East African Cables
Connecting lives

2018

Annual Report & Financial Statements

KENYA | TANZANIA | UGANDA | RWANDA | BURUNDI | SOUTH SUDAN

East African Cables is a premier cable manufacturer, with a footprint that spreads across East and Central Africa.

The Company has three manufacturing facilities; two in Nairobi, Kenya and one in Dar es Salaam Tanzania.

In addition, EAC is present in Uganda, Rwanda, Burundi, Southern Sudan and Eastern DRC, through a distribution network.

OUR MISSION

To be a dynamic company committed to exceeding customer expectation and increasing our market share through the provision of high quality products and services.

OUR VISION

To be the leading and preferred provider of cabling solutions.

OUR CORE VALUES

- Employees and customer safety comes first.
- Being ethical acting with respect, integrity, fairness and care in our dealings with all our partners.
- Pride in what we do and continuously pursuing maximum productivity in a safe environment.
- Getting it right the first time and consistently pursuing excellence.
- Freedom with responsibility and accountability in all we do.

EAC manufactures an extensive range of cables for applications in domestic and Industrial lighting, as well as transmission and distribution of electricity.

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NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the fifty fourth (54^{th}) Annual General Meeting of the shareholders will be held at East African Cables Plc premises on Addis Ababa Road, off Enterprise Road, Industrial Area, Nairobi, on 22 August 2019 at 11.00 a.m. for the following purposes:

A. Ordinary business

1. To receive and if approved, adopt the Group's audited financial statements for the year ended 31 December 2018, together with the Chairman's, Directors' and Auditors' reports thereon.
2. To approve the Directors' remuneration as provided in the financial statements for the period ended 31 December 2018.
3. Dividend. The Board of Directors does not recommend payment of a dividend for the year ended 31 December 2018.
4. To elect Directors:
   - (i) In accordance with the Company's Articles of Association, Amb. D. Awori retires by rotation and being eligible offers himself for re-election.
   - (ii) In accordance with the Company's Articles of Association, Carole Kariuki who was appointed as a director of the Company with effect from 15th March 2019 to fill a casual vacancy, retires from the Board and being eligible, offers herself for re-election as a director.
   - (iii) Pursuant to paragraph 2.5.1 of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, to approve the continuation in office as a Director of the following directors who have attained the age of seventy (70) years;
     - a. Mr. Bruno Thomas
     - b. Mr. Peter T. Kanyago

5. Pursuant to the provisions of Section 769 of the Companies Act 2015, Mr. Peter T. Kanyago and Mr. Njiinu Nganga (representing TransCentury PLC) being members of the Board Audit Committee be re-elected to continue to serve as members of the said committee.
6. To approve the re-appointment of KPMG Kenya as the auditors in accordance with section 721 (2) of the Companies' Act, 2015 and to authorise the Directors to fix their remuneration.
7. To transact any other business which may be properly transacted at an Annual General Meeting.

B. Special business

To consider, and if thought fit, to pass the following resolution as a Special Resolution

- (i) To approve the Amendments to the Articles of Association of the Company in order to align them to the Companies Act 2015

BY ORDER OF THE BOARD
Virginia Ndunge
Company Secretary
P.O. Box 18243 - 00500
Nairobi
30 July 2019

Note:

1. In accordance with S. 298 (1) of the Kenyan Companies' Act 2015, every member entitled to attend, and vote is entitled to appoint a proxy to attend and vote on his/her behalf and such a proxy need not be a member of the Company. To be valid, proxy forms must be deposited at the Registered Office of the Company not less than 48 hours before the appointed time of the meeting. A form of proxy may be obtained from the Company's website www.eacables.com or from the registered office of the Company.
2. In accordance with Article 146 of the Company's Articles of Association, a summary of the financial statements and the Auditors report for the year ended 31stDecember 2018 have been published in two daily newspapers with nationwide circulation. A copy of the entire Annual Report and Financial Statements may be viewed on and obtained from the Company's website www.eacables.com or from the Registered Office of the Company.

DIRECTORS, OFFICES AND STATUTORY INFORMATION

DIRECTORS

Michael Waweru	Chairman
Paul Muigai	CEO/MD - Appointed on 26th April 2018
Peter Kanyago	
Bruno Thomas*	
Dennis Awori	
Carole Kariuki	Appointed on 15th March 2019
TransCentury PLC	
Cable Holdings (Kenya) Limited	

* French

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS
East African Cables PLC
Industrial Area, Addis Ababa Road
P.O. Box 18243 - 00500
Nairobi

REGISTRARS
Custody & Registrar Services Limited
6th Floor, Bruce House, Standard Street
P.O. Box 8484 - 00100
Nairobi

SECRETARY
Virginia Ndunge
Certified Public Secretary (Kenya)
P.O. Box 18243 - 00500
Nairobi

AUDITORS
KPMG Kenya
8th Floor, ABC Towers, Waiyaki Way
P.O. Box 40612 - 00100
Nairobi

ADVOCATES
Kaplan & Stratton Advocates
9th Floor, Williamson House
4th Ngong Avenue
P.O. Box 40111 - 00100
Nairobi

Muthaura Mugambi Ayugi & Njonjo Advocates
4th Floor, Capitol Hill Square
Upper Hill
P.O. Box 8418 - 00200
Nairobi

Majanja Luseno Advocates
Jeevan Bharati Building,
5th Floor, Harambee Avenue
P.O. Box 74580 - 00200
Nairobi

BANKERS
Standard Chartered Bank Kenya Limited
Kenyatta Avenue Branch
P.O. Box 40310 - 00100
Nairobi

Credit Bank Limited
Industrial Area Branch
P.O. Box 61064 - 00200
Nairobi

Commercial Bank of Africa Limited
Upper Hill Branch
P.O. Box 30437 - 00100
Nairobi

KCB Bank Kenya Limited
Industrial Area Branch
P.O. Box 18031 - 00500
Nairobi

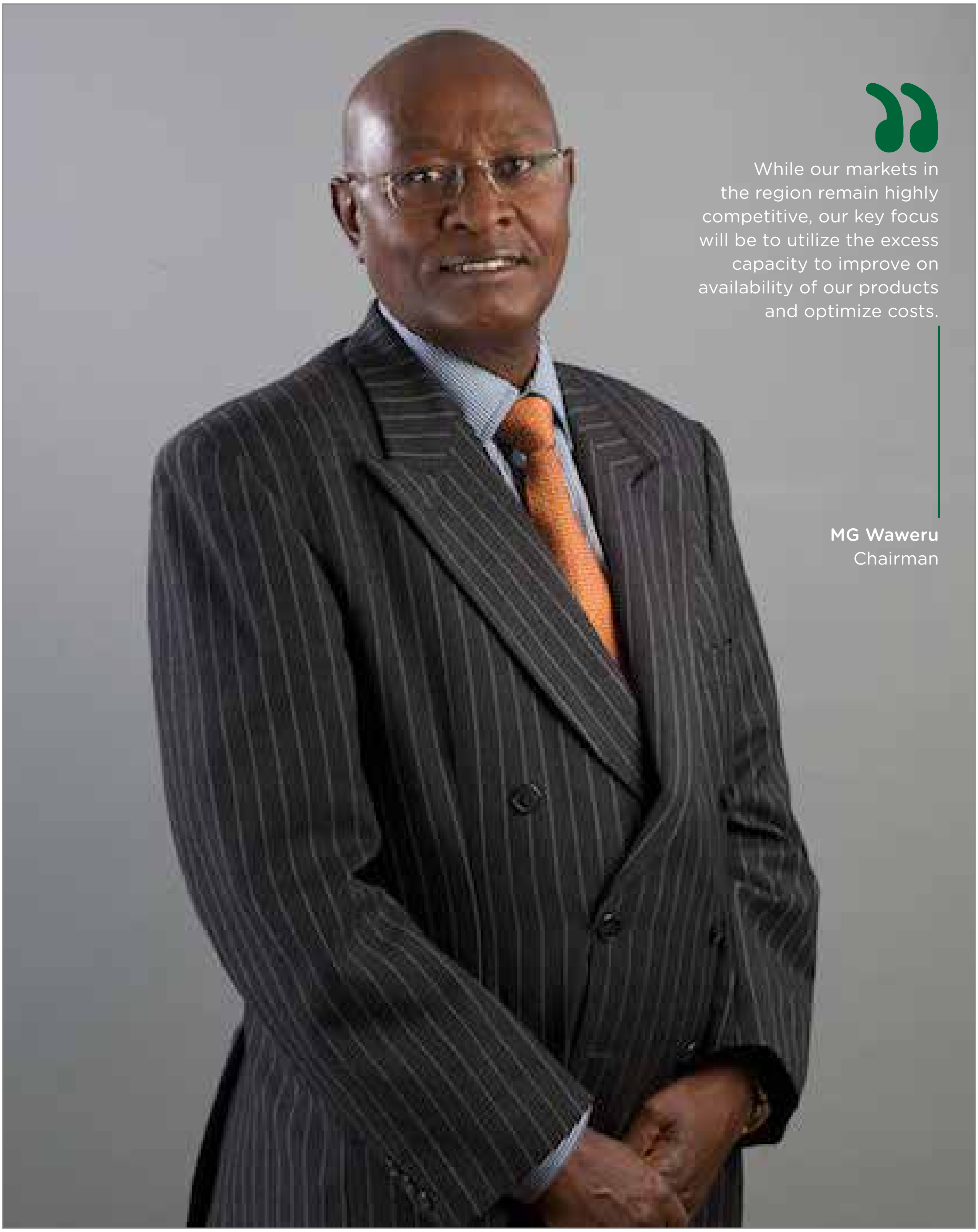
Ecobank Kenya Limited
Ecobank Towers, 13th Floor
Muindi Mbingu Street
P.O. Box 49584 - 00100
Nairobi

SBM Bank Kenya Limited
Hurligham Branch
P.O. Box 66049 - 00800
Nairobi

Sidian Bank
K-Rep Centre, Kilimani
P.O. Box 25363 - 00603
Nairobi

Equity Bank Kenya Limited
Lavington Supreme Centre
P.O. Box 75104 - 00200
Nairobi

CHAIRMAN



While our markets in the region remain highly competitive, our key focus will be to utilize the excess capacity to improve on availability of our products and optimize costs.

MG Waweru
Chairman

CHAIRMAN'S STATEMENT

In 2017, our business embarked on a turn-around strategy to ensure growth in shareholder value. I am pleased to report that significant progress was recorded in the year ended 31 December 2018.

Our business environment

Kenya's economy accelerated relative to the previous year owing to stable macroeconomic conditions and political stability marked by end of the long electioneering period experienced in 2017. Gross Domestic Product (GDP) growth was projected to rise to 5.7% up from 4.9% in 2017. While most of the sectors recorded growth in the year under review, construction sector recorded a slow-down to 6.6% in 2018 compared to 8.5% in 2017. The slow rate of growth was especially witnessed in the value of building plans approved last year that recorded a 12.7% decrease.

In our other regional markets, Tanzania economy recorded a slow down with a GDP growth of 6.7% in 2018 from 7.1% in 2017. Uganda's GDP grew at an estimated 5.3% in 2018 up from 5.0% in 2017. On average East Africa GDP slowed down from 5.9% in 2017 to 5.7% in 2018.

Our cable sub-sector has also been affected by high influx of sub-standard and counterfeit products. The sale of these illicit goods not only deprives the government of much needed revenue, it places consumers at increased risk of fire and other electrical hazards. We continue to engage government agencies to curb this menace.

Globally, the London Metal Exchange (LME) prices for Copper and Aluminium raw materials remained relatively stable compared to the previous year, declining marginally by 6% and 7% respectively. While this decrease impacts on our revenues negatively, it makes our products more affordable to the consumers.

Going concern

I am pleased to report that, post year end, the Group has successfully refinanced a significant portion of our debt that has been a drag on the business since 2016. I draw your attention to note 32 on page 108 which shows the impact of the debt restructure transaction on our financial statements. This transaction gives the business runway to operate optimally. With this achievement, in addition to other measures in our turn-around plan, the Board is confident that the business will become sustainable and profitable. A detailed review of these initiatives is disclosed in note 2(f), on page 50 - 52 of these consolidated and separate financial statements.

The Group has maintained a strong order book of KShs 5.2 billion mainly from regional utilities, for execution in 2019. Significant progress on servicing these orders would have been made 2018 but this was not possible due to constraints in funding the business. Tremendous progress has been made in resolving financial needs of the business with an expectation that these orders will be supplied from the 2nd Half of 2019.

The Board is confident of the turn-around of the business. Consequently, these financial statements have been prepared on a going concern basis. In making this assessment, the Directors have considered a wide range of information relating to present and anticipated future conditions, including future projections of profitability, current order book, and debt restructuring arrangements and availability of enhanced working capital to meet business requirements.

Performance and returns to shareholders

The Group recorded a 30% decrease in revenue resulting from depressed sales volumes to utility companies and a slowdown in the market arising from reduced level of activity in the construction sectors and constrained working capital. Our continued focus on cost management through implementation of Total Performance Management (TPM) resulted in margin retention at 29%, a slight improvement from 28% recorded in 2017.

The Group and Company recorded a loss of KShs 568.38 million and KShs 399.70 million respectively compared to a loss of KShs 663 million and KShs 454 million recorded in 2017.

The Board does not recommend payment of a dividend.

CHAIRMAN'S STATEMENT (CONTINUED)

Reporting standards
The Company continues to adopt the presentation and disclosure requirements of the International Financial Reporting Standards (IFRSs), The Kenya Companies Act, 2015 and other regulatory requirements. Changes and developments in the standards and other regulations within the financial period under review have been complied with.

On the global front, the implementation of International Financial Reporting Standard 9 (IFRS 9 - Financial Instruments) on 1 January 2018 ushered a significant shift in accounting. The impact of this standard on our performance is detailed on note 4(b), to the financial statements.

Risk management
The Board recognises that risk management is an integral part of creating value. The Board has put in place processes for identifying, assessing, and proactively managing risks to ensure that the company's business objectives are achieved. The group has a fully-fledged Internal Audit function led by the parent company, TransCentury PLC. The function reports to the Audit Committee of the Board.

Corporate governance
During the year, the Board, in compliance with regulatory requirements undertook a Governance Audit as well as Legal Compliance Audit. I wish to confirm to shareholders that the board has put in place sound governance framework. The reports of these audits are included in this booklet.

In the year, Mr. Paul Muigai, who since joining the Group in 2017 served as the Chief Operations Officer, was appointed the Managing Director and Chief Executive Officer. He replaced Mr. Peter Arina who resigned in August 2017. The Board has confidence in Mr. Muigai's expertise to turn around the business back to profitability.

Our vision for the future
While our markets in the region remain highly competitive, our key focus will be to utilize the excess capacity to improve on availability of our products and optimize costs. The Group has maintained cordial relationships with major utilities in the region. The current order, which is expected to grow with the roll-out of new power infrastructure projects is an indicator of the confidence our customers have in us. We shall continue to nurture these relationships for the mutual benefit of the economies we operate in and our business.

The Group continues to engage with relevant stakeholders on the Kenyan government's Big Four Agenda on housing and energy. The Group's capacity and product range are well suited to meet the expected demand and this will be a key driver of growth for our business over the short to medium term.

Appreciation
The success of this business is attributed to the collective effort of all our stakeholders. My appreciation goes to the staff, suppliers and above all, our customers for walking this journey with us. I also express my gratitude to the Board and the management team for their devotion to our strategy.

MG Waweru FCCA, FCPA, CBS.
Chairman
Date: 30 July 2019

BUSINESS REVIEW

Our products

East African Cables PLC has over the years invested in modern technology which has enabled it to offer safer, greener and high-quality electrical cables and conductors. Its diversified product range include Halogen free fire-retardant cables, Aerial bundled conductors and Cross-linked polyethylene (XLPE) insulated armoured cables in addition to the Polyvinyl Chloride (PVC) insulated cables and bare aluminium conductors. Aerial Bundled Conductors are revolutionary in sustaining our vegetation cover unlike the traditional bare conductors which required clearance of the vegetation along the service lines. The group provides vital support to power utilities, power infrastructure projects, industrial applications and domestic wiring including solar lighting. Other products include; House Wiring copper cables, Flexible cables, Power and Control cables, Auto and Battery cables, Aluminium overhead conductors and Super Enamelled Winding wire. The group adheres strictly to cable making standards to produce high quality cables.

Towards the close of the year, the Group embarked on new product development to expand its product range to include submersible cables and welding cables. This move was informed by increasing demand from our customers. We continue to respond to customer requirements and commit to continuously improve on our product offering, customer experience and be the supplier of choice for all cabling solutions.

Our business environment

The year under review was characterised by slow-down in construction sector and power connectivity projects which are key drivers to our volumes. This was the second successive year of decreased activity in the sector. Cement consumption data, a key indicator of our industry, showed a decline of 5% and 8% in 2018 and 2017 respectively. Every new power connection presents an opportunity for our business. Local utilities also registered slow down on the last mile connectivity project thus reducing demand for overhead conductors. In 2018, a total of 578,808 consumers were connected to power grid compared to 1,375,909 consumers connected in 2017; a reduction of 135%.

Business performance

The above factors affected our sales volumes thereby resulting in 30% reduction in revenue. Group performance was also negatively impacted by working capital constraints. The debt restructure exercise which commenced towards end of 2017 came to conclusion in H1 of 2019. This restructure was aimed at refinancing the existing debt over a longer tenor to allow plough-back of cashflows into the business and reduce monthly principal loan repayments. The benefits of the restructure will accrue to the business in 2019 going forward. The Group and Company recorded net losses of KShs. 568.38 million and KShs. 399.70 million respectively (2017: Group loss – KShs 663 million; Company loss – KShs 454 million).

Subsequent to year end, the Group and Company refinanced its outstanding debt for a discounted full and final settlement of credit facilities outstanding to the bank. This resulted in significant reduction of the bank loans and borrowings. The saving from the debt restructure transaction will be booked in 2019 year of income. We draw your attention to Note 32 on page 108 which shows the impact this transaction would have in these financial statements if it was recorded in 2018.

Having improved the debt profile of the Group and Company, the focus going forward will be on executing the current order book, growing market share in the region and continuously improving our customer service.

BUSINESS REVIEW

Outlook for 2019

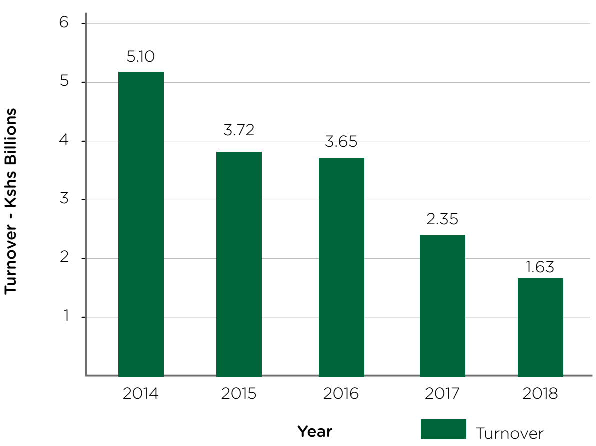
The business outlook for 2019 is positive. We expect construction sector to expand in line with economic growth which is projected at 6% in Kenya. The 'Big 4 agenda', especially the housing projects supported by the government are expected to fuel growth in our sector. Power infrastructure projects across the region will also contribute to our revenue basket.

The competitive landscape is expected to remain aggressive in the region, but the Group will continue to engage the regulatory agencies to ensure a level playground for all.

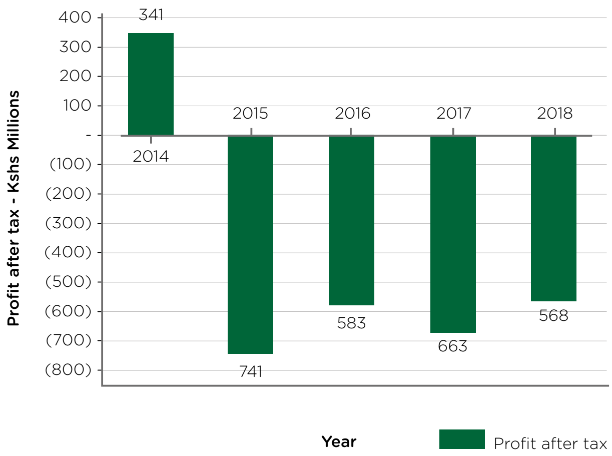
The debt restructure benefits and cost optimisation initiatives that have been put in place will also improve the outlook for 2019.

Five-year comparative group results

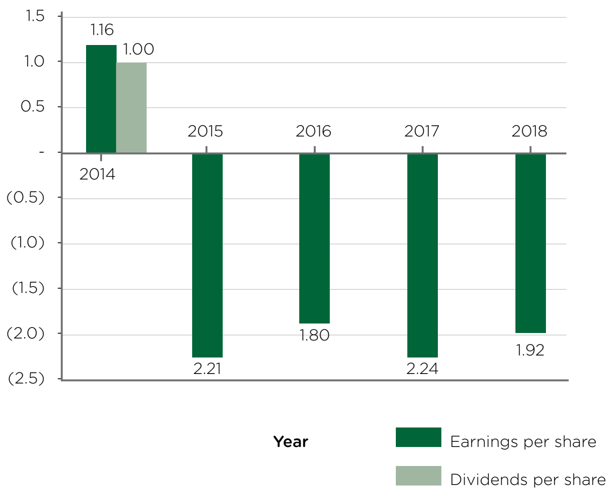
SALES TREND



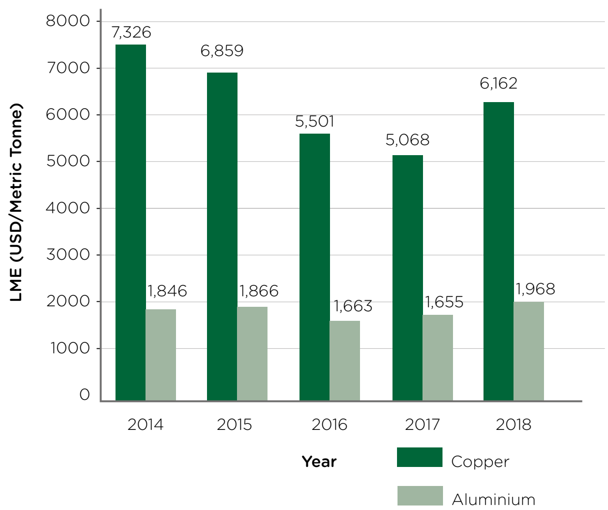
PROFIT / (LOSS) AFTER TAX



EARNINGS AND DIVIDENDS



LONDON METAL EXCHANGE CASH SETTLEMENT PRICE PER METRIC TONNE



SUSTAINABILITY REPORT
SAFETY, QUALITY, HEALTH, ENVIRONMENT AND SOCIAL IMPACT

Safety

Employees and customer safety come first is one of our core values. The management has put in place a committee whose mandate is to assess potential incidences related to safety, making recommendations on how such risks can be mitigated and ensuring implementation of those recommendations. Safety briefings are conducted in all management meetings in order to ingrain the safety culture. All our employees and visitors to our factories are also equipped with proper protective gear at all times.

