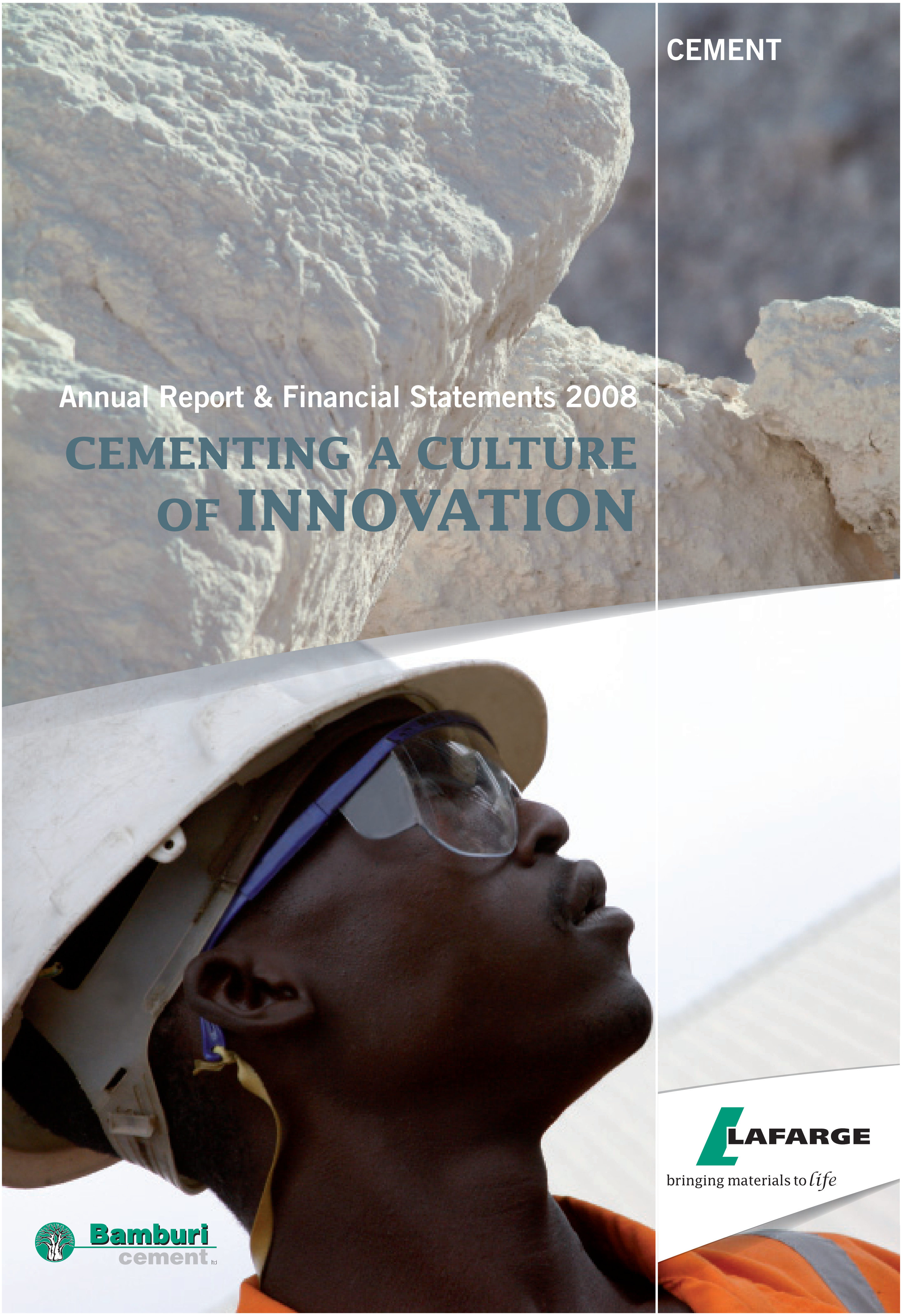
CEMENT

Annual Report & Financial Statements 2008

CEMENTING A CULTURE OF INNOVATION



LAFARGE

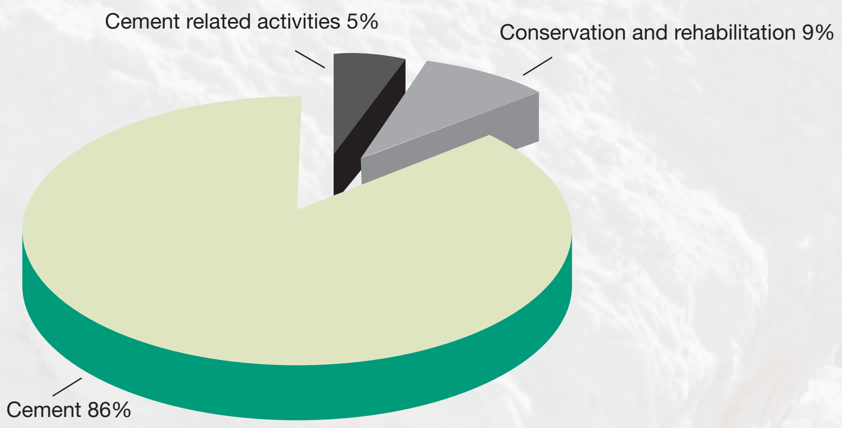
bringing materials to life

Bamburi cement ltd

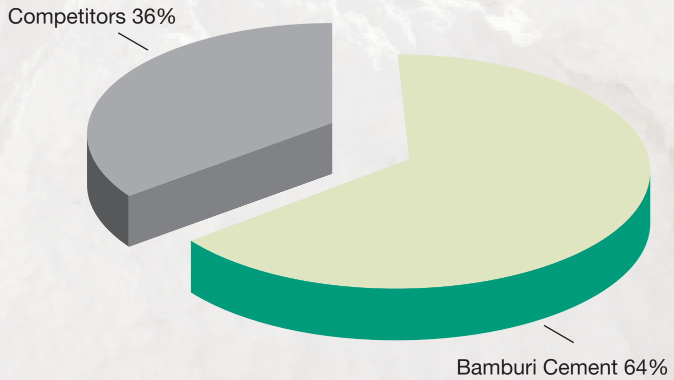
Contents

Consolidated Highlights

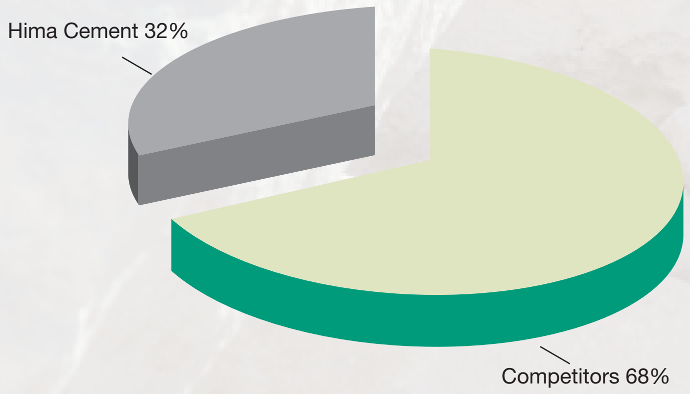
EMPLOYEES BY BUSINESS SHARE



ESTIMATED MARKET SHARE - KENYA



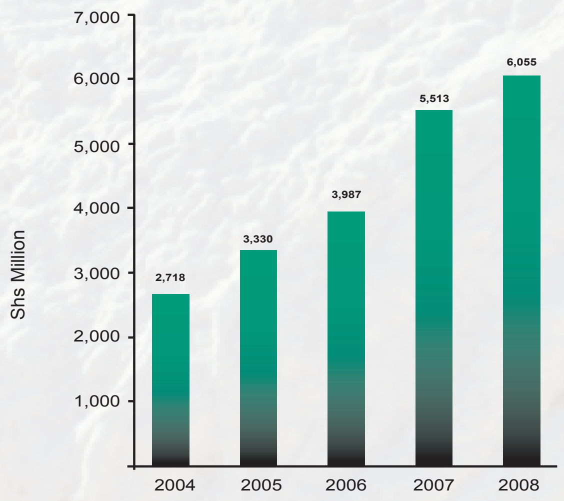
ESTIMATED MARKET SHARE - UGANDA



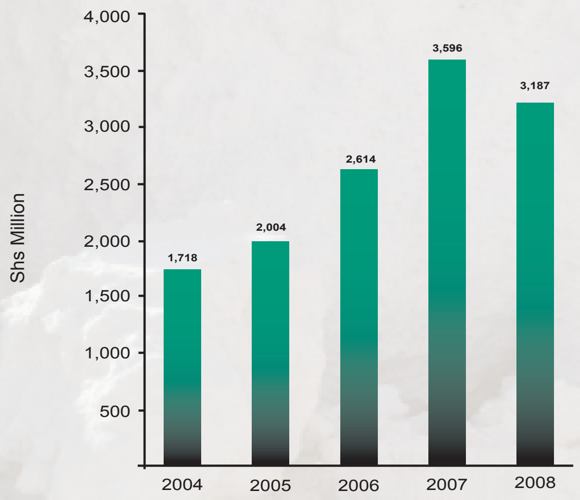
Five-Year Performance Review

Group Turnover

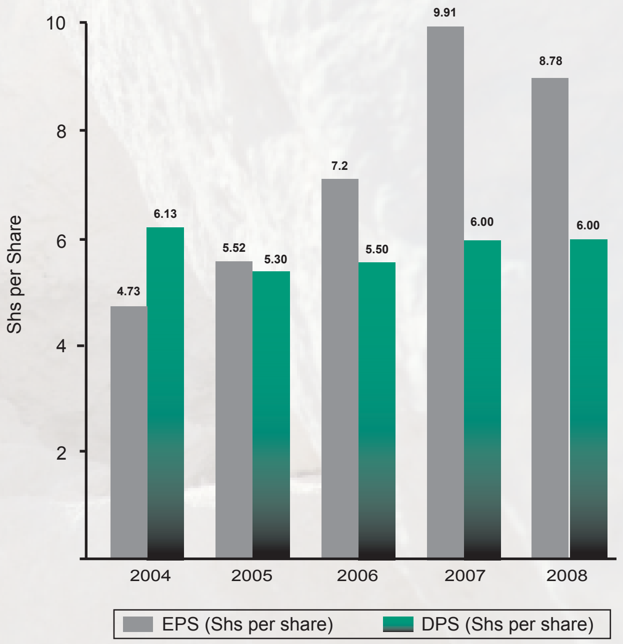
Operating Income



Profit Attributable to Shareholders

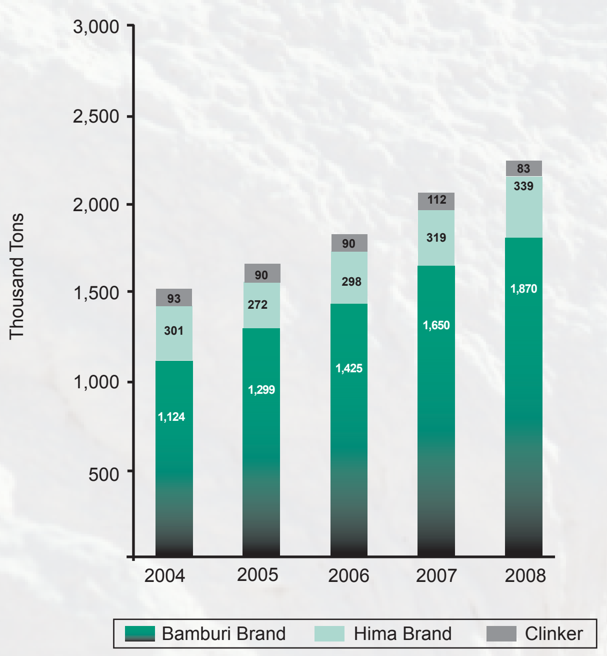


Earnings/Dividends per Share

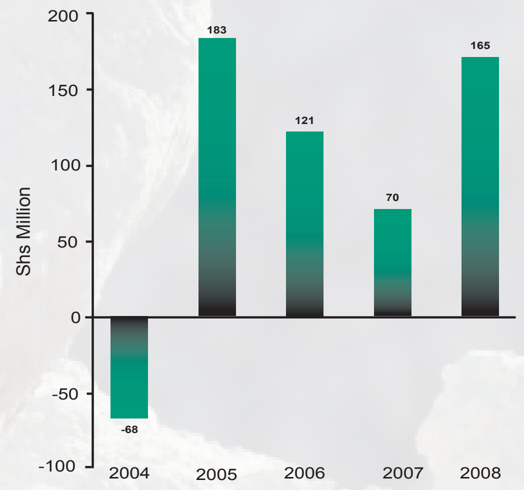


Five-Year Performance Review

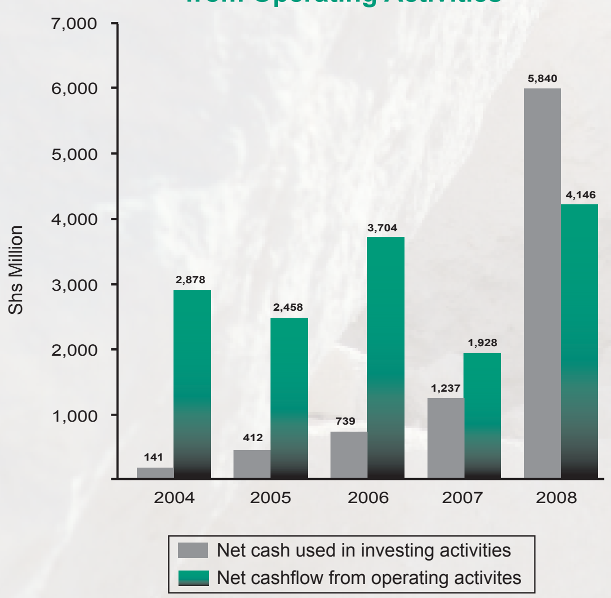
East Africa Sales Volume



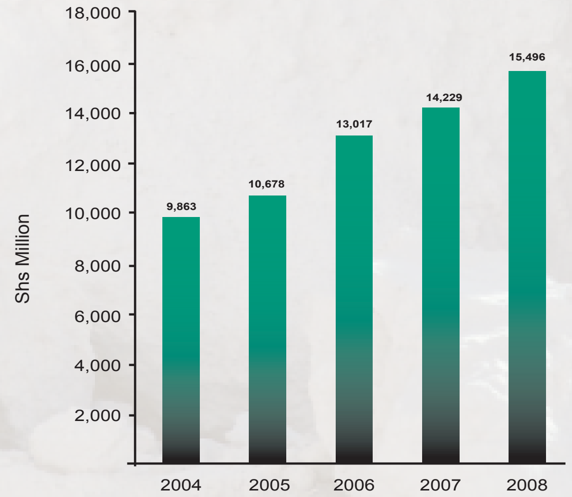
Finance (Income)/Costs



Investments and Net Cashflows from Operating Activities



Shareholder Equity



Value Added Statement

DIRECTORS

Executive

H Mansi (Egyptian)	- Group Managing Director	- Appointed on 20 January 2009
M Puchercos (French)	- Group Managing Director	- Resigned on 20 January 2009
A Sigei	- Group Finance Director	- Resigned on 7 August 2008
J Oigara	- Group Finance Director	- Appointed on 8 August 2008
D Njoroge	- General Manager, Hima Cement Limited	

Non Executive

R Kemoli - Chairman
J C Hillenmeyer (French)
S W Karanja
E Meuriot (French) - Resigned on 7 August 2008
B Le Bras (French) - Appointed on 8 August 2008
R Lumbasyo
C C Kisire
S M'Mbijjewe

SECRETARY

B Kanyagia
6th floor, Kenya-Re Towers, Upper Hill
P O Box 10921 – 00100 GPO
Nairobi

REGISTERED OFFICE

6th floor, Kenya-Re Towers, Upper Hill
P O Box 10921 – 00100 GPO
Nairobi
Tel: 254-20-2893000

REGISTRARS

Custody & Registrars Services Limited
P O Box 8484 – 00100 GPO
Nairobi

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii", Ring Road, Westlands
P.O. Box 40092 – 00100 GPO
Nairobi

PRINCIPAL BANKERS

Barclays Bank of Kenya Limited
Nkrumah Road Branch
P O Box 90182
Mombasa

Citibank N A
Citibank House, Upper Hill
P O Box 30711 – 00100 GPO
Nairobi

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

Citibank
Centre Court Nakasero
PO Box 7505
Kampala

OUR VISION

To be the leading market and end user oriented Cement Company across Eastern Africa, with a strong and clear dedication to our communities.

