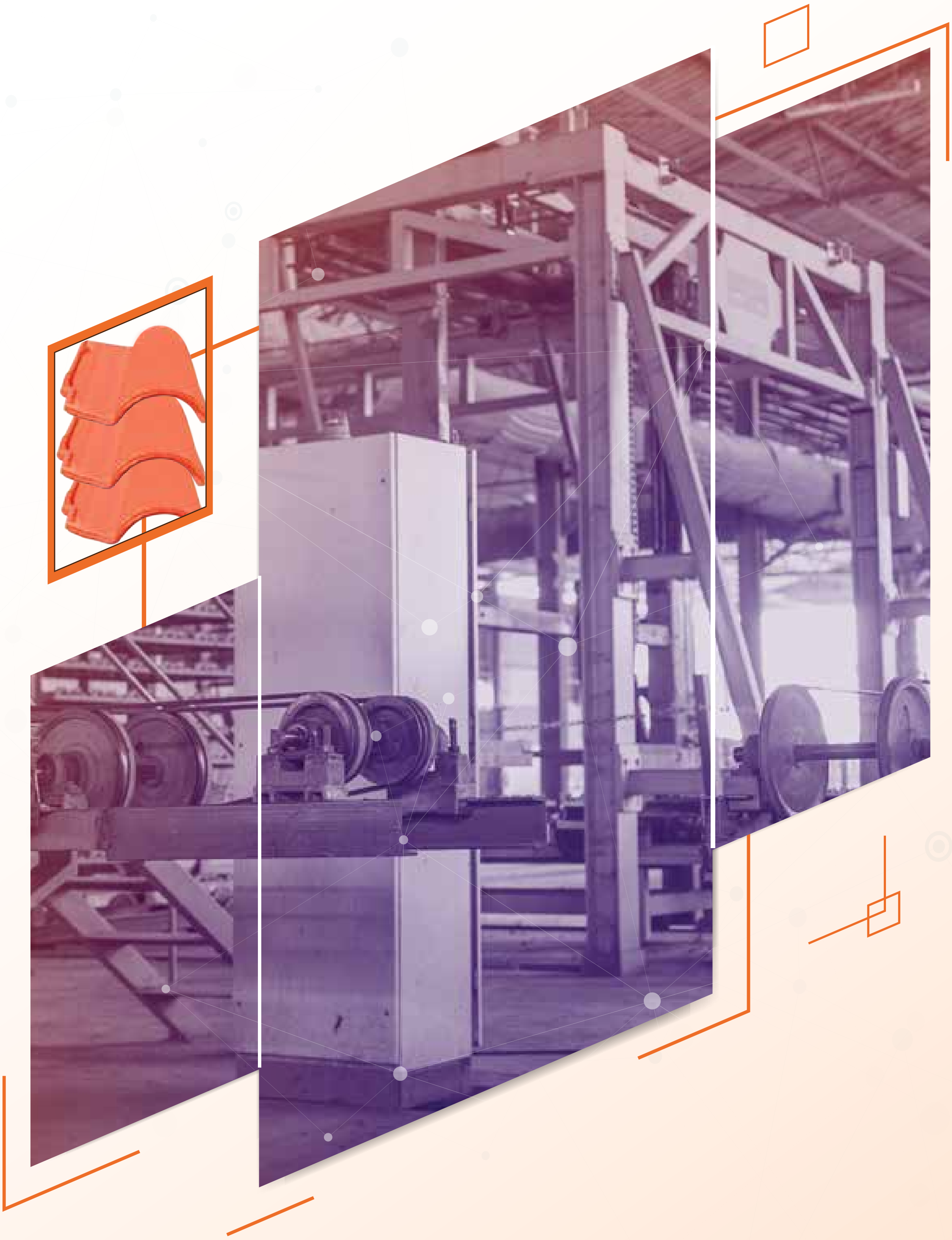
ANNUAL REPORT 2017



Appreciating the Use of Advanced Technology in the Clay Manufacturing Process

Uganda Clays Ltd

TABLE OF CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of Uganda Clays Ltd [the Company] in respect of the year ended 31 December 2017 will be convened and held on **Thursday 28 June 2018 at 2:30 pm** at the **Kampala Sheraton Hotel, Rwenzori Ball Room.**

Agenda

1. To receive and confirm the minutes of the meeting held on 7 July 2017.
2. To receive and consider the Directors' report and audited financial statements for the year ended 31 December 2017, together with the report of the auditors.
3. To approve and declare a final dividend of UGX 1 per share for the year ended 31 December 2017.
4. To rotate and elect Directors in accordance with the Articles of Association of the Company and determine their remuneration.
5. To re-appoint M/s Jim Roberts & Associates as auditors for the next year ending 31 December 2018 and authorize the Directors to fix their remuneration.
6. To consider any other business for which notice has been given to the Secretary at least 48 hours before the meeting.

Lex Uganda Advocates & Solicitors
COMPANY SECRETARY

Note:

7. A shareholder who is unable to attend the AGM may appoint a proxy to attend the meeting on his or her behalf. Proxy forms are in the Annual Report to be sent out to the Members or may be downloaded from the Company's website at www.ugandaclays.co.ug.
8. Duly completed proxy forms must be delivered to the Company's head office at Kajjansi or emailed in pdf to secretary@ugandaclays.co.ug, to be received at least 48 hours before the meeting.
9. The Annual Report for the year 2017 and other AGM papers will soon be published on the Company's website at www.ugandaclays.co.ug, and will also be dispatched by e-mail to members who have provided valid e-mail addresses.
10. Hard copies of the Annual Report will be available at the venue of the meeting.

CORPORATE INFORMATION

Analysis of Shareholding

Distribution of Shares as at 31 March 2018

Nationality	Category	No. of Members	No. of Shares	Percent Holding
East African	Corporate	142	651960250	72.44%
	Individual	2560	235066187	26.12%
		2702	**887026437**	**98.56%**
Foreign	Corporate	3	1261213	0.14%
	Individual	109	11712350	1.30%
		112	**12973563**	**1.44%**
Grand Totals:		**2814**	**900,000,000**	**100.00%**

List of 10 Largest Shareholders

Investor ID	CDSACNO	Investor Name	Postal Address	Shares Held	Percentage
100000244	223654	National Social Security Fund	P.O BOX 7140, Kampala	292,640,000	32.52
3503	12491	National Insurance Corporation Ltd	P.O. BOX 7134, Kampala	160,783,091	17.86
3676	21741	Kenya Power and Lighting Company	C/O Standard Chartered Bank Ug, P.O. BOX 7111, Kampala	20,207,200	2.25
3450	9318	Bank of Uganda Staff Retirement Scheme	C/O Standard Chartered Bank Ug, P.O. BOX 7111, Kampala	18,836,500	2.09
3259	833	Joseph Tukuratiire	P.o. Box 12822 Kampala	15,825,783	1.76
3608	17337	Eliphaz Maari	P.o. Box 4180 Kampala	12,401,437	1.38
3683	22098	Timothy Sabiiti Mutebile	P.O. BOX 9193, Kampala	12,388,100	1.38
3682	21806	Central Bank Of Kenya Pension Fund	C/O Standard Chartered Bank Ug P.o. Box 7111 Kampala	12,222,066	1.36
3893	41343	Uganda Development Bank Ltd	P.O. BOX 7210, Kampala	10,147,335	1.13
100000273	77780	National Social Security Fund	PineBridge, Kampala	9,575,568	1.06
			Total number of Shares	**565,027,080**	**62.78**
			And 2,672 other Shareholders	**334,972,920**	**37.22**
			Total No. Of Shares	**900,000,000**	**100**

Summary of Shareholders as at 31 March 2018

Range ID	Description	No. of Investors	No. of Shares Held	Percent Holding
1	Less than 500 Shares	111	29245	0.00%
2	Between 501 and 1,000 Shares	126	105737	0.01%
3	Between 1,001 and 5,000 Shares	574	1543597	0.17%
4	Between 5,001 and 10,000 Shares	507	4302918	0.47%
5	Between 10,001 and 50,000 Shares	841	21411900	2.38%
6	Between 50,001 and 100,000 Shares	255	19572630	2.17%
7	Above 100,001 Shares	400	853033973	94.78%
		2814	**900,000,000**	**100.00%**

** Prepared by Secretarial Department, Deloitte Uganda Limited*

BOARD OF DIRECTORS

Dr. Martin Aliker
Chairman

Appointed 24 August 2010 and re-appointed on 7 July 2017. He is also Chairman of Hima Cement Ltd and the National Insurance Corporation Ltd. He is also chairman of several other companies. He has served on many Boards of leading companies in Uganda including Stanbic Bank Ltd and Monitor Publications Ltd.

Eng. Martin Kasekende
Director and Chairman of the Board Administration and Technical Committee.

Appointed 24 August 2012. He acted as Managing Director of the Company from May 2013 to August 2014. He is the Minister of Lands, Agriculture and Environment in the Buganda Government and also Chairman of Buganda Land Board. He is a registered engineer. He is a former General Manager of National Housing and Construction Corporation. He is a former Board member of NSSF, Housing Finance Bank Ltd and Private Sector Foundation.

Mr Richard Byarugaba
Director and Chairman of the Board Finance Committee

Appointed on 17 October 2014 and re-appointed on 7 July 2017. He is the Managing Director of the National Social Security Fund, a former Managing Director of Nile Bank and Global Trust Bank. He is a member of the Institute of Certified Public Accountants of Uganda and a fellow of the Association of Chartered Certified Accountants.

Mr Joseph Tukuratiire
Director and Chairman of the Board Audit and Risk Committee

Appointed 30 August 2013. He is a financial consultant. He is formerly Principal Assistant City Treasurer at Kampala City Council. He has taught finance courses at Uganda Management Institute and Acclaim Africa as Associate Consultant. He is an active dealer in company stocks, Government securities and money markets.

Dr Ijuka Kabumba
Director

Appointed on 17 July 2007 and re-appointed on 7 July 2017. He is the former Managing Director of the National Insurance Corporation and currently a professor of Public Administration at Nkumba University. He passed away on 22-12-2017.

Mr Bayo Folayan
Director

Appointed 9 December 2015 and re-appointed on 7 July 2017. He is the Managing Director of the National Insurance Corporation Ltd. He is an insurance professional with a number of qualifications and wide experience in the insurance. He also has broad experience in corporate governance having held top positions in a number of corporate entities in Nigeria prior to his current position in NIC.

Mrs. Florence Namatta Mawejje
Director

Appointed 9 December 2015 and re-appointed on 7 July 2017. She is a member of the Board of Directors of the National Social Security Fund. She is currently the General Manager Human Resources, Centenary Bank. She has qualifications and wide expertise in human resource management, corporate governance, and management retirement and pension funds.

Mrs. Marion Adengo Muyobo
Director

Appointed 9 December 2015 and re-appointed on 7 July 2017. She is currently the Head of Social Affairs at Total E & P Uganda. She is a marketing professional with substantial experience in strategy development and execution, communication and marketing.

Mrs. Peninnah Tukamwesiga
Director

Appointed 9 December 2015 and re-appointed on 7 July 2017. She is a member of the Board of Directors of the National Social Security Fund. She is an Advocate of the High Court of Uganda. She is the Head Legal Aid at Central Organization of Free Trade Unions. She is a panel member of the Industrial Court.

Mr George Inholo

Director and current Managing Director of the Company.

MANAGEMENT TEAM

1. **Mr. George Inholo**
   Managing Director/CEO
2. **Ms. Jacqueline Kiwanuka**
   Head of Finance
3. **Mr. Nelson Kizza**
   Head of Production
4. **Mr. Martin Mutahi**
   Head of Internal Audit
5. **Mr. Peter Kiwanuka**
   Head of Human Resources and Administration
6. **Rogers Mawanda**
   Ag. Head of Sales and Marketing


5
4
2
3

Independent Auditors

Jim Roberts & Associates

Certified Public Accountants

Social Security House

Plot 4 Jinja Road

P O Box 10639

Kampala

Lawyers & Company Secretary

Lex Uganda Advocates, Solicitors

8th Floor Communications House

Plot 1 Colville Street

P. O. Box 22490, Kampala

Tel: 0414 232733/344172

Fax: 0414 254721

Email: partners@lexuganda.com

Website: www.lexuganda.com

A member firm of TERRALEX

Registrars

Deloitte (U) Ltd

Rwenzori House

1 Lumumba Avenue

P. O. Box 10319

Kampala, Uganda

Security Central Depository Agents/Brokers

Baroda Capital Markets (U) Ltd

P. O. Box 7197 Kampala

Tel: +256 414 233680/3

Fax:+256 414 258363

Email: bob 10@calva.com

African Alliance (Uganda) Ltd

Workers House, 6th Floor

Plot 1 Pilkington Road

Tel: +256 414 235 577

Fax: +256 414 235575

Email: securities@africanallliance.co.ug.

Crane Financial Brokers (U) Ltd

Plot 20/38 Kampala Road

P. O. Box 22572 Kampala

Tel: +256 414 341414/345345

Fax:+256 414 231578

Equity Stock Brokers (U) Ltd

Orient Plaza Plot 6/6A Kampala Road

P. O. Box 3072 Kampala

Tel: +256 414 236012/3/4/5

Fax:+256 414 348039

Email: equity@orient-bank.com

Crested Stocks and Securities Limited

6th Floor Impala House

Plot 13-15 Kimathi Avenue

P. O. Box 31736 Kampala

Tel: +256 414 230900

Fax +256 414 230612

Email: info@crestedsecurities.com

www.crestedsecurities.co.

Dyer & Blair (Uganda Ltd)

Rwenzori House Ground Floor

P. O. Box 36620 Kampala

TeL: +256 414 233050

Email: shares@dyerandblair.com

Registered Office

Uganda Clays Limited

Plot 22/2 Kitende, Kajjansi

Kampala-Entebbe Road

P. O. Box 3188

KAMPALA

Principal Bankers

Standard Chartered Bank (U) Limited

P. O. Box 7111, Kampala

Stanbic Bank (U) Limited

P. O. Box 7131, Kampala

Equity Bank (U) Limited

P. O. Box 10184, Kampala

KCB Bank (U) Limited

P. O. Box 7399, Kampala

Housing Finance Bank (U) Limited

P. O. Box 1539, Kampala

Blending, purification and fine milling done here to ensure high quality products.

APPRECIATING THE USE OF ADVANCED TECHNOLOGY IN THE CLAY MANUFACTURING PROCESS

Eng. Nelson Kiiza

At Uganda clays we make use of intelligent machines which enable the manufacturing processes to be carried out with minimal human intervention. This involves the application of various control systems, particularly for tasks that require speed, endurance and precision.