In 2018, the Company recorded 2 work related injury accidents compared to 5 cases recorded in 2017. The reduction is attributed to improved work environment in the new factory, more engagement on safety and improved staff morale. Our safety committee analyses all incidents and uses these findings to derive appropriate measures to prevent recurrence.

Product quality

The Company takes great care to ensure that all its products meet stringent quality checks. Substandard products pose a major risk to consumers and their investments. Cognizant of the dangerous effects of using counterfeit and substandard cables, the group in conjunction with other stakeholders continue to create awareness on how to use our product verification system to ensure that you only buy our genuine products. The Company continues to partner with the Anti-Counterfeit Agency, Kenya Association of Manufacturers, Kenya Private Sector Alliance, and Kenya Bureau of Standards among other government agencies to fight the illicit trade menace.

In the year the Group successfully transitioned to ISO 9001:2015 Quality Management System. We will continue to equip our staff with the required training and ensure continued certification.

Employee wellness

People are the most important resources we have at East African Cables PLC. With the lifestyle changes and related illnesses, we have put great emphasis on work life balance in order to maintain a healthy workforce. We have also increased staff awareness to live a healthy life. In the year under review, the Group rolled-out various programs including quarterly health checks, advice on stress management, cancer and diabetes awareness, managing hypertension, counselling sessions and financial guidance workshops. We put great emphasis on staff overall wellness to ensure healthy workforce that is effective both at work and home.

Operational excellence

We remain focused on ensuring timely delivery of our quality products to our customers. In 2017, the Group introduced Total Performance Management (TPM) program to compliment the recently commissioned state-of-the–art production facility. TPM is a set of toolkits to put in place and sustain high performance in the work area. It aims, through people, to eliminate loss and waste in order to improve performance. Continued and scheduled trainings have resulted to significant improvement in operations through waste and loss eliminations, machine efficiency, safety, team cohesion among others. Efficiency improvement has significantly reduced power losses, scrap and other wastes which are detrimental to our environment.

SUSTAINABILITY REPORT
SAFETY, QUALITY, HEALTH, ENVIRONMENT AND SOCIAL IMPACT

Environment

The world is moving towards green technology, and East African Cables PLC has been at the forefront to introduce value added products like Halogen Free Fire Retardant (HFFR) cables and Aerial Bundled Conductors (ABC). HFFR are highly recommended in high density residential areas as well as large developments like multi-storey office blocks and shopping malls due to their ability to retard fire while ABC cables are used by utility firms to transmit power in forested areas and highly populated areas without need to cut trees thereby conserving environment.

Towards reduction of environmental pollution, the company is working with other stakeholders in the industry to find other packaging solutions as an alternative to polyethene films currently used to wrap domestic cables.

Social impact

The Company does not operate in a vacuum. It contributes positively to the development of our youth by nurturing talent and providing equal opportunities for students in colleges, vocational training and universities. We are in partnership with the GIZ-KAM TVET (Technical Vocational Education Training) where we have provided students from technical schools with opportunities for apprenticeship programs. These programs aim to offer college students practical experience in engineering, procurement, finance, stores management and human resource management preparing them for their future careers and providing them with an opportunity to experiment their ideas for the betterment of the society.

On job creation, our fundi club continues to expand throughout the country as we enrol more licensed electricians. The Company recognizes the importance of having well rounded partners who not only provide key technical advice to our customers, but also run profitable businesses. To this end, the Company has rolled out an entrepreneurship training program extended to all club members.

In line with the Government's quest to create an enabling environment to the youth and special groups including women and people with disability, the Company supports these groups to participate in tenders for local utilities and government institutions.

BOARD OF DIRECTORS

Michael G. Waweru, FCCA, FCPA, CBS – Chairman (68)
Non-Executive Director
Kenyan

M.G. Waweru is a graduate of the University of Nairobi where he attained his Bachelor of Commerce Honours Degree. He also holds an MBA degree from the Strathmore Business School. He is a Fellow of the Association of Chartered Certified Accountants (FCCA), Institute of Certified Public Accountants of Kenya (FCPA) and a member of the Institute of Directors. An accountant by profession, Mr Waweru was Managing Partner of Ernst & Young East Africa until 2002. In March 2003, he was appointed to the position of Commissioner General, Kenya Revenue Authority, where he served for 9 years up to February 2012. During the period 2003 to 2006, Mr Waweru was President of the Commonwealth Association of Tax Administrators (CATA), which brings together Revenue Administrations in the Commonwealth. He has also served as Chairman of Institute of Certified Public Accountants of Kenya (ICPAK). He is currently also chairman of Kenya Railways Corporation, Numerical Machining Complex, Zamara Group (formerly Alexander Forbes) and KCA University Board of Trustees.

Paul Muigai
Managing Director/ Chief Executive Officer (53)

Paul is a seasoned leader with a wealth of experience in Supply Chain management, having held various roles across the Supply Chain in Unilever, including production management, procurement, Operations Planning, Engineering and productivity improvement at various levels up to Supply Chain Director Level. He also held Asia-Africa and Africa & Middle East Regional expatriate roles in the areas of Supply Chain optimization and Safety, Health and Eco-efficiency, based in Singapore and Dubai respectively. Paul is a graduate of University of Nairobi and holds a Bachelor of Science degree in Mechanical engineering.

Nganga Njiinu, CFA – CEO, Transcentury (41)
Representing Transcentury PLC, Non-Executive Director
Kenyan

Nganga Njiinu is the Group CEO of TransCentury Plc and has over 18 years of experience in investments, strategy implementation and operations. Since joining TransCentury Group in 2008, Njiinu has held various roles in corporate finance, portfolio management, business development as well as originating and developing opportunities in the infrastructure space. Prior to Joining TransCentury, Njiinu worked for Coldwell Banker Residential Brokerage in the USA for 7 years, where he was involved in strategy, financial planning and analysis as well as evaluation and integration of acquisitions. Njiinu has an MBA in Finance and Investment Management from the University of Dallas in Irving, Texas and a Bachelor of Science in International Business from United States International University. Njiinu is also a CFA charter holder.

BOARD OF DIRECTORS

Wanjuki Muchemi CBS, FCI, Arb (67)
Representing Cable Holdings (Kenya) Limited, Non-Executive Director
Kenyan

Mr. Muchemi is a senior legal practitioner with a wealth of experience in International Commercial Law, Arbitration, Alternative Dispute Resolution, Multilateral and Bilateral Finance negotiations. He is the currently serving as a non- Executive Director in the Boards of several listed and private companies. Previously, Mr. Muchemi served as the Solicitor General of the Republic of Kenya and the Principal Assistant to the Attorney General. During his tenure, he was awarded the Chief of the Order of the Burning Spear (CBS) (First Class) by His Excellency, President Mwai Kibaki, for his dedicated service. In addition, he previously served as a Director in several State Corporations as well as at the Centre for Corporate Governance for 10 years. He holds a Master of Business Administration (MBA) degree in Strategic Management and a Bachelor of Laws (LL.B. Hons.) degree from University of Nairobi. He is an Advocate of the High Court of Kenya, Fellow of The Chartered Institute of Arbitrators, London, U.K. (FCI Arb.), Member of The Institute of Certified Public Secretaries of Kenya (CPS (K)), and The Law Society of Kenya.

Peter Kanyago, FCCA, FCPA, EBS (71)
Non-Executive Director
Kenyan

Mr. Kanyago is a fellow of the Institute of Certified Public Accountants of Kenya and holds an MBA in Industrial Management. As an entrepreneur, he holds directorships in companies he has built, including Pekan Limited and East African Elevator Company (ThyssenKrupp). He is Chairman of Kenya Tea Development Agency and Kenya Open Golf Ltd, a Director at Ecobank Tanzania, Corporate Insurance, Kenya Tea Packers Ltd (KETEPA), Chai Trading and Chinga Tea Factory. His contribution to the nation has been recognized in his being awarded the Moran of the order of the Burning Spear (MBS) and Elder of the order of the Burning Spear (EBS) of the Republic of Kenya. He is also a fellow of Kenya Institute of Management (KIM).

Bruno Thomas (76)
Independent Non-Executive Director
French

Consultant, Bruno Thomas, formerly of the Nexans Group, has a wealth of experience in the energy sector having been the executive vice president of Nexans Group for the rest of World Area. In addition, he was previously President of the Energy Cables Division, President of the board of Alcatel Kabel KG and Director of Industrial Strategy.

BOARD OF DIRECTORS

Amb. Dennis Awori (64)
Independent Non-Executive Director
Kenyan

Amb. Dennis Awori earned his BSC with Honors degree in Aeronautical Engineering from the University of Manchester in 1977. He began his career with Cooper Motor Corporation Ltd, and later moved to Motor Mart Group (later Lonrho Motors East Africa) where he rose to the position of Managing Director in 1995. He was later appointed the Ambassador of the Republic of Kenya to Japan and during his tenure he spearheaded the establishment of the Kenyan Embassy in Korea, as well as built strong relations between Kenya and the two countries. He currently sits in various boards including Toyota Kenya Limited where he is the Chairman and Bank of Africa. Amb. Awori is a keen sportsman and has been Chairman of both the Kenya Rugby Football Union and the Uganda Rugby Football Union in consecutive terms between 1990 and 1997.

Carole Kariuki (43)
Independent Non-Executive Director
Kenyan

Carole is the current CEO of Kenya Private Sector Alliance (KEPSA), an organisation she has helped steer to become the apex of the private sector in Kenya. She has a wealth of experience in leadership having worked for Sagamore Institute for Public Policy Research where she was the liaison between KEPSA and the institute before joining KEPSA. She currently serves in several boards including as Chairperson of the Special Economic Zones Authority, Kenya, Board member Harvard University Centre for African Studies, Board of Trustees Member at United States International University (USIU), Kenya, among others. In her line of duty, Carole has been recognised with several awards for her leadership role in the development of the Private Sector in Kenya. She holds a Bachelor of Arts Degree in Economics and Sociology from the University of Nairobi and a Masters Degree in Public Administration and International Affairs from Bowling Green State University, Ohio USA.

Virginia Ndunge (49)
Company Secretary
Kenyan

Virginia Ndunge is a Certified Public Secretary and a member of the Institute of the Certified Public Secretaries of Kenya (ICPSK). She holds a Bachelor of Commerce degree in Finance and Diploma in Project Management. She has substantial experience in Company Secretarial services having worked with Emu Registrars, Certified Public Secretaries for over 13 years, and Kaplan and Stratton Advocates for six years as the head of their Company Secretarial Division.

MANAGEMENT TEAM

Paul Muigai
Chief Executive Officer

Dr. Gerald Gitau
Head of Sales

Joseph Kinyua
Group Finance Manager

Peninah Murungi
Human Resources and Administration Manager

Joseph Kamau
Group Production Manager

Johnson Kanene
Group Maintenance Manager

Geoffrey Odhiambo
General Manager EAC Tanzania

MANAGEMENT TEAM

Paul Muigai – Chief Executive Officer
Paul is a seasoned leader with a wealth of experience in Supply Chain management, having held various roles across the Supply Chain in Unilever Plc, including production management, procurement, operations planning, engineering and productivity improvement at various levels up to Supply Chain Director Level. He also held Asia-Africa and Africa & Middle East Regional expatriate roles in the areas of Supply Chain optimization and Safety, Health and Eco-efficiency, based in Singapore and Dubai respectively. Paul is a graduate of University of Nairobi and holds a Bachelor of Science degree in Mechanical engineering.

Dr. Gerald Gitau – Head of Sales
Dr. Gitau has over 15 years' experience in Sales & Marketing, Project Management and System implementations. Previously, he has worked for The Coca-Cola Company (Nairobi Bottlers) as a Marketer and a Sales Manager and Texaco (Caltex) as a Customer Care Coach.

He holds a PhD from the University of Nairobi, a Master's Degree in Project Planning and Management and a Bachelor of Business Administration degree in Marketing and in Information Science. He is a Licentiate Member with the Institute of Management of Information System (IMIS-UK) with numerous certifications in Business Management specializing in Sales and Marketing.

Joseph Kinyua – Group Finance Manager
Joseph is a Certified Public Accountant and a member of the ICPAK. He holds a Master's Degree in Business Administration from the University of Nairobi and has over 19 years' experience in Audit, Accountancy and Financial Management. He joined East African Cables in 2007.

Peninah Murungi – Human Resources and Administration Manager
Peninah holds a Bachelor of Commerce degree, Human Resources option from Kenyatta University. She has a Diploma in Business Management from Nairobi University. Her experience spans over 11 years' in Human Resources and Administration. Among others, she has worked as the HR Lead for companies like Karuturi Ltd; Lordship Africa; Nation Media Group, MSF Belgium. Her role includes leading the company's Human Resource strategic goals, leading company compliance with all existing labour legal and government reporting requirements; leads Human Resources practices and objectives that will provide a high-performance culture, and staff welfare hence leading to a superior workforce. She joined East African Cables in 2018.

Joseph Kamau – Group Production Manager
Joseph is Mechanical Engineering graduate from the University of Nairobi. Before taking up his current role, he worked for East African Cables (Tz) Limited as the Production Manager for seven years. He has also worked in similar manufacturing and engineering roles in other companies including Sameer Africa and Ministry of Lands and Settlement, among others for over 15 years.

Johnson Kanene – Group Maintenance Manager
Johnson is a Mechanical Engineer from Moi University and also holds MSc Energy from Heriot Watt University, Scotland-UK. He has over 17 years' experience in various manufacturing companies including Mabati Rolling Mills where he worked as a senior production & planning Engineer, Savannah cement as Chief Engineer among others. He joined East African Cables in 2014.

Geoffrey Odhiambo - General Manager, EAC Tanzania
A Chemistry graduate of Kenya Polytechnic (Technical University of Kenya), he also holds an advanced certificate in marketing management from the Kenya Institute of Management. He has over 16 years' experience in Technical Sales & Service, Marketing and market development, Customer development and Sales management. Prior to joining EACTz, he was MPC Technical Sales Manager, East Africa, for Akzo Nobel / Sadolin Paints, based in Tanzania.

GOVERNANCE AUDITOR'S REPORT

The Code of Corporate Governance Practices for Issuers of Securities in Kenya, 2015 ("the Code"), sets out the principles and specific recommendations on structures and processes, which companies should adopt in making good Corporate Governance an integral part of their business dealings and culture. The Code further specifically requires listed companies to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board and the Company have applied Corporate Governance principles.

The Annual Governance Audit should be conducted by a competent and recognized professional accredited for that purpose by the Institute of Certified Secretaries (ICS). The Company, in compliance with the Companies Act, 2015 ("Act") and Code, retained CS. George Athiambo ("the Auditor") to conduct a Governance Audit of the governance structures, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the law, the Code, as well as the latest developments in Corporate Governance; and that the Company has adopted best practices in Corporate Governance as a means of ensuring sustainability. The Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

The scope of the Audit is derived from the Code, the Companies Act, 2015 and the Governance Audit Tool developed by the ICS. More specifically, the Audit covers the following broad areas;

1. Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board systems and procedures;
7. Consistent shareholder and stakeholders' value enhancement; and
8. Corporate social responsibility and investment.

Statement of the responsibilities of the Directors

The Board of Directors of East African Cables PLC ("the Company" or "EAC") recognizes that it is responsible for formulating policies, procedures, standards and guidelines, which ensure that the Company is governed in line with the best Corporate Governance standards and that all decisions by the Board and Management are made in accordance with prudent Corporate Governance practices.

In this regard therefore, the Board is committed to the highest standards of Corporate Governance and strives to ensure that not only is it fully aware of the legal and regulatory requirements in Corporate Governance, but that it has adopted global best practice. Recognising the role of Management, the Board also ensures that Management is fully aware of Corporate Governance requirements and that the same are implemented in all spheres of the business.

Being fully aware of its fiduciary duties under the Act, the Board has taken steps to ensure that all Directors promote the success of the Company, that they act in good faith, at all times exercise reasonable care, skill and diligence, while ensuring that conflicts of interest are avoided or where they occur and that there is a process for managing them.

It is on this premise that the Board commissioned a Governance Audit for the year ended 31 December 2018 with a view to identifying any loopholes and gaps in the Company's governance structures and processes and in order to satisfy itself that the Corporate Governance framework adopted by the Company is appropriate and will support the achievement of the strategy as approved by the Board.

The Directors of EAC have therefore adopted this Governance Audit Report for the year ended 31 December 2018, which discloses the state of Governance within the Company.

GOVERNANCE AUDITOR'S REPORT

Governance Auditor's responsibility

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organization in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our audit in accordance with ICS Governance Audit Standards and Guidelines, which conform to global Standards. These standards require that we plan and perform the Governance Audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. The Audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the Board has put in place a sound governance framework in compliance with the Corporate Governance framework, and in this regard, we issue an unqualified opinion.

CS. GEORGE ATHIAMBO, ICPSK GA. No 198
For KIRUKI & KAYIKA ADVOCATES
For more information about this GAR, please contact: KIRUKI & KAYIKA ADVOCATES
Date: 30 July 2019

STATEMENT OF THE LEGAL AND COMPLIANCE AUDITOR

East African Cables PLC (**"the Company"** or **"EAC"**), a publicly listed entity on the Nairobi Securities Exchange, is regulated under the Capital Markets Act by the Capital Markets Authority. The Company's Board is responsible for establishment of internal procedures and monitoring systems to promote compliance with applicable laws, regulations and standards. The Board is also responsible for ensuring that the compliance strategy is aligned to the operations of the Company.

In compliance with the provisions of the Corporate Governance Code for Issuers of Securities to the Public, 2015, an independent legal and compliance audit for the financial year ended 31 December 2018 was undertaken with the objective of ascertaining the Company's state of compliance with applicable laws, regulations and standards.

The independent legal and compliance audit was carried out by Ms. Kiruki & Kayika Advocates, led by Mr. Kiruki Mutwiri, an Advocate of the High Court of Kenya in good standing with the Law Society of Kenya. The legal and compliance audit confirmed that during the year ended 31 December 2018 the Company was generally in compliance with applicable laws and regulations including the Companies Act, 2015 and the Occupational Safety and Health Act, 2007.

KIRUKI MUTWIRI,
For KIRUKI & KAYIKA ADVOCATES
Date: 30 July 2019

KIRUKI MUTWIRI,
For KIRUKI & KAYIKA ADVOCATES
Date: 30 July 2019

The Board of East African Cables PLC recognizes the importance of corporate governance and as such it carries out its mandate with honesty, openness and integrity and is committed to applying and enforcing relevant corporate governance principles, policies and practices within the Group. The Board is committed to the principles of accountability, compliance with the law and to the provision of relevant and meaningful reporting to all stakeholders.

The Company has endeavoured to adhere to its obligations as a public listed entity in Kenya in compliance with the Capital Markets Authority (CMA) Code of Corporate Governance practices for Issuers of Securities to the Public 2015. The Company also adheres to other regulations promulgated by the CMA, Nairobi Securities Exchange, the Constitution of Kenya and all other laws as a law-abiding citizen.

CORPORATE GOVERNANCE STATEMENT

Board Charter

The Board Charter is critical to the Company's governance framework, and offers guidance on matters including but not limited to the following:

- The separation of the roles, functions, responsibilities and powers of the Board and its individual members;
- Powers delegated to the board committees;
- Matters reserved for final decision-making and approval by the Board;
- Policies and practices of the board on matters of corporate governance, directors' declarations and conflict of interest, conduct of Board and board committee meetings; and
- Nomination, appointment, induction, ongoing training and performance evaluation of the Board and its committees.

The Board charter can be viewed on or downloaded from the company's website www.eacables.co.ke

The Role of the Board

The primary role of the Board is to guide the company towards sustainable long-term success through the exercise of objective and informed judgement in determining the strategy of the company, having the best team in place to execute that strategy, monitoring business performance and maintaining an effective framework of controls to mitigate risks facing the business.

The Board ensures that Management achieves the right balance between promoting long-term growth and delivering short-term objectives. The existing corporate governance framework embeds the right culture, values and behaviours throughout the Group and supports the Board's role in determining strategic objectives and policies.

The key responsibilities of the Board include:

- To review and approve strategic, business and capital plans for the Company and monitor the Company's human, technology and capital resources, the constraints on implementing such plans and management's execution of such plans.
- To review the principal risks of the Company's business and monitor the implementation by management of appropriate systems to manage such risks.
- To review at every meeting recent developments that may impact the Company's growth strategy.
- Ensuring specific and relevant corporate measurement systems are developed and adequate internal controls and management information systems are in place with regard to business performance and the integrity thereof.
- Reviewing and approving corporate governance guidelines applicable to the Company and in accordance with statutory and regulatory requirements. To develop and implement programs for management and Board succession planning. Looking at the size and composition of the Board, compensation of directors, assessment of the performance of the Board, its committees and Directors and approval of appropriate policies and procedures.
- To monitor the practices of board and management to ensure appropriate, fair and timely communication of information concerning the Company.