OUR AMBITIONS

To drive us towards attaining our vision while living these values, we have tangible ambitions in 5 key areas:

1. **Safety, Health and Environment**
   We are dedicated to:
   - Training employees, contractors and business partners and adopting Best Practices to ensure safety for all:
   - To the good health of our employees and welfare of our local communities:
   - Protecting the natural environment and limiting the impact of our activities on the ecology.

2. **Innovation**
   - We are committed to top line growth through the introduction of new and innovative products. We commit to have a significant proportion of our turnover generated from new products by 2010.

3. **Sustainable Market Leadership**
   - We are committed to being the leader in the Eastern Africa market, with strong sales to the inland export markets.

4. **Profitable Enterprise**
   - To protect and augment our profitability by enhancing production and other internal efficiencies while realizing our aim to make cement affordable to our customers and end users.

5. **Team Achievement**
   We are focussed on:
   - Attracting the best talent, developing the skills and potential of our people and recognizing and rewarding achievement:
   - Building a disciplined and motivated workforce that drives for outstanding results.

Through these tangible five ambitions, we strive to embrace our values as one entity 'Driven by the Same Energy'.

OUR VALUES

The Lafarge brand stands for commitment to excellence and the values of the group are expressed in the 'Lafarge Way'.

THE LAFARGE WAY

Courage, integrity, commitment, consideration for others and an overriding concern for the group's interest are the foundations of our management philosophy. Every employee is expected to demonstrate commitment to these values. We will achieve them by:

Making our people successful
- Expecting people to give their best
- Leading by example
- Achieving greater results through teamwork

Focusing on performance improvement
- Resulting from actions of all
- Making performance a daily commitment
- Sharing systems and tools

With a multi-local organisation
- Building on our local and global strengths
- Making our Business Units successful by leveraging the resources of a decentralised organisation.
- Sharing clear processes and a limited number of respected and known rules.

LAFARGE GROUP

Lafarge is the world leader in building materials, with top-ranking positions in all of its businesses: Cement, Aggregates & Concrete and Gypsum. Following the acquisition of Orascom Cement in January 2008, the Group now has 84,000 employees in 79 countries.

The Group is listed on the Euronext Paris stock exchange.

In 2009 and for the fifth year in a row, Lafarge was listed in the 'Global 100 Most Sustainable Corporations in the World'. With the world's leading building materials research facility, Lafarge places innovation at the heart of its priorities, working for sustainable construction and architectural creativity.

2008 Key Figures

Consolidated
Sales: 19,033 million Euros
Operating income: 3,542 million Euros

Cement Divison
Sales: 10,911 million Euros
Operating income: 2,964 million Euros

Board of Directors

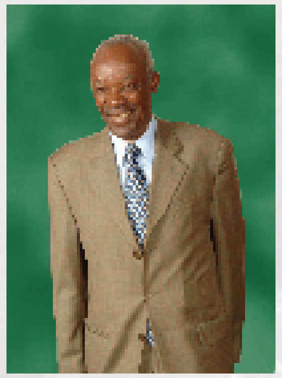
LEFT TO RIGHT: Solomon Karanja, Chris Kisire, David Njoroge,
Richard Kemoli, Joshua Oigara, Sheila M'Mbijjewe, Bernard Le Bras, Hussein Mansi
NOT IN PICTURE: Jean Claude Hillenmeyer

Board of Directors

RICHARD KEMOLI (CHAIRMAN): holds a B.Sc (Econ) London Degree from Makerere University, Kampala and a Diploma in Management Studies at Regent Street Polytechnic (now University of Westminster, London). He is a member of the Institute of Directors, United Kingdom. He has 33 years experience with Commonwealth Development Corporations - East Africa Region. He is the Chairman of the Boards of Directors of Bamburi Cement Limited and the Unga Group of Companies together with being a director in several other companies.

HUSSEIN MANSI: is a graduate of the University of Cairo, B.Sc (1988) and has a Post Graduate Certificate of Business Administration from the University of Leicester, UK (2004). He began his career as a Design Engineer 1989 and moved into the Sales area in 1991 working as a Sales Engineer then Export Area Manager for Saudi Building Systems until 1998. In January 1999, he joined the Orascom owned Egyptian Cement Company as Works Director, Sales and Marketing, a position he held until April 2003 when he was promoted to Commercial Director, Algeria Cement Company. In 2007, his position was enhanced to include responsibility for Cement Blanc Algeria (new cement line producing white cement) and Algeria Concrete Technologies, a Ready Mix plant. Algerian Cement Company became Lafarge Algeria Cement Operation upon acquisition of the Orascom Cement Division by Lafarge in 2007. He was appointed the Managing Director of Bamburi Cement Limited in January 2009.

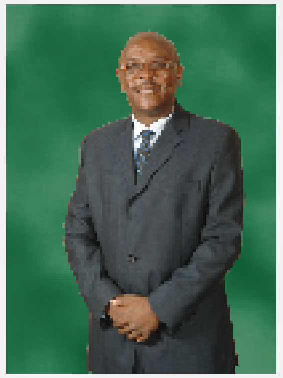
BERNARD LE BRAS: is the Executive Vice-President Lafarge Cement Sub-Saharan Africa. He joined Lafarge in 1973 as a Projects Engineer and rose within the Technical Department to become the Director of the Technical Centre of Montreal in 1984. In 1990, he returned to the Lafarge Cement Head Office as the Scientific and Technical Director and was later promoted to the Chief Operating Officer. In 1997, he became the General Manager, Lafarge Aggregates France a position he held until 2003 when he was promoted to be the Senior Vice President, Lafarge Direction des Performances Cimentieres.



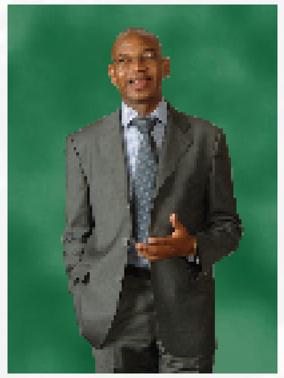
SOLOMON KARANJA: is a BA graduate of Makerere University and holds an MA from University of London. He has worked as a Deputy to the University of East Africa Registrar and was the first Kenyan Registrar of the University of Nairobi. Subsequently he held the position of Executive Chairman, East Africa Portland Cement Company for twelve years after which he was appointed Executive Chairman National Bank of Kenya in 1987. Karanja is currently serving as the Kenyan Ambassador and Permanent Representative to UN Habitat. He has served as Chairman of the Kenya Golf Union, Muthaiga Golf Club and Fidelity Shield Insurance Company. Currently, he is a Director of Muthaiga Country Club. He has served on a number of Government appointed commissions into the affairs of the University of Nairobi and in 2007, served on the University Inspection Board which had been set up by the President to review the operations of the public and private universities in Kenya. Amb. Karanja has also served on several commissions appointed by the Government.

SHEILA M'MBIJJEWE: is a Chartered Accountant ICAEW and a CPA Kenya. Sheila's previous jobs have included the Finance Director position at PricewaterhouseCoopers, Stagecoach International and Standard Chartered Bank Kenya. She is a member of the Monetary Policy Committee of the Central Bank of Kenya.

Board of Directors

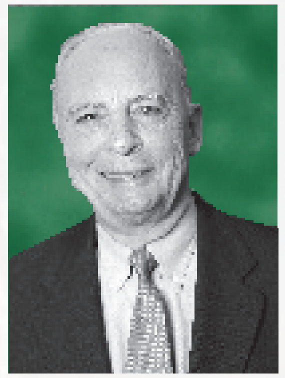


DAVID NJOROGE: is a holder of a Bachelor of Commerce degree, Accounting major and is a Certified Public Accountant. He has attended managerial, financial and leadership related courses both locally and internationally and has broad experience in finance and related fields. He joined the company in 1999 as Finance Manager a position he held until 2002 when he was promoted to Group Finance Director. In April 2006, he was assigned to Hima Cement Ltd as General Manager and is currently responsible for the Group's capacity increase projects across East Africa. He is also a director at the Nairobi Stock Exchange where he chairs the Finance and Manpower Committees.

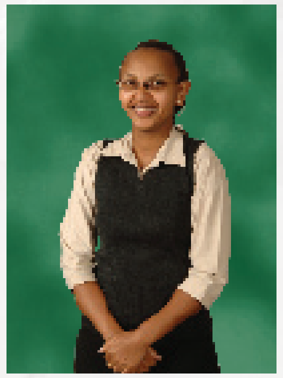


JOSHUA OIGARA: is a holder of a Bachelor of Commerce degree (Major in Accounting) from the University of Nairobi and is a Certified Public Accountant. He is also a graduate of the Duke University Business School (Fuqua) Leadership Development Programme. He worked with PricewaterhouseCoopers, Nairobi before joining Bidco Oil Refineries Limited. He joined Bamburi Cement Limited in 2003 as a Controller. In 2005, he was seconded to Hima Cement Limited before being promoted to the Group Controller position in 2006. He was appointed as the Group Finance Director in August 2008. He is the Chairman of the Audit Committee of the Board of Mbeya Cement, Tanzania.

CHRIS KISIRE: is a holder of Bachelor of Commerce - Accounting Major and a Masters of Business & Administration degrees from the University of Nairobi. He also holds Certified Public Accountant of Kenya, CPA (K) and Certified Public Secretary of Kenya, CPS (K) qualifications. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has worked for more than seventeen years in Finance, Administration and Business Management both locally and internationally. He is currently the Chief Executive Officer of Sovereign Group Limited, an investment group in Kenya and Great Lakes Region.



JEAN CLAUDE HILLENMEYER: is a graduate engineer from Ecole Centrale des Arts et Manufactures, Paris and holds an MBA from "Institut d'Administration des Enterprises". He is the acting Chairman of the Audit Committee. He has held several positions in the Lafarge group both in France and internationally before retiring in August 1999 and is currently an independent consultant. He has 45 years of experience in the cement industry which has been very valuable to Bamburi Cement Limited as it goes through change.



BETTY KANYAGIA: LLB (Hons.) Nbi, Diploma in Law (KSL), Advocate, Commissioner for Oaths and Notary Public. She practised with a law firm in Nairobi before joining PricewaterhouseCoopers, Tax and Legal Services Department as a Consultant. Betty joined Bamburi Cement Limited in 2003 as the Compensation and Benefits Manager, a position she held until she took over as Legal Manager in June 2007. She is a member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Commonwealth Lawyers Association.

Management Team

Hussein Mansi
Group Managing Director

Joshua Oigara
Group Finance Director

David Njoroge
General Manager
Hima Cement

Tim Kaloki
Sales Director

Robert Nyangaya
Marketing Director

Susan Maingi
Human Resources & Organisation Director

Tariq Iqbal
Supply Chain Director

Henri Nicot
Industrial Director

Richard Kemoli - Chairman

The past year reveals the Group's successful implementation of strategic initiatives. The company continues to sustainably cushion itself from emerging challenges through investment in talent, innovation, technology, communities and natural environment.

Consistent application of high standards and delivery of quality consumer oriented construction products remain a focal point to the Group's market leadership. The Group continues to harness and improve its internal competencies in pursuit of excellence and value for all its stakeholders.

Impressive results amidst challenging operating environment

The past year was characterised by numerous and unique regional and global business challenges. The post election crisis in Kenya, spiraling double digit inflation and the global market downturn, exemplified by unprecedented increases in input prices across the region, particularly energy prices, had huge negative effects on the Group's operations and results.

Despite the difficult operating environment, the Group posted remarkable improvement in turnover and operating profit attributed to strong market recovery after the first quarter of the year, shored

'The Group continues to demonstrate unwavering commitment towards Safety, Health and Environment. Our values, ambitions and energies are focused towards creating an innovative culture for sustainable market leadership and profitability.'

up by good industrial performance and successful cost optimisation program, launched in 2006. The cement market in Kenya and Uganda grew by 13% and 9% respectively on the back of increased public infrastructural projects and steady individual home builder segments.

The Group's cement output, supported by purchased clinker, rose by 11% to 2.2Mt.The Group's cement output in Kenya grew by 12% to edge out at 1.8Mt while Uganda grew by 8% to 0.4Mt due to optimisation of milling conditions. Cumulative domestic cement sales rose by 14% to 1.6Mt with strong growth in Kenya operations at 15% to 1.5Mt. Group turnover soared by 24% to Shs 27.5 billion while operating profit increased by 11% to Shs 6.1 billion. Profit before tax slipped by 9% due to a non-recurring impairment of insurance loss adjustment. To accelerate its investments, the company undertook a long term loan during the year to finance its capacity increase projects across the region. The Group's balance sheet grew by 36% to Shs 28.2 billion with an improved cash position.

Leveraging growth through product and process innovation

As part of the journey to achieve the vision by 2010, the Group continues to dedicate significant resources to develop a sustainable innovative culture across the organisation. A reflection of the Groups' commitment is the successful year on year roll out of innovative processes and products.

In response to the need for consistent quality and service convenience by its customers, the Group invested in a Ready Mix Plant in Athi River. The plant was commissioned in December 2008. Plasta plus, a brand launched in Kenya in August 2007, continues to stir the market with phenomenal growth in tonnage dispatched recorded in 2008.

The Group remains fully committed in its support and stimulation of regional growth objectives, key among them the Kenya vision 2030, through continued supply of quality and innovative building materials at competitive pricing.

During the year, the Group also launched Shared Service Centres in Kenya and Uganda with the primary objective of sharing resources and best practices and delivering exceptional services to suppliers and customers. In recognition of the value of technology to its business, the Group upgraded its Enterprise Resourcing Planning tool, SAP. This will go a long way towards positioning the Group for future growth.

Focusing on safety and health of our employees and partners

Safety continues to be the Group's number one priority. The safety roadmap of zero fatalities and LTI's among staff and contractors continues to be upheld. During the year, the Group successfully implemented a number of Group Safety Standards across the business. Some of the key safety standards implemented include Personal Protective Equipment, Working at Height, Mobile Equipment Advisory and Log Out, Tag Out, Try Out (LOTOTO).

The Group received the Road Safety Award from the Association of Kenya Insurers in collaboration with the Ministry of Transport, for its efforts in improving road safety awareness across the country.

To ensure that safety efforts remain an integral part of normal business, the Group launched a Team Based Safety Initiative, a safety behavior improvement programme across all sites. This programme focuses on using cross functional teams working collectively to accomplish safety processes, initiatives and projects, as directed by a Safety Steering Committee. There is continuous effort to raise safety standards through enhanced stakeholder engagement, effective implementation and enforcement of safety guidelines.

In order to create and enhance a healthy business environment, the Group extended its health program to contractors and communities through the supply chain. The campaign seeks to address the social concerns of the Group's business partners. These public-private partnership projects are expected to serve as examples to the entire business community in East Africa and beyond. The Group continues to provide Malaria and HIV/AIDS care and treatment to communities around its operations.

Hussein Mansi - Managing Director

Sustaining the natural environment

The Group continues to enhance environmental responsibility and protection through its Green Schools Project. During the year, over 100,000 seedlings were planted in various project schools with impressive seedling survival rates of 65% - 85%. The project has membership of 120 schools across the region, serving a student population of over 51,000. The Group continues to foster strong cooperation with the education and forestry departments in the implementation and continued success of this project.

To expedite diversification and ecosystem development, the Group successfully rehabilitated a record 17ha of open quarry by planting Casuarina and other coastal indigenous tree species. The Group also continues to sustainably utilise its mining reserve land through biofuel plantations whose wood is expected to partly substitute fossil fuel in the clinker production process. Over the last two years, a total of 840,000 seedlings have been planted. The planting project will run for six years with the first harvest expected to start in 2013. The biofuel project accentuates the Group's commitment and contribution towards sustainable development in relation to the Clean Development Mechanism via alternative fuels substitution.

Nurturing talent and developing effective teams

In recognition that human capital is the most important asset in the achievement of business strategy, the Group continues to source and retain exceptional talent to strengthen its current and future leadership. An integral part of the Group's strategic initiative across the region are the 'right start' and 'one business unit, one team' concepts that seek to seamlessly integrate new talent and align all employees to the Group's culture, vision and code of conduct across all sites.

To upgrade the skills of existing talent and keep pace with international standards, the Group's human resource team continues to provide world class individual and team based training and development programmes for all staff. With great success, the organisation offers limitless opportunities for employees both locally and overseas through site exchange programmes and talent export to other Lafarge organisations across the world. In the past year, the Group successfully set up the Mombasa Plant School that administers training for all Lafarge companies in Sub Saharan Africa region.

As part of an international network, the Group's human resource policies and working environment measure up to international standards, fully compliant with existing local statutes. The Group's ambition to build a more efficient and vibrant organisation has started to bear fruits with the continued focus on its harmonisation and structure synchronisation policies.

Investing in future capacity

The Group continues to invest significantly in enhancing its production capacities and efficiency. During the year, the Group invested over Shs 5.8 billion in various projects across the region.

