# BAMBURI CEMENT

## BUILDING A SUSTAINABLE FUTURE

### ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

A member of
LafargeHolcim

Bamburi
cement
Part of you. From the start

2016 ANNUAL REPORT


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# ABOUT US

## The Bamburi Cement Group

**Bamburi Cement Limited (BCL)**
A subsidiary of LafargeHolcim, the world leader in the building materials industry. Two Plants located in Mombasa and Athi River respectively.

**Hima Cement Limited (HCL)**
Uganda based subsidiary with a Plant located in Hima, Kasese .

**Bamburi Special Products Limited (BSP)**
Wholly owned subsidiary of BCL and the largest supplier of Ready Mix Concrete and Precast blocks.

**Lafarge Eco Systems Limited (LES)**
Wholly owned subsidiary of BCL, focusing on sustainability of land use and quarry rehabilitation. Provides market leadership in environmental responsibility as well as a point of engagement for neighbouring communities and other stakeholders.

**LafargeHolcim SA**
So the world builds better.

## Some facts about Bamburi Cement Limited

- One of the largest cement producers in sub-Saharan Africa
- Largest industry at the Kenyan coast
- Owns Haller Park, a world famous rehabilitated quarry
- One of the biggest electricity consumers in Kenya

## Our Vision

**"To delight our customers with innovative construction solutions while being committed to sustainability"**

**COUNTRIES**

2

**EMPLOYEES**

802

**OUR SITES**

**Kenya**
Mombasa Plant
Nairobi Grinding Plant
Bamburi Special Products
Lafarge Eco Systems

**Uganda**
Hima Plant

# OUR VALUES

## Health & Safety is the overarching value of our CRISP values

- **We believe in visible leadership and personal accountability** for Health and Safety at all levels and throughout the organization
- **Living by the Health & Safety rules** is a condition of employment

## We focus on Customers

- **We know who our customers, end-users and influencers are -** listen to understand what's important to them – what drives their business and what they value most
- **We are clear on what creates value** for our customers – innovate, differentiate and deliver on our promises with a creative mindset and curiosity
- **We work cooperatively** with others across the organization to meet the customer's needs

## We deliver Results

- **We are committed to achieving goals with zero harm** to people while focused on rigorous execution of our plans
- **We seek to innovate and to challenge the status quo** to continuously improve and drive lasting value for shareholders
- **We deliver today in a way** that generates strong cash returns and even greater results tomorrow

## We act with Integrity

- **We create an environment** where honesty, trust and accountability flourish and where compliance and doing the right think is a lasting commitment
- **We have the courage to take the right decisions** based on our ethical principles and to uphold them, even when under pressure
- **We apply the Code of conduct,** local laws and ethics in all situations

## We ensure Sustainability

- **We demonstrate leadership in environmental stewardship** and we will role-model responsibility to future generations
- **We proactively engage** with various stakeholders to create shared value with society
- **We drive sustainable solutions** through the entire value chain

## We care for and respect our People, with openness and inclusion

- **We always respect our people** and empower them to reach their full potential
- **We build leadership capability** that inspires and enables teams and individuals to succeed
- **We recognize and reward high performance** and address underperformers in the right way
- **We display a mindset that is local and global –** always seeking to collaborate and share ideas, resources and best practices
- **We actively seek out diversity,** embracing different ideas, experiences and perspectives

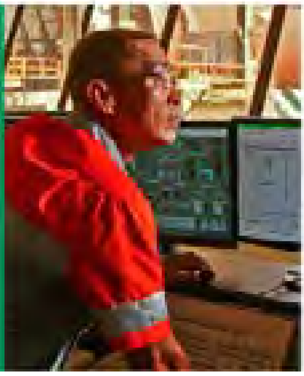
# ABOUT **LAFARGEHOLCIM**

We are local everywhere

We set new health & safety and sustainability standards

We innovate for our customers

We ensure people can bring their best



We are committed to delivering the best return on capital



# OUR BUSINESS MODEL

The Group has undergone a business transformation process through the implementation of the Middle East and Africa (MEA) Business Model, a common business model in the MEA region, with standardised business processes on a single IT platform across all our business segments, of LafargeHolcim.

The project, named Project Safari for Wave 1 countries (Kenya, Uganda and South Africa), was implemented over a one-year period. We went live with the MEA Business Model on 1 January 2017, as planned.

The programme was commissioned by the LafargeHolcim Group Executive Committee and is aimed at ensuring LafargeHolcim maintains speed and agility to perform in a competitive and dynamic market. The MEA Business Model will be deployed under the name project ATLAS in 31 countries of the MEA region by the end of 2019.

In Kenya, specifically, we expect the programme to align our business processes and generate value for us by making us more efficient, professional, disciplined and agile. It will help us improve our competitiveness by bringing us closer to our customers, lowering our operating costs and ultimately contributing to increased profitability.

Our focus in 2017 will be on the promotion of integrated processes and digital solutions to improve efficiencies in servicing our customers by leveraging on our Business Model. This is our commercial transformation journey, which should bring expected results soon.

Having embarked on this exciting journey, we look forward to a digitised 2017.

## Our business is based on four strategic pillars

### Cement

Extract value from market positions in mature markets

Realize growth by addressing customer and end-user needs / pain points

Differentiate through customer excellence, innovation and sustainability

### Aggregates

In mature markets, create value through establishing critical mass in selected attractive markets

In growth markets, create value through establishing critical mass in very large urban centers

On a local needs/ opportunity basis, support differentiation and sustainability to enhance overall value to customers

### Ready-mix concrete

Offer a differentiating value proposition to address customer needs through value-added products, services and solutions

Support/hedge existing or future cement and aggregates businesses under a clear vertical integration framework

### Other construction materials

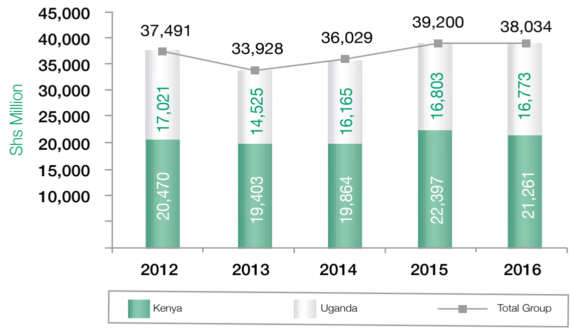
Offer a differentiating value proposition to address customer needs through value-added products, services and solutions

Need to support existing or future cement and aggregates businesses

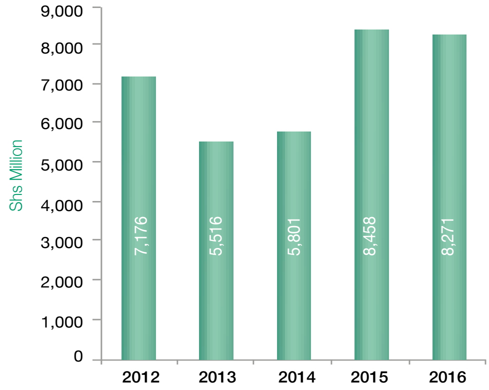
# BUSINESS HIGHLIGHTS

## Key Financial Highlights

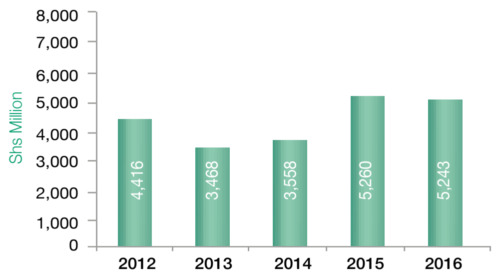
### Group Turnover



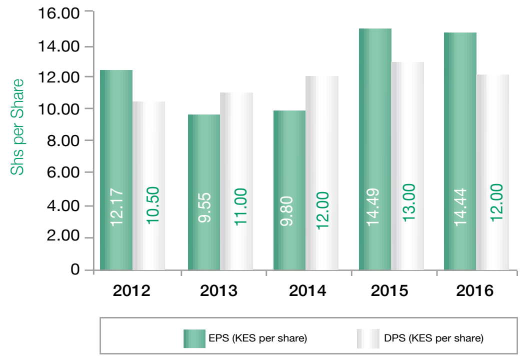

### Group Profit before tax



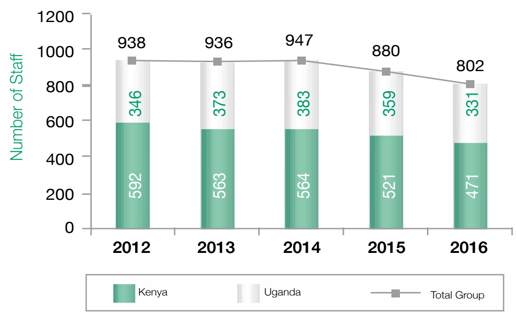

### Group Profit attributable to shareholders



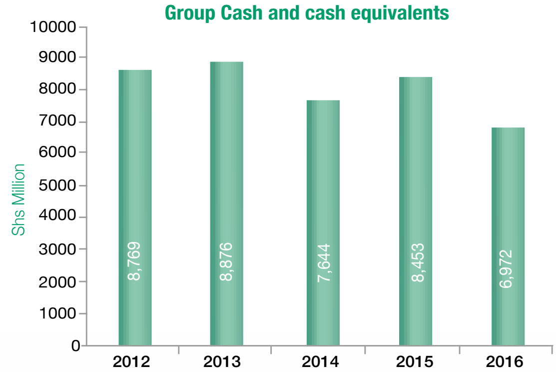

### Group Earnings / Dividend per Share




### Group employees




### Group Cash and cash equivalents



# BUSINESS HIGHLIGHTS

**Key Financial Highlights (continued)**

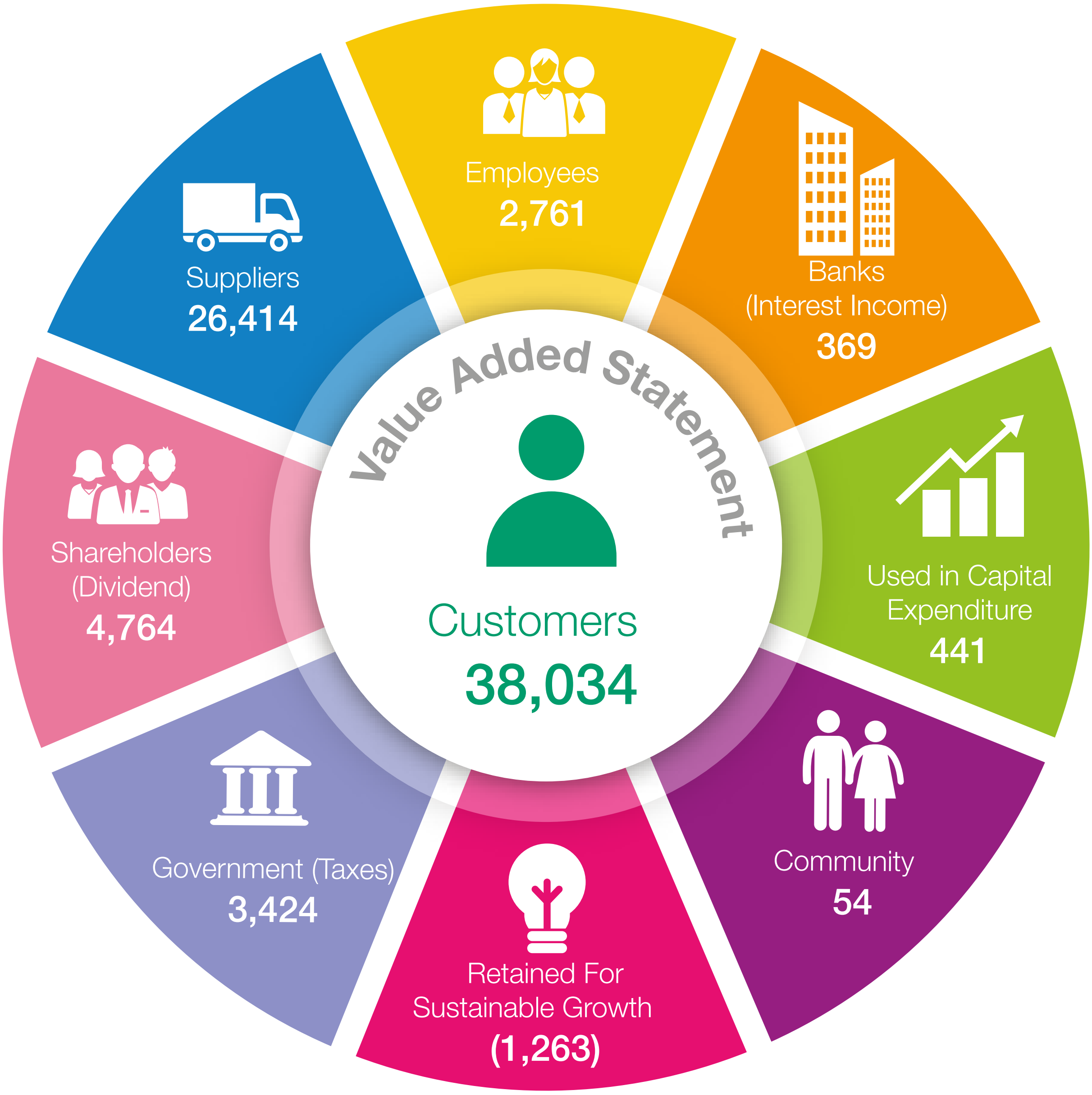
| | 2016 Shs 'M | 2015 Shs 'M |
|---|---|---|
| **GROUP** | | |
| EBITDA** | **9,474** | 8,928 |
| EBITDA MARGIN | **25%** | 23% |
| **KENYA CEMENT** | | |
| EBITDA* | **5,680** | 5,747 |
| EBITDA MARGIN | **24%** | 24% |
| **UGANDA CEMENT** | | |
| EBITDA* | **3,688** | 3,325 |
| EBITDA MARGIN | **22%** | 20% |
| **KENYA READY MIX AND PRECAST PRODUCTS** | | |
| EBITDA* | **108** | (60) |
| EBITDA MARGIN | **6%** | -3% |

* Standalone country cement EBITDAs impacted by inter company sales.

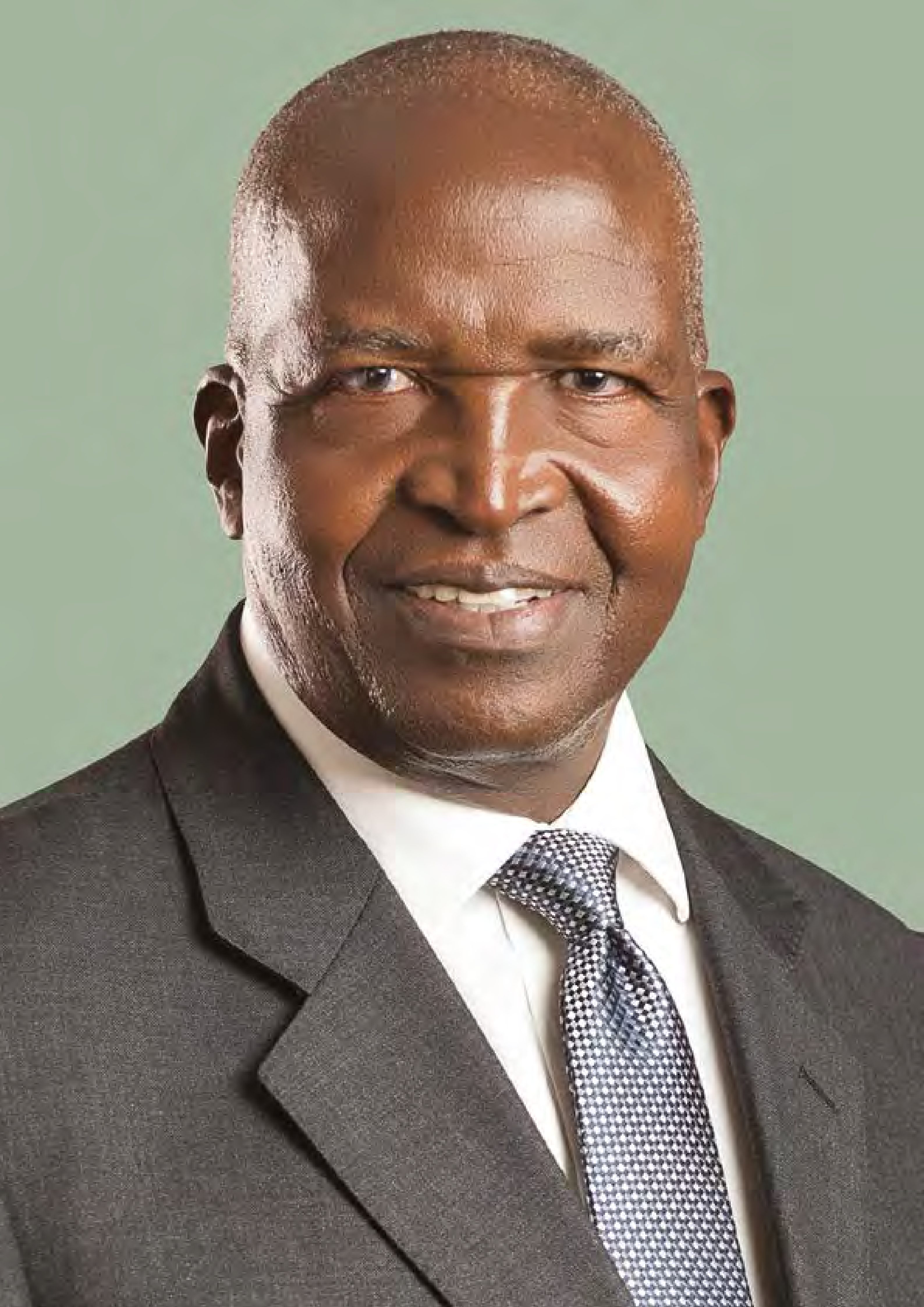
**Lafarge Eco Systems (LES) EBITDAs is not shown.

# Value Added Statement

Our Value Added Statement depicts the value we create and how it is distributed among various stakeholders in line with our goal of creating shared value. The various stakeholders comprise of our employees, customers, shareholders, government, creditors, business partners, society and the business in form of retained earnings. The statement portrays our collective efforts in transforming the six capitals – financial, manufacturing, human; social and relationship, intellectual and, natural capitals – through our business model to generate shared value for our stakeholders. It is limited to financial value and does not portray the non-financial value created by the company for stakeholders.




Shs Million



# Chairman's Statement

## "The Group is well positioned to benefit from the regional growth ambitions in Eastern Africa"

The East African economies covering our key markets of Kenya, Uganda and Rwanda expanded at a healthy rate of 6% in 2016. The growth was mainly supported by low global oil prices, improved agricultural output, rebound in tourism, supportive monetary policy and ongoing infrastructure investments.

In Kenya, interest rates were fairly high in the first nine months of the year but reduced in the fourth quarter following introduction of the interest rate capping law in August setting maximum interest rates at 4% above the Central Bank of Kenya (CBK) policy rate. In Uganda, interest rates reduced after the Bank of Uganda policy rate closed at 12% versus 17% in December 2015, with a corresponding effect on the bank lending rates.

Looking forward, the implementation of the East African Community (EAC) Northern Corridor Integration Projects Initiatives covering Rwanda, Kenya and Uganda, aimed at enhancing integration and the flow of trade between the EAC member states, is expected to result in increased infrastructure expenditure in these countries.

### Cement market & competition

At growth rates of 6%-9% the cement market in East Africa continued to perform above GDP growth rates, driven by increased government expenditure on infrastructural projects in addition to robust Individual Home Builders (IHB) consumption. However, a slowdown in private investment in Kenya was noted in the second half of 2016.

The market remains very competitive with up to 25% and 12% over capacity in installed cement capacity in Kenya and Uganda respectively, though there is a deficit in clinker capacity in both countries. Despite this, we have remained ahead of the market through our efforts of providing differentiated and innovative solutions to customers, bolstering our route to market in both Kenya and Uganda, while exploring for new markets and product solutions.

To maintain our operating margin in this competitive landscape, the Group continued with its prudent cost management measures, enhanced operations efficiency and continuous productivity improvement.

### Investing in our future

In August 2016, the Group announced investment in Phase 1 of a capacity expansion project in both Kenya and Uganda, which will increase cement capacity by 1.7MT at an approximate cost of Shs 8.3 billion. This investment is expected to consolidate our regional growth strategy in Kenya and Uganda while expanding to emerging markets of Southern Sudan, Rwanda, and eastern Democratic Republic of Congo. We are in advance studies for Phase 2 of this expansion that aims to solidify our position as the lowest cost producer in the region.

The Group continues to focus on vertical integration by enhancing the capacity of ready mix and precast businesses across Kenya, Uganda and Rwanda with Ready Mix operations in Rwanda commissioned during the year.

### Financial Performance Review

The financial year under review was characterized by increased competition amplified by excess cement production capacity across the region. Despite this, our revenue stood at Shs 38.0 billion (2015: 39.2 billion)supported by strong brands, efficient logistics, and innovative product offerings across the segments together with a strong sales force drive for market excellence and unparalleled customer service.

Our operating profits increased by 8% to Shs 7.9 billion driven by stable sales revenues, our cost management measures, a tight focus on the energy costs and other input prices, and realisation of Plant efficiency projects both in Kenya and Uganda against the backdrop of a very challenging competitive and operating environment.

Our robust balance sheet and liquidity position provides the support necessary to pursue new investment opportunities that will deliver shareholder growth. In all our business lines, we have put in place strategies that seek both to address existing challenges and to seize opportunities to strengthen our platform for the future.

In 2016, the Group made a cash payment of Shs 4.7 billion to its shareholders as dividends. Further, the Group paid corporation taxes to the respective governments amounting to Shs 3.5 billion in addition to indirect taxes like VAT and duties. Through payment of these taxes coupled with employment creation, the Group is assisting the countries in which we operate to deliver on their development agenda.

### 2017 Outlook

The Eastern African economies are expected to grow though with various uncertainties, key among them being the rising global fuel prices and dry weather conditions in major parts of Kenya and Uganda. While aware of the potential challenges ahead, the Group remains confident that the inherent strength of its business and well balanced brand portfolio, complimented by a well equipped human talent pool, will enhance the Group's resilience to ensure continued delivery of shareholder and stakeholder value.

We are committed to deepening our relationships with our customers and key partners in delivering innovative construction solutions. We will continue to focus relentlessly on cost rationalization, industrial productivity improvements, and in delighting our customers with innovative solutions.

### Appreciation

I wish to thank my colleagues on the Board for their vision and input in the Board deliberations. I would also like to thank all employees for their relentless commitment that continued to yield exemplary results. I commend the Governments of Kenya, Uganda and Rwanda together with our business partners, whose appreciated support was the backbone of the Group's success.

Finally, on behalf of the Board, Management and employees, I wish to pass the Group's sincere gratitude to all the shareholders for their continued confidence in the Group.

**Dr. John Simba, OGW, MBS**
Chairman

# The Group Managing Director's Statement

"The Group continues to deliver strong results cementing its resilience in a competitive environment."

The Group once again cemented its regional market leadership by posting impressive financial results across the different business segments. This is a clear demonstration of our resolve in providing unparalleled construction solutions towards supporting the greater East African Region to Build Better through sustainable infrastructure, better housing and better cities.

### Health and safety

The Group continues to focus on its zero harm policy. In 2016, we continued to improve on our global safety performance and indicators. However, we unfortunately recorded two LTIs (Lost Time Injuries) in Kenya at the Mombasa Plant and one at the Nairobi Grinding Plant. In addition, we had one medical injury at the Mombasa Plant.

In Kenya, we implemented the Reward and Sanction policy across all the sites supported by the Health and Safety passport. By the end of the year, we had a total of 30 employees and contractors rewarded in the various months for their outstanding contribution in Health and Safety. We also rolled out Health and Safety Leadership training for Managers in the year and enhanced our Health and Safety performance through cross functional plant and site audits. The road safety performance was boosted by journey management and trucks inspections while driver behavior improved with monitoring through road patrols, global position systems (GPS) and a newly introduced driver's league matrix.

In Health, we ran a number of initiatives at the Kenya plants and sites to improve employees' wellbeing. Many projects were implemented to reduce fugitive dust emissions, reduce noise in the plant and improve ergonomics at the plants and office settings.

In Uganda, we established an online training center on Health, Safety and Environment (HSE) for staff and contractors. The facility enables users to achieve at least twelve hours of online HSE training on diverse topics including noise at work, waste management, work at height, lifting operations among others. We hosted several activities with our key stakeholders aimed at increasing awareness on major health and safety topics including hosting an event on the global health and safety day. Innovatively, we hosted a health and safety event for our closest stakeholders, our employee's spouses and dependants with the aim of raising awareness and strengthening employee engagement

### Capacity enhancement

We have commenced work on our Phase 1 capacity increment project, the contractor is on site, and excavation work is in progress in both Kenya and Uganda. We look forward to a timely completion of the project by the middle of 2018. The commencement of this Phase focusing on increasing cement production capacity signals our confidence in the region and underscores our belief in the projected and continued growth of all the East African economies, underpinned by a robust construction industry with an expected rise in the demand for cement and cement related products.

We are performing detailed studies to enable us embark very quickly, on Phase 2 of the capacity expansion, that would allow us to increase our clinker capacity and maintain our cost leadership position in the region.

### Operational and financial performance

The Group demonstrated strong resilience in a very competitive and challenging operating environment, bolstered by our unique and innovative construction solutions offering to the market, geared by our highly talented workforce. In 2016, we achieved a turnover of Shs 38.0 billion (2015: Shs 39.2 billion).

The Group continues to delight customers by providing effective construction solutions in the most efficient manner through a dedicated and effective sales force, supported by an optimal production process and improved logistics solutions. In 2016, as part of our Commercial Transformation Strategy, we embarked on a Route to Market initiative. This will allow the Group to have better control of the distribution of our products and ensure that these products are available where they are required by our customers. We shall continue to embark on the implementation of this initiative and shall build on collaborations between our marketing, sales, plant and logistics teams to continue delighting our customers.

Operating profit for the year increased by 8%, to Shs 7.9 billion, driven by public sector investment, a steady growth in the infrastructure and contractor segment, lower cost base due to better plant and logistics efficiencies, in addition to a favorable external cost environment. The Group continues to benefit from a dedicated and talented workforce and to leverage support from the Group's parent company, LafargeHolcim, in optimizing the production process in terms of output, cost and quality of end products and solutions.

The Group's profit before tax declined by 2% to Shs 8.3 billion mainly as a result of lower exchange gains on foreign currency denominated cash.

I am delighted to note that while we have steadily increased our dividend payments to our shareholders to Shs 4.7 billion, we also increased our direct corporation tax payments to the governments of the countries we operate, from Shs 2.5 billion to Shs 3.5 billion.

# The Group Managing Director Statement (continued)

This is in addition to the increase in other indirect tax payments like Value Added Tax and Customs Duties that increased proportionally. This is testament to our contribution to the tax revenue growth of the countries we operate in, as we continue to create and capture value in the region.

Our cash resources declined to Shs 7.0 billion due to the increased dividends and tax payments. At the same time, we paid out cash for the capacity increase project mobilization, while we invested in working capital at the year end, to prepare ourselves for an anticipated market growth in the first half of 2017.

### Outlook for 2017

In 2017, we expect a continuation of the 6% to 9% economic growth in our markets, that is Kenya, Uganda and Rwanda and in our export markets of Eastern Democratic Republic of Congo (DRC). This will in turn drive the growth in cement and cement related products.

The Group takes cognizance of increased competitive environment in this region and continues to develop and implement suitable strategies to drive the Group's growth and profitability. The Group strategy in this environment is anchored on four strategic pillars of Commercial Excellence, Cost Leadership, Value Creating Capital Expenditure and Sustainability, driven by agility in everything we do, collaboration through working better as teams and empowerment of our talented people.

The Group will anchor on its Commercial Transformation strategy, to focus on maintaining a superior offering to the market through innovation secured by stellar customer service and a highly skilled, trained and effective sales work force. The Group shall continue to rollout the Route to Market initiative across the region, to ensure that customers from all locations of the region have access to our high quality construction solutions, at the optimal cost of delivery. Further, the Group will increase its efficiency through rational cost containment to maintain and improve its cost leadership position in the region, though the active support of the Group's Technical Partners, LafargeHolcim.

The Group will continue to invest in value driven capital expenditure, aimed at increasing productivity. The delivery of construction solutions to our customers will be done in a sustainable manner as the Group continues to enforce its Sustainability strategy to ensure a better tomorrow for all stakeholders. As we achieve all these, the Group will continue to aggressively implement its overarching value of Health and Safety to ensure that it is soundly embedded in all our operations, be it at our Plants, all our sites, on the road and in the market place.

All the above will not be achieved without our people. The Group shall continue to attract and retain the best people, develop and train them, and give them the best opportunities to excel for both themselves and the wider Group.

### In Conclusion

The Group appreciates all its stakeholders, its loyal customers, service providers, regional governments and staff for their invaluable support and contribution in the year. The Group will continue to rely on this support as it continues to delight customers with construction solutions and towards helping the East African Region Build Better, while creating Sustainable value for all Stakeholders.

**Bruno Pescheux**
Managing Director

# What We Do

### Cement

| | |
|---|---|
| **POWERMAX** | a 42.5 grade blended cement that offers superior strength for use in building, civil and structural works. |
| **POWERCRETE** | a 52.5 grade cement made in conformance to Chinese standards to meet the requirements for the Standard Gauge Railway project. |
| **NGUVU** | a 32.5 grade cement used for general building and structural works. |
| **SUPASET** | a 32.5 grade cement used for general building. |
| **MULTIPURPOSE** | a 32.5 grade cement used for general building and structural works. |
| **POWERPLUS** | a 42.5 grade pure cement used for high strength concrete. |
| **ROADCEM** | In 2015, BCL introduced a Hydraulic Road Binder for soil stabilization in road construction works. |

### Concrete products

**Concrete** - pre mixed concrete delivered to customer site as a ready to use construction product.

**Paving blocks** - high quality pre-cast concrete paving blocks that offer paving solutions under the brand name "BamburiBlox"

**Pre-cast mould range** - pre-cast mould products that include drainage and edge restraints as well as fencing and walling

### Lafarge Eco Systems

**Haller Park** is a nature reserve that was transformed from a quarry wasteland into an ecological paradise, incorporating a variety of plant and animal species. The park serves as a recreation hot-spot for tourists and locals.

Butterfly Pavilion and the Butterfly Breeding House promote the recovery of displaced butterfly species that have lost their habitats due to forest destruction.