Board size, composition and appointments

The Board is comprised of seven (7) Non-Executive Directors including the Chairman, and one (1) Executive Director. Out of the seven Non-Executive Directors, two are independent. The directors' biographies appear on pages 13 to 15. All non-executive directors are independent of management and have diverse skills, experience and competencies appropriate for effective management of the company's business.

The non-executive directors are subject to periodic re-appointment in accordance with company's Articles of Association which requires that one third of the longest serving directors (since their last election) retire by rotation every year and if eligible their names are submitted for re-election at the Annual General Meeting.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

An age limit of seventy (70) years is recommended for directors serving in the Board. However, the Board can recommend for re-election, a director who is above this age based on his/her expertise and competencies. Such a director is required to retire at every Annual General Meeting (AGM) for re-election.

The Board is responsible for recommending Non-Executive Directors for election by shareholders at the Annual General Meeting. Nominated directors undergo a formal screening process conducted by the Nominations and Remuneration Committee of the Board before they are formally appointed. Between Annual General Meetings, the Board may appoint directors to serve until the next AGM. Any such appointment of Non-Executive Directors must be ratified by the shareholders at the next AGM following their appointment.

How the Board works

The Board is solely responsible for its agenda. However, it is the responsibility of the Chairman and the Company Secretary, working closely with the Chief Executive Officer, to come up with the annual Board work plan and an agenda for the Board meetings.

The Board meets on a quarterly basis as scheduled during the year, with additional meetings when necessary. Members of the Board are expected to attend all Board meetings. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for the direction and guidance on general policy, the board has delegated authority for conduct of day-to-day business to the Managing Director / Chief Executive Officer. The Board nonetheless retains responsibility in maintaining the company's overall internal control on financial, operational and compliance issues.

The senior leadership team members may be invited to attend the board meetings if deemed necessary. Where directors are unable to attend a meeting, they are advised on the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.
Directors are also invited to attend the senior leadership's strategic and operations review meetings to gain further insights into different aspects of the business.
A summary of the Board meetings and attendance is shown below:

	Member	Designation	Attendance
1	MG Waweru	Chairman	11/11
2	PT Kanyago	Member	8/11
3	JB Thomas	Member	4/11
4	D Awori	Member	5/11
5	TransCentury PLC	Member	11/11
6	Cable Holdings (K) Limited	Member	7/11
7	P Muigai	CEO - Appointed 26.04.2018	7/7
8	V Ndunge	Company Secretary	11/11

Separation of powers and duties of the chairman and the Chief Executive Officer

The roles and responsibilities of the Chairman and the Chief Executive Officer are separate with each having clearly defined duties and responsibilities.
The Chairman is responsible for leadership and governance of the Board. He is also responsible for ensuring that the interests of the Company's shareholders are safeguarded and that there is effective communication with them.
The Chief Executive Officer roles and responsibilities remain the day-to-day management of the company's business and overseeing the implementation of strategy and policies approved by the Board.

Board and directors' effectiveness

Board effectiveness in its oversight and leadership role is enhanced by a robust support system. This is facilitated through the following:

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Nomination

There is a formal screening process conducted by the Nominations and Remuneration Committee before a nominee is appointed as a Director. The process aims at ensuring that the nominees have the requisite capabilities to carry out their responsibilities.

Non-executive directors are appointed to serve the Company for a period of three years. Subsequent re-appointment is subject to recommendation by the Board. In accordance with the company's Articles of Association, Non-executive Directors are subject to periodic re-appointment. The Articles of Association require that one third of the longest serving directors (since their last election) retire by rotation every year and if eligible their names are submitted for re-election at the Annual General Meeting.

At this year's AGM, the company will submit all eligible directors for re-election.

Board induction

On appointment to the Board, all Directors receive induction which is tailored to their individual requirements. The program is designed to provide the Director with an understanding of how the Company works, the business environment, opportunities and key challenges. It also gives the Director an overview of the regulatory environment the business operates in.

Training and development

In order to contribute effectively to the Board, Directors are encouraged to continually update their skills and knowledge of the business. Directors are also provided with the opportunity to take part in training and development. This is provided for in the Board charter.

Evaluation

In line with the provisions of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, the Board undertook an evaluation of its performance as an entity, its committees, the chairman, the Chief Executive Officer, the Company Secretary and each individual director.

Conflict of interest

Any conflict of interest or apparent conflict of interest between the Company and its Directors is avoided. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the Company. Any circumstances which may give rise to actual or potential conflicts of interest are disclosed to the Board upon appointment and subsequent changes highlighted as they arise. Directors are given an opportunity in every Board meeting, to declare an actual or potential conflict of interest with their role as directors and records kept. During the year 2018, no conflict of interest was declared by any Director.

Board remuneration

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements of the Chairman, Directors and senior management to the Human Resources and Remuneration Committee. Non-executive Directors are paid a sitting allowance for every meeting attended in addition to a quarterly retainer fee.

Details of the fees paid to directors in the financial year under review are set out in the directors' remuneration report on page 27-31.

Communication with shareholders

The Board is committed to ensuring that shareholders, regulators and the financial markets are provided with full and timely information about its performance. This is achieved through:

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

i. Interim and annual results publications of extracts of its financial performance in the daily newspapers;
ii. The Company holds Annual General Meeting to discuss full year performance with shareholders. Copies of the annual reports are made available to shareholders at least 21 days before the date of the AGM. The AGM provides a useful opportunity to the Board and management to engage with shareholders on key issues facing the Company; and
iii. Interactive website containing all relevant information relating to the Company.

In this regard, the Company complies with the obligations contained in the Nairobi Securities Exchange's Listing Rules, the Capital Markets Authority Act and the Kenyan Companies' Act, 2015.

Directors' loans
There were no loans made to the Directors at any time during the year by virtue of their position in the Group.

Risk management and controls
The Board recognizes that managing risk to ensure optimal mix between risk and return is an integral part of achieving corporate goals. It is responsible for determining the nature and extent of the significant risks that the Company is willing to take to achieve its strategic objectives. It is also responsible for maintaining sound risk management and internal control systems. With the support of the Audit Committee, the Board has put in place processes for identifying, assessing, managing and monitoring risks to ensure that the risk of failure to achieve business objectives is mitigated. The Company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with the laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. These processes are reviewed by the Internal Auditor who reports directly to the Audit Committee of the Board.
A comprehensive management accounting system is also in place providing financial and operational performance measurement indicators. Regular senior management meetings are held to monitor performance and to agree on measures for improvement.

Financial and Business reporting
The Board confirms that the financial statements are prepared on a going concern basis and is satisfied that the Company has adequate resources to continue in business for the foreseeable future.

In making this assessment, the directors consider a wide range of information relating to present and anticipated future conditions including future projections of profitability, cash flows, capital and other resources. We draw your attention to note 2(f) on pages 50 to 52 detailing measures undertaken by the board and management to turnaround the business back to profitability.

Committees of the Board
The Board has five (5) standing committees namely: The Audit Committee, Nominations and Governance Committee, Human Resources and Remuneration Committee, Commercial Committee and the Strategy Committee. These committees meet regularly under the terms of reference set by the Board.

Audit Committee

Membership
The Audit committee consists of two (2) Non-executive Directors and reports to the Board after every committee meeting. It meets quarterly or as required.
The committee met five (5) times in the year. Attendance included internal and external auditors, as well as permanent invitees from management. Members of the audit committee, together with a record of their attendance at scheduled meetings during the year are set out in the table below.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

	Member	Designation	Attendance
1	PT Kanyago	Committee chair	5/5
2	TransCentury PLC	Member	4/5
3	P Muigai	Member	3/3
4	V Ndunge	Company Secretary	5/5

Functions of the Audit Committee

To fulfil its oversight responsibility, the Audit Committee receives reports from management, the internal auditors, external auditors or any independent consultant it may have engaged during the year.
The committee's responsibilities include:

- Risk management, internal controls and regulatory compliance. Review and assess the Company's risk management process and the adequacy of the overall control environment.
- Consider the adequacy and scope of internal and external audit, monitor their effectiveness and ensure implementation of audit recommendations,
- Ensuring integrity of financial information and communication to shareholders. Review financial statements and recommend their approval to the Board of Directors.
- Reviewing annual budgets.

The Audit Committee is comprised of members who are well experienced in financial matters including reporting and risk management.

Governance and Nominations Committee

Membership

This committee consists of three (3) Non-executive Directors and reports to the Board after every committee meeting. It meets quarterly or as required.

The committee met three times in the year. Members of the committee, together with a record of their attendance at scheduled meetings during the year are set out in the table below.

	Member	Designation	Attendance
1	D Awori	Committee chair	3/3
2	MG Waweru	Member	3/3
3	Transcentury PLC	Member	2/3
4	P Muigai	Member	3/3

Functions of the Governance and Nominations Committee

This committee is mandated to review the balance and effectiveness of the Board, remuneration of Directors as well as the succession planning of the Board members. It also has oversight on the adherence and compliance by the Company to its code of ethics and to the principles and requirements of good corporate governance.

The purpose of the committee is to assist the Board by:

- Monitoring the size and composition of the Board and its succession plans;
- Recommending individuals for nominations as members of the Board and its committees;
- Proposing remuneration structures of executive and non-executive members of the Board;
- Evaluating the effectiveness of the Board and its committees and the effectiveness of the Directors in the discharge of their responsibilities; and
- Monitoring compliance to code of ethics and regulatory requirements.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Human Resource and Remuneration Committee

Membership

This committee consists of three (3) Non-executive Directors and reports to the Board after every committee meeting. It meets quarterly or as required.

The committee met three times in the year. Members of the committee, together with a record of their attendance at scheduled meetings during the year are set out in the table below.

	Member	Designation	Attendance
1	D Awori	Committee chair	3/3
2	MG Waweru	Member	3/3
3	Transcentury PLC	Member	2/3
4	P Muigai	Member	3/3

Functions of the Human Resource and Remuneration Committee

This committee is charged with the oversight of establishment, maintenance and administration of the Group and Company's compensation programs, including reviewing and approving the Chief Executive Officer's and other management compensation reviews. The committee also advises the Board on the development of and succession of key executives.

Strategy Committee

Membership

This committee consists of all Directors and reports to the Board after every committee meeting. It meets quarterly or as required. The committee met thrice in the year. Members of the committee, together with a record of their attendance at scheduled meetings during the year are set out in the table below.

	Member	Designation	Attendance
1	MG Waweru	Committee chair	3/3
2	PT Kanyago	Member	1/3
3	JB Thomas	Member	2/3
4	D Awori	Member	2/3
5	Transcentury PLC	Member	3/3
6	Cable Holdings (K) Limited	Member	2/3
7	George Njoroge	Member	2/3
8	P Muigai	Member	2/2
9	V Ndunge	Company Secretary	3/3

Functions of the Strategy Committee

The main responsibility of the committee is to chart the strategy of the Group and to oversee implementation of strategic decisions of the Board which include product and or geographical diversification, strategic partnerships and also review proposals involving capital expenditure.

Special Committees

The Board is authorised by the Company's Articles of Association to form ad hoc or special committees to deal with specific matters for a defined term period. The Board retains oversight over such committees.

One such committee is the Commercial Committee. This committee is mandated to evaluate the Group's route to market, customer service and regional diversification. It also evaluates regional market data and advises the Board on the overall market strategy.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The membership of this committee comprises of two (2) Non-executive Directors and the Managing Director/ Chief Executive Officer while all the senior managers are also invited. The committee met once in the year.

The Chief Executive Officer is a member of all committees while senior managers are invited to the relevant committees.

Employment Equity

The Group is committed to the creation of an organization that supports equality of all employees and is committed to elimination of any form of discrimination in the workplace. Our practice is to comply with all laws prohibiting discrimination.

Ethics and Code of Conduct

The Directors attach great importance to the need to conduct the business and operations of the Company with integrity and in accordance with good corporate governance practices. The Company adopts the best principles of good corporate culture that requires the Directors and all employees to maintain the highest personal and ethical standards and to act in good faith and in the interest of the Company. The Company has developed and implemented a code of conduct that sets out guidelines and rules, which are based on good governance principles of:

- Full compliance with the law;
- Application of best accounting practices;
- Safety of all stakeholders;
- Product quality and customer focus;
- Care of our environment;
- Application of best business practices; and
- Fair competition

Whistle Blowing Policy

East African Cables PLC has set high standards for its operations to ensure integrity and quality delivery. Employees are often the first to realize that there may be something seriously wrong within the organization. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Company. They may also fear harassment or victimization.

The Company has developed a whistle blowing policy to encourage and provides channels for employees to report exceptional incidences without fear of victimization, discrimination or disadvantage.

Reportable misconducts and potential irregularities under the policy include all forms of financial malpractices, non-compliance with regulations, criminal activities, improper conduct or unethical behaviours, corporate governance breaches, non-disclosure of interests, sexual and physical abuse of staff and other stakeholders among other vices.

The policy provides clear reporting mechanism through telephone and dedicated email address with assurance of anonymity for whistle-blowers. The staff have also been sensitized through training on reportable incidences, how to make the reports and assurance of confidentiality to providers of information. All reported incidences are directed to individual or teams appropriate to handle the matters reported for further investigation and action.

The Board has also maintained an open-door policy allowing for easy escalation of issues. Staff members are regularly sensitised on the need to report any suspected unethical business practices.

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

East African Cables PLC reward system seeks to recognize the contribution made by individuals to the success of the Company while reflecting the value of the roles they perform, as well as the levels to which they perform.

East African Cables PLC presents the Director's Remuneration report for the year ended 31 December 2018. This report has been prepared in accordance with the Company's reward policy, the relevant provisions of both the Capital Markets Authority (CMA) Code of Corporate Governance Guidelines on Director's remuneration and the Kenya Companies Act, 2015.

The Board of Directors consist of:

- 1 Executive Director: Mr. Paul Muigai.
- 2 Non-Executive Corporate Directors: TransCentury PLC and Cable Holdings (K) Limited.
- 3 Non-Executive Directors: Mr. MG Waweru, Mr. PT Kanyago and Mr. B Thomas.
- 2 Independent Non-Executive Directors: Mr. D. Awori and Ms. C Kariuki.

(a) Directors' emoluments and loans

For the financial year ended 31 December 2018, the total Directors remuneration (executive and non-executive) was KShs 40.85 million (2017 – KShs 39.32 million).

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

(b) Non-Executive Directors' remuneration

The Group and Company have put in place a policy that adequately defines the remuneration and related privileges received by the Non-Executive Directors of the Group and Company.

All the remuneration and privileges accorded to the Non-Executive Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity of the Company.

The Board has put in place a formal process of reviewing its performance and that of its committees and individual directors. Evaluation of the Board shall be conducted by an independent consultant after every two years. Each Director shall complete a detailed questionnaire designed to obtain feedback on the Board's performance on the following areas: -

- Strategic objectives
- Risk governance
- Board composition and skills
- Board meetings and preparation
- Board interaction and support
- Performance of governance functions
- Performance of Chairman, respective committees and individual directors.

Each Non-Executive Director serves the Board for a term of three (3) years which is renewable. In accordance with the company's Articles of Association, Non-Executive Directors are subject to periodic re-appointment. However, one-third of the Non-Executive Directors are required to resign at each AGM and may offer themselves for re-appointment to continue serving the Board.

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(b) Non-Executive Directors' remuneration (continued)

No Director is entitled to any compensation upon the termination or end of their tenure as a member of the Board.

The details of the tenure of the current Non-Executive Directors is provided in the table below:

Name	Date of Appointment	Date of retirement
MG Waweru	6th August 2012	To retire by rotation in 2020 AGM
D Awori	1st July 2013	To retire by rotation in 2019 AGM
PT Kanyago	12th March 2004	To retire on rotation - Reappointment by a special notice in 2019 AGM
JB Thomas	24th April 2009	To retire by rotation - Reappointment by a special notice in 2019 AGM
TransCentury Limited represented by N Njiinu	12th March 2004	To retire by rotation in 2021 AGM
Cable Holdings (K) Limited represented by W Muchemi	28th August 2018	To retire by rotation in 2021 AGM
C Kariuki	15th March 2019	To retire for re-election in 2019 AGM

The Nominations and Remuneration Committee of the Board is responsible for setting and administering the Non-Executive Directors policy.

During the year under review, there were no changes relating to Non-Executive Director's remuneration.

The following components are provided to the Non-Executive Directors:

1. Quarterly fees
These are paid to the Non-Executive Directors taking into account their responsibility as Directors of the Group and Company. These are paid quarterly in arrears.

2. Sitting allowance
Non-Executive Directors are paid a sitting allowance for attending a duly convened and constituted meeting of the Board or of any of the Committees.

3. Duty Travel-day(s) allowance
An allowance is paid to a Non-Executive Director for any day of travel away from (and back to) his regular station in order to attend to duties of the Group and Company.

4. Duty day allowance
An allowance is paid to a Non-Executive Director for any day away from his regular station in order to attend to duties of the Group and Company.

5. Travel and accommodation
The Group and Company provides travel and accommodation costs in line with its policy.

6. Professional indemnity cover
This is provided in line with best market practice to provide protection for the Non-Executive Directors in undertaking their duties in such capacity.

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(c) Executive Director's remuneration

Remuneration for the Executive Director is as per the negotiated employment contract. The Executive Director is employed on a permanent basis. The retirement age is as per the company policy. The Executive Director remuneration package comprises core fixed elements (Basic salary, House allowance, pension and other benefits) designed to recognize the skills and experience. The package is benchmarked to attract and retain talent.

In the year under review, Mr. Paul Muigai, served as an Executive Director since his appointment on 26th April 2018.

The Group and Company has a formal process evaluating and measuring the performance of Executive Director through a Balanced Score Card (BSC). The Balanced Score Card reviews four key pillars including:

- Finance perspective to measure financial performance of the business;
- Customer perspective to ensure product quality and delivery;
- Internal processes to measure efficiency, compliance and risk management; and
- Learning and Growth for succession planning and team productivity.

The Executive Director is entitled to the following remuneration: -

1. **Consolidated basic pay**
   This is the consolidated base salary paid to the Executive Director.

2. **Allowances**
   Allowances paid include a house allowance and a telephone allowance.

3. **Bonus**
   The Executive Director is entitled to a performance-based bonus pay. The bonus is paid based on the performance of the business and on existing bonus policy.

4. **Pension contribution**
   On a monthly basis, the business contributes 10.75% of basic pay towards pension of the Executive Director.

5. **Club membership**
   The Executive Director is entitled to paid membership to a social or fitness club.

6. **Medical insurance cover**
   As per Group and Company's Human Resources policy, the Executive Director, like other employees, is entitled to medical insurance cover for their individual and family medical requirements covering both out-patients and in-patients.

7. **Group life assurance cover**
   As provided to all employees, the Executive Director is entitled to a death in service benefit. This is payable to beneficiaries of the Executive Director at a maximum of three years pay.

8. **Professional indemnity cover**
   This is provided in line with best market practice to provide protection for the Executive Director in undertaking their duties in such capacity.

During the year 2018, there was no adjustment to the remuneration of the Executive Director. As per the Group and Company policy on employee compensation, 2018 pay will be dependent on the annual performance appraisals conducted at the beginning of every year.

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(d) Summary of Directors' remuneration

The following amounts were paid to Directors in the year under review.

i. Non-Executive Directors' remuneration for the year ended 31 December 2018

Name	Fees KShs '000	Sitting allowances KShs '000	Duty day allowances KShs '000	Total KShs '000
MG Waweru	3,000	1,180	-	4,180
D Awori	1,800	350	-	2,150
PT Kanyago	1,800	1,080	-	2,880
JB Thomas	-	-	726	726
TransCentury Limited Represented by N Njiinu	-	-	-	-
Cable Holdings Limited Represented by W Muchemi	1,350	300	-	1,650
George Njoroge	-	150	-	150
Total Company	**7,950**	**3,060**	**726**	**11,736**
EAC Tanzania Directors fees	3,919	1,782	-	5,701
Total Group	**11,869**	**4,842**	**726**	**17,437**

Note:
Mr. G. Njoroge is a Non-Executive Director for Tanzania subsidiary but is invited to the Group Strategy Committee.

ii. Non- Executive Directors' remuneration for the year ended 31 December 2017

Name	Fees KShs '000	Sitting allowances KShs '000	Duty day allowances KShs '000	Total KShs '000
MG Waweru	1,680	1,930	-	3,610
D Awori	1,260	1,250	-	2,510
PT Kanyago	1,260	1,570	-	2,830
JB Thomas	-	-	1,953	1,953
Transcentury Limited Represented by N Njiinu	-	-	-	-
Cable Holdings Limited Represented by W Muchemi.	-	-	-	-
ZG Mbugua	1,050	1,280	-	2,330
George Njoroge	-	50	-	50
Total Company	**5,250**	**6,080**	**1,953**	**13,283**
EAC Tanzania Directors fees	3,465	1,375	-	4,840
Total Group	**8,715**	**7,455**	**1,953**	**18,123**

Note:
a) Mr. ZG Mbugua retired on 22nd June 2017.
b) Mr. G. Njoroge is a Non-Executive Director for Tanzania subsidiary but is invited to the Group Strategy Committee.

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(d) Summary of Directors' remuneration (continued)

iii. Executive Directors' remuneration for the year ended 31 December 2018

Name	Basic Pay KShs '000	Allowances KShs '000	Non cash benefits KShs '000	Total KShs '000
Paul Muigai	21,000	2,400	12	23,412

Note:
Mr. Paul Muigai was appointed on 26th April 2018.

iv. Executive Directors' remuneration for the year ended 31 December 2017

Name	Basic Pay KShs '000	Allowances KShs '000	Non cash benefits KShs '000	Total KShs '000
Peter Arina	16,000	5,200	-	21,200

Note:
Mr. Peter Arina resigned on 31 August 2017.

As at 31 December 2018, directors' fees amounting to KShs 18,589,270 and KShs 3,650,000 for the Group and Company had not been paid.

