REPUBLIC OF KENYA

REPUBLIC OF KENYA

OAG

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

EAST AFRICA PORTLAND CEMENT PLC

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website:www.oagkenya.go.ke

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT PLC FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations which have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner, to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of East African Portland Cement PLC set out on pages 27 to 80, which comprise the statement of financial position as at 30 June, 2025 and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Ronalds LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of East African Portland Cement PLC as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the East African Portland Cement PLC Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material Uncertainty Related to Going Concern

I draw attention to Note 3(a) to the financial statements, which indicates that the Company recorded a net profit for the year of Kshs.5,525,310,000 (2024: Kshs.1,156,554,000) for the year ended 30 June, 2025. The Company's current liabilities exceeded the current assets by Kshs. Kshs.3,781,572,000 (2024: Kshs.5,990,879,000) an indication of negative working capital for the Company. While the position reflects an improvement compared to the prior year, it still signifies that the entity's short-term obligations exceed its readily available resources. This recurring position raises concerns over the company's ability to settle its obligations as and when they fall due.
Further, the Company has been unable to settle its obligations in respect of statutory deductions which include Pay As You Earn (PAYE) balance of Kshs.2,446,389,041, Value Added Tax (VAT) balances of Kshs.1,471,531,165 and Income Tax-Company balance of Kshs.81,510,917 being principal, penalties and interest.

The above events or conditions, along with other matters set forth in Note 3 (a) to the financial statements, indicate that a material uncertainty exists that cast significant doubt on the Company's ability to continue as a going concern.

The financial statements have been, therefore, prepared on a going concern assumption that the company will continue to obtain financial support from the bankers, suppliers and shareholders.

My opinion is not modified in respect of this matter.

Emphasis of Matter

1. The Discontinuation of Operations and Voluntary Liquidation of the Company's Ugandan Subsidiary

I draw attention to Note 33(a) of the financial statements, which describes the discontinuation of operations and voluntary liquidation of East African Portland Cement Uganda Limited valued at Kshs.2,500,000; a subsidiary of East African Portland Cement Plc. On 28 April, 2025, the Board resolved to initiate a voluntary winding up of the subsidiary due to operational constraints, competitive market pressures, and high logistics costs that had rendered the subsidiary's long-term viability unsustainable.

Following the Board's resolution, a liquidator was appointed to oversee the process. The liquidation was finalized on 31 July, 2025, with the final accounts, return, and minutes of the final meeting duly registered with the relevant authorities in Uganda. The subsidiary will be struck from the Register of Companies three months thereafter, upon which a Certificate of Dissolution will be issued, formally concluding its legal existence.

The statements have not consolidated with the financial statements of East African Portland Cement Uganda Limited, a fully owned subsidiary based in Uganda. The non - consolidation was due to liquidation process that was in progress as at year end. The events are fundamental to the sustainability of the Company financial position and future operational structure and should have been disclosed in the financial statements as they happened subsequent to the balance sheet date.

2. Assets Held for Sale

The statement of financial position reflects assets held for sale balance of Kshs.5,011,050,000 as disclosed in Note 16 (b) to the financial statements which relate to other properties that are currently occupied by informal settlers. The Management asserts that the eviction cost would be or were likely to be substantial and opted for regularization of ownership by disposing the property to the current occupants at market rates. At the time of the audit some informal settlers had applied for allocation and paid deposits towards the acquisition of the occupied property which the ownership regularization by the Company was still ongoing.

In the circumstances, the realization of the assets held for sale is dependent on the acceptance and settlement of offers to informal settlers.

3. Government Loan

I draw attention to Note 33 (c) to the financial statements which discloses that the Company had an outstanding Government loan amounting to Kshs.1,942,945,497 comprising principal balance of Kshs.1,483,077,004 and accumulated interest of Kshs.459,868,493 as at 30 June, 2025. Subsequent to year-end, The National Treasury and Economic Planning, through an agreement executed on 24 July, 2025, granted the Company a four-year moratorium, with the first repayment due on 30 September, 2029.