The Kamonkoli factory uses such advanced technology throughout the production process: at the clay preparation line, molding, artificial drying, firing and baking.

The plant is a modern facility designed and installed with modern technology with Programmable Logic Controller (PLC) systems set at all process levels. During the clay preparation process, the different clay ingredients are blended accurately and in adjustable proportions according to the quality parameters set. Well-coordinated motor drives are in place to ensure that variances from the set ratios are negligible. This ensures that the required parameters of the final product are not tampered with. The technology is also set to eliminate impurities such as stones and plant particles so as to produce a smooth and uniform blend of clay with all the desired qualities. All this precision ensures that we have a steady supply of consistently high quality clay.

At the molding stage, the well prepared clay is further refined to attain a particle size of less than 1 mm. This has a huge bearing on the smooth finish of the final product. A host of sensors, automated and sophisticated control mechanisms comprising of industrial computers ensure that the correct production flow is maintained.

Automation is further used when controlling and monitoring:

- The amount of water mixed in the clay
- The vacuum at which the clay is extruded
- The dimensions of the molded clay and its plasticity.

The products are automatically loaded into a tunnel dryer where drying, a very important process in determining the strength of the products, is done. Here the automatic controls strike a balance between the important parameters i.e. humidity, temperature and air flow in the system so that the value and quality of products is not compromised. With the modern technology in the plant, the drying process is very short and effective - the entire tunnel dryer cycle takes only 24 hours.

Firing and baking of products is done using a state-of-the-art tunnel kiln into which dry materials are automatically transported using mechanized and automated systems. Inbuilt automated burners and temperature sensors are used in the kiln to ensure that the set standard parameters are met. Products are baked in the kiln up to 950 degrees celcius. This ensures that the kiln offloads are of the highest level of strength possible with a negligible degree of permeability thereby guaranteeing a quality final product.

Reaping the benefits of industrial automation

- **Cost Control**

Although Industrial automation requires high investment in capital expenditure as well as operational costs of energy, maintenance and repairs, the benefits derived from its use still outweigh the costs. Savings are realized particularly on speed, efficacy and precision as well as reduced employment costs and elimination of tangible and intangible costs owed to inherent human error.

- **Quality**

Humans are inherently imperfect. Mistakes can be made for any number of reasons including distraction and physical constraints like decreasing strength and energy. Automated systems eliminate the possibility for errors based on human imperfections. With reduced human error, the result is a high quality final product.

- **Responsiveness to demand**

Even an employee with an impeccable work ethic needs to take a break every now and then. Our machines work faster and harder than humans, and can operate continuously throughout the week. We are thus able to fulfill orders in a timely manner.

- **Human safety**

The safety of our employees is very important to us. Automation has eliminated the risks of injury associated with the factory environment. The automated processes reduce workers' exposure to heavy lifting, extreme temperatures, and other hazardous working conditions.

- **Production efficiency**

The entire production process is optimized thereby making manufacturing efficient. Our factory team has enough time to fine-tune processes, improve technologies, and focus on the work that cannot be automated.

- **Fulfilling our promise**

The modern technology and automation at the Kamonkoli plant ensures quality clay baked products that satisfy our customer requirements of:

- Strength
- Beauty
- Durability
- Compliance with UNBS and ISO standards.
- Consistent availability of building products.
- Timely execution of special orders.

CHAIRMAN'S STATEMENT

"The Company is well and truly on a trajectory of growth and profitability."

Dr. Martin Aliker

Performance overview

In 2017 the Ugandan economy registered modest recovery after the sluggishness in the previous year. However economic activity remained at low ebb because of a number of factors including high interest rates on borrowing, continued turmoil in South Sudan which is one of Uganda's main trading partners, and a bleak global economic outlook.

Despite all these pressures, the Company performed well during the year under review and registered revenue growth. The growth was largely driven through emphasis on the production and sale of fast moving products and the continued emphasis on cost reduction.

Business Performance

I am delighted to report that the Company is well and truly on a trajectory of growth and profitability. The difficult years of persistent loss-making are behind us. Building on the good performance in the previous year 2016, the Company continued to register reasonable performance during the year 2017. The Company made a net profit of UGX 2,395,217,000. We are confident that this good performance will be sustained during the current year and beyond.

UGX
2.3
BILLION

NET PROFIT

Dividends

Based on the above performance of the Company for the year under review, the Board of Directors has recommended the payment of a final dividend of UGX 1 per share. This will be paid in July 2018 .

UShs. **1**

Dividend per share

Compensation from UNRA

The Company has continued to pursue compensation from Government of Uganda and Uganda National Roads Authority [UNRA] for land compulsorily acquired at Kajjansi for the construction of the Kampala-Entebbe Express Way/ Munyonyo Spur. As a result of the expropriation of the land, the Company has lost large amounts of clay. The Company filed a case in the High Court, Land Division, for compensation for the surface value of the land and economic loss resulting from the loss of the clay.

UNRA has paid partial compensation for the land and the Company is still pursuing full compensation for the surface value of the land and for economic loss resulting from the loss of the clay. Verification and computation of the claim has been held back by delays in technical advice UNRA has sought from several government departments and objections investigations from government agencies.

Governance

The core function of the Board of Directors is to oversee the management of the business and affairs of the Company on behalf of the shareholders, in accordance with the established corporate governance framework. The Board ensures proper management and functioning of the Company and a reasonable return to the shareholders.

The Board of Directors, which is multi-skilled, executed this role satisfactorily through the regular Board meetings. The three Committees of the Board are: the Board Audit & Risk Committee, Board Administration and Technical Committee and the Board Finance Committee. I am pleased to report that these committees, met regularly and gave due guidance to management. The Board has continued to improve the governance framework of the Company, and to strengthen the control environment to minimize risk, and has put in place several governance manuals and policies.

Outlook for the Future

With Board oversight, the Company implementing strategies to improve distribution channels and product availability, drive sales and reduce costs. A number of key spare parts for the production line at Kajjansi were imported and installed. With these interventions we are optimistic that the Company will continue to register growth and profitability which will ensure higher returns to the shareholders.

Condolence

On a sad note, I report the passing away of Dr. Ijuka Kabumba who died on 22-12-2017. Dr. Kabumba diligently served the company as a Director for several years. We are grateful for his wisdom.

May his soul rest in eternal peace.

Appreciation

On behalf of the Board, I would like to thank the shareholders for the continued commitment and faith in the Company. I wish to appreciate our staff for their continued effort and service to the Company. The success of the Company depends largely on their effort.

I gratefully recognise our customers for the support, loyalty to and confidence in the Company and its products, despite the challenging economic environment during the year under review.

I also thank the members of the Board of Directors for their continued dedication to improving the governance of the Company and determination to see it return to profitability.

We value the contribution of all who have given value to the business of the Company and assure you all of our continued dedication as we strive for better results in 2017 and beyond.

Dr. Martin Aliker

CHAIRMAN BOARD OF DIRECTORS

Molding and shaping done by the automatic tile press.

MANAGING DIRECTOR'S STATEMENT

Mr. George Inholo

Financial results

The company posted a 4.5% growth in revenue during the year from UGX 26 billion in 2016 to UGX 27.2 billion in 2017. Despite this modest growth, we are pleased to report that the company again posted good results for a second year in a row thus enabling sustained shareholder value.

Summary of Financial Highlights 2013 – 2017

	2017	2016	2015	2014	2013
	UShs '000	**UShs '000**	**UShs '000**	**UShs '000**	**UShs '000**
Turnover	27,201,533	26,037,358	24,111,965	22,112,617	21,095,645
Profit / (Loss) before tax	3,164,348	4,030,241	(1,035,378)	(6,288,898)	4,599,235
Profit / (Loss) after tax	2,395,217	2,373,375	(1,207,254)	(5,179,306)	3,292,912
Dividends	900,000	900,000	Nil	Nil	Nil
Cash generated from operations	5,176,772	3,142,946	3,007,236	4,526,527	6,101,020
Shareholders' funds	31,266,670	28,034,503	25,575,121	26,780,905	31,960,211
Capital expenditure	1,742,725	685,311	536,541	515,424	205,396
Total assets	66,190,081	65,263,855	62,557,186	64,788,458	71,409,755
Per share data					
Dividends per share (UShs)	1	1	Nil	Nil	Nil
Earnings / (Loss) per share (UShs)	2.66	2.64	(1.34)	(5.75)	3.66

Operating Environment

This performance was amidst a very challenging and competitive environment, prolonged draught and famine in the first quarter of the year, the civil conflict in South Sudan, the depreciating shilling, increased cost of petroleum products, and a general increase in labour costs amongst others.

The company continued to face direct and indirect competition from manufacturers and suppliers of building products.

Gross Margin

Despite the above performance, the gross margin remained relatively the same in comparison to the prior year (2017: 39%, 2016: 40%). This is attributed to the general increase in prices in the economy and specifically major factory inputs and spares.

39%
2017
Gross Margin

40%
2016
Gross Margin

Expenses

There was a 21% increase in the total overheads because of a number of factors. The company intensified marketing activities to grow revenues by opening up new outlets in priority markets and improvement of staff motivation to support continuous productivity.

Sales & Marketing

We conducted business differently. We widened our distribution network and segmented our market into territories. We partnered with new sales agencies in various parts of the country. We implemented uniform product pricing across all sales locations. We also started delivering products to all our agents in the last quarter of the year.

Units of major products sold at both of our Factories:

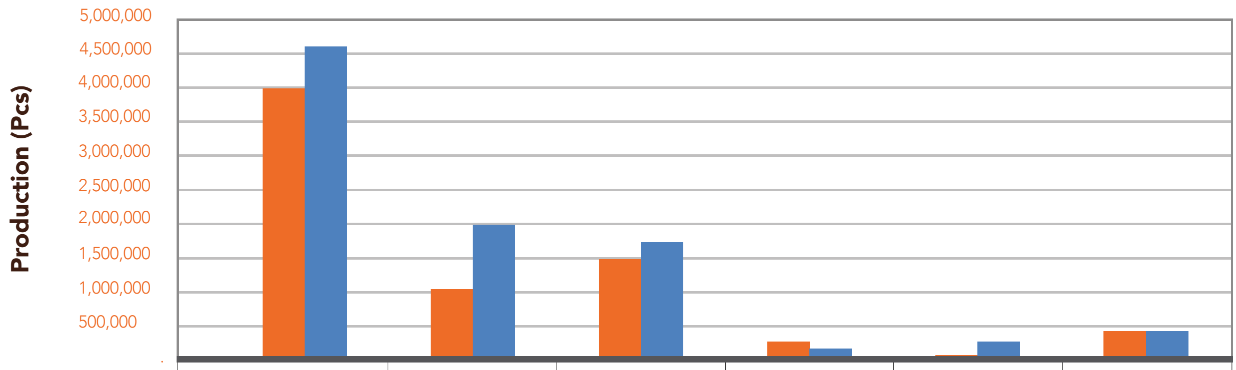
Products (pieces)	2017	2016	2015	2014	2013
Roofing tiles	8,139,622	8,221,462	8,056,758	7,924,985	8,220,961
Max-pans	1,837,257	1,469,107	1,343,366	1,814,705	1,235,906
Half bricks	4,244,768	2,751,486	3,297,022	4,516,520	4,504,453

Production

During the year under review, production was based on fast-moving products and confirmed customer orders. There were no stock-outs throughout the year.

There was great emphasis on cost reduction at both factories. The company imported the necessary spares to ensure continuous production operations. As a result all production targets were met. The production highlights are shown in the following graphs and figures.

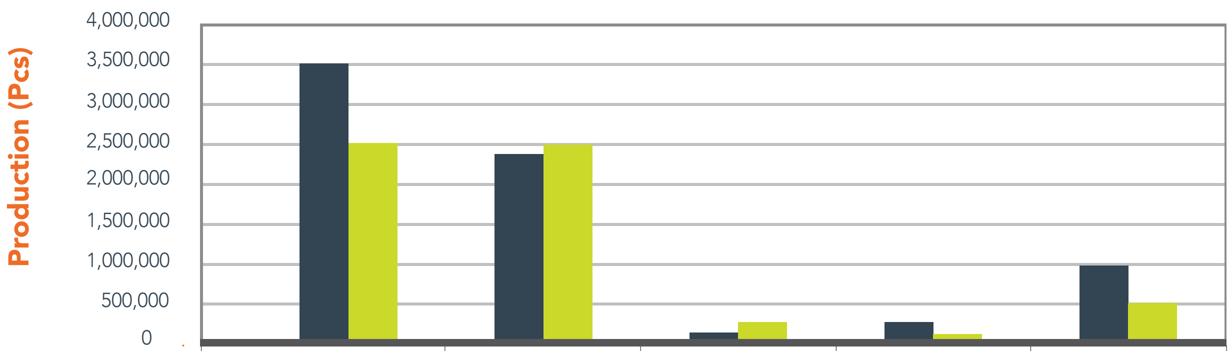
Kajjansi Kiln offloads 2016 Vs 2017



	ROOFING TILES	BRICKS	MAXPANS	BLOCKS	GRILLS/VENTS	QUALITYTILES
OFFLOADS 2016	4,087,900	1,120,376	1,439,214	158,987	63,475	377,016
OFFLOADS 2017	4,669,560	2,080,268	1,703,410	12,982	275,826	405,222

Fig4. Kajjansi Kiln offloads trends for the prime products 2016 vs. 2017

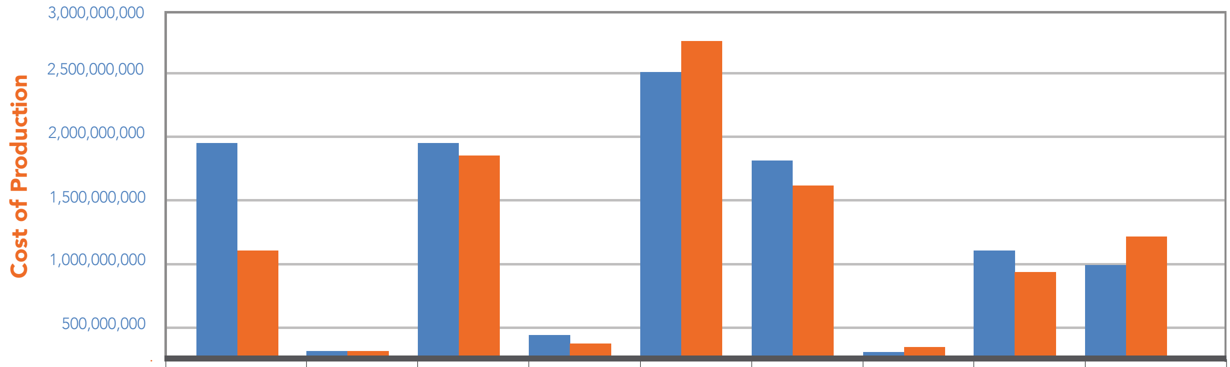
Kamonkoli Kiln offloads 2016 Vs 2017



	ROOFING TILES	BRICKS	MAXPANS	BLOCKS	QUALITYTILES
OFFLOADS 2016	3,541,770	2,347,531	20,806	121,348	972,418
OFFLOADS 2017	2,588,543	2,498,950	94,341	23,227	479,297

Fig5. Kamonkoli Kiln offloads trends for the prime products 2016 vs. 2017

Overall UCL Direct Cost Of Producton 2016 Vs 2017



	Clay Processing & Pdct Moulding	Drying Process	Electricity/ Generator Expenses	Factory General Maint.	Kiln Firing & Finishing	Other Production Ohds	Quality Assurance	Quality Costs	Sales Outlet Expenses
UCL 2016	1,943,613,821	70,534,982	1,973,729,312	382,302,501	2,488,009,342	1,911,028,573	25,325,410	1,048,845,615	1,019,109,308
UCL 2017	1,155,270,676	72,886,159	1,953,439,104	205,405,104	2,674,597,099	1,841,052,004	63,248,512	918,643,984	1,188,400,683

Fig3. Overall Direct Cost of production trends 2016 vs. 2017

Control Environment

The Board and Management continued to strengthen the control environment. New policies have been put in place including: waste management policy, product pricing policy, credit policy, stock management policy and debt management policy.