By order of the Board

Virginia Ndunge
Secretary

Date: 30 July 2019

SHAREHOLDING STRUCTURE

Share register details

Directors' interests in the shares of the company, the distribution of the Company shareholding and analysis of the ten (10) major shareholders as at 31 December 2018 were as follows:

Directors' interest

Name of Director	Number of shares
Mr. M.G. Waweru	747,700
Mr. P.T. Kanyago	3,750

Major shareholders

No.	Names	No. of shares	% shareholding
1	Cable Holdings (Kenya) Ltd	173,071,149	68.38%
2	Zed Holdings Ltd	4,054,525	1.60%
3	Ali Mohamed Adam	3,846,562	1.52%
4	Mbogori Holdings Limited	3,310,000	1.31%
5	Cyrus Njiru	3,003,250	1.19%
6	Juma Abdulrehman Abdulkarim	2,982,600	1.18%
7	The Jubilee Insurance Co. of Kenya Ltd	2,277,250	0.90%
8	Goodwill (Nairobi) Limited A/C 94	2,040,400	0.81%
9	Peter Munyiri Kaka Arina	1,673,564	0.66%
10	Jitendra Chandubhai Patel & Kirankumar Chandubhai Patel	1,419,462	0.56%
11	Others	55,446,238	21.90%
	Total	**253,125,000**	**100%**

Distribution of shareholding

Shares range	No. of Shareholders	No. of Shares held	% shareholding
1 - 500	6,898	1,381,430	0.55%
501 - 5,000	6,007	9,947,174	3.93%
5,001 – 10,000	578	4,087,139	1.61%
10,001 – 100,000	715	19,628,553	7.75%
100,001 – 1,000,000	78	19,271,042	7.61%
Above 1,000,000	13	198,809,662	78.54%
Total	**14,289**	**253,125,000**	**100%**

Shareholder analysis by domicile

Domicile	No. of Shareholders	No. of Shares held	%shareholding
Local institutions	818	191,799,934	75.77%
Local individuals	13,374	58,932,845	23.28%
Foreign institutions	9	69,150	0.03%
Foreign individuals	88	2,323,071	0.92%
Total	**14,289**	**253,125,000**	**100%**

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2018

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of the company and the group.

1. Activities

The Group's principal activities continue to be the manufacture and sale of electrical cables and conductors.

2. Group results

	2018 KShs'000	2017 KShs'000
Loss before taxation	(813,089)	(926,945)
Income tax credit	244,705	264,110
Loss for the year	**(568,384)**	**(662,835)**

The detailed group results for the year are set out on page 40.

3. Dividends

The Directors do not recommend the payment of a dividend (2017 – Nil).

4. Directors

The Directors who served since 1 January 2018 and up to the date of this report are set out on page 2 and their details disclosed on pages 5, 13 to 15.

5. Relevant audit information

The Directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the company's auditors is unaware; and
(ii) Each director has taken all the steps that they ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of this information.

6. Auditors

The Company's auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with the Kenyan Companies Act, 2015.

7. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Directors held on 30 July 2019.

BY ORDER OF THE BOARD

Virginia Ndunge
Secretary

Date: 30 July 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of East African Cables PLC (Group and Company) set out on pages 40 to 109, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the consolidated and separate financial statements in the circumstances, preparation and presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the company as at the end of the financial year and of the profit or loss of the Group and the Company for that year. It also requires the Directors to ensure the company and its subsidiary keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies' Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group and the Company and of the Group and the Company profit or loss.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

As discussed at note 2(f) to the financial statement, the Directors have made an assessment of the Group's and the Company's ability to continue as a going concern and have no reason to believe the Company and its subsidiary will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 30 July 2019.

MG Waweru
Chairman

P Muigai
Chief Executive Officer and Managing Director

Date: 30 July 2019

KPMG

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN CABLES PLC

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of East African Cables PLC (the group and company) set out on pages 40 to 109 which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of East African Cables PLC as at 31 December 2018, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2(f) in the financial statements, which indicates that the group and company incurred a loss of KShs 568.38 million and KShs 399.70 million respectively, during the year ended 31 December 2018, and as of that date, the group's and company's current liabilities exceeded current assets by KShs 3.27 billion and KShs 2.25 billion, respectively. As stated in Note 2(f), these events or conditions, along with other matters as set forth in Note 2(f), indicate that a material uncertainty exists that may cast significant doubt on the group's and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN CABLES PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)
Key audit matters (continued)

Impairment of trade receivables (applicable to the consolidated and separate financial statements)
See Note 3(I)(iv), 4(b), 19 and 29(a).

The key audit matter	How the matter was addressed in our audit
The group's and the company's trade and other receivables amounted to KShs 532 million and 899 million respectively. On 1 January 2018 the Group and Company adopted IFRS 9 Financial Instruments resulting in impairment on financial assets being recognised on an expected credit loss (ECL) model rather than the incurred loss mode. Significant judgement is involved in assessing the recoverability of trade receivables and in estimating the impairment allowance required to be recognised against the gross trade receivables. The key areas where we identified greater levels of management judgement and therefore increased audit focus was the determination of historical loss rate and assessment of applicable forward-looking information to determine the ECL. Consequently, we considered this to be a key audit matter in our audit of the consolidated and separate financial statements.	Our audit procedures in this area included, among others: • Inspecting customer payments after year end that related to trade receivables outstanding at year end; • Inspecting legal files for doubtful debts under litigation and of compliance with the agreed payment plans with customers that had entered into distress arrangements with the group and company to settle outstanding debts; • Evaluating the group's and company's policy for recognising an impairment allowance against the procedures applied by management in raising the impairment allowance to determine the appropriateness of the impairment allowance; • Evaluating accuracy of the provisioning matrix used to compute the historical loss rates; and • Evaluating adequacy and completeness of transition disclosures and year end disclosures.

Recognition of deferred tax assets on unutilised tax losses included in the net deferred tax liability (applicable to the consolidated and separate financial statements)
See Note 3 (i) and 23.

The key audit matter	How the matter was addressed in our audit
In arriving at the deferred tax liability on the statements of financial position, the group and the company have recognised deferred tax assets of KShs 694 million and KShs 489 million respectively relating to unused tax losses (see note 23 to the financial statements). The recoverability of recognised deferred tax assets is dependent on the group's and company's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses before they expire.	Our audit procedures in this area included, among others: • Involving our tax experts to assist us in reviewing the group's and company's deferred tax balances against the tax calculations prepared by the management; • Evaluating the reasonableness of the group's and the company's cash flow forecasts based on supporting documentation obtained from management, our knowledge of the group and company and evidence obtained in respect of other areas of the audit;

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN CABLES PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)
Key audit matters (continued)

Recognition of deferred tax assets on unutilised tax losses included in the net deferred tax liability (applicable to the consolidated and separate financial statements) - continued See Note 23 to the financial statements	
The key audit matter	**How the matter was addressed in our audit**
We determined this to be a key audit matter in our audit of the consolidated and separate financial statements due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary differences and utilisation of tax losses.	• Assessing whether the conditions for recognition of a deferred tax asset in respect of unutilised tax losses in terms of IAS 12 *Income taxes* have been met; and • Checking whether any of the tax losses, included in the deferred tax liability balances have expired by understanding the years in which the tax losses arose and the expected expiry dates of those tax losses.

Other Information

As stated on page 34, the Directors are responsible for the other information. The other information comprises the information included in the *Annual Report and Financial Statements* but does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the consolidated and separate financial statements

The Directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies' Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

KPMG

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN CABLES PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN CABLES PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)
Auditors' responsibilities for the audit of the consolidated and separate financial statements (continued)

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

(i) In our opinion, the information given in the Report of the Directors on page 33 is consistent with the consolidated and separate financial statements;
(ii) The auditable part of the Directors' Remuneration Report on page 27 to 31 has been prepared in accordance with the requirements of the Kenyan Companies Act, 2015; and
(iii) Our report on the consolidated and separate financial statements is unqualified.

The signing partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha – Practicing Number 1610

KPMG Kenya

KPMG Kenya
Certified Public Accountants
PO Box 40612 - 00100
Nairobi

Date: 30 July 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs '000	2017 KShs '000
Revenue	5(a)	1,631,058	2,345,086
Cost of sales	5(c)	(1,155,959)	(1,680,954)
Gross profit		**475,099**	**664,132**
Other income	5(b)	61,892	8,856
Factory expenses	5(c)	(197,333)	(208,810)
Administrative expenses	5(c)	(325,692)	(349,558)
Selling and distribution expenses	5(c)	(73,964)	(81,338)
(Loss)/ profit before depreciation, impairment and finance costs		**(59,998)**	**33,282**
Impairment writeback/(loss) on trade receivables and contract assets	7(a)	70,082	(121,692)
Depreciation and amortisation	7(b)	(286,686)	(288,457)
Results from operating activities		**(276,602)**	**(376,867)**
Interest expense	8	(510,720)	(533,060)
Exchange losses	8	(25,767)	(17,018)
Net finance costs	8	(536,487)	(550,078)
Loss before income tax	**9**	**(813,089)**	**(926,945)**
Income tax credit	10(a)	244,705	264,110
Loss for the year		**(568,384)**	**(662,835)**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Revaluation of property, plant and equipment		226,833	-
Revaluation of prepaid operating leases		248,485	-
Deferred tax on revaluation surplus		(142,596)	-
		332,722	**-**
Items that are or may be reclassified to profit or loss:			
Re-measurement gain on retirement benefit plan		1,903	-
Deferred tax effect		(571)	-
Foreign currency translation differences on foreign operations		(30,593)	(14,772)
		(29,261)	(14,772)
Total other comprehensive income		**303,461**	**(14,772)**
Total comprehensive income for the year		**(264,923)**	**(677,607)**
Loss for the year attributable to:			
Owners of the company		(485,773)	(566,338)
Non-controlling interest		(82,611)	(96,497)
		(568,384)	**(662,835)**
Total comprehensive income attributable to:			
Owners of the company		(168,003)	(568,307)
Non-controlling interest		(96,920)	(109,300)
		(264,923)	**(677,607)**
Basic and diluted earnings per share	**11**	**KShs (1.92)**	**KShs (2.24)**

The notes set out on pages 48 to 109 form an integral part of these financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs '000	2017 KShs '000
Revenue	5(a)	1,385,598	2,043,727
Cost of sales	5(c)	(923,126)	(1,401,661)
Gross profit		**462,472**	**642,066**
Other income	6(b)	61,892	19,874
Factory expenses	6(c)	(151,093)	(157,046)
Administrative expenses	6(c)	(245,889)	(280,057)
Selling expenses	6(c)	(43,442)	(48,756)
Profit before depreciation, impairment and finance costs		**83,940**	**176,081**
Impairment writeback / (losses) on trade receivables and contract assets	7(a)	35,927	(108,529)
Depreciation and amortisation	7(b)	(213,309)	(212,850)
Results from operating activities		**(93,442)**	**(145,298)**
Interest expense	8	(476,736)	(500,278)
Exchange gains	8	10,089	10,318
Net finance cost	8	(466,647)	(489,960)
Loss before income tax	**9**	**(560,089)**	**(635,258)**
Income tax credit	10(a)	160,394	180,854
Loss for the year		**(399,695)**	**(454,404)**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Revaluation of property, plant and equipment		226,833	-
Revaluation of prepaid operating leases		248,485	-
Deferred tax on revaluation surplus		(142,596)	-
		332,722	**-**
Items that are or may be reclassified to profit or loss			
Re-measurement loss on retirement benefit plan		(1,107)	-
Deferred tax effect		332	-
Foreign currency translation on foreign operations		-	(4)
		(775)	(4)
Total other comprehensive income		**331,947**	**(4)**
Total comprehensive income for the year		**(67,748)**	**(454,408)**

The notes set out on pages 48 to 109 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 KShs '000	2017 KShs '000
ASSETS			
Non-current assets			
Property, plant and equipment	12(a)	3,777,894	3,798,816
Leasehold land	13	1,290,887	856,066
Investment properties	14	400,245	-
Intangible assets	16	490	6,980
		5,469,516	4,661,862
Current assets			
Inventories	18	367,877	547,857
Trade and other receivables	19	531,711	901,205
Current tax recoverable	10(c)	65,493	67,908
Cash and cash equivalents	27(b)	169,063	219,885
		1,134,144	1,736,855
Asset held for sale	15	-	639,704
		1,134,144	2,376,559
TOTAL ASSETS		**6,603,660**	**7,038,421**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	20(a)	126,563	126,563
Share premium	20(b)	545	545
Revaluation reserve	20(c)	2,045,342	1,712,620
Retained earnings		(880,966)	(309,639)
Foreign currency translation reserve	20(d)	(114,696)	(99,444)
Total equity attributable to equity holders of the company		1,176,788	1,430,645
Non-controlling interest	20(e)	324,480	448,157
Total equity		**1,501,268**	**1,878,802**
Non-current liabilities			
Bank loans and borrowings	21(a)	-	370,968
Shareholders loan	26(e)	480,436	446,271
Liability for staff gratuity	22	31,829	29,805
Deferred tax liability	23(a)	189,745	346,031
		702,010	1,193,075
Current liabilities			
Bank overdraft	27(b)	2,413	391
Trade and other payables	24	832,222	888,185
Short-term portion of bank loan	21(a)	3,552,458	3,055,037
Dividends payable	25	13,289	22,931
		4,400,382	3,966,544
TOTAL EQUITY AND LIABILITIES		**6,603,660**	**7,038,421**

The financial statements on pages 40 to 109 were approved and authorised for issue by the Board of Directors on 30 July 2019 and were signed on its behalf by:

M.G. Waweru
Chairman

P Muigai
Chief Executive Officer
and Managing Director

The notes set out on pages 48 to 109 form an integral part of the financial statements

SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 KShs '000	2017 KShs '000
ASSETS			
Non-current assets			
Property, plant and equipment	12(b)	2,348,198	2,240,754
Leasehold land	13	1,256,999	820,380
Investment property	14	169,100	-
Intangible assets	16	77	4,641
Investment in subsidiary	17	115,037	115,037
		3,889,411	3,180,812
Current assets			
Inventories	18	186,802	385,083
Trade and other receivables	19	898,903	1,164,797
Current tax recoverable	10(c)	60,841	62,895
Cash and cash equivalents	27(b)	18,284	54,170
		1,164,830	1,666,945
Asset held for sale	15	-	399,138
		1,164,830	2,066,083
TOTAL ASSETS		**5,054,241**	**5,246,895**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	20(a)	126,563	126,563
Share premium	20(b)	545	545
Revaluation reserve	20(c)	1,398,665	1,065,942
Retained earnings		(556,272)	(97,797)
		969,501	1,095,253
Non-current liabilities			
Bank loans and borrowings	21(a)	-	370,968
Shareholders loan	26(e)	480,436	446,271
Liability for staff gratuity	22	22,359	17,183
Deferred tax liability	23(b)	163,090	208,135
		665,885	1,042,557
Current liabilities			
Bank overdraft	27(b)	2,413	391
Trade and other payables	24	382,942	509,032
Short-term portion of bank loans and borrowings	21(b)	3,020,211	2,576,731
Dividend payable	25	13,289	22,931
		3,418,855	3,109,085
TOTAL EQUITY AND LIABILITIES		**5,054,241**	**5,246,895**

The financial statements on pages 40 to 109 were approved and authorised for issue by the Board of Directors on 30 July 2019 and were signed on its behalf by:

M.G. Waweru
Chairman

P Muigai
Chief Executive Officer and Managing Director

The notes set out on pages 48 to 109 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

2018:	**Share capital KShs '000**	**Share premium KShs '000**	**Revaluation reserve KShs '000**	**Retained earnings KShs '000**	**Foreign currency translation reserve KShs'000**	**Total equity attributable to equity holders of company KShs'000**	**Non-controlling interest KShs'000**	**Total equity KShs'000**
Balance at 1 January 2018	126,563	545	1,712,620	(309,639)	(99,444)	1,430,645	448,157	1,878,802
IFRS 9 on day 1 impact (Note 4(i))				(122,649)		(122,649)	(38,224)	(160,873)
Deferred Tax on Day 1 Impact				36,795		36,795	11,467	48,262
Restated as at 1 January 2018	**126,563**	**545**	**1,712,620**	**(395,493)**	**(99,444)**	**1,344,791**	**421,400**	**1,766,191**
Profit for the year	-	-	-	(485,773)		(485,773)	(82,611)	(568,384)
Other comprehensive income								
Items that are or may be reclassified to profit or loss:								
Re-measurement gain/ loss on defined benefit plan	-	-	-	428	-	428	1,475	1,903
Deferred tax effect	-	-	-	(128)	-	(128)	(443)	(571)
Foreign currency translation differences on foreign operations	-	-	-	-	(15,252)	(15,252)	(15,341)	(30,593)
				300	(15,252)	(14,952)	(14,309)	(29,261)
Items that will never be reclassified to profit or loss								
Revaluation of prepaid operating lease	-	-	248,485	-	-	248,485	-	248,485
Revaluation of property plant and equipment	-	-	226,833	-	-	226,833	-	226,833
Deferred tax on revaluation surplus	-	-	(142,596)	-	-	(142,596)	-	(142,596)
Total other comprehensive income	-	-	332,722	-	-	332,722	-	332,722
Total other comprehensive income	**-**	**-**	**332,722**	**300**	**(15,252)**	**317,770**	**(14,309)**	**303,461**
Total comprehensive income for the year	**-**	**-**	**332,722**	**(485,473)**	**(15,252)**	**(168,003)**	**(96,920)**	**(264,923)**
Balance at 31 December 2018	**126,563**	**545**	**2,045,342**	**(880,966)**	**(114,696)**	**1,176,788**	**324,480**	**1,501,268**
2017:								
Balance at 1 January 2017	126,563	545	1,712,620	256,699	(97,475)	1,998,952	557,457	2,556,409
Comprehensive income for the year								
Loss for the year	-	-	-	(566,338)	-	(566,338)	(96,497)	(662,835)
Other comprehensive income								
Items that are or may be reclassified to profit or loss:								
Foreign currency translation differences on foreign operations	-	-	-	-	(1,969)	(1,969)	(12,803)	(14,772)
Total other comprehensive income	**-**	**-**	**-**	**-**	**(1,969)**	**(1,969)**	**(12,803)**	**(14,772)**
Total comprehensive income for the year	-	-	-	(566,338)	(1,969)	(568,307)	(109,300)	(677,607)
Balance at 31 December 2017	**126,563**	**545**	**1,712,620**	**(309,639)**	**(99,444)**	**1,430,645**	**448,157**	**1,878,802**

The notes set out on pages 48 to 109 form an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital KShs '000	Share premium KShs '000	Revaluation reserve KShs '000	Retained earnings KShs '000	Total KShs'000
2018:					
Balance at 1 January 2018	126,563	545	1,065,942	(97,797)	**1,095,253**
IFRS 9 Day 1 impact (Note 4(i))				(82,865)	**(82,865)**
Deferred Tax on day 1 impact	-	-	-	24,860	**24,860**
Restated as at January 2018	**126,563**	**545**	**1,065,942**	**(155,802)**	**1,037,248**
Comprehensive income for the year					
Profit for the year	-	-	-	(399,695)	**(399,695)**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Re-measurement gain/loss on defined benefit plan	-	-	-	(1,107)	**(1,107)**
Deferred Tax effect	-	-	-	332	**332**
	-	-	-	(775)	**(775)**
Items that will never be reclassified to profit or loss					
Revaluation of prepaid operating lease			248,485	-	248,485
Revaluation of property plant and equipment	-	-	226,833	-	**226,833**
Deferred tax on revaluation surplus	-	-	(142,595)	-	**(142,595)**
Total other comprehensive income	-	-	332,723	-	**332,723**
Total other comprehensive income	**-**	**-**	**332,723**	**(775)**	**331,948**
Total comprehensive income for the year	**-**	**-**	**332,723**	**400,470**	**67,747**
Balance at 31 December 2018	**126,563**	**545**	**1,398,665**	**556,272**	**969,501**
2017:					
Balance at 1 January 2017	126,563	545	1,065,942	356,611	**1,549,661**
Comprehensive income for the year					
Loss for the year	-	-	-	(454,404)	**(454,404)**
Other comprehensive income					
Foreign currency translation differences on foreign operations	-	-	-	(4)	**(4)**
Total other comprehensive income	**-**	**-**	**-**	**(4)**	**(4)**
Total comprehensive income for the year	**-**	**-**	**-**	**(454,408)**	**(454,408)**
Balance at 31 December 2017	**126,563**	**545**	**1,065,942**	**(97,797)**	**1,095,253**

The notes set out on pages 48 to 109 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs '000	2017 KShs '000
Cash generated from operations	**27(a)**	**312,138**	**120,068**
Income taxes paid	10(c)	(862)	-
Cash generated from operating activities		**311,276**	**120,868**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		920	-
Purchase of property, plant and equipment	12(a)	(4,815)	(68,746)
Net cash used in investing activities		**(3,895)**	**(68,746)**
Cash flows from financing activities			
Bank loans and borrowings received	21(b)	127,670	973,188
Repayment of bank loans and borrowings	21(b)	(373,914)	(743,124)
Accrued interest on bank loans	21(b)	351,770	395,458
Accrued interest on shareholders loan	26(e)	39,015	32,579
Exchange loss(gain) on banks/shareholders loan		16,077	5,292
Interest charged	8	(510,720)	(533,060)
Dividends paid	25	(9,642)	(7,347)
Net cash used in financing activities		**(359,744)**	**122,986**
Net increase in cash and cash equivalents		**(52,363)**	**174,308**
Cash and cash equivalents at 1 January		219,494	45,186
IFRS 9 day 1 adjustment		(481)	-
Cash and cash equivalents at 31 December	**27(b)**	**166,650**	**219,494**

The notes set out on pages 48 to 109 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs '000	2017 KShs '000
Cash generated from operations	**27(a)**	**343,602**	**(116,188)**
Income taxes paid	10(c)	-	-
Cash generated from operating activities		**343,602**	**(116,188)**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		920	20,609
Purchase of property, plant and equipment	12(b)	(2,248)	(45,655)
Net cash used in investing activities		**(1,328)**	**(25,046)**
Cash flows from financing activities			
Bank loans and borrowings received	21(b)	127,670	973,188
Repayment of bank loans and borrowings	21(b)	(373,914)	(729,342)
Accrued interest on bank loans	21(b)	318,894	395,458
Accrued interest on shareholders loan	26(e)	39,015	32,579
Exchange gain on shareholders/bank loans		(4,988)	1,718
Interest paid	8	(476,736)	(500,278)
Dividends paid	25	(9,642)	(7,347)
Net cash used in financing activities		**(379,701)**	**165,976**
Net increase in cash and cash equivalents		**(37,427)**	**24,742**
Cash and cash equivalents at 1 January		53,779	29,037
Exchange gain on shareholders/bank loans		(481)	-
Cash and cash equivalents at 31 December	**27(b)**	**15,871**	**53,779**

The notes set out on pages 48 to 109 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. REPORTING ENTITY

East African Cables Limited ("the Company") is a limited liability Company incorporated in Kenya under the Kenyan Companies' Act, 2015 and is domiciled in Kenya. The consolidated financial statements as at and for the year ended 31 December 2018 comprise the Company, East African Cables PLC and its subsidiary East African Cables Tz Ltd (together referred to as the "Group"). The Group is primarily involved in the manufacture and sale of electrical cables and conductors.

