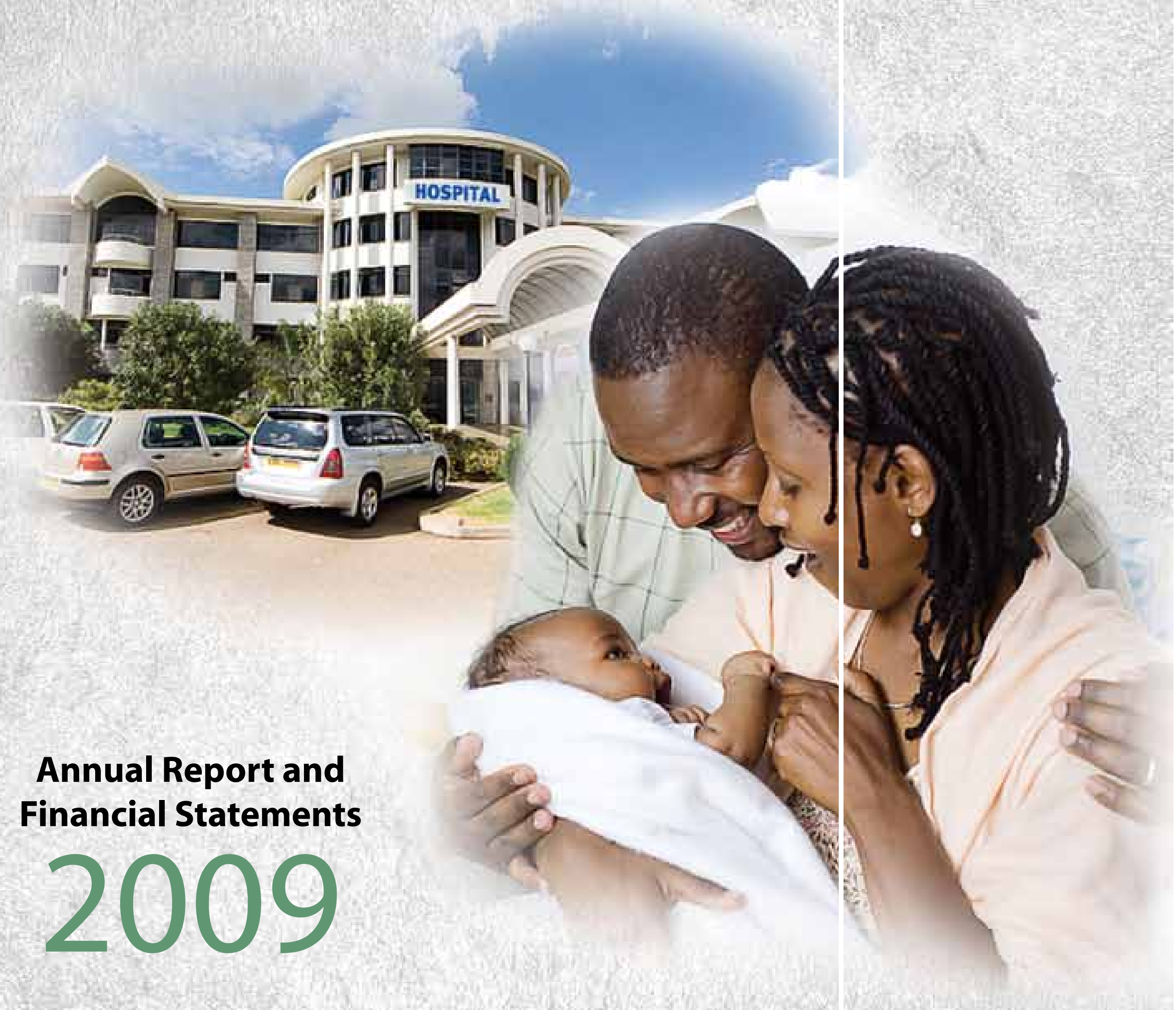
Part of you. From the start.