**Bamburi Forest Trails** are four nature routes for cycling, jogging, walking and fitness regimes. They allow visitors to experience alternating landscapes, from empty quarries, to lush forest, lakes, streams, palm groves and plantations of indigenous trees.

Sunset Terrace is a restaurant that allows visitors to relax, have a meal and admire the palm garden and the Great Lake.

# THE BOARD OF DIRECTORS

# Board of Directors

## NON-EXECUTIVE DIRECTORS

### DR. JOHN SIMBA, 72, MBS, OGW LLB, LLD (Hon.)

John Simba is an Advocate of the High Court of Kenya and Senior Partner at Simba and Simba Advocates. He has previously worked with the Attorney General's Chambers, Industrial and Commercial Development Corporation and National Bank of Kenya.

In addition, he has served as Chairman, Federation of Kenya Employers, Kenya Bankers' Association, Retirement Benefits Authority and as President of the Rotary Club of Nairobi. Currently, he is Chairman of Sanlam Kenya Plc, Choice Tea Brokers Limited, Funguo Investments Limited and the Kenya Hospital Association while serving as a director in several others. He is Chancellor of Pwani University.

John is a member of the Law Society of Kenya, East African Law Society, International Bar Association and the Institute of Directors, Kenya.

He is also Chairman of the Board of Directors, Chairman of the Nomination and Corporate Governance Committee and member of the Hima Cement Limited Board of Directors.

### CHRIS C KISIRE, 50, BComm, MBA, CPA (K), CPS (K)

Chris Kisire is a consultant with CJ Consultants Limited and HR Powerhouse Limited.

He has business experience spanning more than twenty four years in Finance, Administration and Business Management, both locally and internationally, in various industries (Courier, Logistics, Media, Oil, Private Equity Investment, Finance, Manufacturing and Horticulture). He is an alumnus of the University of Nairobi (both under- and post-graduate degrees), Strathmore Business School/IESE, AMP 2010 and a member of ICPAK and ICPSK.

Chris is the Chairperson of the Audit Committee.

### AMB. SOLOMON W KARANJA, 80, BA, MA

Amb. Karanja has worked as a Deputy to the University of East Africa Registrar and was the first Kenyan Registrar of the University of Nairobi. He subsequently held the position of Executive Chairman of the East Africa Portland Cement Company for 12 years until he was appointed Executive Chairman of National Bank of Kenya in 1987. He has served as Chairman of the Kenya Golf Union, Muthaiga Golf Club and Fidelity Shield Insurance Company. Amb. Karanja has also been appointed by the Government to serve on several commissions.

He retired as a Director of Muthaiga Country Club and the Kenyan Ambassador and Permanent Representative to UN Habitat after serving two three-year terms.

Amb. Karanja has been the Chairman of the Kenya Medical Supplies Agencies for the last six years.

He is a member of the Nomination and Corporate Governance Committee and the Audit Committee.

### JOSEPH MUNA KIMOTE, 45, MBA, BA Economics

Joseph Kimote is the General Manager, Strategy Research and Development, National Social Security Fund (NSSF), a position he had held since 2010. Before that, he held several positions including Director - Institutional Planning and Development, United States International University; Project Manager - USAID/EPC Trade Development Programme, and Export Promotion Council, amongst others.

Joseph is a member of the Institute of Directors of Kenya, Kenya Institute of Management and Institute of Human Resource Management.

Joseph was appointed to the Board on 2 June 2016.

# Board of Directors

### DOMINIQUE DROUET, 63, BA Maths, MCivEng

Dominique Drouet joined the Holcim Group in 1994 as CEO, Holcim Outre-Mer after having worked in several other companies for 16 years. Thereafter, he held similar positions in Lebanon and Morocco. At the end of 2014, Dominique was appointed Holcim Area Manager in charge of Africa Middle East.

In 2015, Dominique was appointed LafargeHolcim Area Manager, East Africa and Indian Ocean, a position he held until March 2016 when he was appointed to work on the LafargeHolcim's Executive Committee's special projects.

### JOSĚ CANTILLANA, 47, MBA, BSc

José was the CEO and Chairman of Cementos Cienfuegos before he joined Holcim Trading in 2004 as CEO. José's subsequent positions within the Holcim Group were CEO - Holcim Argentina, Senior Manager - LH Merger Integration and Area Manager - Latin America. He was appointed Area Manager, South East Africa and Indian Ocean in March 2016 and was appointed to the Board on 2 June 2016.

He is a member of the Nomination and Corporate Governance Committee.

## EXECUTIVE DIRECTORS

### BRUNO PESCHEUX, 61, BSc

Bruno Pescheux, a graduate engineer from Ecole Centrale de Paris, began his career at Lafarge in July 1990 as a plant production manager in France. He held various positions in France until August 2001 when he was promoted to Managing Director, Lafarge Asia Technical Center, Cement Division. In 2009, Bruno was appointed Chief Executive Officer, Lafarge Cement, Syria, a position he held until he was appointed Managing Director of the Group in July 2014.

He is a member of the Nomination and Corporate Governance Committee and the Hima Cement Limited Board of Directors.

### ERIC KIRONDE, 50, BSc, FCCA, CPA(U), CPA(K), ACMT

Prior to joining the Group, Eric Kironde worked at Nile Breweries Limited (Uganda) as an Internal Audit Manager and PricewaterhouseCoopers, where his last position was Audit Manager.

Eric joined the Group in August 2001 as Finance Manager, Hima Cement Limited, and has since held various Finance positions within the Bamburi Group and Lafarge, including a 20-month secondment to Ashaka Cement Company in Nigeria. He was Director of Internal Control for Lafarge Sub Sahara Africa, based in Nairobi before being appointed Finance Director in November 2011.

He is a member of the Hima Cement Limited Board of Directors.

### DANIEL PETTERSSON, 42, MSc, MBA

Daniel Pettersson joined Lafarge in 2006 as Strategy and Development Manager for Africa and the Middle East, based at the Head Office. Thereafter, he moved to the Democratic Republic of Congo as Business Development Director, a position he held until he was appointed General Manager, Ash Resources, Lafarge South Africa in 2010.

Daniel is the Managing Director of Hima Cement Limited.

## ALTERNATE DIRECTOR

### THIBAULT DORNON, 37, BA and MPhil History, MA Public Admin and Political Science

Before joining Lafarge, Thibault Dornon was a senior civil servant and held several positions in the French National Court of Accounts, including a secondment at the National Audit Office - London.

He joined Lafarge in April 2014 as Deputy Director for Public Affairs and, after the merger, was appointed Executive Assistant to Area Manager - South East Africa and Indian Ocean.

Thibault was appointed as an alternate to Dominique Drouet in August 2016.

## SECRETARY

### BETTY KANYAGIA, 42, LLB, CPS (K), MCIArB

Betty Kanyagia practised with a law firm in Nairobi before joining PricewaterhouseCoopers, Tax and Legal Services Department as a Consultant. She joined Bamburi Cement Limited in 2003 as the Compensation and Benefits Manager, a position she held until she took over as Company Secretary in June 2007.

Betty is a Commissioner for Oaths and Notary Public. She is a member of the Law Society of Kenya, the Chartered Institute of Arbitrators, the Institute of Certified Public Secretaries of Kenya and the Commonwealth Lawyers Association.

# Executive Committee Members

**BRUNO PESCHEUX**
GROUP MANAGING DIRECTOR

**ERIC KIRONDE**
FINANCE DIRECTOR

**GEOFFREY NDUGWA**
COMMERCIAL DIRECTOR

**BENSON WANGALWA**
HUMAN RESOURCE AND ORGANIZATION DIRECTOR

**ROBERT NYANGAYA**
GENERAL MANAGER - BAMBURI SPECIAL PRODUCTS

**SUSAN MAINGI**
CORPORATE AFFAIRS, COMMUNICATION & SUSTAINABLE DEVELOPMENT DIRECTOR

**MOHAMED KHARRAKI**
MOMBASA PLANT MANAGER

# Corporate Governance Statement

### Introduction

In 2016, two fundamental legislations with significant impact on how companies operate came into effect. The Companies Act (No 17 of 2015), which was gazetted in November 2015 with some provisions being effective immediately while the rest came into effect in 2016. The Capital Markets Authority (CMA) Code of Governance for Issuers of Public Securities was gazetted in March 2016.

As a result of the position taken by the Board of Directors of Bamburi Cement Limited to apply international corporate governance standards, the Board finds itself in a unique position as it is already in compliance with a significant portion of the provisions of these legislations. This situation lends credence to the Board's commitment to the highest standards of corporate governance, which it believes will promote shareholder investment while building confidence in the Group management.

This statement provides necessary information to enable investors to evaluate the application of the Group's governance and ethical obligations together with whether the Group has complied with the obligations and therefore satisfied its obligations thereunder

### Board

#### Mandate

The Board of Directors is entrusted by the Shareholders to act in their best interests and those of other stakeholders by ensuring the success of the Company.

The operations of the Board are governed by the law, the Company's articles of association and the Board Charter. To ensure the Board's operations are in line with global practices, the Board Charter is reviewed regularly and amended, if need be.

While the Board can delegate some of its responsibilities to its committees, the Schedule of Matters Reserved for the Board provides those matter the Board must handle itself.

#### Membership and Size

The diversity of the Board in respect of experience, skills, nationality and service period remains a key benefit. The Board has five nationalities represented with skills ranging from engineering, accounting, economics and law. The members have served for various periods allowing the Board to draw on the experience and institutional knowledge of long serving members while injecting fresh ideas from the recent appointees.

Currently, the Board comprises of nine members and one alternate director. During the year 2016, the Board lost its two female directors through resignation. Catherine Langreney resigned in March after change in her role that saw her relocate from Tanzania to Switzerland. Sheila M'Mbijjewe, who had been appointed Deputy Governor, Central Bank of Kenya (CBK) in 2015, resigned due to exigencies of her CBK role.

On the other hand, two new members joined the Board in June. Joseph Kimote and José Cantillana, both shareholder nominees, were appointed as non-executive directors. In August, Thibault Dornon was appointed alternate to Dominique Drouet.

There are three independent non-executive directors, three non-executive directors and three executive directors.

The Board confirms its satisfaction with the commitment each director together with the effectiveness of the Board and its Committees for the year under review.

#### Operations

The Chairman is responsible for the Board's operations. Together with the Managing Director and the Secretary, the Chairman sets the agenda for the Board while ensuring that the operations are in accordance with applicable statutory provisions and the Board Charter.

In November of each year, while reviewing the budget for the following year, the Board also sets up its work plan and agrees on the dates of the standard meetings. This allows the members to have the dates early enough to ensure actual attendance and participation.

The Board has four set meetings, each to review a specific quarter in each year. During these meetings, member of Management and experts such as external auditors can be invited into the meetings. Outside of these set meetings, the Board may meet either upon request by a director or if the need arises. The Board meetings are held at different company sites, which allow members a better understanding of site specific issues and interaction with the site employees.

Directors are expected to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company to perform their duties. They are expected to be sufficiently prepared for the meetings as the board papers are sent at least fourteen days in advance. If a Director is unable to attend a meeting, they are required to notify the Chairman in advance.

The Chairman and Group Managing Director have regular meetings, at least once a month, where the Group Managing Director updates the Chairman on any matters that require the Chairman's attention. Further, the Chairman and the Group Managing Director, either jointly or separately, hold meetings with the individual board members, thereby ensuring the directors are up to date with the happenings within the Group and giving the Directors' opportunity to raise any issues or concerns in between the meetings.

To ensure ample focus for technical and operational matters, the Board delegates some matters to its committees. Each committee must operate within its specific Charter and report to the Board on its operations.

# Corporate Governance Statement (continued)

| Director | Category | Board Meeting | Audit Committee | N&CG Committee | AGM |
|---|---|---|---|---|---|
| J Simba | Non-executive | 5/5 | - | 2/2 | 1/1 |
| C Kisire | Non-executive | 5/5 | 4/4 | - | 1/1 |
| S M'Mbijjewe | Non-executive | 2/5 | 1/4 | - | 0/1 |
| S Karanja | Non-executive | 5/5 | 4/4 | 2/2 | 1/1 |
| D Pettersson | Executive | 4/5 | - | - | 1/1 |
| D Drouet[1] | Non-executive | 1/5 | - | - | 0/1 |
| B Pescheux | Executive | 5/5 | - | 2/2 | 1/1 |
| E Kironde | Executive | 5/5 | - | - | 1/1 |
| C Langreney | Non-executive | 1/1 | - | - | - |
| J Kimote | Non-executive | 2/2 | - | - | - |
| J Cantillana | Non-executive | 0/2 | - | - | - |
| T Dornon[2] | Alternate | 2/2 | - | - | - |

NOTE: numbers are attendance/number of meetings entitled to attend

[1] *Represented by alternate*

[2] *Alternate to D Drouet*

### Directors' Compensation

The Shareholders at the 2015 Annual General Meeting gave the Board mandate to review the Board compensation. The review was implemented beginning 2015 and finalised in 2016. The Board is now confident that the remuneration is at the right level.

The executive Directors and the LafargeHolcim nominees do not receive any additional compensation for their service on the Board.

### Separation of Roles

The roles of the Chairman and the Chief Executive are separately held and the division of their responsibilities is clearly established and agreed by the Board to ensure that no one has unfettered powers of decision.

Dr Simba is responsible for leading the Board to ensure effectiveness in all aspects of its role through setting the board meeting agenda; ensuring members receive accurate, timely and clear communication while encouraging constructive relations between the Board and Management. The Chairman is also responsible for ensuring effective communication with stakeholders including shareholders, promoting high levels of corporate governance and serving as a resource to Management in matters of strategic importance to the Company.

Bruno Pescheux is responsible for managing the day-to-day operations of the Company including leadership of the Group, execution of the strategy approved by the Board and policy formulation to ensure delivery of strategy. He is accountable for Company performance and reports directly to the Board.

## Training & Evaluation

### Induction and Training

The Company Secretary is responsible for the induction program for new directors. In 2016, Joseph Kimote undertook a full induction tailored specific for him, which saw him visit all the Group sites in Kenya and Uganda. The feedback from Mr Kimote has validated the investment in both time and costs as he believes the induction was invaluable, giving him a better understanding of and therefore the ability to contribute to the issues discussed at the Board meeting.

As part of the continuous development, the Board received a two session training on the Companies Act, 2015 (Act No 17 of 2015). Further, the Group Managing Director, the Finance Director and the Company Secretary attended training on the CMA Code of Corporate Governance for Issuers of Public Securities.

### Information

Upon appointment, Directors are provided with a reference manual containing all information on legal obligations the Directors should be aware of. The manual also contains items such as the Board Charter, Articles of Association, Code of Business Conduct Policy and corporate governance rules.

All directors are supplied with complete and timely information to enable them discharge their responsibilities. To enable the members prepare adequately for meetings, board papers are circulated at least fourteen days before the meeting and any further updates at least seven days before the meeting while committee papers are distributed at least seven days before the committee meeting. The Directors have unfettered access to any other information they may require, Management and the Company Secretary, who assists them in discharge of their duties.

The Board can also seek independent professional advice at the expense of the Group.

### Performance Evaluation

During the year, the Board carried out its performance evaluation, which encompassed an evaluation of the Board in general, the Board committees and the individual Directors. The evaluation also reviewed the independence of the independent Directors.

The results in respect of the Board and committee performance were reviewed by the Board while the Chairman discussed the individual member results with the specific Director.

The Board is satisfied that all independent non-executive directors met the criteria for independence.

## Board Committees

### Audit Committee

The Audit Committee members are all independent and non-executive directors.

The Committee invites the Group Managing Director, Managing Director - Hima, Group Finance Director and the Head of Internal Audit to attend its meetings in full. Other members of the Board can also attend the meetings while members of Management are invited to present any reports required for the Committee to discharge its duties. The Committee has a technical advisor to assist the Committee in relation to operational risks.

During the year, the Committee held five meetings. To fulfil its terms of reference, the Committee reviewed the Group's interim and annual reports, the Management Letter arising from the external audit, litigation and contingent liabilities, Kenya and Uganda Revenue Authorities claims, plant operation risks, internal audit work plan and the reports generated therefrom.

The Audit Committee is satisfied that the external auditors were effective, independent and objective and have the requisite expertise and resources to carry out their mandate.

The Committee is also satisfied that the internal audit department is adequately sourced, has requisite support from Management and was effective during the year under review.

### Nomination & Corporate Governance Committee (NCGC)

The NCGC is responsible for nomination of appointments/re-appointments to the Board and its committees. With the various changes on the Board, the Committee has had a busy year, with the recruitment activities carried over into 2017. The Committee reviewed the qualifications of the proposed shareholder representatives and made recommendations as appropriate.

The Committee is also responsible for ensuring that Management maintains a system of control that provides assurance of compliance with corporate governance rules and regulations. Under this responsibility, the NCGC reviews conflict of interest declarations made by the Directors, who are required to avoid situations where they have or can have a direct or indirect interest that conflicts with the interests of the Group. Where avoidance is not possible, Directors are required to declare the possible conflict of interest, which declaration is reviewed and assessed by the Committee. For the year under review, no potential conflicts were brought before the Committee for review and the Committee concluded that there was no actual conflict. The Committee reviewed the procedure for annual declarations relating to conflicts of interest.

### Executive Committee

The day to day business and operations of the Group are delegated to the Executive Committee. Its members are appointed by the Group Managing Director and the Committee consists of individuals responsible for key components of the business.

The Executive Committee (ExCo) meets at least every month or more frequently if necessary and the agenda focuses specifically on delivery of performance objectives.

## Company Secretary

The Secretary acts as secretary to the Board and all the committees of the Board and acts as the focal point for communication. The Secretary attends all board and committee meetings and ensures that board/committee charters are complied with.

The Secretary is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Companies Act and the CMA Code of Governance for Issuers of Public Securities together with other applicable laws, rules and regulations.

The Secretary supports the Chair in planning the agendas, Board performance management, training and induction.

## Control Environment Management

### Risk Management and Internal Controls

Accepting that risk is an inherent part of business, the Board is dedicated to the identification of key risks and providing reasonable assurance to the shareholders that the risks are fully understood and managed.

The Board is, through the assistance of the Audit Committee, responsible for maintaining and reviewing effective risk management and internal control systems and for determining the nature and extent of the significant risks the Group is able and willing to take to achieve its business objectives. The Board, through the Audit Committee and ExCo, ensures constant review of the internal controls to ensure alignment with the ever changing business environment.

# Corporate Governance Statement (continued)

Management is responsible for identifying risk and risk controls, mapping the risks to company strategy, developing sufficient risk identification programs and identifying the appropriate manner in which to manage risk.

For the year under review, the Board has conducted a review of the risk management policies and internal control of significant risks and material systems. The Board has received confirmation that Management has taken or is taking the necessary actions to remedy any failings or weaknesses identified.

It is the opinion of the Board that the system of risk management and internal controls in place, which should provide reasonable but not absolute assurance, was adequate and effective.

### Code of Business Conduct

The Group, through its Code of Business Conduct, emphasizes its commitment to ethics and compliance with laws, sets forth basic standards of behaviour for its employees when dealing with clients, suppliers, competitors and the general public, provides reporting mechanisms for known or suspected breaches while also ensuring prevention and detection of wrong doing.

In 2016, an Anti-Bribery and Corruption policy was rolled out and training to all employees carried out.

## Communication

The Board's communication strategy aims to provide shareholders with the highest standards of disclosure and financial transparency. The Board announces its achievements and prospects to shareholders by way of interim and full year results. Significant matters are disseminated to the market through announcements to the regulators, publication in the newspapers and posting on the Group's website.

Day to day shareholder relations is the responsibility of the Group Managing Director, the Company Secretary and the Finance Director. However, the Chairman is also available for consultation by shareholders.

### Annual General Meeting

The Group holds an Annual General Meeting (AGM) of the Company each year and notice of the meeting is provided at least a month in advance. The meetings continue to be held in Mombasa in recognition of the home base of the Group.

The AGM held on 2 June 2016, which was attended by the highest number of shareholders, the external auditors and over 80% of the directors, provided a forum for shareholders to meet the Group Managing Director and held discussions on the Group's performance and strategy.

### Investors

The Group values the opinions of private investors and continued to engage them throughout the year. The Group Managing Director, Finance Director and Corporate Affairs,Communication & Sustainable Development Director met with and received feedback from analysts and institutional shareholders.

### Financial Results

The Group announces its financial results every six months. The half year and full year results are released within forty five days of the end of the period through publication in two daily newspapers and posting on the website. The shareholders also get a copy of the annual report, which contains the full year results.

# Shareholder Profile

### Top 10 Shareholders as at 31 December 2016

| Rank | Name of Shareholder | Shares | %age |
|---|---|---|---|
| 1 | Fincem Holding Ltd | 106,360,798 | 29.30% |
| 2 | Kencem Holding Limited | 106,360,797 | 29.30% |
| 3 | Standard Chartered Nominees RES A/C KE11396 | 56,906,640 | 15.68% |
| 4 | Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel | 5,327,190 | 1.47% |
| 5 | Standard Chartered Kenya Nominees Ltd A/C KE002382 | 4,158,000 | 1.15% |
| 6 | Paramount Company Ltd | 4,119,100 | 1.13% |
| 7 | Standard Chartered Kenya Nominees Ltd A/C KE002258 | 2,400,000 | 0.66% |
| 8 | Standard Chartered Nom A/C KE 11993 | 2,207,700 | 0.61% |
| 9 | Standard Chartered Nominees A/C 9230 | 2,045,479 | 0.56% |
| 10 | Standard Chartered Nominees Non-Resd A/C 9944 | 1,699,200 | 0.47% |

### Share Analysis By Domicile as at 31 December 2016

| Domicile | Number of Shares | % | Number of Holders |
|---|---|---|---|
| Foreign Institutions | 239,812,022 | 66.07% | 51 |
| Foreign Individuals | 617,358 | 0.17% | 65 |
| Local Institutions | 107,632,651 | 29.65% | 708 |
| Local Individuals | 14,897,244 | 4.11% | 2,548 |
| **TOTAL** | **362,959,275** | **100.00%** | **3,372** |

### Share Analysis By Volume as at 31 December 2016

| Volume | Number of Shares | % | Number of Holders |
|---|---|---|---|
| 1 – 500 | 259,325 | 0.07% | 1,306 |
| 501 – 5,000 | 2,443,526 | 0.67% | 1,244 |
| 5,001 – 10,000 | 1,672,124 | 0.46% | 239 |
| 10,001 – 100,000 | 14,253,965 | 3.93% | 431 |
| 100,001 – 1,000,000 | 43,556,100 | 12.00% | 135 |
| > 1,000,000 | 300,774,235 | 82.87% | 17 |
| **TOTAL** | **362,959,275** | **100.00%** | **3,372** |

# Risk Management

### Strategic Risk

Environment: As part of our commitment to sustainable development, we have, for a number of years, integrated environmental aspects in our strategy and culture. We rehabilitate all our used quarries to world standards through forestation. We plant trees on the unused quarries to deter soil erosion and create new habitats where they did not exist before. Haller Park and the Nature trails in Mombasa are testimony to our commitment to the environment.

In addition, we have invested significantly in taming any dust emissions from our factories both in Kenya and Uganda. In so doing, electrostatic precipitators have been replaced with more effective bag filters. This has served to ensure the populations and other activities around our plants are not adversely affected by our operations.

Green gas emissions: We have substituted Heavy Furnace Oil (HFO) with alternative fuels such as Biomass to reduce emissions of green gases at our plants in Hima (Uganda) and at the Mombasa and Nairobi Grinding Plants in Kenya. We also began offering waste disposal services at the Mombasa plant through strategic partnerships with other industries and government agencies. We dispose off non-hazardous materials such as scrap tyres, expired grains, industrial wastes and condemned goods in our cement kilns using internationally set standards.

Industrial labour relations: We are up to date with the collective labour agreements at all our plants. Our cordial working relationships with the labour unions have ensured that our operations are not subjected to unnecessary labour strife, thereby avoiding strikes.

Laws: The Company is fully compliant with all local and international laws within our areas of operation.

Competition: The Company continuously monitors the competitive landscape and the growth in the cement products industry. The Group's belief is that competition is necessary to achieve economic efficiency and constitutes a key element of free enterprise.The Group strives to be the market leader through the provision of unrivalled construction solutions to its customers in Eastern Africa.

We continuously offer customer tailored solutions in the cement, precast and ready mix segments serving home builders, commercial operations and mega infrastructure projects.

We believe a level playing field for all industry players offers the best opportunities for all stakeholders.

Secure operations: Through the risk management and security function, the Group has invested in safeguarding its assets. Reducing threats is part of ensuring the continuity of operations and improving employee morale, which in turn yields better productivity. There could be no operational performance without security at the workplace. Furthermore, limiting the risk of harm to the Group makes it possible to reduce the financial losses generated by incidents and other crisis situations. Security risks facing the Group are diverse and continuously changing. The Group can only continue with its domestic and regional operations if it takes these risks into consideration, both in terms of protection of staff in all countries and protection for its assets. Security is a cross-functional concern.

The security function was established after an evaluation and assessment phase, and is charged with coordinating the introduction of all measures required to provide protection for the Group assets, thereby ensuring the sustainability and continuity of operations. The security department, supported by other departments, makes use of business impact analysis, risk assessments, incident reporting as well as training and awareness sessions to assist in identifying, rating and mitigating risks and their impacts.

### Operational Risks

Safety: Our existence is anchored in safety as our number one priority and overarching value. If we are not safe, our business will cease to exist. We provide a safe work place for our employees at all sites. At the plants we have demarcated areas for mandatory personal protective equipment (PPE) for all employees and visitors. All contractors are accorded the same level of safety conditions as the employees. Management closely tracks safety statistics, which are an integral part of the Group's key performance indicators.

We continue to work on improving our health and safety culture and create a zero harm environment.

Occupational Health: As required by the Occupational Safety and Health Act, 2007 in Kenya; all our employees across the group (industrial and non-industrial) have undergone risk based health assessments for the last three years to ensure they are fit for and suited for the work they have been employed to do. This approach has helped the business in meeting the inherent health requirements for the relevant occupation. These assessments ensure the health of employees is not adversely affected by their work or working environment. This has also helped the business to be more strategic in employee placement and support.

Ethics and compliance: Our ethics and compliance mechanisms are articulated in our Code of Business Conduct (CoBC) handbook. The CoBC framework is embedded on integrity; integrity in the workplace, in our business practices and in the communities in which we conduct our business. It incorporates health and safety, diversity, fairness and respect, protection of company assets and information systems including email and social media, anti bribery and anti corruption, gifts and hospitality, fair competition, accurate recording and reporting, conflicts of interest, insider trading, conducting international business and preventing money laundering, the environment, human rights and community engagement.

The Group, through its code of business conduct, emphasizes its commitment to ethics and compliance with laws, it sets forth basic standards of behaviour for its employees when dealing with clients, suppliers, competitors and the general public.

Every new employee is inducted on the CoBC while refresher courses are conducted by our human resources and legal departments. All employees and officers, regardless of their positions, are required to comply, with the rules set out in the CoBC.

All staff members have signed a commitment to abide by the CoBC. Independence declarations forms are signed by all vulnerable committees such as the tender committee.

Information Security and Business Continuity: Given the risks associated with data loss and systems unavailability, or worse, potential theft of group data, the Group's information security function, in collaboration with the parent security team, has implemented several measures to safeguard our enterprise information. We have several system controls in place, which are constantly monitored. All teams work together to ensure the controls are working effectively.

**Crisis Management**

A sustainable business needs to effectively manage risk and crises with minimal negative impact. Robust systems have been put in place to handle and manage crises. A critical component of these systems is the identification and prevention of an incident or situation from turning into a crisis and to manage any crisis situation. Our approach to incident management involves a 4 step crisis management cycle.

1

STEP 1: Prevention

Actions to reduce or eliminate the possibility of a crisis happening

2

STEP 2: Preparedness

Being ready to handle a crisis, ensuring that business can continue.

3

STEP 3: Response

Internal notification, analysis and actions to resolve.

4

STEP 4: Recovery

Close-out, review and corrective actions to prevent recurrence.

In our industry crisis scenarios can occur in many situations such as natural disasters, industrial incidents, health and safety incidents, environmental incidents, off-site incidents involving employees or contractors, protests, product and service related issues, security incidents and unexpected legal challenges and decisions.

A comprehensive Crisis Management System is in place and has been cascaded throughout our operations. The Country Crisis Management System includes:

- An Emergency Response Plan
- A Business Continuity Plan
- An Evacuation Plan
- A Crisis Management Plan

We have a Crisis Management Team who in conjunction with our crisis management system enables effective and continuous stakeholder engagement that reduces the likelihood of an incident escalating into a crisis and minimizes the impact on our stakeholders.

**Internal Controls**

The internal controls function is mandated to coordinate the documentation of all the organisation's processes through process flow charting, narratives and cross referencing the processes to the internal control standards. The function plays a key role in the development of policies and procedures and helps to ensure that management directives are complied with.

The organization has identified eight mega processes through which it carries out its operations; each of the mega processes is managed by an EXCO member. The Group Managing Director and the Group Finance Director, who are also EXCO members, are responsible for the overall control environment. The control environment is monitored and assessed for effectiveness through an internet based tool called "Risk for Value and Reputation" and a self-assessment questionnaire that is independently validated by the internal controls coordinator.

**Internal Audit**

The internal audit function is mandated to monitor the internal control systems through internal audit reviews carried out throughout the year.

Internal audit's role is to evaluate and improve the effectiveness of governance, risk management and control processes in the organisation.

Internal control deficiencies are brought to the attention of management and any serious matters brought to the attention of the Board through the Board Audit Committee.

To ensure the independence and objectivity of internal audit, the function reports to the Board Audit Committee. The terms of reference of the Audit Committee are incorporated in the Board Audit Committee Charter that is reviewed every three years.

# Our Operations in Review

## Group

Cement consumption in East Africa grew ahead of GDP largely supported by the infrastructure investments by governments, stability of the great lakes region, closer economic integration within the East African Community as well as predominantly stable macroeconomic environment in the region, supporting good domestic demand.

Kenyan market grew ahead of the GDP mainly pushed by public investment. We however noted a decline in private investment growth in line with the decline in bank credit growth in 2016.

Uganda market grew ahead of the GDP growth rate spurred by public investment in the infrastructure segment together with expanding private consumption driven by availability of credit and confidence in the economy.

Cement grinding capacities continue to outstrip demand putting further pressure on prices. The Kenya & Uganda market remain in a clinker manufacturing deficit and cement production surplus in the short run, however the Group markets extend to larger Eastern & Inland Africa markets which are still at a cement deficit

In a bid to grow our volumes and improve our margins, we continue to focus on vertical integration activities of Ready Mix. We have now expanded them into Rwanda. At the same time, we have launched in both Kenya and Uganda, an enhanced route to market (RTM) initiative to allow us to have greater control as to where our products go. In addition, we have worked on strengthening our channel partnership program, brand building & innovation of new products in line with market demands.

