RHINO CEMENT

ARM

ARM CEMENT PLC

43rd ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

2016

QUALITY

CAPACITY

INFRASTRUCTURE

2016 QUALITY
CAPACITY
INFRASTRUCTURE

TABLE OF CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 2017 Annual General Meeting will be held at Laico Regency Hotel, Nairobi on Thursday, 15th June 2017 at 10.00 a.m.

AGENDA

1. To read the Notice convening the meeting.
2. To approve the minutes of the previous Annual General Meeting held on 30th June 2016 and Extraordinary General Meeting held on 25th August 2016.
3. To receive the Balance Sheet and Accounts for the year ended 31st December 2016 together with the Reports thereon of the Directors and Auditors.
4. To approve the Directors Remuneration as provided in the accounts for the year ended 31st December 2016.
5. To note that no dividend is recommended for the year ended 31st December 2016.
6. To re-elect Directors:
    - 6.1 Mr. Leonard Clement Mususa retires from the Board under the provisions of Article 95 of the Articles of Association and, being eligible, offers himself for re-election.
    - 6.2 Mr. Wilfred Murungi being over 70 years, retires from the Board and being eligible, offers himself for re-election.
    - 6.3 Mr. Ketan Manecklal Gordhan who was appointed since the last Annual General Meeting retires from the Board under the provisions of Article 93 of the Articles of Association and being eligible, offers himself for re-election.
    - 6.4 Mr. Klaas Paulus Pieter Meijer who was appointed since the last Annual General Meeting retires from the Board under the provisions of Article 93 of the Articles of Association and being eligible, offers himself for re-election.
    - 6.5 Mr. John Ngumi who was appointed since the last Annual General Meeting retires from the Board under the provisions of Article 93 of the Articles of Association and being eligible, offers himself for re-election.
    - 6.6 The following Directors, being members of the Board Audit & Risk Committee be elected to continue to serve as members of the said Committee under the provisions of Section 769 of the Companies Act 2015:

      Leonard Clement Mususa – Chairman
      Richard Michael Ashley
      Wilfred Murungi
      Ketan Manecklal Gordhan

7. To note that Deloitte & Touche continue in office as auditors in accordance with the provisions of Sec.721 (2) of the Companies Act and to authorise the Directors to fix their remuneration for the ensuing financial year.

By Order of the Board

R.R. Vora
Secretary

Date: 28th April 2017

Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not also be a member.
2. A form of proxy may be obtained from the Company's Share Registrar, Co-operative Bank of Kenya Ltd,CIC Plaza wing2, Upper Hill or at the Company's registered office, Rhino House, Chiromo Road Westlands or the Company's website:www.armcement.com. To be valid, the duly completed proxy form must be with the Company's Share Registrar not later than 48 hours before the meeting.
3. The entire annual report and financial statements may be viewed at the Company's website: www.armcement.com

PROXY FORM

I/we ....

Of ....

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

....

of ....

or failing him/her ....

of ....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 15th June 2017 and at any adjournment thereof

Number of Shares held ....

Account number of member ....

As witness my/our hand this .... day of 2017

Signature ....

Important notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not also be a member.
2. In case of a member being a corporation, this form must be completed either under its common seal, or under the hand of an offer or authorized attorney.
3. To be valid, the proxy form must be completed either under its common seal, or under the hand of an offer or duly authorized attorney.
4. If you wish, you may appoint the Chairman of the meeting as your proxy.

THE SECRETARY
ARM CEMENT PLC

P.O. BOX 41908 - 00100
NAIROBI, KENYA

DIRECTORS AND CORPORATE INFORMATION

2016 QUALITY CAPACITY INFRASTRUCTURE

DIRECTORS

Mr R M Ashley*	Chairman
Mr P H Paunrana	Group Managing Director
Mr S L Bhatia **	Deputy Managing Director
Mr W Murungi	
Mr K P P Meijer*****	Appointed on 25 August 2016
Mr J Ngumi	Appointed on 25 August 2016
Mr K Gordhan*****	Appointed on 25 August 2016
Mr S Mukherjee**	Appointed on 1 November 2016 (Alternate to Mr K Gordhan)
Mr A Alli***	
Mr L Mususa****	
Mr A K Mathur**	Resigned on 30 April 2016
Mr D M Ndonye	Resigned on 25 August 2016
Mr M Turner*	Resigned on 25 August 2016

* British ** Indian *** Nigerian ****Tanzanian *****South African

AUDIT & RISK COMMITEE

Mr L Mususa	Chairman
Mr R M Ashley	
Mr W Murungi	
Mr K Gordhan	

NOMINATION RENUMERATION & HUMAN RESOURCE

Mr W Murungi	Chairman
Mr R Ashley	
Mr K Gordhan	
Mr J Ngumi	

ENVIRONMENT SOCIAL & GOVERNANCE COMMITTEE

Mr J Ngumi	Chairman
Mr K P P Meijer	
Mr P H Paunrana	
Mr S L Bhatia	

TECHNICAL COMMITTEE

Mr K P P Meijer	Chairman
Mr W Murungi	
Mr P H Paunrana	
Mr S L Bhatia	

MINING COMMITTEE

Mr K Gordhan	Chairman
Mr R Ashley	
Mr K P P Meijer	
Mr P H Paunrana	
Mr S L Bhatia	

SECRETARY

Mr R R Vora
Certified Public Secretary (Kenya)
Unit 4, Ground Floor, Delta Riverside
P O Box 48405 - 00100
Nairobi

REGISTERED OFFICE

Rhino House, Chiromo Road
Westlands
P O Box 41908 - 00100 GPO
Nairobi

AUDITORS

Deloitte& Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P O Box 40092 - 00100 GPO

BANKS

Barclays Bank of Kenya Limited
Barclays Plaza Branch
P O Box 46661 - 00100 GPO Nairobi

Bank of Africa Kenya Limited
Taifa Road
P O Box 69562 - 00400
Nairobi

Citi Bank NA
P O Box 30711 - 00100 GPO
Nairobi

CFC Stanbic Bank Limited
Kenyatta Avenue
P O Box 30550 - 00100 GPO
Nairobi

LAWYERS

Coulson Harney
ICEA Lion Centre,Riverside Park
P O Box 10643 - 00100
Nairobi

2016
QUALITY
CAPACITY
INFRASTRUCTURE

RICK ASHLEY
CHAIRMAN

CHAIRMAN'S STATEMENT

It is my pleasure to present to you the Annual Report and Financial Statements of The Company for the Year ended 31st December 2016. My Statement will focus particularly on our Strategy, governance and policy achievements in the context of the operating environment we faced in 2016.

Economic & Business Review

The operating conditions in 2016 were challenging and were similar to 2015 in many respects, notably due to increased challenges in Tanzania.

The Tanzania business environment continued to worsen during the year. Whilst electricity supply normalised, the Tanzania government's ban on importation of coal, in favour of local procurement, not only increased manufacturing cost, but also impacted on optimal capacity utilization of your 4,000 tonnes per day clinker plant at Tanga due to chronic under-supply of coal.

Kenya

Though the Economy in Kenya grew by 5.8 % in 2016, the financial and banking sector did see some major changes in the last quarter of 2016. The fall of some players and the Banking Amendment Act did have a major impact on the debt markets. Liquidity tightened and this did impact the interest rates the Group was paying.

The construction sector in Kenya remained buoyant and cement volumes grew at over 10% during 2016. The company increased production and sales volumes from the 3rd quarter of the year by over 10%.

The company operated its plants in Kenya to capacity. Overall cement consumption went up by 10.5% from 5.7 million tonnes in 2015 to 6.3 million tonnes in 2016. Segmentation of the cement market saw a shift in demand with higher strength cement and ready-mix concrete increasing significantly. This move to higher strength cement was anticipated as the construction segment shifted from multi-storeyed to high-rise construction and was also supported by increased government spend in the infrastructural segment. Your Company has strengthened its offering in this segment, now with four different cement qualities available. Your Company had made significant progress in strengthening its position as a market leader in the infrastructure segment, supplying cement to some of country's largest projects such as the Standard Gauge Railway, the Mombasa Port, Lamu Port, Mombasa Airport, and a number of large road and Dam projects.

Tanzania

Tanzania's cement industry has been operating in a very challenging environment. The demand in 2016 remained the same as in the previous year with only a marginal growth. Capacity in Tanzania increased significantly with a new cement player entering the market and the commissioning of a clinker plant in Mtwara. Two existing players also increased their capacity resulting in a significant over-capacity in the market. Competition between the manufacturers for market share has resulted in cement prices coming down and today cement prices in Tanzania are amongst the lowest in the region.

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

The production of coal in Tanzania is in Songea which is about 1400 kilometers away from the Tanga clinker plant and the logistics planning is a major exercise undertaken by the company. Further, the local coal supplier's capacity is unable to meet the demand for coal in Tanzania. The Company has been engaging with the Government and the other stakeholders in Tanzania and the Government of Tanzania has initiated several actions which will hopefully resolve the coal situation in Tanzania fully during this year. The company continues to operate in selected market segments in Tanzania and to operate its plant at a reasonable level of capacity utilization. The strategy going forward is to increase capacity utilization without adding to the price volatility of the Tanzanian market and leverage our strength in terms of quality and capacity.

Financial Performance

Group Turnover for 2016 was 13% lower than the previous year, primarily due to increased competition resulting in lower cement selling prices in Tanzania.

During the year the Group made a loss after tax of KES 2.8 billion. The Interest burden increased substantially in 2016, at KES 2.8 billion, up by nearly KES 1.0 billion over the previous year.

The company's cash flow was strained throughout the year due to its high debt burden that was only reduced in October 2016, on receipt of the new equity of Kes 14.1 billion issued to CDC Group, the development finance institution of the UK government.

Total assets of the company remained at KES 51 billion shillings as the company did not invest in any further new capital projects. Cash generated from operations before working capital in 2016, at KES 1.4 billion was slightly higher than the previous year. Subsequent to the CDC equity investment in the company, total debt reduced to KES 13 billion from KES 24 billion the previous year. This allowed the company to start investing internally generated cash in its working capital resulting in significantly improved operational performance in the last quarter of the year.

Non-Cement Divisions

All the Non-cement divisions are operating to capacity with no new investment being made in recent years in these businesses. These divisions require investment to grow capacity and meet their market demand and the Board had been considering several strategic alternatives.
In order to remain focused on the cement business, the Company has decided to exit all of our non-cement businesses. After going through a due selection process, the Company has entered into an agreement for the sale of the non cement businesses and assets and liabilities to a strategic investor. We expect to close the sale during the third quarter of this year.

Environment, Safety and Governance

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

Business Integrity and Compliance

Over the years, ARM has continued to enhance its audit, risk and compliance practices. In light of the changing business and legal environment, the Board of Directors, through the Executive Management team, Compliance and Internal Audit functions, and with the assistance of an external consultant, conducted a review of our business operations which will culminate in a robust business integrity and compliance programme consistent with laws and regulations applicable to ARM and its group of companies, the Code of Ethics for Business in Kenya and global standards. In August 2016, the Group appointed a Chief Compliance Officer tasked with strengthening these practices, building a culture of ethics, improving process efficiency and compliance across the organisation.

Corporate Governance Practices

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

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

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

Outlook 2017

2017 is a year of financial and operational consolidation for the Company. The management Team has been significantly strengthened and is confidently executing a plan for renewed profitability and growth as a leading regional cement company. This includes a deep focus on managing cost chains, improving operational efficiencies, strengthening distribution channels and developing new routes to markets and customer service.

As the company focuses on the cement business, and the Kenyan market remains strong, the Company has decided to complete the expansion of the Athi River cement grinding plant, thereby increasing the Kenya capacity by 650,000 tons per year. This will be the first increase of capacity in Kenya since the company commissioned its Athi River plant in 2010. This capacity expansion, and other plant improvement programmes will be funded from internally generated cash flow.

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

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

Your company's balance sheet remains an area of focus. In the first 3 months of 2017, net debt was reduced by KES 200 million and net working capital by KES 300 million. The company continues to utilize internally generated cash in reducing overall indebtedness.

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

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

Sincerely,

Rick Ashley
Chairman

2016 QUALITY CAPACITY INFRASTRUCTURE

DIRECTORS

RICK ASHLEY

BOARD CHAIRMAN AND ADVISOR TO EXECUTIVE MANAGEMENT

Rick Ashley has over 30 years' experience in senior roles in African businesses. He is a former Managing Director of Old Mutual Asset Management. Previously, he was the Managing Director of Kestrel Capital. Rick has also previously worked for Peat Marwick in the Cayman Islands, Arthur Anderson & Co. and Prudential Corporation PLC in London. He serves in the board of various other companies including Apollo Investments Ltd and its subsidiaries APA Insurance, APA Life Assurance and Apollo Asset Management. Other groups where he is a director comprise Jumo World Ltd, Lagoon Development Company Limited, and Schutter Energy Limited.

