale of the entire non cement business in Kenya to Omya (Schweiz) AG, a company incorporated in Switzerland and Pinner Heights Limited (PHL), a company incorporated in the Republic of Mauritius through a special resolution at the Company's Extraordinary General Meeting. The sale was in line with the Group's strategic review following the onboarding of CDC Africa Cement Limited (CDAC) as a shareholder in 2016.

Omya (Schweiz) AG is a global producer of industrial minerals. Pinner Heights Limited (PHL) is beneficially owned by the Manor Trust, set up for the benefit of Pradikumar Harjivandas Paurana and his immediate family.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 33. POST REPORTING DATE EVENTS (Continued)

Pradikumar Harjivandas Paunrana is the Managing Director in ARM Cement Plc and a significant shareholder of the Company with a total direct interest of 10.6% as at 31 December 2017 and indirect investment through Amanat Investments Limited of 15.2%.

The sale would be completed through the transfer of the Kenyan non cement businesses to Mavuno Fertilisers Limited, a fully owned subsidiary of ARM Cement Plc, and thereafter 51% and 49% shareholding in Mavuno Fertilisers Limited, to Omya (Schweiz) AG and PHL respectively. The total consideration for the transfer is USD 16,000,000 plus an amount equal to cash in the company on closing less amount of equivalent debt in the Company on closing less the target net working capital plus any amounts due for the transfer of inventory held by the business on completion date.

Further, the sale agreement grants the purchasers an option to acquire ARM's non cement business assets in Tanzania at no further financial consideration. Until the execution of such an agreement, and at the sole discretion of the purchaser, it was agreed that the parties will enter into a contract manufacturing agreement in which ARM Cement Plc would manufacture and supply industrial mineral products exclusively to the purchasers at a price to be agreed between the parties based on actual cost plus a markup.

The transfer and sale of the business had not been finalised as at the date of this report. As this was considered an adjusting event, the Directors' have reviewed the assets held with respect to the non cement business for impairment as disclosed in Note 13.

### 34. CURRENCY

The financial statements are presented in thousands of Kenya Shillings (Sh'000).

## APPENDIX A

### DETAILED COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Appendix	2017 Sh'000	2016 Sh'000
Revenue		6,925,294	9,635,876
Cost of sales	B	(6,682,636)	(7,232,780)
		-----	-----
Gross profit		242,658	2,403,096
Net foreign exchange losses	C	413,894	(433,261)
Other operating income	B	4,193	1,620
Distribution costs	B	(171,074)	(282,771)
Administrative expenses	C	(3,145,645)	(1,346,718)
Impairment of property, plant and equipment		(1,395,325)	
Finance income	C	-	3,438
Finance costs	C	(541,761)	(1,593,772)
Impairment of investment in subsidiaries		(530,684)	-
		-----	-----
LOSS BEFORE TAXATION		(5,123,924)	(1,248,368)
Taxation charge		899,240	348,563
		-----	-----
LOSS FOR THE YEAR		(4,224,684)	(899,805)
		=====	=====

## APPENDIX B

### DETAILED COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

	2017 Sh'000	2016 Sh'000
<b>Cost of sales</b>		
Purchases and packing materials	4,393,481	4,759,010
Opening inventories – finished goods	291,597	309,185
Quarry rent and royalties	6,095	3,805
	-----	-----
Closing inventories – finished goods	4,691,173 (49,415)	5,072,000 (291,597)
	-----	-----
	4,641,758	4,780,402
	-----	-----
<b>Direct production costs</b>		
Light and water	742,139	868,454
Salaries and wages	444,708	569,791
Depreciation of property, plant and machinery	559,995	539,978
Amortisation of intangible assets	777	196
Amortisation of prepaid operating leases	68	68
Machinery maintenance	116,146	151,413
Vehicle running	67,296	106,109
Cess payments	29,818	66,189
Laboratory expenses	6,541	3,985
Mining levy	72,059	98,939
Kenya Bureau of Standards levy	1,331	-
	-----	-----
	2,040,878	2,368,966
	-----	-----
<b>Total cost of sales</b>	6,682,636 =====	7,149,369 =====
<b>Other operating income</b>		
Miscellaneous income	4,193	1,620
	=====	=====
<b>Distribution costs</b>		
Transport	171,074	282,771
	=====	=====

## APPENDIX C

### DETAILED COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

	2017 Sh'000	2016 Sh'000
<b>Administrative expenses</b>		
Provision for doubtful related party balances	1,026,969	-
Provision for doubtful receivables	461,382	118,853
Salaries and wages	376,744	305,382
Stock write offs	218,057	-
Directors' emoluments	207,049	196,033
Provision for obsolete stocks	136,986	47,214
Bank charges	126,597	342,638
Miscellaneous	93,734	26,955
Professional charges	81,052	35,293
Motor vehicle operating lease	79,445	48,523
Insurance	71,709	56,245
Staff services	56,365	55,456
Travelling	46,848	53,725
Security services	32,130	4,483
Advertising	29,616	62,536
Loss on disposal of property, plant and equipment	23,227	-
Rent and rates	21,443	18,568
Postage and telephone	19,013	18,176
Listing fees	7,024	7,684
Subscriptions and periodicals	6,323	4,006
Printing and stationery	6,026	8,226
Licenses and fees	5,952	7,137
Auditors' remuneration	5,882	5,698
Electricity and water	3,607	3,796
Entertainment	2,231	2,628
Environmental management costs	234	874
	-----	-----
	3,145,645	1,430,129
	=====	=====
<b>Finance income</b>		
Interest receivable	-	3,438
	=====	=====
<b>Finance costs</b>		
Interest on loans, bonds and income notes	308,513	218,049
Interest on overdrafts	106,166	154,279
Interest in commercial papers	127,082	1,221,444
	-----	-----
	541,761	1,593,772
	=====	=====
<b>Net foreign exchange losses</b>		
Exchange gain/(losses)	413,894	(433,261)
	=====	=====