Our efforts on sustainable cost optimization with a key focus on energy costs have positively impacted and will continue to pillar our results with the onset of any future difficult operating cost environments.

On technology front, we went live on 1 January 2017, on the new enhanced version of SAP Enterprise Resource Planning (ERP), fully integrating all our operations, which will make our processes more efficient, improve our service offering to our customers, suppliers and enhance our risk management framework and internal controls.

### Future Outlook

We remain cognizant of the risks to our regional markets; growing global oil prices, dry weather situation, and geo-political tensions in some markets coupled with currency and commodities risks. We are, however, well positioned to tackle these challenges given our strategy to the market, operational excellence and strong, talented workforce.

## Kenya

### Bamburi Cement Ltd (BCL)

Turnover for the period is in line with prior year with heightened competition in the domestic Individual Home Builders (IHB) coming with decreased private sector investment, coupled with reduced exports. This was however offset by growth in the contractor segment covering infrastructure projects, as many infrastructure projects ramped up in 2016.

With flat revenues, operating profits were flat at 4.7 billion on better external cost environment, higher alternative fuel substitution at Nairobi Grinding Plant (NGP) and Mombasa Plant, but partially eroded by higher usage of imported clinker due to lower clinker production in Mombasa.

The overall cement market in Kenya for the year closed at approximately 6.2MT (2015: 5.7MT) a growth of 9% over 2015. The market growth has mainly been driven by public investment through the growing infrastructure segment. However, private investment, through the Individual Home Builders (IHB) segment, continued to lag behind on account of the high interest rates experienced in the early part of the year stemming from 2015, and a subsequent reduction in bank credit growth in 2016.

2016 domestic sales volumes were in line with prior year, while export sales for the period under review were marginally below 2015, attributed to reduced sales to the Tanzania and South Sudan, that has been affected by political turbulence.

Clinker production was below prior year due to several breakdowns at Mombasa during the year, resulting in the lost production, while cement production was marginally below 2015 on account of slightly lower export volumes. We later put in place actions to partially recover our clinker production in the latter part of 2016 and going forward into 2017.

### Future Outlook

We are optimistic that the market will remain strong supported by the resilience of the construction sector, with large private sector projects taking off in 2017, together with a continuation of public investment in infrastructure projects. As our cement mills are approaching full utilization, we started on our capacity expansion project, to add an additional 900KT of cement in Kenya, to ensure that we are well positioned to grow with the market. We expect this additional capacity to be on board by the middle of 2018. This together with the similar capacity increase in Uganda, will ensure that we have more product for the domestic market, from reduced exports to Hima Cement Limited.

At the same time, to keep our cost leadership position and in line with our history and strategy of being a fully integrated cement producer, we are undertaking studies on increasing our clinker capacity across the region, being Phase 2 of our expansion plans.

We shall focus on innovation of new products together with best of class customer service and elaborate cost containment measures, as well as team capacity building to drive operational efficiency.

### Bamburi Special Products (BSP) Ltd

This is a wholly owned subsidiary of the Group and the largest supplier of Ready Mix Concrete and Precast blocks in Kenya.

BSP revenues grew by 3% driven by growth in Ready Mix Concrete sales from increased contractor projects across major cities and government projects.

Profit before tax improved by 132% to Shs 56 million mainly due to good growth in the Ready Mix concrete as well as precast volume growth and better costs, though impacted by inflationary pressures.

### Future Outlook

BSP is a very important segment of our business, as it supports our vertical integration and our Vision of providing Construction Solutions. It also enables us to approach key private sector projects from a one stop centre position, of being able to supply all cement related products. The order pipeline remains strong going forward and the Ready Mix concrete segment outlook remains vibrant with the signing of supply contracts for new key private sector projects in the country. We are investing in enhancing our capacity for delivery and pumping in order to ensure that we better serve our customers. The Precast segment has increasingly becoming competitive with new entrants in the market and increased price competitiveness. Our focus on the Precast segment will be innovation around new products & solutions and maintaining high quality standards

We are optimistic that the market will remain strong particularly the contractor segment and Vision 2030 projects, increasing the demand for Ready Mix concrete solutions in the coming year.

### Lafarge Eco Systems (LES) Ltd

This is a wholly owned subsidiary of the Group that ensures sustainable land use and quarry rehabilitation. LES provides market leadership in environmental responsibility, community engagement around our quarries and other stakeholders.

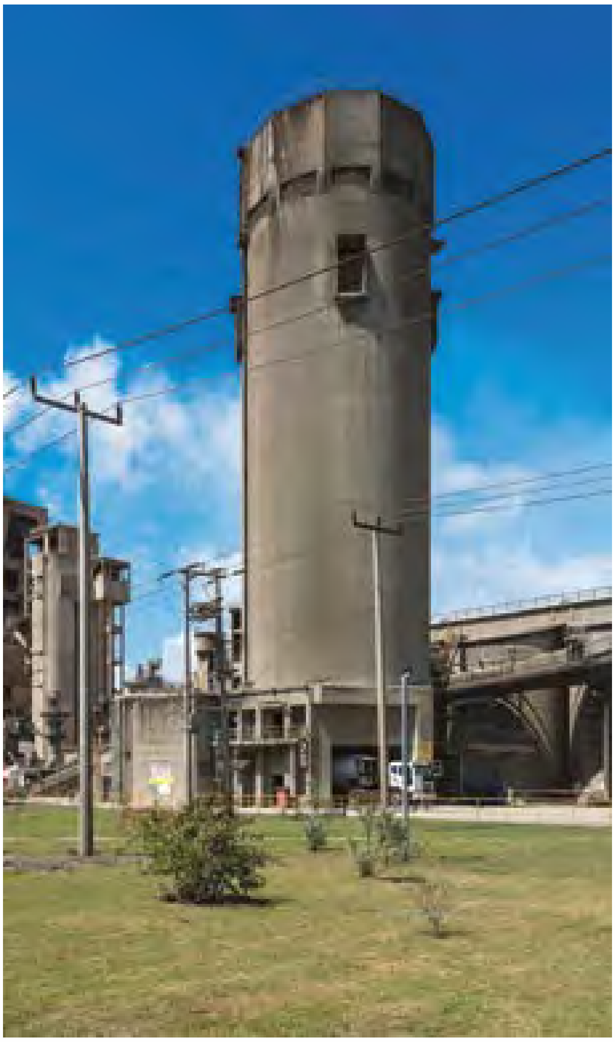
LES operating profit grew to Shs 11 million from a loss of Shs 62 million last year which was impacted by restructuring. The restructuring exercise in 2015 was meant to position LES to be a self sustaining entity within the Group and we are happy that we are moving in that direction.

Haller Park & Forest Trails recorded the highest number of visitors in the month of August 2016 (35,359 visitors). The improved visitation is due to the continued focused sales efforts by the teams as well as enhanced public relations (PR) and marketing activities. Haller Park also received 11 endangered Madagascan Agonoka Tortoises rescued by the Kenya Wildlife Services from illegal traffickers. Also 2 endangered parrots and an adult female Kudu was adopted in the ecosystem from the Tana River Delta.

The Biofuels project, managed by LES focuses on reserve land protection and rehabilitation of used reserves. Biofuels plantation cover takes up 768 hectares with a focus on maintenance, monitoring and thinning. In 2017, we shall employ an Agro Forester, to review the status of our Bio Fuels plantation and also perform a valuation of the same. We are also engaging farmers mainly dairy and beef farmers on utilization of the reserve land in Vipingo and Diani before the extraction is commenced.

### Outlook for Kenya

The economy is expected to grow in the region of 6%, though with various uncertainties, key among them being the rising global fuel prices and dry weather conditions in major parts of Kenya. While aware of the potential challenges ahead, we remain confident that the inherent strength of our business and our well-balanced brand portfolio, complimented by a well-equipped human talent pool, will enhance the Group's resilience to ensure delivery of shareholder and stakeholder value. Further, the Group in 2016 launched a four-pillar strategy around Commercial Transformation, Cost Leadership, Value Driven Capital Expenditure and Sustainability anchored on Agility in everything that we do, Collaboration and Empowerment of our teams. We believe that these will further position the Group soundly to continue growing in this rapidly changing and competitive business environment. We are confident that we shall build on commercial excellence while increasing efficiency through rational cost containment and value driven capital expenditure while remaining committed to our overarching safety and health obligations and environmental stewardship responsibilities.



# Our Operations in Review (continued)

### Uganda

The turnover was also in line with prior year's growth in domestic volumes, but there was a decline in the export volumes. Operating profit increased by 14%, pushed up by a better market segment mix and better plant operating environment. Profit before tax was marginally above 2015 levels, as we did not benefit from exchange gains in 2016.

Overall, the cement market in Uganda grew by 8% in 2016, ahead of GDP growth (about 5.5%), against a background of decreasing interest rates in the economy (Central Bank policy rate reduced by five percentage points in 2016), increased private sector investment and increase in public sector investment, in particular ramp up of key infrastructure projects like the Entebbe Expressway and the Jinja Nile Bridge.

Our domestic sales were above prior year, given the growth in the domestic market size. But we witnessed a decline in the export markets, in particular in Rwanda, where we experienced heighted competition from a player that has expanded their capacity, and in South Sudan where we had political disturbances. We however had good volumes into the Democratic Republic of Congo (DRC), driven by individual home builders and supplies to a key project, the Kibali Gold mine.

We achieved outstanding performance at the plant in Kasese that produced record clinker production of 512KT against a rated capacity of 500KT, achieved smooth operations, maximized its energy efficiencies and alternative fuel additions, while improving cement clinker factor. In addition, we started the production of slag cement, to support our exports to the Kibali Gold Mine in DRC.

### Future Outlook

We are very optimistic about the growth prospects in Uganda and in the Inland Africa Markets. We have implemented a number of actions like the Route to Market initiative that should position us to improve our market penetration in these markets. In addition, we have implemented the "Build – Uganda" franchise with the objective of establishing a robust retail business model with a dedicated purchasing platform for major hardware items. This aimed at generating revenues for us by keeping existing customers and attracting new ones to stock our products alongside other product categories on the Build Uganda franchise purchasing platform. We have also launched Ready Mix operations in Rwanda to enable us go down the vertical value chain. We firmly believe that all these initiatives put us in a firm position to leverage on market growth and continuously capture and create value.

Beyond 2017, we are firmly positioning ourselves to participate in the expected growth that will come with the development of the oil infrastructure in Uganda. We have started our capacity expansion project and should add an additional 800KT of cement. This will limit the need to import product from Bamburi Cement in Kenya, saving on transportation costs and improving the overall margins for the Group.

### Health and Safety

On the leading indicators: overall road safety compliance, safety observations; closure of high risk actions, risk assessment audits and VFL (Visible Felt Leadership) reports we recorded good performance with increased focus on the risk assessment audits and closure of high risk actions.

In Kenya, we unfortunately recorded 2 LTIs (Lost Time Injuries) in the Mombasa Plant in July 2016 and one in the Nairobi Grinding Plant in November 2016. One medical injury was recorded in the Mombasa Plant in February 2016.

| Description | Budget 2016 | Actual 2016 |
|---|---|---|
| TIFR (Total Injury Frequency Rate) | 0.65 | 0.83 |
| LTIFR (Lost Time Injury Frequncy Rate) | 0.22 | 0.55 |
| Fatalities | - | 0 |
| LTI (Lost Time Injury) | - | 2 |
| Medical Injuries | - | 1 |
| First Aid Injuries | - | 12 |
| Road Overall Compliance | 95% | 95% |
| Safety Observation Reports | 12,782 | 17,470 |
| Closure Rates for high risk actions | 100% | 98% |
| Risk Assessment Audits | 2,453 | 3,529 |
| VFL Reports | 1,991 | 1,838 |

In road safety, there was good performance on journey management and pre-loading/off-loading trucks inspections. There was also a significant improvement in driver behavior which is monitored through road patrols GPS systems installed in all trucks working for us. After introduction of the driver's league matrix from a benchmarking exercise with Shell Vivo, we are able to rank our drivers based on their driving behaviors. Ten drivers from different transporters were awarded in December 2016 based on the analysis drawn from road patrol assessments and GPS review.

In Uganda, our health and safety performance remained impressive. We experienced one Lost Time Injury (LTI) and five medical injuries as shown in the table below:

| Description | Budget 2016 | Actual 2016 |
|---|---|---|
| TIFR | - | 1.509 |
| LTIFR | - | 0.5 |
| Fatalities | - | 0 |
| LTI | - | 1 |
| Medical Injuries | - | 5 |
| First Aid Injuries | - | 11 |
| Road Overall Compliance | 95% | 95% |
| Safety Observation Reports | 3,000 | 3,617 |
| Observation closure rate | 85% | 89.6% |
| VFL Reports | 2,632 | 2,920 |

# Our Operations in Review (continued)

## Reward and sanction policy

This policy is supported by the Health and Safety passport and was well implemented across all the sites. By the end of the year, we had a total of 30 employees and contractors rewarded in the country for the Health and Safety employee or contractor of the month award. The best employee and contractor out of the 30 were awarded as Health and Safety Employee of the year and Health and Safety Contractor of the year respectively. The awards presented by the CEO included a cheque of Shs 100,000 to each of the 2 winners.

## Leadership training

We rolled out a Health and Safety Leadership training for Managers in the first half of 2016. The modular programme included assignments and coaching sessions, with the Managers graduating in November 2016. The Supervisor level sessions are scheduled for 2017 as part of the 2017 Health and Safety Improvement Plan.


*Health and Safety Employee of the Year*


*Health and Safety Contractor of the year*

*Mombasa Plant audit team*

*Nairobi Managers graduation*

*Mombasa Managers graduation*

*Nairobi Grinding Plant audit team*

In Uganda, in a bid to drive for excellence in Health, Safety and Environment (HSE), an online based training center was established at Hima Plant. The facility enables staff and contractors to achieve at least twelve hours of online HSE training sessions on the following topics.

| | |
|---|---|
| Noise at Work | Waste Management |
| Work at Height (WAH) | Mechanical Joint Integrity |
| Confined Space | Lifting Operations |
| Manual Handling | Risk Assessment |
| Atmospheric Emissions | Energy Isolation |
| Environmental Awareness | COSHH Awareness *(Control of Substances Hazardous to Health)* |

## Road Safety

In December 2016, we held our Annual Road Safety Campaign, the 9th since the first held in 2006. The annual campaign under the theme "Drive Safe Work Safe" started in Mombasa Plant and the caravan made a stopover at Nairobi Grinding Plant. This annual campaign is supported by our transporter partners, National and Local stakeholders including NTSA, Police, NGOs, drivers and other road safety stakeholders.

We also involved the sensitization of the youth on road safety in the campaign by including performances from children on road safety.

Over 1,000 Boda boda riders were also trained during this period. The caravan traversed the northern corridor from Mombasa to Malaba making stopovers in major towns to engage the road users on road safety.

*Chairman NTSA, Director General NTSA, MD Bamburi and Regional H&S Director, LafargeHolcim MEA Region at the "Drive Safe, Work Safe" flag off in Athi River*


*Commercial Director leads the inspection of the truck during the "Drive Safe, Work Safe" launch.*

*Children participating at the launch of "Drive Safe, Work Safe" in Athi River*

In Uganda, Hima Cement announced a USD 25000 (Ush 84 million) sponsorship of 2016 edition of the prestigious Pearl of Africa Uganda Rally. The contribution goes towards the rally preparations and the implementation of a road safety campaign that is conducted by the Federation of Motorsport Clubs of Uganda (FMU).

Hima Plant organized a number of activities during the Global Health and Safety Day. These included mini-audits of risk assessments, painting of walkways, safety puzzles, housekeeping etc. The Hima Plant runs an Area Ownership Program where the Plant is divided into 11 key performance areas, each with its own leader and small team to drive performance. Through the Area Ownership Program, the plant realized key successes in Housekeeping, Safety Observations Closure, improved reliability and production.

During the Health and Safety Days, Hima Plant engaged employee spouses and children to be part of the campaign, which included Plant visit and sharing of the best health & safety practices they would love their guardians to follow while at work.

# Our Operations in Review (continued)

Health

We ran a number of initiatives in the plants to improve employee wellbeing. Many projects were implemented to reduce dust emissions (e.g the drier project in Nairobi Grinding plant), reduce noise in the plant through isolation and engineering controls such as silensors at the silo blowers and also projects dealing with ergonomics to reduce manual handling by workers.

We also carried out training for nannies and employees' wives on basic first aid and emergency response in a home setting. 2 sessions were conducted; one in Nairobi and another one in Mombasa.

## Building the Brand

Partnering with stakeholders

Bamburi Cement signed a memorandum of understanding with the National Construction Authority (NCA) to improve skills and competencies in the building and construction industry on the 3rd of October 2016 at the NCA offices in Upperhill.

The agreement will see both companies work together to bridge the skills gap in the building and construction industry by developing curriculum for training of construction site workers and contractors in Kenya. The training which will result in certification of the qualified workers, is born out of a shared objective by both companies to improve quality standards in the industry.

The signing of the MOU comes at a time when the NCA has been stepping up its endeavours to professionalize the Industry, as the country continues to experience an increase in the number of incidents of collapsing buildings and other structures which claim innocent lives. Under the agreement, Bamburi will also avail its Mobile Concrete Laboratory to NCA for use around construction sites in the country.


*BCL Commercial Director Geoffrey Ndugwa and NCA Chief Executive Officer, Arch. Daniel Manduku during the sign off ceremony*

While NCA has plans to train and accredit 1,500,000 skilled construction workers in various trades in the construction sector, Bamburi Cement was able to train 1,808 masons from 25 towns across the country in 2016 alone as part of its Builders Academy program. The mobile laboratory was present in 6 of these towns to conduct practical demonstrations on how to test the strength of concrete using a slump test. 30 masons were also chosen to take part in a plant visit at the Nairobi Grinding Plant where they were taken through the cement manufacturing and packaging process. The marketing team plans to continue countrywide engagement with masons and foremen with an aim to create brand ambassadors and build a strong loyalty to the brand.

*BCL MD Bruno Pescheux issues a certificate to a mason who attended the training in Nanyuki.*

## Digital masonry training

In an effort to upscale the Builders Academy training sessions, the marketing team engaged a digital solutions provider, Kuza Biashara to conduct a pilot that would validate whether masons are comfortable using digital technology for learning as opposed to the face to face type of training that we currently use for the Builders Academy training sessions. The pilot was conducted in 3 cohorts in Embakasi, Githurai, Ruaka, Githongoro, Ruai and Utawala between June and August 2016. Using the Kuza edge digital platform, the selected masons were trained on 5 courses; professionalism in construction, time management, managing emotions, customer relations and communication skills. The program was designed with a focus on 40% core skills, 40% social skills and 20% vocational skills.

*30 masons from around the country pose for a group photo following a visit of Nairobi Grinding Plant and Bamburi Special Products plant, Athi River.*

A total of 175 masons against a target of 100 masons were engaged. Out of the 175, 115 masons attended 2 or more courses while 76 attended 3 or more courses. The pilot had a number of key findings that will be used to expand the pilot study into other parts of the country in 2017.

Key findings:

1. Masons initially struggled with the digital platform but were more comfortable learning digitally vs. the face to face since they could control the amount of time spent on understanding the content in each course.
2. The level of assistance (on digital/devices) reduced after every session.
3. The ability to reach a higher number of masons digitally with content on construction highly supersedes the numbers that can be reached through face to face.
4. The biggest challenge with the digital platforms was the inability to conduct practical sessions which was the preferred model of learning by most of the masons.

*Masons using the Kuza digital platform to access the courses during the pilot in Githurai*

## Delighting the Trade

### Market storms

The marketing team successfully conducted a number of activities aimed at growing brand equity among retailers and consumers countrywide. Trade audits were conducted in 23 towns across the country with 432 retail shops visited that generated 105 new account leads

*Retailer engagement in Voi and Mtwapa*

Consumer engagements in the form of a mystery shopper reward promotion and market storms which involved rig activations in major town centres were conducted in second quarter. The activations are part of continued efforts to increase awareness and purchase consideration among consumers towards Nguvu and Supaset.

### Zawadi Challenge

In an effort to reward loyal customers and improve sales volumes in the second half of the year, a customer reward promotion dubbed 'The Zawadi Challenge' commenced on the 1st of September and ran for a period of 4 months. The challenge would see dealers and retailers (including retailers buying through preferred distributors) earn points for every ton of Nguvu or Supaset cement bought. The points would then be redeemed at the end of the year for various prizes which included international and domestic holidays, motorbikes, fridges, cookers, smart phones and shopping vouchers.

*Samuel Maingi of Saris Hardware flanked by his family receive their 'domestic safari' award during the Zawadi challenge awards luncheon held at Radisson Blu Hotel in Nairobi*

# Our Operations in Review (continued)

### Innovation

#### Mobile Concrete Laboratory

The mobile concrete laboratory in its first year of operation was able to make 232 site visits for both our cement and ready mix concrete customers where technical support was provided through onsite testing, aggregate analysis and concrete mix design solutions. The lab was able to convert sites using competitor products resulting in extra revenue of Shs 37 million.

*Mobile Concrete Laboratory*

#### Soil Stabilised Blocks

A Memorandum of Understanding was signed with Mama Sara Obama Foundation for Bamburi to provide technical training, cement and Durabric machines to manufacture 110,000 blocks towards the construction of an ECD center in Kogelo, Siaya. The projects is transforming the current dilapidated Senator Obama school to an ultra-modern education complex constructed by sustainable soil-cement Durabrics. By end of the year over 80,000 blocks were produced.

*Preparing of soil Stabilised Blocks*

*Preparing of soil Stabilised Blocks*

*Soil Stabilised Blocks*

#### Collaborations

Collaborations with both internal and external partners were done through successful customer engagements and execution of projects. Some of the projects engaged in included:

Itare Dam Development, Kuresoi – Nakuru

- Aggregate characterisation and mix design trials conducted at early construction stage.

Hass Tower Development Project, Nairobi

- A special high strength, Class 60, self-compacting concrete was formulated in conjunction with LafargeHolcim Research and Development Center in France. The concrete was successfully delivered to cast underground test piles for the iconic 67 floor Hass Towers project in Upper Hill.

Avic HQ Development Project, Nairobi

- A special concrete incorporating an anti-expansion and waterproofing agents was formulated and cast by BSP into 5 number rafts that will form the foundations of the 6-Tower comples AVIC Africa headquaerters,

**Our People**

Employee Headcount

| Site | Headcount |
|---|---|
| Mombasa | 221 |
| Hima | 331 |
| Head office | 109 |
| NGP | 55 |
| LES | 25 |
| BSP | 61 |
| Total | 802 |

## Health and Safety

Health and Safety is an overarching value for the Organization, thus it only natural for the organization to implement health programs that will support the health of our most valued assets- our people.

In 2016, the Company continued to focus on implementation of annual health assessments that included a new aspect of ergonomics checks and training on proper back care. In addition, there were a number of health promotion activities whose aim is to ensure employees increase control over and improve their health through health education and awareness initiatives such as work / life balance, diet and nutrition, alcohol and other drugs, promotion of good mental health, health and fitness, stop smoking campaigns , physical strength and endurance, etc.

The health promotion program is also extended to the community and we launched a campaign together with the Mombasa County dubbed 'Let's Talk about Cancer'. This campaign aimed at increasing awareness of importance of early testing as Cancer ranks 3rd leading cause of death in Kenya; 980 people were tested and over 3,000 people received communication materials.

The Company has taken a step further in the fight against cancer and has partnered with Coast General Hospital to establish a Cancer Unit,that will be ready in 2017. This takes cognisance of the fact that supportive care is crucial in reducing the cancer burden and boosting the quality of life for patients.

The Company's Mother Child Community Programme saw 2,789 children immunised against preventable diseases, 70 mothers received family planning support and 480 expectant mothers received support at our staff clinic.

## Employee welfare

A critical part of our employee engagement is constant interaction with unions. This enables better management of the relationship with our employees more effectively without any adverse impact on the company's operations and profitability. In 2016 we engaged in union negotiations and successfully closed Collective Bargaining Agreements for Bamburi Cement Limited, Bamburi Special Products and Lafarge Eco Systems.

In order to measure employee engagement, we also make use of employee surveys. This helps identify the areas of strength as well as room for improvement in order to maintain an engaged workforce and retain our talent. In the last quarter of 2016, we ran the Pulse Survey, a Group initiative to measure the levels of engagement of staff post-merger.

## Reward and recognition

As we are a performance driven organization, we have in place robust policies and programs to ensure that good results are recognize and rewarded. Some of the reward programs we have in place include an annual bonus program applicable to all employees, a sales incentive scheme for our commercial team and an industrial bonus scheme for our staff at the plants.

We also have in place a retention policy which focuses on formal and informal programs and interactions that begin at recruitment and on boarding and continue throughout the employee's life in the organization. We review our reward policies and programs on an annual basis to ensure that they remain competitive, challenging and motivating.

*Our employees participating at the Standard Chartered Marathon and celebrating International Womens' Day*

# Our Operations in Review (continued)

## Training and Development

Effective Training and Development is essential if we are to continuously get the best from our people, extend the knowledge shelf-life of our company and maintain a competitive edge in the marketplace.

We focus on both training employees for their current jobs and developing skills for their future roles and responsibilities.

We offer employees a variety of development opportunities using different methods: growing within one's current role or taking on new challenging tasks (job rotation); learning from others (mentoring); learning online (eLearning); supporting individuals in realizing their potential (coaching); and by providing formal training opportunities.

In 2016, a total of Shs 26 million went into training and developing our people in Kenya. This is an 8% increase from 2015.

Trainings conducted in 2016 included:

- Health and Safety Leadership training for Managers
- First Responder training for all our staff members
- Up skill for technical team in Mombasa and Nairobi
- Hay Group job evaluation training for selected managers across our sites
- ICPAK annual conference for finance team members
- Training on Anti-bribery and Corruption for all managers
- Defensive Driving Training
- Engineers Mentoring program was launched for all our Engineers
- Formal induction class for all new employees and for those changing roles and sites
- Occupational Safety and Health Committee Training
- Professional Interview Preparation (PIP) for graduate engineers
- Environmental Compliance Awareness in preparation for ISO certification
- Competitive Selling Skills for our Sales teams
- Fair Competition for all staff members

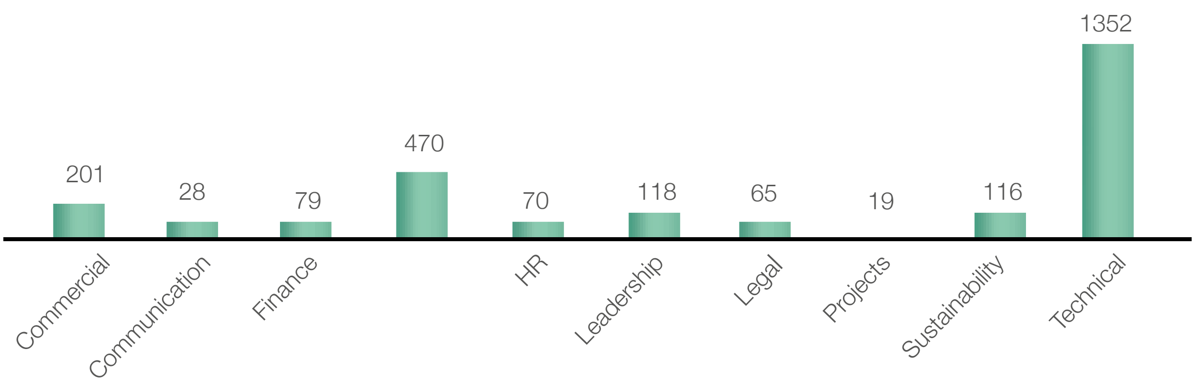
## Diversity and Inclusion

In 2016, Bamburi Cement was awarded the Women's Employer of Choice Award. The Employer of Choice Awards are the first East African Employer Attractiveness Awards voted entirely by the East African talent pool, using data gathered by Careers in Africa Employer of Choice survey that was conducted across the region's top employers across a range of themes and sectors.

The awards were organized by Global Careers Company (GCC) and Willis Towers Watson at Radisson Blu Hotel. On Thursday 9th September 2016, the winners were revealed and recognised at a gala dinner.

In winning the Women's Employer of Choice award, Bamburi Cement beat Microsoft, P&G, Unilever and Oracle. This is a testimony that Bamburi's diversity and inclusion program, is gaining recognition with our stakeholders.

**Man days/Training Discipline**



**Our Systems**

The Group operates through several systems (plant systems, weighbridge systems, reporting systems etc) anchored on a common IT platform.  In addition, we have several customer facing applications like M-service, that enable us serve customers seamlessly and a customer relationship management tool, which enables us to better understand our customer needs.

Following extensive investment and preparation through Project Safari in 2016, the Group went live on a new business model in January 2017, using an upgraded version of SAP as the main anchor. This involved a significant business transformation through the implementation of the standard LafargeHolcim Business Model. This is a common business model, with eight standardized business processes on a single IT platform across all our business segments [Cement, BSP - (Ready Mix & Precast) and LES.

This new business model enables the Group to perform with speed and agility, in a highly competitive and dynamic market. It will also align business processes and generate value through increased efficiency, professionalism and discipline. Additionally, the business model is expected to improve competitiveness through improved proximity to customers, lower operating costs and ultimately contribute to increased profitability and value creation.

Other benefits of the new business model include:

- Improved customer satisfaction due to improved sales planning processes, order scheduling etc
- Better connectivity to new and upcoming digital solutions
- Standardized business processes and accounting principles aligned to the entire International Financial Reporting Standards (IFRS)
- Improved internal controls and efficiencies.
- Opportunity to improve stakeholder management (Logistics, Customers, Vendors, Regulatory) through efficient planning and reporting.
- Key obsolete IT systems like WIMS (Weighbridge Information Management System) have been replaced by a more robust and friendly weighbridge system, HODIM

Our focus in 2017, will be on increasing the use of these integrated processes and digital solutions so as to improve efficiencies with our customers as part of our commercial transformation journey.

# Sustainability Review

Sustainable development presents enormous opportunities and challenges for companies like Bamburi Cement. We recognize that our operational nexus – extraction, processing and distribution – creates several sustainability impacts and benefits. We seek to mitigate these impacts through world class sustainability practices and, where possible, to enhance value to our stakeholders. Our sustainability agenda is underpinned by LafargeHolcim's overarching sustainability intention to "create shared value with society" and the 2030 Plan.

LafargeHolcim's 2030 Plan is a broad set of clear commitments and targets that are supportive of UN "Sustainable Development Goals". It sets the Group's vision and defines the next steps in that direction including quantitative targets related to direct and indirect impacts over the whole life-cycle of products and services.