Health, Safety and Environment

A lot of emphasis was put on health and safety of employees, customers and other stakeholders. I am glad to report that we had no fatality at all our operating sites.

ISO Certification

The company has previously been ISO certified. It is currently pursuing a new certification for ISO 9001:2015. The quality management system internal audit for the ISO 9001:2015 was completed in 2017 and now awaits external audit in 2018.

People agenda

The company continued to focus on the people resources to ensure sustained productivity. We employed a total of 323 permanent employees with 235 at Kajjansi and 88 at Kamonkoli.
Casual labour was outsourced to third party providers.

The company continued pursuing the agenda of rightsizing the manpower to maintain a skilled and well-motivated team.

Management introduced an employee recognition programme to recognise the best employee at either factory for each year.

The following two employees emerged the best at each of our factories for the year 2017:

- Kamonkoli Factory- winner of the award for the year was Mr. David Odeke
- Kajjansi Factory- winner of the award for the year was Mr. Yasin Kizito

Our People

As of 31st December 2017, the Company had a total work force of 323 employees.

Corporate Social Responsibility

As is the tradition, the company paticipated in the World Aids Day with a number of activities including free HIV testing, prevention awareness, counselling and provision of drugs to the neighbouring community.

We built a well to provide clean water for the community in Kajjansi.

In November 2017 the company contributed UGX 4.5 million for the treatment of an infant with a life-threatening heart condition.

Sports

The company partnered with and sponsored A1 Challenge which is a basketball team that plays in the national basketball league. This supports the talents of the Girl Child in order to keep them engaged and healthy. The partnership also enhances the company's brand.

Challenges and Risks

The company faces a number of risks and challenges which are being addressed on a continous basis. Some of them are:

- Reduced clay reserves at Kajjansi clay as a result of the expropriation of over 11 acres of quarry land for the Munyonyo spur road.
- Optimization of the Kamonkoli plant.
- The growing number of competitors in unregulated environment

- Outstanding shareholder loan of UGX 20.6 billion owed to NSSF and the planned debt-equity conversion.

Outlook into the Future

We commit to grow shareholder value. We will focus on modernising the Kajjansi factory and optimising the Kamonkoli factory.

We will acquire more clay reserves and restore the environment wherever we extract clay.
We will continue to focus on growing the top line by increasing our sales volumes and improving our distribution network.

Safety, health, security and environment will feature high on our agenda plus giving back to the communities where we do business.

Conclusion

I would like to thank our customers for choosing to do business with us over the years, our staff for their continued engagement, commitment and loyalty to delivering superior products to our customer, and our Board of Directors for providing the critical oversight.

I would also like to thank you our shareholders for your support and engagement over the years.

For Quality, Durability, and Beauty to Last

George INHOLO
MANAGING DIRECTOR.

Dry tiles from tunnel drier ready for firing/baking.

OPERATIONAL PERFORMANCE

Sales & Marketing

During 2017, the company operationarised five territories with various distribution points:

1. Kampala Metropolitan: Ntinda, Lugogo,Natete, Kyaliwajjala and Lubowa
2. Northern: Arua,Gulu,Lira,
3. Eastern: Kamonkoli, Mbale, Jinja and Soroti
4. Central: Bujuuko, Hoima and Masindi
5. Western: Mbarara, Kabale and Fortportal

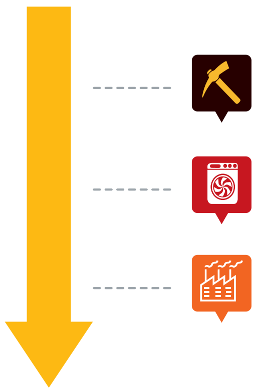
The zoning of the market has ensured a more targeted reach to customers which will ultimately improve sales performance.

Owing to the continued growth and relevance of social media to todays' consumer, we enhanced the use of Facebook, Twitter, and Instagram to promote our business. These initiatives have strengthened our brand steadily judging from the online inquiries we received.

In the course of the year, we also built up cordial relationships with and participated in the Busoga coronation activities.

Production Highlights

Quarrying, Drying and Kiln Operations



Product handling has been improved and drying losses have significantly reduced to less than **5%.**

Quarry operations

The clay excavation plan at both factories was carried out at the right time and in the right quantities to sustain production operations, with empasis on aging of clay and minimising excavation costs.

Clay preparation and Molding

Management introduced an annual shutdown maintenance plan for the machines in the molding section for both factories. Machinery was overhauled and all the worn-out parts replaced leading to improved equipment reliability in 2017. Machine downtime thus reduced by half in comparison to 2016.

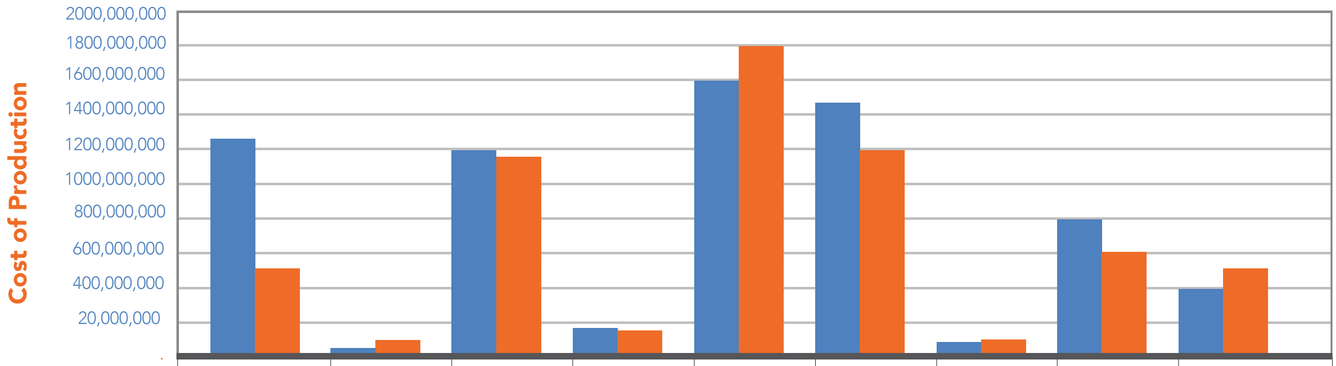
Drying

There were significant works on refurbishment of the artificial chamber driers in both Kajjansi and Kamonkoli factories and thereby reduced drying time for green products from 48 hours to 36 hours on average. This increased the quantities of products available for kiln loading. This also reduced breakages and the cost of drying.

Kiln Operations

With the importation of the burner spares and efficient supply of good quality coffee husks throughout 2017, the kiln offloads per week improved from 5 to 6. There was kiln shutdown for repairs in Kajjansi and Kamonkoli that led to improved kiln recovery.

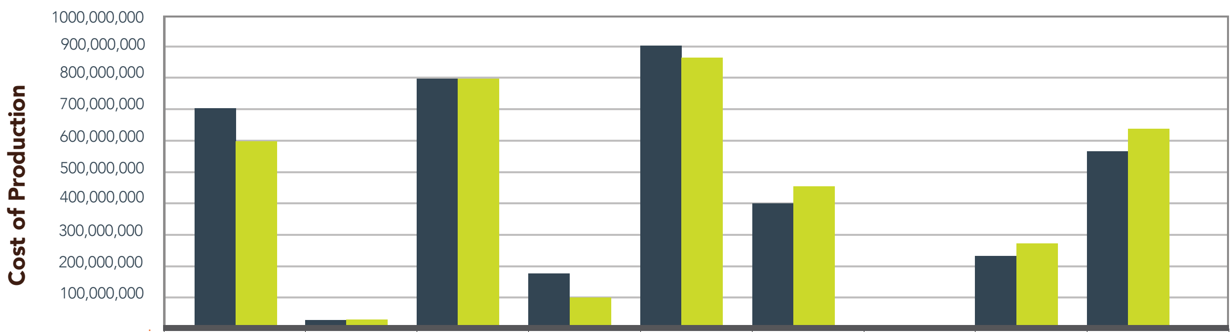
Kajjansi Cost of Production 2016 Vs 2017



	Clay Processing & Pdct Moulding	Drying Process	Electricity/ Generator Expenses	Factory General Maint.	Kiln Firing & Finishing	Other Production Ohds	Quality Assurance	Quality Costs	Sales Outlet Expenses
Kajjansi 2016	1,249,000,737	44,944,681	1,170,861,851	1,99,454,520	1,590,004,543	1,509,372,894	25,325,410	816,870,449	444,125,086
Kajjansi 2017	557,228,115	51,288,115	1,151,457,827	155,028,826	1,814,024,245	1,387,071,998	63,248,512	637,328,835	529,402,124

Fig1. Kajjansi direct cost of production trends 2016 vs. 2017

Kamonkoli Cost of Production 2016 Vs 2017



	Clay Processing & Pdct Moulding	Drying Process	Electricity/ Generator Expenses	Factory General Maint.	Kiln Firing & Finishing	Other Production Ohds	Quality Assurance	Quality Costs	Sales Outlet Expenses
Kamonkoli 2016	694,613,085	25,590,301	802,867,461	182,847,513	898,004,800	401,655,680		231,975,166	574,984,222
Kamonkoli 2017	608,042,561	21,641,463	801,931,277	50,376,278	860,572,855	453,980,006		281,315,149	658,998,559

Fig2. Kamonkoli direct cost of production trends 2016 vs. 2017

Our People

The company continued to value people as the most important resource in the organisation throughout 2017 by creating work environment that enables employees to thrive both as individuals and as contributors to business success. During the year the company employed a total of 323 permanent employees with 235 at Kajjansi and 88 at Kamonkoli.

Casual manpower was outsourced to third party providers. Management continued to right size the manpower focussing on maintaining a skilled and well-motivated number with the right attitude to work. Emphasis was put on the new performance culture geared towards efficiency and improving customers' buying experience.

Strategy on employee engagement

Engaged employees are invaluable resources since they are motivated to perform to the highest of their abilities by personal dedication and voluntary commitment to the success of the organization. In the previous year the company focussed on managing the change process smoothly and directing people's efforts towards Key Result Areas as a basis for effective performance management, staff training and development. In 2017, focus was set on improving employee engagement and inculcating a culture of performance. We believe that an engaged employee will give of his/her best in order to steer and support the business goals and objectives of the company.

Besides the employee recognition programme, management encouraged departmental and sectional meetings, recreational activities through sports, employee voice through suggestion boxes and quarterly general staff meetings.

Resourcing

Deliberate efforts were made to enhance professionalism and delivery of a professional HR service consistent with the current needs and industry best practice. The company hired an HR Business Partner and HR Administrator to support the effective management of people resources.

The marketing team was expanded to cover the 5 newly created territories and increased the number of field sales personnel by 12 to serve our growing customer base effectively. Through our people, Uganda Clays has continued to grow its business with emphasis on cost reduction, pragmatism and delivering a return to the shareholder.

As a semi-automated manufacturing concern, Uganda Clays employs more men than women. The company focussed on bringing about gender parity especially in the service departments where physical effort is not the requirement.

The following staff joined the company:

1.	Mr. Shisa Robert	Human Resources Business Partner
2.	Ms. Nantumbwe Regina	Human Resources Administrator
3.	Ms. Nakayinda Ashura	Yard Assistant

4.	Mr. Ongora Kevin	Yard Assistant
5.	Mr. Wejuli Richard	Yard Assistant
6.	Mr. Arituha Abraham	Security Guard
7.	Mr. Aremo Samuel	Security Guard
8.	Mr. Mahadi Joel	Audit Officer

We appreciate the services of the following persons who retired from the service of the company:

No.	Names	Period
1	Mr. Rwabutiti Paul	4 Years
4	Mrs. Norah Nandaula Kaganda	12 Years

Workers' Compensation and Insurance

UCL employees are insured 24 hours under Workers Compensation and Group Personal Accident policies. These provide protection for employees against work-related accidental bodily injuries, occupational diseases and death during and in the course of their employment. Nine cases were compensated to a tune of UGX 45,263,718.

Adoption of an employee-facing HR Information system

Microsoft Dynamics NAV ERP software has been adopted by the HR team and has a module for efficiently organising and processing employee records such as leave, payroll lists and a database of essential employee information. The overall aim is to use the software to manage all areas of human resources easily and accurately by eliminating the time-consuming manual processes.

Retirement Planning

The company continued supporting the Uganda Clays Staff Contributory Provident Fund through timely monthly remittances. A new Board of Trustees was appointed and trustees underwent several trainings and acquired skills required to manage retirement benefits. Four staff members who were nearing retirement were trained to prepare for their imminent retirement. The Fund performed excellently and returned interest to all members of 12.9% for the financial year 2017.

Internship Programs

In 2017, Uganda Clays had the pleasure of working with 30 undergraduates from various institutions to acquire practical skills required in the world of work. Each intern was matched to a department within the Company in an area relevant to the student's area of study and allocated supervisors for hands-on training. Using the internship program, UCL targeted students who excelled academically and provided them with the opportunity to obtain practical work experience in Plumbing, Electrical, Procurement, Finance, etc. This helped to train and develop the skill sets of interns at an early stage of their career while giving the company an opportunity to gauge the intern's skills, abilities, and inner drive for future employment.