Annual Report and Financial Statements 2009

Bamburi cement ltd

LAFARGE
bringing materials to life


Haller Park

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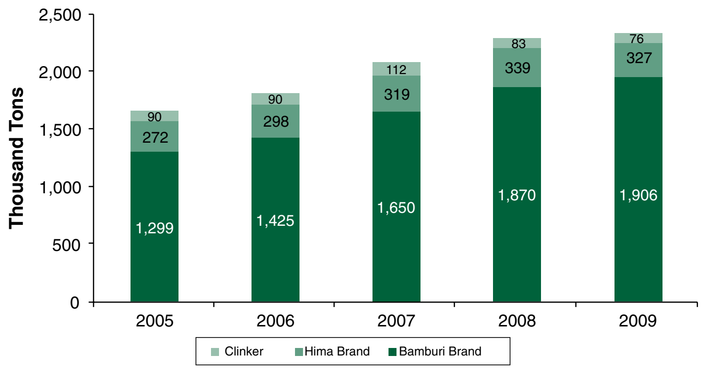
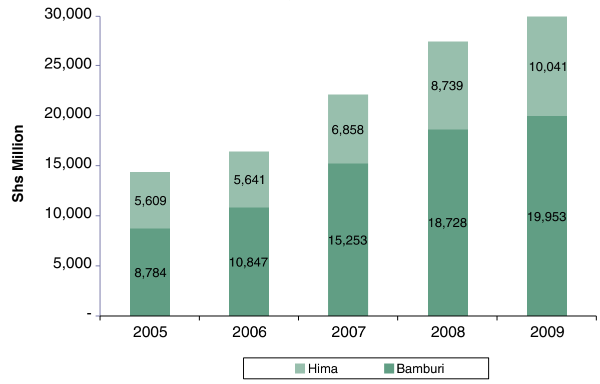
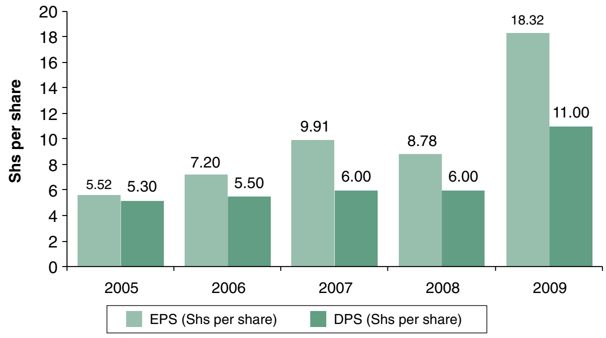