As the building materials industry leader, LafargeHolcim has a clear responsibility, the scale and geographic footprint to enable widespread, positive, global and local change in the construction sector. Through 2030 Plan LafargeHolcim intends to play this leadership role and help transform the way our industry works and encourage the whole construction sector to play its full part in addressing our planet's biggest issues.

**Sustainability at Bamburi Cement**

Bamburi Cement recognizes sustainability as a critical business imperative that seeks to create value for the business, people and the planet. A passion for health, safety and the environment remains at the heart of everything we do. We conduct our activities professionally and responsibly, carefully managing the sustainability risks of our business. This protects our employees, the natural environment and the communities in which we operate while creating value for our customers and stakeholders. Our sustainability policy guides our sustainability practices under four key facets, namely Climate; circular economy; water and nature; and people and communities

**Climate**

Managing Emissions

Our ambitions are focused on reduction of specific CO2 emissions by 2030 vs (1990) through innovative solutions. We have invested over Shs 800 million in the past 5 years in the upgrade of Electrostatic Precipitators with more efficient bag filter technology, to curb stack emissions in our operations in Kenya and Uganda. Further to this, we consistently undertake emission monitoring within our operations and conduct regular external air quality audits to ensure that the ambient air quality at all our operations are within the legislated limits and report to the national regulator as required by law.

One Million Tree Project

Climate change is a major global challenge that has created significant impacts which include changing weather patterns, rising sea levels and more extreme weather events. Green House Gas (GHG) emissions from human activities are the key driver of climate change.

Tree planting is one of the key strategies for combating climate change and ensuring a clean and secure environment. The one million tree project aims to increase tree cover in schools thereby promote the 10% tree cover in the country by 2030. Launched in Kilifi and Kwale counties, with an ambitious target to achieving one million trees in 5 years, to date 298,400 tree seedlings have been planted across 150 schools in Kilifi and 1000 seedlings distributed to 6 schools in Kwale.

Rehabilitation and climate change

Lafarge Eco Systems contributes significantly towards combating climate change through the rehabilitation of Bamburi Cement's quarries, biodiversity conservation and sustainable land utilization.

Our rehabilitation programme has resulted in the greening of over 600 ha of land. These greening activities contribute to the pollution control system through the absorption of CO2 emissions. Bamburi forest plantations also provide renewable timber and firewood for energy.

**Circular Economy**

**Kenya**

Geocycle Kenya - Sustainable Waste Management Solutions

In 2016, Bamburi Cement Ltd launched the Geocycle brand in Kenya. Geocycle is a waste management organisation owned by LafargeHolcim with the main objective of recycling waste to energy or raw material for cement plants with a promise of a zero waste future.

The current waste management solutions available in the country consume resources rather than conserving them. Geocycle Kenya will employ globally accepted waste management systems and utilise Bamburi Cement kilns to dispose waste through co-processing. Co-processing offers a superior environment solution based on the following:

- high temperatures,
- excess oxygen
- long residence times completely destroying waste materials, leaving no residue for landfill

In addition, co-processing reduces greenhouse gas emissions as the waste from the process is used to replace fossil fuels, preserving non-renewable fossil fuels and natural resources as the energy and mineral value of the waste materials are recovered. Our promise is clear: Day by day, we work relentlessly to bring society a step closer to a zero-waste future Key highlights from Geocycle Kenya include:

Industrial waste:

In 2016, BCL worked with five industries to dispose their waste via co-processing. By disposing their waste in BCL kilns, these companies were enabled to achieve their zero-landfill policies thus contributing positively to the environment. By harnessing the Geocycle global network and expertise, we aim to engage more companies to dispose of their industrial waste.

### Waste-oil

Waste-oil is categorised as hazardous waste, meaning it should be disposed of with great care. BCL is in discussions with the oil sector in Kenya to dispose of the waste-oil generated in the country through co-processing, which is the internationally accepted approach.

### Solid waste - Tyres

With more Kenyans owning vehicles and road transport on the rise, the generation of waste tyres has increased. Waste tyres create a major an environmental challenge when not properly disposed. BCL disposed of about 1,500 tons in 2016, solving the environmental challenge and substituting the fossil fuel consumed in cement making process.

### Agricultural waste

We continue to work with the community within the Mwea irrigation scheme to collect and deliver rice husks to our Nairobi Grinding Plant. Rice husks are used as an alternative fuel, substituting 60% of fossils fuel consumption at our Nairobi Grinding Plant.

### Uganda

The Coffee Project commenced in 2011 in a bid to secure the sustainable supply of biomass for the Hima Plant while providing additional produce and income for the communities in the coffee growing region of Uganda. The Hima Plant currently substitutes other forms of fuel with over 56% biomass.

In April, the final 1,010,000 coffee seedlings of the Hima Coffee Development Project were distributed. This brings the total of seedlings distributed by Hima Cement to Coffee farmers in Kasese and Kamwenge districts over the last four years up to Ushs16.7 million. The coffee project, an investment of Ushs 5 billion, which benefited over 60,000 farmers, has been a massive success and is expected to generate revenue of close to $27M for the region by 2020.

## Water & Nature

### Kenya

### Tree planting

In 2016, we donated and planted 375,328 total seedlings in schools across Mombasa, Kilifi and Kwale Counties in line with our tree planting projects geared towards supporting the increase of forest cover at the Kenyan coast. These was achieved through various activities such as donating seedlings during the celebrations of World Environmental Day with Mombasa County to engaging schools such as Digirikani Primary School where we donated seedlings and planted trees.

### The Green Initiative Challenge (GIC) - Phase II

GIC Phase II is a schools' afforestation project that targets schools in Embu, Machakos and Kitui Counties in Kenya that was launched in 2015 in partnership with KenGen Foundation and Better Globe Forestry Foundation. It is designed to encourage and enable schools to participate in environmental activities by developing small forests and woodlots within their compounds for multiple benefits. Under this Shs 120 Million, 10-year program, the target is to plant a total of 460 acres with 300,000 commercial and wood fuel trees and 113,956 fruits trees in 919 new schools. In 2016, the participating schools received a total of 97,620 seedlings.

### Biodiversity in our rehabilitated quarries

The Global Sustainability Development Goals 15 calls for us to protect, restore and promote the sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss. In line with this, Lafarge Eco Systems has built showcase ecosystems by restoring Bamburi Cement coral limestone quarries.

Between 1971 and 2016, more than 400 species of indigenous trees, shrubs and lianas having been introduced into the rehabilitated quarries. A total of 61 of these species are listed on the International Union for Conservation of Nature (IUCN) Red Data List, 21 of them as critical, endangered or vulnerable. Many of the indigenous species are now reproducing in the restored ecosystems and forming populations.

Food plants as well as flowering plants have been introduced to attract and sustain the rich biodiversity, including butterflies and birds. More than 180 species of birds have been recorded in the rehabilitated areas, including two bird species that are listed as endangered and 71 species of butterflies.

In addition, we have recorded 34 mammal species, two of which are listed as vulnerable/endangered on the IUCN Red List and 24 as Least Concern or Near Threatened and 14 amphibian species. Several animal species such as monkeys, bush-babies and antelopes, act as seed dispersers and are intentionally used as such, while butterflies and other insects, as well as bats, bush-babies and others act as pollinators. Diverse insects, millipedes and other arthropods as well as fungi act as de-composers in the ecosystem, turning the former quarry into a functional ecosystem.

### Ecotourism and Environmental education

Lafarge Eco Systems aligns its activities with SDG 4, which calls for the provision of inclusive and equitable quality education and promotion of lifelong learning opportunities for all. The company's environmental showcases, Haller Park and Forest Trails, hosted close to 150,000 visitors in 2016 due to increased sales efforts and the stabilisation of security in the region as shown in the table below. This is a marked improvement on the previous year.

# Sustainability Review (continued)

| INDICATOR | 2016 Actual | 2016 Budget | 2015 Actual |
|---|---|---|---|
| Visitors at Haller Park and Forest Trails | | | |
| Educational Groups/ Students | 89,385 | 75,740 | 70,492 |
| Local/ Resident Visitors | 51,910 | 43,633 | 37,942 |
| International Visitors | 8,490 | 11,064 | 5,532 |

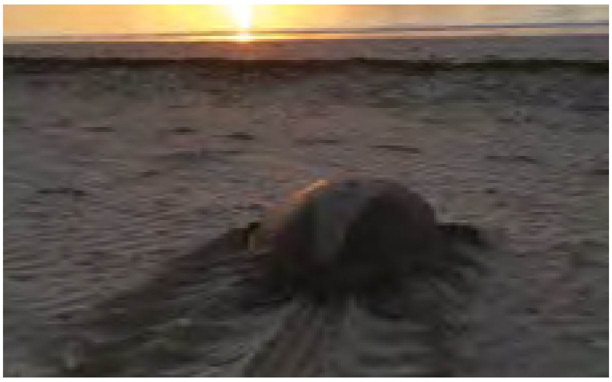
**Environmental Conservation**

Sea turtle project

As part of our conservation programme, our turtle project saw us secure 70 nests at both our hatcheries in Jumba and Bamburi and maintain our close link with the KWS.

Nesting summary

| | |
|---|---|
| No. of nests | 70 |
| No. of eggs | 7,447 |
| No. of hatchlings | 4,949 |
| No. of turtles tagged | 8 |
| No. of nests | 2,029 |
| No. of laid eggs | 220,116 |
| No. of hatchlings | 165,973 |
| Tagged turtles | 86 |
| Hatching rate | 75% |
| **Species** | **No. of Nests** |
| Green | 1,995 |
| Hawsbill | 48 |
| Olive Ridley | 13 |



Turtle Tag

Ranger translocates eggs to the Bamburi hatchery

*A clean-up was organised at Jumba beach on 6 August 2016 and 78 participants made up of school children, fishermen and residents from the surrounding area. 180kgs of trash were picked up from 750 metres of beach. We also participated in an international coastal clean-up on 17 September 2016 at the public beach with several other organisations and individuals.*

*KWS warden addresses the conservation programme*

### Uganda

#### EMS 14001:2004

Hima Cement received certification for the Environment Management System ISO: 14001:2004. This is in fulfilment of the Group sustainability ambitions, and in compliance with the Uganda National Environment Audit Regulations, 2006.


IQNet
CERTIFICATE
Hima Cement Limited
Kasese Uganda
Environmental Management System
ISO 14001:2004

#### Environmental Conservation

12,350 tree seedlings of different species were also donated to community members in Hima Town and 1,600 seedlings to Kasese Municipal council from our Hima Nursery to promote reforestation and included Eucalyptus, Pine, Cassia, Carpresus and Guelveria.

#### Environmental Partnership with the World Wide Fund for Nature (WWF)

Through Partnership between Hima Cement and WWF, a Total of 31,965 tree seedlings were distributed in 2016 along the River Mubuku Catchment area through five Civil Society Organizations (CSO's).

### People & Communities

### Kenya

#### Affordable Housing

LafargeHolcim, Bamburi Cement's principal shareholder, realised the need for affordable housing in the countries it operates in and provided construction solutions through its subsidiaries. In Kenya, Bamburi Cement is aligned to LafargeHolcim's global objective of establishing business initiatives with social impact.

The Affordable Housing initiative provides customers with access to construction funding through partner financial institutions, architectural drawings, bill of quantities, technical assistance and construction advice. These services are packaged in a product which is part of Bamburi Cement's value added offering, known as Maskani.


*Affordable housing*

The Affordable Housing Initiative focuses on three main initiatives

1. Housing Finance
2. Earth and Cement
3. Mass Housing

Results so far

- Close to 250 households were impacted, both financed and self-financed.
- Maskani Initiative expanded its scope to cover Mombasa.
- Rolled out a pilot project to manufacture stabilised soil bricks
- Worked in conjunction with the Mobile Concrete Lab to offer customers on-site testing. Notably, the laboratory is fitted with state-of-the-art equipment for on-site testing of aggregates, fresh and hardened concrete and soil stabilised pavement layers. Testing is conducted in the presence of the customers or their representatives.

# Sustainability Review (continued)

### Promoting a healthy community

A healthy community is critical for the economy to thrive in a sustainable way. We support the communities we operate in through initiatives that promote good health. In 2016, we focused on cancer awareness and treatment in the coast region. To this end, we donated Shs 12 million towards the renovation of the Cancer Unit at the Coast General Hospital, the only cancer unit serving the entire coastal region. In addition, the Company facilitated free cancer screening for the neighbouring residents at our Mombasa Plant during the cancer awareness month.

Mother to child program: provide medical support at our staff clinic in Mombasa to community members with a focus on mothers and children under the age of five years. The Program saw a total of 2,789 children receiving various immunization avert death from preventable diseases, 70 mothers receiving family planning support and 480 expectant mothers were followed at our staff clinic

In order to promote the use of safe drinking water, Hima Cement donated 2 boreholes in September to Tororo Town and Nyagatale, Kigali, Rwanda. Tororo Town and Nyagatale hosts Hima Cement Depots.

### Partnerships

In June 2016, Lafarge Eco Systems formalised a Partnership with Pwani University to collaborate in areas such as biodiversity and habitat monitoring, research projects, ecosystem management, awareness creation and capacity building.

## Boabab Trust

### Nguuni Nature Sanctuary

The Nguuni Nature Sanctuary is becoming a "natural island". The dense human settlement surrounding has resulted in security and human /wildlife conflict becoming an issue. This has, however, been mitigated with the installation of a 5.5 kilometres live fence.

Maintenance work of the infrastructure has been expensive, especially roads, nature walk paths, picnic sites, and firebreaks as well as Phase II of the electric fence installation.

### The Mtopanga Training and Demonstration Farm

Mtopanga Farm is a centre of innovative agriculture and environmental farming techniques, which serves grassroots farmers and peri-urban middle class dwellers.

In 2016, we focused on adding to our family backyard garden. The family backyard garden forms part of our

training facilities on the farm and in our communities where several farmers have replicated the gardens on 500m2 plots around community dams.

We conducted educational tours for 505 school children while 75 individuals showed interest in various subjects.

Climate change contributed to poor rainfall in 2016 and only 534mm of rainfall was recorded between January and December. We intend to build resilience by planting drought tolerant crops and this has been a major focus for training. We have re-introduced and encouraged the cultivation of crops such as finger millet, pearl millet, sorghum, cowpeas and amaranth.

**Agriculture Society of Kenya (ASK) show and partnership with Ministry of Agriculture**

The Baobab Trust participated in the ASK Show of 2016. At this event the Baobab Trust trained farmers on how to use the Farmers App as a source of information for basic organic and innovative agriculture techniques on their farms.

### Farmers Field Day

The following were highlights of the event:

a. Birika system I, which recycles water from the bottom of a fish pond for irrigation, using water loaded with fish manure
b. Birika system II, which recycles water from the top of a fish pond for pond aeration, using water loaded with green algae. Photosynthetic green algae produces oxygen during the day, increasing the amount of oxygen available to the fish
c. Bustani III, which utilises a simple and highly adaptable prefabrication construction technique
d. Integrated poultry and fish production systems
e. Flexi biogas systems
f. Zero-grazing dairy goats
g. Pisciculture – integrated rice and fish system
h. Mushroom production
i. Apiculture – bee

*On 26 November 2016, an open Farmer's Day was attended by 120 people.*

*Mushroom Cubicle*

*Birika Irrigation System*

*Family Backyard Fish Pond*

# Sustainability Review (continued)

## Uganda

### Sponsorships

Hima Cement supported the Captain's Prize Golf Tournament for the fourteenth consecutive year, with a sponsorship package of UGX 70 million. This catered for the Professionals' purse, amateurs' apparel, trophies, prizes and the prize-giving dinner.

We also expanded our sports properties by becoming title sponsors of the Vipers SC Football Club and supporting Patricia Apolot, the reigning Featherweight Kickboxing World Champion.

In partnership with the Federation for Motor Sport Clubs of Uganda (FMU), Hima Cement made a commitment of UGX 84 million to the 2016 edition of the Prestigious Pearl of Africa rally that took place in September. The contribution from Hima Cement went towards the rally preparations as well as the implementation of a Road Safety Awareness campaign conducted in October and November.

We capped off the year with Hima Cement winning two awards at the 2016 Uganda CSR Awards in November. The awards were Winner of Best Environment Programme for the River Mubuku Catchment Protection Project with WWF and First Runner-up of the Best Community involvement and development category for the Coffee Project.

Peer Education is ongoing and the monthly Community Health Sensitisation programme recorded a total of 946 participants between April and November.

### CSR Awards

Hima Cement won an Award for the Best Environment Program category in the 2016 Uganda CSR Awards that were held in November, organized by the Uganda Manufactures Association and GIZ. Hima also emerged the first runner-up of the Best Community Involvement and Development Category.

### Participation in the Rotary Cancer Run

Hima Cement participated in the annual Rotary cancer run which was held at Kasese Ruwenzori square under the "Run for Hope" theme. A total of ten participants from different departments at the plant represented the company.

The rotary cancer run is a fundraising event geared at supporting Uganda Cancer program and this year's Rotarians and friends will raise funds towards the construction of a bunker and the purchase of a Linear Accelerator (LINAC), a cancer treatment machine that offers a safer alternative where cancerous cells are destroyed without affecting the surrounding tissue.

## Donation of Shoes to Primary School Students

In a bid to promote Health and Safety in Schools, Hima Cement donated school shoes to pupils of Hima Primary School.

With the business expanding its footprint in Uganda by constructing a new Grinding station in Tororo, we expanded our CSR programmes to Eastern Uganda. This commenced with the construction of two boreholes in Tororo town, one at a school in Tororo town, which serves over 600 pupils and the surrounding community.

A Girls' dormitory at Hima High School and two VIP latrines at Hima Public Primary School were commissioned in November and will be ready for handover at end of Q1 in 2017.

Cement was donated to several worthy causes such as the renovation of the Dental School at Makerere University and the building of a Blood Bank at Mengo Hospital as well as several schools across the country.

Nine new students were enrolled on the Community Bursary Scheme. The students from Kasese and Kamwenge districts will receive full financial support from the company until completion of their Uganda Certificates of Education. One student sat for the Uganda Advanced Certificate of Education Examinations and will attend university in 2017. Hima Cement spends approximately Ushs 90 million on the programme every year and there currently 45 students enlisted.

## Sustainability summary

| | Climate | Circular Economy | Water & Nature | People & Communities |
|---|---|---|---|---|
| In house | Shs 800 Million invested in upgrade of electronic precipitators to curb stack emissions<br><br>Rehabilitation of 600ha with wide variety of tree species contributing to pollution control and $CO_2$ absorption<br><br>60% fossil fuel consumption replaced through alternative fuels at Nairobi Grinding Plant | 5 companies supported in co-processing of waste through Geocycle Kenya.<br><br>Utilization of waste as alternative fuels including 1500 tons of tyre and agricultural biomass | Hima cement certified for ISO14001:2004 Environmental Management System<br><br>Continued our support to biodiversity protection covering 400 species of indigenous trees, shrubs and lianas, 180 species of birds, 71 species of butterflies, 34 mammal species and 14 amphibian species | Maintained leadership in health and safety of our employees and contractors.<br><br>Conducted health educational forums for our employees and stakeholders |
| Beyond our fence | 298,400 tree seedlings planted across 150 schools in Kilifi and 1000 seedlings distributed to 6 schools in Kwale for tree planting | Reduction in waste to landfills due to total solution offered by Geocycle process<br><br>Availability of international level expertise through LafargeHolcim network for complex waste disposal solutions | 97620 seedlings offered to schools through GIC Phase II in partnership with KenGen Foundation and Better Globe Forestry Foundation.<br><br>150,000 visitors provided with environmental education through Haller Park and Forest Trails | Mother to child program catered for immunization of 2,789 children, family planning support for 70 mothers and follow up of 480 expectant mothers<br><br>Shs 85million spent on community engagement |
| Innovative solutions | Alternative fuel substitution including use of rice husks, coffee husks, waste tyres etc to reduce energy consumption | Developed innovative processes to reuse products after their productive life thus extracting maximum value, regenerating their service life and protecting their natural environment | Water harvesting education and implementation through GIC programme | Maskani brand providing innovative construction solutions<br><br>Builders academy trained 1,808 masons from 25 towns across the country in 2016 |

# Bamburi Cement Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

**FINANCIAL STATEMENTS**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# Corporate Information

| | | | |
|---|---|---|---|
| **DIRECTORS** | **Executive** | | |
| | B Pescheux | (French) | Managing Director |
| | E Kironde | (Ugandan) | Finance Director |
| | D Pettersson | (Swedish/Nigerian) | Managing Director, Hima Cement Limited |
| | **Non-executive** | | |
| | J Simba | (Kenyan) | Chairman |
| | S W Karanja | (Kenyan) | |
| | C C Kisire | (Kenyan) | |
| | D Drouet | (French) | |
| | J Cantillana | (Spanish) | Appointed 2 June 2016 |
| | J M Kimote | (Kenyan) | Appointed 2 June 2016 |
| | T M Dornon | (French) | Alternate to D Drouet - appointed 25 August 2016 |
| | C Langreney | (French/American) | Resigned 10 March 2016 |
| | S M'Mbijjewe | (Kenyan) | Resigned 24 November 2016 |

**SECRETARY**

B Kanyagia
Kenya-Re Towers, Upper Hill
P.O. Box 10921 – 00100
Nairobi, Kenya

**REGISTERED OFFICE**

Kenya-Re Towers, Upper Hill
P.O. Box 10921 – 00100
Nairobi, Kenya

**REGISTRARS**

Custody & Registrars Services Limited
Bruce House, Standard Street
P.O. Box 8484 – 00100
Nairobi, Kenya

**AUDITORS**

Ernst & Young LLP
Kenya-Re Towers, Upper Hill
P.O. Box 44286 - 00100
Nairobi, Kenya

**PRINCIPAL BANKERS**

Citibank NA
Citibank House, Upper Hill
P.O. Box 30711 – 00100
Nairobi, Kenya

Citibank NA Uganda
Centre Court Nakasero
P.O. Box 7505
Kampala, Uganda

Standard Chartered Bank Kenya Limited
Chiromo Branch, 48 Westlands Road
P.O. Box 30003 – 00100
Nairobi, Kenya

Standard Chartered Bank Uganda Limited
Speke Road Branch, 5 Speke Road
P.O. Box 7111
Kampala, Uganda

Equity Bank (Kenya) Limited
Equity Centre, Upper Hill
P.O. Box 75104 – 00200
Nairobi, Kenya

Stanbic Bank
17 Hannington Road, Crested Towers Building
P.O. Box 7131
Kampala, Uganda

# Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors have the pleasure of presenting their annual report together with the audited financial statements for the year ended 31 December 2016, which show the state of affairs of Bamburi Cement Limited (the ''Company") and its Subsidiaries (together, the "Group").

This report has been prepared in accordance with section 157 of the repealed Kenyan Companies Act, as if that repeal had not taken effect as stipulated in Section 42 of the sixth schedule of the Kenyan Companies Act, 2015, Transitional and Saving Provisions.

## 1. PRINCIPAL ACTIVITIES

The Group is primarily engaged in the manufacture and sale of cement and cement related products. The Group also owns and maintains a world-class nature and environmental park created from rehabilitated quarries.

## 2. RESULTS

| | 2016 Shs'million | 2015 Shs'million |
|---|---|---|
| Group profit before tax | 8,271 | 8,458 |
| Tax charge | (2,381) | (2,586) |
| Group profit for the year | 5,890 | 5,872 |
| Attributable to: | | |
| Owners of the parent company | 5,243 | 5,260 |
| Non-controlling interests | 647 | 612 |
| | 5,890 | 5,872 |

## 3. DIVIDENDS

During the year, an interim dividend of Shs 6.00 (2015 – Shs 6.00) per ordinary share amounting to Shs 2,178 million (2015 – Shs 2,178 million) was paid.

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of Shs 6.00 (2015 – Shs 7.00) per ordinary share equivalent to a total sum of Shs 2,178 million (2015 – Shs 2,541 million).

## 4. DIRECTORS

The directors who served during the year and to the date of this report are shown on page 49.

## 5. AUDITORS

The Company's auditors, Ernst & Young LLP, have indicated that they will not be seeking re-appointment as auditors of the company at the Annual General Meeting.

A resolution will be proposed at the Annual General Meeting to appoint Deloitte & Touche as auditors, special notice pursuant to the Companies Act, 2015 having been received.

By Order of the Board

**B Kanyagia**
Secretary

09 March 2017

# Statement of Directors' responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2016

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 the Company as at the end of the financial year and of their profit or loss for that year. It also requires the directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Company and disclose, with reasonable accuracy, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with 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 Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

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

Approved by the Board of Directors on 09 March 2017 and signed on its behalf by:

..............................................
Director

..............................................
Director

Ernst & Young LLP
Kenya-Re Towers
Upper Hill
Off Ragati Road
PO Box 44286 - 00100
Nairobi GPO, Kenya

Tel: +254 20 2886000
Email: info@ke.ey.com
www.ey.com

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# Report of the Independent Auditors

TO THE MEMBERS OF BAMBURI CEMENT LIMITED

## Report on the Audit of the Consolidated and Separate Financial Statements

*Opinion*

We have audited the accompanying consolidated and separate financial statements of Bamburi Cement Limited (the "Company") and its subsidiaries (together, the "Group"), set out on pages 55 to 129, which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity, and the consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.*

*Basis for Opinion*

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

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

| Key audit matter | How our audit addressed the key matter |
|---|---|
| **1. Contingencies relating to tax matters** | |
| As disclosed in Note 30 (d) to the financial statements, the Group has open tax assessments as it is involved in legal matters with the Kenya Revenue Authority (KRA). The determination of provisions and contingent liabilities arising from the open tax assessments make this a particular area of significant judgement.<br><br>We focused on management's assessment of the likely outcome and quantification of tax exposures which involves significant judgement.<br><br>We also considered there to be a risk that the tax disclosures in Notes 12 and 30 (d) to the financial statements, which are significant to the understanding of the Group's tax position may not be adequate. | Our audit procedures included:<br>• Understanding the process of estimating, recording and reassessing tax provisions and contingencies.<br>• Involving our tax specialists to assist in analysing the judgements used to determine provisions for tax matters based on their knowledge and experience of local regulations and practices.<br>• Inspecting the correspondence with tax authorities.<br>• Inspecting reports on open tax assessments prepared by the company's tax advisors and in-house tax manager and where appropriate, the company's external legal advisers, and other appropriate documentation considered necessary to understand the position and conclusions made by the company. We also obtained external confirmations from legal counsel on significant tax litigation.<br>• We also assessed the adequacy of the Group's financial statements disclosures in respect of the tax positions and contingent liabilities. |

| 2. Contingencies relating to Hima Cement Uganda Limited – Mining Lease | |
|---|---|
| Contingencies in respect of mining lease legal suit are disclosed in Note 30 (c) to the financial statement. Hima Cement Uganda Limited is a material subsidiary of the Group.<br>Since the ultimate disposition of this suit and the related claims cannot be predicted with certainty, an adverse outcome could have a material adverse effect on the financial position, results of operations and cash flows of the Group.<br>Significant judgement is required in assessing the likely outcome of the suit and quantification of the obligation to be paid out, if any, in case of an adverse outcome. Hence this was considered a key audit matter.<br>We also considered that the disclosures on this matter are important in understanding the consolidated financial statements. | Our audit procedures included understanding the Group's processes for the recording and reassessment of contingencies.<br>We evaluated management's assessment of this suit and its effect, in case of adverse outcome, on the financial position, results of operations and cash flows of the Group and the need for any provision and related disclosures.<br>Our procedures also included obtaining confirmation from Hima's external legal counsel in order to compare their expert opinion to management's position on measurement and disclosures for the contingencies related to this suit.<br>We also engaged in periodic meetings with management and the Group's internal legal counsel as well as inspecting correspondence between the involved parties.<br>We also assessed the adequacy of the Group's disclosures in respect of contingencies. |

*Other Information*

The directors are responsible for the other information. The other information comprises the Report of Directors as required by the Kenyan Companies Act, 2015, and the Statement of Directors' Responsibilities which we obtained prior to the date of this report, and the Annual Report which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 obtained prior to the date of this auditor's 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

*Responsibilities of the Directors for the Consolidated and Separate Financial Statements*

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and 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.