Relationship with the Union

We maintained cordial relations with the unions for the most part of the year. In all, we had 24 engagements with the union leadership at the shop and branch through meetings, negotiations and responses to matters raised by them. Management provided to the union the company position on matters to be negotiated in the new Collective Bargaining Agreement.

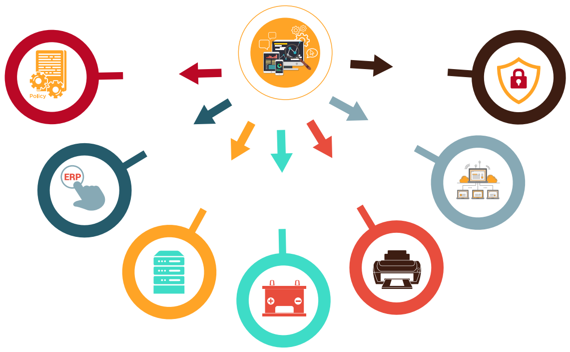
Health & Safety

As a company, the health and wellbeing of our employees is extremely important to us. Hence we protect and support healthy living and working with a range of measures. Management rolled out various initiatives including sectional safety committees at the factory floor and in other areas of the business to enhance awareness and practice of safe ways of work. We conducted health and safety promotion activities that included health talks, education on the proper use of PPE to secure employees at work who handle various roles. Although every employee is insured, we want to empower everyone to uphold health and safety to avoid injuries and fatalities.

Management undertook a comprehensive machine risk assessment in order to identify any remote potential risks that this equipment may cause to employees and take suitable and sufficient corrective actions to prevent them. This will improve employee's safety at work.
The company has well established clinical services to handle emergencies like road accidents, critical illnesses, family planning services, pyscho-social support services including guidance and counselling. The company received Government support through PNFP (Private Not for Profit) Program and USAID worth UGX 14.56 million.

Employee of the year recognition at Kamonkoli factory.

Information, Communication, And Technology



In recognition of the utility and importance of ICT and its use as a critical component in the business processing and delivery of products and services to our customers, management continued to improve the ICT operations during the year. By the end of the year 2017, a number of key interventions were made:

ICT policy formulation and review

Critical ICT policies and procedures were formulated and adopted. These policies aim to protect UCL's information assets. In addition, they provide a framework through which company information stored or transmitted electronically through the company's ICT resources is protected to ensure confidentiality, integrity and availability.

Enterprise Resource Planning (ERP) Software

During the period the company implemented an integrated ERP system that links all business processes, ties together disparate business functions and enables the company run smoothly with a real-time processing environment.

In the same regard, and in order to boost the processing speeds of ICT systems, new hardware and software were procured to enhance the value of the new ERP.

Implementation of New Power Backup Systems

In the wake of persistent power fluctuation particularly in the east, a centralised power backup system was acquired for each factory to improve the uptime of the servers and network at both locations as well as reduce any unnecessary business interruption. This innovation has also ensured that our ICT systems are up and running all the time.

Implementation of UCL Enterprise Wide Area Network (WAN)

In an effort to boost productivity and increase internal communication between our two factories, a wide area network was set up linking the factories. This helped improve sharing of information, centralizing the ICT infrastructure, cutting costs, and improving flexibility and convenience for workers over the two factories. Our users no longer experience the lag time associated with traditional remote access.

The magnificent Entebbe Express Highway passing through formerly UCL land.

DIRECTORS' REPORT

The Directors submit their report together with the financial statements for the year ended 31 December 2017 which disclose the state of the affairs of Uganda Clays Limited ('the Company').

Principal activities

The principal activities of the Company are the production and sale of a wide range of clay building products. The main products according to contribution to total turnover are roofing tiles, maxpans and half bricks.

Results

	2017 Shs '000	2016 Shs '000
Profit before tax	3,164,348	4,030,241
Tax (charge)/credit	(769,131)	(1,656,866)
Total comprehensive profit for the year	**2,395,217**	**2,373,375**

Dividend

The directors proposed a final dividend payment of UGX 1 per share for the year ended 31 December 2017 (2016 : 1 UGX per share).

Directors and their Emoluments

The directors who held office during the year and up to the date of this report were:

1.	Dr Martin Aliker	-	Chairman
2.	Eng. Martin Kasekende	-	Non-Executive Director
3.	Mr Richard Byarugaba	-	Non-Executive Director
4.	Mr Joseph Tukuratiire	-	Non-Executive Director
5.	Dr Ijuka Kabumba	-	Non-Executive Director [deceased 22-12-2017]
6.	Mr Bayo Folayan	-	Non-Executive Director
7.	Mrs Florence N Mawejje	-	Non-Executive Director
8.	Mrs Marion Adengo Muyobo	-	Non-Executive Director
9.	Ms Penninah Tukamwesiga	-	Non-Executive Director
10.	Mr George Inholo	-	Managing Director

In accordance with Article 69 of the Company's Articles of Association, all the Directors hold office until the Annual General Meeting, at which half of them shall retire but are eligible for re-appointment.

During the year under review, other than as disclosed in note 21 to the financial statements, no Director has received or become entitled to receive any benefit other than directors' fees and retainer, and monthly emoluments in the case of the Managing Director. The total amount of emoluments of the Directors for the year is disclosed in note 21 to the financial statements.

Board Meetings

The Board held quarterly meetings and special meetings whenever the need arose. During the year under review, the Board of Directors of Uganda Clays Ltd held a total of five regular and special Board meetings, excluding Committee meetings. The attendance of members at Board meetings was as follows::

No.	Name of Director	No. of Board meetings attended	% of attendance of Board meetings
1.	Dr. Martin Aliker	5/5	100%
2.	Eng. Martin S Kasekende	5/5	100%
3.	Mr. Richard Byarugaba	4/5	80%
4.	Mr Joseph Tukuratiire	5/5	100%
5.	Dr. Ijuka Kabumba	3/5	60%
6.	Mrs. Florence N. Mawejje	5/5	100%
7.	Mr. Bayo Folayan	5/5	100%
8.	Mrs. Marion Adengo Muyobo	5/5	100%
9.	Mrs. Peninnah Tukamwesiga	4/5	80%
10.	Mr. George Inholo	5/5	100%

Company Secretary

The name and address of the Secretary to the Company are as follows:

Lex Uganda Advocates & Solicitors
8th Floor Communications House
Plot 1 Colville Street
P.O. Box 22490, Kampala - Uganda
Tel: 0414 - 232733/ 344172
Fax: 0414 - 254721
E-mail: partners@lexuganda.com
Website: www.lexuganda.com
A member firm of TERRALEX

Auditors

The Company's auditors during the year were Jim Roberts & Associates, and have expressed willingness to continue in office.

Issue of Financial Statements

The financial statements in this report were authorised for issue by a resolution of the Board of Directors passed on 24 April 2018.
By order of the Board,

Lex Uganda Advocates & Solicitors
COMPANY SECRETARY

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Companies Act 2012 requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results for that year.

The directors are responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company, and to enable them ensure that the financial statements comply with the Companies Act, 2012. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates consistent with previous years, and in conformity with the International Financial Reporting Standards and the requirements of the Companies Act 2012.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company as at 31 December, 2017 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the Board of Directors on 24 April 2018 and signed on its behalf by:

DIRECTOR DIRECTOR

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF UGANDA CLAYS LIMITED

Opinion

We have audited the accompanying financial statements of Uganda Clays Limited set out on pages 8 to 39, which comprise the statement of financial position as at 31 December, 2017, and the 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies' Act of Uganda, 2012.

Basis of 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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We did not identify any key audit matters during the audit

Other information

The directors are responsible for the other information. The other information comprises the directors' report, but does not include the financial statements and our auditor's report thereon.

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

n 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, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the requirements of the Companies' Act, 2012, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our Objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control..
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements of the current year 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 and regulatory requirements

As required by the Companies Act of Uganda, 2012 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 it appears from our examination of those books; and

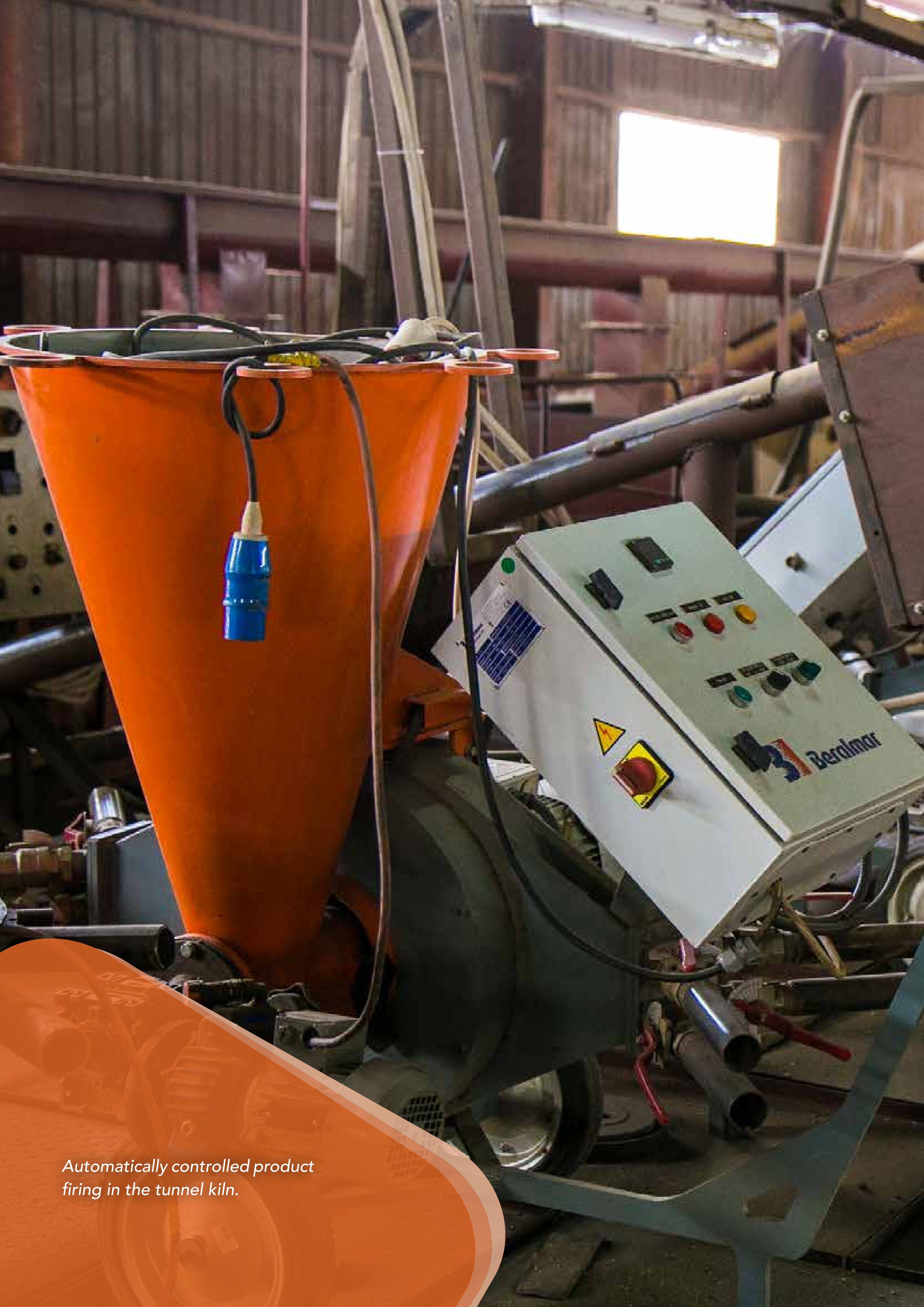
iii. The Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

Julius Tumuhimbise
ENGAGEMENT PARTNER

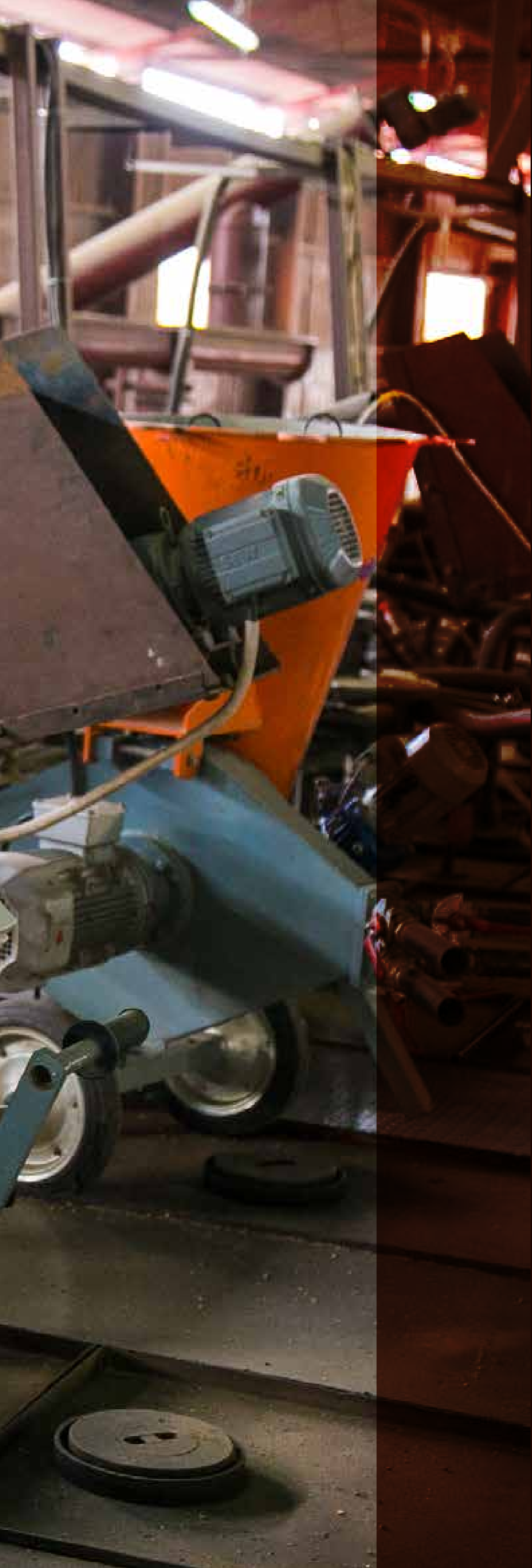
Certified Public Accountants
Kampala

REF: JT/02/0518/353
24 May 2018


Uganda Clays Ltd
ISO 9001:2008 CERTIFIED
KAMONKOLI BRANCH
Tel: 0352 260091
0772 700255
Email: kajjansi@ugandaclays.co.ug
Web: www.ugandaclays.co.ug



Automatically controlled product firing in the tunnel kiln.