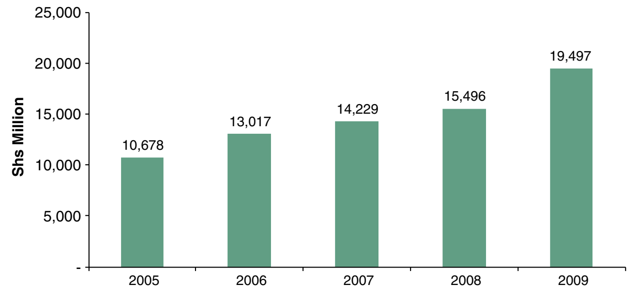
Group Turnover



Earnings/ Dividend per Share

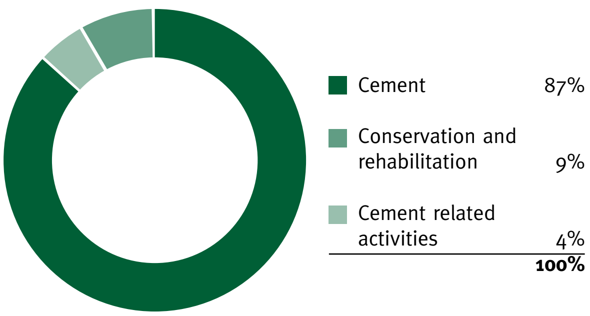


Shareholder Equity

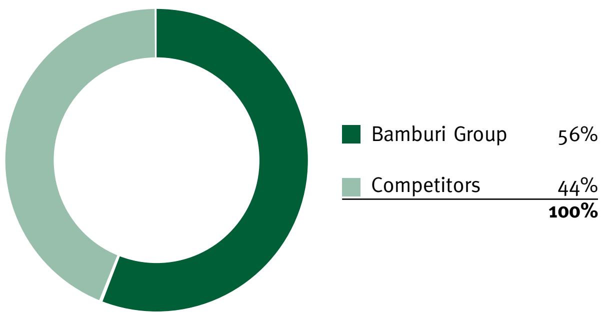


Other Key Highlights

Employees by Business Area



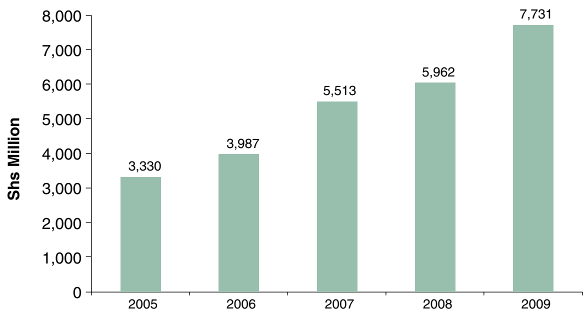
Estimated Market share - Kenya



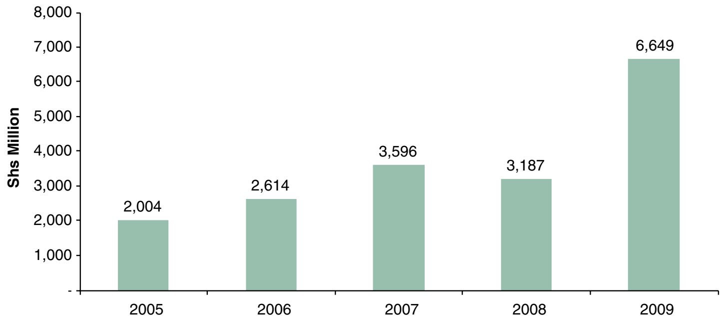
Consolidated Highlights

5 year performance review

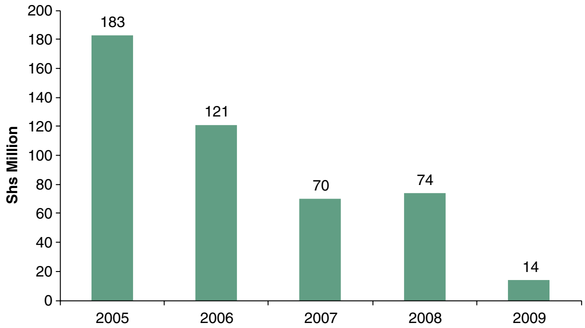
Operating Income



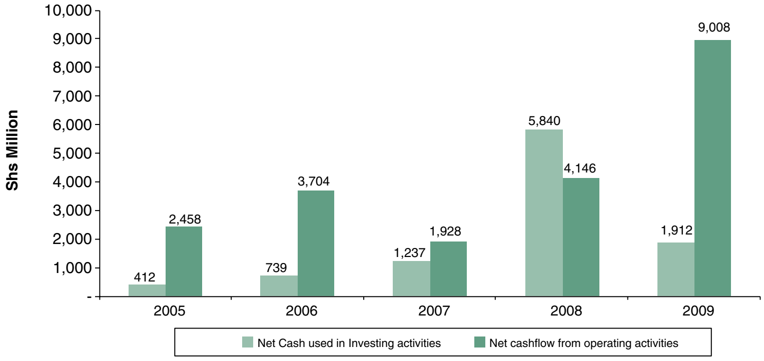
Profit attributable to shareholders



Finance Costs



Investments and Net Cashflows from Operating Activities



Other Key Highlights

Estimated Market share - Uganda

Bamburi Group	32%
Competitors	68%
	100%

Sales by region

Kenya	67%
Uganda	20%
Other Inland Africa	13%
	100%

Value Added Statement

Our Vision

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

Our Ambitions

To enable us achieve our vision as one entity driven by the same energy, the Group identified tangible ambitions in five 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.
- 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 amount of our turnover generated from new products.

3. Sustainable Market Leadership
- We are committed to being the leader in 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 realising 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 recognising and rewarding achievement.
- Building a disciplined and motivated workforce that drives for outstanding results.

Our Values

As part of the Lafarge family, we are bound by shared 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.

Focussing 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 in Brief

Bamburi Cement Limited is a subsidiary of Lafarge, the world leader in building materials. Lafarge holds top ranking positions in all the three of its divisions: Cement, Aggregates & Concrete and Gypsum.

The Lafarge Group is present in 76 countries and has about 90,000 employees. The cement Division has operations in 46 countries with 166 plants worldwide.

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.

2009 Key Figures

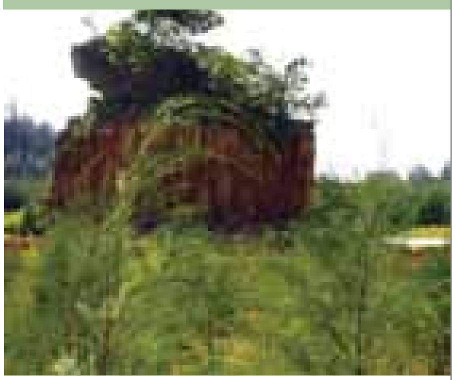
Consolidated

Sales:	15,884 Million Euros (2008:19,033 Million Euros)
Operating income:	2,477 Million Euros (2008:3,542 Million Euros)

Cement Division

Sales:	9,477 Million Euros (2008:10,911 Million Euros)
Operating income:	2,343 Million Euros (2008:2,964 Million Euros)





Corporate Information

DIRECTORS	**Executive**		
	H. Mansi (Egyptian)	-	Group Managing Director - Appointed on 20 January 2009
	M. Puchercos (French)	-	Group Managing Director - Resigned on 20 January 2009
	D. Njoroge	-	General Manager, Hima Cement Limited
	J. Oigara	-	Group Finance Director
	Non Executive		
	R. Kemoli	-	Chairman
	S. W. Karanja		
	C. C. Kisire		
	S. M'Mbijjewe		
	D. Brugier (French)	-	Appointed 3 June 2009
	J. C. Hillenmeyer (French)	-	Resigned 3 June 2009
	J. Stull (American)	-	Appointed 3 June 2009
	B. Lebras (French)	-	Resigned 3 June 2009
	A. Kazongo	-	Appointed 3 June 2009
	R. Lumbasyo	-	Resigned 3 June 2009

SECRETARY

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

REGISTERED OFFICE

Kenya-Re Towers, Upper Hill
P. O. Box 10921 – 00100 GPO
Nairobi

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

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

Barclays Bank of Kenya Limited
Nkrumah Road Branch
P. O. Box 90182 - 80100
Mombasa

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

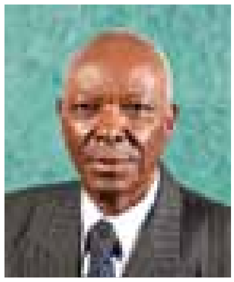
Citibank
Centre Court Nakasero
P. O. Box 7505
Kampala

Board of Directors

NON EXECUTIVE DIRECTORS

Richard Kemoli, 74 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 34 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.