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 Consolidated and Separate Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and company financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## Report on Other Legal Requirements

As required by the Kenyan Companies Act, 2015 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; and,

iii) the Company's statement of financial position and 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 auditor's report is CPA Churchill Atinda – P/No. P.1425*

Nairobi, Kenya

28 April 2017

**In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, the Group's financial statements and this report have been prepared in accordance with Sections 147 to 163 of the repealed Companies Act, as if that repeal had not taken effect.*

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| Revenue | 4 | 38,034 | 39,200 |
| Cost of sales | 5 | (24,790) | (26,670) |
| Gross profit | | 13,244 | 12,530 |
| Investment income | 6 | 369 | 374 |
| Other gains and losses | 7 | 33 | 997 |
| Distribution costs | | (1,405) | (1,115) |
| Marketing expenses | | (219) | (205) |
| Administration expenses | 8 | (2,069) | (2,287) |
| Other expenses | 9 | (1,682) | (1,644) |
| Restructuring costs | 10 | - | (192) |
| Profit before tax | 11(a) | 8,271 | 8,458 |
| Tax charge | 12(a) | (2,381) | (2,586) |
| Profit for the year | | 5,890 | 5,872 |
| OTHER COMPREHENSIVE INCOME | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Exchange differences on translation of foreign operations | | (771) | (581) |
| Income tax effect | | - | - |
| Loss on revaluation of available-for-sale financial assets | 19(b) | (257) | (127) |
| Income tax effect | | - | - |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | | (1,028) | (708) |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | | |
| Actuarial gains | 28 | 45 | 39 |
| Income tax effect | 12(a) | (14) | (12) |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | 31 | 27 |
| TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | (997) | (681) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 4,893 | 5,191 |
| Profit for the year attributable to: | | | |
| Owners of the parent company | | 5,243 | 5,260 |
| Non-controlling interests | | 647 | 612 |
| | | 5,890 | 5,872 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent company | | 4,251 | 4,579 |
| Non-controlling interests | | 642 | 612 |
| | | 4,893 | 5,191 |
| Earnings per share – basic and diluted | 13 | Shs 14.44 | Shs 14.49 |

# Company Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| Revenue | 4 | 23,189 | 23,691 |
| Cost of sales | 5 | (15,977) | (16,706) |
| Gross profit | | 7,212 | 6,985 |
| Investment income | 6 | 441 | 715 |
| Other gains and losses | 7 | 101 | 817 |
| Distribution costs | | (317) | (170) |
| Marketing expenses | | (154) | (114) |
| Administration expenses | 8 | (1,054) | (1,145) |
| Other expenses | 9 | (995) | (988) |
| Profit before tax | 11(a) | 5,234 | 6,100 |
| Tax charge | 12(a) | (1,455) | (1,751) |
| Profit for the year | | 3,779 | 4,349 |
| OTHER COMPREHENSIVE INCOME | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Loss on revaluation of available-for-sale financial assets | 19(b) | (257) | (127) |
| Income tax effect | | - | - |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods: | | (257) | (127) |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | | |
| Actuarial gains | 28 | 35 | 23 |
| Income tax effect | 12(a) | (10) | (7) |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | 25 | 16 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | (232) | (111) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 3,547 | 4,238 |
| Earnings per share – basic and diluted | 13 | Shs 10.41 | Shs 11.98 |

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016

| | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 15(a) | 21,093 | 22,897 |
| Prepaid operating lease rentals | 16 | 145 | 164 |
| Intangible assets | 17 | 78 | 84 |
| Other equity investments | 19(a) | 278 | 535 |
| Goodwill | 20 | 217 | 217 |
| | | 21,811 | 23,897 |
| **Current Assets** | | | |
| Inventories | 21 | 6,331 | 6,604 |
| Trade and other receivables | 22(a) | 5,529 | 2,945 |
| Corporate tax recoverable | 12(c) | 168 | 131 |
| Cash and cash equivalents | 23(a) | 6,972 | 8,453 |
| | | 19,000 | 18,133 |
| **TOTAL ASSETS** | | 40,811 | 42,030 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 24 | 1,815 | 1,815 |
| Asset revaluation reserve | 25(a) | 7,163 | 7,424 |
| Available-for-sale reserve | 25(b) | 75 | 332 |
| Translation reserve | 25(c) | (1,796) | (1,030) |
| Retained earnings | | 19,148 | 18,348 |
| Equity attributable to owners of the Company | | 26,405 | 26,889 |
| Non-controlling interests | | 3,414 | 2,817 |
| Total equity | | 29,819 | 29,706 |
| **Non-Current Liabilities** | | | |
| Deferred tax liability | 26 | 2,674 | 3,365 |
| Provisions | 27 | 695 | 620 |
| Employees' defined benefit liabilities | 28 | 577 | 646 |
| | | 3,946 | 4,631 |
| **Current Liabilities** | | | |
| Unclaimed dividends | 14(a) | 6 | 6 |
| Dividend payable | 14(d) | - | 91 |
| Provisions | 27 | 59 | 284 |
| Employees' defined benefit liabilities | 28 | 98 | 37 |
| Trade and other payables | 29 | 6,883 | 6,803 |
| Corporate tax payable | 12(c) | - | 472 |
| | | 7,046 | 7,693 |
| **TOTAL EQUITY AND LIABILITIES** | | 40,811 | 42,030 |

The financial statements were approved and authorised for issue by the Board of Directors on 09 March 2017 and were signed on its behalf by:

.................................................... Director

.................................................... Director

# Company Statement of Financial Position

AS AT 31 DECEMBER 2016

| | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 15(b) | 12,211 | 12,890 |
| Prepaid operating lease rentals | 16 | 1 | 1 |
| Intangible assets | 17 | 41 | 66 |
| Investments in subsidiaries | 18(a) | 1,062 | 1,062 |
| Other equity investments | 19(a) | 278 | 535 |
| Loan to subsidiary | 33 (iii) | 83 | 119 |
| | | 13,676 | 14,673 |
| Current Assets | | | |
| Inventories | 21 | 3,879 | 3,881 |
| Loan to subsidiary | 33(iii) | 29 | 29 |
| Trade and other receivables | 22(a) | 3,320 | 2,431 |
| Corporate tax recoverable | 12(c) | 105 | - |
| Cash and cash equivalents | 23 (a) | 5,231 | 7,307 |
| | | 12,564 | 13,648 |
| TOTAL ASSETS | | 26,240 | 28,321 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 24 | 1,815 | 1,815 |
| Asset revaluation reserve | 25(a) | 6,990 | 7,214 |
| Fair value reserve | 25(b) | 75 | 332 |
| Retained earnings | | 11,000 | 11,691 |
| Total equity | | 19,880 | 21,052 |
| Non-Current Liabilities | | | |
| Deferred tax liability | 26 | 753 | 1,082 |
| Provisions | 27 | 668 | 649 |
| Employees' defined benefit liabilities | 28 | 526 | 562 |
| | | 1,947 | 2,293 |
| Current Liabilities | | | |
| Unclaimed dividends | 14(a) | 6 | 6 |
| Provisions | 27 | 33 | 257 |
| Employees' defined benefit liabilities | 28 | 25 | 28 |
| Trade and other payables | 29 | 4,349 | 4,213 |
| Corporate tax payable | 12(c) | - | 472 |
| | | 4,413 | 4,976 |
| TOTAL EQUITY AND LIABILITIES | | 26,240 | 28,321 |

The financial statements were approved and authorised for issue by the Board of Directors on 09 March 2017 and were signed on its behalf by:

.................................................. Director

.................................................. Director

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

| Year Ended 31 December 2016 | Attributable to the equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital Shs'million Note 24 | Asset revaluation reserve Shs'million Note 25(a) | Available-for-sale reserve Shs'million Note 25(b) | Translation reserve Shs'million Note 25(c) | Retained earnings Shs'million | Total Shs'million | Non-controlling interests Shs'million | Total equity Shs'million |
| At 1 January 2016 | 1,815 | 7,424 | 332 | (1,030) | 18,348 | 26,889 | 2,817 | 29,706 |
| Profit for the year | - | - | - | - | 5,243 | 5,243 | 647 | 5,890 |
| Other comprehensive income for the year | - | - | (257) | (766) | 31 | (992) | (5) | (997) |
| Total comprehensive income for the year | - | - | (257) | (766) | 5,274 | 4,251 | 642 | 4,893 |
| Transfer of excess depreciation | - | (261) | - | - | 261 | - | - | - |
| Withholding tax paid on Subsidiary's dividend payout [Note 14(b)] | - | - | - | - | (16) | (16) | - | (16) |
| - Final dividends for 2015 declared and approved | - | - | - | - | (2,541) | (2,541) | (45) | (2,586) |
| - Interim dividends for 2016 declared and approved | - | - | - | - | (2,178) | (2,178) | - | (2,178) |
| | - | - | - | - | (4,719) | (4,719) | (45) | (4,764) |
| At 31 December 2016 | 1,815 | 7,163 | 75 | (1,796) | 19,148 | 26,405 | 3,414 | 29,819 |

The reserve accounts included in the statement of changes in equity are explained below:

- The asset revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment - Note 25(a).
- The available-for-sale reserve represents the cumulative gains and losses arising from revaluation of available-for-sale investments (other equity investments) from cost to fair value based on the market values of the equities at the end of the reporting period – Note 25(b).
- Retained earnings represent accumulated profits retained by the Group after payment of dividends to the shareholders.
- The translation reserve represents the cumulative position of translation gains and losses arising from conversion of net assets of the foreign subsidiary company to the presentation currency - Note 25(c).

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

| Year Ended 31 December 2015 | Share capital Shs'million Note 24 | Asset revaluation reserve Shs'million Note 25(a) | Available-for-sale reserve Shs'million Note 25(b) | Translation reserve Shs'million Note 25(c) | Retained earnings Shs'million | Total Shs'million | Non-controlling interests Shs'million | Total equity Shs'million |
|---|---|---|---|---|---|---|---|---|
| | Attributable to the equity holders of the parent | | | | | | | |
| At 1 January 2015 | 1,815 | 7,683 | 459 | (449) | 17,220 | 26,728 | 2,391 | 29,119 |
| Profit for the year | - | - | - | - | 5,260 | 5,260 | 612 | 5,872 |
| Other comprehensive income for the year | - | - | (127) | (581) | 27 | (681) | - | (681) |
| Total comprehensive income for the year | - | - | (127) | (581) | 5,287 | 4,579 | 612 | 5,191 |
| Transfer of excess depreciation | - | (259) | - | - | 259 | - | - | - |
| Withholding tax paid on Subsidiary's dividend payout [Note 14(b)] | - | - | - | - | (62) | (62) | - | (62) |
| Final dividends for 2014 declared and approved | - | - | - | - | (2,178) | (2,178) | (93) | (2,271) |
| Interim dividends for 2015 declared and approved | - | - | - | - | (2,178) | (2,178) | (93) | (2,271) |
| | - | - | - | - | (4,356) | (4,356) | (186) | (4,542) |
| At 31 December 2015 | 1,815 | 7,424 | 332 | (1,030) | 18,348 | 26,889 | 2,817 | 29,706 |

The reserve accounts included in the statement of changes in equity are explained below:

- The asset revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment - Note 25(a).
- The available-for-sale reserve represents the cumulative gains and losses arising from revaluation of available-for-sale investments (other equity investments) from cost to fair value based on the market values of the equities at the end of the reporting period – Note 25(b).
- Retained earnings represent accumulated profits retained by the Group after payment of dividends to the shareholders.
- The translation reserve represents the cumulative position of translation gains and losses arising from conversion of net assets of the foreign subsidiary company to the presentation currency - Note 25(c).

# Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

| Year Ended 31 December 2016 | Share capital Shs'million Note 24 | Asset revaluation reserve Shs'million Note 25(a) | Available-for-sale reserve Shs'million Note 25(b) | Retained earnings Shs'million | Total equity Shs'million |
|---|---|---|---|---|---|
| At 1 January 2016 | 1,815 | 7,214 | 332 | 11,691 | 21,052 |
| Profit for the year | - | - | - | 3,779 | 3,779 |
| Other comprehensive income for the year | - | - | (257) | 25 | (232) |
| Total other comprehensive income for the year | - | - | (257) | 3,804 | 3,547 |
| Transfer of excess depreciation | - | (224) | - | 224 | - |
| Dividends: (Note 14(b)) | | | | | |
| - Final dividends for 2015 declared and approved | - | - | - | (2,541) | (2,541) |
| - Interim dividends for 2016 declared and approved | - | - | - | (2,178) | (2,178) |
| | - | - | - | (4,719) | (4,719) |
| At 31 December 2016 | 1,815 | 6,990 | 75 | 11,000 | 19,880 |

The reserve accounts included in the statement of changes in equity are explained below:

- The asset revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment – Note 25(a).
- The available–for-sale reserve represents the cumulative gains and losses arising from revaluation of available-for-sale investments (other equity investments) from cost to fair value based on the market values of the equities at the end of the reporting period – Note 25 (b).
- The retained earnings represent accumulated profit retained by the Company after payment of dividends to the shareholders.

# Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

| Year Ended 31 December 2015 | Share capital Shs'million Note 24 | Asset revaluation reserve Shs'million Note 25(a) | Available-for-sale reserve Shs'million Note 25(b) | Retained earnings Shs'million | Total equity Shs'million |
|---|---|---|---|---|---|
| At 1 January 2015 | 1,815 | 7,435 | 459 | 11,461 | 21,170 |
| Profit for the year | - | - | - | 4,349 | 4,349 |
| Other comprehensive income for the year | - | - | (127) | 16 | (111) |
| Total other comprehensive income for the year | - | - | (127) | 4,365 | 4,238 |
| Transfer of excess depreciation | - | (221) | - | 221 | - |
| Dividends: (Note 14(b)) | | | | | |
| - Final dividends for 2014 declared and approved | - | - | - | (2,178) | (2,178) |
| - Interim dividends for 2015 declared and approved | - | - | - | (2,178) | (2,178) |
| | - | - | - | (4,356) | (4,356) |
| At 31 December 2015 | 1,815 | 7,214 | 332 | 11,691 | 21,052 |

The reserve accounts included in the statement of changes in equity are explained below:

- The asset revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment – Note 25(a).
- The available–for-sale reserve represents the cumulative gains and losses arising from revaluation of available-for-sale investments (other equity investments) from cost to fair value based on the market values of the equities at the end of the reporting period – Note 25 (b).
- The retained earnings represent accumulated profit retained by the Company after payment of dividends to the shareholders.

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 32 | 6,814 | 8,320 |
| Interest received | 6 | 369 | 374 |
| Net foreign currency gain | | 190 | 104 |
| Tax paid | 12(c) | (3,424) | (2,531) |
| Net cash generated from operating activities | | 3,949 | 6,267 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 15(a) | (407) | (897) |
| Purchase of intangible assets | 17 | (34) | (9) |
| Proceeds from disposal of property, plant and equipment | | 9 | 2 |
| Withholding tax paid on dividend to Group | 6 | (16) | (62) |
| Net cash used in investing activities | | (448) | (966) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid to owners of the Company | 14(b) | (4,719) | (4,356) |
| Dividends paid to non-controlling interests | 14(d) | (45) | (95) |
| Net cash used in financing activities | | (4,764) | (4,451) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (1,263) | 850 |
| MOVEMENT IN CASH AND CASH EQUIVALENTS | | | |
| At beginning of the year | | 8,453 | 7,644 |
| Net (decrease)/ increase in cash and cash equivalents during the year | | (1,263) | 850 |
| Effects of exchange rate changes on cash held in foreign currencies | | (218) | (41) |
| At end of the year | 23(b) | 6,972 | 8,453 |

# Company Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 32 | 4,811 | 5,911 |
| Interest received | 6 | 352 | 361 |
| Tax paid | 12(c) | (2,371) | (1,578) |
| Net cash generated from operating activities | | 2,792 | 4,694 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 15(b) | (278) | (272) |
| Purchase of intangible assets | 17 | (6) | - |
| Additional investment in subsidiary | 18(a) | - | (125) |
| Dividends received | 6 | 89 | 354 |
| Loans repayments received | 33(iii) | 36 | 21 |
| Proceeds from disposal of property, plant and equipment | | - | 2 |
| Net cash (used in)/generated from investing activities | | (159) | (20) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid to owners of the Company | 14(b) | (4,719) | (4,375) |
| Net cash used in financing activities | | (4,719) | (4,375) |
| NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS | | (2,086) | 299 |
| MOVEMENT IN CASH AND CASH EQUIVALENTS | | | |
| At beginning of the year | | 7,307 | 7,013 |
| Net (decrease) /increase in cash and cash equivalents during the year | | (2,086) | 299 |
| Effects of exchange rate changes on cash held in foreign currencies | | 10 | (5) |
| At end of the year | 23(b) | 5,231 | 7,307 |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Basis of preparation

The consolidated financial statements have been prepared on historical cost basis of accounting except for certain items of property, plant and equipment and available–for-sale financial assets that have been measured at fair value and except where otherwise stated in the accounting policies below.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), and in the manner required by the Kenyan Companies Act, 2015. The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are presented in millions of Kenya Shillings (Shs' Million), which is the functional currency of the parent company, and the presentation currency for the consolidated financial statements.

For the purpose of reporting under the Kenya Companies Act, 2015 the balance sheet in these financial statements is represented by Statement of Financial Position and the profit and loss account is represented by the Statement of Profit or Loss and Other Comprehensive Income.

### b) New and amended standards, interpretations and improvements

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual financial statements of the Group.

The following standards, amendments and interpretations are effective as of 1 January 2016:

- *IFRS 14 Regulatory Deferral Accounts*
- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IAS 27: Equity Method in Separate Financial Statements*
- *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*
- *Annual Improvements 2012-2014 Cycle*
  - *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
  - *IFRS 7 Financial Instruments: Disclosures*
  - *IAS 19 Employee Benefits*
  - *IAS 34 Interim Financial Reporting*
- *Amendments to IAS 1 Disclosure Initiative*
- *Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The nature and effect of the new standards, amendments and interpretations which are relevant to the Company are described below:

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

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 27: Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments will not have any impact on the Group's financial statements as the will continue to use the cost method for its investment in subsidiaries.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b) New and amended standards, interpretations and improvements (continued)

*Annual Improvements 2012-2014 Cycle*

These improvements include:

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Standards, improvements and amendments issued but not yet effective

The standards improvements and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

The list of the Standards, improvements and amendments that are effective for periods beginning on or after 1 January 2017 are listed below:

Effective for annual periods beginning on or after 1 January 2017
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12
- Annual Improvements 2014-2016 cycle - IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

Effective for annual periods beginning on or after 1 January 2018
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS
- Transfers of Investment Property (Amendments to IAS 40)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements 2014-2016 cycle

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters
- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice

Effective for annual periods beginning on or after 1 January 2019
- IFRS 16 Leases

The nature and effect of the new standards, amendments and interpretations which are relevant to the Group are described below:

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments:

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b) New and amended standards, interpretations and improvements (continued)

Standards, improvements and amendments issued but not yet effective (continued)

Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its statement of financial position and equity.

(i) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.
The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(ii) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to secured nature of its receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(iii) Hedge accounting

The Group has no existing hedge relationships that qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group expects no impact as a result of applying IFRS 9.

The Group plans to adopt the new standard on the required effective date.

*Amendments to IAS 12 Income Taxes*

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b) New and amended standards, interpretations and improvements (continued)

Standards, improvements and amendments issued but not yet effective (continued)

The Group is in the business of manufacture and sale of cement and cement related products.

(i) Sale of goods

Contracts with customers in which sale of cement is the only performance obligation are not expected to have any impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

In applying IFRS 15, the Group is considering the following:

(i) Variable consideration

Some contracts with customers provide for trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group does not have instances in which it has to defer revenue recognition due to variable consideration under IFRS 15.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

(ii) Warranty obligations

The Group does not provide warranties to its customers due to the nature of its business.

(iii) Loyalty points programme

The Group does not currently have in place a loyalty programme offered to its customers.

(ii) Rendering of services

The Group carries out tourism activities through its subsidiary, Lafarge Eco Systems limited. These services are sold on their own in contracts with the customers. The Group has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group does not expect any significant impact to arise from these service contracts.

*IFRS 16 Leases*

The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The Group plans to adopt the new standard on the required effective date.

*Amendments to IAS 7 Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b) New and amended standards, interpretations and improvements (continued)

Standards, improvements and amendments issued but not yet effective (continued)

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The amendment is effective from 1 January 2018. The Group is currently evaluating the impact.

### c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

A listing of the subsidiaries in the Group is provided in Note 18(a).

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

When the proportion of the equity held by non-controlling interests changes, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the Group. The Group recognises directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributable to the owners of the parent.

Disclosures of non-controlling interests are included in Notes 18(b).
All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in profit or loss in accordance with the IFRS. If the contingent consideration is not within the scope of IAS 39, it is measured at each reporting date and changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is 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 business 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. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### e) Translation of foreign currencies

#### i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### e) Translation of foreign currencies (continued)

ii) Translation of foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated into Kenya Shillings using exchange rates prevailing at the end of the reporting period;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- all resulting exchange differences are recognised under other comprehensive income and accumulated in a separate heading, translation reserve, in the consolidated statement of changes in equity.

When a foreign operation is sold, the cumulative amount of the exchange differences relating to that foreign entity, recognised in other comprehensive income and accumulated on the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

### f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

*Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon dispatch for self collection or else on delivery of products to customers. The sales are stated net of value added tax and discounts, and after eliminating sales within the Group.

*Interest income*

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in investment income in profit or loss.

*Dividends*

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

*Rental income*

Rental income is recognised when the Group's right to receive the rent payment is established. The Group has residential buildings and sublets some of them to its employees.

### g) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs that are 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 capitalised as part of the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

As disclosed in Note 15(c), there were no borrowing costs capitalised during the year ended 31 December 2016 (2015: Nil).

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### h) Leases

*Determination*

The determination of whether an arrangement is, (or contains), a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

*Group as a lessee*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss. The Company currently does not have any finance leases.

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

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease. The amortisation is recognised as an operating expense in profit or loss.

*Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Currently, the Group has leased out residential houses and land to employees and third parties. See note 7 on rental income from residential property for more details.

### i) Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Freehold land and buildings are subsequently shown at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation and any accumulated impairment losses. Plant and machinery is revalued internally on the basis of a valuation model prescribed by engineers and consultants at the technical centre of the ultimate shareholder. The valuations are carried out approximately once every five years.

All other property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

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

Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the asset revaluation reserve to retained earnings.

Depreciation is calculated on the straight line basis to write down the cost of each item of property plant and equipment, or the revalued amount, to its residual value over its expected useful life as follows:

| | |
|---|---|
| Buildings | 14 - 22 years |
| Plant and machinery | 14 - 22 years |
| Office equipment and tools | 3 - 10 years |
| Mobile plant | 3 - 10 years |
| Residential buildings | 40 years |

Further details on useful lives and residual values of property, plant and equipment are given in Note 2, to the financial statements.

Freehold land is not depreciated as it is deemed to have an indefinite useful life and is tested for impairment on an annual basis.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) Property, plant and equipment (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Additional disclosures on impairment are in Notes 1(p) and 2, to the financial statements.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition through disposal or retirement of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### j) Intangible assets

Computer software costs are stated at cost less accumulated amortisation and any accumulated impairment losses. The costs are amortised over the expected useful lives of the software on the straight line basis. Currently, the estimated useful life is five years.

Computer software are also assessed for impairment whenever there is an indication that the intangible asset may be impaired. Additional disclosures on impairment are included in Notes 1(p) and 2, to the financial statements.

The useful lives of computer software are reviewed at least at the end of each reporting period. Changes in the expected useful lives are considered to modify the amortisation period and are treated as changes in accounting estimates. The amortisation expense on computer software is recognised in profit or loss.

An intangible asset is derecognised when no future economic benefits are expected from its use. The Group's intangible assets are mainly computer software which is not expected to generate any disposal proceeds on de-recognition. The de-recognition of intangible assets would therefore result in a loss which is recognised in profit or loss.

### k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Inventories of consumables and spare parts are stated at the lower of cost and net realisable value. The cost of consumables and spare parts is the weighted average cost less provision for obsolete and slow moving items.

All other inventories are stated at the lower of cost and net realisable value. The cost includes direct cost and appropriate overheads and is determined on the first-in first-out method.

Net realisable value of inventories is the estimated selling price of the inventories in the ordinary course of the Group's business less the estimated costs of completion and the estimated costs necessary to make the sale.

### l) Tax

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised outside profit or loss is recognised directly in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### l) Tax (continued)

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset only when there is a legally enforceable right to set off the current tax assets against current tax liabilities and when they relate to the same entity and the same taxation authority, and the Group intends to settle the tax assets and the tax liabilities on a net basis.

*Value added tax*

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and,
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### m) Dividends payable

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

### n) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Company has become party to the contractual provisions of the instrument.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n) Financial instruments (continued)

The entity's classification of financial assets and financial liabilities is as follows:

| *Description of asset/liability* | *Classification* |
|---|---|
| Other equity investments (Note 19) | Available-for-sale investments |
| Trade and other receivables [Note 22 (a)] | Loans and receivables |
| Loan to subsidiary [Note 33 (iii)] | Loans and receivables |
| Cash and cash equivalents - cash and bank balance [Note 23 (a)] | Loans and receivables |
| Cash and cash equivalents - short term deposits [Note 23 (b)] | Loans and receivables |
| Trade and other payables (Note 29) | Loans and borrowings |

Financial assets

i) Classification and measurement

The Group classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity financial assets; and available-for-sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

*Financial assets at fair value through profit or loss*

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 as held for trading if:

a) it has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or ,
b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit taking; or,
c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) the financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
c) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement, permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. The Group has not designated any financial assets at fair value through profit or loss.

*Loans and receivables*

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in other gains and losses in profit or loss.

*Held to maturity financial assets*

Held to maturity investments 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 of other than an insignificant amount of held-to-maturity assets occurs, the entire category would be tainted and classified as available-for-sale.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n) Financial instruments (continued)

i) Classification and measurement (continued)

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

*Available-for-sale financial assets*

Available–or-sale investments are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, which are recognised in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

ii) De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

iii) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Additional disclosures for impairment losses are in Note 2, to the financial statements.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include; the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, delinquency, and initiation of bankruptcy proceedings as well as observable changes in national or local economic conditions that correlate with default on receivables.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n) Financial instruments (continued)

iii) Impairment of financial assets (continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Financial liabilities and equity instruments issued by the Group

i) Classification and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Group has not designated any financial liabilities at fair value through profit or loss. The Group also did not have derivatives designated as hedging instruments.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.
The Group's financial liabilities include trade and other payables.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Financial liabilities classified as loans and borrowings.*

Loans and borrowings, including trade and other payables, are initially measured at fair value, net of directly attributable transaction costs.

Loans and borrowings are subsequently measured at amortised cost using the effective interest (EIR) method, with interest expense recognised on an effective yield 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, to the net carrying amount on initial recognition. The EIR amortisation is included in finance costs in profit or loss.

*Derivative financial instruments*

The Group enters into a variety of derivative financial instruments to manage its exposure to changes in fuel prices and foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

In the current year, the group had no derivatives in the annual financial statements.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

ii) De-recognition of financial liabilities

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

Offsetting of financial instruments

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

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### o) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

*Goodwill*

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying amount may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### p) Employee entitlements

*Retirement benefits obligations - defined contribution plans*

The Group operates a defined contribution pension scheme for eligible employees. The scheme is administered by an independent administration company and is funded by contributions from the Group companies and employees. These are further discussed under Note 35, to the financial statements.

The Group also makes contributions to the statutory defined contribution schemes in the two countries where operations are based.

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

*Other entitlements*

Employee entitlements to long service awards and service gratuity are recognised when they accrue to employees. A provision is made for the estimated liability for long-service awards as a result of services rendered by employees up to the reporting date. These are further discussed under Note 1 (r) – service gratuities, long service awards and leave pay.

Employee entitlements to annual leave are recognised when they expected to be paid to employees. A provision is made for the estimated liability for annual leave at the reporting date. These are further discussed under Note 1 (r) – service gratuities, long service awards and leave pay.

*Bonus*

An accrual is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, the obligation can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### q) 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 reporting date taking into account the risks and uncertainties surrounding the obligation.

*Site restoration*

The Group makes full provision for the future cost of rehabilitating its quarry sites and related production facilities on a discounted basis at the time of developing the quarries and installing and using those facilities. Site restoration provisions are disclosed in Note 27, to the financial statements.

### r) Service gratuities, long service award, leave pay and termination benefits

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

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

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

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

The Group recognises the following changes in the net defined benefit in profit or loss as:

- Service costs comprising current service costs are recognised in profit or loss under cost of sales.
- Net interest expense or income is recognised in profit or loss under cost of sales.

Employee entitlements to annual leave are recognised when they expected to be paid to employees. A provision is made for the estimated liability for annual leave at the reporting date. Service gratuity, long service awards and leave pay provisions are disclosed in Note 27, to the financial statements.

The Group recognises a liability and expense for termination benefits at the earlier of the following dates:

(a) when the Group can no longer withdraw the offer of those benefits; and
(b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

### s) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

### t) Fair value measurement

The Group measures financial instruments such as available-for-sale at fair value at each reporting date. The Group also measures certain items of property, plant and equipment at fair value. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 38(b), to the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### t) Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as freehold land and buildings. Involvement of external valuers is decided upon annually by the finance director after discussions with and approval by the Group's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## 2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, the Directors have made estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities within the next financial year.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

The key areas of judgement and sources of estimation uncertainty are as set out below:

*Inventories provisioning and inventories count*
Management makes provisions for spares that exceed the set maximum level based on the usage of the inventory by comparing items in stock with the recent past consumption. The maximum level is determined by taking into consideration the lead time, the specified order quantity, the source of the spares and the projected usage rate.

The inventories counts for raw materials – bulk materials including clinker, gypsum, bauxite, pozollana and bulk cement, are carried out through a survey by an independent suryeyor. This surveying process requires judgement and estimation.

Further details on inventories are given in Note 21, to the financial statements.

*Revaluation of certain classes of property, plant and equipment*

The Group carries certain classes of property, plant and equipment at fair value, with changes in fair value being recognised in other comprehensive income. The Group's land, buildings, plant, and machinery were last revalued on 1 December 2012. Land and buildings were valued on the basis of open market value by independent valuers, Knight Frank Valuers Limited.

Plant and machinery were revalued on a depreciated replacement cost basis using a valuation model prescribed by engineers and consultants at the technical centre of the ultimate shareholder.

Further details on property, plant and equipment are given in Note 15, to the financial statements.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

*Fair value of financial instruments*

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 38 for further discussion.

*Site restoration*

The Group makes full provision for the future cost of rehabilitating its quarry sites and related production facilities on a discounted basis at the time of developing the quarries and installing and using those facilities. On an annual basis, management, with the assistance of technical staff, makes estimations on the adequacy of the site restoration provisions. The provisions are made based on the additional open space, net of rehabilitated areas, arising from quarrying operations that took place in the year. The estimated cost per hectare is then applied to determine this adequacy. The cost per hectare is periodically assessed to factor in inflation.

Site restoration provisions are disclosed in Note 27, to the financial statements.

*Post-employment benefits*

The cost and the present value of the obligation of the service gratuity, long service awards and other post-employment benefits are determined using actuarial valuations by an independent actuarial valuer. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the actuary considers the interest rates of the government bond market. The actuary also considers the mean terms of the yield of the bond and the liabilities. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about service gratuity, long service awards and other post-employment benefits are given in Note 28, to the financial statements.

*Impairment losses*

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible 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. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

In assessing whether there is any indication that the tangible and intangible assets may be impaired, the Group considers the following indications:

a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
d) the carrying amount of the net assets of the entity is more than its market capitalisation.
e) evidence is available of obsolescence or physical damage of an asset.
f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Further details on property, plant and equipment are given in Note 15, to the financial statements and intangible assets in Note 17, to the financial statements.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. Dividends received are the cash flows from the CGU. The Company estimates the dividend expected yearly from each CGU and discounts these using estimated discount rates. In assessing whether there is any indication that the Goodwill is impaired, the Group considers that any observable indications that the CGU's dividends have declined significantly during the period more than would be expected in normal operations of the CGU.

For available-for-sale financial assets, the Group assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available–for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. Further disclosures on this class of assets are done in Note 19, to the financial statements.

*Useful lives and residual values of property, plant and equipment*

The Group reviews the estimated useful lives and residual values of property, plant and equipment at the end of each reporting period. In reviewing the useful lives of property, plant and equipment, the Group considers the remaining period over which an asset is expected to be available for use by the Group. Management also looks at the number of production or similar units expected to be obtained from the property, plant and equipment. Judgment and assumptions are required in estimating the remaining useful period and estimates of the number of production or similar units expected to be obtained from the property, plant and equipment.

During the financial year, no changes to the useful lives were identified by the Directors. Further details on property, plant and equipment are given in Note 15, to the financial statements.

