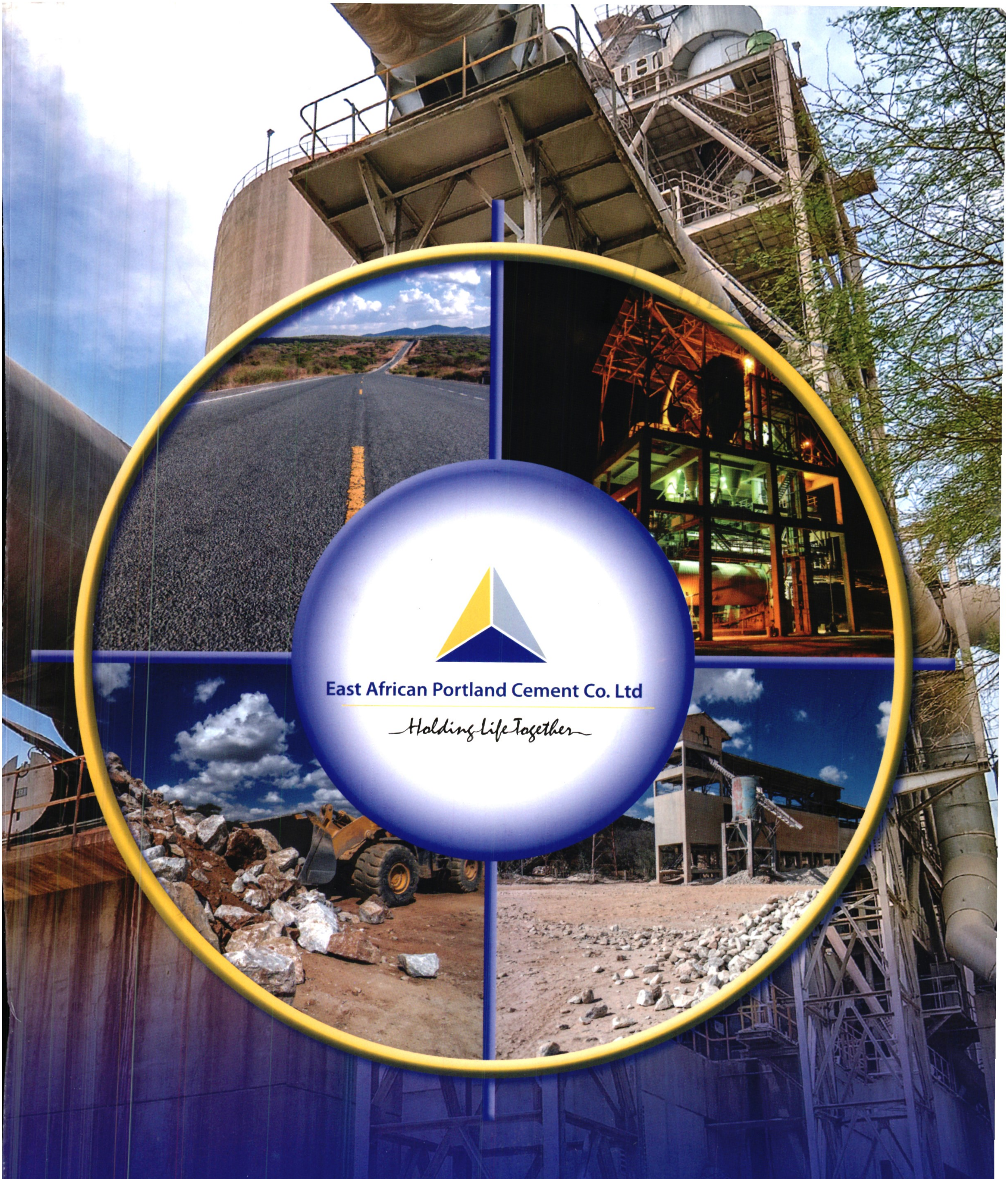


2013
2014

EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

VISION

To be the Regional Leader in the Provision of Cement, Innovative Cement Products and Solutions

MISSION

To Provide Cement for Infrastructural Solutions to the Satisfaction of our Stakeholders

VALUES

Teamwork: We promote respect, unity and commonness of purpose amongst staff. We also promote and encourage exchange of ideas and openness.

Integrity: We embrace a culture that promotes honesty, transparency, accountability and professional ethics.

Customer Focus: We are dedicated to meeting customer expectations.

Timeliness: We promote timely delivery of high quality products.

Innovativeness: We encourage creativity, embrace positive change and reward innovation.

Commitment: We ensure peak performance, enthusiasm and excitement for work.