Amb. Solomon Karanja, 73 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. Amb. Karanja is currently serving as the Kenyan Ambassador & Permanent Representative to UN Habitat and is the Chairman of the Kenya Medical Supplies Agencies. 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 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.

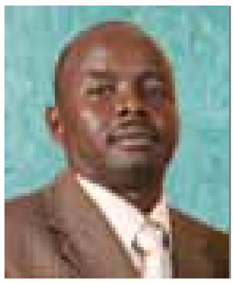


John Stull, 49 holds an Bachelor of Science Degree in Chemical Engineering from the University of Akron and a Business Management Degree from Harvard University. He is the Regional President, Sub-Saharan Africa. He joined Lafarge in 1992 as Operations Manager rising to Plant Manager, Alpena MI with overall responsibility of the largest cement plants in North America. In 1996, he was promoted to President, Manufacturing US Region, a position he held until 2000 when he was promoted to President Missouri Division, Ready-mix and Aggregates. Thereafter, John held numerous positions including Senior Vice President, Marketing and Supply Chain, Paris and Regional President, Latin America. He was appointed to the Board in June 2009.

Sheila M'Mbijjewe MBS, 52 is a Chartered Accountant ICAEW and a Certified Public Accountant. She is the Chairperson of the Audit Committee. 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.

Alex Kazongo, 45 is the Managing Trustee of the National Social Security Fund (NSSF). He holds a Bachelor of Commerce – Accounting Degree from the University of Nairobi and is a Member of the Institute of Certified Public Accountants of Kenya. Alex has a wealth of experience in investment and financial management from both the private and public sectors, having worked in senior positions at Kenya Ports Authority, Kenya Pipeline Company, Old Mutual, and Deloitte & Touche among others. He was appointed a director of the Company in June 2009 and is also a director in National Bank of Kenya, East African Portland Cement Company Ltd and Consolidated Bank.

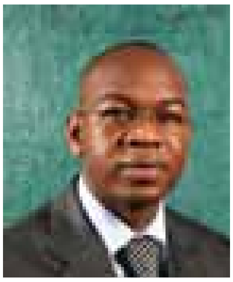
Chris C. Kisire, 43 is a holder of Bachelor of Commerce - Accounting Major and a Masters of Business & Administration degrees from the University of Nairobi. He also holds Certified Public Accountant of Kenya, CPA (K) and Certified Public Secretary of Kenya, CPS (K) qualifications. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has business experience spanning over eighteen 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.



Dominique Brugier, **51** is a graduate mechanical engineer from Ecole des Arts et Metiers, Paris. He joined Lafarge in 1991 as a Mechanical Expert. He has worked in Lafarge China beginning in 1995 as a Maintenance Manager and rising to Industrial Director in 2005. In 2009, he was promoted to the position of Director, Performance and Progress, East and West Sub-Saharan, Africa. Dominique was appointed a director of the Company in June 2009, bringing vast technical expertise to the Audit Committee.

EXECUTIVE DIRECTORS

Hussein Mansi, **43** 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 in 1989 as a Design Engineer Saudi Building Systems. In January 1999, he joined the Orascom Cement Division, which was acquired by Lafarge in 2007, in the Egyptian Cement Company as Works Director, Sales and Marketing rising to Commercial Director, Algeria Cement Company, a position he held until December 2009.



Joshua Oigara, **34** is a holder of the Bachelor of Commerce degree in Accounting from the University of Nairobi and a graduate of the Duke University Business School (Fuqua) Leadership Development Programme. He had worked in PricewaterhouseCoopers and Bidco Oil Refineries Limited before joining the Company in 2003. 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 has experience in commercial, performance improvement, IT management, business advisory and finance across various sectors in East Africa.

David Njoroge, **39** 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 appointed General Manager, Hima Cement Ltd and is also responsible for the Group's capacity increase projects in Uganda. He is also a director at the Nairobi Stock Exchange where he chairs the Finance and Manpower Committees.

SECRETARY

Betty Kanyagia, **35** is a graduate of the University of Nairobi, LLB, a Commissioner for Oath 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 Company Secretary 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.

Board of Directors

From left to right standing:
Joshua Oigara, Chris C. Kisire, David Njoroge, Hussein Mansi, Dominique Brugier, Amb. Solomon Karanja, Alex Kazongo

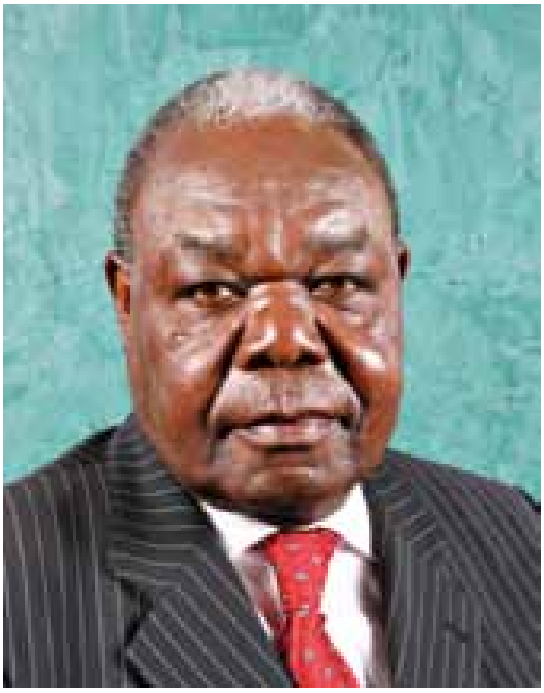
From left to right sitting
Betty Kanyangia, Richard Kemoli, John Stull, Sheila M'Mbijjewe