*Contingent liabilities*

As disclosed in Note 30 to these financial statements, the Group is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The Directors evaluate the status of these exposures on a regular basis to assess the probability of the Group incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation has been established. Judgement and assumptions are required in:

- assessing the existence of a present obligation (legal or constructive) as a result of a past event,
- assessing the probability that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Estimating the amount of the obligation to be paid out.

*Income taxes*

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made. Further details on income taxes are disclosed in Notes 12, 26 and 30(d), to the financial statements.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 3. SEGMENT INFORMATION

In accordance with IFRS 8, Operating Segments, the information presented hereafter by operating segment is the same as that reported to the Chief Operating Decision Maker (the Group Managing Director) for the purposes of making decisions about allocating resources to the segment and assessing its performance.

The Group analyses its organisational structure and internal reporting system for the purpose of identifying suitable segment reporting format for the Group. The Group is organised on a regional basis into two main geographical segments: Kenya and Uganda.

Both geographical segments are mainly involved in the manufacture and sale of cement which comprises over 95% of the business activities of the Group. The remaining business activities, which include manufacture and sale of ready mix concrete, precast products and rehabilitation of quarries that are used as source of raw materials for cement production, are not deemed significant for separate segment reporting. There are no segments that are aggregated.

Group management internally evaluates its performance based upon:

- Operating income before capital gains, impairment and restructuring
- Capital employed (defined as the total of goodwill, intangible and tangible assets and working capital).

Year ended 31 December 2016 - All figures in millions of Kenya Shillings

| | Kenya | Uganda | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|
| Revenue: | | | | |
| External customers | 21,261 | 16,773 | - | 38,034 |
| Inter-segment | 3,064 | - | (3,064) | - |
| Total revenue | 24,325 | 16,773 | (3,064) | 38,034 |
| Cost of sales | (16,919) | (10,935) | 3,064 | (24,790) |
| Gross profit | 7,406 | 5,838 | - | 13,244 |
| Gross profit margin | 30% | 35% | - | 35% |
| Investment income | 428 | 30 | (89) | 369 |
| Interest expense | - | - | - | - |
| Profit before tax | 5,301 | 3,059 | (89) | 8,271 |
| Income tax expense | (1,480) | (901) | - | (2,381) |
| Profit for the year | 3,821 | 2,158 | (89) | 5,890 |
| Segment assets | 26,473 | 15,272 | (934) | 40,811 |
| Segment liabilities | 6,461 | 5,122 | (591) | 10,992 |
| Capital additions | 284 | 157 | - | 441 |
| Depreciation and amortisation | 1,034 | 571 | - | 1,605 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 3. SEGMENT INFORMATION (continued)

Year ended 31 December 2015 - All figures in millions of Kenya Shillings

| | Kenya | Uganda | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|
| Revenue : | | | | |
| External customers | 22,397 | 16,803 | - | 39,200 |
| Inter-segment | 2,452 | - | (2,452) | - |
| Total revenue | 24,849 | 16,803 | (2,452) | 39,200 |
| Cost of sales | (17,796) | (11,326) | 2,452 | (26,670) |
| Gross profit | 7,053 | 5,477 | - | 12,530 |
| Gross profit margin | 28% | 33% | - | 32% |
| Investment income | 700 | 28 | (354) | 374 |
| Profit before tax | 5,936 | 2,876 | (354) | 8,458 |
| Income tax expense | (1,744) | (842) | - | (2,586) |
| Profit for the year | 4,192 | 2,034 | (354) | 5,872 |
| Segment assets | 29,485 | 14,367 | (1,822) | 42,030 |
| Segment liabilities | 8,391 | 5,122 | (1,189) | 12,324 |
| Capital additions | 228 | 678 | - | 906 |
| Depreciation and amortisation | 1,036 | 613 | - | 1,649 |

Total assets are shown by the geographical area in which the assets are located. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and cash equivalents. Segment liabilities comprise trade and other payables, dividends payable and certain corporate borrowings.

Information about major customers

Included in the Group's revenues of Shs 38,034 million (2015: Shs 39,200 million) are approximately Shs 5,006 million (2015: Shs 3,872 million) which arose from sales to the Group's largest customer arising from the Kenyan segment.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. REVENUE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Cement | 36,159 | 37,408 | 23,189 | 23,691 |
| Precast products | 795 | 942 | - | - |
| Ready mix | 1,034 | 810 | - | - |
| Others* | 46 | 40 | - | - |
| | 38,034 | 39,200 | 23,189 | 23,691 |

*The other revenue includes mainly service delivery receipts from tourism activities earned by Lafarge Eco Systems Limited, a subsidiary of Bamburi Cement Limited.*

## 5. COST OF SALES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Electricity | 3,500 | 3,227 | 2,169 | 2,241 |
| Fuel - coal, fuel oil, and alternative fuel | 2,636 | 3,195 | 1,750 | 1,605 |
| Maintenance supplies and contract works | 2,071 | 1,513 | 1,077 | 981 |
| Imported clinker | 3,272 | 3,471 | 2,803 | 3,151 |
| Packaging | 892 | 1,241 | 735 | 837 |
| Additives and production supplies | 3,732 | 3,231 | 2,159 | 1,967 |
| Freight of raw materials | 2,547 | 4,472 | 2,547 | 2,958 |
| Purchased cement and clinker cost of goods sold | 1,783 | 1,651 | - | 40 |
| Staff costs [Note 11(b)] | 1,583 | 1,806 | 1,000 | 1,001 |
| Professional fees | 97 | 305 | 55 | 164 |
| Telecommunication costs | 152 | 96 | 44 | 39 |
| Transport and travelling costs | 167 | 112 | 69 | 56 |
| Rentals, security, business licences and levies | 578 | 434 | 393 | 243 |
| Depreciation on property, plant and equipment [Note 11(c) ] | 1,535 | 1,575 | 937 | 936 |
| Amortisation of intangible assets and leasehold land | 36 | 40 | 19 | 19 |
| Inventory movement | 209 | 301 | 220 | 468 |
| | 24,790 | 26,670 | 15,977 | 16,706 |

## 6. INVESTMENT INCOME

| | | | | |
|---|---|---|---|---|
| Interest income – cash deposits with local banks | 369 | 374 | 339 | 346 |
| Interest income – subsidiary loan [Note 33 (iii)] | - | - | 13 | 15 |
| Dividend income from subsidiary | - | - | 89 | 354 |
| | 369 | 374 | 441 | 715 |

The dividend income from subsidiary was received from Hima Cement Limited net of withholding tax of Shs 16 million (2015- Shs 62 million).

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 7. OTHER GAINS AND LOSSES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| (Loss)/gain on disposal of property, plant and equipment | (3) | 2 | 1 | 2 |
| Loss on retirement of property, plant and equipment | (12) | (39) | - | - |
| Rental income from residential property and land | 23 | 11 | 23 | 11 |
| (Increase) / decrease in bad debts provision [Note 22 (b)] | (75) | 154 | (60) | 142 |
| Sundry (expense)/ income* | (96) | 16 | (135) | (5) |
| Net foreign exchange gains | 196 | 853 | 272 | 667 |
| | 33 | 997 | 101 | 817 |

**Sundry (expense)/income include many items which are individually of small amounts such as sale of coal and sale of scrap net of other miscellaneous costs.*

## 8. ADMINISTRATION EXPENSES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Staff costs [Note 11 (b)] | 1,221 | 996 | 629 | 680 |
| Professional fees | 145 | 686 | 80 | 117 |
| Telecommunication costs | 173 | 262 | 157 | 160 |
| Transport and travel costs | 245 | 109 | 90 | 37 |
| Rental and security costs | 239 | 174 | 65 | 134 |
| Bank charges | 46 | 60 | 33 | 17 |
| | 2,069 | 2,287 | 1,054 | 1,145 |

## 9. OTHER EXPENSES

| | | | | |
|---|---|---|---|---|
| Depreciation on property, plant and equipment [Note 11 (c) ] | 22 | 22 | 20 | 20 |
| Amortisation of intangible assets and prepaid operating lease rentals | 12 | 12 | 12 | 12 |
| Technical fees [Note 33 (i)] | 1,499 | 1,555 | 838 | 926 |
| Other costs* | 149 | 55 | 125 | 30 |
| | 1,682 | 1,644 | 995 | 988 |

**Other costs include hire of equipment and clearing and forwarding costs.*

## 10. RESTRUCTURING COSTS

The Group implemented a restructuring exercise across its entities in 2015 to align the organisation structure to the evolving strategic direction. The restructuring costs include costs of staff voluntary early retirement and redundancies.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 11. (a) PROFIT BEFORE TAX

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Profit before tax is arrived at after charging | | | | |
| Staff costs (Note 11(b)) | 2,804 | 2,802 | 1,629 | 1,681 |
| Depreciation on property, plant and equipment (Note 15, 11(c)) | 1,557 | 1,597 | 957 | 956 |
| Amortisation of intangible assets (Note 17) | 40 | 43 | 31 | 31 |
| Amortisation of prepaid lease rentals (Note 16) | 8 | 9 | - | - |
| Directors' fees (Note 33 (iv)) | 7 | 4 | 7 | 4 |
| Other key management emoluments (Note 33 (iv)) | 290 | 260 | 197 | 196 |
| Auditors' remuneration | 11 | 10 | 5 | 5 |
| And after crediting: | | | | |
| Interest income (Note 6) | 369 | 374 | 352 | 361 |
| (Loss)/gain on disposal of property, plant and equipment (Note 7) | (3) | 2 | 1 | 2 |
| Dividend income (Note 6) | - | - | 89 | 354 |
| Foreign exchange gain (Note 7) | 196 | 853 | 272 | 667 |

### (b) STAFF COSTS

| | | | | |
|---|---|---|---|---|
| Salaries and wages | 1,909 | 1,935 | 1,140 | 1,184 |
| Retirement benefits costs | 187 | 156 | 340 | 120 |
| Staff welfare costs | 708 | 711 | 149 | 377 |
| | 2,804 | 2,802 | 1,629 | 1,681 |
| Presented as: | | | | |
| Cost of sales (Note 5) | 1,583 | 1,806 | 1,000 | 1,001 |
| Administration expenses (Note 8) | 1,221 | 996 | 629 | 680 |
| | 2,804 | 2,802 | 1,629 | 1,681 |

### (c) Depreciation on property, plant and equipment is presented as:

| | | | | |
|---|---|---|---|---|
| Cost of sales (Note 5) | 1,535 | 1,575 | 937 | 936 |
| Other expenses (Note 9) | 22 | 22 | 20 | 20 |
| | 1,557 | 1,597 | 957 | 956 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 12. TAX

### (a) Tax charge

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Profit and loss | | | | |
| Current tax based on the adjusted profit at 30% | 2,915 | 2,979 | 1,794 | 2,071 |
| Deferred tax credit (Note 26) | (534) | (393) | (339) | (320) |
| Total tax charge | 2,381 | 2,586 | 1,455 | 1,751 |
| Other comprehensive income | | | | |
| Actuarial gain (Note 26) | 14 | (12) | 10 | (7) |

### (b) Reconciliation of expected tax based on accounting profit to tax charge:

| | | | | |
|---|---|---|---|---|
| Profit before tax | 8,271 | 8,458 | 5,234 | 6,100 |
| Tax calculated at the domestic rates applicable of 30 % | 2,481 | 2,537 | 1,570 | 1,830 |
| Tax effect of income not subject to tax | (172) | - | (181) | (146) |
| Tax effect of expenses not deductible for tax purposes | 72 | 49 | 66 | 67 |
| Total tax charge | 2,381 | 2,586 | 1,455 | 1,751 |

Income not subject to tax relates to dividends from entities where shareholding is 12.5% or more. Expenses not allowable for tax purposes include donations, disallowable staff benefits and disallowable items related to property, plant and equipment.

### (c) Corporate tax recoverable

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| At the beginning of the year | 341 | (107) | 472 | (21) |
| Tax charge | 2,915 | 2,979 | 1,794 | 2,071 |
| Tax paid | (3,424) | (2,531) | (2,371) | (1,578) |
| Tax (recoverable)/payable at end of the year | (168) | 341 | (105) | 472 |
| Reflected in the statement of financial position as follows: | | | | |
| Tax payable at end of the year | - | 472 | - | 472 |
| Tax recoverable at end of the year | (168) | (131) | (105) | - |
| | (168) | 341 | (105) | 472 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 13. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders by the weighted average number of ordinary shares in issue during the year, as shown below.
There were no potentially dilutive shares as at 31 December 2016 and as at 31 December 2015. There were also no discontinued operations during the year (2015: Nil).

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Net profit attributable to owners of the parent company (Shs million) | 5, 243 | 5,260 | 3,779 | 4,349 |
| Weighted average number of ordinary shares (million) | 363 | 363 | 363 | 363 |
| Basic and diluted earnings per share (Shs) | 14.44 | 14.49 | 10.41 | 11.98 |

## 14. DIVIDENDS

| | | GROUP AND COMPANY | |
|---|---|---|---|
| | | 2016 Shs'million | 2015 Shs'million |
| (a) | Unclaimed dividends | | |
| | At beginning of year | 6 | 25 |
| | Declared and approved during the year - Note 14(b) | 4,719 | 4,356 |
| | Dividends claimed/paid in the year | (4,719) | (4,375) |
| | At end of year | 6 | 6 |
| (b) | Dividends declared/approved during the year 2016 and 2015: | | |
| | Final dividends for previous year | 2,541 | 2,178 |
| | Interim dividends for current year | 2,178 | 2,178 |
| | | 4,719 | 4,356 |
| (c) | Dividends declared/proposed in respect of the year | | |
| | Interim dividend - paid in the year* | 2,178 | 2,178 |
| | Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)** | 2,178 | 2,541 |
| | | 4,356 | 4,719 |
| | Dividends per share (based on 363 million shares ) | Shs 12.00 | Shs 13.00 |
| (d) | Dividends payable to non-controlling interest | | |
| | Dividends declared/approved during the year 2016 and 2015: | | |
| | Final dividends previous year | 45 | 93 |
| | Interim dividends current year | - | 93 |
| | | 45 | 186 |
| | Dividends paid/claimed | (45) | (95) |
| | | - | 91 |

* On 28 October 2016, an interim dividend of Shs 6.00 (30 June 2015: Shs 6.00) per share representing an amount of Shs 2,178 million (2015: Shs 2,178 million) was declared and paid.

** In respect of the current year, the directors propose that a final dividend of Shs 6.00 (2015 – Shs 7.00) per share equivalent to a total sum of Shs 2,178 million (2015 – Shs 2,541 million) be paid to the shareholders.

The final dividend is subject to approval by owners of the Company at the Annual General Meeting and has not been included as a liability in these financial statements.

Withholding tax

Payment of dividends is subject to withholding tax at a rate of 10% for non-resident owners of the Group and 5% for resident shareholders. For resident owners of the Group, withholding tax is only deductible where the shareholding is below 12.5%.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. PROPERTY, PLANT AND EQUIPMENT

### a) GROUP

| Year ended 31 December 2016 | Freehold land and residential buildings Shs'million | Plant and machinery Shs'million | Office equipment and tools Shs'million | Mobile plant Shs'million | Capital work-in-progress ** Shs'million | Total Shs'million |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2016 | 7,738 | 34,217 | 1,415 | 880 | 612 | 44,862 |
| Reclassifications**** | (75) | 70 | (201) | 206 | - | - |
| Foreign exchange adjustments* | (21) | (876) | (16) | (12) | (28) | (953) |
| Additions | 5 | 8 | 4 | 6 | 384 | 407 |
| Disposals | - | (31) | (68) | (256) | - | (355) |
| Transfers on capitalisation | - | 341 | 30 | 32 | (403) | - |
| Retirement*** | (28) | (1,061) | (36) | (8) | - | (1,133) |
| At 31 December 2016 | 7,619 | 32,668 | 1,128 | 848 | 565 | 42,828 |
| Depreciation | | | | | | |
| At 1 January 2016 | 555 | 19,394 | 1,214 | 802 | - | 21,965 |
| Reclassifications**** | (184) | 269 | (238) | 140 | - | (13) |
| Foreign exchange adjustments* | (11) | (276) | (14) | (9) | - | (310) |
| Charge for the year | 43 | 1,370 | 89 | 55 | - | 1,557 |
| Disposals | - | (19) | (68) | (256) | - | (343) |
| Retirement*** | (17) | (1,061) | (36) | (7) | - | (1,121) |
| At 31 December 2016 | 386 | 19,677 | 947 | 725 | - | 21,735 |
| Net carrying amount | | | | | | |
| At 31 December 2016 | 7,233 | 12,991 | 181 | 123 | 565 | 21,093 |

* The foreign exchange adjustments arise from the translation of the carrying amounts of assets held by a subsidiary, HimCem Holdings Limited.

** Capital work-in-progress represents costs incurred on ongoing work in respect of additions and replacements to various plants at year-end. Capital work-in-progress is not depreciated until the plants are completed and brought into use.

*** Retirements include property, plant and equipment that was scrapped off (derecognised) during the year.

**** Reclassifications represent movements of assets between asset classes.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

a) GROUP

| Year ended 31 December 2015 | Freehold land and residential buildings Shs'million | Plant and machinery Shs'million | Office equipment and tools Shs'million | Mobile plant Shs'million | Capital work-in-progress ** Shs'million | Total Shs'million |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2015 | 7,735 | 34,373 | 1,362 | 957 | 511 | 44,938 |
| Foreign exchange adjustments* | (24) | (760) | (20) | (22) | (30) | (856) |
| Additions | - | - | 1 | - | 896 | 897 |
| Disposals | - | - | - | (55) | - | (55) |
| Transfers on capitalisation | 27 | 651 | 72 | - | (750) | - |
| Retirement*** | - | (47) | - | - | (15) | (62) |
| At 31 December 2015 | 7,738 | 34,217 | 1,415 | 880 | 612 | 44,862 |
| Depreciation | | | | | | |
| At 1 January 2015 | 524 | 18,216 | 1,133 | 802 | - | 20,675 |
| Foreign exchange adjustments* | (12) | (185) | (17) | (17) | - | (231) |
| Charge for the year | 43 | 1,386 | 98 | 70 | - | 1,597 |
| Disposals | - | - | - | (53) | - | (53) |
| Retirement*** | - | (23) | - | - | - | (23) |
| At 31 December 2015 | 555 | 19,394 | 1,214 | 802 | - | 21,965 |
| Net carrying amount | | | | | | |
| At 31 December 2015 | 7,183 | 14,823 | 201 | 78 | 612 | 22,897 |

* The foreign exchange adjustments arise from the translation of the carrying values of assets held by a subsidiary, HimCem Holdings Limited.

** Capital work-in-progress represents costs incurred on ongoing work in respect of additions and replacements to various plants at year-end. Work-in-progress is not depreciated until the plants are completed and brought into use. Retirements include property, plant and equipment that was scrapped off (derecognised) during the year.

*** Retirements include property, plant and equipment that was scrapped off (derecognised) during the year.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

### b) COMPANY

| Year ended 31 December 2016 | Freehold land and residential buildings Shs'million | Plant and machinery Shs'million | Office equipment and tools Shs'million | Mobile plant Shs'million | Capital work-in-progress Shs'million | Total Shs'million |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2016 | 7,108 | 21,852 | 933 | 632 | 230 | 30,755 |
| Additions | 5 | - | - | - | 273 | 278 |
| Transfers | - | 274 | 28 | 14 | (316) | - |
| Disposals | - | - | (30) | (147) | - | (177) |
| Retirement* | - | (1,061) | (30) | - | - | (1,091) |
| At 31 December 2016 | 7,113 | 21,065 | 901 | 499 | 187 | 29,765 |
| Depreciation | | | | | | |
| At 1 January 2016 | 132 | 16,420 | 751 | 562 | - | 17,865 |
| Charge for the year | 17 | 842 | 74 | 24 | - | 957 |
| Disposals | - | - | (30) | (147) | - | (177) |
| Retirement* | - | (1,061) | (30) | - | - | (1,091) |
| At 31 December 2016 | 149 | 16,201 | 765 | 439 | - | 17,554 |
| Net carrying amount | | | | | | |
| At 31 December 2016 | 6,964 | 4,864 | 136 | 60 | 187 | 12,211 |

| Year ended 31 December 2015 | Freehold land and residential buildings Shs'million | Plant and machinery Shs'million | Office equipment and tools Shs'million | Mobile plant Shs'million | Capital work-in-progress Shs'million | Total Shs'million |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2015 | 7,108 | 21,745 | 899 | 664 | 114 | 30,530 |
| Additions | - | - | - | - | 272 | 272 |
| Transfers | - | 107 | 34 | - | (141) | - |
| Disposals | - | - | - | (32) | - | (32) |
| Retirement* | - | - | - | - | (15) | (15) |
| At 31 December 2015 | 7,108 | 21,852 | 933 | 632 | 230 | 30,755 |
| Depreciation | | | | | | |
| At 1 January 2015 | 114 | 15,593 | 664 | 570 | - | 16,941 |
| Charge for the year | 18 | 827 | 87 | 24 | - | 956 |
| Disposal | - | - | - | (32) | - | (32) |
| At 31 December 2015 | 132 | 16,420 | 751 | 562 | - | 17,865 |
| Net carrying amount | | | | | | |
| At 31 December 2015 | 6,976 | 5,432 | 182 | 70 | 230 | 12,890 |

* Retirements include property, plant and equipment that was scrapped (derecognised) during the year.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

### c) OTHER DISCLOSURES

If the revalued property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Cost | | | | |
| Plant and machinery | 21,960 | 18,794 | 10,666 | 8,538 |
| Freehold land and buildings | 1,415 | 2,430 | 892 | 885 |
| | 23,375 | 21,224 | 11,558 | 9,423 |
| Accumulated depreciation | | | | |
| Plant and machinery | (10,504) | (6,939) | (6,864) | (4,982) |
| Freehold land and buildings | (276) | (918) | (90) | (79) |
| | (10,780) | (7,857) | (6,954) | (5,061) |
| Net carrying amount | 12,595 | 13,367 | 4,604 | 4,362 |

The Group's land, buildings, plant, and machinery were last revalued on 1 December 2012. Land and residential buildings were valued on the basis of open market value by independent valuers, Knight Frank Valuers Limited. Plant and machinery were revalued on a depreciated replacement cost basis using a valuation model prescribed by engineers and consultants at the technical centre of the ultimate shareholder. As at 31 December 2016, the carrying amounts of the assets did not differ significantly from their fair values.

Freehold land and residential buildings include land with a carrying amount of Shs 529 million (2015: Shs 529 million) located in Mombasa and limestone deposits with a carrying amount of Shs 10 million (2015: Shs 16 million) in Kasese, Uganda.

There were no borrowing costs capitalised during the year ended 31 December 2016 (2015: Nil).

### d) IMPACT OF THE ENACTMENT OF THE LAND REGISTRATION ACT NO. 3 2012 ON THE COMPANY'S LAND HOLDING STATUS

The current Constitution, enacted on 27 August 2010, introduced significant changes in the landholding by non-citizens. The Constitution no longer allows foreigners and foreign bodies to own freehold land and leasehold land in excess of 99 years. Freehold land and leasehold land of more than 99 years owned by foreigners and foreign bodies automatically becomes 99 year leases upon enactment of the required legislation under Articles 65(4) of the constitution. These changes in the landholding took effect on 2 May 2012 upon the enactment of the Land Registration Act No. 3 of 2012.

As per the definition of Articles 65(3) of the constitution, the Company is a non-citizen and hence the status of its freehold land changes to 99 years lease.

Under the International Accounting Standards (IAS) No. 17 Leases, a 99 year lease qualifies for a finance lease classification if the lessor transfers significantly risks and rewards incidental to the ownership of the land to the Company.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

d) IMPACT OF THE ENACTMENT OF THE LAND REGISTRATION ACT NO. 3 2012 OF THE COMPANY'S LAND HOLDING STATUS (continued)

Accordingly, the new 99 year lease would qualify as a finance lease. The Company currently accounts for its land previously classified as freehold in a similar manner to finance leases.

The Company is waiting for the National Land Commission to issue guidelines that will operationalise the provisions of the constitution and the revised land laws. The Company will continue to reassess the impact of the revised land laws to the financial statements as the guidelines are issued.

## 16. PREPAID OPERATING LEASE RENTALS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| **Cost** | | | | |
| At 1 January | 210 | 207 | 3 | 3 |
| Foreign exchange adjustments* | (11) | 3 | - | - |
| Additions in the year | - | - | - | - |
| At 31 December | 199 | 210 | 3 | 3 |
| **Amortisation** | | | | |
| At 1 January | 46 | 21 | 2 | 2 |
| Foreign exchange adjustments* | - | 16 | - | - |
| Charge for the year | 8 | 9 | - | - |
| At 31 December | 54 | 46 | 2 | 2 |
| Net carrying amount | 145 | 164 | 1 | 1 |

The operating lease rentals relate to leasehold land, mainly raw materials quarries, located in Mombasa and Athi River in Kenya and Kasese in Uganda.

* The foreign exchange adjustments arise from the translation of the carrying amounts of assets held by a subsidiary, HimCem Holdings Limited.

## 17. INTANGIBLE ASSETS – COMPUTER SOFTWARE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| **Cost** | | | | |
| At 1 January | 673 | 664 | 548 | 548 |
| Additions | 34 | 9 | 6 | - |
| At 31 December | 707 | 673 | 554 | 548 |
| **Amortisation** | | | | |
| At 1 January | 589 | 546 | 482 | 451 |
| Charge for the year | 40 | 43 | 31 | 31 |
| | 629 | 589 | 513 | 482 |
| Net carrying amount | 78 | 84 | 41 | 66 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES

### a) Information about subsidiaries

The consolidated financial statements of the Group include investment in subsidiaries as below.

These investments are unquoted and held at cost less accumulated impairment loss:

| | | | COMPANY | |
|---|---|---|---|---|
| | Principal place of business | Holding % | 2016 Shs'million | 2015 Shs'million |
| Bamburi Special Products Limited | Kenya | 100 | 20 | 20 |
| Bamburi Cement Limited, Uganda* | Uganda | 100 | - | - |
| HimCem Holdings Limited | Channel Islands | 100 | 911 | 911 |
| Lafarge Eco Systems Limited** | Kenya | 100 | 130 | 130 |
| Diani Estate Limited | Kenya | 100 | 1 | 1 |
| Kenya Cement Marketing Limited* | Kenya | 50 | - | - |
| Portland Mines Limited* | Kenya | 50 | - | - |
| | | | 1,062 | 1,062 |

Except where indicated above, the subsidiaries are incorporated in Kenya. HimCem Holdings Limited has a 70% holding in its subsidiary, Hima Cement Limited, a Company incorporated in Uganda.

* The amount of investments for Kenya Cement Marketing Limited, Bamburi Cement Limited, Uganda and for Portland Mines Limited are below Shs 1,000,000.

** There was an additional investment of Shs. 125 million in Lafarge Ecosystems in 2015 by the parent company necessitated by the thin capitalisation state of the subsidiary that was heightened by restructuring costs during the year. The restructuring costs arose from the strategic reorientation of the subsidiary to address the erosion of its equity over the years.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES (continued)

### b) Material partly-owned subsidiary

Financial information of subsidiary that has material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

| Name | Country of incorporation and operation | 2016 | 2015 |
|---|---|---|---|
| Hima Cement Limited | Uganda | 30% | 30% |

| | 2016 Shs'million | 2015 Shs'million |
|---|---|---|
| Accumulated balances of material non-controlling interest | 3,421 | 2,817 |
| Profit for the year allocated to material non-controlling interest | 647 | 612 |
| Total Comprehensive income allocated to material Non-Controlling interest | 642 | 612 |

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations.

| Summarised statement of profit or loss | 2016 Shs'million | 2015 Shs'million |
|---|---|---|
| Revenue | 16,773 | 16,803 |
| Cost of Sales | (10,935) | (11,326) |
| Gross profit | 5,838 | 5,477 |
| Investment income | 30 | 28 |
| Other gains and losses | (76) | 178 |
| Distribution costs | (1,088) | (946) |
| Marketing expenses | (65) | (91) |
| Administration expenses | (887) | (1,068) |
| Other expenses | (693) | (702) |
| Finance costs | - | - |
| Profit before tax | 3,059 | 2,876 |
| Tax charge | (901) | (842) |
| Profit for the year | 2,158 | 2,034 |
| Other comprehensive income , net of tax | (18) | - |
| Total comprehensive income | 2,140 | 2,034 |
| Attributable to non-controlling interests | 642 | 612 |
| Profit for the year | 647 | 612 |
| Total other comprehensive income | (5) | - |
| | 642 | 612 |
| Dividends paid and allocated to non-controlling interests | 45 | 186 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES (continued)

### b) Material partly-owned subsidiary (continued)

| | 2016 Shs'million | 2015 Shs'million |
|---|---|---|
| **Summarised statement of financial position as at 31 December** | | |
| **Non-current assets** | | |
| Property, plant and equipment and other non-current assets | 8,656 | 9,707 |
| **Current assets** | | |
| Inventories and cash and bank balances and other current assets | 6,616 | 4,660 |
| **Current liabilities** | | |
| Trade and other payables and other current liabilities | (2,908) | (2,923) |
| **Non-current liabilities** | | |
| Deferred tax liabilities | (1,881) | (2,199) |
| Total equity and reserves | 10,483 | 9,245 |
| Equity holders of parent | 7,062 | 6,419 |
| Non-controlling interest | 3,421 | 2,826 |
| | 10,483 | 9,245 |
| **Summarised cash flow information for year ending 31 December** | | |
| Operating | 1,024 | 1,755 |
| Investing | (401) | (717) |
| Financing | (148) | (518) |
| Net increase in cash and cash equivalents | 475 | 520 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 19. OTHER EQUITY INVESTMENTS – Available-for-sale

These represent available-for-sale investments which are carried at fair value annually at the close of business on the reporting date. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices.

The market value of the quoted equity shares at 31 December 2016 was Shs 278 million (2015: Shs 535 million). Changes in the fair values are recognised in other comprehensive income and accumulated in the available-for-sale reserve in equity. The investments as at 31 December 2016 were both quoted in the stock market.