Uganda Clays Limited Financial Statements for the Year ended 31st December 2017

Financial statements:

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMES

	Notes	2017 Shs '000	2016 Shs '000
Revenue	1	27,201,533	26,037,358
Cost of sales		(16,510,791)	(15,580,167)
Gross profit		**10,690,742**	**10,457,191**
Other Incomes			
Rent and other incomes		308,535	141,508
Total income		**10,99,277**	**10,598,699**
Distribution expenses		(1,285,843)	(1,021,523)
Administrative expenses		(2,561,473)	(1,734,927)
Other operating expenses		(3,984,637)	(3,690,846)
Total expenses		**(7,831,953)**	**(6,447,296)**
Operating profit (/loss)		**3,167,324**	**4,151,403**
Net finance costs	4	(2,976)	(121,162)
Profit/ Loss before tax		**3,164,348**	**4,030,241**
Tax (Charge)/ Credit	5(a)	(769,131)	(1,656,866)
Total comprehensive profit/ loss for the year		**2,395,217**	**2,373,375**

		Ushs/share	Ushs/share
Basic and diluted gain/ (loss) per share	6	2.66	2.64

STATEMENT OF FINANCIAL POSITION

	Notes	2017 Shs '000	2016 Shs '000
		As at 31 December	
CAPITAL AND RESERVES			
Issued capital	7	900,000	900,000
Share premium		9,766,028	9,766,028
Retained earnings		12,051,185	7,459,594
Revaluation reserve	8	7,649,457	9,008,881
Proposed dividends		900,000	900,000
Total equity		**31,266,670**	**28,034,503**
Non-current liabilities			
Deferred income tax liability	10	8,159,925	9,350,180
Borrowings: non-current portion	9	23,211,380	23,211,380
Total non-current liabilities		31,371,305	32,561,560
Total equity & non-current liabilities		**62,637,975**	**60,596,063**
REPRESENTED BY **Non-current assets**			
Property, plant and equipment	11	45,879,510	46,974,425
Prepaid operating lease rentals	12	701,447	759,129
		46,580,957	**47,733,554**
Current assets			
Inventories	14	9,597,613	9,375,090
Trade and other receivables	15	3,794,182	3,382,237
Staff loans	13	120,928	94,159
Current income tax recoverable	5(b)	342,080	508,989
Cash and cash equivalents	16	1,778,955	4,169,826
Fixed Deposits	17	3,975,366	-
		19,609,124	**17,530,301**
Current liabilities			
Retirement benefit obligation	18	83,316	124,811
Trade and other payables	19	3,467,554	4,542,981
Rent tax payable		1,236	-
		3,552,106	**4,667,792**
Net current assets		**16,057,018**	**12,862,509**
Total		**62,637,975**	**60,596,063**

The financial statements on pages 8 to 39 were authorised and approved for issue Approved by the Board of Directors on 24 April 2018 and signed on its behalf by:

DIRECTOR

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

	Issued Capital Shs '000	Share Premium Shs '000	Revaluation Reserves Shs '000	Retained Earnings Shs '000	Proposed Dividend Shs '000	Total Shs '000
Year ended 31 December 2016						
At 1 January 2016	900,000	9,766,028	10,368,305	4,540,788	-	25,575,121
Prior year adjustment				**(7,472)**		**(7,472)**
Deferred tax	-	-	-	348		348
Income tax recoverable	-	-	-	93,131	-	93,131
Proposed Dividends	-	-	-	(900,000)	900,000	-
Transfer of excess depreciation	-	-	(1,942,034)	1,942,034	-	-
Deferred income tax on transfer of excess depreciation	-	-	582,610	(582,610)	-	-
Profit for the Year	-	-	-	2,373,375	-	2,373,375
At 31 December 2016	**900,000**	**9,766,028**	**9,008,881**	**7,459,594**	**900,000**	**28,034,503**
Year ended 31 December 2017						
At 1 January 2017	900,000	9,766,028	9,008,881	7,459,594	900,000	28,034,503
Paid up dividends	-	-	-	-	(900,000)	(900,000)
Prior year adjustment						
Property, plant and equipment	-	-	-	895,260	-	895,260
Deferred tax	-	-	-	841,690	-	841,690
As restated	**900,000**	**9,766,028**	**9,008,881**	**9,196,544**	**-**	**28,871,453**
Profit for the year	-	-	-	2,395,217	-	2,395,217
Proposed dividends	-	-	-	(900,000)	900,000	-
Transfer of excess depreciation	-	-	(1,942,034)	1,942,034	-	-
Deferred income tax on transfer of excess depreciation	-	-	582,610	(582,610)	-	-
At 31 December 2017	**900,000**	**9,766,028**	**7,649,457**	**12,051,185**	**900,000**	**31,266,670**

STATEMENT OF CASH FLOWS

	Notes	2017 Shs '000	2016 Shs '000
Operating activities			
Cash generated from operations	20	5,176,772	3,142,946
Interest paid/Accrued		-	(102,274)
Tax paid		(949,552)	(113,303)
Net cash generated from/(used in) operating activities		**4,227,220**	**2,927,369**
Investing activities			
Cash paid for purchase of property, plant and equipment	11	(1,742,725)	(685,311)
Cash paid for prepaid operating lease	12	-	(475,000)
Dividends paid		(900,000)	-
Prior year proceeds from fixed deposits		-	1,000,000
Cash paid for investment in fixed deposits		(3,975,366)	-
Net cash used in/generated from investing activities		**(6,618,091)**	**(160,311)**
(Decrease)/increase in cash and cash equivalents		**(2,390,871)**	**2,767,058**
Movement in cash and cash equivalents			
At start of year	16	4,169,826	1,402,768
(Decrease)/increase		(2,390,871)	2,767,058
At end of year	**16**	**1,778,955**	**4,169,826**

* *The accounting policies and notes on pages 50 to 81 form an integral part of these financial statements.*
Report of the independent auditors - page 40 - 41

SIGNIFICANT ACCOUNTING POLICIES

1(a) General information

Uganda Clays Limited is incorporated in Uganda under the Companies Act as a public limited liability company, and is domiciled in Uganda..

1(b) Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with
International Financial Reporting Standards (IFRS).

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in accounting policy (b) below.

Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities.
- IFRS 13 Fair Value Measurement
- IAS 19 Post Employee Benefits(Amendment)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised 2011)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- IAS 1 Presentation of Items of Other Comprehensive Income (Amendment)
- Improvements to IFRS (issued in 2012)

The adoption of the standards or interpretations is described below:

IFRS 13 Fair Value Management

The amendment is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single framework for all fair value measurement (financial and non financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. The amendments had an impact on the company's disclosures. See note 1(E) for further disclosures.

(ii) Adoption of new and amended standards and interpretations (continued)
IAS 1 Presentation of Items of Other Comprehensive Income- Amendments to IAS 1

The amendments to IAS 1 which were effective for annual periods beginning on or after 1 July 2012, introduce a grouping of items presented in OCI. Items that will be reclassified ("recycled") to profit or loss at a future point in time (e.g: net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g; revaluation of land and buildings). The amendments affect presentation only and have no impact on the Company's financial position or performance.

IAS 19 Employee benefits (Amendment)

The amendments are effective for annual periods beginning on or after 1 January 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re- wording. The more significant changes include the following:

- For defined benefits plans, the ability to defer recognition of actuarial gains and losses (i.e.; the corridor approach) has been removed. As revised, amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses are recognised in OCI with no subsequent recycling to profit or loss.
- Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
- The distinction between short- term and other long- term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

The amendment had no impact on the Company's financial statements.

Improvements to IFRS- 2009-2011 Cycle (issued in 2012 effective for annual periods beginning on or after 1 January 2013)

IAS 1 Presentation of Financial Statements (Amendments): The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. The improvement did not have an impact on the financial statements.

IAS 16 Properties, Plant and Equipment (Amendment): The amendment clarifies that major spare parts and servicing equipment that meet the definition of property; plant and equipment are not inventory. The improvement did not have an impact on the financial statements.

IAS 32 Financial Instruments: Presentation. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The improvement did not have an impact on the financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below.

This listing is of standards and interpretation issued, which the company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company expects the adoption of these standards, amendments and interpretation in most cases not to have any significant impact on the Company's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Company is still assessing the possible impact.

Amendment to IAS 32- Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

The amendments are effective for annual periods.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010. IAS 1 (amendment), 'Presentation of financial statements':

The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non- current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

a) Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when a specific criteria has been met for each of the Company's activities as described below.

The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

The Company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement

Revenue is recognised as follows:

i. Sale of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and it is probable that the economic benefits associated with the transaction will flow to the company; and

ii. Interest income on bank deposits is recognised on a time proportion basis using the effective interest rate method.

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 finance income in the statement of profit or loss and other comprehensive incomes.

b) Translation of foreign currencies

Transactions are recorded on initial recognition in Uganda Shillings, being the currency of the primary economic environment in which the company operates (functional currency). Transactions in foreign currencies are converted into Uganda Shillings using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year- end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

On-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 transaction of non-monetary items measured at fair value of the item (i.e, transaction 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)

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met.

Land, buildings, plant and machinery are subsequently shown at fair value, based on revaluations every 3-5 years, by external independent valuers, less subsequent accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when its probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to their comprehensive income and then transferred to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the statement of profit or loss and other comprehensive incomes. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of profit or loss and other comprehensive income) and depreciation based on the assets original cost is transferred from the revaluation reserves to retained earnings.
Depreciation is calculated on the straight line basis to write down the cost of each asset, or its revalued amount, to its residual value over their estimated useful lives. The annual rates used are as follows:

	Rate %
Plant and machinery	10%
Furniture and office equipment	10%
Motor vehicles	25%
Computers equipment and accessories	33.3%
Leasehold land & Buildings	Over the shorter of the lease period and useful life of buildings

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

Assets in the course of construction (capital work in progress) are not depreciated. Upon completion of the project the accumulated cost is transferred to an appropriate asset category where it is depreciated according to the policy set out above.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Any items 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 de-recognition 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 when the asset is derecognised.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete the assets for its intended use. All other borrowing costs are expensed in profit or loss.

d) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

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 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

A previous 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 neither exceeds its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, had not impaired loss been recognised for the asset in prior years.

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

e) Leases

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

Financial leases

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalised at the commencement of the leases 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.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company 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. The details of the finance lease are in note 18

Operating lease

Leases in which the Company does not transfer substantially, all the risks and benefits of ownership of an asset are classified as operating leases. Leasehold land is recognised as an operating lease. Any upfront lease payments are recognised as prepaid lease rentals and recorded under non-current assets to be amortised over the remaining period of the lease on a straight-line basis. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by first-in, first-out (FIFO). The cost of finished goods and work in progress comprises of raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

g) Financial assets and liabilities

Financial assets

The Company's financial assets within the scope of IAS 39 are classified as loans and receivables.
The Company's financial assets include the following category:

Receivables:

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the statement of financial position date. All assets with maturities greater than 12 months after the statement of financial position date are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position. Such assets are carried at an amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of other Comprehensive income.

h) Trade receivables

Trade receivables are recognised at fair value and subsequently measured at an amortised cost using the effective interest rate method, less impairment.

Impairment of trade receivables is recognised in the statement of comprehensive income and expenditure under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired.

The provision is based on the difference between the carrying amount and the present fair value of the expected cash flows, discounted at the effective interest rate. Receivables not collectable are written off against the impairment.

Subsequent recoveries of amounts previously written off are credited to the statement of other comprehensive income under other operating income in the year of their recovery.

i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings under current liabilities on the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of understanding bank overdrafts.

j) Trade payables

Trade payables are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortisation is included in profit and loss.

k) Taxation

Current income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Income Tax Act of Uganda.

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognised outside profit or loss is recognised in equity or other comprehensive income and not in profit or loss.

Management periodically evaluates positions taken in the returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provision where applicable.

Deferred income tax

Deferred tax is provided in full, using the liability method, on all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or subsequently enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

The carrying amounts of the deferred income tax assets are reassessed 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 income tax asset to be utilised.

Unrecognised deferred income tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will be available to enable the deferred income tax asset to be recovered. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right to set off current tax assets aginst current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

l) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

m) Employee retirement benefits

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the company and employees. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior periods. The Company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The Company's contributions to the defined contribution pension scheme are charged to profit or loss in the year in which they fall due. The Company's bonus, gratuity and termination payments are charged to profit or loss in the year in which they fall due.

n) Borrowings

Borrowings are recognised at a fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of other comprehensive income over the period of the borrowings.

o) Issued Capital

Ordinary shares are classified as issued capital in equity. Any premium recieved over and above the par value of the shares is classified as share premium in equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds.

p) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

		2017 Shs '000	2016 Shs '000
1.	**Revenue**		
	Roofing tiles	16,871,819	16,897,949
	Half bricks	1,716,821	1,367,614
	Maxpans	5,073,552	4,905,665
	Ridges	1,095,386	1,117,965
	Other products	2,013,359	1,418,167
	Bricks	430,596	329,998
		27,201,533	**26,037,358**
2.	**Operating loss**		
	The following items have been charged in arriving at operating profit:		
	Depreciation on property, plant and equipment (Note 11)	3,732,901	3,936,735
	Amortisation of prepaid operating lease rentals (Note 12)	57,682	57,682
	Auditors' remuneration	40,000	35,000
	Staff costs (Note 3)	2,735,335	2,208,276
3.	**Staff costs**		
	Salaries and wages	2,709,240	2,186,375
	Other staff costs	26,095	21,901
		2,735,335	**2,208,276**
4.	**Finance costs**		
	Interest expense		
	- Forex loss	2,976	18,888
	Interest on unpaid gratuity	-	102,274
		2,976	**121,162**

	2017 Shs '000	2016 Shs '000
5. Income tax		
a) Income tax expense		
(i) Charge to profit	**1,085,391**	**-**
Current tax	32,305	-
Deferred tax charge (Note 10)	(348,565)	1,656,866
	769,131	**1,656,866**
(ii) Charge to other comprehensive income		
Deferred income tax	-	-

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

Profit/(loss) before tax	3,164,348	4,030,241
Tax calculated at a tax rate of 30% (2016: 30%)	949,304	1,209,072
Expenses not deductible for tax purposes	370,132	447,794
Rent tax	32,305	-
Adjustment to undexation on revalued assets not recognised	(582,610)	-
Tax charge	**769,131**	**1,656,866**

b) Current income tax recoverable

The movement in current tax recoverable is as follows:	2017 Shs '000	2016 Shs '000
At 1 January	508,989	302,555
Under provision of prior year income tax	-	93,131
Current income tax paid	918,482	113,303
Current year tax charge	(1,085,391)	-
At 31st December	**342,080**	**508,989**

6. Profit/ loss per share

Basic profit/ loss per share is calculated by dividing the profit/ loss attributable to shareholders by the average number of ordinary shares in issue during the year.