The address of its registered office and principal place of business is stated on page 5.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income.

(b) Basis of measurement

The consolidated and separate financial statements have been prepared on the historical cost basis as modified by revaluation of certain items of property, plant and equipment, and investment property which is measured at fair value and a liability for staff gratuity subjected to actuarial valuation.

This is the Group and Company's first set of financial statements which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, have been applied. Changes to significant accounting policies are described in Note 4.

Details of the significant accounting policies are included in Note 3.

(c) Functional and presentation currency

These consolidated and separate financial statements are presented in Kenya shillings (KShs), which is the Company's functional and presentation currency. All financial information presented has been rounded to the nearest thousand ("KShs '000") except where otherwise indicated.

(d) Use of judgements and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities are not readily apparent from other sources. 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 which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Specifically, critical judgements, assumptions and estimation uncertainties are required in the following;

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)
(d) Use of judgements and estimates (continued)

i. ***Consolidation***
Judgement is required on whether the Group has de-facto control over an investee (Note 3(b)(i)). Judgement is also made during acquisition of subsidiaries where fair value is measured on a provisional basis.

ii. ***Lease classification***
Judgement is required in assessing classification of leases into either finance or operating leases, and in reviewing whether arrangements contain a lease (Note 3(f)).

iii. ***Employee benefits***
Certain assumptions are made when estimating employee benefit liabilities under gratuity schemes (Note 3(h)).

iv. ***Taxation***
Recognition of deferred tax assets requires assessment of future taxable profits against which carry forward tax losses can be used (Note 3(i)).

v. ***Impairment tests***
Key assumptions underlying recoverable amounts are made in determining carrying amounts of goodwill, receivables, investments in subsidiaries, tangible and intangible assets, investment properties etc, especially where indicators of impairment exist (Note 3 (l) and 3(m)).

vi. ***Recognition and measurement of contingencies***
Key assumptions are made about the likelihood and magnitude of an outflow of resources

(e) Measurement of fair values

A number of the Group's and Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group and Company has an established framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group finance manager.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations met the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)
(e) Measurement of fair values (continued)

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 12 – Property, plant and equipment
- Note 13 – Leasehold land
- Note 14 – Investment property
- Note 29 – Financial instruments

(f) Going concern

The Group and Company recorded a loss of KShs 568.38 million and KShs 399.70 million respectively during the year ended 31 December 2018 (2017 Loss – Group KShs 662.84 million, Company Loss - KShs 454.40 million), and as of that date, the Group's and Company's current liabilities exceeded current assets by KShs 3.27 billion and KShs 2.25 billion respectively (2017 – Group KShs 1.59 billion, Company KShs 1.04 billion), mainly due to bank loans held by the group and company amounting to KShs 3.55 billion and KShs 3.02 billion, respectively, which were current and due in 2018.

Out of the total bank loans of KShs 3.6 billion due as at 31 December 2018, loans amounting to KShs 1.6 Billion relating to Standard Chartered Bank Kenya Limited and Standard Bank Chartered Tanzania Limited were taken over by a new financier at a discount and restructured over a tenor of ten (10) years. The balance of KShs 1.5 billion was discounted as disclosed at Note 32.

The loans due to Ecobank Kenya Limited and SBM Bank Kenya Limited amounting to KShs 161 million and KShs 285 million respectively are due and payable on demand and in the event that the lenders recall the loans due, the Group and Company do not have the ability to settle these loans in the normal course of business. However, as detailed below, the group is in negotiations with the new lender to take-over and restructure these loans over a tenor of ten (10) years.

In our previous communication to shareholders, through our Annual Report and Financial Statements for 2017 year of income, the Group outlined various measures undertaken by the Board and management to return the business back to profitability and reverse the trend in negative working capital position. Implementation of the turn-around strategy is in place with an expectation to return to the business to profitability by 2020.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

(f) Going concern (continued)

The Board and management are working jointly with a debt restructure consultant and the lenders to address this challenge. These and other initiatives to support the Group's and Company's ability to continue as a going concern are described below:

(i) ***Debt restructure:*** The Group and the Company have concluded discussions with a new lender who has taken over the debt owed to Standard Chartered Bank Kenya Limited and Standard Chartered Bank Tanzania Limited as at 31 December 2018. Discussions are progressing to complete the take-over of the loans owed to the other two lenders, Ecobank Kenya Limited and SBM Bank Kenya Limited. The new lender has offered the group a tenor of ten (10) years with a moratorium of two (2) years on principal repayments and a six (6) months moratorium on interest payments. A significant discount was also realised during the take-over process. This not only reduce the debt burden of the business, it also reduces the interest expenses while the longer tenure affords the business adequate time to complete implementation of its turn-around plan.

(ii) ***Business Potential:*** Despite the challenges experienced, the Group and Company has focused on order generation to ensure the business has sufficient future revenues to be able to repay the current debt and continue to grow. The Group and Company has maintained a strong order as shown in the table below:

Beginning of year confirmed order book			
Order Book (KShs Billion)	**Jan-17**	**Jan-18**	**Jan-19**
Company	2.8	2.1	1.8
Subsidiary	1.4	4.7	3.4
Total Group	**4.2**	**6.8**	**5.2**

The KShs 5.2 billion order book will be executed from second half of 2019 once we unlock the working capital line required to issue letters of credit to suppliers of raw materials. Upon completion of debt restructure, a significant portion of this order book will be delivered in the short term.

This is a demonstration that the Group and Company has a stable market with overwhelming prospects, goodwill from customers and support from the lenders. The support from mid-tier lenders and customer down-payments continue to provide working capital financing in the interim.

(iii) ***Receivables management and direct selling.*** Apart from enforcing strict credit control policy, the Group and Company changed its sales strategy to cash or near cash. The result has been increased cash sales which accounted for 47% of our total revenue with further reduction in the overall cash conversion cycle. We target to achieve cash sales of 50% by end of the next financial year. To mitigate customer default risk, all our export sales are now on cash or irrevocable letters of credit while we have also made it mandatory for all our credit customers to provide directors' personal guarantee for goods supplied. Additionally, we have enhanced our customer experience and price competitiveness to grow and retain our market share under these new terms.

(iv) ***Enhanced partnership with key raw material suppliers:*** The business continues to maintain conducive trading terms from its key suppliers of raw materials. This initiative has enabled the business to maintain continued flow of raw materials to serve its customer base especially during the difficult period.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)
(f) Going concern (continued)

*(v) **Efficiency improvement through implementation of Total Performance Management (TPM).*** Through implementation of lean manufacturing processes and deliberate efforts to cut costs, there has been significant reduction in material waste and scrap, power consumption and overall costs. Consequently, gross margins for the group expanded to 29% in the year under review compared to 28% recorded in 2017 and 22% in 2016. Additionally, synchronization of production scheduling, procurement of raw materials and market demand has resulted to lower inventory holding as well as shorter turn-around times in product deliveries to our customers.

*(vi) **Disposal of non-operating assets:*** The Group and Company are holding non-production assets valued at KShs 640 million. There is an understanding with the lenders that once the Group and Company identifies a buyer, these assets will be sold and the proceeds utilised to partly reduce the debt levels and partly be availed for working capital.

*(vii) **Optimization of capital structure:*** The Group and Company is also exploring ways of optimizing its capital structure which could involve raising of additional equity into the business which will be utilized to recapitalise the business. This process will aim at further strengthening the balance sheet of the Group and Company and achievement of the growth strategy.

*(viii) **The Group and Company has a competitive advantage:*** Since the completion of the factory upgrade and modernisation programs in 2014 and 2015, the increased capacity resulting in triple throughput capacity in our three (3) factories has strategically positioned the business to exploit the opportunities emerging in the region.

Positively, the factories will not require discretionary capital expenditure in the medium term. This means that any new external funding and internally generated funds will be utilized to optimize working capital requirements. In the current state of the business, all inflows are best utilized by ploughing back to working capital to alleviate cash-flow constraints.

The Directors having taken into account the initiatives above and information at hand and are confident that the going concern assumption is appropriate in the preparation of these consolidated and separate financial statements.

The consolidated and separate financial statements have therefore been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business. The above events or conditions indicate that a material uncertainty exists that may cast significant doubt about the Group and Company's ability to continue as a going concern, and therefore the Group and Company may be unable to realize their assets and discharge their liabilities in the normal course of business.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements:

(a) Revenue recognition

(i) Sale of goods

IFRS 15 – Revenue from Contracts with Customers, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of the transfer of control, at a point in time or over time require judgement.

The review of the impact of IFRS 15 requires an assessment of each revenue stream and review of contracts and/or supply agreements in place with our customers in order to establish and confirm the full impact of adopting this standard. Based on the review and assessment undertaken, management conclude that the new standard will not have a material impact on revenue recognition for the Group, given the nature of products offered by the Group.

Additionally, the application of the standard, retrospectively, in the current year has not had a material impact on the financial position or financial performance of the Group and Company, and a prior period adjustment has, therefore, not been required.

(ii) Rental income

Rental income on the investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Rental income is presented in other income.

(b) Consolidation principles

(i) Subsidiaries

The consolidated financial statements include the Company (which also includes a branch in Uganda) and its subsidiaries, East African Cables (Tanzania) Company Limited in which the Group holds 51% of the voting rights and Yana Trading Company Limited in which the company holds 100% voting rights (refer to Note 17).

Subsidiaries are entities controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control ceases.

In the Company financial statements, the investment in subsidiary is carried at cost and assessed for impairment at each reporting date.

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

(ii) Transactions eliminated on consolidation

All intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group balances, are eliminated in preparing consolidated financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(b) Consolidation principles (continued)

(iii)Business combinations

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired.

A gain arising on a bargain acquisition is recognised directly in profit or loss.

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Resulting exchange differences are recognised in profit or loss.

Non-monetary assets and liabilities that are measured based on historical cost denominated in foreign currency are translated at the exchange rate ruling at the date of transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations (which includes subsidiaries and branches), including fair value adjustments arising on consolidation, are translated to Kenya Shillings at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Kenya Shillings at rates approximating the foreign exchange rates ruling at the dates of transaction. Foreign exchange differences arising on translation are recognised in other comprehensive income (OCI) and accumulated as a separate component of equity (foreign currency translation reserve) until the disposal of the foreign operation.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment (PPE) are measured at cost or at the revalued amount (as appropriate) less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. External revaluations for the group's buildings, plant and machinery are obtained after every three (3) years. Surpluses arising from the valuations are recognised in other comprehensive income and accumulated in revaluation reserves in equity.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and is recognised net within profit or loss and presented within other income/expense. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(d) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii)Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The annual rates of depreciation used are as follows:

Leasehold buildings	**Over the shorter of the lease period and the asset's useful life**
Plant and machinery	5% - 12.5%
Computers	33.3%
Motor vehicles	25%
Furniture, fittings and equipment	12.5% - 33.3%

Construction work-in-progress is not depreciated.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate at each reporting date.

(iv)Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property and re-measured to fair value. Any gain arising on re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in equity. Any loss is recognised immediately in profit or loss.

(e) Gain/ loss on disposal of investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in production or supply of goods and services or for administrative purposes.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of an item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Investment properties are measured at fair value. External valuations are obtained on such a basis as to ensure that substantially all properties are valued once every three years. In the event of a material change in market conditions between the valuation date and the reporting date an internal valuation is performed, and adjustments made to reflect any material changes in value.

Surpluses and deficits arising from changes in fair value are recognised in profit or loss for the year.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases

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

Leases in terms of which the Group and Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Long term leasehold land is classified as leasehold land carried at revalued amounts less amortisation for the period. Leasehold land is revalued by independent valuers after every three years. The revalued amount is amortised over the remaining lease period. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Investment property held under an operating lease is recognised in the Group's statement of financial position at its fair value. Proceeds under these leases are recognised in the profit or loss.

(g) Inventories

Work in progress and manufactured finished goods are valued at production cost including direct costs (cost of materials and labour), an appropriate proportion of production overheads and factory depreciation and other costs incurred in bringing the inventories to their present location and condition. The cost of stocks is based on the weighted average principle.

If the purchase or production cost is higher than net realisable value, inventories are written down to net realisable value. Purchase cost relates to the purchase of raw materials. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Employee benefits

(i) Defined contribution plan

Non-unionisable employees of the Group are eligible for retirement benefits under a defined contribution plan provided through a separate fund arrangement.

Contributions to the defined contribution plan are recognised in profit or loss as incurred. The Group has no further obligation once the contributions have been paid.

(ii) Staff gratuity

The Group provides service gratuity to unionisable staff that retire on attaining the age of 55 years or are declared redundant. These are provided to eligible employees based on each employee's length of service with the Group, as provided for in the collective bargaining agreement. The Group also provides for long service award to staff based on length of service.

The cost of providing service gratuity which is considered as defined benefit plan is determined by a professional actuary using the projected unit credit method.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(h) Employee benefits (continued)
(ii) Staff gratuity (continued)

Re-measurements, comprising of actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings though other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group recognises the following changes in the net defined benefit in profit or loss as:
- Service costs comprising of current service costs recognised in profit or loss under cost of sales;
- Net interest expense or income recognised in profit or loss under cost of sales.

Employee entitlements to annual leave are recognized when they are expected to be paid to employees. A provision is made for the estimated liability for annual leave at the reporting date. Service gratuity is disclosed in Note 22 to the financial statements.

(iii) Leave accrual
The monetary value of the unutilised leave by staff as at year end is carried in the accruals as a payable and the movement in the year is recognised in profit or loss.

(iv) Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(i) Taxation

Income tax comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or in equity respectively.

Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Taxation (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Related party transactions

The group discloses the nature, volume and terms and conditions of amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the directors, executive officers and group or related companies.

(k) Dividends

Dividends are recognised as a liability in the period in which they are declared. Withholding tax is withheld for all cases where the percentage of ownership is less than 12.5% at the prevailing rates.

Proposed dividends are disclosed on Note 20(f).

(l) Financial instruments

Financial instruments include balances with banks, trade and other receivables, balances due from and to related parties, trade and other payables and borrowings.

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group and Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

A financial instrument is a contract that gives rise to both a financial asset for one enterprise and a financial liability of another enterprise.
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(i) Classification and subsequent measurement (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the Group and Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Group and Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group and Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group and Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(i) Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018 (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group and Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group and Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group and Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or premium to its contractual at par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual at par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Debt Investments at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(i) Classification and subsequent measurement (continued)

Financial assets – Policy applicable before 1 January 2018

The Group and Company classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category
    - held for trading;
    - derivative hedging instruments;
    - or - designated as at FVTPL.

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(ii) De-recognition

Financial assets

The Group and Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group and Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(ii) De-recognition (continued)

Financial assets

The Group and Company enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group and Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group and Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred, or liabilities assumed) is recognised in profit or loss.

(iii) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group and Company has an enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Fair value of financial assets and liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

(v) Impairment of financial assets

Non-derivative financial assets
Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group and Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost. The Group and Company measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(v) Impairment of financial assets (continued)

Non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Financial instruments and contract assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group and Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group and Company's historical experience and informed credit assessment and including forward-looking information.

The Group and Company assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group and Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group and Company in full, without recourse by the Group and Company to actions such as realising security (if any is held); or
- the financial asset is more than 365 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.
12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group and Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group and Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group and Company assesses whether financial assets carried at amortised cost and debt securities at Fair Value Through Other Comprehensive Income (FVOCI) are credit-impaired.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(vi) Accounting classifications and fair values for financial assets and liabilities

The table below sets out the carrying amounts of each class of financial assets and liabilities, and their fair values:

Group

31 December 2018:	Loans and receivables KShs'000	Other liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets				
Trade receivables	398,758	-	398,758	398,758
Due from related parties	51,505	-	51,505	51,505
Cash and bank balances	169,063	-	169,063	169,063
Total assets	**619,326**	**-**	**619,326**	**619,326**
Liabilities				
Bank overdraft	-	2,413	2,413	2,413
Bank loans and borrowings	3,552,458	-	3,552,458	3,552,458
Shareholder Loan	480,436	-	480,436	480,436
Trade payables	-	276,197	276,197	276,197
Due to related parties	-	89,681	89,681	89,681
Total liabilities	**4,032,894**	**368,291**	**4,401,185**	**4,401,185**

31 December 2017:	Loans and receivables KShs'000	Other Liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets				
Trade receivables	701,357	-	701,357	701,357
Due from related parties	52,580	-	52,580	52,580
Cash and bank balances	219,885	-	219,885	219,885
Total assets	**973,822**	**-**	**973,822**	**973,822**
Liabilities				
Bank overdraft	-	391	391	391
Bank loans and borrowings	3,426,005	-	3,426,005	3,426,005
Shareholder loan	466,271	-	466,271	466,271
Trade payables	-	689,605	689,605	689,605
Due to related parties	-	68,191	68,191	68,191
Total liabilities	**3,892,276**	**758,187**	**4,650,463**	**4,650,463**

The fair values for financial instruments such as trade receivables, cash and bank balances, and trade payables carrying amounts are a reasonable approximation of fair values.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(vi) Accounting classifications and fair values for financial assets and liabilities (continued)

Company 31 December 2018:	Loans and Receivables KShs'000	Other liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets				
Trade receivables	348,640	-	348,640	348,640
Due from subsidiaries	447,871	-	447,871	447,871
Due from related parties	42,808	-	42,808	42,808
Cash and bank balances	18,284	-	18,284	18,284
Total assets	**857,603**	**-**	**857,603**	**857,603**
Liabilities				
Bank overdraft	-	2,413	2,413	2,413
Bank loans and borrowings	3,020,211	-	3,020,211	3,020,211
Shareholder loan	480,436	-	480,436	480,436
Trade payables	-	199,282	199,282	199,282
Total liabilities	**3,500,647**	**201,695**	**3,702,342**	**3,702,342**

31 December 2017:	Loans and receivables KShs'000	Other liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets				
Trade receivables	567,513	-	567,513	567,513
Due from subsidiaries	446,329	-	446,329	446,329
Due from related parties	42,448	-	42,448	42,448
Cash and bank balances	54,170	-	54,170	54,170
Total assets	**1,110,460**	**-**	**1,110,460**	**1,110,460**
Liabilities				
Bank overdraft	-	391	391	391
Bank loans and borrowings	2,947,699	-	2,947,699	2,947,699
Shareholder loan	466,271	-	466,271	466,271
Trade payables	-	371,010	371,010	371,010
Due to related parties	-	68,149	68,149	68,149
Total liabilities	**3,413,970**	**439,550**	**3,853,520**	**3,853,520**

The fair values for financial instruments such as trade receivables, cash and bank balances, and trade payables carrying amounts are a reasonable approximation of fair values.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(l) Financial instruments (continued)
(vi) Accounting classifications and fair values for financial assets and liabilities (continued)

Valuation hierarchy

The fair value of certain items property, plant and equipment, leasehold land and investment property was determined by external, independent property valuers in 2015, having appropriate recognized professional qualifications and experience in the location and category of the property being valued.