Management Team

From left to right standing:
Henri Nicot, Industrial Director; **David Njoroge,** General Manager, Hima Cement; **Tariq Iqbal,** Supply Chain Director;
Robert Nyangaya, Marketing Director; **Joshua Oigara,** Finance Director; **Susan Maingi,** Human Resource and Organisation Director

From left to right sitting
Vipul Agrawal, Sales Director; **Hussein Mansi,** Managing Director; **Job Oduor,** Projects Director

Chairman's Statement



Richard Kemoli - Chairman

"The Group emerged stronger despite the harsh effects of the global economic recession, prolonged drought, high energy prices and shift in market dynamics."

Businesses across the East Africa region faced wide-ranging challenges which outstretched them and shook investor confidence. In particular, the global economic meltdown resulting in reduction in domestic and external demands coupled with diminishing household savings slowed the housing boom witnessed since 2005. Furthermore, effects of higher costs of inputs specifically energy and persistent drought restrained economic growth. Inspite of all these, the Group delivered strong results in all business areas thanks to its operational effectiveness and enhanced resilience to external events.

Economic conditions

The global economic climate unfolded substantial declines in GDP and a massive fall in world trade and investments. The economic turmoil contributed to the significant decline in consumer wealth and economic activity worldwide. In East Africa, the recession negatively impacted on tourism and horticultural exports while the housing sector was affected by reduced diaspora remittances.

Despite this, the Kenyan economy continued its recovery from the 2008 post-election violence with real GDP expected to reach 2-3% compared to 1.7% in 2008. Headline inflation closed at 9.2% mainly due to escalating food and electricity prices resulting from the persistent drought. The shilling weakened against major hard currencies due to pressure on the balance of payments occasioned by constricted dollar inflows from declining exports, remittances from the Diaspora and tourism activity heightened by the country's magnified import bill. Interest rates fell in the fourth quarter with the 91-day Treasury-bill rate dipping below 7% in December 2009 for the first time in 18 months. The dry spell compelled a reallocation of government finances with diversion of development funds to food imports while there was rationing of water and electricity.

In Uganda, the economy successfully endured the shocks of the global economic downturn by returning a 6.3% growth in real GDP despite poor energy and transport infrastructure, portfolio outflows together with lower foreign investment. Headline inflation dropped to 10.9% mainly due to increased food supplies to the markets after most parts of the country received good rains. The shilling suffered large fluctuations in the wake of the global downturn in the first half of 2009 but appreciated by almost 20% in the second half of 2009 thanks to a weakening US dollar.

Regulatory framework

The industry continued to face the reduction of import duty on cement from 40% to 25% under the East African Community Common External Tariff (EAC CET). The reduction led to an influx of cheap cement imports from low cost and government subsidized cement producers from the far-east mainly India, China and Pakistan.

In June 2008, EAC removed the sensitive status accorded to the region's cement sector in the advent of the EAC Customs Union protocol in January 2005. Cement was classified as a sensitive product with a customs duty rate of 55% (25% CET and a 30% suspended duty) which was to reduce gradually by 5% annually, capping it at 30% by 2010.

The industry faced further threats from the Common Market for Eastern and Southern Africa (COMESA) push for 10% CET.

Cement Market and Competitive landscape

The cement market in East Africa grew by 13.5% to 6 million tons (MT) compared to 11% growth in 2008 *(East Africa Cement Producers Association, 2009)*. The growth was higher in the second half of the year indicating positive regional recovery from effects of the global recession. The Kenyan market grew by 14.3% to 2.7MT mainly due to increased government investment in infrastructure construction, rehabilitation activities and Constituency Development Fund (CDF) projects. In Uganda and Tanzania, the market grew by 9.5% to 1.3MT and by 6.5% to 1.8MT respectively. Rwanda and Burundi cement market grew by 43% to a combined supply of 0.25MT.

Competition in the regional cement industry grew due to increased cement grinding capacity and influx of imports. In Kenya, cement production capacity increased by 1MT to 4.7MT mainly due to effects of the Group's pozzolana drier installation and entry of a new competitor. In Uganda, an estimated 12,000 tons of cement was imported from Asia. The capacity increase projects by the two players will lead to increase of an estimated 1.2MT in 2010. In addition to a capacity increase of 0.5MT by one of the players, Tanzania's cement industry saw an increase of imports from 2% to 20% in 2009.