Profit attributable to shareholders (Shs'000)	2,395,217	2,373,375
Weighted average number of ordinary shares in issue('000)	900,000	900,000
Basic and diluted earnings/ loss per share (Ushs/ share)	**2.66**	**2.64**

7. Issued capital

	Number of shares	Issued capital Ushs'000	Issued premium Ushs'000
At start of year	900,000,000	900,000	9,766,028
At end of year	**900,000,000**	**900,000**	**9,766,028**

The total authorised number of ordinary shares as at 31 December 2016 and 2015 was 900,000,000 with a par value of UShs 1. All issued shares are fully paid up.

	2017 Shs '000	2016 Shs '000

8. Revaluation Reserves

The revaluation surplus relates to the surplus on the revaluation of property, plant and machinery net of deferred income tax, and is non-distributable.

At 1 January	9,008,881	10,368,305
Transfer of excess depreciation for the year	(1,942,034)	(1,942,034)
Deferred tax on depreciation transfer	582,610	582,610
At end of year	**7,649,457**	**9,008,881**

9. Borrowings

Non-current portion		
Shareholder's loan-NSSF (Note 21)	23,211,380	23,211,380
Total non-current portion	**23,211,380**	**23,211,380**

Current		
Shareholder's loan-NSSF (Note 21)	-	-
Total current portion	**-**	**-**
Total borrowings	**23,211,380**	**23,211,380**
The movement in borrowings is as follows:		
At 1 January	23,211,380	23,211,380
Accrued interest	-	-
Loan repayments	-	-
At 31 December	**23,211,380**	**23,211,380**

	2017 %	**2016 %**
Weighted average effective interest rates:		
Shareholder's loan-NSSF	-	-
Maturity of non-current borrowings		
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
Over 5 years	23,211,380	23,211,380
Non-current portion	23,211,380	23,211,380

10. Deferred tax

Deferred tax is calculated on all temporary differences using the liability method and a principal tax rate of 30% (2015:-30%). The movement on the deferred tax account is as follows:

	2017 Shs '000	**2016 Shs '000**
At 1 January	9,350,180	7,693,662
Income statement (credit)/charge	(348,565)	1,656,866
Charged to equity	(841,690)	(348)
At end of year	**8,159,925**	**9,350,180**

Deferred tax liabilities and (assets), deferred tax credit in the income statement is attributable to the following items:

	At 01 January Shs'000	Charged to statement of comprehensive income Shs'000	Prior year adjustment Shs'000	At 31 December Shs'000
Deferred tax liabilities				
-historical cost	6,735,144	(428,849)	1,820,289	8,126,584
-revaluation surplus	6,211,713	(582,610)	(2,661,979)	2,967,124
	12,946,857	**(1,011,459)**	**(841,690)**	**11,093,708**
Deferred tax assets				
Tax losses carried foward	(679,470)	679,470	-	-
Other deductable temporary differences	(2,917,207)	(16,576)	-	(2,933,783)
	(3,596,677)	**662,894**	**-**	**(2,933,783)**
Net deferred tax liability	**9,350,180**	**(348,565)**	**(841,690)**	**8,159,925**

11. Property, plant and equipment

Year ended 31 December 2017

	Freehold land and Buildings Ushs '000	Plant & machinery Ushs '000	Furniture, fittings & computer equipment Ushs '000	Motor vehicles Ushs '000	Capital work in progress Ushs '000	Total Ushs '000
Cost or valuation						
At start of year	13,564,937	61,552,178	1,065,764	3,099,992	1,983,929	81,266,800
Prior year adjustment	895,260	-	-	-	-	895,260
Additions	-	467,050	234,787	590,905	449,983	1,742,725
Transfer/ Capitalization	278,262	105,109	-	-	(383,371)	-
Disposal	**-**	**-**	**-**	(151,356)	**-**	(151,356)
At end of year	**14,738,459**	**62,124,337**	**1,300,551**	**3,539,541**	**2,050,541**	**83,753,429**
Depreciation						
At start of year	2,629,454	27,936,015	684,103	3,042,802	-	34,292,374
Disposals	-	-	-	(151,356)		(151,356)
Charge for the year	266,102	3,119,870	126,908	220,021	-	3,732,901
At end of year	**2,895,556**	**31,055,885**	**811,011**	**3,111,467**	**-**	**37,873,919**
Net book value						
At end of year	**11,842,903**	**31,068,452**	**489,540**	**428,074**	**2,050,541**	**45,879,510**

Year ended 31 December 2016

	Freehold land and Buildings Ushs '000	Plant & machinery Ushs '000	Furniture, fittings & computer equipment Ushs '000	Motor vehicles Ushs '000	Capital work in progress Ushs '000	Total Ushs '000
Cost or valuation						
At start of year	13,564,937	61,202,388	895,962	3,035,492	1,890,182	80,588,960
Additions	-	285,290	169,802	64,500	165,719	(685,311)
Write off	-	-	-	-	(7,472)	(7,472)
Transfer/ Capitalization	-	64,500	-	-	(64,500)	-
At end of year	**13,564,937**	**61,552,178**	**1,065,764**	**3,099,992**	**1,983,929**	**81,266,799**
Depreciation						
At start of year	2,363,352	24,446,354	591,238	2,954,695	-	30,355,639
Charge for the year	266,102	3,489,661	92,865	88,107	-	3,936,735
At end of year	**2,629,454**	**27,936,015**	**684,103**	**3,042,802**	**-**	**34,292,374**
Net book value						
At end of year	**10,935,483**	**33,616,163**	**381,661**	**57,190**	**1,983,929**	**46,974,425**

12. Prepaid operating lease rentals

The movement of prepaid operating rentals is as follows:

	2017 Shs '000	2016 Shs '000
Cost		
At start of year	939,877	464,877
Additions	-	475,000
At end of year	**939,877**	**939,877**
Amortisation		
At start of year	180,748	123,066
Charge for the year	57,682	57,682
At end of year	**238,430**	**180,748**
Net book value	**701,447**	**759,129**

13 . Staff advances

Staff advances comprise the following:

Gross Staff advances	120,928	94,159
Provision for doubtful debts	-	-
	120,928	**94,159**

All staff advances are not secured and due within 1 year from the reporting date. The weighted average interest rate on staff advances was 5%

14. Inventories

Spares and consumables	3,263,984	3,877,290
Work in progress	959,655	749,651
Finished goods	5,219,393	4,582,974
Goods in Transit	154,581	165,175
	9,597,613	**9,375,090**

During 2017, Ushs 846 million (2016: Ushs 2.185 million) was recognised as an expense for inventories carried at net realizable value. This is recognised in cost of sales. There are no inventories committed as security.
The net closing inventory of 9.6 billion is net of provision for obsolete stock and breakages amounting to Ushs. 163,895,540.

The spares and consumables of Ushs 3.26 billion and finished goods of Ushs 5.21 billlion have been recognized net of obsolete stock worth Ushs 229 million and this has been expensed in the statement of profit or loss.

	2017 Shs '000	**2016 Shs '000**
15. Trade and other receivables		
Trade receivables	3,120,520	2,345,715
Less:provision for impairment of trade receivables	(695,807)	(570,850)
Net trade receivables	**2,424,713**	**1,774,865**
Prepayments	60,775	285,202
Amount due from employee retirement fund administrator	313,543	313,542
Other recievables	989,426	990,559
Staff Debtors	5,725	18,069
	3,794,182	**3,382,237**

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 December 2017, trade receivables of an initial value of Ushs 695,806,519 (2016: Ushs 570,850,048) were impaired and fully provided for. (see credit risk disclosure for further details).

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

16. Cash and cash equivalents

Cash at bank	1,773,992	1,400,534
Cash in hand	4,963	1,384
Cash at bank and in hand	**1,778,955**	**4,169,826**

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise the above.

The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions.

Cash at bank and in hand	1,778,955	4,169,826
	1,778,955	**4,169,826**

17. Other investments

Fixed deposits	**3,975,366**	**-**

During the year, Uganda Clays placed a fixed deposit of Ushs 2.5 billion with Standard Chartered Bank at an interest rate of 8% per annum with a maturity date of 5th March 2018 and also placed an amount on a call account with Standard Chartered bank that had accumulated to Ushs 1.4 billion by 31 December 2017.

18. Retirement benefits obligations

	2017 **Shs '000**	**2016** **Shs '000**
At 1 January	124,811	2,067,552
Contributions for the year	908,108	1,104,584
Payments during the year	(949,603)	(3,047,325)
At 31 December	**83,316**	**124,811**

The Company has a defined contribution gratuity scheme for all permanent and contract employees. Under the terms of this scheme, the computation of the benefits payable to the employees for each completed year of service is as follows;

- Heads of department: Company contribution of 25% and employee contribution of 5% of gross monthly salary.
- Employees in salary scales UC 3:1 and UC 3:2: The annual contribution comprises the Company contribution of 12.5% and employee contribution of 2.5% of gross monthly salary.
- Employees in salary scales UC 4.1, 4.2 and 5.1: The annual contribution comprises the Company contribution of 20.8% and employee contibution of 4% of gross monthly salary.
- Employees in salary scales UC 5.2, 6.1, 6.2, 6.3 and 6.4: The annual contribution comprises the Company's contribution of 16.7% and employee contribution of 5% of gross monthly salary.
- Effective 1st June 2016, the Board reviewed the Company contribution to 10% of gross salary, and employee contribution to 5% of gross monthly salary for all employees.

19. Trade and other payables

	2017 Shs '000	2016 Shs '000
Trade deposits	1,648,053	1,810,377
Trade payables	988,657	1,588,361
VAT payable	301,340	99,890
Accrued expenses	244,014	197,807
Unpaid dividends	31,262	376,170
National social Security Fund contributions payable	86,174	129,197
Pay-As-You-Earn	163,525	287,126
Other payables	4,529	54,053
Total trade and other payables	**3,467,554**	**4,542,981**

Trade deposits relate to the amount paid in advance to the Company by the customers for the purchase of its clay products. They are non-interest bearing and are normally settled on 60-day terms.

Trade payables are non-interest bearing and have an average term of six months.

The maturity analysis of trade and other payables is as follows:

At 31 December 2017

	0 to 3 months Shs '000	3 to 6 months Shs '000	6 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Un paid dividends	31,262	-	-	-	31,262
Statutory payables	551,039	-	-	-	551,039
Trade payables	837,836	31,250	637	118,934	988,657
Accruals	244,014	-	-	-	244,014
Other payables	4,529	-	-	-	4,529
Trade deposits	1,648,053	-	-	-	1,648,053
	3,316,733	31,250	637	118,934	3,467,554

20. Cash from/(used in) operations

	2017 Shs '000	2016 Shs '000
Reconciliation of Profit/(loss) before tax to cash from operations		
Profit before tax	3,164,348	4,030,241
Adjustments for:		
Depreciation (Note 11)	3,732,901	3,936,735
Amortisation of prepaid operating lease rentals (Note 12)	57,682	57,682
Finance costs	-	102,274
Changes in working capital:		
Inventory	(222,523)	(3,267,812)
Trade and other receivables	(411,944)	(311,461)
Trade and other payables	(1,075,428)	533,509
Staff loans	(26,769)	4,519
Retirement benefits obligation	(41,495)	(1,942,741)
Cash from operations	**5,176,772**	**3,142,946**

21. Related party transactions

The following transactions were carried out with related parties:

	2017 Shs '000	2016 Shs '000
i) Key management compensation		
Salaries and other short term employment benefits	1,208,219	959,655

The key management personnel include the Managing director, Head of Internal audit, Head of Finance, Head of Human resource and Support Services, Head of Marketing and Head of production.

	2017 Shs '000	2016 Shs '000
ii) Directors' remuneration		
Fees	69,750	46,500
Other	74,198	61,433
	143,948	107,933
iii) Shareholder's loan		
At 1st January	23,211,380	23,211,380
At 31 December	**23,211,380**	**23,211,380**
Non-current portion	23,211,380	23,211,380
	23,211,380	23,211,380

In 2010, the Company was granted an unsecured loan of Ushs 11.05 billion by NSSF (the Company's largest shareholder with 32.5% of the shares). In December 2010, Ushs 7.1 billion was drawn to retire the bridge loan and pay off the critical creditors.

During 2011, Ushs 3.08 billion was drawn down to procure spares for the Kajjansi factory (Ushs 0.92 billion) and for Kamonkoli factory kiln enhancements (Ushs 2.16 billion).

During 2012, Ushs 0.87 billion was drawn down to pay off critical current liabilities.

Interest on this loan is 15% per annum and the loan tenure is 10 years with grace period of 2 years. Interest is to be accrued during the grace period. Interest amounting to, Ushs 2.07 billion , 2.22 billion, 3.04 billion and 3.508 billion was accrued as at 31 December 2012, 2013,2014 and 2015 respectively. From 2016, there was no interest accrued on the loan as it had been waived off.

22. Financial risk management objectives and policies

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.
The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the board of directors. The board identifies, evaluates and hedges financial risks in close co-operation with various staff in the Company.

a) Market Risk

- Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from exposures to other currencies, primarily with respect to the US Dollar. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities.
The variations in other currencies donot have a material impact on the Company's results.
The table below summarises the Company's exposure to foreign currency exchange rate risk. All balances are stated in thousands of Ushs

At 31 December 2017

	SSP Ushs '000	USD Ushs '000	Ushs Ushs '000	Ushs Ushs '000
Financial assets				
Trade and other receivables	-	-	3,795,402	3,795,402
Staff loans	-	-	123,038	123,038
Cash and bank balances	255,820	144,479	5,349,060	5,749,359
	255,820	**144,479**	**9,267,500**	**9,667,799**
Financial liabilities				
Retirement benefit obligations	-	-	83,316	83,316
Borrowings: non-current portion	-	-	23,211,380	23,211,380
Trade and other payables	-	-	3,397,391	3,397,391
	-	**-**	**26,692,087**	**26,692,087**
Net foreign exchange gap	**400,299**			

At 31 December 2016

	SSP Ushs '000	USD Ushs '000	Ushs Ushs '000	Ushs Ushs '000
Financial assets				
Trade and other receivables	-	-	3,382,237	3,382,237
Staff loans	-	-	94,159	94,159
Cash and bank balances	241,515	84,946	3,843,365	4,169,826
	241,515	**84,946**	**7,319,761**	**7,646,222**
Financial liabilities				
Retirement benefit obligation	-	-	124,811	124,811
Borrowing: non-current portion	-	-	23,211,380	23,211,380
Trade and other payables	-	-	4,542,981	4,542,981
	-	**-**	**27,879,172**	**27,879,172**
Net foreign exchange gap	**326,461**			

**Amounts that are denominated in foreign currency (US dollars) and hence exposed to foreign currency rate risk shown in Ushs (presentation currency) equivalent.*

- Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.
Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for borrowings.