CONTENTS

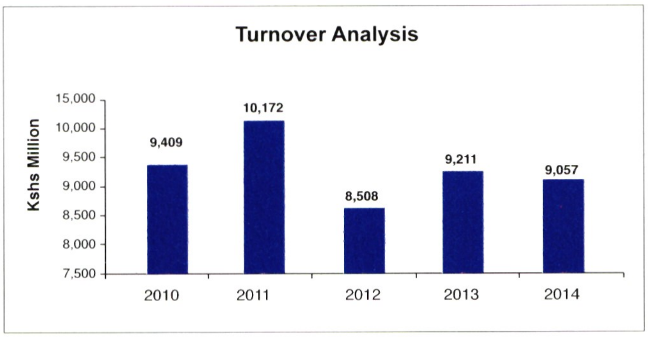
FIVE YEAR FINANCIAL REVIEW

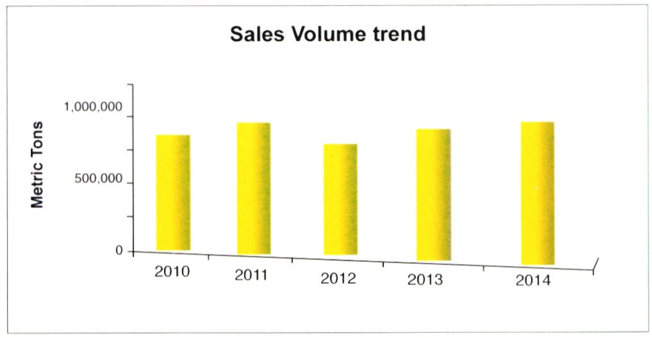
	2014 Kshs'000	2013 Kshs'000	2012 Kshs'000 restated	2011 Kshs'000 restated	2010 Kshs'000
Turnover	9,057,292	9,211,462	8,508,120	10,172,140	9,408,711
Operating (loss)/profit	(92,955)	340,931	(793,714)	653,640	90,015
Foreign currency exchange gain/(loss)	36,769	594,113	(61,575)	(655,909)	(451,176)
(Loss)/Profit before tax	(373,700)	1,419,478	(1,032,914)	(119,059)	(338,571)
Taxation (charge)/credit	(12,931)	355,905	60,199	120,776	54,520
Other comprehensive income	1,049	713,451	2,958	-	-
(Loss)/Profit attributable to members	(385,582)	2,488,834	(969,757)	1,717	(284,051)
Dividends	-	67,500	-	45,000	-
Capital Employed					
Assets					
Non current	12,393,196	12,531,640	11,520,764	10,358,801	9,125,885
Current	3,324,061	3,602,063	2,456,031	3,085,332	2,911,680
Total assets	**15,717,257**	**16,133,703**	**13,976,795**	**13,444,133**	**12,037,565**
Equity & Liabilities					
Shareholders' funds	6,704,675	7,090,257	4,601,423	5,616,180	5,701,201
Non current liabilities	5,500,293	5,723,968	6,976,194	5,727,774	4,499,714
Current liabilities	3,512,289	3,319,478	2,399,178	2,100,179	1,836,650
Total Equity & Liabilities	**15,717,257**	**16,133,703**	**13,976,795**	**13,444,133**	**12,037,565**
Ratio Analysis					
Profitability and Efficiency Ratios					
Gross profit margin	26%	25%	13%	23%	22%
Operating profit margin	-1%	4%	-9%	6%	1%
Net profit margin	-4%	19%	-11%	0%	-3%
Return on assets	-2%	11%	-7%	0%	-2%
Return on Equity	-6%	25%	-21%	0%	-5%
Liquidity Ratios /Working capital					
Current ratio	0.95	1.09	1.02	1.47	1.59
Quick ratio	0.32	0.43	0.30	1.20	1.20
(Loss)/Earnings per Share (Basic and diluted)	(4.30)	19.73	(10.81)	0.02	(3.16)
Dividends per share (Kshs)					
Interim Paid	-	-	-	-	-
Final & proposed	-	0.75	-	0.50	-
Total	**-**	**0.75**	**-**	**0.50**	**-**