4. Change in Company's Ownership Structure - Notice of Intent to Acquire Shares in the Company

I draw attention to Note 33 (d) to the financial statements which discloses that Kalahari Cement Limited, a special purpose vehicle backed by Tanzania's Amsons Group who are the sole owners of Bamburi Cement PLC has issued a formal notice of intention to acquire a combined 29.2% stake in East African Portland Cement PLC. The proposed transaction, which involves the purchase of 26.3 million shares at a price of Kshs.27.30 per share is way below the market value of Kshs.60 of the share price and will significantly change the ownership and control of the Company which will result into Amsons Group controlling 41.70% of the share.

Further, the reported earnings per share during the year under review amounts to Kshs.61.39 per share which is way above the offer price. The transaction for sale of 26.3 million shares had not been completed at the date of approval of these financial statements.

The conclusion of the transaction is subject to the fulfilment of various regulatory and statutory approvals, including those from the Competition Authority of Kenya, the Capital Markets Authority, the Nairobi Securities Exchange, and the Ministry of Mining, Blue Economy and Maritime Affairs. The trading of the shares outside the stock exchange will occasion reduced commissions payable if the transactions dealt at market price.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements as a whole and in forming my opinion thereon. I do not provide a separate opinion on these matters and for each matter below, a description of how the audit addressed the matter is provided in that context.

Key Audit Matter	How the Audit Addressed the Key Audit Matter
a) Valuation of Investment Properties As disclosed in Note 16 to the financial statements, the Company's investment properties consist of investment in land carried at fair value. Management engaged an independent professional valuer to determine the fair value as at 30 June, 2025. The valuer determined the current value using the open market value approach, i.e. applying current	I performed the following audit procedures; • Assessed the competency, capabilities and objectivity of the independent valuer. • Assessed the appropriateness of the methodology used by the independent valuer and its consistency with the International

Key Audit Matter	How the Audit Addressed the Key Audit Matter
property transaction prices within the area of the properties. The investment properties have been recognized in the financial statements using IAS 40 'Investment Property'. Further, Management has exercised judgement in applying valuation amounts based on the recent comparable sales made by the Company. The carrying value of the investment property as at 30 June, 2025 amounted to Kshs.24,580,200,000 (2024: Kshs 21,238,614,000) **b) Valuation of Leasehold Land (Property, Plant and Equipment)** As disclosed in Note 14 to the financial statements, the Company's property, plant and equipment ("PPE") include leasehold land whose valuation was updated during the year ended 30 June, 2025. As a result of the revaluation, the carrying value of PPE increased significantly to Kshs.15,453,795,000 (2024: Kshs.4,920,670,000). The valuation was performed by an external professional valuer engaged by Management. The determination of fair value involves the application of significant judgment and the use of assumptions such as market comparables, location attributes, land use, and prevailing economic conditions. Given the magnitude of the revaluation adjustment and the judgment involved, we considered the valuation of leasehold land to be a key audit matter.	Financial Reporting Standards (IFRS). • Assessed any judgements exercised by Management in determining the fair value including any overlays applied. • Verified the ownership of the property and assessed Management's judgement on the appropriateness of the classification of the encroached land as investment property. • Reviewed Management's estimate of eviction costs for reasonableness. • Reviewed the adequacy of disclosures in the financial statements. I performed the following audit procedures; • Assessing the competence, capabilities, and objectivity of the external valuer engaged by Management. • Evaluated the valuation methodology used by the valuer and comparing it to industry practice and the requirements of IFRS. • Tested, on a sample basis, the input data used in the valuation against supporting documentation, such as title deeds, lease terms, and land size. • Compared key valuation assumptions, such as market prices per acre and adjustments for location, to observable market data and recent comparable transactions. • Assessed whether the revaluation surplus and related disclosures to the financial statements are