In Kenya, the Group spent a total of Shs 2.3 billion during the year. The investment in a new clinker cooler at Mombasa started to pay off with clinker output improvement of 28% being recorded in the year.

The Group also invested in a pozzolana drier at the Nairobi Grinding Plant. The drier will increase cement grinding capacity by 250,000 tons when commissioned in 2009.

In Uganda, the Group continues with the construction of its Shs 7 billion new clinker and cement production line at the Kasese Plant. The Chinese firm, CBMI, the main contractor on the project, is working round the clock to ensure the new line is in operation by 2010.

Outlook for 2009 and beyond

The Group remains cautiously optimistic of the year ahead with construction and infrastructural development activities expected to remain favourable across the region. The Group also anticipates sectoral growth in the backdrop of gloomy international economy and regional market dynamics. The Group hopes that regional governments will expedite remedial measures to curb the various infrastructural and energy challenges in a bid to create a conducive operating environment.

In pursuit of excellence in value creation for all stakeholders, the Group will continue inculcating a culture of innovation for products and processes by investing in people, new technologies, new products and the environment. The Group will remain firmly committed to its Code of Conduct which supports integrity and good corporate governance throughout the organisation.

Appreciation

The Group commends the board of directors, employees, customers, suppliers, distributors, transporters and other business partners for their loyalty and untiring efforts towards the Group's vision 2010. The Group will continue to rely on your support in 2009 and beyond as it innovatively positions its business for competitiveness.

ECONOMIC HIGHLIGHTS

Kenya's economy displayed resilience as activity during the year remained sluggish after negative growth in the first quarter. Kenya recorded a sharp decline in GDP growth from 7% in 2007 to an estimated 2-3% in 2008 due to the negative effects of post election crisis. Overall inflation in the year pushed up to 26% (2007: 9.8%) mainly driven by volatile fuel, electricity and food prices. The shilling depreciated against the US dollar by 24% compared to 2007, edging slightly above the Shs 70: USD barrier towards the end of the year on the back of higher demand. The slow pace of economic recovery could be attributed to socio-economic uncertainty related to the sustained cost push inflation due to the severe food crisis and ripples of the global market downturn.

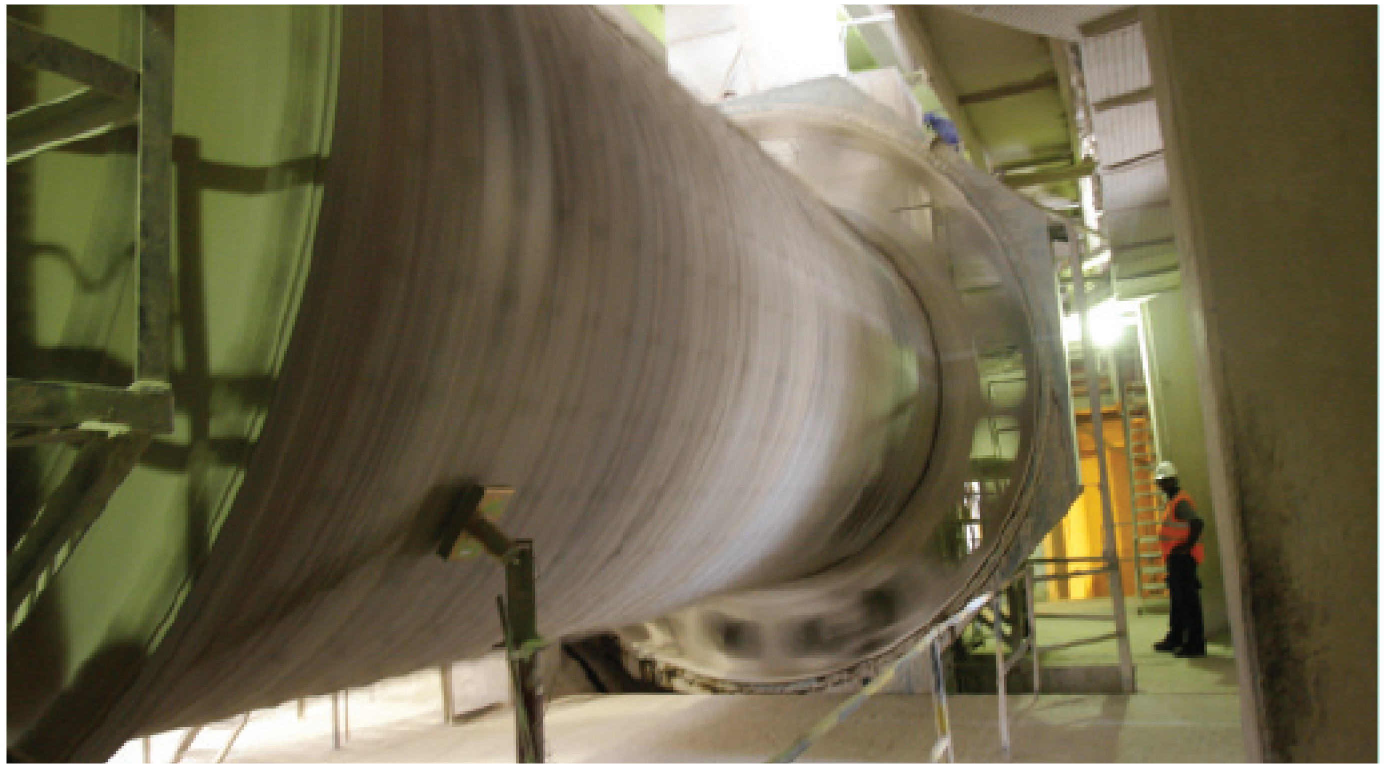
Uganda's economy remained relatively strong despite the backlash of Kenya's political crisis that stifled the supply of key imports in the first quarter. Spurred by high fuel prices, inflation soared to an estimated 14.2% (6.1% in 2007) as the Uganda shilling suffered a dramatic fall in value in the fourth quarter due to speculators withdrawal from government securities. GDP growth is estimated at 6.9% (2007: 6.0%) mainly driven by a resilient agricultural sector, donor-aided projects and private sector growth in exports. To mitigate the consistent energy shortfalls, a considerable constraint on economic growth, the government's emergency thermal power plants including the 50Mw plant in Namanve came on stream. However, the power quality is likely to remain erratic until the completion of the 250Mw Bujagali Hydropower Project.

SECTOR HIGHLIGHTS

Cement consumption in the region continued to be strong despite the economic and logistical challenges experienced in early 2008. The overall market in East Africa grew by an estimated 11.7% (2007: 15.9%) mainly due to steady Individual Home Builder (IHB) segment and stability in private and public donor-aided projects, partly nudged by a slowdown in regional public infrastructure developments. The market outlook in the region in 2009 remains uncertain on the back of global economic crisis.

In Kenya, cement market grew by 13% mainly driven by stable Individual Home Builders and commercial segments, partly negated by the first quarter slowdown in demand due to the political crisis. Public sector consumption was slightly hampered by government's budgetary constraints exemplified by diversion of resources meant for developmental investment to address the negative socio-economic effects of the post election crisis.

In Uganda, cement market grew by 9% stimulated by privately financed construction projects and commencement of the Bujagali Hydropower Project. However, the level of public investments reduced after completion of Commonwealth Heads of Government (CHOGM) summit related projects.



BUSINESS HIGHLIGHTS

KENYA

Bamburi Cement Limited

During the year, the company's operating profit grew by an impressive 10% to Shs 4.9 billion (2007: Shs 4.4 billion) amid huge pressure on fuel and power prices mainly due to strong domestic sales and improved plant efficiencies. Despite logistical challenges associated with post election crisis in quarter one and three axles load enforcement in October 2008, total sales including clinker grew by 11%.

Sales

The company's total sales revenues increased by 27% to Shs 21.2 billion (2007: Shs 16.7 billion). Domestic sales revenues grew by 26% to Shs 16.6 billion, mainly contributed to by a 14.7% rise in domestic cement sales volumes to 1.5 million tonnes in line with market growth, favourable impact of product mix and price adjustments, to partially compensate operating cost pressures. Export cement sales revenues rose by 50% to Shs 3.9 billion mainly on the back of a 9% increase in sales to 0.37 million tonnes. This was due to greater market demand in inland Africa, particularly Uganda, Sudan and Democratic Republic of Congo, a stronger US dollar against the shilling, augmented by price adjustments during the year. Increased regional demand was mainly driven by public infrastructure rehabilitation and construction like the 250Mw Bujagali Hydropower Project in Uganda. During the year, clinker exports increased two fold to 62Kt mainly on account of the need to fully saturate milling capacity at Kasese Plant, amid significant improvements in mill efficiencies.

In the domestic market, the company's brands "Nguvu", "Powerplus" and "Plasta Plus" benefitted from increased market presence and sales and marketing activities during the year.

Industrial Operations

Mombasa Plant

The plant performed well despite the difficult operating conditions arising from numerous power interruptions. The good industrial performance was attributed to the revamping exercises carried out in the recent past.

During the year, quarry operations were adversely impacted by a major drill rig breakdown arising from a catastrophic failure of the compressor in November 2008. As a way forward, the plant has since resorted to 100% ripping and dosing method of coral stone material extraction.

Kiln operations resumed in March 2008 after 5 months shutdown occasioned by the October 2007 fire incident. The plant recorded a 29% improvement in clinker production to 771Kt on the back of increased kiln output and reliability. Global kiln reliability rose by 29% to 93.2% contributing to a 17% increase in utilisation level. Kiln output per day grew by 9% to 3Kt partly attributable to the new cooler commissioned in April 2008 and upgrade of cooling fans during the year.

Cement milling operations remained flat at 578Kt despite the effects of quarter one challenges and a 2 month disruption of operations for one of the cement mills between March and May 2008 on account of transformer mechanical breakdown.

As a mitigation against future recurrence of fire incidents, the plant commenced the implementation of fire prevention projects; namely installation of new hydrant system and water sprinklers, new inertisation system for coal silo and hopper and sealing of cable entry points to electrical rooms and tunnels.

Several projects expected to enhance industrial efficiency are ongoing. Some of these projects include mechanical works on the Mbaraki Terminal and main plant Gate "A" weighbridges and upgrade of packing plant truck loader and packer.

The plant completed the year with a good safety record without any lost time incidents attaining a significant milestone of 598 days.

Nairobi Grinding Plant

Despite challenges with power quality and supply during year, cement output rose by 18% to 1.3 million tonnes. Grinding reliability rose marginally to 97.8% due to improved milling conditions following grinding media and liners replacement. During the year, major improvements were recorded in the packing plant with tonnes per operating hour increasing by 20% to 48.4t/hr propping up our ability to meet customer expectations.

As a learning point from the 2007 Mombasa Plant fire incident, the plant embarked on and completed installation of pumps at the new 650,000 litre fire water tank. Installation of new hydrants and sprinklers system is expected in 2009.

The safety initiatives implemented over the years continue to yield good results with the plant operating for more than 739 days without any lost time injury, an achievement that accentuates the company's commitment to safety.

Cost Environment

Total variable costs rose by 24% mainly due to cost pressures particularly in freight, power and fuel. Production fixed costs increased mainly due to maintenance and repair work carried out in both kilns and mills. The plant fixed costs in the year were higher than anticipated as we incurred high maintenance costs driven by higher cost of spares and contract jobs undertaken during the year. These costs were driven both by high fuel and steel prices as well as the high plant utilisation. In particular, the wheel loader experienced frequent breakdowns and is one of the assets being replacement in ongoing projects.

Bamburi Special Products Limited

Bamburi Special Products Ltd (BSP), a fully owned subsidiary, is the largest supplier of concrete blocks in Kenya. For over a decade since its launch in 1998, BSP has consistently designed and applied world class ISO certified processes in the manufacture and distribution of its products under the brand name "BamburiBlox".

Through active participation in initiatives such as the low cost housing project in partnership with Eco Homes Limited, the company remains fully committed in its support and stimulation of Kenya's vision 2030. The company has also been involved in the improvement of the Nairobi Central Business District (CBD), upgrade of the Muthurwa Hawkers Market and Bus Station among others.

During the year, the company's operating profit slid by - 5% to Shs 27 million (2007: Shs 28 million) mainly due to lower than costs revenue growth occasioned by Ready Mix associated start up costs despite registering strong concrete blocks' sales.

Products

In December 2008, the company successfully expanded its business portfolio by launching Ready Mix Concrete, an innovative solution tailored to construction industry applications. In addition to BSP's wide variety of innovative concrete-based products and services, Ready Mix Concrete, a product of the company's intensive research and development efforts is expected to stir the market with volumes expected to peak at 19,000m³ in 2009.

Sales

During the year, BSP recorded remarkable sales growth with volumes rising by 8% over 2007 to surpass the 500,000m² mark driven by strong demand for concrete based products. Volumes of both dry and wet process products which include paving blocks and road channels respectively soared in the backdrop of increased competition in the sector. The company continues to maintain a respectable market share and reputation. In order to establish a strong footprint in local key markets and increase the market share, the company plans to establish market presence in Mombasa and Kisumu by 2009 and 2010 respectively.

Industrial Operations

During the year, production grew by 6% over 2007 as a result of optimal equipment utilisation. Overall production costs grew by 13% exacerbated by increases in key raw materials and power prices. To improve its production capacity in 2009, the company plans to install two new semi-automatic block making machines with superior batching technology and a single shift rated capacity of 600,000m² p.a.

Safety standards in the company's operations were exemplary with zero fatality and no lost time incidents.

Lafarge Eco Systems Limited

Lafarge Eco Systems Ltd is mandated to manage all Bamburi Cement Ltd mining reserve land and rehabilitate its quarries. The fully owned subsidiary is also responsible for the development and maintenance of self sustaining ecosystems in the rehabilitated quarries. The rehabilitated quarries showcase the group's commitment towards sustainable environmental responsibility while providing social amenities to the public.

During the year, the company's operating profit reduced by -27% to Shs 16 million (2007: Shs 22 million) mainly due to lower than costs revenue growth occasioned by reduced tourist visits.

Operations

During the year, the subsidiary's flagship Haller Park and forest trails which are dependent on tourism, attracted 153,000 visitors (2007: 166,000) due to adverse effects of the post election crisis in the first quarter.

The company upgraded infrastructure at its parks with an objective of increasing value of tourist experience. The South Quarry viewing point was opened to visitors during the year. This vantage point is located at the edge of the parking overlooking the open quarry and this allows visitors to observe the cement process from quarrying to processing.

During the year, the subsidiary progressed well in securing the group's mining reserve areas in Vipingo and Diani through biofuel plantations by acquiring more than 130,000 seedlings produced by 24 local community groups. In addition, a successful trial-run of the 'shamba system' (community cultivation) at the plantations was undertaken with 30 families given the opportunity to cultivate crops for one season in return for tending to the young seedlings.

UGANDA

Hima Cement Limited

The company's operating profit grew by 7% to Shs 1.1 billion mainly due to strong export sales revenue partly negated by operating cost pressures and volatility in neighbouring Democratic Republic of Congo.

Sales

The company's sales revenues increased by 27% to Shs 8.7 billion. Export sales revenues grew by 45% to Shs 3.7 billion mainly due to a 14% rise in export sales volumes to 0.26 million tonnes on the back of improvement of demand in key inland Africa markets and price adjustments to partially compensate operating cost pressures. Domestic cement sales revenues rose by 17% to Shs 5 billion due to a 8% increase in volumes to 0.12 million tons in line with market growth amid aggressive competitive environment.

The company revamped its Sales and Operations Planning (S&OP) process to enhance market coverage and to increase market share.

Industrial Operations

Kiln operations during the year were affected by a 21-day stoppage of the kiln in January and February due to inadequate furnace oil stocks as result of the post election violence in Kenya. Thereafter, the plant experienced improved operations partly negated by unfavourable power supply and quality. Full year clinker production stood at 181Kt, in line with prior year.

Despite production difficulties, cement output grew by 8% to 355Kt due to several improvement actions namely replacement of conical headliners, central diaphragm and grinding media in the mill.

The plant's dispatch operations were impacted negatively by the instability in Goma (Democratic Republic of Congo) that began in October 2008 and the implementation of the minimum axle loading on trucks ferrying exports to Rwanda and Burundi. During the year, construction of the new clinker and cement production line at the plant progressed well. The company expects the new line to be commissioned in 2010. The Dura quarry, which is expected to significantly increase the mining reserves, was re-opened and drilling commenced.

PROJECT HIGHLIGHTS

In recognition of the contribution of structural improvements to profitability and efficiency, the Group continues to invest significant resources in various capacity expansion and sustaining projects across the region.

During the year, construction of the Shs 665 Million Nairobi Grinding Plant Pozzolana Drier progressed well with commissioning expected in the first half of 2009. The Drier is expected to increase the Group's cement grinding capacity by close to 250,000 tonnes.