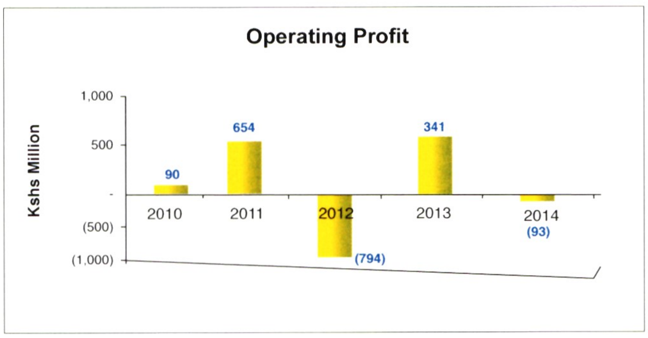
THREE YEAR FINANCIAL REVIEW

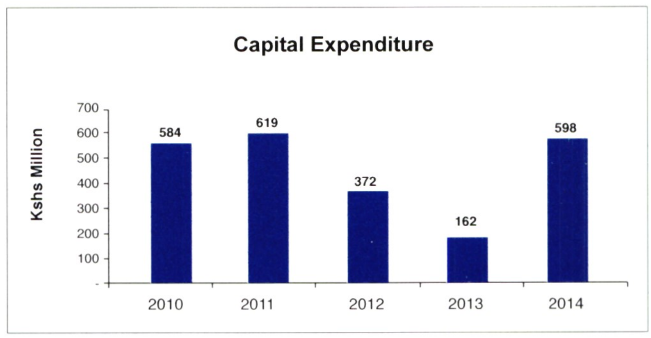
	2014 Kshs'000	2013 Kshs'000	2012 Kshs'000
Revenue	9,057,292	9,211,462	8,508,303
(Loss)/profit before tax	(373,700)	1,419,478	(1,032,914)
(Loss)/profit attributable to the shareholders of East African Portland Cement Company Limited	(386,630)	2,488,834	(972,715)
Dividends	-	67,500	-
Share Capital and Shareholders' funds			
Ordinary Share Capital	450,000	450,000	450,000
Shareholders' funds	6,704,675	7,090,257	4,601,423
Earnings and Dividend per share			
(Loss)/Earnings per share (basic and diluted)	(4.30)	19.73	(10.81)
Dividend per share			
Final & proposed	-	0.75	-
Total	-	0.75	-