### a) Movement in the equity investments- available-for-sale investments

| | GROUP AND COMPANY | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| At 1 January | 535 | 662 |
| Fair value loss (Note 19(b)) | (257) | (127) |
| At 31 December | 278 | 535 |

### b) Analysis of the equity investments

| | Number of shares | | | Valuation | | | |
|---|---|---|---|---|---|---|---|
| Quoted investments | At 1.1.2015 Units | additions/ (disposals) Units | At 31.12.2015 Units | At 1.1.2015 Shs' million | Additions/ (disposals) Shs' million | Increase/ (decrease) in market value Shs' million | At 31.12.2015 Shs' million |
| East African Portland Cement Limited | 11,265,068 | - | 11,265,068 | 653 | - | (127) | 526 |
| Kenya Oil Company Limited | 905,500 | - | 905,500 | 9 | - | - | 9 |
| | | | | 662 | - | (127) | 535 |

| | Number of shares | | | Valuation | | | |
|---|---|---|---|---|---|---|---|
| Quoted investments | At 1.1.2016 units | additions/ (disposals) units | At 31.12.2016 units | At 1.1.2016 Shs' million | Additions/ (disposals) Shs' million | increase/ (decrease) in market value Shs' million | At 31.12.2016 Shs' million |
| East African Portland Cement Limited | 11,265,068 | - | 11,265,068 | 526 | - | (261) | 265 |
| Kenya Oil Company Limited | 905,500 | - | 905,500 | 9 | - | 4 | 13 |
| | | | | 535 | - | (257) | 278 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 20. GOODWILL

| | GROUP AND COMPANY | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| At beginning and end of the year | 217 | 217 |

The goodwill amounting to Shs 217 million arose from the acquisition of a subsidiary, HimCem Holdings Limited, in 1999. HimCem is the majority owner of the Group's operating Company in Uganda, Hima Cement Limited. The whole amount has been allocated to the subsidiary, which the Group considers as a cash generating unit (CGU). Determination of goodwill impairment involves an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The Company estimates the dividend expected yearly from the CGU and discounts it using estimated discount rates.

The amount of the goodwill has been determined based on a value in use calculation using cash flow projections covering a period of 16 years from the year 2014. This is based on the expected life of the plant. The cash flows from the cash generating unit are based on expected return on capital invested of 8% and a stable market share. The expected cash flows are based on past experience on dividend received from the CGU. The yearly dividend received is expected to remain constant in the period stipulated. Management is of the opinion that any possible reasonable change in these assumptions would not cause the global carrying amount to exceed the recoverable amount.

During the current financial year, the directors assessed the recoverable amount of goodwill and determined that the goodwill is not impaired. The recoverable amount of the cash generating units was assessed by reference to value in use.

## 21. INVENTORIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Raw materials | 1,847 | 1,753 | 1,062 | 1,049 |
| Bio fuel supplies | 471 | 469 | 471 | 469 |
| Consumables and spare parts | 2,162 | 2,374 | 1,116 | 1,229 |
| Finished and semi-finished goods | 1,578 | 1,732 | 1,006 | 990 |
| Fuel and packaging | 273 | 276 | 224 | 144 |
| | 6,331 | 6,604 | 3,879 | 3,881 |

The bio fuel supplies relate to direct operating costs incurred in respect to the on-going bio-fuels project. These costs include those relating to labour, seedlings, transportation and other directly attributable overheads. This is included in inventories as there is a plan to utilise the same in future, upon maturity, as alternative fuel in the clinker production process. The bio-fuels are not for sale, however, a fair valuation will be performed on them in 2017.

There were write-downs of inventories in 2016 of Shs 50 million (2015: Shs 7 million). There were no inventories pledged as security for liabilities.

During 2016, Shs 14.3 billion (2015: Shs 14.6 billion) and Shs 8.5 billion (2015: Shs 8.5 billion), for the Group and the Company, respectively, was recognised as an expense for inventories. This is recognised in cost of sales.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 22. TRADE AND OTHER RECEIVABLES

### a) Analysis of trade and other receivables:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Trade receivables | 2,933 | 1,617 | 1,215 | 614 |
| Prepayments | 2,086 | 1,126 | 1,090 | 741 |
| Deposits | 16 | 27 | 7 | 26 |
| Other receivables* | 461 | 136 | 125 | 56 |
| Receivables from related companies (Note 33 (ii)) | 33 | 39 | 883 | 994 |
| | 5,529 | 2,945 | 3,320 | 2,431 |

**The other receivables include advances to staff, insurance recoverable and accrued interest.*

### b) Trade receivables:

The average credit period on sales of finished goods is 30 days. The bulk of the trade receivables are covered by bank guarantees in favour of the Group. Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed quarterly.

Trade and other receivables are carried net of provision for bad and doubtful debts. The movement in the allowance for bad and doubtful debts is as set out below:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| At beginning of year | 284 | 130 | 176 | 34 |
| (Decrease) /increase in allowance for bad debts charged (credited) to profit or loss (Note 7) | (75) | 154 | (60) | 142 |
| At end of year | 209 | 284 | 116 | 176 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Other receivables and receivables from related companies are all performing and no impairment losses have been recognised for them.
Additional disclosures for credit risk management are in Note 36 (ii).

## 23. CASH AND CASH EQUIVALENTS

### a) Analysis of cash and cash equivalents:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Cash at bank and on hand | 5,457 | 6,953 | 3,731 | 5,807 |
| Cash deposits with local banks | 1,515 | 1,500 | 1,500 | 1,500 |
| | 6,972 | 8,453 | 5,231 | 7,307 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 23. CASH AND CASH EQUIVALENTS (continued)

### b) Cash and cash equivalents:

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand and deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Analysis of cash and cash equivalents is as set out below:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Cash and cash equivalents: - Note 23(a) | 6,972 | 8,453 | 5,231 | 7,307 |

### c) Short term deposits – held to maturity:

| | | | | |
|---|---|---|---|---|
| Cash deposits with local banks | 1,515 | 1,500 | 1,500 | 1,500 |

The weighted average interest rates earned on the cash deposited with local banks and related party during the year were as shown below:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Local currencies | 10.05% | 11.00% | 10.05% | 11.00% |
| Foreign currencies | 0.3% | 0.13% | 0.3% | 0.13% |

## 24. SHARE CAPITAL

| | GROUP AND COMPANY | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| Authorised | | |
| 366,600,000 ordinary shares of Shs 5 each | 1,833 | 1,833 |
| 100,000, 7% redeemable cumulative preference shares of Shs 20 each | 2 | 2 |
| | 1,835 | 1,835 |
| Issued and fully paid | | |
| 362,959,275 ordinary shares of Shs 5 each | 1,815 | 1,815 |

Fully paid ordinary shares, which have a par value of Shs 5 each, carry a right of one vote per share and have rights to dividends.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 25. RESERVES

### a) Asset revaluation reserve

The revaluation reserve is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued amount of the asset and depreciation based on the asset original cost. When revalued assets are sold, the portion of the revaluation reserve that relates to those assets is effectively realised and transferred directly to retained earnings. The revaluation reserve is not distributable.

### b) Available-for-sale reserve

The available-for-sale reserve represents accumulated gains and losses arising on the revaluation of available- for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

| | GROUP AND COMPANY | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| At 1 January | 332 | 459 |
| Net loss arising on revaluation of available-for-sale investments (Note 19(b)) | (257) | (127) |
| At 31 December | 75 | 332 |

### c) Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currency to the Group's presentation currency (Kenya shillings) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal or partial disposal of a foreign operation.

## 26. DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2015: 30%). The makeup of the deferred tax liabilities at the year-end and the movement on the deferred tax account during the year are as presented below:

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 26. DEFERRED TAX LIABILITY (continued)

| GROUP | At 1 Jan. 16<br>Shs'million | Profit or loss Note 12(a)<br>Shs'million | Other comprehensive income (Note 12(a)<br>Shs'million | Foreign Exchange Adjustment* | At 31 Dec. 16<br>Shs'million |
|---|---|---|---|---|---|
| Property, plant and equipment | 3,747 | (442) | - | (148) | 3,157 |
| Provision for staff gratuity, long service award and leave | (217) | 9 | 14 | (10) | (204) |
| Bonus payable | (93) | 13 | - | 9 | (71) |
| Net foreign exchange gain | 59 | 77 | - | (34) | 102 |
| Net foreign exchange loss | - | (26) | - | 15 | (11) |
| Provision for site restoration and litigation | (26) | (6) | - | (7) | (39) |
| Provision for bad debts | (46) | 8 | - | - | (38) |
| Tax losses | 2 | - | - | - | 2 |
| Provision for obsolete inventories | (61) | (167) | - | 4 | (224) |
| | 3,365 | (534) | 14 | (171) | 2,674 |

| GROUP | At 1 Jan. 15<br>Shs'million | Profit or loss Note 12(a)<br>Shs'million | Other comprehensive income (Note 12(a)<br>Shs'million | Foreign Exchange Adjustment* | At 31 Dec. 15<br>Shs'million |
|---|---|---|---|---|---|
| Property, plant and equipment | 4,257 | (313) | - | (197) | 3,747 |
| Provision for staff gratuity, long service award and leave | (216) | 4 | (12) | 7 | (217) |
| Bonus payable | (26) | (67) | - | - | (93) |
| Net foreign exchange gain | 12 | 39 | - | 8 | 59 |
| Provision for site restoration and litigation | (18) | 1 | - | (9) | (26) |
| Provision for bad debts | (51) | 5 | - | - | (46) |
| Tax losses | (3) | 3 | - | 2 | 2 |
| Provision for obsolete inventories | - | (65) | - | 4 | (61) |
| | 3,955 | (393) | (12) | (185) | 3,365 |

*The foreign exchange adjustments arise from the translation of the carrying amounts of deferred tax held by a subsidiary, HimCem Holdings Limited.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 26. DEFERRED TAX LIABILITY (continued)

| COMPANY | At 1 Jan. 16 Shs'million | Profit or loss (Note 12 (a)) Shs'million | Other comprehensive income Shs'million | At 31 Dec. 16 Shs'million |
|---|---|---|---|---|
| Property, plant and equipment | 1,425 | (360) | - | 1,065 |
| Provision for site restoration and litigation | (18) | (4) | - | (22) |
| Bonus payable | (52) | 14 | - | (38) |
| Foreign exchange gain | 18 | 72 | - | 90 |
| Provision for staff gratuity, long service award and leave | (195) | 1 | 10 | (184) |
| Provision for obsolete inventories | (65) | (68) | - | (133) |
| Foreign exchange loss | (16) | 6 | - | (10) |
| Provision for bad debts | (15) | - | - | (15) |
| | 1,082 | (339) | 10 | 753 |

| | At 1 Jan. 15 Shs'million | Profit or loss (Note 12 (a)) Shs'million | Other comprehensive income Shs'million | At 31 Dec. 15 Shs'million |
|---|---|---|---|---|
| Property, plant and equipment | 1,640 | (215) | - | 1,425 |
| Provision for site restoration and litigation | (20) | 2 | - | (18) |
| Bonus payable | - | (52) | - | (52) |
| Foreign exchange gain | - | 18 | - | 18 |
| Provision for staff gratuity, long service award and leave | (184) | (4) | (7) | (195) |
| Provision for obsolete inventories | - | (65) | - | (65) |
| Foreign exchange loss | (7) | (9) | - | (16) |
| Provision for bad debts | (20) | 5 | - | (15) |
| | 1,409 | (320) | (7) | 1,082 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 27. PROVISIONS

| Year ended 31 December 2016 | Site restoration and litigation Shs' million | Leave pay Shs' million | 2016 Total Shs' million |
|---|---|---|---|
| GROUP | | | |
| At beginning of year | 848 | 56 | 904 |
| Additional provisions | 75 | 18 | 93 |
| Utilised during the year | (228) | (15) | (243) |
| At end of year | 695 | 59 | 754 |
| Categorised as: | | | |
| Current portion | - | 59 | 59 |
| Non-current portion | 695 | - | 695 |
| | 695 | 59 | 754 |
| COMPANY | | | |
| At beginning of year | 877 | 29 | 906 |
| Additional provisions | 19 | 9 | 28 |
| Utilised during the year | (228) | (5) | (233) |
| At end of year | 668 | 33 | 701 |
| Categorised as: | | | |
| Current portion | - | 33 | 33 |
| Non-current portion | 668 | - | 668 |
| | 668 | 33 | 701 |

| Year ended 31 December 2015 | Site restoration and litigation Shs' million | Leave pay Shs' million | Total Shs' million |
|---|---|---|---|
| GROUP | | | |
| At beginning of year | 748 | 25 | 773 |
| Additional provisions | 230 | 52 | 282 |
| Utilised during the year | (130) | (21) | (151) |
| At end of year | 848 | 56 | 904 |
| Categorised as: | | | |
| Current portion | 228 | 56 | 284 |
| Non-current portion | 620 | - | 620 |
| | 848 | 56 | 904 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 27. PROVISIONS (continued)

| Year ended 31 December 2015 | Site restoration and litigation Shs' million | Leave pay Shs' million | Total Shs' million |
|---|---|---|---|
| COMPANY | | | |
| At beginning of year | 770 | 25 | 795 |
| Additional provisions | 237 | 10 | 247 |
| Utilised during the year | (130) | (6) | (136) |
| At end of year | 877 | 29 | 906 |
| Categorised as: | | | |
| Current portion | 228 | 29 | 257 |
| Non-current portion | 649 | - | 649 |
| | 877 | 29 | 906 |

The provision for site restoration and litigation relates to future outflows that will be required to settle related liabilities.

The Group makes full provision for the future cost of rehabilitating its quarry sites and related production facilities on a discounted basis at the time of developing the quarries and installing and using the facilities. The site restoration provision represents the present value of rehabilitation costs relating to quarry sites. These provisions have been created based on the Group's internal estimates and assumptions based on the current economic environment, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

The actual restoration costs will depend upon future market prices for the necessary rehabilitation works required that will reflect market conditions at the relevant time. The timing of the rehabilitation is likely to depend on when the quarries cease to produce at economically viable rates. This, in turn, will depend upon future material prices, which are inherently uncertain.

In the ordinary course of its business, the Group is involved in a certain number of litigation proceedings. The Group is also subject to a number of claims and lawsuits which fall outside the scope of the ordinary course of its business.

The amount of provisions made is based on the Group's assessment of the basis for the claims and the level of risk on a case-by-case basis. The provision depends on the Group's assessment of the stage of the proceedings and the arguments in its defense, The occurrence of events during proceedings may lead to a reappraisal of the risk at any time.

Leave pay relates to employee benefits in the form of annual leave entitlements provided for when they accrue to employees with reference to services rendered up to the reporting date. Employees are entitled to carry forward a maximum of 10 leave working days per annum which should be fully utilised by the end of the following year.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 28. EMPLOYEE BENEFIT LIABILITIES

Service gratuity and long service

The provisions for service gratuity and long service awards represent entitlements that accrue as a result of services offered by employees. These are classified as defined benefit plans and are not funded. The cost and the present value of the obligation of the service gratuity and long service awards are determined using actuarial valuations by an independent actuarial valuer.

The following table summarises the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and the amounts recognised in the statement of financial position for the respective plans:

Year ended 31 December 2016

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Long service award Shs'million | Gratuity Shs'million | Total Shs'million | Long service award Shs'million | Gratuity Shs'million | Total Shs'million |
| Opening employee benefit obligation | 65 | 618 | 683 | 53 | 537 | 590 |
| Current service cost- charged to profit or loss cost of sales | 8 | 27 | 35 | 4 | 14 | 18 |
| Benefits payments | (6) | (78) | (84) | (22) | (75) | (97) |
| Interest cost - charged to profit or loss cost of sales | 10 | 76 | 86 | 5 | 70 | 75 |
| Actuarial gain-charged to other comprehensive income | (19) | (26) | (45) | (13) | (22) | (35) |
| Closing employee benefit obligation | 58 | 617 | 675 | 27 | 524 | 551 |
| Categorised as: | | | | | | |
| Current portion | 6 | 92 | 98 | 2 | 23 | 25 |
| Non-current portion | 52 | 525 | 577 | 25 | 501 | 526 |
| Total | 58 | 617 | 675 | 27 | 524 | 551 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 28. EMPLOYEE BENEFIT LIABILITIES (continued)

Year ended 31 December 2015

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Long service award Shs'million | Gratuity Shs'million | Total Shs'million | Long service award Shs'million | Gratuity Shs'million | Total Shs'million |
| Opening employee benefit obligation | 76 | 629 | 705 | 56 | 533 | 589 |
| Current service cost- charged to profit or loss cost of sales | 8 | 30 | 38 | 4 | 24 | 28 |
| Benefits payments | (9) | (82) | (91) | (7) | (59) | (66) |
| Interest cost- charged to profit or loss cost of sales | 8 | 62 | 70 | 4 | 58 | 62 |
| Actuarial gain-charged to other comprehensive income | (18) | (21) | (39) | (4) | (19) | (23) |
| Closing employee benefit obligation | 65 | 618 | 683 | 53 | 537 | 590 |

Categorised as:

| | | | | | | |
|---|---|---|---|---|---|---|
| Current portion | 8 | 29 | 37 | 4 | 24 | 28 |
| Non-current portion | 57 | 589 | 646 | 49 | 513 | 562 |
| Total | 65 | 618 | 683 | 53 | 537 | 590 |

The principal actuarial assumptions used in determining service gratuity and long service awards obligations for the Group's plans are shown below:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Kenya | Uganda | Kenya | Uganda |
| | % | % | % | % |
| Interest rate | 12.8% | 17.5% | 15.3% | 20.1% |
| Future salary increases | 10.8% | 15.5% | 13.3% | 18.1% |
| Long service award escalation rate | 7.8% | 12.5% | 10.3% | 15.1% |

A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

| Group | Interest rate | | Future salary increases rate | | Award escalation rate | |
|---|---|---|---|---|---|---|
| | $+\frac{1}{2}\%$ Shs'million | $-\frac{1}{2}\%$ Shs'million | $+\frac{1}{2}\%$ Shs'million | $-\frac{1}{2}\%$ Shs'million | $+\frac{1}{2}\%$ Shs'million | $-\frac{1}{2}\%$ Shs'million |
| Gratuity | (15) | 6 | 6 | (15) | (5) | (5) |
| Long service awards | (1) | 1 | - | - | 1 | (1) |
| Total | (16) | 7 | 6 | (15) | (4) | (6) |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 28. EMPLOYEE BENEFIT LIABILITIES (continued)

| Company | Interest rate | | Salary escalation rate | | Award escalation rate | |
|---|---|---|---|---|---|---|
| | + ½% | - ½% | + ½% | - ½% | + ½% | - ½% |
| | Shs'million | Shs'million | Shs'million | Shs'million | Shs'million | Shs'million |
| Gratuity | (17) | 2 | 1 | (17) | (8) | (8) |
| Long service awards | (1) | - | - | - | - | (1) |
| Total | (18) | 2 | 1 | (17) | (8) | (9) |

*Discount rate*

IAS 19 requires the discount rate to be determined by reference to the market yields, on the reporting date, on high quality corporate bonds, or in the countries where there is no deep market in such bonds, the market yields on government bonds. The currency and term of the corporate or government bonds should be consistent with the currency and estimated term of the post- employment benefit obligation. In the absence of a deep and liquid market in such long dated securities in Kenya and Uganda, a discount rate as at 31 December 2016 of 15.3% (2015-15.3%) per annum and 20.1% (2015-20.1%) per annum has been used for Kenya and Uganda respectively. In this case, the government bond rates were used to determine the discount rates.

In Kenya, the bond selected to match the liabilities outstanding had a term of approximately 6 years and with a yield of 12.8% per annum. At this yield, the bond and the liabilities had discounted mean term of 4.13 years and the yield is thus considered appropriate discount rate. In Uganda, the longest bond had an outstanding term of approximately 15 years and with a yield of 15% per annum. It was considered appropriate to use the yield on the longest bond available as the valuation interest rate.

*Mortality rate*

The actuary uses actives' mortality A49-52 ultimate and pensioners' mortality A55 as the base tables of standard mortality rates. Statistical methods are used to adjust the rates reflected on the base table based on the Company's experience of improvement or worsening of mortality.

## 29. TRADE AND OTHER PAYABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | Shs'million | Shs'million | Shs'million | Shs'million |
| Trade payables | 4,920 | 5,212 | 3,357 | 2,958 |
| Accrued expenses | 1,325 | 1,002 | 480 | 931 |
| Other payables | 343 | 192 | 191 | 21 |
| Payable to related companies - Note 33 (ii) | 295 | 397 | 321 | 303 |
| | 6,883 | 6,803 | 4,349 | 4,213 |

Terms and conditions of the above financial liabilities:

- Trade payables and payables to related parties are non-interest bearing and are normally settled on a 30 – 60 day terms.
- Other payables are non-interest bearing and have an average term of less than one month. These mainly relate to amounts due to statutory bodies in respect to year-end staff deductions.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 30. CONTINGENCIES

### a) Contingent Liabilities

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Bonds/guarantees issued by the Group's bankers in favour of Kenya Revenue Authority and Uganda National Roads Authority | 588 | 661 | 571 | 571 |
| Bonds/guarantees issued by the Group's bankers in favour of other parties | 388 | 591 | 315 | 413 |
| At end of year | 976 | 1,252 | 886 | 984 |

### b) Guarantees

The guarantees and bonds are issued by the Group's bankers in favour of third parties and the Group has entered into counter-indemnities with the same banks. These guarantees are part of the borrowing facilities disclosed in Note 30(e)above and are issued in the normal course of business.

Included in the bonds/ guarantees issued in favour of Kenya Revenue Authority is an amount of Shs 471 million (2015: 471 million) given in favour of Kenya Revenue Authority as the Company appeals the decision of the Local Committee (see Note 30(d)).

### c) Legal matters

The Group is involved in a number of legal proceedings which are yet to be concluded upon. The Directors have evaluated the pending cases and determined that no material liabilities are likely to arise from these cases which arose in the normal course of business. The Group has an in-house legal department that assessed the court cases in arriving at the above conclusion. These include:-

#### Kampala International University Case

Included in the guarantees to third parties is Shs 92 million (Ugx 2.7 billion) relating to a pending court case with Kampala International University. This is a case where, on 04 February 2012, the High Court ordered Hima Cement Limited, one of the subsidiaries, to pay Kampala International University (KIU) Ugx 2.7 billion in damages arising out of a suit filed by Kampala International University. The judgment also granted Hima Cement Limited the right to demand the said total sum of the award from the Uganda Revenue Authority (URA), who, the judgment states unlawfully procured a breach of agreement between Kampala International University and Hima Cement Limited. No provision has been made for this amount in the financial statements as at 31 December 2016 on the basis that the company has appealed the ruling in the Court of Appeal. On 31 March 2017, subsequent to the approval of the financial statements on 9 March 2017, the Court of Appeal of Uganda at Kampala ruled in favour of KIU and ordered Hima Cement Limited to refund KIU a sum of Shs 6.4 million (UGX 217 million) and damages for breach of contract of Shs 1.5 million (UGX 50 million). These awards attract interest at a rate of 26% from the date of judgement. The order by the High Court for Hima Cement Limited to pay KIU the sum of Shs 92 million (UGX 2.7 million) was however set aside. The bank guarantee issued by Hima Cement Limited was therefore extinguished on 31 March 2017, following the delivery of judgement.

#### Hima Cement Limited - mining lease suit

Hima Cement Limited had a mining lease over limestone deposits in Kasese, western Uganda, whose expiry date was 31 December 2012. In February 2012, East Africa Gold Sniffing Company Limited (EAGSCL) gave notice that it had been issued with an exploration license over the area covered by the mining lease. Hima Cement Limited filed an application for administrative review by the Ministry of Energy and Mineral Development against the issuance of the exploration license, which was heard and determined on 26 April 2012. The Minister for Energy and mineral develepoment held that EAGSCL's application for the exploration license did not comply with requirements of the Mining Act, 2003 and was cancelled. The Minister also held that the expiry date indicated in the Hima Cement Limited's mining lease was incorrect and that the lease had expired on 31 December 2011. Subsequent to this, the company applied for, and received a new mining lease which was granted on 14 March 2013.

Following the granting of the new mining lease to Hima Cement Limited, EAGSCL filed an application for judicial review in the High Court on the Minister's decision on grounds that the Minister erred in hearing an administrative review application filed by Hima Cement Limited, which had no legal right under the law since the company's mining lease had expired and that no company known as Hima Cement Limited existed. Hima Cement Limited applied and was enjoined in this case as an interested party.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 30. CONTINGENCIES (continued)

### c) Legal matters (continued)

#### Hima Cement Limited - mining lease suit (continued)

On 26 March 2013, the High Court ruled that Hima Cement Limited did not follow the law in changing its name and as such no entity known as Hima Cement Limited exists in law and, therefore, there was no competent legal person to file an administrative review before the Minister.

The decision by the Minister that revoked the EAGSCL's exploration license was cancelled and the mining rights of Hima Cement Limited conferred to EAGSCL.

In conjunction with the Attorney General Chambers, Hima Cement Limited filed a Civil Appeal in the Court of Appeal of Uganda and an interim stay of execution was granted on 12 April 2013. Both parties to the suit (Hima Cement Limited and EAGSCL) subsequently agreed to have the interim stay of execution remain in force until the disposal of the suit in the court of appeal. The stay of execution allows Hima Cement Limited to continue with its operations, until the Court of Appeal makes a judgement.

On the issue of existence of the Company, Hima Cement Limited's lawyers carried out a thorough search at the Companies Registry and confirmed that Hima Cement Limited's files did exist. The Company was duly incorporated in 1994 as Hima Cement (1994) Limited and it changed its name to Hima Cement Limited in 1999, and all the documents filed subsequent to the said change of name read the new name Hima Cement Limited. Consequently, the Company received the certificate of change of name on 23 June 1999. Since the change of name in 1999, Hima Cement Limited has been fulfilling its obligations including filing returns and paying taxes.

According to the Board of Directors evaluation of the case and the legal advice received from the Company's lawyers, the directors opine that the appeal has a strong basis with a high likelihood of success. As such, the financial statements of Hima Cement Limited for the year ended 31 December 2016 have been prepared on a going concern basis.

### d) Tax matters

The Group is regularly subject to evaluations, by the taxation authorities, of its direct and indirect taxation affairs and in connection with such reviews, tax assessments can be issued by the taxation authorities in respect of the Group's taxation affairs.

In February 2012, the Kenya Revenue Authority issued a tax assessment of Shs 3.9 billion being principal tax of Shs 2 billion and, penalties and interest of Shs 1.9 billion. This assessment is in respect of Company's corporate tax, and value added tax and withholding tax affairs for the years 2007 to 2011. In August 2013, the Company received a confirmed assessment of Shs 2.67 billion comprising principal tax of Shs 1.31 billion and penalties and interest of Shs 1.36 billion. In accordance with the tax legislation, the Company appealed to the Local Committee and the Value Added Tax Tribunal. The basis of the Company objection relates to the specific matters of application and interpretation of tax legislation affecting the Company and the industry in which it operates.

The matters under appeal to the Local Committee related to corporate and income tax and were heard and a ruling made in July 2014. The Company won on some matters and lost in others. Subsequent to the Local Committee ruling, the Kenya Revenue Authority issued an assessment of Sh 997 million (being principal tax of Shs 456 million and interest and penalties of Shs 541 million). The Company has appealed this decision to the High Court but in the meantime the Company's bankers, on the instructions of the Company, issued a bond of Shs 471 million in favour of KRA, as the Company appeals the local committee decision (see Note 30(b) above).

For the matters relating to VAT amounting to Shs 373 million the company negotiated a settlement with Kenya Revenue Authority through the KRA Alternative Dispute Resolution process which was filed with the Tax tribunal. In the negotiated settlement agreement the company paid Shs 130 million and made an application for waiver of penalties and interest of Shs 161 million, while the Kenya Revenue Authority dropped Shs 56 million from the initial assessment. The company has to date received a 55% waiver of penalties and interest totalling Shs 71 million from Kenya Revenue Authority and paid the 45% balance of Shs 58 million.

With the assistance of professional advice, the directors have considered all matters in contention and are confident that the appeal will be successful and no material liability will crystallise to the Company.

### e) Borrowing facilities

As at end of the year, the Group had working capital facilities amounting to a total of Shs 3,628 million (2015 – Shs 3,632 million), out of which the undrawn facilities amounted to Shs 2,652 million (2015 – Shs 2,501 million). The drawn amounts mainly relate to supplier trade finance, bonds and guarantees.

The working capital facilities are annual facilities that were subject to review at various dates during the year 2016. They consist of letters of credit and guarantees, among others.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 31. CAPITAL COMMITMENTS

Authorised and contracted

Capital expenditure contracted for at the end of the reporting period but not recognised in the financial statements is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Commitments for the acquisition of property, plant and equipment | 5,917 | 36 | 2,719 | 36 |

Commitments during the year relate to phase 1 of capacity expansion in both Kenya and Uganda.

Authorised but not contracted

Capital expenditure authorised but not contracted for at the reporting date:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Commitments for the acquisition of property, plant and equipment | 541 | 5 | - | 5 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 32. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

| GROUP | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| Profit before tax | | 8,271 | 8,458 |
| *Adjustments for:* | | | |
| Depreciation on property, plant and equipment | 15(a) | 1,557 | 1,597 |
| Amortisation of intangible assets | 17 | 40 | 43 |
| Amortisation of prepaid operating lease rentals | 16 | 8 | 9 |
| Gain on disposal of property, plant and equipment | 7 | (3) | (2) |
| Loss on retirement of property, plant and equipment | 7 | 12 | 39 |
| Interest income | 6 | (369) | (374) |
| Net foreign exchange gains | | (208) | (104) |
| Provisions and employees defined benefits charged to profit or loss | | (214) | 390 |
| Operating profit before working capital changes | | 9,522 | 10,056 |
| *Changes in working capital balances:* | | | |
| Decrease / (increase) in inventories | | 273 | (1,019) |
| Increase in trade and other receivables | | (2,677) | (736) |
| Increase in provisions and employees' defined benefits liabilities | | (360) | (286) |
| Increase in trade and other payables | | 56 | 305 |
| Cash generated from operations | | 6,814 | 8,320 |

| COMPANY | Notes | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|
| Profit before tax | | 5,234 | 6,100 |
| Adjustments for: | | | |
| Depreciation on property, plant and equipment | 15(b) | 957 | 956 |
| Amortisation of intangible assets | 17 | 31 | 31 |
| Interest income | 6 | (352) | (361) |
| Dividend income | 6 | (89) | (354) |
| Gain on disposal of property, plant and equipment | 7 | (1) | (2) |
| Retirement of property, plant and equipment | 15(b) | - | 15 |
| Provisions and employees defined benefits charged to profit or loss | | 121 | 337 |
| Net foreign exchange gains | | 26 | 5 |
| Operating profit before working capital changes | | 5,927 | 6,727 |
| *Changes in working capital balances:* | | | |
| Decrease / (increase) in inventories | | 2 | (374) |
| Increase in trade and other receivables | | (889) | (204) |
| Increase in provisions and employees' defined benefits liabilities | | (365) | (216) |
| Increase / (decrease) in trade and other payables | | 136 | (22) |
| Cash generated from operations | | 4,811 | 5,911 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 33. RELATED PARTY TRANSACTIONS

Note 18 provides the information about the Group's structure including the details of the subsidiaries.