Key Audit Matter	How the Audit Addressed the Key Audit Matter
c) Estimation of Expected Credit Loss Model on Financial Assets The Company applies IFRS 9 Financial Instruments in estimation of expected credit losses. The financial assets subjected to expected credit loss model are cash and cash equivalents, receivables, staff loans and advances, and other qualifying receivables as disclosed in Note 19 and 21 to the financial statements. The determination of the values in the expected credit loss model requires significant judgements which has been highlighted in the following areas; • Assessment criteria of the risk of default occurring in the financial statements and the determination criteria for significant increase in credit risk. The segmentation of the financial assets into a 12 month or a lifetime Probability of Default relies on the above assessment and determination criteria. • The assumptions and parameters used in determining the Probability of Default, Loss Given Default and Exposures at Default for the categories of financial assets in the financial statements. • The reasonableness and the supportability of the forward-looking information used in the model.	adequate and comply with IFRS requirements. The following audit procedures were conducted; • I obtained an understanding of the basis and parameters used to determine the expected credit losses and evaluated if it is in accordance with IFRS 9 'Financial Instruments' requirements. • On a sample basis, I assessed the segmentation of the financial assets by reviewing the credit performance and the aging analysis to determine compliance with model requirements. • I performed subsequent tests on significant account balances' receipt after the year-end. • I assessed the appropriateness of the assumptions used in the model by recalculating the Probability of Default, Loss Given Default and Exposure at Default. • Reviewed the appropriateness of the assumptions used in determining forward-looking information by assessing the internal and publicly available information.

Key Audit Matter	How the Audit Addressed the Key Audit Matter
Therefore, there is complexity in determining the level of accuracy and reasonableness of the management estimates with regards to expected credit loss.	

I have fulfilled the responsibilities described in the Auditor-General's Responsibilities for the Audit section of my report including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters above provide the basis for my audit opinion on the accompanying financial statements.

Other Information

The Directors are responsible for the other information set out on page 1 to 25 which comprises of Corporate information, the Chairman's Statement, Managing Director's Statement, the Statement of Corporate Governance, Directors Report, Directors Remuneration Report and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

In connection with my audit on the East African Portland Cement PLC financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Remittance of Tax Deductions

As previously reported, the Company had not remitted PAYE dues amounting to Kshs.2,446,389,041 (2024: 2,986,000,000) in principal, penalties and interests as at 30 June, 2025. This was contrary to Sections 3(2)(a)(ii), 5 and 37 of the Income Tax Act, Cap 470 which requires employers to deduct PAYE at source and remit the same to the tax authorities before ninth of the subsequent month of pay. As a result, the Company is likely to incur additional tax penalties and interest.

Further, as previously reported, the Company had not remitted VAT totalling Kshs.1,471,531,165 (2024: 893,000,0000) in principal, penalties and interests as at 30 June, 2025. This was contrary to Section 13(3) of the Value Added Tax Act, Cap 476 that requires entities to remit Value Added Tax (VAT) payable to tax authorities before 20th of the subsequent month of collection.

In the circumstances, Management was in breach of law.

2. Non-Remittance of Mining Levies

As previously reported, the Company had outstanding remittances of Mining Levy amounting to Kshs.311,293,015 as at 30 June, 2025. This was contrary to Legal Notice No. 222 of the Mining Act (Cap.366) dated 18 December, 2013 which requires cement producers to pay mineral levy at a rate of Kshs.140 per ton of cement with effect from 01 January, 2014. The company is therefore exposed to the consequences of non-compliance with the Mining Regulations.

In the circumstances, Management was in breach of law.

3. Non-Compliance with Unclaimed Financial Assets Act, 2011

As previously reported, the statement of financial position reflects unclaimed dividends payable amounting to Kshs.101,680,120 as at 30 June, 2025. Part of this amount has been outstanding for more than three (3) years exposing the Company to increased penalties. This was contrary to Section 20 of the Unclaimed Financial Assets Act, 2011 which requires entities, including but not limiting to ownership interests (shares and dividends), with a period of abandonment of three (3) years.

In the circumstances, Management was in breach of law.