Cost Environment

During the year, the Group experienced significant cost pressure on electricity, fuel and inputs mainly due to inflation, prolonged drought, poor transport infrastructure and a depreciating shilling. Power across the region remained a major challenge due to poor supply quality and a 46% increase in cost from last year. In Kenya, this was worsened by outstretched electricity peak demand. In Uganda, power supply quality was expected to remain a challenge until the commissioning of the 250MW Bujagali hydro power plant, which is expected in 2011.

Costs were further negatively affected by volatility of fuel prices, unavailability of low sulphur petcoke in the fourth quarter and logistical challenges resulting from long delays at the ports and a frail rail transport infrastructure. Weak local shillings resulted in higher costs on key inputs and spare parts that had to be imported.

To mitigate the mounting cost push, the Group continues to undertake various sustainable cost optimization measures among them sharpening the performance of the Group's human resources through training as well as fuel substitution with alternative and low cost solid fuels.

Outlook

The Group will closely monitor the impending regulatory adjustments proposed by the regional trade blocs and the imminent threat of cement imports from subsidized sources. The Group anticipates government response to address business challenges across the region particularly in energy and transport infrastructure together with the implementation of solid economic growth policies and support structures.

While aware of the potential challenges ahead, the Group remains confident that the inherent strength of its business and well balanced brand portfolio complimented by a well equipped human talent pool will enhance the Group's resilience to ensure delivery of shareholder and stakeholder value during these hard times.

Tribute

I wish to thank my colleagues on the Board for their vision and input in the Board deliberations. I would also like to thank all employees for their relentless commitment that continued to yield exemplary results. I commend the Governments of East Africa and business partners whose appreciated support was the backbone of the Group's success. Finally, on behalf of the Board, Management and employees, I wish to pass the Group's sincere gratitude to all the shareholders for their continued confidence in the Group.

Richard Kemoli
Chairman

Awards and Recognitions in 2009

- **1st Runners up** – Company of the Year Award
- **Environment Improvement award** – Company of the Year Award
- **Africa Investor** – Best Socially Responsible Investor
- **Africa Investor** – Best CEO Socially Responsible Investor Company
- **Total Eco Challenge** – 2nd Runners Up
- **Fire Awards** – 2nd Runners Up – CSR Reporting Category
- **Hima Cement Employer of the year Award** - exceptional good practice in Occupational Health and Safety
- **Best Export Company** - Hima Cement

Managing Director's Statement

Hussein Mansi - Group Managing Director

''The group made tremendous progress in building sustainable shareholder value by realigning its operations for growth and cushioning itself from external shocks.''

The group reported a 30% growth in operating profit to Shs 7.7 billion for the year ended 31 December 2009. The strong financial and operational results clearly depict the group's resilience and determination to continuously improve operations and effectively execute its strategy.

Safety and health

Safety remains a key priority and the focal point to the group's performance. The Group's safety programme continues to yield positive results. During the year, we partnered with cement transporters in a campaign whose theme was "Epuka ajali" that targeted all road users in the region. The campaign, which was also strongly supported by the Police traffic department, involved educating the communities and other drivers at the various towns along the Kenyan and Ugandan highways on road safety. Furthermore, the group continues to focus on full enforcement of safety standards key among them Personal Protective Equipment, Working at Height and Mobile Equipment Advisory.

The public private partnership initiative on health with GTZ- (Deutshe Gesellschft fur Technische Zusammenarbeit - German Organization for Technical Cooperation), a first of its kind in East Africa reported good progress in its second year of operation. During the year, the programme covered sensitization of managers in the 32 contractor companies and training of 101 contractor peer educators on HIV/Aids, Malaria and Tuberculosis in a bid to encourage and sustain positive and appropriate healthy behaviour for the contractors and the surrounding community. Through various community health initiatives, 2,200 children received immunizations under the child welfare program and mothers educated on proper care of children. Furthermore, the group embarked on various sanitation and mobile VCT outreach programmes reaching more than 1,000 people.

Environment

The group continues to focus seriously on environmental protection through various rehabilitation and community partnership programmes. During the year, over 620,000 seedlings were planted through various projects representing a 22.5% growth over 2008. The green schools project which targets environmental responsibility in the youth successfully planted 58,500 seedlings while our biofuels plantations and rehabilitation projects managed 551,987 seedlings.

To foster strong community engagement, the group purchased most seedlings from community nurseries managed by 39 Community Based Organizations. Through training on nursery management, these communities have become suppliers for the group earning over Shs 2.5 million in seedlings revenue. The newly established plantations were maintained by neighbouring communities through the Shamba System, where neighbours are allowed to cultivate crops and in return tend to the young trees on seasonal cultivation contracts.

The group will continue to contribute towards Clean Development Mechanisms through various diversification and ecosystem development initiatives.

Innovation

A reflection of the groups' commitment to innovation is the achievement of sustainable product and process development over the years. During the year, the group launched PowerMAX, a first of its kind CEM II 42.5 in the region offering high strength, increased workability while reducing expansion and cracking of concrete. PowerMAX is a value added cement that combines excellent strength performance at all ages with versatility and enhanced durability benefits that offer the effective solution to the productivity demands of construction projects.