Rick was the founding chairman of Fund Managers Association of Kenya and previously served as a member of Market Leaders forum for Central bank of Kenya.

PRADEEP PAUNRANA

MANAGING DIRECTOR

Pradeep H Paunrana joined Athi River Mining Ltd in 1984 after graduating with an MBA from New York University Stern School of Business. Pradeep was able to combine his business education with the entrepreneurial passion and energy of his late father in growing the Company. Over the years, Pradeep built a team of professionals with a deep culture of transparency, diligence, and innovation to execute the vision of transforming ARM, a small producer of agricultural lime into a major publicly listed cement company. He is chairman of Kenya Association of Manufacturers, a Trustee of the Tree Biotechnology Trust, Chairman Nairobi Greenline Trust, and member of several charitable organizations.

SURENDRA BHATIA

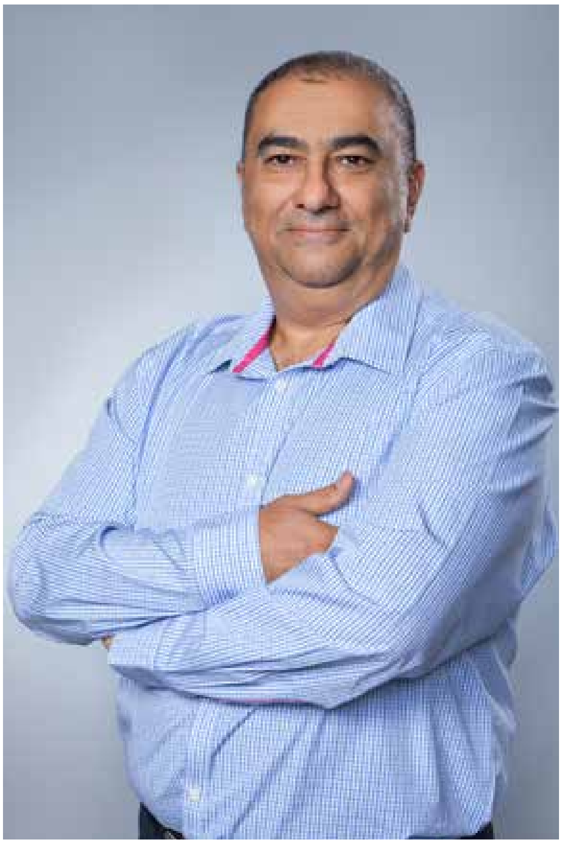
DEPUTY MANAGING DIRECTOR

Surendra Bhatia holds a degree in electrical engineering and a Masters Degree in Management Studies (MMS) from the prestigious Bombay University. A University rank holder throughout engineering college, he also graduated at the top of his Masters Degree class at Bombay University. He has attended executive education program in Leadership at the Harvard Business School. Surendra Bhatia started his management career with TATA Group, India's largest manufacturing Group, and subsequently developed his professional career with the Bhawan Group in the Middle East and Africa. As Deputy Managing Director, Surendra Bhatia shares a major responsibility with the Managing Director in articulating and delivering the Company's strategic plans, and growing long term shareholder value.

GORDHAN KETAN (KETSO)

NON-EXECUTIVE DIRECTOR

Ketso joined CDC in April 2016 as the Head of Africa. He previously spent several years as Chief Executive Officer of PPC Cement, South Africa's largest cement company. At PPC, Ketso led the expansion of the company into sub-Saharan Africa, helping build the footprint outside South Africa into DRC, Rwanda, Ethiopia and Zimbabwe. Before PPC, Ketso spent almost 10 years leading RMB's private equity business. He has also held a number of public sector roles, including City Manager of Johannesburg and Director General of the Ministry of Transport, where he led major infrastructure projects such as the South Africa's N4 Toll Road.



LEORNAD MUSUSA

CHAIRMAN, Maweni Limestone Limited
NON-EXECUTIVE DIRECTOR, ARM Cement PLC

Mr Leonard Mususa is a Fellow of the Association of Chartered Certified Accountants (UK) and a Fellow Certified Public Accountant (Tanzania).

He was the Country Senior Partner of Pricewaterhouse Coopers in Tanzania until his retirement in June 2014. He has served as Regional Head of Risk and Quality of the PwC Assurance business covering 9 countries, as well as the overall Head of Risk and Quality of 6 countries comprising the East African Market area.

He was appointed a non-executive director in July 2014 and is Chairman of Maweni Limestone Limited and ARM Tanzania Limited, Tanzanian subsidiaries of ARM Cement PLC.

He also holds board memberships in a number of companies including Nation Media Group Limited, National Microfinance Bank Plc (in Tanzania), Tanzania Breweries Limited and Reliance Insurance Company (Tanzania) Limited .

JOHN NGUMI

NON-EXECUTIVE DIRECTOR

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

Throughout his career John has been at the forefront in the development of the investment banking industry in Kenya, and in the wider East African market, and in particular has been at the heart of major pioneering transactions in the bank debt and capital markets. He has also frequently worked at the intersection between the public and private sectors, including being directly involved as a non-executive director or board chair.

WILFRED MURUNGI

NON-EXECUTIVE DIRECTOR

Wilfred Murungi is a qualified electrical engineer. In 1985 he started his own company Mastermind Tobacco. Wilfred Murungi serves on the Boards of Athi River Power Company Limited, Greenlands Agro producers Limited, NGM Company Limited, Continental Tobacco Group of Companies in Malawi, Uganda, Tanzania and Sudan, Nanyuki Ranching Limited, Ozzbeco Breweries (K) Ltd, Remu Limited (Microfinance Bank), Mitithiru Limited and Tobacco Commodities) Inc.

KLAAS PAULUS PIETER

NON-EXECUTIVE DIRECTOR

Mr Pepe (Klaas Paulus Pieter) Meijer,
BEng (mech eng), BB&A (hons), MBA (University of Stellenbosch).

Pepe is a Commonwealth Development Corporation (CDC) Advisor and the former Managing director PPC International up-to November 2015. PPC is the leading supplier of cement in and related products in Southern Africa. During his PPC tenure Pepe also held various Executive, General, Senior and Middle management positions across PPC's cement operations that spanned, in total, over 28 years. Prior to joining PPC, worked in the gold mining industry as section engineer and in the fishing/processing/ frozen-food industry as group projects manager.

ANDREW ALLI

NON-EXECUTIVE DIRECTOR

As CEO of Africa Finance Corporation, Andrew is responsible for the overall strategy and operations of the Corporation. The Executive Management under his leadership has undertaken over US$3.2 billion in investments across Africa, financing high impact projects like a West African submarine Cable, a commercial wind farm in Cape Verde, a toll road in South Africa, a greenfield power plant in Ghana and a flagship road infrastructure project in Cote d'Ivoire.

Until his appointment as the Chief Executive Officer, Africa Finance Corporation in November 2008, Andrew was the Deputy Chief Executive Officer of Travant Capital, a private equity fund. Prior to that, he was with the International Finance Corporation ("IFC"), the private sector financing arm of the World Bank Group in Washington as an investment officer working first in the Oil, Gas and Mining Department and then in the Telecommunications Department.

In 2002 he was appointed IFC's Country Manager for Nigeria, responsible for managing IFC's operations in the country. In 2006, he was appointed Country Manager for Southern Africa, where he was responsible for South Africa and seven other countries.

RAMESH VORA

COMPANY SECRETARY

Ramesh Vora is a Member of the Institute of Chartered Secretaries and Administrators of England and a Fellow of the Institute of Certified Public Secretaries of Kenya. He is a Practicing Company Secretary with a client base of over 150 companies ranging from public companies to multinationals and other local companies.

He has been the Company Secretary for ARM since 1994 and a Trustee for Rhino Cement Foundation. Mr.Vora also serves as the Company Secretary for Group Subsidiary Companies ARM (Tanzania) Limited and Maweni Limestone Limited.

2016 QUALITY CAPACITY INFRASTRUCTURE

RHINO CEMENT FOUNDATION

RHINO CEMENT FOUNDATION
HEALTH EDUCATION ENVIRONMENT

ARM Cement champions the Rhino Cement Foundation through its employees, social investments in health, education and environment by providing a lasting difference to people's lives in the communities of our operation and the country at large.

We focus our investments in three areas: Health, Education, and Environment, the investments made continue to have a sustainable positive impact on the social and economic well-being of the communities in which we operate and 2016 was a successful year for the Foundation.

EDUCATION

Under education pillar, Rhino cement foundation carries out long term projects in support of educational institutions neighboring our plants.

The Foundation also offers University and High school scholarships to high performing students who from difficult backgrounds.

We dedicate the largest amount of the budget to Educations efforts of the Rhino Cement Foundation for we strongly believe in the impact of education and value creation to the individuals themselves and the communities from which these children come from.

Furthermore, the Foundation has also invested in schools themselves, building a number of classrooms, dormitories and other school facilities in schools neighboring our plants and mining activities. As at the end of year 2016, the foundation had 81 students in High school and 56 students in various universities across the country. 17 students completed High School in 2016 with David Omondi a Rhino Cement Foundation beneficiary among the top 30 students in the country in 2016 KCSE exams.

David Omondi with a RCF staff during a visit before he sat for his KCSE

The Foundation donated desks to Maweni Kanga Primary School - Tanga

STUDENTS TESTIMONIES:

"When I finished school in 2013 I was stranded and felt like my studies will come to an end. Although I performed well by scoring an A-, I tried various means possible to join college since only one month was remaining and still there was no hope. I came to know about the foundation through an advert in a newspaper and I applied. Two weeks later I got a call from the Rhino Cement Foundation, confirming my selection to be included on the Rhino Cement Foundation sponsorship programme. I was delighted as it was a step in achieving my dream. A few days later I was enrolled to the university. I felt rays of hope as this was the first step towards achieving my dreams.

Three years later down the line, I feel the foundation has transformed me a great deal. I'm not the same person who enrolled at the university. It has enacted in me the spirit of hard work as I really work hard to remain in the foundation and the same time ensuring I get good grades which will be very vital in the future.

It has become by motivation. It removed the hopelessness which was all over me. I now see everything possible and nothing should hold me back.

It has really touched my family and my community at large as they can now afford to smile and not to worry about me being chased out of school due to lack of school fees .

I feel greatly indebted to The Rhino Cement Foundation and maybe after I finished school I will start something bigger or maybe some way too great than this just to ensure the performing needy kids don't stay at home and waste their potential.

Thank you Rhino Cement Foundation."

Saady Omar Said

Masinde Muliro University of Science and Technology

BSc in Electrical and Communication Engineering

The Foundation continues to offer University students internship opportunities to the beneficiaries and eventually for some of them they are able to secure employment at ARM Cement.
Sammy Kiio is one of the many scholars that has made us proud and joined ARM in a graduate program.

Students Testimonies:

"Learning process isn't an easy job but having support and lots of pressure from my beneficiaries and parent made the load lighter. I thank God that I managed to sit for my KCSE and got a mean grade of C+ of 50 points which is taking me to PWANI UNIVERSITY to pursue bachelor of arts (Education).
I know all the money in the world can't pay Rhino Cement Foundation for what they have done for me but pray that GOD that I serve may bless them because they are really giving a helping hand to many needy students out there. All in all I thank the Managing Director and all the staff of Rhino Cement Foundation for enabling me to finish my High School and moving to the next step of Education."

VELVIN SHILISIA JAHENDA
Rhino Cement Foundation Scholar
Pwani University

Velvin Shilisia Jahenda
Rhino Cement Foundation Scholar
Pwani University

"I pass my sincere appreciation to the Rhino Cement Foundation for the 4-year scholarship opportunity that enabled me to transform my childhood dreams into reality. The foundation lightened my financial burden which allowed me to focus more on the most important aspect of school, learning. I won't forget to be grateful once more for the internship opportunity at the organization and eventually the job offer. I am trying my best to be a resourceful individual to the company. Your generosity has inspired me to help others and give back to the community."

Sammy Kiio
RCF Beneficiary (2012-2016)

Sammy Kiio
RCF Beneficiary

HEALTH

The Rhino Cement Foundation primary objective is to improve the quality of life for all its stakeholders including people living in neighbouring communities who do not get access or the means to good healthcare.

To achieve this, the foundation operates a fully functional clinic known as the Mzee Paunrana Clinic in Kaloleni led by the resident doctor Dr. Andreas Meyerhold.