The table on page 33 summarises the exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual maturity dates.

All figures are in thousands of Uganda Shillings

As at 31 December 2017	1 to 3 months Ushs '000	3 months to 1 year Ushs '000	1-5 years Ushs '000	Non -interest bearing Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables	-	-	-	3,794,182	3,794,182
Staff loans	-	120,928	-	-	120,928
Cash and bank balances	-	-	-	1,778,955	1,778,955
	-	**120,928**	**-**	**5,573,137**	**5,694,065**
Financial liabilities					
Retirement benefit obligation	-	-	-	83,316	83,316
Trade and other payables	-	-	-	3,467,554	3,467,554
Borrowings	-	-	23,211,380	-	23,211,380
	-	**-**	**23,211,380**	**3,550,870**	**26,762,250**
Interest rate gap	-	120,928	(23,211,380)	2,022,267	(21,068,185)

As at 31 December 2016	1 to 3 months Ushs '000	3 months to 1 year Ushs '000	1-5 years Ushs '000	Non -interest bearing Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables	-	-	-	3,382,237	3,382,237
Staff loans	-	94,159	-	-	94,159
Cash and bank balances	-	-	-	4,169,826	4,169,826
	-	**94,159**	**-**	**7,552,063**	**7,646,222**
Financial liabilities					
Retirement benefit obligation	-	-	-	124,811	124,811
Trade and other payables	-	-	-	4,542,981	4,542,981
Borrowings	-	-	23,211,380	-	23,211,380
	-	**-**	**23,211,380**	**4,667,792**	**27,879,172**
Interest rate gap	**-**	**94,159**	**(23,211,380)**	**2,884,271**	**(20,232,950)**

The Company faces cash flow interest rate risk on its variable rate financial instruments measured at amortised cost. Financial instruments with cash flow interest rate risk comprise of deposits and balances due from banks, loans, recievables, payables and borrowings.

The table below summarises the Company's cash flow interest rate risks sensitivity at 31 December. Assuming a market interest rate variation of 3% points from the rates ruling at year-end (2016:3%), the impact on the Company's profit before tax and equity is as follows:

	2017 Ushs '000	2016 Ushs '000
Profit before tax		
Cash flow interest rate risk	696,341	696,341
Equity	-	487,439

Fair values of assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the company's financial instruments that are carried in the financial statements:

		Carrying amount		Fair value
	2017 Ushs '000	2016 Ushs '000	2016 Ushs '000	2015 Ushs '000
Non-current assets				
Property, plant and equipment	45,879,510	46,974,425	45,879,510	46,974,425
Prepaid operating lease rentals	701,447	759,129	701,447	782,879
	46,580,957	**47,733,554**	**46,580,957**	**47,757,304**
Current assets				
Current income tax recoverable	342,080	508,989	342,080	508,989
Staff loans	120,928	94,159	120,928	94,159
Inventories	9,597,613	9,375,089	9,597,613	9,375,089
Trade and other receivables	3,794,182	3,382,237	3,794,182	3,382,237
Cash and bank balances	5,754,321	4,169,826	5,754,321	4,169,826
	19,609,124	**17,530,300**	**19,609,124**	**17,530,300**
Total Assets	**66,190,081**	**65,263,854**	**66,190,081**	**65,287,604**
Non-current liabilities				
Defered tax	8,159,925	-	8,159,925	-
Borrowings: non-current portion	23,211,380	23,211,380	23,211,380	23,211,380
	31,371,305	**23,211,380**	**31,371,305**	**23,211,380**

Current liabilities				
Retirement benefit obligations	83,316	124,811	83,316	124,811
Rent tax payable	1,236	-	1,236	-
Trade and other payables	3,467,554	4,542,981	3,467,554	4,542,981
	3,552,106	**4,667,792**	**3,552,106**	**4,667,792**
Total Liabilities	**34,923,411**	**27,879,172**	**34,923,411**	**27,879,172**

The fair values of the Company's financial assets and liabilities are included at the amount at which the instrument could be exchanged in an ordinary transaction between willing parties other than in a forced or liquidation sale

The following table represents the fair value measurement hierarchy for the groups assets at fair value

	Total Ushs '000	**Quoted prices in active markets (Level 1) Ushs '000**	**Significant observable inputs (Level 2) Ushs '000**	**Significant unobservable inputs Level 3) Ushs '000**
At 31 December 2017				
Revalued property, plant and equipment	45,879,510	-	-	45,879,510
At 31 December 2016				
Revalued property, plant and equipment	46,974,425	-	-	46,974,425

The carrying amounts of property, plant and equipment no longer equal to their fair value as the last revaluation was done as at 31 December 2012.

The following methods and assumptions were used to estimate the fair values:

-Trade and other receivables and staff loans are evaluated by the Company based on parameters such as individual credit worthiness of the customer/staff. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2017, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values

-The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

-The risk of the Company's plant and equipment is determined based on the property valuations which were done by a proffesional valuer on the basis of the open market value and the plant and equipment were valued on a depreciated replacement cost basis. The last revaluation was done as at 31 December 2012 and the management estimates that the carrying amounts do not materially differ from their fair values as at 31 December 2017.

b) Credit risk

Credit risk arises from bank balances, loans and other trade receivables. The Company's finance function assesses the credit quality of each debtor, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

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

	2017 Ushs '000	2016 Ushs '000
Bank Balance	1,778,955	4,169,826
Trade receivables	3,120,520	2,345,715
Staff loans	120,928	94,159
Amount due from employee retirement fund administrator	313,543	313,543
Staff and other receivables	2,110	8,573
	5,336,056	**6,931,816**

No collateral is held for any of the above assets . All receivables that are neither past due nor impaired are within their approved credit limits. No receivables have had their terms renegotiated.

The analysis of trade receivables is below:

	2017 Ushs '000	2016 Ushs '000
Neither past due nor impaired	727,161	187,450
61 to 180 days	230,856	603,020
181 to 360 days	448,392	244,742
Past due but not impaired	1,018,304	-
Total past due but not impaired	**1,697,552**	**244,742**
Impaired-past due by >360 days	695,807	570,850
Gross amount	3,120,520	2,345,715
Less: Allowance for impairment	(695,807)	(570,850)
Net amount	2,424,713	1,774,865

All receivables past due by more than 360 days are considered to be impaired and are carried at their estimated recoverable amounts.

	2017 Ushs '000	2016 Ushs '000
Movement on allowance for impairment		
At 1 January	570,850	570,850
Add: charge for the year	217,350	-
Less: Write off during the year	(92,393)	-
At 31 December	**695,807**	**570,850**

c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance function maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabiliites into a relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Over 2 years
At 31 December 2017:			
- Borrowings (excluding finance leases)	-	-	23,211,380
- Trade and other payables	3,467,554	-	-
	3,467,554	**-**	**23,211,380**
At 31 December 2016:			
- Borrowings (excluding finance leases)	-	-	23,211,380
- Trade and other payable	4,542,981	-	23,211,380
	4,542,981	**-**	**23,211,380**

23. Contigencies

The company is involved in two legal and court cases which are yet to be concluded. The cases the Company is involved in are as below:

a) Former employees of the Company have lodged complaint before the labour suite in which they are disputing a compensation from the Company for redundancy.
In the unlikely event that the Plaintiffs succeeds, he may be awarded damages and costs in the region of Ushs 150 million.

b) There is an allegation of a forest reserve existing in Uganda Clays land. Part of the affected portion of land had been sold to Living Word Assemblies at an estimated cost of Ushs 270 million and it is anticipated that the Company may have to compensate Living Word Assemblies (the bonafide buyer) an estimated amount of Ushs 270 million as it resolves the allegation with National Forestry Authority.

The segment results for the year ended 31 December 2016 were as follows:

24. Capital risk management

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may issue new shares or sell assets to reduce debt. Consistently with others in the industry, the company monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt : capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of the equity (i.e. share capital and retained earnings).

The debt-to-capital ratio at 31 December 2017 and 2016 were as follows:

	2017 Shs '000	2016 Shs '000
Total borrowings	23,211,380	23,211,380
Less cash and cash equivalents (Note 16)	(1,778,955)	(4,169,826)
Net debt	**21,432,425**	**19,041,554**
Total equity	31,266,670	28,034,503
Total capital	**52,699,095**	**47,076,057**
Gearing ratio %	**41**	**40**

25. Segment information

For management purposes, the Company is organised into two business units based on the factory location and has two reportable operating segments that is kajjansi factory and, kamonkoli factory. No operating segments have been aggregated to form these reportable operating segments.

Management monitors the operating results of its operating units separately for the purpose of making decision about resource allocations and performance assessments. Segment performance is evaluated based on operating profits or loss which is measured the same as the operating profit or loss in the financial statements.

The segment results for the year ended 31 December 2017 were as follows;

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
Revenue	20,439,348	6,762,185	27,201,533
Cost of sales	(9,767,961)	(6,742,830)	(16,510,791)
Gross profit	**10,671,387**	**19,355**	**10,690,742**
Other operating income	278,140	30,395	308,535
Total income	**10,949,527**	**49,750**	**10,999,277**
Administrative expenses	(2,194,277)	(276,370)	(2,561,473)

Distribution expenses	(1,258,928)	(61,474)	(1,285,843)
Other operating expenses	(3,513,180)	(527,723)	(3,984,637)
Total expenses	**(6,966,385)**	**(865,567)**	**(7,831,953)**
Operating profit/ loss	**3,983,142**	**(815,817)**	**3,167,324**
Net finance costs	(2,976)	-	(2,976)
Profit/ loss before tax	**3,980,166**	**(815,817)**	**3,164,348**

The segment results for the year ended 31 December 2016 were as follows:

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
Revenue	19,282,944	6,754,414	26,037,358
Cost of Sales	(8,867,903)	(6,712,264)	(15,580,167)
Gross Profit	**10,415,041**	**42,150**	**10,457,191**
Other Operating Income	140,325	1,183	141,508
Total Income	**10,555,366**	**43,333**	**10,598,699**
Administrative Expenses	(1,478,194)	(206,326)	(1,684,520)
Distribution Expenses	(972,704)	(61,844)	(1,034,548)
Other operating Expenses	(3,257,786)	(470,443)	(3,728,229)
Total Expenses	**(5,708,684)**	**(738,613)**	**(6,447,296)**
Operaing Profit / Loss	**4,846,682**	**(695,280)**	**4,151,403**
Net Finance costs	(104,205)	(16,957)	(121,162)
Profit / Loss before tax	**4,742,477**	**(712,237)**	**4,030,241**

Statement of financial position

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
31 December 2017			
Total assets	35,683,722	30,506,359	66,190,081
Total liabilities	34,790,870	132,541	34,923,411
Capital expenditure	763,960	978,766	1,742,726

31 December 2016			
Total assets	34,556,712	31,536,567	65,263,855
Total liabilities	34,587,960	1,866,066	37,229,352
Capital expenditure	474,677	210,634	685,311

26. Country of incorporation

Uganda Clays Limited is incorporated in Uganda under the Companies Act and domiciled in Uganda.

27. Currency

These financial statements are presented in Uganda Shillings rounded to the nearest thousand (Shs'000)

DIRECT COSTS

		2017 Shs '000	2016 Shs '000
(i).	**COST OF SALES**		
	Opening stock of finished goods and work- in progress	5,332,625	3,147,104
	Production costs **(ii)**	17,357,215	17,765,688
	Closing stock of finished goods and work- in- progress	(6,179,049)	(5,332,625)
		16,510,791	**15,580,167**
(ii).	**PRODUCTION COSTS**		
	Clay processing and product moulding	1,165,271	1,943,614
	Depreciation of plant	3,534,790	3,837,876
	Drying process	72,886	70,595
	Electricity and generator	1,953,439	1,973,729
	Factory general maintenance	204,105	382,302
	Kilns (baking process)	2,674,597	2,488,009
	Quarry and silo	918,644	1,048,846
	Other production costs	1,843,900	1,920,183
	Salaries and allowances- production staff	1,345,808	787,056
	Wages and allowances -production staff	2,392,125	2,269,044
	Sales outlet expenses	1,188,401	1,019,109
	Quality assurance	63,249	25,325
		17,357,215	**17,765,688**

SCHEDULE OF OTHER INCOME

		2017 Shs '000	2016 Shs '000
(iii).	**OTHER INCOME**		
	Rent and other incomes	308,535	141,508
		308,535	**141,508**

SCHEDULE OF EXPENDITURE

(iv).	**DISTRIBUTION EXPENSES**		
	Business promotion	1,239,054	990,842
	Donation	12,061	9,000
	Public relation and entertainment	5,618	900
	Sports and recreation	20,694	8,780
	Subscriptions	8,416	12,001
	Total distribution costs	**1,285,843**	**1,021,523**

		2017 Shs '000	2016 Shs '000
(v).	**ADMINISTRATIVE EXPENSES:**		
	Annual general meeting	106,105	74,595
	Audit expenses	40,000	35,000
	Increase in provision for bad debts	217,350	-
	Company house maintenance	234	-
	Compound maintenance	8,825	11,327
	Consultancy	85,220	54,822
	Depreciation	198,111	98,859
	Directors fees and allowance	143,948	107,933
	Insurance	195,625	107,156
	Rental expenses	8,100	8,100
	Legal fees and expenses	290,147	224,662
	Local travel	235,528	155,089
	Office building maintenance	14,500	16,675
	Office equipment maintenance	45,196	54,681
	Printing and stationery	43,713	48,800
	Registrar fees	39,306	36,759

Security	131,637	113,913
Tax consultancy	33,028	55,581
Transport costs	59,010	72,357
Travel abroad	55,552	4,080
Other expenses	253,350	170,706
Uniforms	2,124	2,736
Software Licences and support	4,350	2,950
Utilities	-	2,782
Property tax expense	66,468	38,139
Bank charges	56,266	37,382
Communication	170,098	142,161
Amortisation charge	57,682	57,682
Total administrative expenses	**2,561,473**	**1,734,927**

	2017 Shs '000	**2016 Shs '000**
(vi). OTHER OPERATING EXPENSES		
Bonus	35,299	282,550
Gratuity/pension	300,545	324,747
Leave transport and allowance	166,759	135,091
Medical expenses	110,432	124,363
NSSF - Company contribution	327,902	278,863
Salaries and allowances	2,709,240	2,186,375
Staff Welfare	131,112	116,996
Termination pay	15,157	20,183
Training costs	13,822	36,207
Wages and allowances	174,369	185,471
Total other operating expenses	**3,984,637**	**3,690,846**
(vii). FINANCE COSTS		
Forex Loss	2,976	18,888
Interest on Overdraft	-	102,274
Total net finance costs	**2,976**	**121,162**

STAFF TESTIMONIES

FRED KIMBUGWE

Factory Manager

As the Factory Manager at the Kamonkoli factory, I supervise all factory processes and develop, plan and oversee maintenance programs of all machinery and equipment. Advanced technology has greatly simplified my work. I am able to track operational parameters online, troubleshoot, and provide management with periodic production trend analysis. This therefore facilitates quick decision making.