The group continues to dedicate significant resources to develop markets for new products. During the year, the group invested in new ready mix production software to enhance guaranteed quality to customers. Ready mix, launched in December 2008, is expected to change the face of the construction industry.
In a bid to reduce transaction costs and enhance convenience for customers, the

group launched M-Service, a customer care solution that provides customers with instant interactive information on account balances and loading status among other services through short message service (sms).

The group will continue to leverage on product and process development to position itself for sustainable growth.

Divestment

In order to create strategic synergy from its investments, the group successfully concluded the divestment from Athi River Mining Limited (ARM) in November 2009 through the Nairobi Stock Exchange. At the point of sale, the group held 13.96 million shares in ARM representing a 14.1% stake in the company. The group initially acquired the stake in March 2000 through a convertible loan of Shs180 million translating to approximately 19.1% ownership. The group continues to foster an amicable relationship with ARM alongside the other players within the industry.

Remarkably, through this divestment, the group strengthened its cash position giving it the opportunity to sustainably redeploy cash generated to offer a higher return to shareholders.

Operational and financial performance

The group achieved great performance in the backdrop of difficult local and regional operating conditions. Enhanced productivity occasioned by improved preventive maintenance practices resulted in a new clinker production record of 1.14 million tons (MT). Furthermore, the group continued to maintain consistent superior quality in cement production to meet customer demand.

Sales volumes grew by 1.6% in line with strong market recovery in the first half following the 2008 post election violence in Kenya coupled with increased government spending in infrastructure projects. Despite increased competition, the group's revenue grew by 9.2% to Shs 30 billion following an improvement to the distribution model. Direct costs grew faster than revenues at 10.3% to Shs 16.5 billion due to accelerating domestic inflation and cost of energy. The cost increases were partly cushioned by renegotiated transport rates, petcoke introduction and strict cost control initiatives started in 2008.

Arguably the most satisfying feature of our results was the high level of cash generation. The group generated Shs 10.7 billion in cash through various cash optimization initiatives and a successful strategic divestment during the year. The accelerated cash generation cycle benefitted from an enhanced loyalty-cash discount programme, renegotiation of supplier payment terms, capital expenditure rationalization and improvement in control over bulk material handling.

People

Human capital remains the most important asset in the group's achievement of strategic goals. The group continues to focus on sustainable performance culture through nurturing talent and building strong teams across the organization.
The group continues to invest heavily in staff capability and skill building initiatives. Through comprehensive tailor made training programmes, the group's employees successfully underwent 25,032 training hours in 2009. The Mombasa plant school continues to be the centre of technical training excellence across the Lafarge Sub Saharan region supporting over 8 countries.

The group continues to develop its talent pool while ensuring seamless succession for critical positions. Our graduate and young engineers trainee programs continues to build a platform for future business leadership while our apprenticeship programme is aimed at up skilling many talented students across the country. The group invested in pre-retirement training programmes across all sites to build capacity for our retiring population.

To reinforce employee pride and sense of shared purpose in group activities, the Lafarge group, the parent company of Bamburi group, successfully launched a new Employee Shareholder Plan during the year. Staff welfare remains a core objective of the group's human resource development. During the year, the first phase of the staff housing scheme dubbed 'Project Nyumbani' was completed while various programmes aimed at the extended relations to our employees were also completed.

Outlook for 2010

Despite the impending challenges, the group remains cautiously optimistic of the year ahead in the backdrop of cheap cement imports threat accentuated by changes in regulatory frameworks and uncertainty in normalization of power generation due to erratic rainfall cycles. However, there is good anticipation of governments' intervention to expedite economic stimulus policies to foster business opportunities and create conducive operating conditions for local industries.

The group is as determined as ever to ensure that our strategy is executed effectively to meet all our stakeholders' expectations. Sustainable growth remains key and measures to enhance profitability and cash generation while taking care of our people, communities and environment will take centre stage.
There is renewed focus to ensure timely commissioning of the capacity increase project at Kasese Plant, Uganda by mid 2010.

Appreciation

The group commends the board of directors, employees, customers, suppliers, distributors, transporters and other business partners for their invaluable support in the continued success of the organization over the years. The group continues to count on your support in days to come.

Hussein Mansi
Managing Director

Management's Discussion and Analysis of Financial Conditions and Results of Operation

Economic Highlights

Kenya's economy continued to show recovery from the aftershocks of the global economic downturn and post election violence in 2008. Gross domestic product is expected to grow marginally by approximately 2-3% compared to 1.7% in 2008 mainly due to partial growth in key sectors despite thin dollar inflows from declining exports and tourism activity heightened by the country's magnified import bill.

Overall inflation in the year averaged 9.2% mainly driven by escalating food and electricity prices resulting from the persistent drought. The shilling depreciated against major hard currencies edging below the Shs 80:USD barrier.