2016 ACHIEVEMENTS

This year we saw over 12,000 patients – including reviews. With improved quality of healthcare we see the severe cases dropping improved awareness and personal care.

ENVIRONMENT

Rhino Cement Foundation remains strongly committed to our environmental projects particularly preservation of the environment and natural resources through partnerships to grow forests , plant tress and preserve wildlife and our national parks.

Through the Green initiative whose main objective is to mobilise and sensitize the staff and the surrounding communities on the need to conserve the environment through planting of trees, the foundation has established green corners in Machakos and Kilifi Counties.

During the year 2016 the foundation planted 87,209 seedlings through this initiative.

APPRECIATION

As Chairman of the board of trustees of the Rhino Cement Foundation, I wish to thank members of staff of ARM Cement Ltd who actively participated in the day to day activities of the foundation. I also thank the management and Board of Directors of ARM Cement Ltd for the financial support from them and their trading partners and business associates.

Titus Mbathi

Chairman, Rhino Cement Foundation

Dr Meyerhold with staff at Mzee Paunrana Medical Clinic (Kaloleni)

A variety of tree species at our nurseries

2016
QUALITY
CAPACITY
INFRASTRUCTURE

DIRECTORS REPORT

The Directors present their report together with the audited consolidated and company financial statements of ARM Cement PLC ("the company") and its subsidiaries (together, "the Group") for the year ended 31 December 2016, which disclose the state of their financial affairs. In accordance with section 42 of the sixth schedule transitional and savings provisions of the Company's Act 2015, this report has been prepared in accordance with section 157 of the repealed Company's Act as if this repeal had not taken effect.

PRINCIPAL ACTIVITIES

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

GROUP FINANCIAL RESULTS

	2016 Sh'000	2015 Sh'000
Loss before taxation	(3,978,831)	(3,539,156)
Taxation credit	1,178,656	648,315
Loss for the year transferred to retained earnings	(2,800,175)	(2,890,841)
Attributable to:		
Owners of the company	(2,800,968)	(2,891,539)
Non-controlling interests	793	698
	(2,800,175)	(2,890,841)

DIVIDENDS

The Directors do not propose the payment of a dividend (2015 – nil) in respect of the year ended 31 December 2016.

DIRECTORS

The present Directors are shown on page VI. Mr A K Mathur resigned as a director on 30 April 2016. Mr D M Ndonye and Mr M Turned resigned as directors on 25 August 2016. Mr K P P Meijer, MR K Gordhan and Mr J Ngumi, were appointed as directors on 25 August 2016. Mr S Mukherjee was appointed as alternate director to MR K Gordhan on 1 November 2016.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of the Kenyan Companies Act.

BY ORDER OF THE BOARD

R. R. VORA
Secretary

Nairobi
28th April 2017

2016 QUALITY CAPACITY INFRASTRUCTURE

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

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

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

a) Directors' Emoluments
   The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in note 6 to the consolidated and company consolidated and company financial statements for the year ended 31 December 2016.

b) Related Party Transactions
   There have been no materially significant related party transactions, pecuniary transactions or relationships between the company and its Directors or Management except those disclosed in note 26 to the financial statements for the year ended 31 December 2016.

ROLES AND RESPONSIBILITIES

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

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

Company Secretary

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

BOARD TRAINING

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

BOARD COMMITTEES

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

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

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

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

d) Technical Committee
The Technical Committee is chaired by a non-executive Director, Mr. P. Meijer. The other members are two executive directors of the Board, Mr. Paunrana and Mr S. Bhatia, and non-executive director, Mr. W. Murungi. The Committee meets at least four times a year and is responsible for assisting in, and making recommendations on technical matters.

e) Mining Committee
The Mining Committee is chaired by a non-executive Director, Mr. K. Gordhan. The other members are two executive directors of the Board, Mr. Paunrana and Mr S. Bhatia, and two non-executive directors, Mr. R. Ashley and Mr K. Meijer. The Committee meets at least four times a year and is responsible for assisting in, and making recommendations on mining related matters.

CONFLICT OF INTEREST

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

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

Business transactions with the directors or their related parties are disclosed in note 26 to the consolidated and company financial statements for the year ended 31 December 2016.

BUSINESS ETHICS

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

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

COMPLIANCE

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

COMMUNICATION

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

2016 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Audit & Risk Comm	Hr,Nom & Rem Comm	Strat & Invest Comm	Mining Comm	Tech Comm	Esg Comm
Mr. R. Ashley	Non-Executive	Chairman of the Board	Membership	√	√	n/a	√	√	n/a	n/a
		& Investments and Strategy Committee	Attendance	4/6	3/3	n/a	1/1	1/1	n/a	n/a
Mr. P. H. Paunrana	Executive Director	Managing Director	Membership	√	n/a	n/a	√	√	√	√
			Attendance	6/6	n/a	n/a	1/1	1/1	1/1	1/1
Mr. S. L. Bhatia	Executive Director	Deputy Managing Director	Membership	√	n/a	n/a	√	√	√	√
			Attendance	6/6	n/a	n/a	1/1	1/1	1/1	1/1
Mr. A. Mathur										
(Resigned 30/4/2016)	Executive Director	Finance Director	Membership	√	n/a	n/a	n/a	n/a	n/a	n/a
			Attendance	NIL	n/a	n/a	n/a	n/a	n/a	n/a
Mr. W. Murungi	Non-Executive	Chairman Nomination &	Membership	√	√	√	n/a	n/a	√	n/a
		Remuneration Committee	Attendance	6/6	3/3	3/3	n/a	n/a	1/1	n/a
Mr. D. M. Ndonye										
(Resigned 25/8/2016)	Non-Executive	Chairman Audit & Risk Committee	Membership	√	√	√	n/a	n/a	n/a	n/a
			Attendance	3/6	2/3	2/3	n/a	n/a	n/a	n/a
Mr. M. Turner										
(Resigned 25/8/2016)	Non-Executive	Director	Membership	√	n/a	√	√	n/a	n/a	n/a
			Attendance	1/6	n/a	1/3	1/1	n/a	n/a	n/a
Mr. A. Alli	Non-Executive	Director	Membership	√	n/a	n/a	n/a	n/a	n/a	n/a
			Attendance	NIL	n/a	n/a	n/a	n/a	n/a	n/a
Mr. L. Mususa	Non-Executive	Chairman Audit & Risk Committee	Membership	√	√	n/a	n/a	n/a	n/a	n/a
			Attendance	4/6	1/3	n/a	n/a	n/a	n/a	n/a
Mr. K. P. Pieter Meijer										
(Appointed 25/08/2016)	Non-Executive	Chairman Mining/Tech Comm.	Membership	√	n/a	n/a	n/a	√	√	√
			Attendance	2/6	n/a	n/a	n/a	1/1	1/1	1/1
Mr. J. Ngumi										
(Appointed 25/08/2016)	Non-Executive	Chairman ESG Comm.	Membership	√	n/a	√	n/a	n/a	n/a	√
			Attendance	3/6	n/a	1/3	n/a	n/a	n/a	1/1
Mr. K. M. Gordhan										
(Appointed 25/08/2016)	Non-Executive	Director	Membership	√	√	√	n/a	√	n/a	n/a
			Attendance	NIL	NIL	NIL	n/a	NIL	n/a	n/a
Mr. S. Mukherjee										
(Appointed 01/11/2016)	Non-Executive	Alt. to K. M. Gordhan	Membership	√		√	n/a	√	n/a	n/a
			Attendance	1/6	1/3	1/3	n/a	1/1	n/a	n/a

√ Member of respective committee

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

SHAREHOLDING PROFILES

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

a) Principal Shareholders

The top 10 major shareholders, based on the company's share register as at 31 December 2016, are as follows:

Name	No of Shares	%
Standard Chartered Kenya Nominees A/C Ke002883	353,665,200	42
Athi River Mining Employee Share Ownership Plan	131,435,335	15
Amanat Investments Limited	128,975,245	15
Paunrana Pradeep Harjivandas	89,680,000	11
Stanbic Nominees Ltd A/C Nr1030820	30,071,000	4
Standard Chartered Nominees Ac Ke15615	11,312,041	1
Standard Chartered Nominees Non-Resident A/C 9318	7,240,292	1
Standard Chartered Kenya Nominees Ltd A/C Ke002258	7,111,200	1
SCB A/C Pan African Unit Linked Fd	5,983,009	1
Tannel World Limited	5,834,310	1
Others	77,632,368	8
Total	**848,940,000**	**100**

b) Distribution Schedule

Category	No. of Shareholders	No. of Shares	%
Less than 500	1771	462,733	0.05
501-5,000	2054	4,711,278	0.55
5001-10,000	1166	7,868,064	0.93
10,0001-100,000	643	19,385,868	2.28
100,001 - 1,000,000	184	61,353,255	7.23
Over 1,000,000	60	755,158,802	88.96
	5,878	**848,940,000**	**100**

Rick Ashley
Chairman
28th April 2017

Pradeep H. Paunrana
Managing Director

2016
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STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

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

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

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

Approved by the board of directors on 28th April 2017 and signed on its behalf by:

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Rick Ashley	Pradeep H. Paunrana
Chairman	Managing Director

2016 QUALITY CAPACITY INFRASTRUCTURE

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARM CEMENT PLC

REPORT ON THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and company financial statements of ARM Cement PLC (the "Company) and its subsidiaries (together the "Group"), set out on pages 28 to 78, which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and company financial statements give a true and fair view of the financial position of the Group and of the company as at 31 December 2016 and of the consolidated and company financial performance and the consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act.

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 Auditor's Responsibilities for the Audit of the consolidated and company Financial Statements section of our report. We are independent of the Group and company in accordance with the Institute of Certified Public Accountants of Kenya Code of ethics (ICPAK Code of Ethics), which is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 3 in the financial statements, which indicates that the board is putting measures in place to address the liquidity challenges which the Group is facing. These conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast doubt on the Group'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 company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed this Key audit matter***
Obsolete stock management Included in the consolidated and company financial statements as at 31 December 2016 are inventories amounting to Sh 3.274 billion (2015: Sh 3.867 billion) and Sh 2.366 billion (2015: Sh 2.429 billion) respectively, as disclosed in note 18 in the financial statements. Significant judgement is required by the directors in assessing the value of slow moving and obsolete stocks, especially as relates to stores and spares which constitute a significant portion of the inventories as disclosed in the note. The Group has a documented policy on review of slow moving and obsolete inventory, which enables the directors to determine if the slow moving and obsolete stocks need to be marked down, provided for in full or written off. Due to the directors' judgement required in estimating future conditions, utilisation and selling prices of these inventories, there is a possibility that the inventories may not be valued at the lower of cost and net realisable value as required by International Accounting Standard 2: Inventories. We have therefore considered this to be a key audit matter.	We performed the following audit procedures in assessing whether the inventories were slow moving and/or obsolete and whether carried at the lower of cost and net realisable value as required by International Accounting Standard 2: Inventories: • Assessed the directors' assessment of the carrying value of inventory relative to its net realisable value (NRV). • Observed the physical verification exercise carried out by management to ascertain the reliability of the process in identifying obsolete inventories. • Performed procedures to test the net realisable value on a sample of inventories, by comparison of actual selling prices achieved on similar sales against the recorded balances. • Performed procedures to test the accuracy and completeness of the inventory ageing reports and assessing the saleability or future use of slow moving inventory (inventory that has not moved for over 1 year) in consultation with operational personnel. The audit procedures we performed found the directors' judgement used in assessing the net realisable value write downs to be appropriate.

Other information
The directors are responsible for the other information, which comprises the report of the directors, the corporate governance statement and statement of directors' responsibilities. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, 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 the Directors for the Financial Statements
The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and 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 or Company or to cease operations, or have no realistic alternative but to do so. The Audit and Risk Committee and those charged with governance are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the 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 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 Audit and Risk Committee regarding, among other matters, the significant audit findings including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Audit and Risk Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements
As required by section 162 of the Kenyan Companies Act, we report to you, based on our audit, that:
i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books of account; and
iii) the company's statement of financial position and the statement of profit or loss and other comprehensive income are in agreement with the books of account.