The construction of the clinker and cement production line at Kasese Plant, Uganda, under the management of a reputable Chinese construction firm, CBMI, that began in 2007 is progressing well. The new line is expected to be commissioned in 2010. The project also includes the rehabilitation of the Dura railway line, extension of the Hima rail siding and the opening of the Dura-Rwimi road.

During the year, the Group bolstered its future capacity by securing a mining lease for the Dura Limestone reserves and an exclusive pozzolana prospecting license in Uganda. Dura limestone reserves will contribute more than 20 years of production inclusive of the new production capacity.

Bamburi Cement Limited and its subsidiaries are committed to international standards of corporate governance including those set by the Capital Markets Authority and act in the firm belief that effectiveness results from adoption of best practices.

The Board of Directors is responsible for the formalisation of practices together with commitment to compliance of corporate governance and business ethics standards.

THE BOARD OF DIRECTORS

The structure of the Board of Directors is designed to provide maximum benefit from the experience and independence of its members. The Board comprises of seven independent Non Executive Directors, including the Chairman and three Executive Directors. Experience, competence, independence, loyalty and dedication as well as strong involvement in the Board's work are the qualities demanded from all Board members with the aim of improving corporate governance. In addition, the membership of the Board is selected to enable the Group's desire to benefit from a variety of complementary experiences, expertise and competencies.

The Board of Directors meet at least four times in a year and the average attendance rate at Board meetings is above 90% as indicated in the table below.

BOARD COMMITTEES

The Board is supported in its work by two specialised committees, which are provided with all the necessary information in their areas of expertise and they submit reports on their work to and their proposals for approval by the Board of Directors.

AUDIT COMMITTEE

The Board has a constituted Audit Committee which meets at least four times a year, normally one day prior to the Board meetings. In compliance with corporate governance standards, the Committee consists entirely of independent non executive directors.

The Group Internal Audit Manager together with the internal and external auditors attend the Board Audit Committee meetings. The Managing Director and Finance Director attend by invitation. Other Business Process Owners attend as required to brief the committee on the compliance by their respective business processes.

The mandate of the committee includes overseeing financial reporting, monitoring risk management and internal controls and monitoring internal auditors. The committee reviews all audit reports, the internal audit plan and monitors the implementation of the recommendations of the external auditors.

Board Meetings' Attendance

Name of Director	23 February	4 June	7 August	26 November
R Kemoli	√	√	√	√
JC Hillenmeyer	X	√	X	√
C Kisire	√	√	√	√
S M'Mbijjewe	√	√	X	√
R Lumbasyo	X	X	X	X
S Karanja	√	√	√	X
M Puchercos	√	√	√	√
A Sigei	√	√	√	N/A
E Meuriot	X	X	X	N/A
B Le Bras	N/A	N/A	N/A	√
D Njoroge	X	√	√	√
J Oigara	N/A	N/A	N/A	√

Corporate Governance

Audit Committee Attendance

Name of Director	23 February	3 June	6 August	25 November
JC Hillenmeyer	√	√	X	√
C Kisire	√	√	√	√
S M'Mbijjewe	√	√	X	√
R Lumbasyo	X	X	√	X
Group Internal Audit Manager				
S Kibirige	√	√	√	√

NOMINATION AND REMUNERATION COMMITTEE

This committee is responsible for changes to the Board of Directors and the Executive Committee including succession of executive officers and the selection of new Board members. The Committee is also responsible for the compensation of the Board and the executive officers.

CONTROL ENVIRONMENT ASSESSMENT

On annual basis, the Group Managing Director and Group Finance Director, assisted by the Group Internal Audit Manager perform and document a control environment assessment. The assessment tool addresses issues on control environment, risk assessment, control activities, monitoring, information and communication.

Control Environment

This revolves around aspects of integrity and ethical values, management's philosophy and operating cycle, commitment to competence, organisation structure, assignment of authority and responsibility and human resources policies and procedures are assessed.

Risk Assessment

This focuses on company-wide objectives, risk identification and analysis and managing change.

Control Activities

This revolves around policies and procedures, controls implemented to mitigate risk and monitoring of variance to budget and corrective actions are assessed.

Information and Communication

Here, the quality of information from the information systems and effectiveness of Communication are appraised.

Monitoring

On going monitoring of internal controls and corresponding job descriptions, independent evaluations and reporting of internal controls points of attention are examined.

INTERNAL CONTROLS

For control purposes, the Group has divided its operations into eight mega business processes: fixed assets, finance, human resources, Information Systems & Technology, revenues, treasury & financing and expenditure. Each mega process is monitored by an Executive Committee member, who is appointed the mega process owner. The mega processes are further divided into sub processes that are managed by process owners. In total there are 249 controls that have been designed by the Group to guide the business operations. Some of the controls are tested each year depending on the annual risk assessment and the resultant risk classification of the Group.

CODE OF CONDUCT

The Group has a Code of Business Conduct cascaded to all employees that governs the way employees conduct themselves. Courage, integrity, commitment, consideration for others and an overriding concern for the Group's interests are values every employee is expected to show commitment to. The Code of Conduct provides guidance on compliance with laws on competition, corruption, insider trading, conflict of interest with respect to relationships with a competitor, client or supplier, payment of gifts and benefits together with attention to people and environment and protection of the company's assets. The Code of Conduct sets out implementation of procedures on compliance and violations with great emphasis on importance of internal controls/internal audit and fairness in financial reporting.

COMMUNICATION

The Group continues to hold regular meetings and briefings for the shareholders, media and investors to provide comprehensive information with the aim of providing investors with the highest possible visibility on the Group in respect of strategy, businesses and outlook. The Group is committed to ensuring that the shareholders and the financial markets are provided with full and timely information about its performance.

Announcements of the annual and interim financial results were made in the media and were also posted online on the website *www.bamburicement.com*. The annual general meeting provides an opportunity to meet shareholders while media briefings are held regularly during the year.

KENYA

In line with our vision, "to be the leading market and end user oriented cement company across Eastern Africa, with a strong and clear dedication to our communities", the company invested in social responsibility initiatives in the areas of environment, health and education in 2008. Various publicity endeavours to make sure that these initiatives were disseminated to the public were undertaken.

Environmental Responsibility

Rehabilitation

About 17 hectares of open quarry was planted with Casuarina and other pioneer trees in 2008. In the South and North Quarry biodiversity areas 3,000 indigenous seedlings were introduced into Casuarina plantations, to speed up diversification and ecosystem development. An environmental audit carried out by the Lafarge Regional Technical Centre in December 2008 stated that the rehabilitation activities in the area of open quarry where mining is complete is minimal. 2008 saw the company catching up on rehabilitation backlogs from earlier years.

Land Utilisation and Biofuel

Following a decision to strategically use the reserve areas in Vipingo and Diani for wood fuel plantations, the intention is that wood produced in the plantations will be used to substitute part of the fossil fuel in Mombasa Plant's cement kilns. The areas are being planted over six years, harvesting to start in year seven. 2008 was the second year of planting, and to date a total of 840,000 seedlings have been planted on about 300 hectares.

Whilst in 2007 all seedlings were produced in-house, in 2008 part of the seedlings were produced by community groups on contract basis. More than two million shillings was paid to the local community groups for the purchase of seedlings. This was a key initiative to engage the communities in the project and to impart skills on nurturing of seedlings which can be used elsewhere.

Year 2008 also saw a trial-run of *shamba* system community cultivation in our newly established plantations. Based on a formal agreement, 30 families on each site were given the opportunity to cultivate crops on our land for one season in return for tending to the young seedlings. The initiative was very successful in Vipingo, and the cultivators harvested around 40,000 kg of very good quality maize, which earned them around Shs 880,000. At the same time, the company made substantial savings on maintenance costs.

After the 2008 *shamba* system experience, demand for the opportunity to participate in the scheme from neighbouring communities has risen considerably.

The new initiatives to involve and integrate communities more closely into the wood fuel project help to gain goodwill with the neighbours. So far, the integration initiatives were more successful in Vipingo than in Diani.

Green Schools

The Green Schools Project continues to enhance brand and environmental responsibility emphasis of the company. Signboards were delivered and erected in 35 project schools in Machakos, Kajiado, Athi-river and Coast. Over 100,000 seedlings were planted alongside 18 tanks constructed this year in various project schools over the year. On the seedling survival rate we have registered 65% as average though in some schools at the coast we have an 85% rate. The project has a membership of 120 schools and serves a student population of 51,000. We have had strong co-operation by the Education and Forestry departments to aid the implementation and continued success of this project.

Social Responsibility Initiatives

In June 2008, the World Environment Day and the Haller Park Annual Open Day celebrations were held. The focus was on planting coastal indigenous tree species within the rehabilitated quarry. Over 4,300 people attended, among them the Director of Environmental Education at the National Environmental Management Authority (NEMA), who was the Chief Guest. Others in attendance were representatives from the Kenya Wildlife Service (KWS), the Coral Reef Degradation in the Indian Ocean (Cordio), the Baobab Trust, KSPCA, Wildlife Conservation Society, East African Whale Shark Trust, Wildlife Clubs of Kenya, among others. Over 20 schools participated in the celebrations. More than 1,200 seedlings were planted.

Media Engagements

Having identified media as one of our key stakeholders, we chose to strengthen our relations by holding briefings in the first quarter. One such briefing was held in February in Kampala to sensitise key Ugandan media on the environmental issues relating to the Capacity Expansion Project. Two others briefings were held in Nairobi and Kampala to discuss the Group's contribution to sustainable development in relation to the Clean Development Mechanism, via alternative fuels substitution.

Health

In 2008, a key health program was extended to contractors and communities through two ambitious pilot-projects that are expected to serve as examples to the entire business community in East Africa and beyond.

The project is the first of a kind to be implemented within the region. Through the project, Bamburi Cement aims to transfer its experience and resources in health to its supply chain. In order to create a healthy business environment for its operations in Kenya, and to address the social concerns of its business partners, Bamburi Cement decided to engage in a program that aims at ensuring that 32 of its contracting companies (providing services such as security, maintenance, transport) operating in Nairobi and Mombasa run their own Health Workplace Program following a two year of implementation period.

This will be achieved in partnership with GTZ (German Organisation for Technical Cooperation) under an initiative dubbed as Public-Private Partnership (PPP). The contract was officially signed on March 11 by Bamburi Cement Managing Director Michel Puchercos and GTZ Country Director Dr. Klaus Hornetz.

This project addresses both Bamburi's business and corporate social responsibility concerns. It is in Bamburi's best interest to make sure that people they work with, although not directly employed by the Company, benefit from the same quality of health services as the Bamburi staff.

By serving as a pilot company in Kenya, we hope that Bamburi's experience will benefit the entire business community in Kenya and beyond, who will then be able to extend their Workplace Health Programs to their own supply chain. Private companies provide an excellent entry point in order to ensure that public health messages and measures reach a large number of people through their supply chain (customers, suppliers, contractors).

Other Health Outreach Programmes

Many other health outreach programmes in Kenya have been going on with the community activities. Utange in March and Nguu Tatu in April, about 250 people in total attended a meeting to discuss tuberculosis, malaria and HIV. Community and youth peer educators steered the dicussions and the annual medical camp was held at Utange Primary School in June. A record number of 1,550 people were treated and 148 others accessed VCT services. The Kenyan Minister of Tourism attended as the Guest of Honour.

Social interventions at Mutomo District

In March this year, Bamburi Cement donated a second lot of textbooks to Kivyuni Primary School in Mathima location, Mutomo district. This school additionally got a donation of 200 bags of cement for their school construction projects. A neighbouring primary school Kyamako Primary School received 100 bags. The Chairman of Lafarge Eco Systems Ltd presented the donations to the school head.

In Kanziku, Mutomo district, the company drilled a community borehole as part of our CSR activities. Soft water was found in the month of June and analysis of the water is ongoing. About 3,000 people are expected to benefit from this water in the community. Bamburi also constructed a community water tank alongside the borehole to store the water before distribution.

By the end of the year, work related to the drilling, piping, installation of the pump and diesel engine was fully completed.

Corporate Donations

In the month of May 2008, the company announced a commitment in form of cement worth Shs 8 million to be provided to schools affected by the post election violence in Kenya. This cement is to be distributed to schools identified by both the Ministry of Education and Bamburi Cement.

Stakeholder Relations

To strengthen our stakeholder relations in line with our annual commitments, both Mombasa Plant and the Nairobi Grinding Plant (NGP) held their Open days in the month of August 2008. The NGP Open day on the 15th of August 2008 also doubled up as the 10th Anniversary of the Grinding Plant. The guest of honour was the area MP. The plant team hosted approximately 1,300 people around the facilities. At the Mombasa Plant, 29th of August was the day designated. In an innovative move, 2,350 visitors were taken on guided tours in vans to understand what happens in the plant. Other corporate achievements by various exhibitions were mounted. These exhibitions ranged from health issues, CSR, new products and the production process. The Industrial Director gave the keynote speech at the event.

Social Responsibility Initiatives

Awards

The Financial Reporting (FIRE) Awards 2008 held on the 9th of October 2008 saw Bamburi win the **Best Corporate Citizenship award.** This award was given on the basis of the incisive report made on social initiatives in our 2007 annual report and financial statements.

In addition to this, we are pleased to report that on July 3, 2008 Bamburi Cement received top honours at the CBC-Africa Business Awards ceremony held in London. The company received the Best Corporate Citizenship and Social Responsibility honour in the wider social initiatives category, an award meant to recognize excellence in programmes which deliver social and economic benefits to local communities, employees, and which influence policy approaches by governments and other businesses. This award is another independent endorsement of our focused commitment to social and environmental responsibility throughout East Africa.

Finally, to demonstrate our commitment to sustainability in our business, Bamburi Cement Ltd joined the UN Global Compact in October. This is the world's largest voluntary corporate responsibility initiative. By joining, Bamburi supports the ten principles of the United Nations Global Compact in respect to human rights, labour rights, the environment and anti-corruption. In addition membership to the compact signifies company intent to support and advance those principles within its sphere of influence. The company also commits to making the Global Compact and its principles part of the

strategy, culture and day to day operations of the company and undertake to make a clear statement to its employees, partners, clients and to the public of this commitment.

The company is expected to commit to report on progress within two years of joining the Global Compact, and every year thereafter.

UGANDA

Green Schools

The Green Schools Project has grown to encampass 29 schools. In the entire year, 48,000 seedlings were planted. An assortment of classroom furniture was given to 12 schools as reward for their achievements under the project.

In order to publicize the project, we launched it during a public event on the 18th June 2008 where we also celebrated the World Environment Day at Jjanyi Primary School on Entebbe Road.

Infrastructure Projects

Mubende Barracks project construction was finalised in the two schools where we are working. In this project, Hima constructed a four classroom block in Mubende Army Secondary school, two classroom block in Tiger Nursery schools and a 4 stance pit latrine in the same nursery school.

The Mubende Barracks project is moving on in a satisfactory manner with the next step being the renovation of the Resource Centre at Mubende Rehabilitation Centre soon to commence, and the procurement team is working on contractor selection.

In Kamwenge District we continued to enhance our social responsibility in line with commitments by constructing, 10 new classrooms in three schools. In addition, 15 unfinished classrooms were completed in four schools. In the latter instance, the 15 classrooms were those whose construction had already been commenced by the community and other programmes, but had not been completed. The company finalised construction of 6 sanitation blocks in 6 schools in Kamwenge.

We are pleased to report that five agro processing maize mills were purchased and donated to women farmer groups in Kamwenge, Kibale county.

Health

Hima Cement conducted a two day medical camp on the 4th and 5th of October 2007, at Rukunyu Primary School in Kamwenge District and treated about 4,000 - 5,000 people. The medical camp attendance underlined the value of the health initiative and has been identified as a key focus area in our CSR initiatives in the next year. The camp was also used as a platform to sensitive the community on Malaria and HIV/ AIDS.

A VCT Medical camp was successfully organised and held at Rwamwanja Secondary School in Kamwenge on 16th and 17th April 2008. A total of 1,360 people were treated. In addition the camp provided an opportunity to teach on various health subjects/ themes. These were on HIV AIDS palliative care, prevention, demonstration of proper use of condom use, HIV opportunistic infections, the role of excessive alcohol to the spread of HIV and Prevention of Mother To Child Transmission (PMTCT). In addition, communication via various media was made on the benefits of water treatment especially amongst children and on malaria.

At the end of the camp, Hima Cement donated the remaining drugs and other medical consumables to Rwamwanja Health Centre.

The Kyabenda Health Centre, another key project in the same area was also completed in the year. The facility is poised to bring access of healthcare facilities especially for expectant mothers and inpatients closer to the Kyabenda community. The services to be offered at the Kyabenda Health Centre include Out Patient Department (OPD), Maternity and Admissions.