The table below shows the classification of investment property held at fair value into the valuation hierarchy set out below as at 31 December 2018 and 31 December 2017:

Group	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2018:				
Property, plant and equipment (Excluding Motor vehicles) (Note 12 (a))	-	3,776,563	-	3,776,563
Leasehold land (Note 13)	-	1,290,887	-	1,290,887
Investment property (Note 14)	-	400,245	-	400,245
Total	**-**	**5,467,695**	**-**	**5,467,695**
31 December 2017:				
Property, plant and equipment (Excluding Motor vehicles) (Note 12(b))		3,797,891	-	3,797,891
Leasehold land (Note 13)	-	856,066	-	856,066
Total	**-**	**4,653,957**	**-**	**4,653,957**

Company	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2018:				
Property, plant and equipment (Excluding Motor vehicles) (Note 12(b))	-	2,346,865	-	2,346,865
Leasehold land (Note 13)	-	1,256,999	-	1,259,999
Investment property (Note 14)	-	169,100	-	169,100
Total	**-**	**3,772,964**	**-**	**3,772,964**
31 December 2017:				
Property, plant and equipment (Excluding Motor vehicles) (Note 11)		2,240,158	-	2,240,158
Leasehold land (Note 12)	-	820,380	-	820,380
Total	**-**	**3,060,538**	**-**	**3,060,538**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(vi) Accounting classifications and fair values for financial assets and liabilities (continued)

Valuation techniques and significant unobservable inputs

Type	Valuation technique	Significant unobservable	Inter-relationship between significant unobservable inputs and inputs fair value measurement
Property, plant and equipment	Items of property, plant and equipment in Kenya, other than motor vehicles, are stated at fair value, which has been determined based on valuation by Ms Proland Realtors Limited an accredited independent valuer as at 31 December 2018. Proland Realtors Limited is an Industry specialist in valuing these types of investment properties. Tanzania property, plant and equipment are stated at fair value, which has been determined based on valuation by Ms Lloyd Masika Limited an accredited independent valuer as at 31 December 2015. The fair value of the properties has not been determined on transactions observable in the market because of the nature of the property and lack of comparable data. Instead valuation model in accordance with that recommended by the International Valuation Standard Committee has been applied. The resulting fair value change is dealt with through other comprehensive income.	The factory buildings are located in prime locations within the industrial area. Machinery is anchored in the factory buildings and is specialized in cable manufacturing only. Other items of property, plant and equipment like motor vehicles, furniture and fittings is moveable in nature and is used to facilitate manufacture and sale of electrical cables and conductors.	A gain on revaluation of KShs 226 million was recognised in the year
Leasehold land	This relates to leasehold land upon which the manufacturing plants are set up. These assets are stated at fair value, based on valuation by Ms Proland Realtors Limited an accredited independent valuer on 31 December 2018. Proland Realtors Limited is an Industry specialist in valuing these types of properties. The fair value of the leasehold land has been determined on the basis of comparable transaction in the market. Additionally, valuation model in accordance with that recommended by the International Valuation Standard Committee has been applied. Note: The leasehold land in Tanzania is stated fair value, based on valuation by Ms Lloyd Masika Limited an accredited independent valuer on 31 December 2015.	The leasehold land in Kenya and Tanzania are located in prime locations within the industrial area with close proximity to all amenities.	A gain on revaluation amounting to KShs 248 million was recognised in the year.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

(vi) Accounting classifications and fair values for financial assets and liabilities (continued)

Valuation techniques and significant unobservable inputs (continued)

Type	Valuation technique	Significant unobservable	Inter-relationship between significant unobservable inputs and inputs fair value measurement
Investment Property	These are residential properties situated in Nairobi, Kenya and Dar-es-salaam Tanzania. The property in Kenya is leased to a related party on renewable annual lease, while the one in Tanzania was unoccupied in the year. The investment property in Kenya is stated at fair value, which has been determined based on valuation by Ms Proland Realtors Limited an accredited independent valuer as at 31st December 2018. Proland Realtors Limited is an industry specialist in valuing these types of investment properties. The investment property in Tanzania is stated at fair value, which has been determined based on valuation by Ms. Llyod Masika Limited an accredited independent valuer as at 31st December 2015. The fair value of the properties has not been determined on transactions observable in the market because of the nature of the properties and lack of comparable data. Instead valuation model in accordance with that recommended by the International Valuation Standard Committee has been applied. The resulting fair value change is dealt with through profit or loss.	The property owned by East African Cables Kenya is located in the Lavington area approximately 15kms from Nairobi City Centre. The property in Tanzania is located in a prime area adjacent to the National Referral Hospital.	Fair value increase in the year amounted to KShs 54 million.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of non-financial assets

The carrying amounts of the Group's and Company's non-financial assets, other than investment properties, 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 are allocated first reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(n) Assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale or distribution than through continuing use are classified as held for sale or distribution. Immediately before classification as held for sale or distribution the assets or components of a disposal group are measured in accordance with the Group's accounting policies. Thereafter generally the assets or disposal group are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro rata basis.

Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, assets are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives (3 years) of intangible assets.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(p) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Finance income and expenses

Finance income and expenses comprise interest expense on borrowings and foreign currency losses. Borrowing costs, not relating to qualifying assets, are recognised in profit or loss using the effective interest rate.

Foreign exchange gains and losses are report on a gross basis.

(r) Segmental reporting

The Group determines and presents operating segments based on the information that internally is provided to the Group Chief Executive Officer (CEO), who is the Group's chief operating decision maker.

The Group has three reportable segments which are the Group's geographic locations.
The geographic locations offer similar products to different markets and are managed separately because they require different marketing strategies.

The CEO reviews the internal management reports on each of the segments on a monthly basis. The performance of each segment is measured on segment profit as included in the management report. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the businesses.

Specific segmental information is disclosed in Note 33.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(t) Comparative information

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

(u) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

New standard or amendments
• IFRS 9 Financial Instruments
• IFRS 15 Revenue from Contracts with Customers
• Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)
• Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
• IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
• Transfer of Investment Property (Amendments to IAS 40)
• Annual Improvements to IFRS's 2014 – 2016 cycle (Amendments to IFRS 1 and IAS 28)

- ***IFRS 9: Financial Instruments***

  On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaced earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

  This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

  The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption permitted.
  Details of these new requirements as well as their impact on the Group's and Company's Financial Statements are described under note 4.

- ***IFRS 15: Revenue from Contracts with Customers (Effective 31 December 2018)***

  This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

  The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of Financial Statements with more informative, relevant disclosures.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.
Details of these new requirements as well as their impact on the Group's and Company's Financial Statements are described under note 4.

The following new standards that became effective during the year did not have a significant impact on the Group and Company Financial Statements:

• Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)
• Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
• IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
• Transfer of Investment Property (Amendments to IAS 40)
• Annual Improvements to IFRS's 2014 – 2016 cycle (Amendments to IFRS 1 and IAS 28

(ii) New and amended standards and interpretations in issue but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018 and have not been early adopted by the Group and Company. The Group and Company are in the process of assessing the impact of these standards on the Group and Company Financial Statements.

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 16 Leases	1-Jan-19
• IFRIC 23 Income tax exposures	1-Jan-19
• Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1-Jan-19
• Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1-Jan-19
• Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1-Jan-19
• Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards	1-Jan-19
• Amendments to References to Conceptual Framework in IFRS Standards	1-Jan-20
• Definition of a Business (Amendments to IFRS 3)	1-Jan-20
• Definition of Material (Amendments to IAS 1 and IAS 8)	1-Jan-20
• IFRS 17 Insurance Contracts	1-Jan-21
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS10 and IAS 28)	To be determined

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet adopted (continued)

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity their effective date (except for those standards and interpretations that are not applicable to the entity). It is unlikely that IFRIC 23, IFRS 17, amendments to IFRS 9, IAS 28, IFRS 10, IAS 19, annual improvements to IFRS 2015–2017 cycle, amendments to references to conceptual framework in IFRS, IFRS 3, IAS 1 and IAS 8 will have an impact on the Financial Statements. Below is analysis of those likely to impact the Group and Company.

- ***IFRS 16: Leases***

On 13 January 2016 the IASB issued IFRS 16 Leases which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

(i) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments;
(ii) Depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
(iii) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:
(i) short-term leases (i.e. leases of 12 months or less), and;
(ii) leases of low-value assets (i.e. less than KSh 500,000).

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Group and Company is in the process of assessing the potential impact on its Financial Statements resulting from the application of this standard.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group and Company has applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018, but they do not have a material effect on the Group's and Company's Financial Statements.

Due to the transition methods chosen by the Group and Company in applying these standards, comparative information throughout these Financial Statements has not been restated to reflect the requirements of the new standards, except for separately presenting the impairment loss on trade receivables and contract assets.

(a) IFRS 15 Revenue for contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group and Company applied IFRS 15 on 1 January 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018 without restating comparative periods.

The adoption of IFRS 15 did not significantly impact the timing or amount of revenue and add on costs on sale of products and the related assets and liabilities recognised by the Group and Company. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

(b) IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

(i) Day 1 adjustments and impact of adopting IFRS 9 on retained earnings at 1 January 2018

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening retained earnings.

IFRS 9 Financial Instruments	31 December 2017 as reported KShs '000	Impact IFRS 9 (expected loss impairment) KShs '000	1 January 2018 Revised for IFRS 9 KShs '000
Group			
Assets			
Trade and other receivables	901,205	(160,392)	740,813
Cash and cash equivalents	219,494	(481)	219,013
	1,120,699	**(160,873)**	**959,826**
Equity			
Retained earnings	(309,639)	(85,854)	395,493
Non-controlling interest	448,157	(26,757)	421,400

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(b) IFRS 9 Financial instruments (continued)

(ii) Day 1 adjustments and impact of adopting IFRS 9 on retained earnings at 1 January 2018

	31 December 2017 as reported KShs '000	Impact of IFRS 9 (expected loss impairment) KShs '000	1 January 2018 Revised for IFRS 9 KShs '000
Company			
Assets			
Trade and other receivables	1,164,797	(82,384)	1,082,413
Cash and cash equivalents	54,170	(481)	53,689
	1,218,967	**82,865**	**1,136,102**
Equity			
Retained earnings	(97,797)	58,005	(155,802)

(iii) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group and Company's accounting policies related to financial liabilities. For an explanation of how the Group and Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 3(m).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's and Company's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets and financial liabilities at 1 January 2018 relates solely to the new impairment requirements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 9 Financial instruments (continued)

(iii) Classification and measurement of financial assets and financial liabilities (continued)

Group

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KShs '000	Adjustment KShs '000	New carrying amount under IFRS 9 KShs '000
Financial assets						
Trade and other receivables	19	Loans and receivables	Amortised cost	901,205	(160,392)	740,813
Cash and cash equivalents	27	Loans and receivables	Amortised cost	219,885	(481)	219,404
Total financial assets at 1 January 2018				**1,121,090**	**(160,873)**	**960,217**
Financial liabilities						
Bank overdraft	27(b)	Other financial liabilities	Other financial liabilities	391	-	391
Bank loans and Borrowings	21(a)	Other financial liabilities	Other financial liabilities	3,426,005	-	3,426,005
Shareholder loan	26(e)	Other financial liabilities	Other financial liabilities	446,271	-	446,271
Trade and other payables	24	Other financial liabilities	Other financial liabilities	888,185	-	888,185
Total financial liabilities at 1 January 2018				**4,760,852**	**-**	**4,760,852**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 9 Financial instruments (continued)

(iii) Classification and measurement of financial assets and financial liabilities (continued)

Company

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KShs '000	Adjustment KShs '000	New carrying amount under IFRS 9 KShs '000
Financial assets						
Trade and other receivables	19	Loans and receivables	Amortised cost	1,164,797	(82,384)	1,082,413
Cash and cash equivalents	27	Loans and receivables	Amortised cost	54,170	(481)	53,689
Total financial assets at 1 January 2018				**1,218,967**	**(82,865)**	**1,136,102**
Financial liabilities						
Bank overdraft	27(b)	Other financial liabilities	Other financial liabilities	391	-	391
Bank loans and Borrowings	21(a)	Other financial liabilities	Other financial liabilities	2,947,699	-	2,947,699
Shareholder loan	26(e)	Other financial liabilities	Other financial liabilities	446,271	-	446,271
Trade and other payables	25	Other financial liabilities	Other financial liabilities	509,032	-	509,032
Total financial liabilities at 1 January 2018				**3,903,393**	**-**	**3,903,393**

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.
A decrease of 160,392,000 (Company – KShs 82,384,000) due to allowance for impairment over these receivables was recognized in opening retained earnings as at 1 January 2018 on transition to IFRS 9. There was no change in classification of financial liabilities, as all remained under "other financial liabilities."

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 9 Financial instruments (continued)

(iv) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied prospectively using the cumulative effect method.

(c) Financial instruments

Financial instruments include balances with banks, trade and other receivables, balances due from and to related parties and trade and other payables.

(ii) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group and Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(iii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

A financial instrument is a contract that gives rise to both a financial asset for one enterprise and a financial liability of another enterprise.

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group and Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5. REVENUE, OTHER INCOME AND EXPENSES

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
a. Revenue				
Sale of electrical cables and conductors	**1,631,058**	**2,345,086**	**1,385,598**	**2,043,727**
b. Other income				
Fair value gain on investment property	54,100	-	54,100	-
Gain on disposal of plant, property & equipment	920	-	920	11,026
Rent income	6,872	8,856	6,872	8,848
	61,892	**8,856**	**61,892**	**19,874**
c. Expenses by nature				
Raw materials and consumables	1,101,400	1,619,582	885,641	1,353,903
Employee benefits and other staff costs (Note 6)	248,093	283,887	182,555	219,538
Electricity expenses	36,452	60,435	29,425	46,045
Repairs and maintenance	15,457	36,170	12,553	31,146
Professional and consultancy costs	38,506	33,317	33,347	25,095
Vehicle expenses	8,719	12,512	4,212	7,990
Other expenses	304,321	274,757	215,817	203,803
	1,752,948	**2,320,660**	**1,363,550**	**1,887,520**
Comprising:				
Cost of sales	1,155,959	1,680,954	923,126	1,401,661
Factory expenses	197,333	208,810	151,093	157,046
Administrative expenses	325,692	349,558	245,889	280,057
Selling expenses	73,964	81,338	43,442	48,756
	1,752,948	**2,320,660**	**1,363,550**	**1,887,520**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

6. STAFF COSTS

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Direct labour	53,127	61,586	37,484	47,759
Indirect factory salaries	63,966	73,263	49,496	59,054
Administration salaries and wages	93,439	98,144	70,035	82,230
Distribution salaries and wages	23,181	36,026	17,082	21,424
Pension contributions	14,380	14,868	8,458	9,071
	248,093	**283,887**	**182,555**	**219,538**

7. OTHER OPERATING EXPENSES

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
a. Impairment (writeback)/ losses				
Impairment (writeback)/loss on trade receivables	(84,514)	121,692	(50,359)	108,529
Impairment loss on other financial assets	5,536	-	5,536	-
Impairment loss on revaluation of property, plant and equipment	8,896	-	8,896	-
	(70,082)	**121,692**	**(35,927)**	**108,529**

b. Depreciation and amortisation

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Depreciation	246,165	249,662	175,358	176,715
Amortisation of intangible assets	6,423	6,734	4,564	4,809
Amortisation of leasehold land	34,098	32,061	33,387	31,326
	286,686	**288,457**	**213,309**	**212,850**

8. NET FINANCE COST

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Interest expense	(510,720)	(533,060)	(476,736)	(500,278)
Exchange gains	15,335	13,190	15,335	13,190
Exchange losses	(41,102)	(30,208)	(5,246)	(2,872)
Net exchange (loss) / gain	(25,767)	(17,018)	10,089	10,318
	(536,487)	**(550,078)**	**(466,647)**	**(489,960)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

9. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Depreciation expense (Note 12)	246,165	249,662	175,358	176,715
Amortisation of leasehold land (Note 13)	34,098	32,061	33,387	31,326
Amortisation of intangible assets (Note 16)	6,423	6,734	4,564	4,809
Interest expense (Note 8)	510,720	533,060	476,736	500,278
Directors' emoluments (Note 26):				
- Non-executive directors fees	16,711	16,170	11,010	11,330
- Duty day allowances	726	1,953	726	1,953
- Executive director's remuneration	23,412	21,200	23,412	21,200
Auditors' remuneration	10,003	7,281	7,602	5,352
Impairment loss on revaluation of property, plant and equipment	8,896	-	8,896	-

10. INCOME TAX

a. Income tax (credit)/expense

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Current year	3,095	3,266	2,054	2,361
Prior year over provision	-	(20,867)	-	-
	3,095	**(17,601)**	**2,054**	**2,361**
Deferred tax credit (Note 23)				
Movement through profit or loss	(232,768)	(246,509)	(147,416)	(183,215)
Prior year overprovision	(15,032)	-	(15,032)	-
	(247,800)	**(246,509)**	**(162,448)**	**(183,215)**
Total income tax credit	**(244,705)**	**(264,110)**	**(160,394)**	**(180,854)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

10. INCOME TAX (CONTINUED)

b. Tax reconciliation

The tax on the consolidated results differs from the theoretical amount using the basic tax rate as follows:

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Loss before income tax	**(813,089)**	**(926,945)**	**(560,089)**	**(635,258)**
Tax calculated at the statutory income tax rate of 30%	(243,927)	(278,084)	(168,027)	(190,577)
Prior year overprovision:-				
current income tax	-	(20,867)	-	-
deferred tax	(15,032)	-	(15,032)	-
Tax effect of other deductible costs	14,254	34,841	22,665	9,723
	(244,705)	**(264,110)**	**(160,394)**	**(180,854)**

c. Current tax balances

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Balance as at 1 January	67,908	50,143	62,895	65,256
Current tax charge	(3,095)	17,601	(2,054)	(2,361)
Paid during the year	862	-	-	-
Foreign exchange translation differences	182	164	-	-
Balance as at 31 December	**65,493**	**67,908**	**60,841**	**62,895**
Comprising:				
Current tax recoverable	65,493	67,908	60.841	62,895
	65,493	**67,908**	**60,841**	**62,895**

11. BASIC AND DILUTED EARNINGS PER SHARE

	2018 KShs '000	2017 KShs '000
The calculation of basic and diluted earnings per share is based on:		
Profit/(loss) attributable to ordinary shareholders (KShs'000)	**(485,773)**	**(566,338)**
Weighted average number of ordinary shares outstanding during the year	**253,125,000**	**253,125,000**
Basic and diluted earnings per share (KShs)	**(1.92)**	**(2.24)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12. PROPERTY, PLANT AND EQUIPMENT

(a) Group

2018:	Leasehold buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings & equipment KShs'000	Construction work in progress KShs'000	Total KShs'000
Cost or valuation:						
At 1 January 2018	2,318,797	1,827,042	43,669	111,857	162,666	4,464,031
Additions	-	571	1,361	1,369	1,514	4,815
Transfers from assets held for sale (Note 15)	65,000	-	-	-	-	65,000
Reclassification	-	20,387	-	(20,387)	-	-
Disposals	-	-	(2,891	-	-	(2 ,891)
On revaluation	(100,650)	(204,936)	-	-	-	(305,586)
Exchange differences	(54,409)	(10,801)	(812)	(972)	(1,402)	(68,396)
At 31 December 2018	2,228,738	1,632,263	41,327	91,867	162,778	4,156,973
Depreciation:						
At 1 January 2018	158,661	409,790	42,744	54,020	-	665,215
Charge for the year	74,204	161,487	946	9,528	-	246,165
Disposals	-	-	(2,891)	-	-	(2,891)
On revaluation	(59,365)	(464,158)	-	-	-	(523,523)
Transfers from assets held for sale (Note 15)	2,383	-	-	-	-	2,383
Reclassification	-	2,394	-	(2,394)	-	-
Exchange differences	(5,470)	(1,314)	(803)	(683)	-	(8,270)
At 31 December 2018	170,413	108,199	39,996	60,471	-	379,079
Net carrying value:						
At 31 December 2018	**2,058,325**	**1,524,064**	**1,331**	**31,396**	**162,778**	**3,777,894**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Group

2017:	Leasehold buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings & equipment KShs'000	Construction work in progress KShs'000	Total KShs'000
Cost or valuation:						
At 1 January 2017	2,412,757	1,834,754	44,105	79,628	125,076	4,496,320
Additions	263	7,609	-	32,705	28,169	68,746
Transfers	-	(9,583)	-	-	9,583	-
Transfers from assets held for sale (Note 15)	(65,000)	-	-	-	-	(65,000)
Exchange differences	(29,223)	(5,738)	(436)	(476)	(162)	(36,035)
At 31 December 2017	2,318,797	1,827,042	43,669	111,857	162,666	4,464,031
Depreciation:						
At 1 January 2017	87,192	246,662	41,342	45,700	-	420,896
Charge for the year	75,655	163,550	1,820	8,637		249,662
Transfers from assets held for sale (Note 15)	(2,383)	-	-	-	-	(2,383)
Exchange differences	(1,803)	(422)	(418)	(317)	-	(2,960)
At 31 December 2017	158,661	409,790	42,744	54,020	-	665,215
Net carrying value:						
At 31 December 2017	**2,160,136**	**1,417,252**	**925**	**57,837**	**162,666**	**3,798,816**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Company

2018:	Leasehold buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings & equipment KShs'000	Construction work in progress KShs'000	Total KShs'000
Cost or valuation:						
At 1 January 2018	929,450	1,542,951	22,942	87,027	126,876	2,709,246
Additions	-	355	1,361	293	239	2,248
Transfers from assets held for sale	65,000	-	-	-	-	65,000
Reclassification	-	20,387	-	(20,387)	-	-
Disposal		-	(2,891)	-	-	(2,891)
On revaluation	(100,650)	(204,936)	-	-	-	(305,586)
At 31 December 2018	893,800	1,358,757	21,412	66,933	127,115	2,468,017
Depreciation:						
At 1 January 2018	36,876	371,864	22,346	37,406	-	468,492
Charge for the year	20,106	147,622	624	7,006	-	175,358
Disposal	-	-	(2,891)	-	-	(2,891)
On revaluation	(59,365)	(464,158)	-	-	-	(523,523)
Transfers from assets held for sale	2,383	-	-	-	-	2,383
Reclassification	-	2,394	-	(2,394)	-	-
At 31 December 2018	-	57,722	20,079	42,018	-	119,819
Net carrying value:						
At 31 December 2018	**893,800**	**1,301,035**	**1,333**	**24,915**	**127,115**	**2,348,198**
2017:						
Cost or valuation:						
At 1 January 2017	994,187	1,556,195	22,942	56,580	117,234	2,747,138
Additions	263	5,303	-	30,447	9,642	45,655
Transfers to assets held for sale (Note 15)	(65,000)	-	-	-	-	(65,000)
Disposal	-	(18,547)	-	-	-	(18,547)
At 31 December 2017	929,450	1,542,951	22,942	87,027	126,876	2,709,246
Depreciation:						
At 1 January 2018	19,588	231,049	21,326	31,161	-	303,124
Charge for the year	19,671	149,779	1,020	6,245		176,715
Depreciation adjustment on assets held for sale (Note 15)	(2,383)	-	-	-	-	(2,383)
Disposal	-	(8,964)	-	-	-	(8,964)
At 31 December 2017	36,876	371,864	22,346	37,406	-	468,492
Net carrying value:						
At 31 December 2017	**892,574**	**1,171,087**	**596**	**49,621**	**126,876**	**2,240,754**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Revaluation

The directors are of the view that the value carried in the books is a fair estimate of the current value of the assets as at the statement of financial position date.

Included in property, plant and equipment are assets with a gross value of KShs 164 million (2017 – KShs 155 million), which are fully depreciated, and still in use. Such assets would have attracted a notional depreciation of KShs 82 million (2017 – KShs 81 million).