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

Certified Public Accountants (Kenya)
Nairobi, Kenya,

2016 QUALITY CAPACITY INFRASTRUCTURE

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Sh'000	2015 Sh'000
REVENUE		12,823,826	14,735,936
COST OF SALES		(10,850,639)	(10,390,795)
GROSS PROFIT		1,973,187	4,345,141
Other operating income		24,054	192,822
Net foreign exchange losses		(653,313)	(3,717,034)
Distribution costs		(441,440)	(473,300)
Administrative expenses		(1,875,114)	(1,557,893)
Finance costs	5	(3,012,286)	(2,309,992)
Interest income	6	6,081	4,519
Loss on revaluation of property, plant and equipment	13(a)	-	(23,419)
LOSS BEFORE TAXATION	7	(3,978,831)	(3,539,156)
Taxation credit	9(a)	1,178,656	648,315
LOSS FOR THE YEAR	10	(2,800,175)	(2,890,841)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		68,413	(97,928)
Items that will not be reclassified subsequently to profit or loss:			
Changes in revaluation of property, plant and equipment	13(a)	(664,990)	15,209,076
Deferred tax attributable to gain on revaluation of property, plant and equipment	23	199,497	(4,498,181)
		(465,493)	10,710,895
Other comprehensive income for the year, net of income tax		(397,080)	10,612,967
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(3,197,255)	7,722,126
Loss for the year is attributable to:			
Owners of the company		(2,800,968)	(2,891,539)
Non-controlling interests	17(b)	793	698
		(2,800,175)	(2,890,841)
Total comprehensive (loss)/income is attributable to:			
Owners of the company		(3,198,048)	7,719,445
Non-controlling interests		793	2,681
		(3,197,255)	7,722,126
EARNINGS PER SHARE			
LOSS PER SHARE – Basic and diluted (Sh)	11	(3.30)	(5.84)

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Sh'000	2015 Sh'000
REVENUE		9,635,876	11,108,685
COST OF SALES		(7,232,780)	(7,511,964)
GROSS PROFIT		2,403,096	3,596,721
Net foreign exchange losses		(433,261)	(884,884)
Other operating income		1,620	1,609
Distribution costs		(282,771)	(379,826)
Administrative expenses		(1,346,718)	(1,127,699)
Finance costs	5	(1,593,772)	(1,121,449)
Interest income	6	3,438	2,192
(LOSS)/PROFIT BEFORE TAXATION	7	(1,248,368)	86,664
Taxation credit/(charge)	9(a)	348,563	(55,852)
(LOSS)/PROFIT FOR THE YEAR	10	(899,805)	30,812
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	13(b)	-	4,348,432
Deferred tax attributable to gain on revaluation of property, plant and equipment	23	-	(1,239,988)
Other comprehensive income for the year, net of income tax		-	3,108,444
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(899,805)	3,139,256

2016 QUALITY
CAPACITY
INFRASTRUCTURE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 Sh'000	2015 Sh'000
ASSETS			
Non-current assets			
Property, plant and equipment	13(a)	42,168,147	43,657,043
Operating lease prepayments	14	156,325	155,963
Intangible assets	15	229,684	190,564
Goodwill	16	71,012	71,012
Deferred tax asset	23	147,963	93,825
		42,773,131	44,168,407
Current assets			
Inventories	18	3,274,363	3,867,349
Trade and other receivables	19	4,619,367	3,535,639
Due from Employee Share Ownership Plan (ESOP)	20	38,555	58,767
Due from related parties	26(b)	110,617	96,032
Corporate tax recoverable	9(c)	85,605	3,977
Cash and bank balances	25(e)	157,164	206,493
		8,285,671	7,768,257
Total assets		**51,058,802**	**51,936,664**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	848,940	495,275
Share premium		14,094,970	302,027
Revaluation surplus		10,308,338	11,082,676
Translation reserve		14,921	(53,492)
Retained earnings		2,521,988	5,014,111
Equity attributable to equity holders of the parent		27,789,157	16,840,597
Non - controlling interests	17(b)	5,964	5,171
Total equity		**27,795,121**	**16,845,768**
Non-current liabilities			
Borrowings	22(a)	4,574,785	8,948,927
Deferred tax liability	23	4,529,461	5,883,067
		9,104,246	14,831,994
Current liabilities			
Dividends payable	12(b)	1,975	8,563
Corporate tax payable	9(c)	13,301	13,544
Borrowings	22(a)	8,668,723	15,432,330
Trade and other payables	24	5,428,953	4,717,051
Due to related parties	26(d)	46,483	87,414
		14,159,435	20,258,902
Total equity and liabilities		**51,058,802**	**51,936,664**

The consolidated and company financial statements on pages 28 to 78 were approved and authorised for issue by the Board of Directors on 28th April 2017 and were signed on its behalf by:

Rick Ashley
Chairman

Pradeep H. Paunrana
Managing Director

2016 QUALITY
CAPACITY
INFRASTRUCTURE

COMPANY STATEMENT OF FINANCIAL POSITIONAS AT 31 DECEMBER 2016

	Note	2016 Sh'000	2015 Sh'000
ASSETS			
Non-current assets			
Property, plant and equipment	13(b)	13,832,321	14,210,476
Operating lease prepayments	14	1,535	1,603
Intangible assets	15	1,185	952
Investment in subsidiaries	17(a)	530,864	530,864
		14,365,905	14,743,895
Current assets			
Inventories	18	2,366,178	2,429,041
Trade and other receivables	19	3,163,292	2,469,595
Due from Employee Share Option Plan (ESOP)	20	38,555	58,767
Due from related parties	26(c)	20,792,590	18,885,534
Corporate tax recoverable	9(c)	85,605	3,977
Cash and bank balances	25(e)	38,370	88,539
		26,484,590	23,935,453
Total assets		**40,850,495**	**38,679,348**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	848,940	495,275
Share premium		14,094,970	302,027
Revaluation surplus		3,171,379	3,480,225
Retained earnings		7,184,913	7,775,872
Total equity		**25,300,202**	**12,053,399**
Non-current liabilities			
Borrowings	22(b)	5,065,783	6,396,441
Deferred tax liability	23	2,723,542	3,073,136
		7,789,325	9,469,577
Current liabilities			
Dividends payable	12(b)	1,975	8,563
Borrowings	22(b)	4,716,541	13,884,980
Trade and other payables	24	2,158,614	2,907,250
Due to related parties	26(e)	883,838	355,579
		7,760,968	17,156,372
Total equity and liabilities		**40,850,495**	**38,679,348**

The consolidated and company financial statements on pages 28 to 78 were approved and authorised for issue by the Board of Directors on 28th April 2017 and were signed on its behalf by:

Rick Ashley
Chairman

Pradeep H. Paunrana
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus* Sh'000	Translation reserve** Sh'000	Retained earnings Sh'000	Attributable to equity holders of the parent Sh'000	Non-controlling interest Sh'000	Total Sh'000
At 1 January 2015	495,275	302,027	617,627	46,419	7,956,969	9,418,317	2,490	9,420,807
(Loss)/profit for the year	-	-	-	-	(2,891,539)	(2,891,539)	698	(2,890,841)
Other comprehensive income/(loss) for the year	-	-	10,710,895	(99,911)	-	10,610,984	1,983	10,612,967
Total comprehensive income/(loss) for the year	-	-	10,710,895	(99,911)	(2,891,539)	7,719,445	2,681	7,722,126
Transfer of excess depreciation	-	-	(351,209)	-	351,209	-	-	-
Deferred tax on excess depreciation	-	-	105,363	-	(105,363)	-	-	-
Dividends declared – for year 2013 (note 12(b))	-	-	-	-	(297,165)	(297,165)	-	(297,165)
At 31 December 2015	**495,275**	**302,027**	**11,082,676**	**(53,492)**	**5,014,111**	**16,840,597**	**5,171**	**16,845,768**
At 1 January 2016	495,275	302,027	11,082,676	(53,492)	5,014,111	16,840,597	5,171	16,845,768
(Loss)/profit for the year	-	-	-	-	(2,800,968)	(2,800,968)	793	(2,800,175)
Other comprehensive income/(loss) for the year	-	-	(465,493)	68,413	-	(397,080)	-	(397,080)
Total comprehensive loss for the year	-	-	(465,493)	68,413	(2,800,968)	(3,198,048)	793	(3,197,255)
Issue of shares (note 21)	353,665	13,792,943	-	-	-	14,146,608	-	14,146,608
Transfer of excess depreciation	-	-	(441,209)	-	441,209	-	-	-
Deferred tax on excess depreciation	-	-	132,363	-	(132,363)	-	-	-
At 31 December 2016	**848,940**	**14,094,970**	**10,308,338**	**14,921**	**2,521,988**	**27,789,157**	**5,964**	**27,795,121**

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

** The translation reserve represents the effect of the change in exchange rates at the beginning of the year and at the close of the year on translation of the net assets of foreign subsidiaries from the functional currencies of the foreign operations to the presentation currency (Kenya Shillings).

2016 QUALITY CAPACITY INFRASTRUCTURE

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share Capital Sh'000	Share premium Sh'000	Revaluation surplus* Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2015	495,275	302,027	617,627	7,796,379	9,211,308
Total comprehensive income for the year	-	-	3,108,444	30,812	3,139,256
Transfer of excess depreciation	-	-	(351,209)	351,209	-
Deferred tax on excess depreciation	-	-	105,363	(105,363)	-
Dividends declared – year 2014 (note 12(b))	-	-	-	(297,165)	(297,165)
At 31 December 2015	**495,275**	**302,027**	**3,480,225**	**7,775,872**	**12,053,399**
At 1 January 2016	495,275	302,027	3,480,225	7,775,872	12,053,399
Total comprehensive loss for the year	-	-	-	(899,805)	(899,805)
Issue of shares (note 21)	353,665	13,792,943	-	-	14,146,608
Transfer of excess depreciation	-	-	(441,209)	441,209	-
Deferred tax on excess depreciation	-	-	132,363	(132,363)	-
At 31 December 2016	**848,940**	**14,094,970**	**3,171,379**	**7,184,913**	**25,300,202**

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

2016 QUALITY
CAPACITY
INFRASTRUCTURE

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Sh'000	2015 Sh'000
Cash flows from operating activities			
Cash generated from operations	25(a)	1,610,738	2,324,158
Interest paid	25(f)	(2,812,379)	(1,878,258)
Interest received		6,081	4,519
Corporation tax paid	9(c)	(83,455)	(640,454)
Net cash used in operating activities		(1,279,015)	(190,035)
Cash flows from investing activities			
Purchase of property, plant and equipment	25(c)	(226,853)	(2,947,710)
Purchase of intangible assets	15	(15,382)	(28,885)
Additions to operating leases	14	(264)	-
Net cash used in investing activities		(242,499)	(2,976,595)
Cash flows from financing activities			
Dividends paid	12(b)	(6,588)	(301,391)
Issue of shares	21	14,146,608	-
Borrowings received	25(d)	-	10,688,686
Repayment of amounts borrowed	25(d)	(12,058,836)	(9,658,286)
Net cash generated from financing activities		2,081,184	729,009
Net increase/(decrease) in cash and cash equivalents		**559,670**	**(2,437,621)**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents 1 January		**(3,382,783)**	**(2,735,632)**
Net increase/(decrease) in cash and cash equivalents		559,670	(2,437,621)
Effect of translation adjustments		(578,403)	1,790,470
Cash and cash equivalents 31 December	**25(e)**	**(3,401,516)**	**(3,382,783)**

2016 QUALITY
CAPACITY
INFRASTRUCTURE

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Sh'000	2015 Sh'000
Cash flows from operating activities			
Cash used in operations	25(b)	(1,151,432)	(1,305,276)
Interest paid	25(f)	(1,568,245)	(686,517)
Interest received		3,438	2,192
Corporation tax paid	9(c)	(82,659)	(639,572)
Net cash used in operating activities		(2,798,898)	(2,629,173)
Cash flows from investing activities			
Purchase of property, plant and equipment	25(c)	(161,823)	(571,705)
Purchase of intangible assets	15	(429)	(507)
Net cash used in investing activities		**(162,252)**	**(572,212)**
Cash flows from financing activities			
Dividends paid	12(b)	(6,588)	(301,391)
Issue of shares	21	14,146,608	-
Borrowings received	25(d)	-	3,059,365
Repayment of amounts borrowed	25(d)	(10,470,123)	-
Net cash generated from financing activities		**3,669,897**	**2,757,974**
Net increase/(decrease) in cash and cash equivalents		**708,747**	**(443,411)**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents 1 January		**(1,953,387)**	**(1,509,976)**
Net increase/(decrease) in cash and cash equivalents		708,747	(443,411)
Cash and cash equivalents 31 December	**25(e)**	**(1,244,640)**	**(1,953,387)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES

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

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2016

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

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation	The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: a) when the intangible asset is expressed as a measure of revenue; or b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. Currently, the Group uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.
Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations	The amendments to IFRS 11 Joint Arrangements requires an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to: a) apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11 b) disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). Currently, the Group does not hold any interest in Joint Operations. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Group's and Company's financial statements.