On our health initiatives, the baseline survey for the Hima malaria project was completed and disseminated at a meeting with internal and external stakeholders in early October 2008. The project is an initiative by the company to increase community health awareness, reduce morbidity and mortality caused by malaria in the Hima Town Council.

The goal of the project is to significantly reduce the Malaria burden within the Hima Community after two years of project implementation, by combining each and every component of a comprehensive Malaria Control approach in the field, with major emphasis on community mobilization and health education. Other components of the project include: universal coverage in Long Lasting Insecticide Treated Nets, Indoor Residual Spraying of insecticide, Malaria Control in pregnancy, and improved access to diagnosis and recommended treatments.

In addition, the company started the provision of intermittent preventive treatment of malaria among pregnant women in partnership with HIPS (Health Initiatives in the Private Sector) a USAID project. The implementation of the project will reduce the burden of malaria in Hima Town Council by 50%. A budget of USD250,000 has been set aside for this project which will run for two years.

Most of the target population are farmers living in villages, scattered in the hills of the Ruwenzori Mountains. Their access to health care is very poor, with only one health centre, and long walking distances from their homes to the facility. This gives Hima Cement reason to continuously implement health projects for years in these villages, including a project on access to HIV/AIDS Care and Treatment for the Community, also including malaria as a key component of the community's health promotion.

To enhance the pool of peer educators available, training was conducted to equip female spouses and community peer educators from Hima town with needed skills in the month of July. The total number of people trained was 52. We further strengthened our commitment to the community by holding a VCT outreach in the month of September at Bigando where over 200 people were in attendance and 147 of these were tested. Hima Cement continues to enhance the education of youth in social skills and in the September holidays, a week long training was held on cross-generational sexual issues. In addition, outreaches on road safety to pupils in five primary schools in Hima Town were held in the month of September.

Corporate

The first formal briefing to key media stakeholders this year was held on 14th April 2008 at the Serena Kampala. The subject of discussion was on the Clean Development Mechanism. We received substantial positive coverage in this respect. At the end of the month of April, we hosted the Members of Parliament in the Natural Resource Committee on a tour of the Hima Plant in Kasese and the Dura quarry site in Kamwenge. The purpose of the visit was to show and reassure the MPs of Hima Cement's commitment to environmental sustainability. The MPs were visibly impressed with Hima's environmental policy and actions and pledged support for the mining in Dura quarry. It may be worth noting that environmentalists had visited Hima and Dura quarries in early March 2008.

Finally, a media briefing on safety was held in Kampala on 23rd of October and journalists from mainstream media were in attendance. The briefing served to articulate the company's commitment to Road Safety in the context of the country's environment policy.

Investing in Our People

In view of the increasingly dynamic markets the Group operates in and our expansion strategy, 2008 was a year of notable dynamism within the Group, where we made significant investment in building our human resources, ensuring that we have the competency base to meet our strategic objectives. People development within the individual companies is a key driver for delivering on performance and change impacting on our ability to adapt efficiently and effectively to the ever changing business challenges.

One of the ways we have made great strides is in our development of young talent in the technical and non-technical fields through our graduate development programs. Over thirty five graduate trainees have been integrated in the organisations' trainee program over the past five years. In addition, we introduced a mentorship program where we partnered our new employees with more experienced managers. We look forward to expanding the mentorship program in 2009.

In tandem, our apprenticeship and internship program in place continue to provide opportunities for on-going students to gain practical experience in a structured environment and provide a source of skills for the future.

In the area of learning and development, our continued best practices and strong teams led Lafarge to open a Plant School at our Mombasa Plant site. This school not only supports the continued learning for our technical staff in Kenya and Uganda, but also provides a learning centre for the rest of the Lafarge partners in Africa.

In line with our team achievement ambitions, it is important to note that the company invested significantly in our employee's

welfare, and we are happy to note key milestones achieved in 2008. Project *Nyumbani*, our investment in the upgrade of housing facilities in Mombasa and similar investment in Uganda, are well underway. In Mombasa, by end year 2008, 72 housing units had been renovated. In Uganda at our Plant in Hima, our new health centre and canteen facilities were fully operational.

We believe that our business success begins with how we interact with each other, our mutual respect, and the ways we value each other. Integrity, then, becomes the hallmark of all our activities and we continue to emphasize our Code of Business Conduct, through which we embed good corporate governance at all levels within the business. This code includes a 'zero tolerance' policy for any behaviour that falls short of the Group's expectations.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 58th Annual General Meeting of the Shareholders of Bamburi Cement Limited will be held in Mombasa at the Nyali Beach Hotel on Wednesday 3 June 2009 at 3.00 pm. for the following purposes:

1. To table the proxies and to note the presence of a quorum.

2. To read the notice convening the meeting.

3. To receive the Chairman's statement, the Report of the Directors and the Audited Accounts for the year ended 31 December 2008.

4. To declare dividends:

    a) To ratify the payment of the second interim dividend 64% per ordinary share paid in November 2008;

    b) To declare a final dividend payment of 56% per ordinary share for the ended 31 December 2008.

5. To approve Directors' fees for 2008 and increase Directors' fees in 2009.

6. To re-elect directors:

    a) In accordance with the Company's Articles of Association R Kemoli and D Njoroge retire by rotation and being eligible, offer themselves for re-election;

    b) In accordance with Article 101 of the Company's Articles of Association, J Oigara who was appointed a director on 8 August 2008 and H Mansi who was appointed a director on 20 January 2009, retire from office and being eligible, offer themselves for re-election.

7. To note that Deloitte and Touche continue in office as Auditors in accordance with Section 159 (2) of the Companies Act and to authorize the Directors to fix their remuneration for 2009.

8. To transact any other business of the Company of which due notice has been received.

By order of the Board

B Kanyagia
Secretary
14 April 2009

A member entitled to attend and vote at the above meeting is entitled to appoint a proxy, who need not be a member of the Company, to attend and vote in his stead. Proxy forms must be lodged at the registered office of the Company, P.O. Box 10921, 00100 Nairobi not less than 48 hours before the time of the meeting. A proxy form is provided with this report.

Financial Statements
For The Year Ended 31 December 2008

The directors have the pleasure of presenting their report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS

	Shs'million
Group profit before taxation	4,889
Taxation charge	(1,477)
Group profit for the year	3,412
Attributable to:	
Equity holders of Bamburi Cement Limited	3,187
Minority interest	225
	3,412

DIVIDENDS

During the year, an interim dividend amounting to Shs 1,161 million (2007 – Shs 1,996 million) was paid. The Directors recommend that a final dividend of Shs 2.80 (2007 – Shs 0.50) per share equivalent to a total sum of Shs 1,017 million (2007 – Shs 182 million) be paid to shareholders. This dividend is subject to approval by shareholders at the next Annual General Meeting.

DIRECTORS

The present Board of Directors is shown on page 6.

SECRETARY

The present Secretary is shown on page 6.

AUDITORS

Deloitte & Touche, having expressed their willingness, will continue in office in accordance with Section 159 (2) of the Kenyan Companies Act.

BY ORDER OF THE BOARD

B Kanyagia
Secretary
Nairobi

26 February 2009

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the company as at the end of the financial year and of the operating results of the Group for that year. It also requires the Directors to ensure that the parent company and its subsidiaries keep proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and of the parent company. They are also responsible for safeguarding the assets of the Group and of the company.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. 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 Group and of the company and of the Group's operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the company and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

Joshua Oigara
Director

Hussein Mansi
Director

26 February 2009

Independent Auditors' Report

To The Members of Bamburi Cement Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Bamburi Cement Limited and its subsidiaries, set out on pages 42 to 84 which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, consolidated and company statements of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements
The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company and its subsidiaries as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
ii) the company's balance sheet and income statement are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

26 February **2009**

Nairobi

Consolidated Income Statement

For The Year Ended 31 December 2008

	Notes	2008 Shs'million	2007 Shs'million
Revenue		27,467	22,111
Direct costs	4	(14,915)	(11,768)
Gross profit		12,552	10,343
Other income	5	52	437
Investment income	6	42	102
Distribution costs		(1,895)	(1,377)
Staff costs	7	(2,205)	(1,827)
Other operating costs	8	(2,491)	(2,165)
Finance costs	9	(165)	(70)
Insurance claim provision	23(b)	(1,001)	-
Profit before taxation	10	4,889	5,443
Taxation charge	11	(1,477)	(1,633)
Profit for the year	12	3,412	3,810
Attributable to:			
Equity holders of parent		3,187	3,596
Minority interest		225	214
		3,412	3,810
Earnings per share – basic and diluted	13	Shs 8.78	Shs 9.91
Dividends per share	14(c)	Shs 6.00	Shs 6.00

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 Shs'million	2007 Shs'million
ASSETS			
Non current assets			
Property, plant and equipment	15(a)	10,267	9,030
Prepaid operating lease rentals	16	9	9
Intangible assets	17	23	40
Capital work in progress	18	5,477	1,449
Other equity investments	20	2,186	2,886
Goodwill	21	217	217
		18,179	13,631
Current assets			
Inventories	22	5,001	3,501
Trade and other receivables	23(a)	2,814	3,201
Corporate tax recoverable	11(c)	403	16
Bank and cash balances	24	1,818	371
		10,036	7,089
TOTAL ASSETS		28,215	20,720
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	1,815	1,815
Revaluation surplus	26(a)	2,445	2,786
Fair value reserve	26(b)	1,840	2,540
Translation reserve	26(c)	19	(108)
Retained earnings		9,377	7,196
Shareholders' funds		15,496	14,229
Minority interest		1,106	846
Total equity		16,602	15,075
Non-current liabilities			
Deferred tax liability	27	2,222	1,951
Provision for liabilities and charges	28	540	471
Loan from ultimate holding company	30(b)	3,408	-
		6,170	2,422
Current liabilities			
Provision for liabilities and charges	28	91	101
Trade and other payables	29	4,096	2,870
Loan from ultimate holding company	30(b)	1,104	-
Unclaimed dividends	14(a)	30	20
Corporate tax payable	11(c)	62	120
Bank overdrafts	30(a)	60	112
		5,443	3,223
		28,215	20,720

The financial statements on pages 42 to 84 were approved by the board of directors on 26 February 2009 and were signed on its behalf by:

Joshua Oigara
Director

Hussein Mansi
Director

Company Balance Sheet

At 31 December 2008

	Notes	2008 Shs'million	2007 Shs'million
ASSETS			
Non current assets			
Property, plant and equipment	15(b)	7,606	6,715
Prepaid operating lease rentals	16	1	1
Intangible assets	17	22	39
Capital work in progress	18	1,734	966
Investments in subsidiaries	19	968	968
Other equity investments	20	2,186	2,886
Loan to subsidiary	34 (iii)	41	46
		12,558	11,621
Current assets			
Inventories	22	4,140	2,995
Trade and other receivables	23(a)	2,120	2,846
Corporate tax recoverable	11(d)	392	-
Bank and cash balances	24	1,127	173
		7,779	6,014
TOTAL ASSETS		20,337	17,635
EQUITY AND RESERVES			
Capital and reserves			
Share capital	25	1,815	1,815
Revaluation surplus	26(a)	2,309	2,552
Fair value reserve	26(b)	1,840	2,540
Retained earnings		7,586	6,038
Shareholders' funds		13,550	12,945
Non-current liabilities			
Deferred tax liability	27	1,712	1,494
Provision for liabilities and charges	28	486	429
		2,198	1,923
Current liabilities			
Provision for liabilities and charges	28	91	85
Trade and other payables	29	3,364	2,542
Loan from ultimate holding company	30(b)	1,104	-
Unclaimed dividends	14(a)	30	20
Corporate tax payable	11(d)	-	120
		4,589	2,767
		20,337	17,635

The financial statements on pages 42 to 84 were approved by the board of directors on 26 February 2009 and were signed on its behalf by:

Joshua Oigara
Director

Hussein Mansi
Director

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2008

	Share capital Shs'million	Revaluation Reserve Shs'million	Fair value reserve Shs'million	Translation reserve Shs'million	Retained earnings Shs'million	Attributable to equity holders of parent Shs'million	Attributable to minority Interest Shs'million	Total Shs'million
At 1 January 2007	**1,815**	**2,965**	**2,264**	**(70)**	**6,043**	**13,017**	**719**	**13,736**
Transfer of excess depreciation	-	(317)	-	-	317	-	-	-
Deferred tax on excess depreciation	-	95	-	-	(95)	-	-	-
Revaluation reserve realised on disposal of property	-	24	-	-	(24)	-	-	-
Deferred tax on revaluation realised on disposal of property	-	(7)	-	-	7	-	-	-
Fair value gains on available-for-sale investments	-	-	276	-	-	276	-	276
Profit for the year	-	-	-	-	3,596	3,596	214	3,810
Exchange gain/(loss) on translation of foreign operations	-	26	-	(38)	(107)	(119)	(51)	(170)
Dividends:								
- final dividends for 2006 declared and paid	-	-	-	-	(545)	(545)	(36)	(581)
- interim for 2007 declared and paid	-	-	-	-	(1,996)	(1,996)	-	(1,996)
At 31 December 2007	**1,815**	**2,786**	**2,540**	**(108)**	**7,196**	**14,229**	**846**	**15,075**
At 1 January 2008	**1,815**	**2,786**	**2,540**	**(108)**	**7,196**	**14,229**	**846**	**15,075**
Transfer of excess depreciation	-	(287)	-	-	287	-	-	-
Deferred tax on excess depreciation	-	86	-	-	(86)	-	-	-
Revaluation reserve realised on disposal of property	-	(87)	-	-	87	-	-	-
Deferred tax on revaluation realised on disposal of property	-	26	-	-	(26)	-	-	-
Fair value loss on available-for-sale investments	-	-	(700)	-	-	(700)	-	(700)
Profit for the year	-	-	-	-	3,187	3,187	225	3,412
Exchange gain/(loss) on translation of foreign operations	-	(79)	-	127	75	123	35	158
Dividends:								
- final dividends for 2007 declared and paid	-	-	-	-	(182)	(182)	-	(182)
- interim dividends for 2008 declared and paid	-	-	-	-	(1,161)	(1,161)	-	(1,161)
At 31 December 2008	**1,815**	**2,445**	**1,840**	**19**	**9,377**	**15,496**	**1,106**	**16,602**

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

- The revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment - Note 26(a).
- The fair value reserve represents the cumulative surplus or deficit arising from revaluation of available-for-sale investments from cost to fair value based on the market values of the equities at the balance sheet date – Note 26(b).
- Retained earnings represent accumulated profits retained by the group after payment of dividends to the shareholders.
- The translation reserve represents the cumulative position on translation gains and losses arising from conversion of a net assets of the foreign subsidiary company to the reporting currency – Note 26(c).

Company Statement of Changes in Equity

For The Year Ended 31 December 2008

	Share capital Shs'million	Revaluation reserve Shs'million	Fair value reserve Shs'million	Retained earnings Shs'million	Total Shs'million
At 1 January 2007	**1,815**	**2,743**	**2,264**	**5,218**	**12,040**
Transfer of excess depreciation	-	(297)	-	297	-
Deferred tax on excess depreciation	-	89	-	(89)	-
Revaluation reserve realised on disposal of property	-	24	-	(24)	-
Deferred tax on revaluation realised on disposal of property	-	(7)	-	7	-
Fair value gain on available-for-sale investments	-	-	276	-	276
Profit for the year	-	-	-	3,170	3,170
Dividends:					
- final dividends for 2006 declared and paid	-	-	-	(545)	(545)
- interim dividends for 2007 declared and paid	-	-	-	(1,996)	(1,996)
At 31 December 2007	**1,815**	**2,552**	**2,540**	**6,038**	**12,945**
At 1 January 2008	**1,815**	**2,552**	**2,540**	**6,038**	**12,945**
Transfer of excess depreciation	-	(267)	-	267	-
Deferred tax on excess depreciation	-	80	-	(80)	-
Revaluation reserve realised on disposal of property	-	(82)	-	82	-
Deferred tax on revaluation realised on disposal of property	-	26	-	(26)	-
Fair value loss on available-for-sale investments	-	-	(700)	-	(700)
Profit for the year	-	-	-	2,648	2,648
Dividends:					
- final dividends for 2007 declared and paid	-	-	-	(182)	(182)
- interim dividends for 2008 declared and paid	-	-	-	(1,161)	(1,161)
At 31 December 2008	**1,815**	**2,309**	**1,840**	**7,586**	**13,550**

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

- The revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment. – Note 26(a).
- The fair value reserve represents the cumulative surplus or deficit arising from revaluation of available-for-sale investments from cost to fair value based on the market values of the equities at the balance sheet date – Note 26(b).
- The retained earnings represent accumulated profit retained by the company after payment of dividends to the shareholders.