The machines are serviced on a weekly basis to ensure reliable uptime, quantity and quality of products. The maintenance routine includes reconditioning augers, testing and repositioning sensors, setting roller gaps, conditioning rollers, testing pneumatic and hydraulic systems and general greasing.

I lead the engineering team which acts as the keel that sustains the plant and ensures optimum utilization of resources to minimise productions costs. I focus on keeping our company in pole position as the unrivalled producer of quality baked clay building products by the use of advanced technology.

I appreciate the advanced technology deployed at the Kamonkoli factory and the value it eventually gives to our customers.

KATEREGGA VICENT

Production Coordinator

As an industrial ceramist and Production Coordinator for the Kamonkoli factory, I ensure production of the desired quantities to meet production targets based on customer orders. To achieve this, a lot of planning and scheduling is required. With the advanced technology at the factory my work is made easier. Machines are more reliable, since most of the process is machine-controlled; very few workers are deployed hence effective production.

I monitor parameters for on-line process control to achieve effective operational optimisation. Due to less human handling of the product, together with the remarkable drying mechanisms and an equally efficient kiln, quality is guaranteed.

DAMBENTE WILBER

Foreman - Tile Line

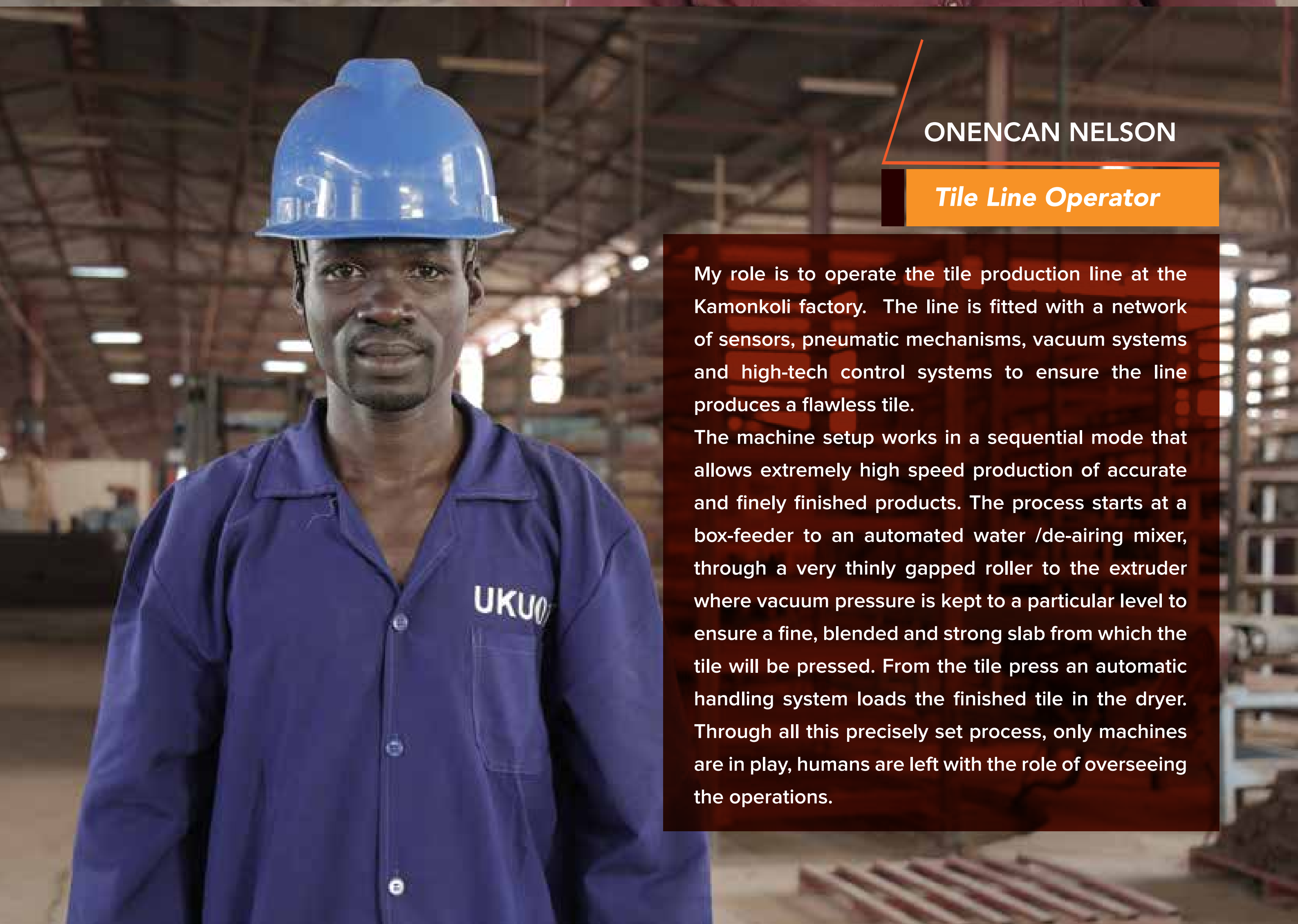
I am a Foreman whose work focus is manning the tile line from moulding to kiln car loading. With automation the entire sequence of the machinery is well coordinated and proper settings such as plasticity and vacuum are maintained. This makes deployment, reporting, planning and forecasting very easy and predictable. It also gives me the time to concentrate more and carefully deal with any production challenges that may arise in the process of providing beauty that lasts.

GABULA JUMA

Fireman

I am a Fireman and my major role is to fire dried products to the finished baked state. I analyse the temperature dynamics and normalize any deviations. All activities are electronically controlled i.e. measurements, feeding of fuel to the kiln, and kiln temperatures.

In modern tunnel kiln, kiln cars move sequentially into different fire zones. During this process, the pre-set parameters determine when to move the car and my role is to manage those parameters. This ensures that all products from the kiln are well baked, a fact that has enabled me meet my targets consistently. The technology also shields us from work place hazards like heat and dust making it a very comfortable work environment.

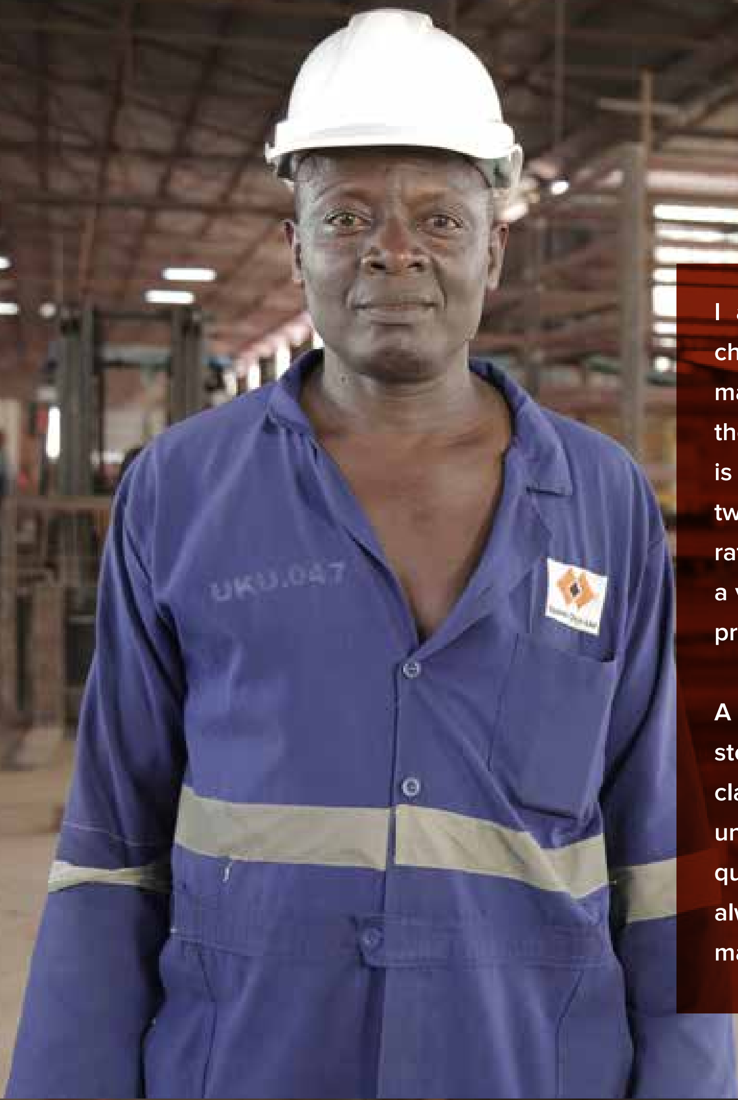


ONENCAN NELSON

Tile Line Operator

My role is to operate the tile production line at the Kamonkoli factory. The line is fitted with a network of sensors, pneumatic mechanisms, vacuum systems and high-tech control systems to ensure the line produces a flawless tile.

The machine setup works in a sequential mode that allows extremely high speed production of accurate and finely finished products. The process starts at a box-feeder to an automated water /de-airing mixer, through a very thinly gapped roller to the extruder where vacuum pressure is kept to a particular level to ensure a fine, blended and strong slab from which the tile will be pressed. From the tile press an automatic handling system loads the finished tile in the dryer. Through all this precisely set process, only machines are in play, humans are left with the role of overseeing the operations.



MALE VINCENT

Foreman - Clay Preparation

I am the Foreman in charge of clay preparation, charged with ensuring that the quality of the main raw material conforms to ISO and other standards. During the clay preparation process, our modern technology is able to automatically set the blend ratios for the two clay types that are used for production. These ratios are easily set through the use of technology to a very accurate value with remarkable consistency to produce a standard product .

A clay disintegrator automatically eliminates large stones and crushes small ones. At the silo, both ball clay and kaolin are automatically mixed to create a uniform blend. The production targets are therefore quite easy to attain because the production lines are always fed with that finely blended clay eliminating machine breakdowns due to chocking and clogging.

ODEKE DAVID

Brick Line Operator

As a Machine Operator on the brick line, it is my role to produce the set targets of quality products. This is made easy because the key parameters i.e. water mixing in the clay and the roller gap are automatically controlled.

The equipment is designed to maintain the parameter at the pre-set values. The production line is facilitated with mechanisms that switch off the entire process if any part of the machine has a fault that would affect the quality of the product, safety of personnel or of machinery or even rate of output. With this method of production in place coupled with the use of properly blended clay, my targets are always met in timely manner and the quality of the out- put is always guaranteed.

LUGGYA STEPHEN

Foreman - Kiln

I manage the kiln operations at the factory. Product baking/firing is facilitated by the kiln which is fitted with automatic feeding and discharge systems that facilitate consistent and easy movement of products inside the kiln according to the pre-set desirable firing conditions.

The automatic feeding systems and automatic temperature control mechanisms facilitate precise firing of the products.

KASASA BRIAN

Production Assistant - Electrical

As the Production Assistant - Electrical, I have a pivotal role in ensuring that the business realizes the benefit of using advanced technology. My responsibility is to ensure that the intended precision of the entire automation set-up is maintained for maximum performance. I do this in conjunction with other engineering teams during our scheduled maintenance sessions.

During these sessions, testing and positioning of sensors and actuators is done. This is very important to keep the integrity and reliability of machinery. All these actions ultimately translate into producing the right quality and quantity of products for our customers.

Notes

Proxy Form

The Company Secretary
Uganda Clays Limited
P. O. Box 3188
Kampala

ANNUAL GENERAL MEETING OF UGANDA CLAYS LIMITED

I/We, the undersigned being a shareholder(s) in the above-mentioned Company hereby appoint .... of
address .... as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the
Company to be held at the .... on...................................... or at any adjournments thereof.

Signed:..

Name:..
Address (full contact details i.e. Postal address, telephone, and e-mail)
....Date: ....

Notes:

1. This proxy is to be delivered to the Company Secretary at the registered office as shown on the notice, or emailed in pdf to secretary@ugandaclays.co.ug at least forty eight (48) hours before the time appointed for holding the meeting and, in default, the instrument of proxy shall be treated as invalid.
2. In case of a corporation, the proxy must be under its common seal.
3. Where a shareholder has been assisted in filling this form, the details of the person assisting should be indicated (state capacity and full name).
4. The completion and lodging of this form or proxy does not prevent the relevant ordinary shareholder from attending the Annual General Meeting of the proxy.
5. The Chairman of the Annual General Meeting may accept or reject any proxy form which is completed and/or received other than in compliance with these notes.
6. Where there are joint holders of ordinary shares, any one holder may sign the proxy form.


The beauty to last.

UGANDA CLAYS LIMITED

14 kms Entebbe Road, Kajjansi, P. O. Box 3188 Kampala Uganda

Tel: +256 312 305 403 / +256 312 305 400

Kamonkoli 5 km Tirinyi Road, Mbale , Tel: +256 392 260 091

Sales & Marketing Contacts

Kajjansi TEL: 0392 750 154 / 0772 700 255

Kamonkoli TEL: 0392 260 091

Email: uclays@ugandaclays.co.ug

Website: www.ugandaclays.co.ug

@UgandaClaysLimited

@ugandaclays

Sales Outlets:

Ntinda: 0392 266 963,

Lugogo: 0414 221 926,

Mbarara: 0485 660 027,

Natete: 0392 112 082,

Kyaliwajala: 0392 947 576,

Soroti: 0772 448 662

Kabale: 0392 004 237