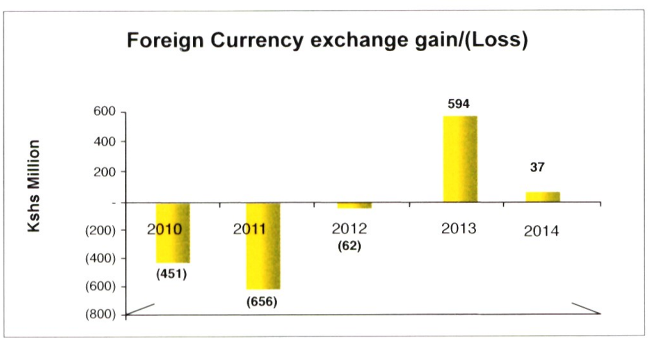
FINANCIAL HIGHLIGHTS

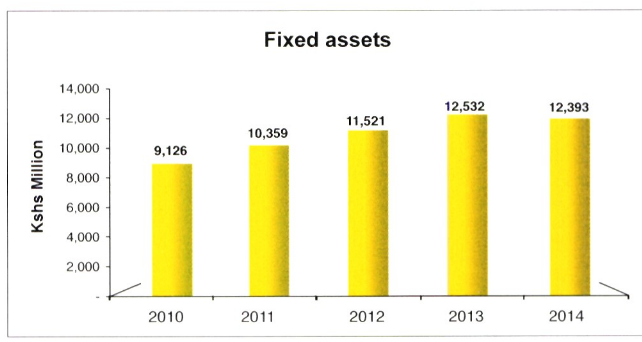


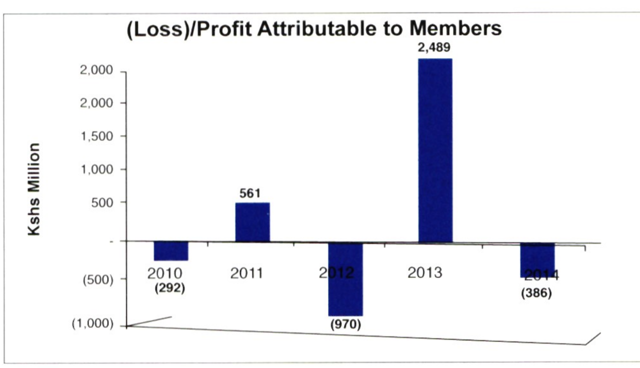


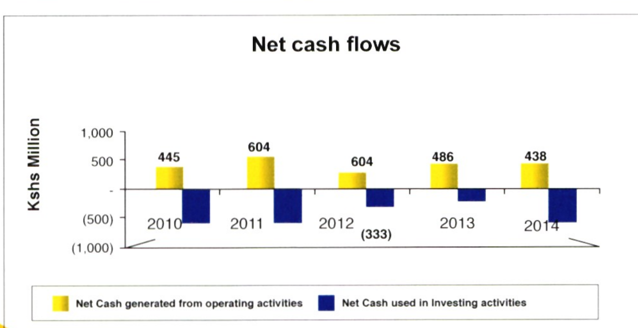






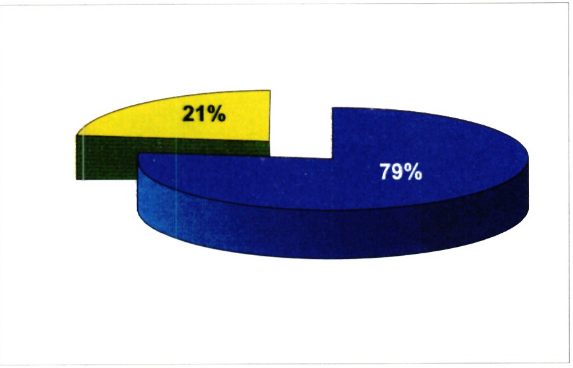






DISTRIBUTION OF ASSETS

2014



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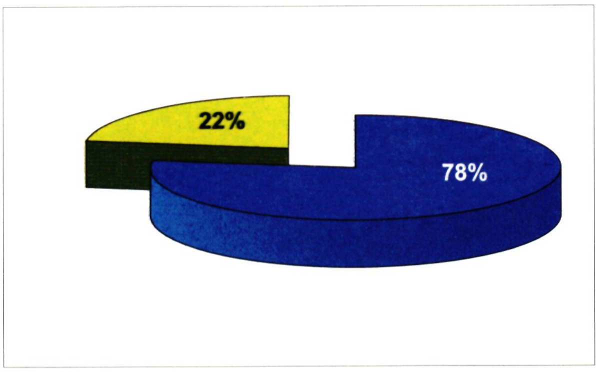
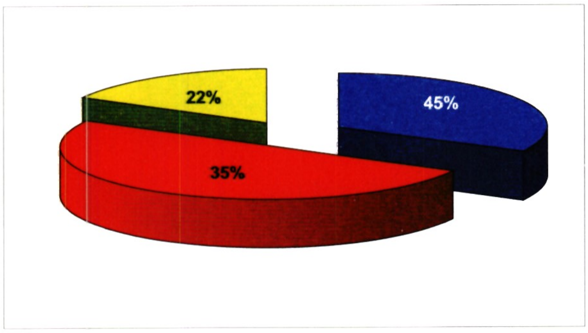


	2014 Kshs M	2013 Kshs M
Non-current Assets	12,393	12,532
Current Assets	3,324	3,602
Total Assets	**15,717**	**16,134**

DISTRIBUTION OF EQUITY AND LIABILITIES

2014



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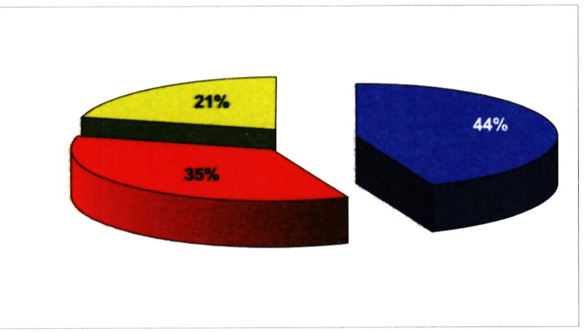


	2014 Kshs M	2013 Kshs M
Shareholders' funds	6,705	7,090
Non-current liabilities	5,500	5,724
Current liabilities	3,512	3,320
Total Assets and Liabilities	**15,717**	**16,134**

William Lay
Chairman

"To bring the Company back to sustainable profitability, the Company is implementing projects valued at Kshs 2.5 Billion that are expected to be completed by end of next financial year"

Chairman's Statement

I have the pleasure to welcome all of you to the 82nd Annual General Meeting of the East African Portland Cement Company Limited and to present to you the Annual Report and Financial Statements for the year ended 30 June 2014.

Let me start by acknowledging the service of former Chairman Mr. Mark Karbolo who left the EAPCC board in January. I'm pleased to have joined the EAPCC Group following my appointment on 22 January 2014 as Chairman of the Board of Directors by H.E. President Uhuru Kenyatta. I look forward to working together with my colleagues on the Board, Management and Staff to grow the business and contribute to its continued success.

The Company's performance in the year reflects the consequence of a competitive environment where the installed industry production capacity is increasing faster than the market consumption, which resulted in declining cement prices. Our top priority is to bring the company back to sustainable profitability. To this end, we are working on an ambitious plan to increase production capacity while reducing fixed costs. The company, with support from international cement experts, conducted a technical audit and we are well underway with the implementation of the recommendations from that report. The company is also addressing the critical issue of plant maintenance to ensure smooth and uninterrupted production. We are also working closely with KPLC to stabilize the supply of electricity to our Athi River complex.