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

(ii) Relevant new standards and amendments to published standards effective for the year ended 31 December 2016

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

Amendments to IAS 1 Disclosure Initiative.	The amendments to IAS 1 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply; clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and b) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; c) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1 The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Consolidated and Company's financial statements.
Annual Improvements 2012-2014 Cycle	The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. The amendments to IFRS 7 adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements. The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level). The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Group's and Company's financial statements.

(iii) Relevant new and amended standards in issue but not yet effective in the year ended 31 December 2016

New and revised standards	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7	1 January 2017

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

(iv) Impact of relevant new and amended standards on the financial statements for the year ended 31 December 2016 and future annual periods

IFRS 9 Financial Instruments
In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for:

a) the classification and measurement of financial assets and financial liabilities;
b) impairment methodology; and
c) general hedge accounting.

Key requirements of IFRS 9:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a loss event to have occurred before a credit loss is recognised.

- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

- **De-recognition.** The requirements for de-recognition of the financial assets and liabilities are carried forward from IAS 39. The Directors of the company anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the Bank.

The directors of the Group anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers
In May 2016, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Lessors continue to classify leases as operating or finance lease, with IFRS 16, approach to lessor accounting unchanged from its predecessor, IAS 17.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019.

The directors anticipate that the adoption of IFRS 16 will not have a significant impact on the Group's financial statements.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The directors of the Group do not anticipate that the application of these amendments will have a material impact on the Group's financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 Income Taxes clarify the following aspects:

• Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
• The carrying amount of an asset does not limit the estimation of probable future taxable profits.
• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The directors of the Group do not anticipate that the application of the amendments in IAS 12 in the future will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IAS 12 until a detailed review has been completed.

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

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

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

The amendments apply prospectively for annual periods beginning on or after 1 January 2017. Currently, the Group uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

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

(v) Early adoption of standards

The Group did not early-adopt new or revised standards in 2016.

Basis of preparation

The consolidated and company financial statements have been prepared in accordance with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Group prepares its consolidated and company financial statements under the historical cost convention, modified to include the revaluation of certain assets.

Basis of consolidation

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

• has power over the investee
• is exposed, or has rights, to variable returns from its involvement with the investee; and
• has the ability to use its power to affect its returns

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements for subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

Changes in the Group's ownership interests in existing subsidiaries

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

Revenue recognition

(i) Sale of goods

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.
Revenue from the sale of goods is recognised when all the following conditions are satisfied:

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

(ii) Interest income

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

Foreign currencies

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

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

Borrowing costs

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

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

Taxation

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

Current taxation is provided for on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Property, plant and equipment

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

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

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

Depreciation

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

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

Capital work in progress

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

Leases

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

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

Payments to acquire leasehold interests in land are accounted for as operating lease prepayments and are amortised over the period of the lease.

Rental payments in respect of operating leases are charged to the statement of profit or loss in the year to which they relate.

Intangible assets-computer software costs

Costs incurred on acquisition or development of computer software are accounted for at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated useful life not exceeding a period of 4 years.

Goodwill

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

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

Investment in subsidiaries

The investments in subsidiaries are stated at their acquisition cost less any accumulated impairment losses.

Inventories

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

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

Dividends payable

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

Cash and cash equivalents

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

Revaluation reserve

The revaluation reserve arises on the revaluation of property, plant and equipment. Where revalued assets are sold, the portion of the properties' revaluation reserve that relates to those assets is effectively realised and transferred directly to retained earnings.

Translation reserve

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

Retirement benefit obligations

The Group contributes to the statutory National Social Security Fund in Kenya and Tanzania. The Group's obligations under the schemes are determined by local statute and are currently at Sh 200 per employee per month in Kenya and 10% of the gross pay of each employee in Tanzania. The Group's contributions are charged to the statement of profit or loss in the year to which they relate. ARMSA (Pty) Limited and Mafeking Cement (Pty) Limited do not contribute to any retirement benefits scheme for their employees.

Employee benefits

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

Financial instruments

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

Financial assets

Classification
The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired. Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

i) *Financial assets at fair value through profit or loss ("FVTPL")*
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management.

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

iii) *Held-to-maturity financial assets*
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

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

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

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

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

Derecognition of financial assets

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

Financial liabilities
Financial liabilities are classified at amortised cost

Other financial liabilities

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

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

Impairment
At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the statement of profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

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

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

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision maker (Group management). Management allocates resources to and assess the performance of the operating segments of the Group. The operating segments are based on the Group's management and internal reporting structure. In accordance with IFRS 8 the Group has the following business segments; cement and lime and other products segments (see note 3).

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

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

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key areas of judgement and sources of estimation uncertainty

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

a) Critical judgements in applying accounting policies.

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

b) Key sources of estimation uncertainty

Property, plant and equipment and intangible assets

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

Impairment

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

Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

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

3 GOING CONCERN

The group incurred a net loss of Sh 2,800,175,000 (2015 - Sh 2,890,841,000) during the year and had net current liabilities amounting to Sh 5,873,764,000 (2015 - Shs 12,490,645,000) and borrowings of Sh 13,243,508,000 (2015 - Sh 24,381,257,000) as at 31 December 2016. These conditions may indicate the existence of a material uncertainty that may cast doubt about the group's ability to continue as a going concern. However, having recapitalised the balance sheet with the issue of new equity of Sh 14,146,608,000, the company reduced the group's borrowings significantly in 2016. The directors are of the opinion that with the additional measures being taken to restore the company's position as a leading regional cement company – divestment of non-cement activities, refinancing of short-term debt over a long term and improving operational efficiencies – the group will continue to operate profitably and be in a position to fund operating expenses and capital expenditure requirements over the coming years, as well as to meet payment obligations, debt covenant requirements or unforeseen events that could reasonably be expected to occur. The directors are confident of the success of these measures and have therefore deemed it appropriate to prepare the financial statements on a going concern basis.

4 OPERATING SEGMENTS

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

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

- Cement and lime.
- Other products.

	Cement and Lime		Other products		Total	
	2016 Sh'000	**2015 Sh'000**	**2016 Sh'000**	**2015 Sh'000**	**2016 Sh'000**	**2015 Sh'000**
Sales	10,388,239	10,931,755	2,435,587	3,804,181	12,823,826	14,735,936
Expenditure	(14,866,366)	(14,557,499)	(1,936,291)	(3,717,593)	(16,802,657)	(18,275,092)
Loss before taxation	(4,478,127)	(3,625,744)	499,296	86,588	(3,978,831)	(3,539,156)
Total assets	44,117,313	44,866,578	6,941,489	7,070,086	51,058,802	51,936,664
Total liabilities	21,814,613	31,892,817	1,449,068	3,198,079	23,263,681	35,090,896
Depreciation and amortization	1,522,042	720,328	123,690	157,547	1,645,732	877,875
Capital expenditure	233,797	2,777,593	16,751	199,002	250,548	2,976,595

Revenue reported above represents revenue generated from external customers.

Geographical information

	Kenya Sh'000	Tanzania Sh'000	South Africa Sh'000	Rwanda Sh'000	Eliminated on consolidation Sh'000	Total Sh'000
31 December 2016						
Sales and other income	9,640,934	3,763,087	2,643	84,025	(636,728)	12,853,961
Cost of sales and other expenditure	(10,889,302)	(6,346,591)	(94)	(233,533)	636,728	(16,832,792)
Loss before taxation	(1,248,368)	(2,583,504)	2,549	(149,508)	-	(3,978,831)
Assets	40,850,495	31,228,091	286,862	542,249	(21,848,895)	51,058,802
Liabilities	15,550,293	29,128,682	369,566	582,265	(22,367,125)	23,263,681
Depreciation and amortisation	540,242	1,103,534	38	1,918	-	1,645,732
Capital expenditure	14,435	236,113	-	-	-	250,548
31 December 2015						
Sales and other income	11,112,486	4,044,829	2,701	168,209	(394,948)	14,933,277
Cost of sales and other expenditure	(11,026,120)	(7,607,500)	6	(233,767)	394,948	(18,472,433)
Loss before taxation	86,366	(3,562,671)	2,707	(65,558)	-	(3,539,156)
Assets	38,684,703	32,000,446	238,851	552,080	(19,539,416)	51,936,664
Liabilities	26,625,949	26,775,215	324,884	444,413	(19,079,565)	35,090,896
Depreciation and amortisation	451,738	420,005	-	6,132	-	877,875
Capital expenditure	572,211	2,375,577	28,378	429	-	2,976,595

		Group		Company	
		2016	2015	2016	2015
		Sh'000	Sh'000	Sh'000	Sh'000
5 FINANCE COSTS					
Interest payable on:					
- Loans		2,581,477	2,061,179	1,439,493	976,161
- Bank overdrafts		430,809	248,173	154,279	144,648
- Finance leases		-	640	-	640
Total borrowing costs		**3,012,286**	**2,309,992**	**1,593,772**	**1,121,449**
6 INTEREST INCOME					
Interest receivable		**6,081**	**4,519**	**3,438**	**2,192**
7 (LOSS)/PROFIT BEFORE TAXATION					
The (loss)/profit before taxation is arrived at after charging:					
Depreciation on property, plant and equipment	(note 13(a) and 13(b))	1,645,130	877,043	539,978	450,946
Provision for obsolescence	(note 18)	48,036	32,278	47,213	32,278
Amortisation of operating lease prepayments	(note 14)	366	366	68	68
Amortisation of intangible assets	(note 15)	236	466	196	426
Operating lease rentals - motor vehicles		48,523	44,392	48,523	44,392
Directors' emoluments: - fees (non-executive)		12,464	8,293	9,293	8,293
Other emoluments (executive)		186,740	209,067	186,740	202,544
Staff costs	(note 8)	714,324	788,193	366,313	378,647
Auditors' remuneration - company		5,698	4,643	5,698	4,643
Auditors' remuneration - subsidiaries		4,865	4,250	-	-
8 STAFF COSTS					
Wages and salaries		646,171	683,145	300,498	318,489
Social security cost (NSSF)		42,238	46,616	4,885	5,489
Leave pay provision/(write back)		5,474	(7,668)	5,474	(7,668)
Other staff costs		56,795	66,100	55,456	62,337
		750,678	788,193	366,313	378,647
Executive directors' emoluments		186,740	209,067	186,740	202,544
		937,418	**997,260**	**553,053**	**581,191**
9 TAXATION					
a) Taxation (credit)/charge					
Current taxation charge based on taxable income:		1,031	357,184	1,031	357,184
Prior year under provision		-	25,996	-	25,996
		1,031	383,180	1,031	383,180

9 TAXATION *(Continued)*

		Group		Company	
		2016	**2015**	**2016**	**2015**
		Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
a) Taxation (credit)/charge					
Deferred tax:					
- Credit	(note 23)	(1,158,142)	(1,011,461)	(349,594)	(305,173)
- Prior year over provision	(note 23)	(21,545)	(20,034)	-	(22,155)
		(1,179,687)	**(1,031,495)**	**(349,594)**	**(327,328)**
		(1,178,656)	**(648,315)**	**(348,563)**	**55,852**
b) Reconciliation of tax (credit)/charge to expected taxation based on accounting (loss)/profit:					
(Loss)/profit before taxation		**(3,978,831)**	**(3,539,156)**	**(1,248,368)**	**86,664**
Tax calculated at a tax rate of 30%		(1,193,649)	(1,061,747)	(374,510)	25,999
Tax effect of:					
- Expenses not deductible for tax purposes		36,538	407,470	25,947	26,012
Prior year deferred taxation over provision		(21,545)	(20,034)	-	(22,155)
Prior year tax under provision		-	25,996	-	25,996
Taxation (credit)/charge		**(1,178,656)**	**(648,315)**	**(348,563)**	**55,852**
c) Corporate tax payable/(recoverable)					
At 1 January		9,567	272,203	(3,977)	252,415
Tax expense	(note 9(a))	1,031	357,184	1,031	357,184
Prior year tax under provision		-	25,996	-	25,996
Tax paid during the year		(83,455)	(640,454)	(82,659)	(639,572)
Exchange difference		553	(5,362)	-	-
At 31 December		**(72,304)**	**9,567**	**(85,605)**	**(3,977)**
Comprising					
Income tax payable		13,301	13,544	-	-
Income tax recoverable		(85,605)	(3,977)	(85,605)	(3,977)
		(72,304)	**9,567**	**(85,605)**	**(3,977)**

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

10 (LOSS)/PROFIT FOR THE YEAR

The (loss)/profit attributable to shareholders dealt with in the company financial statements for the year ended 31 December 2016 is a loss of Sh 899,805,000 (2015 – profit of Sh 30,812,000).