Consolidated Cash Flow Statement

For The Year Ended 31 December 2008

	Notes	2008 Shs'million	2007 Shs'million
OPERATING ACTIVITIES			
Cash generated from operations	33	5,887	3,556
Interest received	6	10	59
Interest paid	9	(74)	(7)
Taxation paid	11(c)	(1,677)	(1,680)
Net cash generated from operating activities		4,146	1,928
INVESTING ACTIVITIES			
Purchase of property, plant and equipment, intangible assets and expenditure on capital work in progress	18	(5,876)	(1,285)
Proceeds from disposals of property, plant and equipment		4	5
Dividends received	6	32	43
Net cash used in investing activities		(5,840)	(1,237)
FINANCING ACTIVITIES			
Dividends paid to group shareholders	14(b)	(1,343)	(2,541)
Dividends paid to minority interest		-	(36)
Loans received	30(b)	6,379	-
Loans repaid	30(b)	(1,867)	-
Net cash generated from/(used in) financing activities		3,169	(2,577)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,475	(1,886)
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At beginning of year		259	2,057
Net increase/(decrease) in cash and cash equivalents above		1,475	(1,886)
Exchange rate changes on cash held in foreign currencies		24	88
At end of year	24(b)	1,758	259

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(i) Standards and interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective for the periods beginning on or after 1 July 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for the periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for the periods beginning on or after 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for the periods beginning on or after 1 October 2008).

Adoption of these interpretations has not led to any changes in the company's accounting policies.

(ii) New and revised standards and interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009).
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 January 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for accounting periods on or after 1 July 2009).
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009).
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009).
- IFRS 8, "Operating Segments", replaces IAS 14, "Segment reporting", and requires a management approach under which segment information is presented on the same basis as that for internal reporting purposes. (effective for accounting periods beginning on or after 1 January 2009).
- IAS 1 (Revised), Presentation of Financial Statements : Comprehensive revision including requiring a statement of comprehensive income, Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).
- IAS 23 (Revised), Borrowing Costs: Comprehensive revision to prohibit immediate expensing of borrowing costs relating to qualifying assets for which the commencement date of capitalisation is on or after 1 January 2009. (effective for accounting periods beginning on or after 1 January 2009).
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).

1 ACCOUNTING POLICIES (Continued)

(ii) New and revised standards and interpretations in issue but not yet adopted (continued)

- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).
- IAS 36, Impairment of Assets: Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009).
- IAS 38, Intangible Assets: Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009).
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items. (effective for accounting periods beginning on or after 1 July 2009).
- "Improvements to IFRSs" was issued in May 2008 and its requirement s are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project. The IASBs annual improvements process deals with non-urgent, minor amendments to standards.

(iii) Impact of the new and revised standards and interpretations in issue but not yet adopted

The following standards, in particular, will be of considerable relevance to the financial statements of the group and company, when effective:

IAS 1 (Revised), 'Presentation of financial statements'

IAS 1 (Revised), 'Presentation of financial statements' was issued in September 2007 and will be effective for annual periods beginning on or after 1 January 2009. The revised standard introduces the concept of a statement of comprehensive income, which enables users of the financial statements to analyse changes in a company's equity resulting from transactions with owners separately from non-owner changes.

The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but provides the option of presenting items of income and expense and components of other comprehensive income either as a single statement of comprehensive income or in two separate statements, the income statement and statement of comprehensive income.

Where the group restates or reclassifies comparative information, it will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current and comparative periods.

The previous version of IAS 1 used the titles 'balance sheet' and 'cash flow statement' to describe two of the statements within a complete set of financial statements. The revised IAS 1 uses 'statement of financial position' and 'statement of cash flows' for those statements.

IFRS 8, 'Operating segments'

IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments will be reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

1 ACCOUNTING POLICIES (Continued)

(iii) Impact of the new and revised standards and interpretations in issue but not yet adopted (continued)

IAS 23 (Revised), Borrowing Costs:

IAS 23 (Revised), Borrowing Costs: Comprehensive revision to prohibit immediate expensing of borrowing costs relating to qualifying assets for which the commencement date of capitalisation is on or after 1 January 2009. The amendment requires an entity to capitalise borrowing costs that directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Qualifying assets are those that take substantial amount of time to get ready for use or sale. However, the Group already applies an accounting policy which is in line with this standard.

Impact of other standards and interpretations

The Directors anticipate that the adoption of the remaining revised or amended standards and interpretations resulting from the International Accounting Standards Board (IASB)'s, when effective, will have no material impact on the financial statements of the Group and company.

The group's principal accounting policies are set out below:

(a) Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain items of property, plant and equipment and the carrying of available-for-sale investments at fair value.

(b) Consolidation

Subsidiary undertakings, which are those companies in which the parent company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. A listing of the subsidiaries in the group is provided in Note 19.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and consolidation ceases from the date of disposal. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; losses are also eliminated unless cost cannot be recovered.

Where necessary, accounting policies for subsidiaries have been changed to achieve consistency with the policies adopted by the parent company.

The income statement of the foreign subsidiary is translated at the average exchange rate for the year and the balance sheet at the year end rate. The resulting differences arising from translation are dealt with through the translation reserve.

(c) Revenue recognition

Sales are recognised upon dispatch for self collection or else on delivery of products to customers or performance of service. The sales are stated net of Value added tax and discounts, and after eliminating sales within the Group.

Interest income is recognised as it accrues, unless its collectability is in doubt. Dividends receivable are recognised as income in the period in which they are declared by investee companies.

1 ACCOUNTING POLICIES (Continued)

(d) Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the balance sheet date. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise.

(e) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Group or the company as the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are amortised on the straight line basis over the term of the relevant lease.

(f) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the business combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(g) Property, plant and equipment

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

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

Increases in the carrying value of buildings arising on revaluation are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserves; all other decreases are charged to the income statement.

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

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

Buildings, plant and machinery	14 - 22 years
Equipment and mobile plant	3 - 10 years
Residential buildings	40 years

Freehold land is not depreciated as it is deemed to have an infinite life.

1 **ACCOUNTING POLICIES (Continued)**

(g) Property, plant and equipment (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the actual proceeds and the carrying amount of the asset and is recognised in the income statement in the year in which the disposal or retirement occurs.

(h) Intangible assets

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

(i) Taxation

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

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

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

Income tax assets and income tax liabilities are offset only when there is a legally enforceable right to set off the tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle the tax assets and the tax liabilities on a net basis.

(j) Inventories

Inventories of consumables and spare parts are stated at weighted average cost less provision for obsolete and slow moving items. All other inventories are stated at the lower of cost and net realisable value. Cost includes direct cost and appropriate overheads and is determined on the first-in first-out method. Net realisable value is the estimated selling price of the inventories in the ordinary course of the Group's business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Dividends payable

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

(l) Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the company has become party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are carried at amortised invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end.

Bad debts are written off in the year in which they are identified as irrecoverable.

Notes to the Financial Statements
For The Year Ended 31 December 2008

1 **ACCOUNTING POLICIES (Continued)**

(l) Financial instruments (Continued)

Available-for-sale financial assets

Financial assets that are not (a) loans and receivables originated by the Group, (b) held-to-maturity investments, or (c) financial assets held for trading, are treated as available for sale and are measured at their fair value. Changes in the fair values are recognised in the fair value reserve in equity, subject to impairment testing.

Trade payables

Trade payables are stated at nominal value.

Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct costs. Finance charges are accounted for on the accruals basis.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. Other borrowings costs are expensed when incurred.

Classification of debt or equity instruments

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

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

Investments

The company has classified its investments into available-for-sale investments and originated loans. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designations on a regular basis as follows:

(i) Investments intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital.

1 **ACCOUNTING POLICIES (Continued)**

(l) **Financial instruments (Continued)**

(ii) Non-equity investments purchased in the primary market (i.e. directly from the issuers) are classified as originated loans.

All purchases and sales of investments are initially recognised at cost on the trade date, which is the date a company within the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs.

Available-for-sale investments are subsequently carried at fair value, whilst originated loans are carried at amortised cost using the effective yield method.

Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are dealt with in a separate reserve in the statement of changes in equity. On disposal, the entire realised gain or loss is recognised in the income statement.

(m) **Retirement benefits obligations**

The Group operates a defined contribution pension scheme for eligible non-unionisable employees. The scheme is administered by an independent investment management company and is funded by contributions from the Group companies and employees.

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

Unionisable staff who retire on attaining the age of 55 years or are declared redundant are eligible for service gratuity and pension based on each employee's length of service with the Group, as provided for in the trade union agreement.

The Group's obligations to the staff retirement schemes are charged to the income statement as they fall due or in the case of service gratuity as they accrue to each employee.

(n) **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised as income immediately.

1 **ACCOUNTING POLICIES (Continued)**

(o) **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Restructuring Provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the Group becomes legally or constructively committed to payment.

Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided for in advance.

(p) **Employee entitlements**

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for long-service awards as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the balance sheet date.

(q) **Segmental reporting**

Segment result is segment revenue less segment expenses.

Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the group's revenue that can be allocated to the segment on a reasonable basis. Segment revenue excludes finance income.

Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis. Segment expenses exclude finance costs and income taxes.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets and segment liabilities exclude income tax assets and income tax liabilities respectively.

Capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used during more than one year.

(r) **Comparatives**

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

Notes to the Financial Statements
For The Year Ended 31 December 2008

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Inventories provision

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

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, no changes to the useful lives were identified by the Directors.

Contingent liabilities

As disclosed in note 31 to these financial statements, the group is exposed to various contingent liabilities in the normal course of business including a number of legal cases and certain unresolved taxation matters by Kenya Revenue Authority.

The directors evaluate the status of these exposures on a regular basis to assess the probability of the group incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

3 SEGMENT INFORMATION

The Group analyses its organisational structure and internal reporting system for the purpose of identifying suitable segment reporting format for the Group. In particular, the Group has identified geographical segments as the primary segment reporting format that is suitable for the Group. The Group is organised on a regional basis into two main geographical segments: Kenya and Uganda. Both geographical segments are mainly involved in the manufacture and sale of cement which comprises over 95% of the business activities of the Group. The remaining business activities, which include manufacture and sale of paving blocks and rehabilitation of quarries that are used as source of raw materials for cement productions, are not deemed significant for separate segment reporting.

Year ended 31 December 2008 - All figures in million of Kenya Shillings

	Kenya	Uganda	Group
Revenue	18,728	8,739	27,467
Profit before taxation	3,853	1,036	4,889
Income taxation expense	(1,191)	(286)	(1,477)
Profit for the year	2,662	750	3,412
Segment assets	21,363	6,852	28,215
Segment liabilities	6,527	5,086	11,613
Capital additions	2,310	3,566	5,876
Depreciation and amortisation	517	168	685

Year ended 31 December 2007 - All figures in million of Kenya Shillings

	Kenya	Uganda	Group
Revenue	15,253	6,858	22,111
Profit before taxation	4,447	996	5,443
Income taxation expense	(1,314)	(319)	(1,633)
Profit for the year	3,133	677	3,810
Segment assets	16,734	3,986	20,720
Segment liabilities	4,715	930	5,645
Capital additions	705	580	1,285
Depreciation and amortisation	501	154	655

Total assets are shown by the geographical area in which the assets are located. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as dividends payable and certain corporate borrowings.

		GROUP	
		2008 Shs'million	2007 Shs'million
4	**DIRECT COSTS**		
	Energy	3,922	2,477
	Maintenance supplies and contract works	1,427	1,104
	Imported clinker	3,567	2,516
	Packaging	948	764
	Additives	1,530	1,201
	Freight	2,428	1,935
	Purchased cement and clinker costs	873	662
	Others	220	1,109
		14,915	11,768
5	**OTHER INCOME**		
	Loss on disposal of property, plant and equipment	(99)	(57)
	Net fire insurance claim proceeds	-	231
	Sundry income	151	263
		52	437
6	**INVESTMENT INCOME**		
	Interest income – bank deposits at amortised cost	10	59
	Dividends income – Available for sale equity investments	32	43
		42	102
7	**STAFF COSTS**		
	The following items are included within staff costs:		
	Salaries and wages	1,445	1,222
	Staff welfare costs	501	396
	Retirement benefits costs	259	209
		2,205	1,827
	The number of persons employed by the group at the year end was:		
		Numbers	Numbers
	Full time	979	870
	Casuals and contractors	96	152
		1,075	1,022

The increase in full time employees is due to recruitments for the capacity increase project in Uganda (Project Ruwenzori) and normal predictive recruitments in readiness for staff retirements.

		GROUP	
		2008 Shs'million	2007 Shs'million
8	**OTHER OPERATING COSTS**		
	Depreciation	668	636
	Amortisation	17	19
	Professional fees	554	449
	Telecommunication costs	226	233
	Transport and travelling costs	283	226
	Promotion, marketing and donation costs	166	157
	Rentals, security and business licences	293	228
	Bank charges	45	44
	Other costs	239	173
		2,491	2,165
9	**FINANCE COSTS**		
	Net foreign exchange losses	91	63
	Interest expense	74	7
		165	70
10	**PROFIT BEFORE TAXATION**		
	The profit before taxation is arrived at after charging/(crediting):		
	Staff costs (note 7)	2,205	1,827
	Depreciation	668	636
	Amortisation of intangible assets	17	19
	Directors' emoluments:		
	- Fees	4	6
	- Other emoluments	108	101
	Auditors' remuneration	10	7
	Net fire insurance claims proceeds	-	(231)

	GROUP 2008 Shs'million	GROUP 2007 Shs'million
11 TAXATION		
(a) Taxation charge		
Current taxation based on the adjusted profit at 30%(2007-30%)	1,232	1,608
Overseas tax charged on dividends received	-	12
Net current taxation charge	1,232	1,620
Deferred tax charge (note 27)	261	51
Over provision of deferred tax in prior years (note 27)	(16)	(38)
Net deferred tax charge	245	13
Total taxation charge	1,477	1,633
(b) Reconciliation of expected tax based on accounting profit to taxation charge:		
Profit before taxation	4,889	5,443
Tax calculated at the domestic rates applicable of 30% (2007-30%)	1,467	1,632
Tax effect of income not subject to tax	(10)	(33)
Tax effect of expenses not deductible for tax purposes	36	60
Over provision of deferred tax in prior years	(16)	(38)
Overseas tax charged on dividends	-	12
Total taxation charge	1,477	1,633
(c) Corporate tax movement		
Net tax payable at beginning of the year	104	164
Taxation charge	1,232	1,620
Taxation paid	(1,677)	(1,680)
Net tax (recoverable)/payable at end of the year	(341)	104
Comprising:		
Tax payable	62	120
Tax recoverable	(403)	(16)
	(341)	104

(d) Corporate tax (recoverable)/payable - Company

Included in the Group tax balances is corporate tax recoverable of Shs 392 million (2007 – Shs 120 million corporate tax payable) relating to the company, Bamburi Cement Limited.

12 PROFIT FOR THE YEAR

Included in the profit for the year is an amount of Shs 2,648 million (2007 – Shs 3,170 million) which relates to and dealt with in the company financial statements.

Notes to the Financial Statements
For The Year Ended 31 December 2008

13 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the equity shareholders by the weighted average number of ordinary shares in issue during the year, as shown below:

	2008	2007
Net profit attributable to shareholders (Shs million)	3,187	3,596
Weighted average number of ordinary shares (million)	363	363
Basic and diluted earnings per share (Shs)	8.78	9.91

There were no potentially dilutive shares as at 31 December 2008 and as at 31 December 2007. There were also no discontinued operations during the year. (2007: none)

	GROUP & COMPANY 2008 Shs'million	GROUP & COMPANY 2007 Shs'million
14 DIVIDENDS		
(a) Unclaimed dividends		
At beginning of year	20	20
Declared during the year	1,343	2,541
Dividends claimed in the year - note (b)	(1,343)	(2,541)
Dividends returned	10	-
At end of year	30	20
(b) Payments during the year 2008:		
Final dividend for previous year	182	545
First interim dividend for current year	1,161	1,996
	1,343	2,541
(c) Dividends declared in respect of the year		
First interim dividend - paid in the year	1,161	1,996
Final dividend proposed – post year end	1,017	182
	2,178	2,178
Dividends per share (based on number of shares per note 13)	Shs 6.00	Shs 6.00

Proposed final dividend
On 6 November 2008, an interim dividend of Shs 3.20 per share representing an amount of Shs 1,161million (2007: Shs 1,996 million) was declared and paid.

In respect of the current year, the Directors propose that a final dividend of Shs 2.80 (2007 – Shs 0.50) per share equivalent to a total sum of Shs 1,017 million (2007 – Shs 182 million) be paid to the shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Withholding tax
Payment of dividends is subject to withholding tax at a rate of 10% for non-resident shareholders and 5% for resident shareholders..