The first half of the year was also characterized by low infrastructure spending as the new devolved Governance structures were establishing in the counties. Revenue decreased by 2% but Gross Profit margin increased to 26% from 25% recorded in the previous year and cost of production declined by 3%. This is attributed to ongoing cost reduction initiatives that are also in line with the 2011-2016 Strategic Plan.

Economic Outlook

The GDP recorded a growth rate of 4.7% in 2013. The year began with an inflation rate of 9.4% and ended with an inflation rate of 5.7%. This was largely attributed to improved supply of basic foodstuffs and stable domestic prices of petroleum products. The Central Bank rate remained stable at 8.5% during the year. The Kenya shilling gained marginally to the US Dollar.
The building and construction sector saw increased activity registering a growth of 5.5% in 2013 up from 4.8% in the year 2012. The growth is attributed to increased bank credit to the sector, increased foreign investment in building and construction and continued implementation of the Vision 2030 flagship projects. EAPCC continues to be a key supplier of cement to key infrastructure projects and will continue working closely with the government to this end.

Cement Market and Competition

Kenya's cement consumption rose by 21% to 4.7 million tons compared to 3.9 million tons consumed in the previous year. The rapidly growing middle class and ongoing infrastructure projects continue to drive cement demand. Entrance of other players in the cement industry had the effect of increasing cement milling capacity from 7 million tons to 9 million tons. Consequently, price competition will continue to weigh down prices. Cheap imports particularly from energy-subsidized economies continue to have an adverse effect on prices in the industry.

EAPCC's market share slipped to 17 % in the year, a decline from 20% recorded in the previous year. The Company has embarked on aggressive capacity enhancement initiatives to unlock installed capacity by 400,000 MT per annum in the next two years. This will improve capacity to 1,200,000 MT of cement per year.

Regionally, the earmarked infrastructure projects such as the LAPSETT project linking South Sudan to the Lamu port, phase one of the Standard Gauge Railway line from Mombasa to Nairobi and recently successful oil and other mineral explorations in Kenya and Uganda will see an increased interest in foreign investment in the region.

Performance

The business environment in the year continued to present challenges such as competition, high energy costs and importation of cheap cement into the market which reduced sales in the local and regional markets.

The Group's performance in the year was affected by these factors resulting to a loss of Kshs 385 million. Earnings per share reduced to a loss of Kshs (4.30) from Kshs 19.73 in the year 2013. Clinker production increased in the year reducing the quantity of purchased clinker by 39%.

To bring the Company back to sustainable profitability, the Company is implementing projects valued at Kshs 2.5 Billion that are expected to be completed by end of next financial year. Included in this plan are the installation of an additional cement packer to enhance cement dispatch; raw material sheds to increase throughput; an air pollution control system to ensure production activities comply with the Company's and regulators' environmental standards and installation of a pre-cast plant for the production of paving blocks that will see a further diversification of the Company's product portfolio as well as increase the revenue base.

Energy

During the financial year under review the Kenya shilling remained relatively stable against the US dollar, ensuring that the cost of electricity and coal (two main sources of energy) on account of foreign currency adjustments remained relatively stable. However, the cost of electric power increased marginally from Kshs 12.70 per kwh to Kshs 13.36 per kwh during the year. Overall energy costs still compare very unfavorably to some cement producing Northern African economies that enjoy significant energy subsidies. As noted above, EAPCC and KPLC are working on a plan to stabilize the supply of power in Athi River and we expect improvements during the next financial year.

The Company is embarking on energy efficiency processes with emphasis being placed on capital projects that will reduce energy loss and or optimize energy usage such as the use of alternative fuels.

Yen Denominated Loan

The Company continues to service the Yen denominated loan, which will be fully repaid in year 2020. The amount outstanding at the end of the year was 2,557 million Japanese Yen. Half of the loan has been hedged in a USD: JPY currency swap to minimize exchange rate fluctuations. In the financial year under review, the hedge was effective in countering adverse exchange rate movements posed by the Yen loan.

Risks

The Company continues to implement a risk management plan as guided by Board approved risk management policies. The risk management framework is documented in the Risk Manual and various departments have been tasked with execution of the risk management procedures. The Board Audit Committee in collaboration with Internal Audit monitors the appropriateness of these processes to respond to the Company's evolving risk environment from time to time.

Taxation

As a responsible corporate citizen, EAPCC continued to honor its tax obligations and made payments in excess of Kshs 450 million in both direct and indirect taxes to the exchequer during the year in focus.

HIV/Aids

The implementation of our HIV/Aids awareness program continues through a team of Peer Educators working with our staff and the local community. This is geared towards reducing the negative impact of the disease to the workforce and the community. Towards these efforts, the Company has remained steadfast in non-discrimination policy over one's HIV status in its employment practices

Corporate Social Responsibility

During the year, the Company continued to engage with the community to identify opportunities where the Company can create a positive impact to the environment, the community and other stakeholders. Our long history of corporate social responsibility activities has helped us build strong partnerships with communities in contributing to their sustainable future. We continue to support projects in education, sports, water and sanitation, famine relief, environmental conservation and infrastructure.