11 EARNINGS PER SHARE

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

	2016	**2015**
	Sh'000	**Sh'000**
Loss attributable to ordinary shareholders (Sh'000)	(2,800,968)	(2,891,539)
Weighted average number of ordinary shares in issue (note 21)	848,940,000	495,275,000
Basic and diluted loss per ordinary share (Sh)	(3.30)	(5.84)

12 DIVIDENDS

(a) Dividends per share

The Directors do not propose the payment of a dividend (2015 – nil) in respect of the year ended 31 December 2016 (2015 –nil).

The dividends payable are subject to, where applicable, deduction of withholding tax as required under the Kenyan Income Tax Act, Chapter 470 Laws of Kenya.

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

	GROUP & COMPANY	
	2016 Sh'000	2015 Sh'000
At 1 January	8,563	12,789
Final dividends declared	-	297,165
Dividends paid	(6,588)	(301,391)
At 31 December	**1,975**	**8,563**

13 a) PROPERTY, PLANT AND EQUIPMENT - GROUP

	Freehold land Sh'000	Buildings on leasehold land Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware, plant, machinery, motor vehicles, furniture and Fittings Sh'000	Capital work in Progress Sh'000	Total Sh'000
Cost or valuation						
At 1 January 2015	301,477	5,110,290	275,571	9,326,982	15,865,081	30,879,401
Additions	1,420	80,800	2,890	8,645	2,853,955	2,947,710
Transfers	-	6,928,234	-	4,682,047	(11,610,281)	-
Revaluation adjustment	177,323	2,010,334	(133,681)	10,070,458	-	12,124,434
Translation difference	-	(193,308)	142,400	(210,776)	(418,116)	(679,800)
At 31 December 2015	**480,220**	**13,936,350**	**287,180**	**23,877,356**	**6,690,639**	**45,271,745**
At 1 January 2016	480,220	13,936,350	287,180	23,877,356	6,690,639	45,271,745
Additions	149	2,254	1,287	62,130	161,033	226,853
Translation difference	-	(78,872)	(1,126)	(171,279)	198,762	(52,515)
At 31 December 2016	**480,369**	**13,859,732**	**287,341**	**23,768,207**	**7,050,434**	**45,446,083**

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

	Freehold land Sh'000	Buildings on leasehold land Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware, plant, machinery, motor vehicles, furniture and Fittings Sh'000	Capital work in Progress Sh'000	Total Sh'000
Depreciation						
At 1 January 2015	-	440,273	128,872	2,052,836	-	2,621,981
Charge for the year	-	231,363	41,658	604,022	-	877,043
Write back of depreciation on revaluation	-	(622,598)	(189,921)	(2,248,704)	-	(3,061,223)
Translation difference	-	644,752	28,565	503,584	-	1,176,901
At 31 December 2015	**-**	**693,790**	**9,174**	**911,738**	**-**	**1,614,702**
At 1 January 2016	-	693,790	9,174	911,738	-	1,614,702
Charge for the year	-	341,586	47,637	1,255,907	-	1,645,130
Translation difference	-	268,545	(138)	(250,303)	-	18,104
At 31 December 2016	**-**	**1,303,921**	**56,673**	**1,917,342**	**-**	**3,277,936**
NET BOOK VALUE (REVALUATION BASIS)						
At 31 December 2016	**480,369**	**12,555,811**	**230,668**	**21,850,865**	**7,050,434**	**42,168,147**
At 31 December 2015	480,220	13,242,560	278,006	22,965,618	6,690,639	43,657,043
NET BOOK VALUE (COST BASIS)						
At 31 December 2016	**115,132**	**11,462,023**	**113,053**	**8,572,535**	**7,050,434**	**27,313,177**
At 31 December 2015	127,775	11,290,647	124,327	9,462,909	6,533,249	27,538,907

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

The net surplus arising from the revaluation amounted to Sh 15,185,657,000 comprising the following:

	2015 Sh'000
Revaluation cost adjustment	12,124,434
Write back of depreciation	3,061,223
	15,185,657
Recognised as follows:	
Profit or loss charge	(23,419)
Other comprehensive income	15,209,076
	15,185,657

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

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

Freehold land and buildings with a net book value of Sh 3,464,538,000 (2015 – Sh 3,553,373,000) have been charged to secure banking facilities granted to the company as disclosed in note 22.

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

Included above are assets with a total cost of Sh 57,441,000 (2015 – Sh 49,582,000) which were fully depreciated as at 31 December 2016. The normal depreciation charge would have been Sh 12,343,000 (2015 – Sh 10,913,000).

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

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

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

Details of the fair value hierarchy for the group's property plant and equipment carried at fair value as at 31 December 2016 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
31 December 2016				
Freehold land	-	480,369	-	480,369
Buildings on leasehold land	-	12,555,811	-	12,555,811
Heavy commercial vehicles and quarrying equipment	-	230,668	-	230,668
Plant and machinery	-	21,850,865	-	21,850,865
	-	**35,117,713**	**-**	**35,117,713**
31 December 2015				
Freehold land	-	480,220	-	480,220
Buildings on leasehold land	-	13,242,560	-	13,242,560
Heavy commercial vehicles and quarrying equipment	-	278,006	-	278,006
Plant and machinery	-	22,965,618	-	22,965,618
	-	**36,966,404**	**-**	**36,966,404**

13 b) PROPERTY, PLANT AND EQUIPMENT - COMPANY

	Freehold land Sh'000	Buildings on leasehold land Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware, plant, machinery, motor vehicles, furniture and Fittings Sh'000	Capital work in Progress Sh'000	Total Sh'000
Cost or valuation						
At 1 January 2015	301,477	2,936,750	240,148	6,941,049	1,180,596	11,600,020
Additions	1,420	80,525	-	4,592	485,168	571,705
Reclassification	(80,841)	80,841	-	-	-	-
Revaluation adjustment	258,164	341,983	(47,816)	1,559,746	-	2,112,077
At 31 December 2015	480,220	3,440,099	192,332	8,505,387	1,665,764	14,283,802
At 1 January 2016	480,220	3,440,099	192,332	8,505,387	1,665,764	14,283,802
Additions	149	2,254	1,287	2,185	155,948	161,823
At 31 December 2016	**480,369**	**3,442,353**	**193,619**	**8,507,572**	**1,821,712**	**14,445,625**
Depreciation						
At 1 January 2015	-	298,396	103,813	1,456,526	-	1,858,735
Charge for the year	-	73,411	23,661	353,874	-	450,946
Write back of depreciation on revaluation	-	(371,807)	(127,474)	(1,737,074)	-	(2,236,355)
At 31 December 2015	-	-	-	73,326	-	73,326
At 1 January 2016	-	-	-	73,326	-	73,326
Charge for the year	-	86,031	19,265	434,682	-	539,978
NET BOOK VALUE (REVALUATION BASIS)						
At 31 December 2016	**480,369**	**3,356,322**	**174,354**	**7,999,564**	**1,821,712**	**13,832,321**
At 31 December 2015	480,220	3,440,099	192,332	8,432,061	1,665,764	14,210,476
NET BOOK VALUE (COST BASIS)						
At 31 December 2016	**115,132**	**2,208,402**	**99,665**	**4,906,096**	**1,821,712**	**9,151,007**
At 31 December 2015	127,775	2,451,526	109,452	4,732,037	1,665,764	9,086,554

Property, plant and equipment were last revalued on 31 December 2015, by Peter Huth, Registered Valuers and Estate Agents who are independent of the group. Land and buildings were valued on an open market value basis while plant and equipment were valued on a depreciated replacement cost basis. The net surplus arising from the revaluation amounted to Sh 4,348,432,000 comprising the following:

13 b) PROPERTY, PLANT AND EQUIPMENT - COMPANY

	2015
	Sh'000
Revaluation cost adjustment	2,112,077
Write back of depreciation	2,236,355
	4,348,432
Recognised in other comprehensive income	4,348,432

Freehold land and buildings with a net book value of Sh 1,429,231,388 (2015 – Sh 1,465,878,347) have been charged to secure banking facilities granted to the company as disclosed in note 22.

Details of the fair value hierarchy for both group's property plant and equipment carried at fair value as at 31 December 2016 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
31 December 2016				
Freehold land	-	480,369	-	480,369
Buildings on leasehold land	-	174,354	-	174,354
Heavy commercial vehicles and quarrying equipment	-	230,668	-	230,668
Plant and machinery	-	7,999,564	-	7,999,564
	-	**12,010,609**	**-**	**12,010,609**
31 December 2015				
Freehold land	-	480,220	-	480,220
Buildings on leasehold land	-	3,440,099	-	3,440,099
Heavy commercial vehicles and quarrying equipment	-	192,332	-	192,332
Plant and machinery	-	8,432,061	-	8,432,061
	-	**12,544,712**	**-**	**12,544,712**

14 OPERATING LEASE PAYMENTS

	Group Sh'000	Company Sh'000
COST		
At 1 January 2015	151,659	2,707
Translation difference	5,938	-
At 31 December 2015	157,597	2,707
At 1 January 2016	157,597	2,707
Additions	264	-
Translation difference	464	-
At 31 December 2016	158,325	2,707
AMORTISATION		
At 1 January 2015	1,268	1,036
Charge for the year	366	68
At 31 December 2015	1,634	1,104
At 1 January 2016	1,634	1,104
Charge for the year	366	68
At 31 December 2016	2,000	1,172

14 OPERATING LEASE PAYMENTS (Continued Amortisation)

	Group Sh'000	Company Sh'000
NET BOOK VALUE		
At 31 December 2016	**156,325**	**1,535**
At 31 December 2015	155,963	1,603

15 INTANGIBLE ASSETS

	Group Sh'000	Company Sh'000
COST		
At 1 January 2015	254,193	24,528
Additions	28,885	507
Translation difference	(65,835)	-
At 31 December 2015	217,243	25,035
At 1 January 2016	217,243	25,035
Additions	15,382	429
Translation difference	23,978	-
At 31 December 2016	256,603	25,464
AMORTISATION		
At 1 January 2015	26,213	23,657
Charge for the year	466	426
At 31 December 2015	26,679	24,083
At 1 January 2016	26,679	24,083
Charge for the year	236	196
At 31 December 2016	26,919	24,279
NET BOOK VALUE		
At 31 December 2016	**229,684**	**1,185**
At 31 December 2015	190,564	952

16 GOODWILL

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

Goodwill arising from the above transactions is shown below:

	2016 Sh'000	**2015 Sh'000**
Balance at the beginning and end of the year	71,012	71,012
Allocation of goodwill to the acquired subsidiaries		
ARM (Tanzania) Limited	50,908	50,908
Kigali Cement Company Limited	20,104	20,104
	71,012	**71,012**

At the end of the reporting period, the Directors assessed the recoverable amount of goodwill and determined that the goodwill was not impaired. The recoverable amount of each cash generating unit was assessed by reference to value in use, including the value of the land and the rights over mineral deposits.

