ARM Cement PLC

AUDITED GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED SUMMARY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31.12.2017 Ksh.'000	31.12.2016 Ksh.'000
Revenue	**8,697,333**	**12,823,826**
(Loss)/Profit Before Tax	**(7,521,366)**	**(3,978,831)**
Taxation credit	971,554	1,178,656
(Loss)/Profit After Tax	**(6,549,812)**	**(2,800,175)**
Other comprehensive(Loss)/ income for the year net of income tax	**(429,785)**	**(397,080)**
Total comprehensive (Loss)/ income for the year	**(6,979,597)**	**(3,197,255)**
(Loss)/Earnings Per Share (Ksh.)	(6.83)	(2.92)

CONSOLIDATED SUMMARY STATEMENT OF FINANCIAL POSITION AS AT	31.12.2017 Ksh.'000	31.12.2016 Ksh.'000
Assets		
Non Current Assets	38,975,580	42,773,131
Current Assets	3,723,487	8,285,671
Total Assets	**42,699,067**	**51,058,802**
Equity & Liabilities		
Share Capital	959,940	959,940
Share Premium	14,094,970	14,094,970
Capital and Other Reserves	5,744,088	12,845,247
Equity attributable to equity holders of parent Company	20,798,998	27,789,157
Non – Controlling interest	16,526	5,964
	20,815,524	**27,795,121**
Non Current Liabilities	4,688,999	9,104,246
Current Liabilities	17,194,544	14,159,435
Total Equity & liabilities	**42,699,067**	**51,058,802**

CONSOLIDATED SUMMARY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED	31.12.2017 Ksh.'000	31.12.2016 Ksh.'000
Cash Generated before working capital changes	(2,558,687)	1,424,882
Working capital changes	3,032,407	185,856
Cash Generated from operations	**473,720**	**1,610,738**
Net Interest	(996,175)	(2,806,298)
Dividends paid	-	-
Tax Paid	(436)	(83,455)
Cash used in Operating Activities	**(522,891)**	**(1,279,015)**
Net Cash used in Investing Activities	(224,141)	(242,499)
Net Cash from Financing Activities	(1,857,593)	3,357,294
Increase/(Decrease) in Cash and Cash Equivalents	**(2,604,625)**	**1,835,780**
At start of the Period	(2,125,406)	(3,382,783)
Exchange Adjustment	319,266	(578,403)
At end of the Period	**(4,410,765)**	**(2,125,406)**

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY	Share Capital/ Premium	Revaluation reserve	Fair value and translation reserves	Retained Earnings	Non - Controlling interest	Total
At 1 Jan 2016	797,302	11,082,676	-53,492	5,014,111	5,171	16,845,768
Total comprehensive loss for the year		-465,492	68,413	-2,800,968	793	(3,197,254)
Issue of shares	14,146,608					14,146,608
Transfer of excces depreciation		-308,846		308,846		-
At 31 Dec 2016	**14,943,910**	**10,308,338**	**14,921**	**2,521,989**	**5,964**	**27,795,122**
At 1 Jan 2017	14,943,910	10,308,338	14,921	2,521,988	5,964	27,795,121
Total comprehensive loss for the year		(223,138)	(206,647)	(6,560,374)	10,562	(6,979,597)
Transfer of excces depreciation		(1,089,409)		1,089,409		
At 31 Dec 2017	**14,943,910**	**8,995,791**	**(191,726)**	**(2,948,977)**	**16,526**	**20,815,524**

Commentary

2017 was the most challenging for the Group since the company's listing on the Nairobi Securities Exchange in 1997. Whilst the management has navigated many business difficulties well in the past, raised capital for expansion, increased net profits and market capitalisation continuously over a 14 year period up to 2015, the challenges of the past year have been unprecedented.

Demand for cement in Kenya was subdued, largely due to the elections. The first election was held in August and the re-run in November had a tremendous impact on demand, especially in the second half of the year. The liquidity in the Kenyan market was tight and the excess capacity in the market resulted in price pressures with every manufacturer embarking on price reduction strategy to maintain volumes. The construction sector in Kenya declined and the overall demand for cement dropped by about 7.8%. Similarly, the Tanzanian cement industry was also operating in a very challenging environment. The government ban on coal imports had significant impact on production at the Tanga clinker plant. The production of coal in Tanzania is in Songea, about 1400 kilometers away from the Tanga Clinker plant and logistics planning was a major challenge for the company. In addition, new capacity was added with the entry of a new cement player in Southern Tanzania. Two of the existing cement players in Tanzania increased capacity and the overall cement supply was significantly higher than the demand. In such a competitive market, some of the manufacturers used a price reduction strategy in an attempt to maintain or increase sales and this resulted in cement prices falling by more than 30% in Tanzania. The net impact was that the Group performance was impacted by coal in terms of capacity utilization and price in terms of profitability. The Group continued to operate in select market segments to ensure market presence and market stability.

As a result, Group turnover at KES 8.7 Billion was 32% lower than the previous year which stood at KES 12.8 Billion. The Group made a loss after Tax of KES 6.5 Billion for the year ending 31st December, 2017. The earnings for the year stood at a negative KES 6.83 per share. This has constrained the cashflow of the Company and its working capital position.

The Group is undergoing a significant review of current operations, asset base and financing structure to address company specific challenges. In the short term; the Group aims to reduce financing costs and is engaging with existing and potential new lenders to restructure the current debt levels; reviewing regional strategy to identify possible assets to offload (similarly to FY 2017 announcement on the sale of non-cement assets); and is strengthening the current management structure with an eye toward bringing in new talent to assist in turnaround efforts. The Group anticipates providing shareholders with an interim update of its efforts within 90 days from this announcement.