Corporate Governance

The Company has continued to improve on its governance structures to ensure it plays its proper role as a responsible corporate citizen to its stakeholders. The Board has continued to ensure proper and elaborate governance practices are in place. The Board is served by four active board committees each with properly set terms of reference. All the directors, except the Managing Director, are independent but meet regularly with the senior management to review corporate strategy.
The Board Charter in place contributes in guiding the interaction between the Board and other stakeholders. All employees sign a code of conduct that guides the interaction amongst employees themselves and interaction with the other stakeholders.

Dividend

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

Transformation

As a Company, we have set out on a change management program with the aim of enhancing industrial relations and at the same time creating positive behavior change within our teams. We expect that this will increase employee efficiency and reduce instances of industrial unrest that have caused disruptions in the past.

Future Outlook

The global economy seems to have weathered the storm as indicated by the euro zone's return to growth and the impressive growth recorded in Asia. Locally, the economy continues to build momentum as the devolved county governments take up their roles in implementation of development programs. The economic outlook in the coming year is expected to retain the growth rates achieved in the previous year, with inflation and interest rates remaining stable. Investments in the construction industry are likely to remain robust against a backdrop of stable interest rates. The ongoing government infrastructural projects will be supplemented by the current boom in real estate development in the country.

Regionally, our markets in Uganda and Sudan continue to be served by our Uganda subsidiary and are expected to grow in line with the cement needs of the various infrastructure projects earmarked in the coming year.

In addition to the market opportunities noted above, the EAPCC Board will work closely with management to address the critical issue of competitiveness with a focus on improving efficiency, reducing costs and increased market share. This additional support from the Board of Directors will ensure accountability as the company works through the challenges we will face in the near term.

The Board

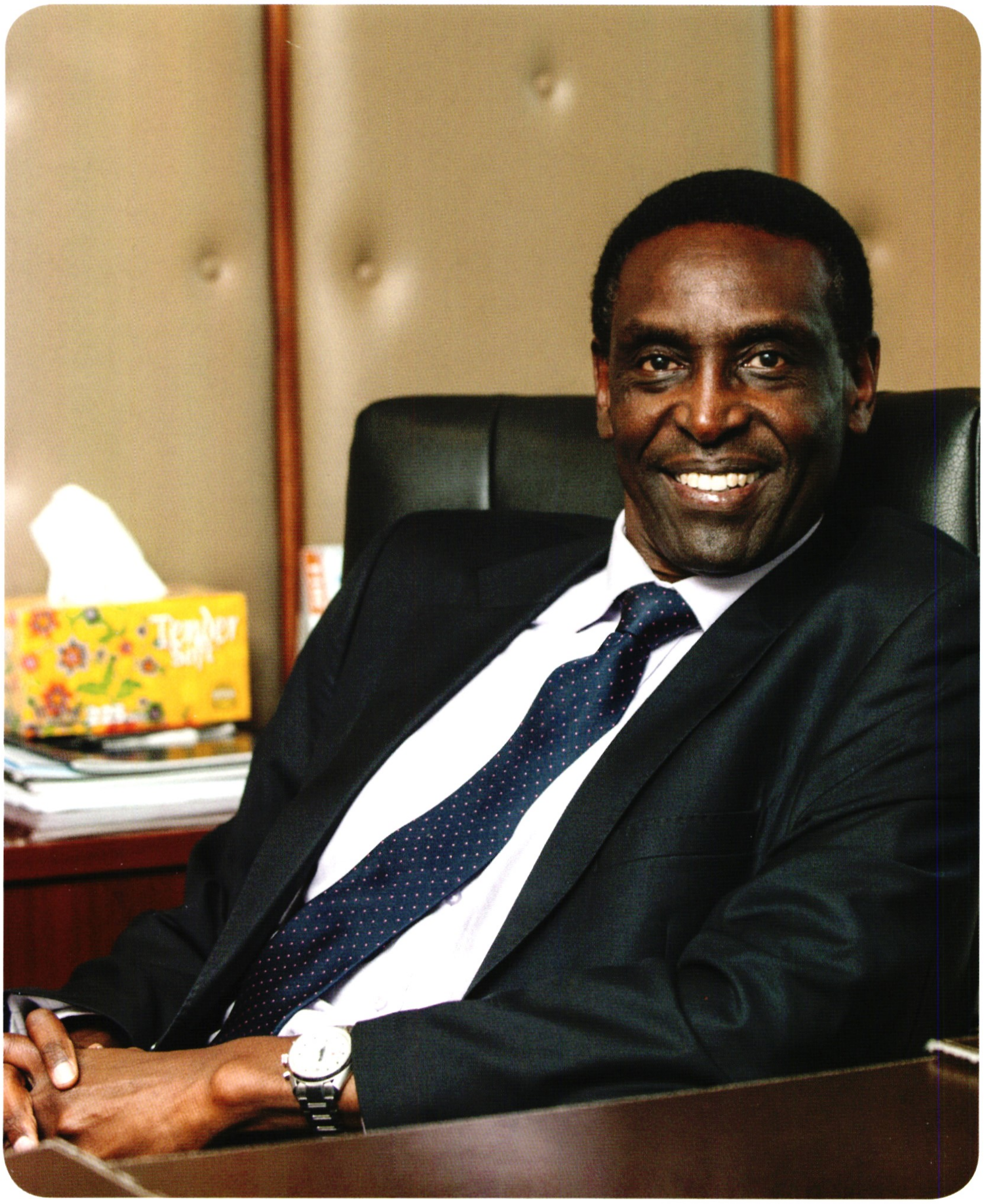
As noted earlier, I joined the Board on January 22, 2014 replacing Mark Karbolo. The NSSF representative H.Mwashumbe was replaced by R. Langat from 9 June 2014. H. W. Keith retired on 17 December 2013. I acknowledge the invaluable contribution made by the members of the Board of Directors during the past year and look forward to their contribution in the future.