17 a) INVESTMENT IN SUBSIDIARIES

	2016 Sh'000	2015 Sh'000
ARM (Tanzania) Limited	252,317	252,317
Kigali Cement Company Limited	163,222	163,222
Mafeking Cement (Pty) Limited	75,000	75,000
ARM SA (Pty) Limited	33,014	33,014
Mavuno Fertilizer Limited	7,259	7,259
Maweni Limestone Limited	52	52
	530,864	**530,864**

Details of the subsidiary companies are as follows:

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

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

17 b) NON-CONTROLLING INTEREST

The total non-controlling interest for the period is Sh 5,964,000 (2015: Sh 5,171,000), which is attributable to Mafeking Cement (Pty) Limited, which is not material for the group

	2016 Sh'000	2015 Sh'000
Balance at beginning of the year	5,171	2,490
Share of the income for the year	793	698
Share of other comprehensive income for the year	-	1,983
Balance at end of the year	**5,964**	**5,171**

18 INVENTORIES

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
Raw materials	1,443,371	2,047,206	1,115,946	1,233,522
Finished goods	560,977	372,566	291,597	309,185
Packaging materials	104,388	117,928	61,282	66,617
Stores, spares, laboratory inventories and fuel	1,117,818	1,318,364	1,004,831	925,287
Work in progress	94,749	98,272	1,035	1,035
Goods in transit	107,701	19,618	45,306	-
Provision for obsolescence	(154,641)	(106,605)	(153,819)	(106,605)
	3,274,363	**3,867,349**	**2,366,178**	**2,429,041**

19 TRADE AND OTHER RECEIVABLES

Trade receivables (net)	4,277,370	3,370,489	2,923,550	2,435,866
Other receivables and prepayments	341,997	165,150	239,742	33,729
	4,619,367	**3,535,639**	**3,163,292**	**2,469,595**

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

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

	Group & Company	
	2016 Sh'000	2015 Sh'000
Amount due from ESOP		
At 1 January	58,767	57,471
Dividends	-	(11,648)
Payment of dividends	-	10,904
Sale/transfer of shares	(20,212)	2,040
At 31 December	**38,555**	**58,767**

21 SHARE CAPITAL

Authorised:		
900,000,000 (2015: 675,000,000) ordinary shares of Sh 1 each	900,000	675,000
Issued and fully paid:		
848,940,200 (2015: 495,275,000) fully paid ordinary shares of Sh 1 each	848,940	495,275

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

	No. of Shares '000	Share Capital '000	Share Premium '000	Total '000
At 1 January and 31 December 2015	495,275	495,275	302,027	797,302
At 1 January 2015	495,275	495,275	302,027	797,302
Issue of shares	353,665	353,665	13,792,943	14,146,608
At 31 December 2016	**848,940**	**848,940**	**14,094,970**	**14,943,910**

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

a) to exercise borrowing powers of the Company to borrow money or raise capital or other finance (in any currency) for the purpose of facilitating the expansion of the Company's operations and to create and issue unsecured convertible bonds or notes to any person lending such money or granting such capital or finance and;

SHARE CAPITAL (Continued)

b) in their sole discretion and as they deem fit and at such premium as they may determine (but subject to such regulatory and other authorisations, consents, filings and approvals as required by law), to allot and issue by way of private transaction or offer up to a maximum of 25,000,000 ordinary shares of Kenya shillings Five (Sh 5.00) each in the Capital of the Company, credited as fully paid and ranking pari passu in all respects with the existing ordinary shares of Kenya Shillings Five (Sh 5.00) each by way of redemption and in exchange for such convertible bonds or notes.

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

	2016 Sh'000	2015 Sh'000
22 (a) BORROWINGS – GROUP		
Bank loans	7,423,333	18,533,594
Aureos income note	1,342,554	1,418,173
Corporate bond	918,941	840,214
Bank overdrafts	3,558,680	3,589,276
Total	**13,243,508**	**24,381,257**
The borrowings are repayable as follows:		
On demand or within one year	8,668,723	15,432,330
After 1 year but within 5 years	4,574,785	8,948,927
Total	13,243,508	24,381,257
Less: amount due for settlement within one year	(8,668,723)	(15,432,330)
Amount due for settlement after one year	**4,574,785**	**8,948,927**

Analysis of borrowings by currency

	Borrowings in US$'000	Kshs Equivalent Sh'000	Borrowings in local currency Sh'000	Total borrowings Sh'000
2016				
Bank loans	60,561	6,204,781	1,218,552	7,423,333
Bank overdrafts	12,468	1,277,720	2,280,960	3,558,680
Aureos income note	13,100	1,342,554	-	1,342,554
Corporate bond	-	-	918,941	918,941
At 31 December 2016	**86,129**	**8,825,055**	**4,418,453**	**13,243,508**
2015				
Bank loans	114,881	11,752,356	6,781,238	18,533,594
Bank overdrafts	26,766	2,738,234	851,042	3,589,276
Aureos income note	13,863	1,418,173	-	1,418,173
Corporate bond	-	-	840,214	840,214
At 31 December 2015	**155,510**	**15,908,763**	**8,472,494**	**24,381,257**

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

Analysis of borrowings by currency *(Continued)*

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

	2016 %	2015 %
Bank overdrafts (Sh)	16.50	16.00
Bank overdrafts (US$)	7.50	5.50
Bank loans (Sh)	18.00	18.00
Bank loans (US$)	8.00	7.00
Corporate bonds	17.50	17.00
Equity linked notes (Sh)	-	12.00

(b) BORROWINGS – COMPANY

	2016 Sh'000	2015 Sh'000
Bank loans	6,237,819	15,981,108
Bank overdrafts	1,283,010	2,041,926
Aureos income note	1,342,554	1,418,173
Corporate bond	918,941	840,214
	9,782,324	**20,281,421**

The borrowings are repayable as follows:

	2016	2015
On demand or within one year	4,716,541	13,884,980
After 1 year and within 5 years	5,065,783	6,396,441
Total	9,782,324	20,281,421
Less: amount due for settlement within one year	(4,716,541)	(13,884,980)
Amount due for settlement after one year	**5,065,783**	**6,396,441**

Analysis of borrowings by currency

	Borrowings in US$'000	Kshs Equivalent Sh'000	Borrowings in local currency Sh'000	Total borrowings Sh'000
2016				
Bank loans	49,070	5,027,634	1,210,185	6,237,819
Bank overdrafts	-	-	1,283,010	1,283,010
Aureos income note	13,100	1,342,554	-	1,342,554
Corporate bond	-	-	918,941	918,941
At 31 December 2016	**62,170**	**6,370,188**	**3,412,136**	**9,782,324**
2015				
Bank loans	90,322	9,239,941	6,741,167	15,981,108
Bank overdrafts	14,214	1,454,140	587,786	2,041,926
Aureos income note	13,863	1,418,173	-	1,418,173
Corporate bond	-	-	840,214	840,214
At 31 December 2015	**118,399**	**12,112,254**	**8,169,167**	**20,281,421**

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

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

	2016 %	2015 %
Bank overdrafts (Sh)	14.90	16.00
Bank overdrafts (US$)	7.50	7.50
Bank loans (Sh)	15.00	18.00
Bank loans (US$)	8.00	7.00
Corporate bonds	16.50	17.00
Equity linked notes (Sh)	-	12.00

22 (c) BORROWINGS ANALYSED BY LENDING INSTITUTIONS

	2016 Sh'000	2015 Sh'000
(i) ARM Cement PLC		
Loans		
Stanbic Bank Kenya Limited	1,083,592	3,195,770
African Finance Corporation (AFC) *	4,146,892	5,579,586
GTA Bank Kenya Limited	-	87,872
I&M Bank Kenya Limited	-	464,633
Victoria Commercial Bank	272,779	170,755
Bank overdrafts		
Barclays Bank of Kenya Ltd	128,575	206,299
Stanbic Bank Kenya Limited	1,154,180	816,496
Guaranty Trust Bank Limited	-	225,004
Citibank NA	255	510,668
Bank of Africa Limited		253,460
Other borrowings		
Commercial paper	734,556	6,482,492
Aureos income note	1,342,554	1,418,173
Corporate bond	918,941	870,213
	9,782,324	**20,281,421**
(ii) Maweni Limestone Limited		
Loans		
Eastern and Southern African Trade and Development Bank (PTA Bank)	346,547	819,210
Development Bank of South Africa Limited	803,588	1,379,368
Stanbic Bank Mauritius	749,798	318,837
Bank overdrafts		
Stanbic Bank Limited	1,258,930	1,547,262
	3,158,863	**4,064,677**
(iii) ARM (Rwanda) Limited		
Bank Commercial Du Rwanda Ltd - loan	-	40,159

As at 31 December 2016, the company had outstanding letters of credit amounting to Sh 143,472,000 (2015 – Sh 1,073,687,000).

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

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

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

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

On October 17, 2016, through an amendment and restatement agreement,the convertible subordinated facility was changed to a first ranking sucured term loan with a tenor of Six years.

(d) DETAILS OF SECURITIES

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

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

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

The Aureos income note is unsecured and matures in 2017.

23 DEFERRED TAXATION

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

	Group		Company	
	2016 Sh'000	**2015 Sh'000**	**2016 Sh'000**	**2015 Sh'000**
The net deferred taxation liability is attributable to the following items:				
Liabilities:				
Accelerated capital allowances	2,766,494	2,781,854	1,758,562	1,742,559
Revaluation surplus on property plant and equipment	4,546,632	4,901,491	1,510,935	1,643,298
Unrealised exchange gains	43,785	34,991	14,538	-
	7,356,911	**7,718,336**	**3,284,035**	**3,385,857**

23 DEFERRED TAXATION *(Continued)*

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
Assets:				
Leave pay provision	(3,885)	(2,243)	(3,885)	(2,243)
Unrealised exchange losses	(204,349)	(1,014,532)	(15,985)	(240,631)
Inventory impairment provision	(32,228)	(31,981)	(31,981)	(31,981)
General bad debt provision	(43,270)	(40,417)	(41,466)	(37,866)
Staff bonus provision	(1,494)	-	(1,494)	-
Tax losses	(2,690,187)	(839,921)	(465,682)	-
	(2,975,413)	(1,929,094)	(560,493)	(312,721)
Net deferred tax liability	**4,381,498**	**5,789,242**	**2,723,542**	**3,073,136**
The movement on the deferred taxation account is as follows:				
At 1 January	5,789,242	2,345,394	3,073,136	2,160,476
Income statement credit (note 9(a))				
- current year credit	(1,158,142)	(1,011,461)	(349,594)	(305,173)
- prior year over provision	(21,545)	(20,034)	-	(22,155)
Other comprehensive income	(199,497)	4,498,181	-	1,239,988
Exchange adjustment	(28,560)	(22,838)	-	-
At 31 December	**4,381,498**	**5,789,242**	**2,723,542**	**3,073,136**
Comprising of				
Deferred tax asset	(147,963)	(93,825)	-	-
Deferred tax liability	4,529,461	5,883,067	2,723,542	3,073,136
	4,381,498	**5,789,242**	**2,723,542**	**3,073,136**

As at 31 December 2016, the Group had accumulated tax losses amounting to Sh 8,967,289,000 (2015 –Sh 2,799,737,000) available to be offset against future taxable profit. Under Kenyan legislation, tax losses can only be carried forward to a maximum of ten years. Deferred tax on tax losses had been provided based on management's projections of profits within the 10 years period.

24 TRADE AND OTHER PAYABLES

	Group 2016	Group 2015	Company 2016	Company 2015
Trade payables	3,826,051	4,178,964	1,701,805	2,731,693
Other payables and accruals	1,589,951	530,610	443,858	168,080
Leave pay provision	12,951	7,477	12,951	7,477
	5,428,953	**4,717,051**	**2,158,614**	**2,907,250**

25 NOTES TO THE CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

		2016 Sh'000	2015 Sh'000
a) Reconciliation of loss before taxation to cash generated from operations - GROUP			
Loss before taxation		(3,978,831)	(3,539,156)
Adjustments:			
Depreciation of property, plant and equipment	(note 13(a))	1,645,130	877,043
Amortisation of operating lease prepayments	(note 14)	366	366
Amortisation of intangible assets	(note 15)	236	466
Finance cost recognised in profit before taxation	(note 5)	3,012,286	2,309,992
Finance income recognised in profit before taxation	(note 6)	(6,081)	(4,519)
Net unrealised foreign exchange on borrowings	(note 25(d))	751,776	1,600,116
Loss on revaluation of property, plant and equipment		-	23,419
Working capital changes:			
Decrease in inventories		592,986	168,792
(Increase)/decrease in trade and other receivables		(1,083,728)	210,063
Movement in related party balances		(55,516)	(109,227)
Increase in trade and other payables		711,902	788,099
Decrease/(increase) in due from ESOP		20,212	(1,296)
Cash generated from operations		**1,610,738**	**2,324,158**
b) Reconciliation of (loss)/profit before taxation to cash generated from operations - COMPANY			
(Loss)/profit before taxation		(1,248,368)	86,664
Adjustments:			
Depreciation of property, plant and equipment	(note 13(b))	539,978	450,946
Amortisation of operating lease prepayments	(note 14)	68	68
Amortisation of intangible assets	(note 15)	196	426
Finance cost recognised in profit before taxation	(note 5)	1,593,772	1,121,449
Finance income recognised in profit before taxation	(note 6)	(3,438)	(2,192)
Net unrealised foreign exchange on borrowings	(note 25(d))	704,415	-
Working capital changes:			
Decrease in inventories		62,863	(13,439)
(Increase)/decrease in trade and other receivables		(693,697)	(629,349)
Movement in related party balances		(1,378,796)	(3,905,372)
Increase in trade and other payables		(748,637)	1,586,819
Decrease/(increase) in due from ESOP		20,212	(1,296)
Cash used in operations		**(1,151,432)**	**(1,305,276)**

c) Analysis of additions to property, plant and equipment

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
Additions in the year (note 13(a) and (b))	**226,853**	**2,947,710**	**161,823**	**571,705**

NOTES TO THE CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS *(Continued)*