15 PROPERTY, PLANT AND EQUIPMENT

a) GROUP

	Land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile plant Shs'million	Total Shs'million
Cost or valuation					
At 1 January 2007	1,137	19,891	444	708	22,180
Foreign exchange adjustments*	(30)	(143)	12	(21)	(182)
Additions	85	256	88	34	463
Disposals	-	(177)	-	(44)	(221)
At 31 December 2007	1,192	19,827	544	677	22,240
At 1 January 2008	1,192	19,827	544	677	22,240
Foreign exchange adjustments*	23	153	12	11	199
Additions	92	1,651	90	47	1,880
Disposals	-	(417)	-	(11)	(428)
At 31 December 2008	1,307	21,214	646	724	23,891
Depreciation					
1 January 2007	190	11,693	305	597	12,785
Foreign exchange adjustments*	(6)	(39)	2	(9)	(52)
Charge for the year	25	533	49	29	636
Disposals	-	(115)	-	(44)	(159)
At 31 December 2007	209	12,072	356	573	13,210
1 January 2008	209	12,072	356	573	13,210
Foreign exchange adjustments*	11	48	7	5	71
Charge for the year	26	550	63	29	668
Disposals	-	(315)	-	(10)	(325)
At 31 December 2008	246	12,355	426	597	13,624
Net book value					
At 31 December 2008	1,061	8,859	220	127	10,267
At 31 December 2007	983	7,755	188	104	9,030

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

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

b) COMPANY

	Land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile plant Shs'million	Total Shs'million
Cost or valuation					
At 1 January 2007	715	17,459	254	485	18,913
Additions	55	21	58	-	134
Disposals	-	(177)	-	(1)	(178)
At 31 December 2007	770	17,303	312	484	18,869
At 1 January 2008	770	17,303	312	484	18,869
Additions	87	1,361	14	14	1,476
Disposals	-	(408)	-	(9)	(417)
At 31 December 2008	857	18,256	326	489	19,928
Depreciation					
At 1 January 2007	30	11,114	184	471	11,799
Charge for the year	8	426	28	9	471
Disposals	-	(115)	-	(1)	(116)
At 31 December 2007	38	11,425	212	479	12,154
At 1 January 2008	38	11,425	212	479	12,154
Charge for the year	8	435	39	4	486
Disposals	-	(309)	-	(9)	(318)
At 31 December 2008	46	11,551	251	474	12,322
Net book value					
At 31 December 2008	811	6,705	75	15	7,606
At 31 December 2007	732	5,878	100	5	6,715

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) OTHER DISCLOSURES

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

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Cost	10,780	8,800	7,400	5,977
Accumulated depreciation	(4,053)	(3,706)	(3,060)	(2,877)
Net book value	6,727	5,094	4,340	3,100

The Group's land, buildings, plant, and machinery were last revalued on 1 January 2006. Land and buildings were valued on the basis of open market value by independent valuers, Burn & Fawcett Chartered Surveyors, valuers and estate agents. Plant and machinery were revalued on a depreciated replacement cost basis using a valuation model prescribed by engineers and consultants at the technical centre of the ultimate shareholder.

Land and residential buildings include freehold land with a carrying value of Shs 504 million (2007: Shs 498 million) located in Mombasa and limestone deposits with a carrying value of Shs 99 million (2007: Shs 100 million) in Kasese, Uganda.

The group's plant and machinery, office equipment and mobile plant with a cost of Shs 1,136 million (2007: Shs 783 million) were fully depreciated as at 31 December 2008. The normal annual depreciation charge on these assets would have been Shs 195 million (2007: Shs 124 million).

The company's plant and machinery, office equipment and mobile plant with a cost of Shs 866 million (2007: Shs 587 million) were fully depreciated as at 31 December 2008. The normal annual depreciation charge on these assets would have been Shs 145 million (2007: Shs 94 million).

16 PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Net carrying value at beginning and end of year	9	9	1	1

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

Notes to the Financial Statements
For The Year Ended 31 December 2008

17 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP Shs'million	COMPANY Shs'million
Cost		
At 1 January 2007	371	296
Additions	2	2
Foreign exchange adjustments*	(6)	-
At 31 December 2007	367	298
At 1 January 2008	367	298
Foreign exchange adjustments*	5	-
At 31 December 2008	372	298
Amortisation		
At 1 January 2007	315	242
Charge for the year	19	17
Foreign exchange adjustments*	(7)	-
At 31 December 2007	327	259
At 1 January 2008	327	259
Charge for the year	17	17
Foreign exchange adjustments*	5	-
At 31 December 2008	349	276
Net book value		
At 31 December 2008	23	22
At 31 December 2007	40	39

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

18 CAPITAL WORK IN PROGRESS

Capital work in progress relates to ongoing work in respect of additions and replacements to various plants as at year end. The main addition during the year relates to the capacity increase project, Project Rwenzori, carried out in Hima Cement Limited, a subsidiary company domiciled in Uganda. No depreciation has been charged during the year.

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
At beginning of year	1,449	643	966	438
Additions	5,876	1,285	2,244	664
Transfers to property plant and equipment	(1,880)	(463)	(1,476)	(134)
Transfers to intangible assets	-	(2)	-	(2)
Foreign exchange adjustments*	32	(14)	-	-
At end of year	5,477	1,449	1,734	966

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

19 INVESTMENTS IN SUBSIDIARIES

Held at cost less impairment provisions:

Details of the subsidiaries in the group are provided below:

	Holding %	COMPANY 2008 Shs'million	COMPANY 2007 Shs'million
Simbarite Limited	100	53	53
Less: impairment provision		(22)	(22)
		31	31
Bamburi Special Products Limited	100	20	20
Bamburi Cement Limited, Uganda	100	-	-
HimCem Holdings Limited (Channel Islands)	100	911	911
Lafarge Eco Systems Limited	100	5	5
Diani Estate Limited	100	1	1
Kenya Cement Marketing Limited	50	-	-
Portland Mines Limited	50	-	-
Seruji Management Limited (Channel Islands)	100	-	-
		968	968

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

20 OTHER EQUITY INVESTMENTS

Available for sale:

These represent Available-For-Sale investments, which are carried at fair value annually at the close of business on the balance sheet date. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices. For other investments, fair value is determined by reference to the current market for similar instruments or by reference to the discounted cash flows of the underlying net assets.

The market value of the quoted equity shares at 31 December 2008 was Shs 2,186 million (2007:- Shs 2,886 million). Changes in the fair values are recognised in fair value reserve in equity, subject to impairment testing. The movement in available-for-sale investments is as follows:

	GROUP AND COMPANY 2008 Shs'million	GROUP AND COMPANY 2007 Shs'million
At 1 January	2,886	2,610
Fair value (losses)/gains	(700)	276
At 31 December	2,186	2,886

The fair value gains and losses on Available-For-Sale investments are dealt with in a separate reserve account in the statement of changes in equity.

20 OTHER EQUITY INVESTMENTS (CONTINUED)

Analysis of the equity investments:

Number of shares: At 1.1.2008	Additions/ disposals	At 31.12.2008		Market value (Shs'000): At 1.1.2008	Additions/ disposals	Gain/ (loss) on disposal	Increase/ decrease in market value	At 31.12.2008
11,265,068	-	11,265,068	East African Portland Cement Ltd	1,298	-	-	(403)	895
90,550	-	90,550	Kenya Oil company Ltd	11	-	-	(4)	7
13,959,300	-	13,959,300	Athi River Mining Ltd	1,577	-	-	(293)	1,284
				2,886	-	-	(700)	2,186

21 GOODWILL

	GROUP 2008 Shs'million	GROUP 2007 Shs'million
At beginning and end of the year	217	217

The goodwill arose from the acquisition of a subsidiary, HimCem Holdings Limited, in 1999. HimCem is the majority owner of the group's operating company in Uganda, Hima Cement Limited.

During the current financial year, the directors assessed the recoverable amount of goodwill and determined that the goodwill was not impaired.

The recoverable amount of the cash generating units was assessed by reference to value in use.

22 INVENTORIES

	GROUP 2008 Shs'million	GROUP 2007 Shs'million	COMPANY 2008 Shs'million	COMPANY 2007 Shs'million
Raw materials	665	426	623	362
Bio fuel supplies	132	37	132	37
Consumables and spare parts	1,401	1,119	955	809
Finished and semi-finished goods	1,976	1,283	1,718	1,216
Fuel and packaging	827	633	712	571
Other	-	3	-	-
	5,001	3,501	4,140	2,995

The Bio fuel supplies relate to direct operating costs incurred in respect to the on-going Bio-fuels project. These costs include those relating to labour, seedlings, transportation and other directly attributable overheads. The inventories are carried at the lower of cost and net realisable value

23 TRADE AND OTHER RECEIVABLES

(a) Analysis of trade and other receivables:

	GROUP 2008 Shs'million	GROUP 2007 Shs'million	COMPANY 2008 Shs'million	COMPANY 2007 Shs'million
Trade receivables	589	505	463	406
Prepayments	1,394	805	695	204
Deposits	19	16	19	16
Other receivables	655	113	250	83
Receivables from related companies (Note 34 (ii))	157	115	693	490
Insurance claim receivable – note 23 (b)	-	1,647	-	1,647
	2,814	3,201	2,120	2,846

(b) Details of insurance claim receivable (note 23 (a)):

	GROUP 2008 Shs'million	GROUP 2007 Shs'million	COMPANY 2008 Shs'million	COMPANY 2007 Shs'million
Insurance claim receivable	1,001	1,647	1,001	1,647
Provision for insurance claim	(1,001)	-	(1,001)	-
	-	1,647	-	1,647

As disclosed in previous year's financial statements, a fire incident occurred at the Company's main plant in Mombasa on 2 October 2007, leading to substantial damage of cables at the Motor Control Centre which controls kiln operations. Consequently, the two rotary kilns in Mombasa plant stopped and could not operate for a period of approximately seven months, during which period the company imported clinker at higher cost than its own produced clinker to meet market demand. The kilns were restored back into operation in March 2008 (Kiln 2) and April 2008 (Kiln 1).

The company had in place a comprehensive insurance policy to cover damages to property and business interruption (consequential losses) arising from the fire incident.

The total loss due to the fire as assessed by the Insurance Loss adjustor amounted to Shs 3,017 million. As at the end of the year 2008, Shs 2,016 million had already been paid to the company by our insurers.

The company has however, taken a prudent view to provide for the amount that is still outstanding (Shs 1,001 million) as at the end of the year pending further negotiations.

The company continues to pursue substantial settlement of the outstanding amount with the insurers and outcome is expected to be determined in the course of the year 2009.

(c) Trade receivables:

The average credit period on sales of finished goods is thirty days. The bulk of the trade receivables are covered by bank guarantees in favour of the Group. Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year.

Notes to the Financial Statements
For The Year Ended 31 December 2008

23 TRADE AND OTHER RECEIVABLES (Continued)

(c) Trade receivables (continued):

The trade receivables are carried net of provision for bad and doubtful debts. The movement in the provision for bad and doubtful debts is as set out below:

	GROUP 2008 Shs'million	GROUP 2007 Shs'million	COMPANY 2008 Shs'million	COMPANY 2007 Shs'million
At beginning of year	289	332	220	243
Impairment losses	69	16	3	5
Amounts recovered	-	(54)	-	(28)
Translation difference	-	(5)	-	-
At end of year	358	289	223	220

In determining the recoverability of a trade receivable, the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

24 BANK AND CASH BALANCES

(a) Analysis of bank and cash balances:

	GROUP 2008 Shs'million	GROUP 2007 Shs'million	COMPANY 2008 Shs'million	COMPANY 2007 Shs'million
Cash at bank and on hand	1,005	245	703	173
Cash deposits with related party (note 34(ii))	389	-	-	-
Short term bank deposits	424	126	424	-
	1,818	371	1,127	173

(b) Cash and cash equivalents:

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. Analysis of cash and cash equivalents is as set out below:

	GROUP 2008 Shs'million	GROUP 2007 Shs'million	COMPANY 2008 Shs'million	COMPANY 2007 Shs'million
Bank and cash balances (note 24 (a))	1,818	371	1,127	173
Bank overdrafts (note 30(a))	(60)	(112)	-	-
	1,758	259	1,127	173

(c) Interest rates and deposit maturities:

The short-term deposits mature within three months. The weighted average interest rates earned on the short-term bank deposits during the year were as shown below:

	GROUP 2008	GROUP 2007	COMPANY 2008	COMPANY 2007
Local currencies	0.9%	2.0%	0.9%	1.5%
Foreign currencies	1.6%	4.6%	0.4%	5.0%

25 SHARE CAPITAL

	GROUP AND COMPANY	
	2008 Shs'million	2007 Shs'million
Authorised		
366,600,000 ordinary shares of Sh 5 each	1,833	1,833
100,000, 7% redeemable cumulative preference shares of Sh 20 each	2	2
	1,835	1,835
Issued and fully paid		
362,959,275 ordinary shares of Sh 5 each	1,815	1,815

Fully paid ordinary shares, which have a par value of Sh 5 each, carry a right of one vote per share and have rights to dividends.

26 RESERVES

a. **Revaluation reserve**
The revaluation reserve arises on the revaluation of property, plant and equipment. Where revalued assets are sold, the portion of the properties' revaluation reserve that relates to those assets are effectively realised and transferred directly to retained earnings.

b. **Fair value reserve**
The fair value reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that asset, and is effectively realised, is recognised in the income statement. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in the income statement during the year.

c. **Translation reserve**
The foreign exchange differences relating to the translation of balances from the functional currencies of the Group's foreign subsidiary into the Kenya Shilling, which is the functional currency of the group, are brought to account by entries made directly to the foreign currency translation reserve.

27 DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2007: 30%). The make up of the deferred tax liabilities at the year end and the movement on the deferred tax account during the year are as presented below:

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Accelerated capital allowances on property, plant and equipment	1,412	1,035	966	623
Foreign exchange differences	(16)	(18)	(20)	(20)
Provisions	(261)	(210)	(191)	(171)
Revaluation surplus	1,091	1,157	957	1,062
Other temporary differences	(4)	(13)	-	-
	2,222	1,951	1,712	1,494

27 DEFERRED TAX LIABILITY (Continued)

The movement on the deferred tax account during the year is as follows:

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
At beginning of year	1,951	1,951	1,494	1,542
Income statement charge (note11)	261	51	218	(48)
Prior years over provision	(16)	(38)	-	-
Foreign exchange differences	26	(13)	-	-
At end of year	2,222	1,951	1,712	1,494

Deferred tax liabilities amounting to Shs 86 million (2007: Shs 95 million) in respect of the Group and Shs 80 million (2007: Shs 89 million) in respect of the company has been transferred within shareholders' equity from retained earnings to revaluation reserves. This represents deferred tax on the difference between the actual depreciation charge on the property, plant and equipment and the equivalent depreciation charge based on the historical cost of the property, plant and equipment.

28 PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring, site restoration and litigation Shs'million	Service gratuity and holiday pay Shs'million	Long service awards Shs'million	2008 Total Shs'million	2007 Total Shs'million
GROUP					
At beginning of year	52	476	44	572	452
Additional provisions	2	50	63	115	153
Utilised during the year	-	(56)	-	(56)	(33)
At end of year	54	470	107	631	572
Less: current portion	(50)	(41)	-	(91)	(101)
Non current portion	4	429	107	540	471
COMPANY					
At beginning of year	49	421	44	514	401
Additional provisions	1	42	63	106	143
Utilised during the year	-	(43)	-	(43)	(30)
At end of year	50	420	107	577	514
Less: Current portion	(50)	(41)	-	(91)	(85)
Non-current portion	-	379	107	486	429

The provision for service gratuity, annual leave and long service awards represent entitlements that accrue as a result of services offered by employees.

The provision for restructuring, site restoration and litigation relate to future outflows that will be required to settle related liabilities or finalise the ongoing restructuring activities of the Group, including termination benefits.
.

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
29 TRADE AND OTHER PAYABLES				
Trade payables	2,096	1,165	1,700	1,015
Accrued expenses	874	386	658	295
Other payables	177	160	110	73
Payable to related companies (Note 34 (ii))	949	1,159	896	1,159
	4,096	2,870	3,364	2,542

The average credit period on purchases is 22 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

30 BORROWINGS

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
a) Bank overdrafts - unsecured				
Standard Chartered Bank Uganda Limited	60	112	-	-

b) Loan from ultimate holding company - unsecured

During the year, Lafarge SA, the ultimate holding company, extended loans to the company and its subsidiary, Hima Cement Limited. The loan balances are as shown below.