Appreciation

On behalf of the Board, I would like to extend my sincere thanks to the shareholders for their continued contribution, the Board for its dedication and visionary leadership and to management for their tireless dedication to implementation of the company's business plans.

Lastly, I would like to extend my gratitude to all our business partners and customers for their continued loyalty and support to the Blue Triangle brand.
God Bless you all.

William Lay
Chairman of the Board of Directors



Kephar L. Tande
Managing Director

"We enter 2014 with a reenergized economy and an expectation of an increase in government infrastructure spending. We will relentlessly continue to build our brand, our range of building solutions and their mode of delivery to our customers through our core values of innovativeness, teamwork and customer focus"

Managing Director's Business Review

Performance

This year's performance was adversely impacted by the difficult trading environment that was characterised by price competition, high operating costs, a declining share of regional market and a weakening shilling. Sales volume increased by 2% but this was offset by a 3% reduction in prices resulting in a 2% decrease in turnover over prior year.

During the year, the Company improved the run factor on its machinery and equipment. This spurred production of clinker compared to the previous year when a substantial amount of clinker was purchased to sustain cement production, saw clinker production improve by over 10% over the previous year. The improved clinker production thus reduced the Company's reliance on purchased clinker by 39%, further enhancing utilization of capacity. However, increase in cement production was hampered by performance of critical equipment that is currently being addressed through new investments.

Major improvements in production efficiencies however resulted in 3% savings in cost of production. However, the cost of energy increased marginally in the year averaging Kshs.13.36 per kwh compared to kshs 12.70 per kwh in 2013. Power consumption averaged 69.1 million kwh in the current year compared to 67.7 million kwh in the previous year resulting in additional costs of Kshs. 70 million during the year in focus due to the higher production of clinker. As a result of the cost savings, Gross Margin returned an impressive 26% despite a 3% slump in cement prices.

Administrative and Selling Costs increased by Kshs 700m (or 34%) attributed to higher staff and administration expenses incurred in the year. There was an increase in staff costs driven by restructuring management levels and staff compensation in line with job evaluation which accounted for approximately Kshs 100m. An increase in staff gratuity for contract staff amounting to Kshs. 300m has been provided for during the year. Further, the Company paid penalties on cases that went for arbitration in relation to disputed contracts amounting to Kshs 200 million.

Management has put in place measures to contain costs in various aspects of the business in the ongoing cost rationalization initiatives to optimize use of resources, eradication of wastage and identification of cost reduction opportunities. Towards this end, the entire value chain is undergoing comprehensive review through various programs among them being mine to market cost analysis review and Total Productive Maintenance (TPM), to ensure value maximization and improved efficiencies in all processes.

The hedging strategy for managing the foreign currency exchange risk posed by our Japanese Yen denominated loan also performed reasonably well. The Kenya shilling marginally strengthened against the Japanese Yen but weakened against the US dollar in the year. This resulted in a net foreign exchange gain of Kshs. 36 million, demonstrating the gains on the USD swap were more or less offset by the losses on the JPY leg.

For the year under review, the Company returned an operating loss of Kshs. 92 million compared to prior year operating profit of Kshs. 340 million while the loss before tax was Kshs. 374 million compared to a profit before tax of Kshs. 1,419 million the previous year. The previous year's results included Fair Value Gain on revaluation of the investment property amounting to Kshs. 730 million.