Change of Directors

The Board of the Company is in the process of being strengthened to bring in more financial and turnaround expertise in light of the current business condition. This includes replacement of 2 CDC Board nominees, previously Ketso Gordhan and Pepe Meijer with Sofia Bianchi and Rohit Anand, who bring in substantial experience in turnaround situations and financial restructuring in emerging markets. In addition, Konstantin Makarov been brought in to replace Rick Ashley to bring on board his experience of M&A and dealing with strategic investors in Africa.

Sofia Bianchi

From 2007 to 2016 Sofia worked at Blue Crest Capital, one of the Europe's largest hedge funds, she was head of Special Situations. Sofia brings a wealth of experience in investment roles over the years and her experience covers multiple sectors from mining to telecommunications. She also has significant experience in Board positions for an equally diverse group of companies over the last nine years. Sofia has an MBA from The Wharton School of Business.

Rohit Anand

Rohit has over 11 years of experience investing in emerging markets across Asia and Africa. He has invested in sectors across infrastructure, telecoms, manufacturing, logistics and healthcare. He is currently responsible for the Industrial Businesses equity investments team covering manufacturing, real estate and logistics across South Asia and Africa. Prior to joining CDC, Rohit worked with IDFC Private Equity in Mumbai where he was part of a team managing c. $1.3bn focused on growth capital investments in infrastructure in India. Rohit started his career with Ernst & Young's corporate finance team in India. Rohit is a CFA charter holder, holds an MBA from Indian Institute of Management and a Bachelors degree in Electronics and Communication Engineering from University of Delhi.

Konstantin Makarov

Konstantin has over fifteen years of experience in the financial markets in general and emerging markets in particular. He brings a holistic approach in addressing challenges facing companies operating in the emerging and frontier economies. He is responsible for launch of African practice and oversight of all sub-Saharan African and South East Asian transactions at StratLink Africa. Previously, he was directly responsible for market entry of US and CIS based companies into sub-Saharan Africa and has been involved in a wide scope of activity focusing on emerging economies in Africa and South East Asia.

He holds a Master of Science in Risk Management from Stern School of Business, New York University and Amsterdam Institute of Finance and a Bachelor of Science in Marketing from University of Massachusetts, Amherst.

Change of Company Secretary

John Maonga

Mr. John Maonga, a Certified Public Secretary who is a Member and Fellow of the Institute of Certified Public Secretaries of Kenya, has over 30 years of experience in Company Secretarial and Registration Services. He was appointed on 25 May 2018 replacing Mr Ramesh Vora who resigned 27 April 2018.

Outlook 2018

Post-election, the Kenyan cement market has begun to grow again driven by the stability of the Government and investment into infrastructure and housing. The power supply in Kenya has been stable and volumes as well as prices have stabilized on the back of growing markets.

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

The Directors have embarked on a financial restructuring plan for the company which includes equity injection and replacement of expensive short-term loans by long-term loan facilities. They are confident that post restructure the company will be well capitalized to operate its plants to capacity and bring the operations back to profitability. The fundamentals of the business remain strong, the markets are growing in both Kenya and Tanzania driven by stable governments, increased infrastructure spend and policy focus on housing construction.

Dividend

The Board of Directors does not recommend any dividend for the year

By order of the board

May 30, 2018

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF ARM CEMENT Plc (Formerly ARM CEMENT LIMITED)

Denial of Opinion

The summary consolidated financial statements of ARM Cement Plc (Formerly ARM Cement Limited), which comprise the summary consolidated statement of financial position as at 31 December 2017, and the summary consolidated statement of profit or loss and other comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, are derived from the audited consolidated financial statements of ARM Cement Plc (Formerly ARM Cement Limited) and its subsidiaries (together, the "Group") for the year ended 31 December 2017.

As a result of the disclaimer of opinion on the audited consolidated financial statements discussed in The Audited Consolidated Financial Statements and Our Report Thereon section of our report, it is inappropriate to express an opinion on the accompanying summary consolidated financial statements.

Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the Kenyan Companies Act. Reading the summary consolidated financial statements and the auditors' report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditors' report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon

In our report dated 30 May 2018, we did not express an opinion on the audited consolidated financial statements of ARM Cement Plc (Formerly ARM Cement Limited) for the year ended 31 December 2017. The basis for our disclaimer of opinion related to material uncertainty regarding going concern of the Group. Our report draws attention to Note 3 to the audited consolidated financial statements, which indicates that during the year, the Group incurred a net loss amounting to Sh. 6,549,812,000 (2016: Sh. 2,800,175,000) and, as at 31 December 2017, the Group's current liabilities exceeded its current assets by Sh. 13,471,057,000 (31 December 2016: Sh 5,873,764,000) and accumulated losses amounting to Sh 2,948,977,000 (2016 – accumulated surplus of Sh 2,521,988,000). These conditions combined with the historical performance of the Group indicate that a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern.

Responsibilities of Directors for the Summary Consolidated Financial Statements

The Directors are responsible for the preparation of the summary consolidated financial statements in accordance with the Capital Markets Authority (CMA) Guidelines and the requirements of the Kenyan Companies Act and for such internal controls as the Directors determine is necessary to enable the preparation of the summary consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 – Revised, "Engagements to Report on Summary Financial Statements."

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

Certified Public Accountants (Kenya)
Nairobi, Kenya

30 May 2018

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