4. Absence of a Valid Mining License

As previously reported, the Company is currently operating without a valid mining license as at 30 June, 2025. Review of correspondences with the Ministry of Mining confirms that applications for key quarrying licenses are still pending and remain in the processing stages. This contravenes the Mining Act, 2016, which requires that no person or entity may undertake prospecting, exploration, or mining operations without first obtaining the requisite licenses and permits from the Cabinet Secretary.

In the circumstances, Management was in breach of law.

5. Unresolved Prelisting with Credit Reference Bureau Due to Foreign Currency Swap

On 30 March, 1990, East African Portland Cement PLC (EAPCC) entered into a Loan Agreement (Loan No. KE-P17) with the Overseas Economic Cooperation Fund (JICA) for JPY 7,674,000,000 to finance the Cement Plant Rehabilitation Project. The Government of Kenya guaranteed the loan in the event of default by EAPCC through an agreement dated 25 July, 1990.

The Company's revenues were denominated in Kenya Shillings (KES), while the loan repayments were in Japanese Yen (JPY). The company incurred exchange losses on principal and interest payments thereby negatively impacting on the company performance as a result of these foreign exchange losses.

To mitigate the exchange rate risk, the company entered into a cross-currency swap with Stanbic Bank in 2011, which was governed by an ISDA Master Agreement. The swap converted the JPY loan in an United States Dollar (USD) obligation, allowing the Company to make payments in USD to the bank, while the Bank settled the Company's JPY obligation with JICA.

The swap was executed in two phases as detailed below:

No	Trade Date	Effective Date	JPY	USD	JPY Fixed Interest Rate	USD Fixed Interest Rate
1	3-Nov-2011	7-Nov-2011	776,305,000	9,952,628	2.50%	5.24%
2	28-Jun-2011	20-Mar-2011	821,970,000	10,172,896	2.50%	5.32%

Between 2011 and 2016, the Company met its swap obligations to Stanbic Bank. However, later in 2016 the Company defaulted its repayments and the Government of Kenya who were the loan guarantor, took over the JICA loan repayments until its full settlement in March, 2020. Management ceased repayments to Stanbic Bank when the Government took over the loan repayment.

As a result, the Company terminated the currency swap agreement with Stanbic Bank in 2016 when the Government took over the loan repayment at which point the Bank presented the swap valuation cost for settlement by the Company as below

	Currency	Trade 1	Trade 2	Total
Swap Notional	USD	2,260,644	2,341,795	4,602,439
Market to Market	USD	905,479	985,264	1,890,743
Marked to Market	**KES**	**92,358,866**	**100,496,936**	**1,928,555,802**

The Company considered the price valuation given by the bank as inadequate as it was not justified with parameters and therefore referred the matter to CBK/CMA for investigation and /or arbitration. On 15 May, 2018, the bank notified the Company of pre-listing with Credit Reference Bureau pursuant to Regulation 50(1) (a)- the Credit Reference Bureau Regulations, 2013 unless the Company settles the amount of Kshs.192,855,802.The Management explained that the pricing for termination of the foreign currency swap was disputed and the matter is under litigation.

In the circumstances, the Management was in breach of contractual obligations.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The Standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Inadequacy of the IFRS 9 Model Documentation

Review of the Company's IFRS 9 impairment model revealed inadequacies in the underlying documentation. In particular, the model does not outline the governance framework applied in its development and oversight. Further, certain financial instruments including staff receivables of Kshs.71 million, other receivables amounting to Kshs.1.12 billion, and related party balances of Kshs.356.4 million were excluded from the model.

In the circumstances, the Company's documentation of its IFRS 9 impairment model was incomplete, and the adequacy of the model could not be considered fully in place.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report, based on my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. Information given in the Directors' report on pages 17 to 20 is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on pages 21 to 24 has been properly prepared in accordance with the Companies Act, 2015.

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the East African Portland Cement PLC compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and the Board of Directors

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as Management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs 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 financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 October, 2025