Cash flows generated from operations remained relatively stable at above Kshs 700 million similar to the previous year. Investments in long term capital projects used up Kshs. 597 million while servicing of loan obligations used up another Kshs. 541 million during the year.

Corporate Strategy

Price competition in the domestic and regional cement markets persisted in the year. The Company has responded by expanding and utilizing capacity so as to benefit from scale economies while reengineering business processes to build efficiency and reduce operating costs. This strategy will ensure the ex-factory cement price is competitive for the prevailing market conditions, and foster faster market recovery and growth. This financial year the improvement in systems and processes has already resulted in a 3% reduction in cement production costs.

Implementation of the five year (2011-2016) strategy is focused on increasing production capacity in both clinker and cement. In this regard, the following projects are at various implementation stages:

- Kiln shell replacement needed to sustain and increase clinker production capacity
- Installation of an additional cement packer
- Installation of a Bag House (an air pollution control system to contain dust emission)
- Installation of a pre-cast plant for product diversification and value addition ready for commissioning in Q1, FY 2014-15
- Acquisition of new limestone reserves in Kitui and Kajiado Counties among others.

The behavior change program, which is part of the 2011-2016 Strategic Plan, was geared towards reorienting the work force towards the values and strategy of the business and to ensure that the work culture is dynamic and responsive to the evolving business environment. The Company undertook several training sessions under the Uungwana Change Program that has now come to a close. The new Change Management Office will carry through with the Uungwana Change program principles and ensure sustainability of the results so far achieved, including but not limited to improved information flow, positive work ethics, improved team work through kazi kikaos and positive impact on productivity.

Ongoing efforts on innovation and product diversification will also see the commercialization of the cabro manufacturing plant, thereby introducing a new product to the existing Company's product portfolio which serves to increase the revenue base. The new department of Research and Development will spearhead all product related innovations and improvements.

Quality Management Process

We remain committed to customer satisfaction through quality in our products. Complying with the requirements of ISO 9001:2008 ensures that the Company not only retains its status as an ISO 9001:2008 certified organization but that continuous improvement, research and development and ongoing review of processes is systematically done to ensure that our processes and strategies remain current and relevant in the evolving business environment. In the long run, there is a positive impact on revenue, quality, costs and customer satisfaction.

Training

Staff training remains at the heart of our human resource strategy. In this financial year, trainings have been carried out across all cadres of staff to ensure that identified training needs are addressed to develop skills relevant to the Company's business. These include talent management trainings, Management Development Program for executives, Energy Management, Corporate Culture Change, Integrity Awareness, Corporate Governance for Board members, just to mention but a few. More emphasis has been placed also on training of trainers to build internal capacity to undertake routine trainings to new staff. Budgetary allocations are prioritized in human capital development and initiatives.

Risk Management

The Company's operations and earnings are subject to various risks relating to the changing competitive, economic, political, legal, social, industry, business and financial conditions.

These risks expose the Company to real threats of financial and non financial loss. Some of these risks include credit risk, cement price risk, liquidity risk, foreign currency risk and interest rate risk.

Given the regional presence in Uganda and Southern Sudan, and plans to venture into Tanzania, the Company is also faced with Country risk, although to a small, but growing extent. The Company's overall risk management program focuses on the effective mitigation of the various risks and seeks to minimize potential adverse effects on corporate performance using a variety of techniques.

Under the policies approved by the Board of Directors, the Company has developed policies and procedures designed to aid in the identification, evaluation and adoption of appropriate responses to various risks. The Company also takes a risk-based approach when designing, evaluating and monitoring the internal control environment. There are procedures designed to ensure business objectives are realized and ensure business continuity in case of process failures. Related requirements are set out in the Corporate Risk Management Manual and Business Continuity Plan. The manual describes the methodology to be followed to manage risks and the risk-based standards that provide a common approach to enterprise-wide risks. The Business Continuity Plan establishes alternatives to normal established processes in instances of process failures.

The following processes are used for the continuous monitoring and evaluation of the Company's risk management and Internal Control activities:

- A structured process to identify and review risks for the achievement of corporate objectives
- A risk-based audit of the Company's operations and systems
- A business control incidence reporting and provisioning process
- An ethics and compliance program.

The established mechanisms allow the Board through the Board Audit Committee, to regularly consider the overall effectiveness of the internal control system and to perform a full annual review. In the year under review, the Company terminated the services of 33 members of staff due to unethical conduct.

The Company has also put in place whistle blowing measures to discourage corrupt and unethical practices among its employees. This guarantees the safety and wellbeing of the Company's resources and assets as suspected corrupt cases are reported immediately. The Company's toll-free corruption reporting hotline continues to be used and is managed outside the control of Management. It is designed in such a way that the information shared is held in confidence and is not used to punish the whistle blower.