If the buildings, plant and machinery were stated on the historical cost basis, the amounts would be as follows:

Group	Buildings KShs'000	Plant and machinery KShs'000	Total KShs'000
At 31 December 2018			
Cost	828,333	2,064,540	2,892,872
Accumulated Depreciation	(164,888)	(1,373,337)	(1,538,225)
Net carrying value	**663,445**	**691,203**	**1,354,647**
At 31 December 2017			
Cost	817,742	2,074,770	2,892,512
Accumulated Depreciation	(148,321)	(1,115,270)	(1,263,591)
Net carrying value	**669,421**	**959,500**	**1,628,921**
Company			
At 31 December 2018			
Cost	833,096	1,805,163	2,638,259
Accumulated Depreciation	(144,349)	(1,343,963)	(1,488,312)
Net carrying value	**688,747**	**461,200**	**1,149,947**
At 31 December 2017			
Cost	768,096	1,804,808	2,572,904
Accumulated Depreciation	(127,686)	(1,118,318)	(1,246,004)
Net carrying value	**640,410**	**686,490**	**1,326,900**

Security

At 31 December 2018, land and buildings with a carrying amount of KShs 2,099 million (2017 – KShs 1,370 million) are subject to a registered debenture securing a bank loan facility for the company. Plant and machinery with a carrying amount of KShs 1,506 million (2017 – KShs 1,417 million) are subject to a registered debenture to secure bank loan facilities for the company. A motor vehicle with a cost of KShs 3.9 million (2017 – KShs 3.9 million) is also held as security for a bank loan.

The subsidiary has charged property, plant and equipment with a carrying value of KShs 1,430 million equivalent (2017 – KShs 1,268 million) to secure its bank loan facilities.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13. LEASEHOLD LAND

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Carrying value of leasehold land at 1 January	856,066	1,114,631	820,380	1,073,227
Transfer from/(to) assets held for sale (Note 15)	235,000	(235,000)	235,000	(235,000)
Revaluation	248,485	-	248,485	
Amortisation adjustment – asset held for sale (Note 15)	(13,479)	13,479	(13,479)	13,479
Amortisation for the year	(34,098)	(32,061)	(33,387)	(31,326)
Exchange adjustment	(1,087)	(4,983)	-	-
Balance as at 31 December	**1,290,887**	**856,066**	**1,256,999**	**820,380**

If the leasehold land was stated on the historical cost basis, the amounts would be as follows:

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Carrying value at 1 January	62,161	298,084	27,236	261,849
Transfer from / (to) to assets held for sale (Note 15)	235,000	(235,000)	235,000	(235,000)
Amortisation adjustment: Assets held for sale (Note 15)	(13,479)	13,479	(13,479)	13,479
Amortisation for the year	(3,108)	(14,402)	(1,362)	(13,092)
Exchange adjustment	(1,697)	-	-	-
Balance as at 31 December	**278,877**	**62,161**	**247,395**	**27,236**

14. INVESTMENT PROPERTIES

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Balance as at 1 January	-	115,000	-	115,000
Transfer from/(to) assets held for sale (Note 15)	346,145	(115,000)	115,000	(115,000)
On revaluation	54,100	-	54,100	-
Balance as at 31 December	**400,245**	**-**	**169,100**	**-**

Investment properties comprise of residential houses that have been leased to third parties and are carried at fair value.

The investment properties of parent company were revalued in December 2018 by Proland Realtors Limited, a firm of independent professional valuers on the basis of open market value for existing use. The investment properties of the subsidiary, East African Cables (Tanzania) Limited were revalued in December 2015 by Lloyd Masika Limited on the basis of open market value for existing use. The open market values are the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The resulting fair value change is dealt with through profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

15. ASSETS HELD FOR SALE

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Balance as at 1 January	639,704	245,626	399,138	-
Transfers:				
(To)/from property, plant & equipment (Note 12)	(62,617)	62,617	(62,617)	62,617
(To)/from leasehold land (Note 13)	(221,521)	221,521	(221,521)	221,521
(To)/from investment property (Note 14)	(346,145)	115,000	(115,000)	115,000
Exchange differences	(9,421)	(5,060)	-	-
Balance as at 31 December	**-**	**639,704**	**-**	**399,138**

Property held for sale related to the following assets which have since been reclassified to property, plant and equipment and investment properties.

Property description	Group 2017 KShs '000	Company 2017 KShs '000
LR No. 6982/2, on Addis Ababa Rd, Industrial Area, Nairobi, Kenya	284,138	284,138
LR No. 3734/126, on Elmolo Drive, Lavington, Nairobi, Kenya	115,000	115,000
LR No. 21707, Plot 581 on Malik Road, Upanga West, Dar es salaam, Tanzania	240,566	-
Balance as at 31 December	**639,704**	**399,138**

16. INTANGIBLE ASSETS

Computer software:

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Net carrying value at 1 January	6,980	13,789	4,641	9,450
Amortisation for the year	(6,423)	(6,734)	(4,564)	(4,809)
Exchange adjustment	(67)	(75)	-	-
Net carrying value at 31 December	**490**	**6,980**	**77**	**4,641**

17. INVESTMENT IN SUBSIDIARIES

	2018 KShs'000	2017 KShs'000
East African Cables (Tanzania) Limited	**115,037**	**115,037**

On 31 October 2005, the Company purchased 51% of the share capital of East African Cables (Tanzania) Limited, a company incorporated in Tanzania. The investment is carried at cost less impairment losses. In the opinion of the Directors, the investment is not impaired as at 31 December 2018 (2017 – KShs Nil).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

17. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The company also owns Yana Trading Limited a company incorporated in South Africa which is dormant.

The overall results of operations for the subsidiary, East African Cables (Tanzania) Limited is as follows:

	2018 KShs '000	2017 KShs '000
Revenue for the year ended 31 December	**245,460**	**301,360**
Loss after tax for the year ended 31 December	**(167,883)**	**(196,197)**

18. INVENTORIES

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Finished goods	78,204	210,196	33,008	157,255
Raw materials	209,762	224,214	109,544	155,484
Work in progress	18,330	50,467	10,653	36,849
Strategic spares and lubricants	57,352	58,666	33,029	34,579
Stationery and printing	4,229	4,314	567	916
	367,877	**547,857**	**186,801**	**385,083**

19. TRADE AND OTHER RECEIVABLES

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Net trade receivables (Note 29 (a))	398,758	701,357	348,640	567,513
Prepaid expenses	14,897	138,715	2,366	99,954
Prepayments for machinery & spares	66,551	8,553	57,218	8,553
Due from subsidiary (Note 26 (c))	-	-	447,871	446,329
Due from other related parties (Note 26 (c))	51,505	52,580	42,808	42,448
	531,711	**901,205**	**898,903**	**1,164,797**

20. CAPITAL AND RESERVES

(a) Share capital Group and Company: Authorised, issued and fully paid:	2018 Number of shares (Thousands)	2018 KShs'000	2017 Number of shares (Thousands)	2017 KShs'000
Ordinary shares of KShs 0.50 each at 1 January and 31 December	**253,125**	**126,563**	**253,125**	**126,563**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20. CAPITAL AND RESERVES (CONTINUED)

(b) Share premium

	2018 KShs '000	2017 KShs '000
Share premium (Group and Company)	545	545

(c) Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment, leasehold land and investment property revaluation prior to transfer on reclassification as investment property. The revaluation reserve is stated net of the associated deferred tax and is not available for distribution as dividends.

(d) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statement of foreign operations, which include subsidiaries, Group and Company.

(e) Non-controlling interests

The following table summarises the information relating to East Africa Cables Tanzania Limited, a subsidiary that has material non-controlling interest (NCI) before any intra-group eliminations:

In KShs'000	2018	2017
NCI percentage	**49.00%**	**49.00%**
Non-current assets	1,661,256	1,560,402
Current assets	433,807	751,787
Non-current liabilities	(36,126)	(150,519)
Current liabilities	(1,460,711)	(1,314,161)
Lease operating rentals	33,887	35,685
Net assets	**632,113**	**883,194**
Carrying amount of NCI	**324,480**	**448,157**
Revenue	245,460	301,360
Loss	(167,883)	(196,197)
OCI	2,107	-
Total comprehensive income	**(165,776)**	**(196,197)**
Loss allocated to NCI	(82,263)	(96,497)
OCI allocated to NCI	1,033	-
Cash flows from operating activities	(22,394)	214,329
Cash flows from investment activities	(1,245)	(32,671)
Cash flows from financing activities (dividends to NCI: nil)	19,500	(31,769)
Net (decrease) / increase in cash and cash equivalents	**(4,138)**	**149,889**

(f) Dividend per share

The Directors do not propose the payment of a dividend in respect of the year ended 31 December 2018 (2017 – Nil) per share. Dividend is paid less withholding tax of 5% for residents and 20% for non-residents where applicable.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

21. BANK LOANS AND BORROWINGS

(a) Outstanding balances, terms and repayment schedule

	Currency	Nominal interest rate (p.a)	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Standard Chartered Bank (Ke)	US$ and KShs	9% 13%	2,569,847	2,268,292	2,569,847	2,268,292
Standard Chartered Bank (Tz)	US$	6.5%	532,247	478,306	-	-
Ecobank Kenya Limited	KShs	13%	161,521	223,286	161,521	223,286
Chase Bank Kenya Limited	KShs	13%	285,018	314,990	285,018	314,990
Credit Bank Kenya Limited	KShs	13%	3,825	141,131	3,825	141,131
			3,552,458	**3,426,005**	**3,020,211**	**2,947,699**
Comprising:		**Year of maturity**				
Non-current liability		2019	-	370,968	-	370,968
Current liability		2019	3,552,458	3,055,037	3,020,211	2,576,731
			3,552,458	**3,426,005**	**3,020,211**	**2,947,699**

(b) Loan movement schedule

	Group 2018 KShs '000	2017 KShs '000	Company 2018 KShs '000	2017 KShs '000
Balance at 1 January	3,426,005	2,792,995	2,947,699	2,304,481
Received during the year	127,670	973,188	127,670	973,188
Repaid during the year	(373,914)	(743,124)	(373,914)	(729,342)
Accrued interest	351,770	395,458	318,894	395,458
Foreign currency translations	20,927	7,488	(138)	3,914
Balance at 31 December	**3,552,458**	**3,426,005**	**3,020,211**	**2,947,699**
Comprising:				
Non-current liability	-	370,968	-	370,968
Current liability	3,552,458	3,055,037	3,020,211	2,576,731
	3,552,458	**3,426,005**	**3,020,211**	**2,947,699**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

21. BANK LOANS AND BORROWINGS (CONTINUED)

(c) Securities and covenants

East African Cables Limited (Kenya) has entered into facility arrangements with banks and the borrowings are secured by certain land and buildings for KShs 2,099 million (2017 - KShs 1,370 million) and debentures over all assets of the company for KShs 3.2 billion (2017 - KShs 3.2 billion). The bank facility comprises term loan, letters of credit, bonds/guarantee and forex dealing. The subsidiary, East African Cables (Tanzania) Limited, has a term loan with Standard Chartered Bank (Tanzania) Limited. The loan is charged against the leasehold land and moveable assets of the subsidiary.

As at 31 December 2018, the group and company had overdue loans amounting to KShs 2.1 billion and KShs 1.7 billion respectively. These loans are due and payable on demand. Subsequent to year end, the Group and Company signed a facility agreement amounting to KShs 1.6 billion with Equity Bank Kenya Limited to restructure the loans previously held by Standard Chartered Bank Kenya Limited and Standard Chartered Bank Tanzania Limited. The new facility has a tenor of ten (10) years including a moratorium of twenty-four (24) months on principal loan repayments and six (6) months on interest repayments. The business is in discussion with the other lenders to restructure their debts as well.

22. RETIREMENT BENEFITS OBLIGATIONS

The Group and Company operate a Gratuity arrangement for its unionisable employees. The Gratuity arrangement is provided under a Collective Bargaining Agreement effective from 1 September 2016.

The benefits in the Memorandum of agreement are defined on retirement and death. The Gratuity arrangement is defined benefit in nature with benefits linked to past service and salary at time of exit. Generally, on retirement, the benefit provided to employees for service from 1 to 5 years is 16 days pay for each completed year of service, for service from 6 to 10 years 20 days pay for each year of service and for service over 10 years 23 days pay for each year of service.

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Opening benefit obligation	29,312	27,975	17,183	17,150
Current service cost net of employees' contributions - charged to profit or loss cost of sales	2,362	1,830	1,743	33
Interest cost charged to profit or loss cost of sales	3,944	-	2,326	-
Actuarial (loss) / gain charged to other comprehensive income	(1,903)	-	1,107	-
Benefits and expenses paid	(1,895)	-	-	-
Translation gains /losses	9	-	-	-
Closing benefit obligation	**31,829**	**29,805**	**22,359**	**17,183**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

22. RETIREMENT BENEFITS OBLIGATIONS (CONTINUED)

The principal actuarial assumptions used in determining service gratuity obligations for the Company are shown below: -

Actuarial assumptions	Kenya 2018	Kenya 2017	Tanzania 2018	Tanzania 2017
Discount rate (% p.a.)	12.05%	12.88%	13.24%	13.910%
Future salary increases (% p.a.)	10.00%	10.00%	10.00%	10.00%
Mortality Assumptions – Males	KE 2001-2003 Males	KE 2001-2003 Males	KE 2001-2003 Males	KE 2001-2003 Males
Mortality Assumptions – Females	KE 2001-2003 Females	KE 2001-2003 Females	KE 2001-2003 Females	KE 2001-2003 Females
Weighted average duration of defined benefit obligation	7.4	7.3	8.1	4.9

Sensitivity of the results

The results of actuarial valuation will be more sensitive to changes in financial assumption than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, the actuaries have relied on the calculations of the duration of the liability.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018 is as shown below:

Group	Discount rate		Salary rate	
	1% KShs '000	-1% KShs '000	1% KShs '000	-1% KShs '000
Net liability at start of the period	29,806	29,806	29,806	29,806
Net expense recognised in the profit or loss	6,277	6,277	6,277	6,277
Net expense recognised in the other comprehensive income	(4,212)	(2,358)	859	(4,282)
Employer contributions	(1,895)	(1,895)	(1,895)	(1,895)
Net liability at end of the period	**29,976**	**31,830**	**35,047**	**29,906**

Company	Discount rate		Salary rate	
	1% KShs '000	-1% KShs '000	1% KShs '000	-1% KShs '000
Net liability at start of the period	17,183	17,183	17,183	17,183
Total Net expense recognized in the profit or loss	4,068	4,068	4,068	4,068
Net expense recognized in the other comprehensive income	(501)	(236)	2,962	(544)
Net liability at end of the period	**20,750**	**21,015**	**24,213**	**20,707**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

22. RETIREMENT BENEFITS OBLIGATIONS (CONTINUED)

Key Risks

The key risks associated with the Gratuity arrangement are as follows:

- The benefits are linked to salary and consequently have an associated risk to increases in salary.
- The benefits are defined as per the Memorandum of Agreement, normally effective for two years. Negotiations with the trade union could change these benefits and materially change the costs of the company.
- The Arrangement is unfunded with no separate assets. Investment risk would therefore not arise on the Arrangement.
- Benefits in the Arrangement are payable on retirement, death or redundancy. The actual cost to the Company of the benefits is therefore subject to the demographic movements of employees.

23. DEFERRED TAX LIABILITIES

(a) Group

Movements in the deferred tax liabilities during the year are as follows:

2018:	At 1 January KShs'000	Under / over provision in prior years KShs'000	Effect of AFRS 9 adoption KShs'000	Recognised through profit or loss KShs'000	Recognised through other comprehensive income KShs'000	Exchange difference KShs'000	Balance at 31 December KShs'000
Staff gratuity provision	(8,964)	-	-	(896)	571	128	(9,161)
Other provisions and accruals	(379,729)	-	48,262)	(10,092)	-	8,121	(429,962)
Tax losses	(528,669)	(1,371)	-	(171,121)	-	7,302	(693,859)
Property, plant & equipment	1,219,162	(13,661)	-	(54,610)	142,595	(17,323)	1,276,163
Revaluation of investment property	47,513	-	-	2,705	-	(1,618)	48,600
Unrealised exchange gain	(3,282)	-	-	1,246	-	-	(2,036)
	346,031	**(15,032)**	**(48,262)**	**(232,768)**	**143,166**	**(3,390)**	**189,745**

2017:	At 1 January KShs' 000	Recognised Through P&L KShs'000	Exchange Difference KShs'000	Balance at 31 December KShs'000
Staff gratuity provision	(8,414)	(621)	71	(8,964)
Other provisions and accruals	(335,484)	(47,756)	3,511	(379,729)
Tax loss	(392,515)	(139,293)	3,139	(528,669)
Property, plant and equipment	1,281,127	(52,355)	(9,610)	1,219,162
Revaluation of investment property	47,513	-	-	47,513
Unrealised exchange gain	4,071	(6,484)	(869)	(3,282)
	596,298	**(246,509)**	**(3,758)**	**346,031**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

23. DEFERRED TAX LIABILITIES (CONTINUED)

(b) Company

Movements during the year are as follows:

2018:	Under / over Balance at 1 January KShs'000	Effect of provision in prior years KShs'000	Recognise IFRS 9 adoption KShs'000	through profit or loss KShs'000	Recognised through other comprehensive income KShs'000	Balance at 31 December KShs'000
Staff gratuity provision	(5,156)	-	-	(1,552)	(332)	(7,040)
Other provisions and accruals	(203,029)	-	(24,860)	15,227	-	(212,662)
Tax loss	(353,512)	(1,371)	-	(134,175)	-	(489,058)
Unrealised exchange gain	(1,056)	-	-	1,247	-	191
Property, plant and equipment	765,855	(13,661)	-	(30,868)	142,595	863,921
Revaluation on investment property	5,033	-	-	2,705	-	7,738
	208,135	**(15,032)**	**(24,860)**	**(147,416)**	**142,263**	**163,090**

2017:	Balance at 1 January KShs'000	Recognise through profit or loss KShs'000	Balance at 31 December KShs'000
Staff gratuity provision	(5,146)	(10)	(5,156)
Other provisions and accruals	(168,735)	(34,294)	(203,029)
Tax loss	(253,032)	(100,480)	(353,512)
Unrealised exchange gain	5,428	(6,484)	(1,056)
Property, plant and equipment	807,802	(41,947)	765,855
Revaluation on investment property	5,033	-	5,033
	391,350	**(183,215)**	**208,135**

The ageing of deferred tax asset arising from tax losses is as follows:

	2014 KShs'000	2015 KShs'000	2016 KShs'000	2017 KShs'000	2018 KShs'000	Total KShs'000
Group	15,658	278,985	97,872	136,154	165,190	**693,859**
Company	15,658	155,807	81,567	100,480	135,545	**489,057**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

24. TRADE AND OTHER PAYABLES

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Trade payables	276,197	689,605	199,282	371,010
Due to other related parties (Note 26 (d))	89,681	68,191	86,453	68,149
Other payables and accrued expenses	466,344	130,389	97,207	69,873
	832,222	**888,185**	**382,942**	**509,032**

25. DIVIDEND PAYABLE

The movement in the dividend payable account is as follows:

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
At beginning of year	22,931	30,278	22,931	30,278
Declared during the year	-	-	-	-
Paid during the year	(9,642)	(7,347)	(9,642)	(7,347)
At end of year	**13,289**	**22,931**	**13,289**	**22,931**

No dividend was paid to related parties in the year. (2017 – KShs NIL).

26. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) Directors and executive officers

The total remuneration of Directors and executive officers is as follows:

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Directors' emoluments				
— Non-executive directors fees	16,711	16,170	11,010	11,330
— Duty day allowances	726	1,953	726	1,953
— Executive director's remuneration	23,412	21,200	23,412	21,200
Senior managements' remuneration	54,556	55,467	38,774	50,119
	95,405	**94,790**	**73,922**	**84,602**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

26. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from the directors

No amounts were due from the directors at close of the year (2017 – Nil).

The terms and conditions of the transactions with key management personnel were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

(c) Due from related parties

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
i) Owed by subsidiaries				
East African Cables (Tz) Limited	-	-	447,871	446,329
ii) Owed by other related parties				
Kewberg Cables & Braids (Pty)	37,723	39,508	37,723	39,508
Cableries Du Congo	168	-	168	-
Civicon Limited	3,956	2,484	3,956	2,484
AEA Limited	320	1,193	320	456
Tanelec Limited	9,338	9,395	641	-
	51,505	**52,580**	**42,808**	**42,448**

(d) Amounts due to related parties

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
i) Owed to subsidiaries				
East African Cables (Tz) Limited	-	-	-	-
ii) Owed to other related parties				
AEA Limited	273	577	249	535
Tanelec Limited	3,204	-		-
TransCentury PLC	86,204	67,614	86,204	67,614
	89,681	**68,191**	**86,453**	**68,149**

All entities mentioned in (c) and (d) above have common ownership with the Group. All outstanding balances with these related parties are priced on an arm's length basis and on the same terms and conditions as those entered into by other Group employees or customers. None of the balances is secured.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

26. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Shareholders loan	2018 KShs'000	2017 KShs'000
Group and Company:		
Balance at 1 January	446,271	415,888
Accrued interest	39,015	32,579
Exchange gain	(4,850)	(2,196)
Balance at 31 December	**480,436**	**446,271**

On 22 April 2014, the company received unsecured loan of USD 4 million from TransCentury Limited with a tenor of 20 months from the drawdown date at an interest rate of 11% per annum (2014 to 2017 – 9% per annum). On 16 October 2015 the loan was subordinated to bank borrowings and reclassified to long term liabilities. It is revalued from USD to KShs at the closing rates at the end of each reporting date. The loan is repayable after the existing bank borrowings are fully settled.

27. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before tax to cash flow from operating activities

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Loss before tax	(813,089)	(926,945)	(560,089)	(635,258)
Adjustments for:				
Depreciation (Note 12)	246,165	249,662	175,358	176,715
Amortisation of leasehold land (Note 13)	34,098	32,061	33,387	31,326
Amortisation of intangible assets (Note 16)	6,423	6,734	4,564	4,809
Profit on disposal of property, plant and equipment (Note 5(b))	(920)	-	(920)	(11,026)
Fair value gain on revaluation of investment property	(54,100)	-	(54,100)	-
Impairment loss on revaluation of property, plant and equipment	8,896	-	8,896	-
Interest expense (Note 8)	510,720	533,060	476,736	500,278
Net foreign currency changes	36,416	24,499	-	(4)
Increase in provision for staff gratuity (Note 22)	4,411	1,830	4,069	33
Operating loss before working capital changes	**(20,980)**	**(79,099)**	**(87,901)**	**66,873**
Decrease/(increase) in inventories	179,979	(28,253)	198,281	(38,122)
Decrease in trade and other receivables	209,102	452,685	183,510	333,245
Increase/(decrease) in trade and other payables	(55,963)	(225,265)	(126,090)	(478,184)
Cash generated from operations	**312,138**	**120,068**	**343,602**	**(116,118)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

27. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Cash and cash equivalents at 31 December

Group	2018 KShs '000	2017 KShs '000	IFRS 9 day 1 adjustment KShs '000	Change in year KShs '000
Bank overdraft	(2,413)	(391)	-	(2,022)
Bank balances	169,063	219,885	(481)	(50,341)
Cash and cash equivalents	**166,650**	**219,494**	**(481)**	**(52,363)**

Company	2018 KShs '000	2017 KShs '000	IFRS 9 day 1 adjustment KShs '000	Change in year KShs '000
Bank overdraft	(2,413)	(391)	-	(2,022)
Bank balances	18,284	54,170	(481)	(35,405)
Cash and cash equivalents	**15,871**	**53,779**	**(481)**	**(37,427)**

28. CONTINGENT LIABILITIES

Claims have been made by certain former employees of the Group and Company resulting from termination of employment. However, in the opinion of the Directors, no significant liability is likely to crystallise. Furthermore, this cannot be currently established.

Guarantees with the bankers amounted to KShs 1,423,936 as at 31 December 2018 (2017 – KShs 60,975,845). Letters of credit amounted to KShs 18,158,141 as at 31 December 2018 (2017 – KShs 201,801,391) whose related liabilities have been accrued in the financial statements as appropriate for the supplies.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Overview

The Group and Company has exposure to the following risks from its use of financial instruments:

(a) Credit risk;
(b) Liquidity risk; and
(c) Market risk.

This note presents information about the Group's and Company's exposure to each of the above risks, the Group's and Company's objectives, policies and processes for measuring and managing risk, and the Group's and Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)
Overview (continued)

The Board of Directors has overall responsibility for the establishment and oversight the Group's and Company's risk management framework. The finance department identifies, evaluates and addresses financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and investing excess liquidity.

The Board of Directors oversees how management monitors compliance with the Group's and Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and Company.

(a) Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's and Company's receivables from customers and investment securities.

Trade and other receivables
The Group's and Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's and Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Group and Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's and Company's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Group's and Company's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group and Company has a stringent debt provisioning policy that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance specific loss component that relates to individually significant exposures.

The Group and Company also manages the level of credit risk by focusing on customer satisfaction as a key performance indicator. It also maintains a short credit period. Due to the nature of the Group's and Company's activities, credit risk concentrations are high due to reliance on some customers and as such close monitoring of credit relationships is carried out.

The carrying amount of financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the reporting date was:

	Carrying amount			
	Group 2018 KShs '000	2017 KShs '000	Company 2018 KShs '000	2017 KShs '000
Trade receivables	398,758	701,357	348,640	567,513
Due from subsidiaries	-	-	447,871	446,329
Due from related parties	51,505	52,580	42,808	42,448
Bank Balances	169,063	219,885	18,284	54,170
	619,326	**973,822**	**857,603**	**1,110,460**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk (continued)

Short term deposits
The Group and Company's limits its exposure to credit risk by only investing in short term deposits in money market.

Expected credit loss (ECL) assessment as at 1 January and 31 December 2018
The Group and Company use a provision matrix to measure the ECL based on a factor of the following:
- Probability of default
- Exposure at default, and
- The loss given default.

The probability of default is based on 12 month flow rates with an adjustment for forward looking information. The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

(i) Trade receivables

Group Aging bucket	Loss rate	Carrying amount KShs'000	Loss Allowance KShs'000	Net amount KShs'000
Due from government institutions	3%	186,461	(6,155)	180,306
Not past due	17%	70,168	(11,585)	58,583
Past due 31-60 Days	22%	51,696	(11,388)	40,308
Past due 61-90 Days	29%	44,274	(12,811)	31,463
Past due 91-120 Days	44%	39,329	(17,163)	22,166
Past due 121-150 Days	69%	17,260	(11,957)	5,303
Past due 151-180 Days	94%	12,778	(12,047)	731
Past due 181-365 Days	91%	18,406	(16,730)	1,676
More than a year	93%	819,688	(761,466)	58,222
	68%	**1,260,060**	**(861,302)**	**398,758**

Company Aging bucket	Loss rate	Carrying amount KShs'000	Loss Allowance KShs'000	Net amount KShs'000
Due from government Institutions	4%	170,259	(6,155)	164,104
Not past due	12%	49,282	(6,044)	43,238
Past due 31-60 Days	20%	41,454	(8,118)	33,336
Past due 61-90 Days	25%	34,788	(8,627)	26,161
Past due 91-120 Days	37%	28,573	(10,637)	17,936
Past due 121-150 Days	56%	7,859	(4,419)	3,440
Past due 151-180 Days	79%	3,448	(2,726)	722
Past due 181-365 Days	89%	14,951	(13,278)	1,673
More than a year	90%	606,968	(548,939)	58,030
	64%	**957,582**	**(608,942)**	**348,640**

Loss rates are based on actual credit loss experience over the past 24 months, current conditions plus the Group's view of economic conditions such as inflation, commercial bank interest rates and growth in the economy's gross domestic product.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (continued)

(ii) Intercompany receivables

For Group and Company, the calculated ECL which represents the probability of default was 3.4% which considers historical experience over the last 12 months, current conditions, exchange rates and country risk. This was applied to the gross outstanding amount and resulted in a loss allowance of KShs 413,000 and KShs 16,816,000 for the Group and Company respectively for the year ended 31 December 2018.

(iii) Cash and cash equivalents

The Group and Company held cash and bank balances of KShs 166,902,000 and KShs 16,121,000 respectively (2017: Group - KShs 219,873,000 and Company KShs 53,779,000). The cash and bank balances are held with banks and financial institution counterparties, which are rated between A1 to Ba1, based on GCR, S&P and Moody's ratings.

Impairment on cash and cash equivalents has been measured on a 12 month expected credit loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the impairment allowance for cash balances as at 1 January and December 2018 was KShs 481,487 and KShs 250,171 respectively (Company KShs 481,407 and KShs 250,171 respectively).

Impairment losses movement losses for cash and balances in the year was

	Group 2018 KShs' 000	Group 2017 KShs' 000	Company 2018 KShs' 000	Company 2017 KShs' 000
At 1 January	-	-	-	-
Day 1 adjustment	481	-	-	481
Writeback to profit or loss	(231)	-	-	(231)
As at 31 December	**250**	**-**	**-**	**250**

(b) Liquidity risk

Liquidity risk is the risk that the Group and Company will not be able to meet its financial obligations as they fall due. The Group's and Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's and Company's reputation.

Typically, the Group and Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk (continued)

The maturities of the Group's and Company's financial liabilities are shown below:

Group	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
31 December 2018					
Financial liabilities					
Bank overdraft	(2,413)	-	-	-	(2,413)
Loans and borrowings	(3,465,803)	(86,655)	-	-	(3,552,458)
Shareholders Loan	-	-	-	(480,436)	(480,436)
Trade payables	(276,197)	-	-	-	(276,197)
Due to Related Parties	89,161	-	-	-	(89,161)
At 31 December 2018	**(3,833,574)**	**(86,655)**	**-**	**(480,436)**	**(4,400,665)**
31 December 2017					
Financial Liabilities					
Bank overdraft	(391)	-	-	-	(391)
Loans and borrowings	(2,660,045)	(394,992)	(370,968)	-	(3,426,005)
Shareholders Loan	-	-	-	(446,271)	(446,271)
Trade payables	(888,185)	-	-	-	(888,185)
Due to Related Parties	(67,614)	-	-	-	(67,614)
At 31 December 2017	**(3,616,235)**	**(394,992)**	**(370,968)**	**(446,271)**	**(4,828,466)**

Company	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
31 December 2018					
Financial liabilities					
Bank overdraft	(2,413)	-	-	-	(2,413)
Loans and borrowings	(2,933,556)	(86,655)	-	-	(3,020,211)
Shareholders Loan	-	-	-	(480,436)	(480,436)
Trade payables	(199,282)	-	-	-	(199,282)
Due to related arties	(86,204)	-	-	-	(86,204)
31 December 2018	**(3,221,455)**	**(86,655)**	**-**	**(480,436)**	**(3,788,546)**
At 31 December 2017					
Financial liabilities					
Bank overdraft	(391)	-	-	-	(391)
Loans and borrowings	(2,181,739)	(394,992)	(370,968)	-	(2,947,699)
Shareholders Loan	-	-	-	(446,271)	(446,271)
Trade payables	(509,033)	-	-	-	(509,033)
Due to related Parties	(67,614)	-	-	-	(67,614)
At 31 December 2017	**(2,758,777)**	**(394,992)**	**(370,968)**	**(446,271)**	**(3,971,008)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk (continued)

Company

In addition, the Group and Company maintains the following lines of credit:

KShs 100 Million (2017 - KShs 2,300 million) letter of credit facility for importation of raw materials. The line of credit is utilised in issuance of letters of credit to suppliers of critical raw materials

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk

The Group's and Company's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the group's and company's business strategies. The company does not have any significant interest rate risk exposures.

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's and Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates:

Group	average effective interest rate	due within 3 months KShs'000	due between 3 and 12 months KShs'000	due between 1 and 5 years KShs'000	non-interest bearing KShs'000	Total KShs'000
Bank overdraft	13%	(2,413)	-	-	-	(2,413)
Bank loans and borrowings	13%	(3,465,803)	(86,655)	-	-	(3,552,458)
Shareholder loan	11%	-	-	(480,436)	-	(480,436)
		(3,468,216)	**(86,655)**	**(480,436)**	**-**	**(4,035,307)**
At 31 December 2017						
Bank overdraft	14%	(391)	-	-	-	(391)
Bank loans and borrowings	14%	(2,660,045)	(394,992)	(370,968)	-	(3,426,005)
Shareholder loan	11%	-	-	(446,271)	-	(446,271)
		(2,660,436)	**(394,992)**	**(817,239)**	**-**	**(3,872,667)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Company	average effective interest rate	due within 3 months KShs'000	due between 3 and 12 months KShs'000	due between 1 and 5 years KShs'000	non-interest bearing KShs'000	Total KShs'000
Bank overdraft	13%	(2,413)	-	-	-	(2,413)
Bank loans and borrowings	13%	(2,933,556)	(86,655)	-	-	(3,029,211)
Shareholder loan	11%	-	-	(480,436)	-	(480,436)
		(2,935,969)	**(86,655)**	**(480,436)**	**-**	**(3,512,060)**
At 31 December 2017						
Bank overdraft	14%	(391)	-	-	-	(391)
Bank loans and borrowings	14%	(2,181,739)	(394,992)	(370,968)	-	(2,947,699)
Shareholder loan	11%	-	-	(446,271)	-	(446,271)
		(2,182,130)	**(394,992)**	**(817,239)**	**-**	**(3,394,361)**

(ii) Currency risk

The Group and Company is exposed to currency risk through transactions in foreign currencies. Foreign currency gains and losses are recognised in profit or loss.

In respect of monetary assets and liabilities in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying foreign currencies at spot rates to enable the company to meet its obligations.

The Group's and Company's exposure to currency risk mainly arises from transactions denominated in US Dollar. The Group's and Company's exposure to foreign currency risk was as follows based on notional amounts in US dollars:

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
Financial assets				
Cash and bank balances	460	16,503	345	15,803
Trade receivables	245,946	529,528	245,946	472,973
	246,406	**546,031**	**246,291**	**488,776**
Financial liabilities				
Shareholders loan	(480,436)	(446,271)	(480,436)	(446,271)
Bank overdraft	(603,523)	(391)	-	(391)
Bank loan	(603,523)	(533,554)	(71,276)	(55,248))
Trade payables	(182,320)	(332,387)	(140,566)	(270,358)
	(1,266,279)	**(1,312,603)**	**(692,278)**	**(772,268)**
Net exposure	**(1,019,873)**	**(766,572)**	**(445,987)**	**(283,492)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk (continued)

The following significant exchange rates applied during the year:

	Closing rate		Average rate	
	2018 KShs	2017 KShs	2018 KShs	2017 KShs
USD	101.85	103.23	101.34	103.40

Sensitivity analysis

A 10 percent strengthening/weakening of the Kenya shilling against the following currencies would have increased profit or loss by amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017:

	Profit or loss			
	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
At 31 December	101,987	76,657	44,599	28,349

(d) Capital risk management

The Group's and Company's objectives when managing capital are to safeguard the group's and company's ability to continue as a going concern in order to provide returns for shareholders and the benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and the level of dividend payout to its shareholders.

The Group and Company monitor 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 (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated and separate statement of financial position plus net debt. The gearing ratio at end of the reporting period was as follows:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Capital risk management (continued)

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
Borrowings				
Bank loans	3,552,458	3,426,005	3,020,211	2,947,699
Bank overdraft	2,413	391	2,413	391
Shareholders Loan	480,436	446,271	480,436	446,271
Cash and bank balances	(169,063)	(219,885)	(18,284)	(54,170)
Net debt	**3,866,244**	**3,652,782**	**3,484,776**	**3,340,191**
Total equity	1,501,268	1,878,802	969,501	1,095,253
Gearing ratio	**258%**	**194%**	**312%**	**305%**

The Group and Company received a credit rating of BBB on long-term borrowing and A3 on short term borrowing.

30. CAPITAL COMMITMENTS

	KShs '000	KShs '000
Authorised and contracted for	-	87,000

31. ULTIMATE HOLDING COMPANY

The ultimate holding company is TransCentury PLC, a company incorporated in Kenya.

32. EVENTS AFTER THE REPORTING DATE

On 20th December 2018, the company reached an agreement with Standard Chartered Bank Kenya Limited and Standard Chartered Bank Tanzania Limited ("SCB" or "the bank") for a discounted full and final settlement of all credit facilities outstanding to the bank. The settlement was completed on 20th May 2019. The resulting gain on this transaction was KShs 1. 56 Billion which will be recorded in the financial statements for the year ended 31 December 2019.

Banking facilities amounting to KShs 1.6 Billion were signed with a new lender in February 2019 to facilitate the discounted settlement to SCB. The new facilities have a tenor of ten (10) years with moratorium of six (6) months and twenty-four (24) months on interest and principal respectively.

The transaction, if booked on 31 December 2018, would have had the following impact in the books of the Group and Company:-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

32. EVENTS AFTER THE REPORTING DATE (CONTINUED)

	31 December 2018 as reported	Impact of discount on bank loans	31 December 2018 Memorandum
	KShs '000	KShs '000	KShs '000
Group			
Statement of profit or loss and other comprehensive income			
(Loss) / profit before tax	(813,089)	1,461,108	**648,019**
Income tax expense	244,705	(223,141)	**21,564**
(Loss) / profit for the year	**(568,384)**	**1,237,967**	**669,583**
Equity			
Retained earnings	(880,966)	1,161,436	**280,470**
Non-Controlling interest	324,480	76,531	**401,011**
Non-current liabilities			
Deferred tax liability	189,745	223,141	**412,886**
Current liabilities			
Trade and other payables	832,222	107,768	**939,990**
Short-term portion of bank loan	3,552,458	(1,568,876)	**1,983,582**
Company			
Statement of profit or loss and other comprehensive income			
(Loss)/ profit before tax	(560,089)	1,286,815	**726,726**
Income tax expense	160,394	(205,033)	**(44,638)**
(Loss)/ profit for the year	**(399,695)**	**1,081,782**	**682,087**
Equity			
Retained earnings	(556,272)	1,081,782	**525,510**
Non-current liabilities			
Deferred tax liability	163,090	205,033	**368,123**
Current liabilities			
Trade and other payables	382,942	85,905	**468,847**
Short-term portion of bank loan	3,020,211	(1,372,720)	**1,647,491**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33. SEGMENTAL REPORTING

Management has determined the operating segments based on the reports reviewed by the Strategy committee. The committee considers the business from a geographical perspective. This committee has the primary responsibility of overseeing implementation of strategic decisions of the board including product and geographical diversification. Geographically, management considers the performance of the business in Kenya, Uganda and Tanzania. The reportable operating segments derive their revenues primarily from manufacture and sale of electric cables, conductors and traded products. The Strategy committee assesses the performance of the operating segments on a measure of profit/(loss) before tax.

	Kenya & Uganda		Tanzania		Consolidated	
	2018 KShs '000	2017 KShs '000	2018 KShs '000	2017 KShs '000	2018 KShs '000	2017 KShs '000
External sales	1,385,598	2,043,727	245,460	301,359	1,631,058	2,345,086
Inter-segment sales	-	-	-	-	-	-
Total sales	**1,385,598**	**2,043,727**	**245,460**	**301,359**	**1,631,058**	**2,345,086**
Segment loss from operations	(93,442)	(145,298)	(183,160)	(231,569)	(276,602)	(376,867)
Net finance costs	(466,647)	(489,960)	(69,840)	(60,118)	(536,487)	(550,078)
Loss before tax	**(560,089)**	**(635,258)**	**(253,000)**	**(291,687)**	**(813,089)**	**(926,945)**
Other information:						
Segment assets	5,054,241	5,246,895	2,095,063	1,791,526	6,603,660	7,038,421
Segment liabilities	4,084,740	4,151,642	1,496,838	1,007,977	5,102,392	5,159,619
Capital expenditure	2,248	45,655	2,567	32,674	4,815	78,329
Depreciation expense & amortisation	214,021	212,850	72,665	75,607	286,686	288,457

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period. Segment revenue is based on the geographical location of both customers and assets. Sales between segments are carried out at arm's length. The revenue from external parties reported to the Strategy committee is measured in a manner consistent with that in the income statement. There is no reliance on individually significant customers by the group. The amounts provided to the Strategy committee in respect of total assets and total liabilities are measured in a manner consistent with that of the financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

FIVE YEAR CONSOLIDATED FINANCIAL RECORD

a STATEMENT OF COMPREHENSIVE INCOME SUMMARY

	2014 Consolidated KShs'000	2015 Consolidated KShs'000	2016 Consolidated KShs'000	2017 Consolidated KShs'000	2018 Consolidated KShs'000
Sales	5,098,417	3,724,212	3,650,451	2,345,086	1,631,058
Profit/(loss) before tax	507,483	(1,087,004)	(810,349)	(926,945)	(813,089)
Tax (expense)/credit	(166,334)	345,800	227,747	264,110	244,705
Profit/(loss) after tax	341,149	(741,204)	(582,602)	(662,835)	(568,384)
Non-controlling interest	(46,578)	181,184	127,877	96,497	82,611
Profit/(loss) attributable to parent company shareholders	294,571	(560,020)	(454,725)	(566,338)	(485,773)
Dividends	(253,125)	-	-	-	-
Retained profit/(loss)	41,446	(560,020)	(454,725)	(566,338)	(485,773)
Earnings per share (KShs) - Restated	1.16	(2.21)	(1.80)	(2.24)	(1.92)
Dividend per share (KShs)	1.00	-	-	-	-

b STATEMENT OF FINANCIAL POSITION

	2014	2015	2016	2017	2018
Non-current assets	4,042,701	5,439,068	5,318,844	4,661,862	5,469,516
Current assets	3,846,795	2,945,075	2,229,562	2,376,559	1,134,144
TOTAL ASSETS	**7,889,496**	**8,384,143**	**7,548,406**	**7,038,421**	**6,603,660**
Equity and liabilities					
Share capital	126,563	126,563	126,563	126,563	126,563
Reserves	2,324,108	2,424,589	1,969,864	1,403,526	1,165,194
Exchange differences	(35,066)	(91,987)	(97,475)	(99,444)	(114,969)
Non-controlling interest	676,272	690,822	557,457	448,157	324,480
Total equity	3,091,877	3,149,987	2,556,409	1,878,802	1,501,268
Non-current liabilities	1,503,930	2,079,046	1,672,873	1,193,075	702,010
Current liabilities	3,293,689	3,155,110	3,319,124	3,966,544	4,400,382
TOTAL EQUITY AND LIABILITIES	**7,889,496**	**8,384,143**	**7,548,406**	**7,038,421**	**6,603,660**

PROXY FORM

To:

The Company Secretary
East African Cables PLC
P.O. Box 18243 - 00500
Nairobi, Kenya

PROXY FORM

I/We ______________________________

of ______________________________

Being a member (s) of East African Cables PLC, hereby

appoint ______________________________

of ______________________________

To vote for me/us/on my/our behalf at the 54th Annual General Meeting of the said company to be held at 11:00 a.m. on Thursday 22 August 2019 and at the adjournment thereof:

Signed this ______________________________day of______________________2019.

Signature (s) ______________________________

Note: In the case of a Corporation, the proxy must be executed under the Common Seal or under the hands of an officer or Attorney duly authorised in writting.

HATI YA UWAKILISHI

Mimi/Sisi ______________________________

wa ______________________________

Nikiwa/tukiwa/mwanachama wa Kampuni hii ya East African Cables PLC, namchagua/tunamchagua

wa ______________________________

au akikosa yeye/wakikosa wao ______________________________

Kupiga kura kwa niaba yangu/yetu katika Mkutano Mkuu wa mwaka wa 54 wa kampuni hii, ______________ utakaofanyika saa tano asubuhi Alhamisi, Agosti 22, 2019 ama siku nyingine ikiwa Mkutano huo utaahirishwa.

Hati hii imetiwa sahihi hivi leo tarehe ____________________mwezi wa ____________________ 2019.

Sahihi ______________________________

Muhimu: Ikiwa ni kampuni ndiyo inayowakilishwa hati hii ya uwakilishi lazima ikamilishwe kwa

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