The ultimate parent of the Group is LafargeHolcim Ltd, incorporated in Switzerland. There are other companies which are related to Bamburi Cement Limited through common shareholdings.

### i) Related party transactions

The Company receives technical assistance from the majority shareholder, LafargeHolcim Ltd, which is paid for under a five-year agreement.

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

| GROUP | | Sales of goods and services Shs'million | Purchases of goods and services Shs'million | Interest received Shs'million |
|---|---|---|---|---|
| Entity with significant influence over the Group: | | | | |
| Lafarge SA (technical fees) | 2016 | - | 1,499 | - |
| | 2015 | - | 1,555 | - |
| Other related companies | | | | |
| Cementia Holdings | 2016 | - | 1,551 | |
| | 2015 | - | 3,108 | - |
| Lafarge Energy Solutions | 2016 | - | 1,204 | |
| | 2015 | - | 1,481 | - |
| Others | 2016 | | | |
| | 2015 | 15 | - | - |

| COMPANY | | Sales of goods and services Shs'million | Purchases of goods and services Shs'million | Interest received Shs'million |
|---|---|---|---|---|
| Entity with significant influence over the Group: | | | | |
| Lafarge SA (technical fees) | 2016 | - | 838 | - |
| | 2015 | - | 926 | - |
| Subsidiaries: | | | | |
| Hima Cement Limited | 2016 | 3,064 | - | - |
| | 2015 | 2,452 | - | - |
| Bamburi Special Products Limited | 2016 | 740 | - | 13 |
| | 2015 | 634 | - | 15 |
| Other Related parties | | | | |
| Cementia Holdings | 2016 | - | 1,551 | - |
| | 2015 | - | 2,529 | - |
| Lafarge Energy Solutions | 2016 | - | 1,015 | - |
| | 2015 | - | 1,012 | - |
| Others | 2016 | | | |
| | 2015 | 15 | - | - |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 33. RELATED PARTY TRANSACTIONS (continued)

ii) Outstanding balances arising from sale and purchase of goods and services to/from related companies at the year-end.

| RECEIVABLES FROM RELATED PARTIES | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Receivables from related parties | | | | |
| Lafarge France | 6 | 6 | 10 | 6 |
| Lafarge South Africa | 5 | 5 | 5 | 5 |
| Lafarge Technical Centre Europe | 1 | 1 | 10 | 1 |
| Chilanga Cement Plc Zambia | 6 | 6 | 6 | 6 |
| Mbeya Cement | (6) | - | (7) | (6) |
| Malawi Portland Cement | 17 | 17 | 8 | 17 |
| West Africa Portland Cement | (4) | (4) | 8 | (4) |
| Ashaka Cement Co. | 2 | 2 | 2 | 2 |
| Lafarge Cairo | 6 | 6 | 7 | 6 |
| Other related parties | - | - | 68 | - |
| | 33 | 39 | 117 | 33 |
| Receivables from subsidiaries | | | | |
| Hima Cement Limited | - | - | 294 | 336 |
| Bamburi Special Products Limited | - | - | 369 | 414 |
| Lafarge Eco Systems Limited | - | - | 103 | 211 |
| | - | - | 766 | 961 |
| Total receivables [Note 22(a)] | 33 | 39 | 883 | 994 |

| PAYABLES TO RELATED PARTIES | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Holcim Technology Limited | 126 | - | 126 | - |
| Lafarge France | 158 | 397 | 133 | 234 |
| Lafarge Eco Systems | - | - | 51 | 69 |
| Other related parties | 11 | - | 11 | - |
| Total payables to related parties (Note 29) | 295 | 397 | 321 | 303 |

*Terms and conditions of transactions and balances with related parties*

The sales to and purchases from related parties are made on terms as specified in the transfer pricing arrangement between the Group companies. Outstanding balances at the year-end are unsecured and interest free except for short term deposits and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. There have been no guarantees or commitments provided or received for any related party receivables or payables.

# Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

## 33. RELATED PARTY TRANSACTIONS (continued)

### iii) Loan to subsidiary

As at the end of the year, the balance due to the Company in respect of a loan to its subsidiary, Bamburi Special Products Limited, amounted to Shs 112 million (2015 - Shs 148 million ). The loan is unsecured and the effective interest on the loan was 10% (2015 – 10%). The loan repayment period is 10 years from January 2011. The loan comprises:

| | COMPANY | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| Current portion | 29 | 29 |
| Non-current portion | 83 | 119 |
| | 112 | 148 |
| The movement in loan to subsidiary is as shown below: | | |
| At 1 January | 148 | 169 |
| Paid during the year | (36) | (21) |
| At 31 December | 112 | 148 |
| Interest charged on the above loan (Note 6) | 13 | 15 |

### iv) Key management personnel compensation

The remuneration of directors and members of key management during the year was as follows:

| | GROUP | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| Fees for services as a director | | |
| Executive | - | - |
| Non-executive | 7 | 4 |
| Total directors' fees | 7 | 4 |
| Emoluments for directors | | |
| Salaries and bonuses | 160 | 146 |
| Short term employee benefits | 18 | 17 |
| Post-employment pension-defined contribution | 13 | 19 |
| Total emoluments for directors | 191 | 182 |
| Emoluments for key management personnel | | |
| Salaries and other short-term employment benefits: | | |
| Executive directors including other key management personnel | 93 | 71 |
| Non-executive | - | - |
| Post-employment pension-defined contribution | 6 | 7 |
| Total emoluments for key management personnel | 99 | 78 |
| Total directors and other key management emoluments | 290 | 260 |
| Guaranteed long-term loans | 4 | 19 |

*Terms and conditions of the guaranteed long-term loans*

These are loans issued to executive directors as part of the employee benefit from the general employee loan schemes and include mortgages, car loans and unsecured loans from Citibank. The Company acts as the guarantor for these loans. Any guaranteed loans that exceed Shs 1 million require a security from the directors. The loans are at commercial terms.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 34. OPERATING LEASES

*Group as a lessor*

The Group has entered into operating lease agreements for leasing out of various properties and premises. Future lease incomes expected under operating leases are as follows:

| | GROUP | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| Lease income expected under operating leases: | | |
| Not later than 1 year | 38 | 37 |
| Later than 1 year but not later than 5 years | 172 | 170 |
| | 210 | 207 |

All the commitments relate to future rent payable based on the existing contracts and projected renewals. The lease agreements are between the Group and tenants and have no provisions relating to contingent rent payable. The terms of renewal vary from one lease to another and may include a written notice to the lessors before the expiration of the leases and the lessors will grant to the lessee new leases of the said premises/properties for a further term as may be mutually agreed by the parties.

*Group as a lessee*

The Group has entered into operating lease agreements for leasing of motor vehicles and commercial premises. Future lease payments under non-cancellable operating leases are as follows:

| | GROUP | |
|---|---|---|
| | 2016 Shs'million | 2015 Shs'million |
| Lease payments committed under operating leases: | | |
| Not later than 1 year | 83 | 112 |
| Later than 1 year but not later than 5 years | 50 | 353 |
| | 133 | 465 |

All the commitments relate to future rent payable based on the existing contracts and projected renewals. The lease agreements are between the Group and landlords and have no provisions relating to contingent rent payable. The terms of renewal vary from one lease to another and may include a written notice to the lessors before the expiration of the leases and the lessors will grant to the lessee new leases of the said premises/properties for a further term as may be mutually agreed by the parties.

During the year ended 31 December 2016, Shs 46 million was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of the operating leases (2015: Shs 43 million).

## 35. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement plan for eligible employees. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The scheme is administered by an independent administration Company and is funded by contributions from the Group companies and employees. The Group's obligations to the staff retirement benefits plans are charged to profit or loss as they fall due as they accrue to each employee.

The Group also makes contributions to the statutory defined contribution schemes in the two countries where its operations are based. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in profit or loss of Shs 121 million (2015: Shs 120 million) and Shs 35 million (2015: Shs 36 million) represents contributions payable to these plans by the Group and Company, respectively, at rates specified in the rules of the plans. The expense has been included within the retirement benefits costs under staff costs in Note 11(b), to the financial statements.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT

**Introduction and overview**

The Group's principal financial liabilities are trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations.

The Group's principal financial assets include trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available for sale investments.

The Group is exposed to
- market risk,
- credit risk, and
- liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise potential adverse effects of such risks on its financial performance within the options available in Kenya and Uganda by setting acceptable levels of risks.

**Risk Management Framework**

Financial risk management is carried out by Corporate Finance Department under policies approved by the Board of Directors. The Group's Corporate Treasury function identifies, evaluates and manages financial risks in close cooperation with operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk and price risk. The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the LafargeHolcim Ltd risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.
The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

### i) Market risk

Market risk is the risk arising from changes in market prices, such as interest rates, equity prices and foreign exchange rates which will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Group Finance Director. The Group's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Group Finance Director) and for the day to day implementation of those policies.

There has been no change to the Group's exposure to market risks or the manner in which it measures and manages the risk.

a) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The group manages foreign exchange risk by converting its foreign currency collections into local currency on an ongoing basis to cater for its operational requirements. The group raises some bills in foreign currency and receives the settlements in the same currency to avoid the effect of swinging currency exchange rates.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT (continued)

### i) Market risk (continued)

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

Group foreign currency risk:

| | EUR Shs'million | USD Shs'million | TOTAL Shs'million |
|---|---|---|---|
| 31 December 2016: | | | |
| Assets | | | |
| Trade and other receivables | 299 | 472 | 771 |
| Bank balances | 105 | 2,027 | 2,132 |
| Total assets | 404 | 2,499 | 2,903 |
| Liabilities | | | |
| Trade and other payables | 306 | 224 | 530 |
| Net exposure position | 98 | 2,275 | 2,373 |
| 31 December 2015: | | | |
| Assets | | | |
| Trade and other receivables | 42 | 503 | 545 |
| Bank balances | 229 | 4,789 | 5,018 |
| Total assets | 271 | 5,292 | 5,563 |
| Liabilities | | | |
| Trade and other payables | 235 | 508 | 743 |
| Net exposure | 36 | 4,784 | 4,820 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT (continued)

### i) Market risk (continued)

a) Foreign currency risk management (continued)

Company foreign currency risk:

| | EUR Shs'million | USD Shs'million | TOTAL Shs'million |
|---|---|---|---|
| 31 December 2016: | | | |
| Assets | | | |
| Trade and other receivables | 284 | 12 | 296 |
| Bank balances | 58 | 1,669 | 1,727 |
| Total assets | 342 | 1,681 | 2,023 |
| Liabilities | | | |
| Trade and other payables | 299 | 203 | 502 |
| Net exposure position | 43 | 1,478 | 1,521 |
| 31 December 2015: | | | |
| Assets | | | |
| Trade and other receivables | 42 | 320 | 372 |
| Bank balances | 32 | 4,292 | 4,324 |
| Total assets | 74 | 4,612 | 4,696 |
| Liabilities | | | |
| Trade and other payables | 235 | 171 | 405 |
| Net exposure | (161) | 4,441 | 4,291 |

Foreign currency sensitivity analysis

The following sensitivity analysis shows how profit and equity would change if the Kenya Shilling had depreciated against the other currencies by 5% (2015: 5%) on the reporting date with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant. This is mainly attributable to the change in value of foreign exchange receivables, payables and bank balances.

| | Effect on profit or loss before tax | | Effect on equity | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs' million | 2016 Shs'million | 2015 Shs' million |
| GROUP | | | | |
| EUR | 5 | 2 | 4 | 1 |
| USD | 101 | 239 | 71 | 167 |
| | 106 | 241 | 75 | 168 |
| COMPANY | | | | |
| EUR | 3 | (8) | 2 | (6) |
| USD | 84 | 222 | 59 | 155 |
| | 87 | 214 | 61 | 149 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT (continued)

### i) Market risk (continued)

b) Interest rate risk

The Group also holds cash deposits with financial institutions. The interest rates on the cash deposits are fixed and agreed upon in advance.

Management closely monitors the interest rate trends to minimise the potential adverse impacts of interest rate changes. Deposits are placed at fixed interest rates and management is therefore able to plan for the resulting income. For the facilities with variable rates, the Group is in regular contact with the lenders in a bid to obtain the best available rates.

During the year, a 5% increase/decrease of the annual interest rate would have resulted in an increase/decrease in pre-tax profit of Shs 18 million (2015- Shs 19 million) and an increase/decrease in equity of Shs. 13 million (2015 – Shs. 13 million). The assumed movement in interest rate sensitivity analysis is based on the currently observable market environment. This is the amount by which interest rates in generally fluctuate by.

c) Price risk

Quoted investments are valued at their market prices. These values are subject to frequent variations and adverse market movements. This risk is mitigated by the fact that equity investments are held for strategic rather than trading purposes. The Group does not actively trade in equity investments.

At 31 December 2016, if the prices at the Nairobi Securities Exchange had appreciated/depreciated by 5% with all other variables held constant would have resulted in an increase/ decrease on other comprehensive income and equity for the Group and Company of Shs 14 million (2015- Shs 27 million) as a result of changes in fair value of available-for-sale shares.

### ii) 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.

The credit risk exposures are classified in three categories:

- Fully performing
- Past due
- Impaired

Maximum exposure to credit risk before collateral held or other credit enhancements:

The carrying amount of financial assets recorded in the financial statements representing the Group's maximum exposure to credit risk is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016<br>Shs'million | 2015<br>Shs'million | 2016<br>Shs'million | 2015<br>Shs'million |
| Loan to subsidiary | - | - | 112 | 148 |
| Trade receivables | 2,933 | 1,617 | 1,215 | 614 |
| Bank balances | 6,972 | 8,453 | 5,231 | 7,307 |

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored by the credit department. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT (continued)

### ii) Credit risk (continued)

a) *Analysis of Group credit exposure:*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Shs'million | Impairment Shs'million | Net Shs'million | Gross Shs'million | Impairment Shs'million | Net Shs'million |
| Fully performing | 1,890 | - | 1,890 | 1,423 | - | 1,423 |
| Past due | 1,252 | 209 | 1,043 | 478 | 284 | 194 |
| Trade receivables - Note 22 (a) | 3,142 | 209 | 2,933 | 1,901 | 284 | 1,617 |

b) *Analysis of Company credit risk:*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Shs'million | Impairment Shs'million | Net Shs'million | Gross Shs'million | Impairment Shs'million | Net Shs'million |
| Fully performing | 905 | - | 905 | 324 | - | 324 |
| Past due | 426 | 116 | 310 | 466 | 176 | 290 |
| Trade receivables - Note 22(a) | 1,331 | 116 | 1,215 | 790 | 176 | 614 |

As at 31 December, the ageing analysis of trade receivables is, as follows:

Ageing analysis of trade receivables for Group

| | | Neither past | Past due but not impaired | | | | Impaired |
|---|---|---|---|---|---|---|---|
| | Carrying amount Shs'million | due nor Impaired Shs'million | < 30 days Shs'million | 30–60 days Shs'million | 91–120 days Shs'million | > 120 days Shs'million | Shs'million |
| 2016 | 2,933 | 1,805 | 318 | 305 | 540 | 174 | (209) |
| 2015 | 1,617 | 1,462 | 115 | 110 | 120 | 94 | (284) |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT (continued)

### ii) Credit risk (continued)

Ageing analysis of trade receivables for Company:

| | | Neither past | Past due but not impaired | | | | Impaired |
|---|---|---|---|---|---|---|---|
| | Carrying amount | due nor Impaired | < 30 days | 30–60 days | 91–120 days | > 120 days | |
| | Shs'million | Shs'million | Shs'million | Shs'million | Shs'million | Shs'million | Shs'million |
| 2016 | 1,215 | 905 | 53 | 88 | 13 | 272 | (116) |
| 2015 | 614 | 324 | 121 | 115 | 142 | 88 | (176) |

Fully performing

The Group classifies financial assets under this category for those exposures that are up to date and in line with contractual agreements. These exposures will normally be maintained within approved product programs and with no signs of impairment or distress.

Past due but not impaired

The financial assets that are past due relate to trade receivables overdue by over 30 days. The receivables are not impaired and continue to be paid. The Group is actively following these receivables.

Impaired financial assets

Impaired financial assets are financial assets for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the agreement(s). No collateral is held with respect to the debt. These are fully provided for.

Management considers that the financial assets is impaired and impairment losses are incurred only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Management considers the following factors in determining that the financial statements are impaired:

a) significant financial difficulty of the customer;
b) a breach of contract, such as a default of payment by the customer;
c) it becoming probable that the customer will enter bankruptcy or other financial reorganisation; and
d) adverse changes in the payment status of customer such an increased number of delayed payments

*Collateral held on trade receivables*

The Group holds collateral against credit advanced to customers in the form of cash deposits and bank guarantees. Collateral is usually not held against bank balances and amounts due from related parties, and no such collateral was held at 31 December 2016 or 2015. Management assessed that the fair value of the collaterals bank guarantees approximate their carrying amounts largely due to the short-term maturities of these instruments. An estimate of the fair value of collateral held against financial assets is shown below.

There are no other significant terms and conditions associated with the use of collateral.

Fair value of collateral held against trade receivables as at 31 December 2016 and 31 December 2015 was:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| | Shs' million | Shs' million |
| Bank guarantees collateral | 886 | 723 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT (continued)

### iii) Liquidity risk

This is the risk that the Group will encounter difficulties in meeting its financial commitments from its financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management includes maintaining sufficient cash to meet the group's obligations.

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

The following table analyses the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows and exclude the impact of netting agreements.

Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

GROUP – Financial liabilities:

| | Total amount Shs'million | 0-30 days Shs'million | 31-90 days Shs'million | 91-120 days Shs'million | 120 days and above Shs'million |
|---|---|---|---|---|---|
| 31 December 2016: | | | | | |
| Trade payables (Note 29) | 4,920 | 4,451 | 242 | 157 | 70 |
| Related party payables (Note 29) | 295 | 156 | 85 | 54 | - |
| Accrued expenses (Note 29) | 1,325 | 867 | 458 | - | - |
| 31 December 2015: | | | | | |
| Trade payables (Note 29) | 5,212 | 4,591 | 325 | 234 | 62 |
| Related party payables (Note 29) | 303 | 202 | 69 | 12 | - |
| Accrued expenses (Note 29) | 1,002 | 701 | 301 | - | - |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. FINANCIAL RISK MANAGEMENT (continued)

iii) Liquidity risk (continued)

COMPANY – Financial liabilities:

| | Total amount Shs'million | 0-30 days Shs'million | 31-90 days Shs'million | 91-120 days Shs'million | 120 days and above Shs'million |
|---|---|---|---|---|---|
| 31 December 2016: | | | | | |
| Trade payables (Note 29) | 3,357 | 3,033 | 265 | 59 | - |
| Related party payables (Note 29) | 321 | 166 | 101 | 54 | - |
| Accrued expenses (Note 29) | 480 | 276 | 204 | - | - |
| 31 December 2015: | | | | | |
| Trade payables (Note 29) | 2,958 | 2,674 | 119 | 11 | 154 |
| Related party payables (Note 29) | 303 | 78 | 213 | 12 | - |
| Accrued expenses (Note 29) | 931 | 652 | 279 | - | - |

## 37. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are:

- 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.
- To maintain a strong capital base to support the current and future development needs of the business.

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

The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital. Based on the review, the Group analyses and assesses the gearing ratio to determine the level and its optimality.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. The Group's policy is to keep the gearing ratio between 20% and 40%, where applicable. As at 31 December 2016, the Group and Company were in net cash position hence not geared (2015: net cash position).

There have been no material changes in the Group's management of capital during the year.

The constitution of capital managed by the Group is as shown below:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Equity | 29,819 | 29,706 | 19,880 | 21,052 |
| Trade and other payables – Note 29 | 6,883 | 6,803 | 4,349 | 4,213 |
| Less: cash and cash equivalents - Note 23(b) | (6,972) | (8,543) | (5,231) | (7,307) |
| Net cash position | (89) | (1,740) | (882) | (3,094) |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FAIR VALUE OF ASSETS AND LIABILITIES

### a) Comparison by class of the carrying amount and fair values of the financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The table below sets out the Group's classification of each class of financial assets and liabilities, and comparison of the carrying amount and their fair (excluding accrued interest):

GROUP

| | | Carrying amount | | Fair Value | |
|---|---|---|---|---|---|
| | Notes | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
| Financial assets | | | | | |
| Other equity investments | 19 | 278 | 535 | 278 | 535 |

COMPANY

| | Notes | 2016 Shs'million | 2015 Shs'million | 2016 Shs'million | 2015 Shs'million |
|---|---|---|---|---|---|
| Financial assets | | - | | | |
| Other equity investments | 19 | 278 | 535 | 278 | 535 |
| Loan to subsidiary | 33(iii) | 112 | 148 | 77 | 92 |
| | | 390 | 683 | 355 | 627 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

### a) Comparison by class of the carrying amount and fair values of the financial instruments (continued)

Other equity investments are quoted shares at the Nairobi Securities Exchange. Fair value of the quoted shares is based on price quotations at the reporting date.

Management assessed that the fair value of trade receivables, receivables from related companies, cash and cash equivalents, trade payables and payables to related companies approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair values of the Company's loan to subsidiary is determined by using Discounting Cash Flows (DCF) method at discount rate that reflects the market interest rate as at the end of the reporting period.

### b) Fair value hierarchy

The table below shows an analysis of all assets and liabilities measured at fair value in the financial statements or for which fair values are disclosed in the financial statements by level of the fair value hierarchy. These are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| GROUP | Level 1<br>Shs'million | Level 2<br>Shs'million | Level 3<br>Shs'million |
|---|---|---|---|
| 31 December 2016 | | | |
| Assets | | | |
| Property, plant and equipment | - | - | - |
| -Freehold land and buildings | - | - | 7,233 |
| -Plant and machinery | - | - | 12,991 |
| Available -for -sale financial assets | | | |
| -Other quoted investments | 278 | - | - |
| | | | |
| 31 December 2015 | | | |
| Assets | | | |
| Property, plant and equipment | - | - | - |
| -Freehold land and buildings | - | - | 7,183 |
| -Plant and machinery | - | - | 14,823 |
| Available -for -sale financial assets | | | |
| -Other quoted investments | 535 | - | - |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

### b) Fair value hierarchy (continued)

| COMPANY | Level 1 Shs'million | Level 2 Shs'million | Level 3 Shs'million |
|---|---|---|---|
| 31 December 2016 | | | |
| Property, plant and equipment | | | |
| -Freehold land and buildings | - | - | 6,964 |
| -Plant and machinery | - | - | 4,864 |
| Available-for-sale financial assets | | | |
| -Other quoted investments | 278 | - | - |
| -Loan to subsidiary | - | 77 | - |
| 31 December 2015 | | | |
| Property, plant and equipment | | | |
| -Freehold land and buildings | - | - | 6,976 |
| -Plant and machinery | - | - | 5,432 |
| Available-for-sale financial assets | | | |
| -Other quoted investments | 535 | - | - |
| -Loan to subsidiary | - | 92 | - |

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

The Group's freehold land, buildings, plant, and machinery were last revalued on 1 December 2012. There are no significant differences between the fair values as at the valuation date and the current carrying amounts.

The valuations were based on market value as follows:

*Comparable method for valuation of land and buildings*

Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property.

As at 1 December 2012, the properties' fair values were based on valuations performed by Knight Frank Valuers Limited, an accredited independent valuer.

*Depreciated replacement cost for plant and machinery*

Plant and machinery were revalued on a depreciated replacement cost basis using a valuation model prescribed by engineers and consultants at the technical centre of the ultimate shareholder.
In using the depreciated replacement cost basis the engineers and consultants at the technical centre of the ultimate shareholder ensures that this is consistent with methods of measuring fair value as per the requirements of IFRS 13.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

### b) Fair value hierarchy (continued)

*Depreciated replacement cost for plant and machinery (continued)*

The engineers and consultants ensure that:

1) The highest and best use of the property and machinery is its current use, and
2) The principal market or in its absence, the most advantageous market, exit market, for the property and machinery is the same as the market in which the property and machinery was or will be purchased, entry market.

In addition, the engineers and consultants ensure that the resulting depreciated replacement cost is assessed to ensure market participants are willing to transact for the property and machinery in its current condition and location at this price. The inputs used to determine replacement cost are consistent with what market participant buyers will pay to acquire or construct a substitute the property and machinery of comparable utility. The replacement cost has also been adjusted for obsolescence that market participant buyers will consider.

Description of valuation techniques used and key inputs to valuation of assets and liabilities

| LEVEL 2 | Valuation technique | Significant observable inputs | Range (weighted average) Interest rate |
|---|---|---|---|
| Loan to subsidiary | DCF | Interest rate and repayment period of 5 years | 10% |

| LEVEL 3 | Valuation technique | Significant unobservable inputs | Range (weighted average) | Sensitivity of the input to fair value |
|---|---|---|---|---|
| Land | Market Comparable Approach | Price per acre | KShs 1 million - KShs 30 million | 0.5% (2015: 0.5%) increase (decrease) would result in an increase (decrease) in fair value by Shs 32.25 million |
| Buildings | Market Comparable Approach | Estimated rental value per sqm per month | KShs 30 | 0.5% (2015: 0.5%) increase (decrease) would result in an increase (decrease) in fair value by Shs 2.7 million |
| | | Rent growth p.a | 5% | |
| Plant and machinery | Depreciated replacement cost for plant and machinery | Capital expenditure for a model plant at above capacity assuming supply from Europe | KShs 500 million-714 million | 0.5% (2015: 0.5%) increase (decrease) would result in an increase (decrease) in fair value by Shs 32.09 million |

The significant unobservable inputs used in the fair value measurement of the Company's property and equipment are price per acre, estimated rental value per sqm per month and capital expenditure for a model plant at above capacity assuming supply from Europe. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

## 39. COUNTRY OF INCORPORATION

The Company is incorporated and domiciled in Kenya under the Companies Act. The ultimate parent of the Group is LafargeHolcim Ltd, incorporated in Switzerland.

## 40. EVENTS AFTER THE REPORTING DATE

The Board of Directors approved the financial statements and authorised them for issue on 9 March 2017. Subsequently, the directors, having powers to amend the financial statements after issue, have amended Note 30 (c) Legal matters – Kampala International University Case and disclosed a subsequent event on this matter. The Directors were not aware of any other matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the Group and results of its operation as laid out in these financial statements.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 66th Annual General Meeting of the Shareholders of Bamburi Cement Limited will be held in Mombasa at the Nyali International Beach Hotel on Thursday 8 June 2017 at 2.30 pm for the following purposes:

1. To table the proxies and to note the presence of a quorum.

2. To read the notice convening the meeting.

3. To receive the Chairman's statement, the Report of the Directors, the Auditor's Report and the Audited Accounts for the year ended 31 December 2016.

4. To declare dividends:

   4.1. To ratify the payment of the interim dividend of Shs. 6.00 per ordinary share paid on 28 October 2016;

   4.2. To declare a final dividend payment of Shs. 6.00 per ordinary share for the year ended 31 December 2016.

5. To approve the Directors' remuneration report for the year ended 31 December 2016 and increase Directors' fees in 2017.

6. To re-elect directors:

   6.1. In accordance with Article 110 of the Company's Articles of Association, Solomon Karanja retires by rotation and does not offer himself for re-election;

   6.2. In accordance with Article 110 of the Company's Articles of Association to re-elect the following directors who retire by rotation and being eligible, offer themselves for re-election:

   6.2.1. Eric Kironde

   6.2.2. John Simba

   6.3. In accordance with Article 115 of the Company's Articles of Association, to re-elect the following directors appointed since the last Annual General Meeting, who retire from office and, being eligible, offer themselves for re-election:

| | |
|---|---|
| 6.3.1. José Cantillana | Appointed 2 June 2016 |
| 6.3.2. Joseph Kimote | Appointed 2 June 2016 |
| 6.3.3. Alice Owuor | Appointed 9 March 2017 |
| 6.3.4. Helen Gichohi | Appointed 9 March 2017 |
| 6.3.5. Rita Kavashe | Appointed 9 March 2017 |

   6.4. In accordance with the provisions of Section 769 of the Companies Act 2015, to appoint the following Directors as members of the Audit Committee:

   6.4.1. Chris Kisire

   6.4.2. Joseph Kimote

   6.4.3. Alice Owuor

   6.4.4. Rita Kavashe

7. To note that Ernst & Young LLP had tendered its resignation from office as Auditors and to consider and if deemed fit, pass the following resolution, special notice having been received pursuant to Sections 287(1) and 744(3)(b)(i) of the Companies Act, 2015:

   "That Deloitte & Touche be appointed auditors of the Company in place of the retiring auditors, Ernst & Young LLP, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the Directors be authorised to fix their remuneration for 2017."

8. To transact any other business of the Company of which due notice has been received.

By order of the Board

**B Kanyagia**
Secretary

28 April 2017

A member entitled to attend and vote at the above meeting is entitled to appoint a proxy, who need not be a member of the Company, to attend and vote in his stead. Proxy forms must be lodged at the registered office of the Company, P.O. Box 10921, 00100 Nairobi not less than 48 hours before the time of the meeting. A proxy form is provided with this report.

# Notes

# Proxy Form

The Secretary
Bamburi Cement Limited
Corporate Offices
Kenya Re Tower, 6th Floor
Upper Hill, off Ragati Road
P O Box 10921, 00100
NAIROBI, KENYA

I/WE ....................................................................................................................................................

..........................................................................................................................................................

of ........................................................................................................................................................

..........................................................................................................................................................

a member of BAMBURI CEMENT LIMITED hereby appoint

of ........................................................................................................................................................

or in his/her place THE CHAIRMAN OF THE MEETING as my/our proxy and/or representative to vote at his/her discretion for me/us and on my/our behalf at the Annual General Meeting to be held on Thursday 8 June 2017 and at every adjournment thereof.

AS WITNESS my/our hand(s) this........................ day of........................ 2017

......................................
(Usual Signature)

..........................................................................................................................................................

Proxy forms must reach the registered office of the Company by 2.00 pm Tuesday 6 June 2017.

A member entitled to attend and vote at the above meeting is entitled to appoint a proxy, who need not be a member of the Company, to attend and vote in his stead. Proxy forms must be lodged at the registered office of the Company, P.O. Box 10921, 00100 Nairobi not less than 48 hours before the time of the meeting. A proxy form is provided with this report.

**BAMBURI CEMENT LIMITED**
Corporate Office, Nairobi 6th Floor,
Kenya-Re Towera,
Mara Ragati Road, Upper Hill
P.O. Box 10921 - 00100,
Nairobi, Kenya
Tel: (+254 - 20) 2893000 / 2710487
Fax: (+254 - 20) 2710581