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
d) Analysis of cash flow by borrowings				
At 1 January	20,791,981	17,729,731	18,239,495	14,745,198
Received during the year	-	10,688,686	-	3,059,365
Repayment during the year	(12,058,836)	(9,658,286)	(10,470,123)	-
Accrued interest	199,907	431,734	25,527	434,932
Unrealised exchange	751,776	1,600,116	704,415	-
At 31 December	**9,684,828**	**20,791,981**	**8,499,314**	**18,239,495**
e) Analysis of cash and cash equivalents				
Cash and bank balances	157,174	206,493	38,370	88,539
Bank overdrafts (note 22(a) and (b))	(3,558,680)	(3,589,276)	(1,283,010)	(2,041,926)
	(3,401,516)	**(3,382,783)**	**(1,244,640)**	**(1,953,387)**

The effective interest rate on the deposits as at 31 December 2016 was 3.5% (2015 – 3.5%).

f) Analysis of cash interest paid				
Interest charged to profit or loss (note 5)	3,012,286	2,309,992	1,593,772	1,121,449
Less: Accrued interest (note 25(d))	(199,907)	(431,734)	(25,527)	(434,932)
	2,812,379	**1,878,258**	**1,568,245**	**686,517**

26 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

(a) Transactions

	2016 Sh'000	2015 Sh'000
Sales:		
ARM (Tanzania) Limited	-	27,068
Maweni Limestone Limited	676,329	-
Kigali Cement Company Limited	-	146,139
	676,329	**173,207**

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

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

26 RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Due from related parties – Group

	2016 Sh'000	2015 Sh'000
Rhino Special Products Limited	91,238	80,155
ARM Rhino Cement Limited	9,213	7,517
ARM Africa Cement (MAU) Limited	8,006	6,309
Royal Ceiling Limited	2,160	2,051
	110,617	**96,032**

(c) Due from related parties – Company

	2016 Sh'000	2015 Sh'000
Maweni Limestone Limited	19,782,095	17,564,683
ARM (Tanzania) Limited	142,793	587,431
Kigali Cement Company Limited	398,432	354,924
Mafeking Cement Company Limited	305,592	229,763
ARMSA (Pty) Limited	53,218	52,859
Rhino Special Products Limited	91,081	79,997
ARM Rhino Cement Limited	9,213	7,517
ARM Africa Cement (MAU) Limited	8,006	6,309
Royal Ceiling Limited	2,160	2,051
	20,792,590	**18,885,534**

(d) Due to related parties – Group

	2016 Sh'000	2015 Sh'000
Due to Directors	43,214	81,872
Rhino Special Products Limited	3,269	3,292
Chiromo Properties Limited	-	2,250
	46,483	**87,414**

(e) Due to related parties – company

	2016 Sh'000	2015 Sh'000
Maweni Limestone Limited	820,913	203,215
Due to Directors	43,214	81,872
ARM (Rwanda) Limited	19,711	39,915
ARM (Tanzania) Limited	-	26,439
Chiromo Properties Limited	-	2,250
ARMSA (Pty) Limited	-	1,888
	883,838	**355,579**

(f) Key management compensation

	2016 Sh'000	2015 Sh'000
Salaries and other benefits	286,030	236,442

(g) Directors' remuneration

	2016 Sh'000	2015 Sh'000
Fees for services as Directors (non-executive)	12,464	8,293
Other emoluments (included in key management compensation)	186,740	209,067
	199,204	**217,360**

27 OPERATING LEASE COMMITMENTS

The company as a lessee:

Rental payments during the year amounted to Sh 18,568,000 (2015 – Sh 12,744,000). At the balance sheet date, the company had contracted for the following future lease payables:

	2016 Sh'000	2015 Sh'000
Within one year	94,325	94,325
In the second to fifth year inclusive	179,975	198,542
	274,300	**292,867**

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

	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
28 CAPITAL COMMITMENTS				
Authorised and contracted for	349,314	1,288,178	349,314	1,288,178
Authorised but not contracted for	1,687,000	920,700	1,065,000	-
29 CONTINGENT LIABILITIES				
Guarantees	19,500	174,948	19,500	174,948

30 FINANCIAL RISK MANAGEMENT

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

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

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

Market risk

(i) Foreign currency exchange risk

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

The Group has a natural hedge of its foreign exchange risk on foreign currency denominated borrowings by matching commitments on dollar borrowings obligations with dollar denominated sales receipts.

At 31 December 2016, if the Kenya Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the pre-tax profit for the year would have been Sh 824,382,000 (2015: Sh 686,985,000) higher/lower, mainly as a result of translation of US dollar payables, loans, receivables and bank balances.

30 FINANCIAL RISK MANAGEMENT *(Continued)*

(ii) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds both at fixed and floating interest rates. The risk is managed by the Group through a close management monitoring control. During the year, an increase/decrease of 5 percentage points on average borrowing rates would have resulted in an increase/decrease in pre-tax profit by Sh 154,894,400 (2015 - Sh 114,744,000).

Credit risk

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

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

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

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

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
At 31 December 2016				
Trade receivables	3,289,134	1,114,455	(126,219)	4,277,370
Due from related parties	110,617	-	-	110,617
Due from ESOP	38,555	-	-	38,555
Bank balances	157,164	-	-	157,164
	3,595,470	**1,114,455**	**(126,219)**	**4,583,706**

The amount that best represents the Group's maximum exposure to credit risk as at 31 December 2015 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
At 31 December 2015				
Trade receivables	3,237,825	265,328	(132,664)	3,370,489
Due from related parties	96,032	-	-	96,032
Due from ESOP	58,767	-	-	58,767
Bank balances	206,493	-	-	206,493
	3,599,117	**265,328**	**(132,664)**	**3,731,781**

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

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

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

Liquidity risk

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

30 FINANCIAL RISK MANAGEMENT *(Continued)*

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	Less than 1 month Sh'000	Between 1 – 3 months Sh'000	Between 3 – 12 months Sh'000	Over 12 months Sh'000	Total Sh'000
At 31 December 2016					
Assets					
Trade receivables	705,086	840,074	2,605,991	126,219	4,277,370
Due from related parties	-	-	-	110,617	110,617
Due from ESOP	-	-	-	38,555	38,555
Bank balances	157,164	-	-	-	157,164
	862,250	**840,074**	**2,605,991**	**275,391**	**4,583,706**
Liabilities					
Borrowings	3,500,613	5,642,601	1,085,880	5,398,246	15,627,340
Trade payables	1,021,691	957,106	861,925	-	2,840,722
Due to related parties	-	-	-	46,483	46,483
	4,522,304	6,599,707	1,947,805	5,444,729	18,514,545
Net liquidity gap	**(3,660,054)**	**(5,759,633)**	**658,186**	**(5,169,338)**	**(13,930,839)**
At 31 December 2015					
Assets					
Trade receivables	633,038	1,880,867	723,920	132,664	3,370,489
Due from related parties	-	-	-	96,032	96,032
Due from ESOP	-	-	-	58,767	58,767
Bank balances	206,493	-	-	-	206,493
	839,531	**1,880,867**	**723,920**	**287,463**	**3,731,781**
Liabilities					
Borrowings	1,548,375	3,096,729	13,935,373	10,189,406	28,769,883
Trade payables	742,906	2,586,506	849,552	-	4,178,964
Due to related parties	-	-	-	87,414	87,414
	2,291,281	**5,683,235**	**14,784,925**	**10,276,820**	**33,036,261**
Net liquidity gap	**(1,451,750)**	**(3,611,898)**	**(14,061,005)**	**(9,989,357)**	**(29,304,480)**

31 CAPITAL RISK MANAGEMENT

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

31 CAPITAL RISK MANAGEMENT *(Continued)*

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

	GROUP		COMPANY	
	2016 Sh'000	**2015 Sh'000**	**2016 Sh'000**	**2015 Sh'000**
Share capital	848,940	495,275	848,940	495,275
Share premium	14,094,970	302,027	14,094,970	302,027
Revaluation surplus	10,308,338	11,082,676	3,171,379	3,480,225
Retained earnings	2,521,988	5,014,111	7,184,913	7,775,872
Translation reserve	14,921	(53,492)	-	-
Equity	**27,789,157**	**16,840,597**	**25,300,202**	**12,053,399**
Total borrowings including finance lease	13,243,508	24,381,257	9,782,324	20,281,421
Less: cash and cash equivalents	(157,164)	(206,493)	(38,370)	(88,539)
Net debt	13,086,344	24,174,764	9,743,954	20,192,882
Total capital	**40,875,501**	**41,015,361**	**35,044,156**	**32,246,281**
Gearing	**32%**	**59%**	**28%**	**63%**

32 EVENTS AFTER THE REPORTING DATE

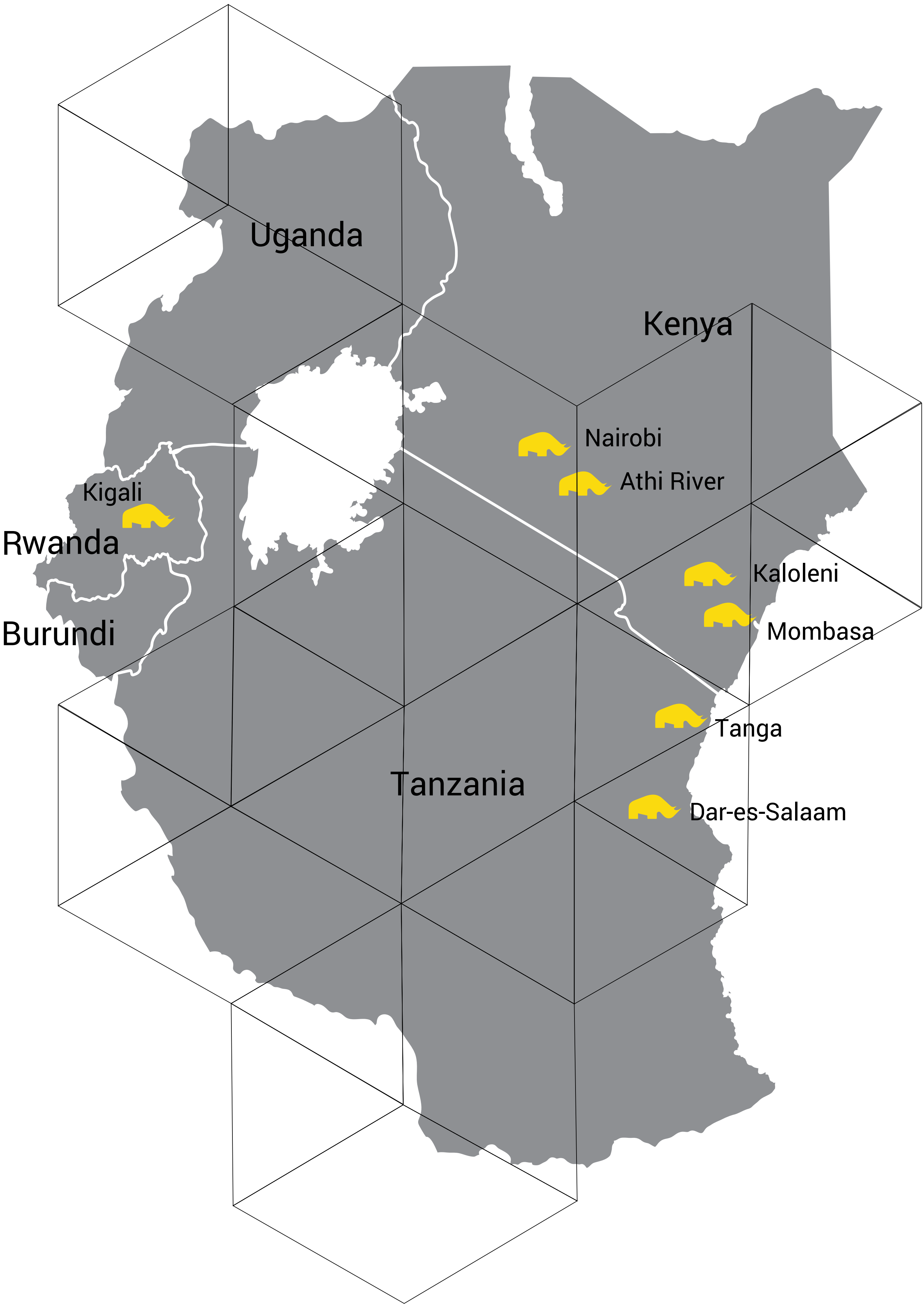
No material events or circumstances have arisen between the reporting date and the date of this report.

33 INCORPORATION

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

34 CURRENCY

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



Uganda
Kenya
Nairobi
Athi River
Kigali
Rwanda
Burundi
Kaloleni
Mombasa
Tanga
Tanzania
Dar-es-Salaam