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Loans received	6,379	-	2,971	-
Repayments	(1,867)	-	(1,867)	-
At end of year	4,512	-	1,104	-
Maturity:				
Repayable within one year	1,104	-	1,104	-
Repayable after one year	3,408	-	-	-
At end of year	4,512	-	1,104	-

The balance outstanding in respect of the subsidiary, Hima Cement Limited, amounting to Shs 3,408 million is repayable between September 2010 and September 2014. The balance outstanding in respect of the company amounting to Sh 1,104 million is repayable within the next twelve months. The amounts are unsecured.

30 BORROWINGS (Continued)

c) Effective interest rates

The weighted average interest rates incurred on borrowing facilities during the year were:

	GROUP		COMPANY	
	2008	2007	2008	2007
Local currencies – bank overdrafts	14%	13.0%	12%	10.4%
Foreign currencies – ultimate holding company	5.4%	5.8%	4.5%	5.8%

d) Borrowing facilities

As at end of the year, the Group had borrowing facilities amounting to a total of Shs 4,441 million (2007 – Shs 2,114 million), out of which the undrawn facilities amounted to Shs 3,294 million (2007 – Shs 869 million).

The borrowing facilities are annual facilities that were subject to review at various dates during the year 2008. They consist of overdrafts, letters of credit, guarantees among others.

31 CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Guarantees to the group's bankers in favour of staff	140	166	116	144
Bonds issued by the group's bankers in favour of Kenya Revenue Authority	844	1,010	844	1,010
Bonds issued by the group's bankers in favour of suppliers	190	131	157	166
Insurance bond issued to Uganda Revenue Authority	10	9	-	-
At end of year	1,184	1,316	1,117	1,320

Guarantees

The guarantees and bonds are issued by the Group's bankers in favour of third parties and the Group has entered into counter-indemnities with the same banks. These guarantees are part of the bank facilities disclosed in note 30 above and are issued in the normal course of business.

31 CONTINGENT LIABILITIES (Continued)

Legal matters

The Group is involved in a number of legal proceedings which are yet to be concluded upon. The Directors have evaluated the pending cases and determined that no material liabilities are likely to arise from these cases which arose in the normal course of business.

Unresolved taxation matters

The Group is regularly subject to an evaluation, by the taxation authorities, of its direct and indirect taxation affairs and in connection with such reviews, tax assessments can be issued by the taxation authorities in respect of the Group's taxation affairs.

In particular, the Kenya Revenue Authority issued a tax assessment in 2007 of Shs 526 million, excluding interest and penalties. This assessment is in respect of the company's corporate tax affairs for the years of income 2003 and 2004. Out of this amount, the company paid Shs 5 million, representing the amount not in dispute, and formally objected to the balance of the assessment in accordance with the tax legislation. The basis of the company's objection relates to the specific matters of application and interpretation of tax legislation affecting the company involved and the industry in which it operates.

With the assistance of professional advice, the Directors have considered all matters in contention and are confident that the objection will be successful and no material liability will crystallise to the Group and company.

32 CAPITAL COMMITMENTS

Authorised and contracted

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Commitments for the acquisition of property, plant and equipment	2,705	4,013	668	376

Capital commitments include a contract with CBMI Construction Company Limited for the construction of an integrated cement plant in Kasese, Uganda. The construction is expected to take a duration of two years at a contract amount of Shs 4,687 million, out of which Shs 3,339 million (71%) has been paid.

Authorised but not contracted

Capital expenditure authorised but not contracted for at the balance sheet date:

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Commitments for the acquisition of property, plant and equipment	1,689	7,650	1,235	1,358

Notes to the Financial Statements
For The Year Ended 31 December 2008

33 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before taxation to cash generated from operations:

	GROUP	
	2008 Shs'million	2007 Shs'million
Profit before taxation	4,889	5,443
Adjustments for:		
Depreciation	668	636
Amortisation of intangible assets	17	19
Loss on disposal of property, plant and equipment	99	57
Investment income recognised in profit	(42)	(102)
Net finance costs recognised in profit	165	70
Net foreign exchange losses	(91)	(63)
Operating profit before working capital changes	5,705	6,060
Changes in working capital balances:		
Increase in inventories	(1,500)	(1,150)
Decrease/(increase) in trade and other receivables	387	(2,075)
Increase in provisions for liabilities and charges	59	91
Increase in trade and other payables	1,226	630
Increase in unclaimed dividends	10	-
Cash generated from operations	5,887	3,556

34 RELATED PARTIES

The ultimate parent of the Group is Lafarge SA, incorporated in France. There are other companies which are related to Bamburi Cement Limited through common shareholdings or common directorships.

(i) Related party transactions

In the normal course of business, the Group sells cement to an associate of its ultimate shareholder. These sales represented approximately 0.4% of the Group's sales volume during the year (2007: 4%).

The company receives technical assistance from the majority shareholder, which is paid for under a five year agreement.

The following transactions were carried out with related parties during the year.

	GROUP	
	2008 Shs'million	2007 Shs'million
Interest received	1	36
Sales of goods and services	1,457	175
Purchases of goods and services	5,201	3,937

Transactions with related parties were made on terms and conditions similar to those offered to major customers or available from major suppliers.

34 RELATED PARTIES (Continued)

(ii) Outstanding balances arising from sale and purchase of goods and services to/from related companies at the year end.

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Receivables from related parties	157	115	157	115
Receivables from subsidiaries	-	-	536	375
Total receivables (note 23(a))	157	115	693	490
Payables to related parties (note 29)	949	1,159	896	1,159
Short term cash deposits (note 24(a))	389	-	-	-

The short term deposits represent amounts held in investment accounts with the principal shareholder, Lafarge SA's, central treasury department on terms similar to those offered by unrelated financial institutions.

(iii) Loan to subsidiary

As at the end of the year, the balance due to the company in respect of a loan to its subsidiary, Bamburi Special Products Limited, amounted to Shs 41 Million (2007 - Shs 46 Million). The loan is unsecured and the related effective interest on the loan was 10% (2007 - 10%). The loan repayment period is 7 years from the beginning of 2007.

(iv) Key management compensation

The remuneration of directors and members of key management during the year were as follows:

	GROUP	
	2008 Shs'million	2007 Shs'million
Fees for services as a director	4	6
Other emoluments		
Salaries and other short-term employment benefits	98	93
Post-employment benefits	10	8
	108	101
Total	**112**	**107**

As at year end the company had, through normal bank facilities, guaranteed loans to key management personnel amounting to Shs 14 million (2007 – Shs 17 million).

Notes to the Financial Statements
For The Year Ended 31 December 2008

35 OPERATING LEASE COMMITMENTS

	GROUP	
	2008 Shs'million	2007 Shs'million
Lease payments committed under operating leases:		
Not later than 1 year	54	45
Later than 1 year but not later than 5 years	162	110
	216	155

36 RETIREMENT BENEFITS SCHEME

The Group operates defined contribution retirement benefit plans for all qualifying employees, comprising eligible non-unionisable employees. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The scheme is administered by an independent investment management company and is funded by contributions from the Group companies and employees. The Group's obligations to the staff retirement benefits plans are charged to the income statement as they fall due or in the case of service gratuity as they accrue to each employee.

The Group also makes contributions to the statutory defined contribution schemes in the two countries where operations are based. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in the income statement of Shs 82 million (2007: Shs 70 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. The expense has been included within the retirement benefits costs under staff costs in note 7. As at 31 December 2008, contributions of Shs Nil million (2007: Shs 15 million) due in respect of the 2008 (2007) reporting period had not been paid over to the plans.

37 FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group mainly consists of cash and cash equivalents as disclosed in note 24 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 26 to the financial statements.

The board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital. Based on the review, the Group analyses and assesses the gearing ratio to determine the level and its optimality.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

37 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Equity	16,602	15,075	13,550	12,945
Total borrowings	(4,512)	-	(1,104)	-
Less: cash and cash equivalents (note 24)	1,758	259	1,127	173
Net debt	2,754	259	23	173
Gearing	17%	<0%	<0%	<0%

Financial risk management objectives

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance within the options available in Kenya and Uganda to hedge against such risks.

The Group has effective policies in place to ensure that credit sales are made to customers with an appropriate credit history.

The company's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks.

These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Corporate Treasury function of Lafarge SA reports quarterly to the Lafarge SA risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the ultimate parent's policies approved by the board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Notes to the Financial Statements
For The Year Ended 31 December 2008

37 **FINANCIAL RISK MANAGEMENT (Continued)**

(i) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(a) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the balance sheet date are as follows:

Group foreign currency risk:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
31 December 2008:			
Monetary assets			
Cash and bank balances	156	696	852
Trade receivables	-	369	369
	156	1,065	1,221
Monetary liabilities			
Loans	-	4,512	4,512
Trade payables	17	848	865
	17	5,360	5,377
Net exposure position	139	(4,295)	(4,156)
31 December 2007:			
Monetary assets			
Cash and bank balances	231	3,341	3,572
Trade receivables	-	205	205
	231	3,546	3,777
Monetary liabilities			
Trade payables	119	1,756	1,875
Net exposure position	112	1,790	1,902

37 FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency risk management (continued)

Company foreign currency risk:

31 December 2008:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
Monetary assets			
Cash and bank balances	42	142	184
Trade receivables	-	369	369
	42	511	553
Monetary liabilities			
Loans	-	1,104	1,104
Trade payables	-	553	553
	-	1,657	1,657
Net exposure position	42	(1,146)	(1,104)

31 December 2007:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
Monetary assets			
Cash and bank balances	65	142	207
Trade receivables	-	205	205
	65	347	412
Monetary liabilities			
Trade payables	-	1,079	1,079
Net exposure position	65	(732)	(667)

Foreign exchange risk – Appreciation/Depreciation of Shs against other currencies by 5%

The following sensitivity analysis shows how profit and equity would change if the market risk variables had depreciated against the other currencies by 5% on the balance sheet date with all other variables held constant. The reverse would also occur if the variables appreciated with all other variables held constant.

	2008 Shs. Million	2007 Shs. Million
Group		
EUR	1	1
USD	(2)	5
	(1)	6
Company		
EUR	0	0
USD	(2)	(3)
	(2)	(3)

37 FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by a close management monitoring control. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

(c) Share price risk management

The group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade on equity investments.

(ii) Credit risk management

Credit risk refers to the risk that counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained as at 31 December 2008 is made up as follows;

	GROUP		COMPANY	
	2008 Shs'million	2007 Shs'million	2008 Shs'million	2007 Shs'million
Trade receivables	589	505	463	406
Deposits	19	16	19	16
Insurance claim	-	1,647	-	1,647
Other receivables	655	113	250	83
Related party receivables	157	115	693	490
Bank and cash balances	1,818	371	1,127	173
	3,238	2,767	2,552	2,815

37 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Credit risk management (Continued)

Analysis of group credit exposure:

	Gross 2008 Shs'million	Impairment 2008 Shs'million	Net 2008 Shs'million	Gross 2007 Shs'million	Impairment 2007 Shs'million	Net 2007 Shs'million
Fully performing	3,019	-	3,019	2,461	-	2,461
Past due	1,626	1,407	219	640	334	306
	4,645	1,407	3,238	3,101	334	2,767

Included in the impairment provision is an amount of Sh 1,001 million (2007 - Nil) relating to insurance claim receivable and Sh 49 million (2007 – Sh 45 million) relating to other receivables.

Analysis of company credit risk:

	Gross 2008 Shs'million	Impairment 2008 Shs'million	Net 2008 Shs'million	Gross 2007 Shs'million	Impairment 2007 Shs'million	Net 2007 Shs'million
Fully performing	2,331	-	2,331	2,541	-	2,541
Past due	485	264	221	531	257	274
	2,816	264	2,552	3,072	257	2,815

Included in the impairment provision is an amount of Sh 1,001 million (2007 - Nil) relating to insurance claim receivable and Sh 41 million (2007 – Sh 41 million) relating to other receivables.

The receivables that are past due relate to trade receivables overdue by over 60 days. The receivables are not impaired and continue to be paid. The finance department is actively following these receivables. No collateral is held with respect to the debt.

(iii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of Directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

37 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Liquidity risk management (continued)

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

GROUP – Financial liabilities:

	Total amount Shs'million	0-30 days Shs'million	31-90 days Shs'million	31-120 days Shs'million	120 days and above Shs'million
31 December 2008:					
Trade and other payables	4,096	2,203	1,576	217	100
Unclaimed dividends	30	-	-	-	30
Loan from ultimate holding company	6,550	-	-	-	6,550
	10,676	2,203	1,576	217	6,680
31 December 2007:					
Trade and other payables	2,870	1,436	1,111	136	187
Unclaimed dividends	20	-	-	-	20
	2,890	1,436	1,111	136	207

COMPANY – Financial liabilities:

	Total amount Shs'million	0-30 days Shs'million	31-90 days Shs'million	31-120 days Shs'million	120 days and above Shs'million
31 December 2008:					
Trade and other payables	3,364	845	2,069	289	161
Unclaimed dividends	30	-	-	-	30
Loan from ultimate holding company	1,104	-	-	-	1,104
	4,498	845	2,069	289	1,295
31 December 2007:					
Trade and other payables	2,542	467	1,660	175	240
Unclaimed dividends	20	-	-	-	20
	2,562	467	1,660	175	260

38 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act. The ultimate parent of the group is Lafarge SA, incorporated in France. The Group is primarily engaged in the manufacture and sale of cement and cement related products.

39 POST BALANCE SHEET EVENTS

The board of directors approved the financial statements on 26th February 2009 and authorised that the financial statements be issued. On this date, the directors were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the group and results of its operation as laid out in these financial statements.

40 CURRENCY

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are presented in Kenya Shillings million (Shs' Million), which is the functional currency of the group, and the presentation currency for the consolidated financial statements.

Top 10 Shareholders

Rank	Name of Shareholder	Number of Shares	% of Shares
1	Fincem Holding Ltd	106,360,798	29.30%
2	Kencem Holding Limited	106,360,797	29.30%
3	Board of Trustees - National Social Security Fund	54,368,634	14.98%
4	Bamcem Holding Nominees Ltd	45,000,000	12.40%
5	Baloobhai Chhotabhai Patel	4,180,305	1.15%
6	Kenya Commercial Bank Nominees Ltd - A/c 769G	2,057,850	0.57%
7	Barclays (K) Nominees Ltd - A/c 1256	1,673,100	0.46%
8	Kenya Reinsurance Corporation Ltd	1,171,543	0.32%
9	Old Mutual Life Assuarance Co. Ltd	1,095,540	0.30%
10	Barclays (K) Nominees Ltd - A/c 1853	1,020,600	0.28%
	Total of 10 above	**323,289,167**	**89.07%**
	2967 other shareholders	**39,670,108**	**10.93%**
	Total shareholding	**362,959,275**	**100%**

Shares Analysis by Volume

Volume	Number of Shares	%	Number of Shareholders
1 - 500	237,802	0.07%	1,081
501 - 5,000	2,449,731	0.67%	1,212
5,001- 10,000	1,621,216	0.45%	226
10,001 - 100,000	11,650,606	3.21%	363
100,001 - 1,000,000	23,710,753	6.53%	85
1,000,001 - 9999999999	323,289,167	89.07%	10
Totals	**362,959,275**	**100.00%**	**2,977**

Proxy Form

The Secretary
Bamburi Cement Limited
Corporate Offices
Kenya Re Tower, 6th Floor
Upper Hill, Off Ragati Road
P O Box 10921, 00100
NAIROBI, KENYA

I/WE ____

____

of ____

____

a member of BAMBURI CEMENT LIMITED hereby appoint ______________________________

____

of ____

____

or in his/her place THE CHAIRMAN OF THE MEETING as my/our proxy and/or representative to vote at his/her discretion for me/us and on my/our behalf at the Annual General Meeting to be held on Wednesday 3 June 2009 and at every adjournment thereof.

AS WITNESS my/our hand(s) this ____________ day of __________________ 2009

(Usual Signature) ____

Proxy forms must reach the registered office of the company by 5.00 pm Monday 1 June 2009.

Staple here

Staple here

Proxy form:

For The Year ended 31 December 2008

2 Fold here

Fold here

The Secretary
Bamburi Cement Ltd.
Corporate Offices
6th floor, Kenya-Re Towers,
Upper Hill, off Ragati Road
P O Box 10921, 00100
NAIROBI, KENYA

BAMBURI CEMENT LIMITED,
Corporate Office, Nairobi,
6th & 9th Floors, Kenya-Re Towers,
Mara Ragati Road, Upper Hill,
P.O. Box 10921-00100, Nairobi, Kenya.
Tel: (+254 - 20) 2893000/ 2710487
Fax (+254 - 20) 2710581

www.bamburicement.com

LAFARGE