Uganda's economy displayed resilience in the backdrop of global economic downturn despite the local shilling suffering major swings against hard currencies mainly the USD. Headline inflation dropped to 10.9% taking benefit of increased food supplies to the markets after most parts of the country received good rains. GDP growth is estimated at 6.3% compared to 6.9% in 2008 mainly driven by a resilient agricultural sector. Power quality improved albeit marginally compared to 2008 due to contribution of the government's emergency thermal plants. The completion of the ongoing 250Mw Bujagali Hydro power project is expected to slightly ease the power supply constraints.

Sector Highlights

The cement sector across the region saw the entry of cheap imports from Middle East and Asia accentuated by import duty regime changes advocated by the East African Community. Hardest hit by duty regulatory amendments was Tanzania whose imports soared to 15-20%.

Similarly, Uganda witnessed growth of Pakistani imports. Cement consumption in the region was vibrant recording an estimated growth of 13.5% to 6 million tones mainly due to increased government development projects to rehabilitate public infrastructure.

The market outlook in the region remains positive on the back of ongoing and upcoming government and donor funded projects.

In Kenya, cement market grew by 14.3% to 2.7 million tons *(EACPA, 2009)* mainly due to increased government investment in infrastructure construction, rehabilitation activities and Constituency Development Fund (CDF) projects. However, public sector consumption was hampered by diversion of resources meant for developmental investment to address the negative socio-economic effects of the prolonged drought.

In Uganda, cement market grew by 9.5% to 1.3 million tons *(EACPA, 2009)* stimulated by privately financed construction projects and ongoing Bujagali hydro power project.

Segment Highlights

KENYA

Bamburi Cement Limited

During the year, the company's operating profit grew by 31.3% to Shs 6.4 billion (2008: Shs 4.9 billion) mainly driven by successful remodelling of distribution structure and stronger export volumes accentuated by weak shilling to the dollar.

The company also took benefit of lower renegotiated transport rates and lower consumption of imported clinker. However, the company experienced inflationary cost pressure on key inputs and escalating energy costs particularly power.

Sales

The company's total sales revenues increased by 7.4% to Shs 22.8 billion (2008: Shs 21.2 billion). Despite domestic volumes remaining flat at 1.5 million tonnes on the back of evolving competitive landscape, domestic revenues grew by 8.9% to Shs 16.9 billion (2008: Shs 15.5 billion). Export cement sales revenues rose by 26.3% to Shs 4.7 billion (2008: Shs 3.7 billion) mainly due to a 10% increase in sales volumes to 0.4 million tonnes occasioned by greater market demand in inland Africa and augmented by a weak shilling against the US dollar.

To cushion the company from a rapidly evolving competitive landscape and enhance competitiveness, the company introduced a dealer loyalty incentive scheme in early 2009. The scheme was structured to reward high performance driven distributors with a focus on cash improvement and customer loyalty. The scheme has improved the company's working capital position and is expected to contribute strongly to future sales volumes.

During the year, clinker sales volumes grew by 13% to 93Kt mainly due to increased local third party demand despite reduced clinker exports to Hima in Uganda on the back of improved clinker productivity.

Mombasa Plant

The plant completed the year with a good safety record without any lost time incidents attaining a significant milestone of 963 days without lost time incidents. The plant made significant strides to enhance safety practices by implementing various standards and advisories. Key among them is the Energy Isolation, Stockpile and Contractor Safety Management. During the year, the plant achieved a score of 79.4% in a Health and Safety cross-plant audit.

Activity at the Mbaraki terminal decreased mainly due to increased plant packing capacity and reduced clinker imports due to enhanced clinker productivity.

In quarter one of 2009, quarry operations were partly negated by spill over downtime of a drill rig arising from a catastrophic failure of a compressor at the end of 2008. However, the drill resumed normal operations in the second quarter following successful repairs.

Despite power quality challenges, clinker production increased over 2008 by 23% to 950kt, mainly due to comparative production loss in Q1 2008 ensuing 2007 fire incident repairs. Kiln reliability improved bolstered by plant mastery and preventive maintenance practices. As a response to the challenging cost environment during the year, the plant successfully introduced petcoke as alternative fuel to coal, the main fossil fuel, reaching a peak of 25% substitution. This initiative contributed positively to energy cost reduction.

Cement milling operations increased to 641Kt compared to 578Kt in 2008 due to increased demand and lower incident downtime. The plant successfully produced the newly launched PowerMax (Cem II 42.5) with seamless integration in the milling process.

The plant continued with efforts to revamp its fire protection systems. Fire projects started in 2009 included the pump house which was completed while installation of the pumps is ongoing. Other projects such as the fire water tank and the CO_2 inertisation system for Coal Mill, Silos and hoppers will be completed in 2010.

Nairobi Grinding Plant

Nairobi Grinding Plant attained three years without any lost time injury (LTI) and also marked two years and four months without a road fatality.

Furthermore, the plant achieved a score of 80% in the 2009 Health and Safety cross-plant audit. This marked the second time in a row for the site to achieve the highest score in Sub Saharan Africa Region.

Despite power quality challenges coupled with unprecedented changes in the competitive landscape, cement output remained relatively flat at 1.3 million tonnes. The plant recorded better grinding reliability mainly attributed to improved milling conditions accentuated by enhanced preventive maintenance practices. Furthermore, the plant cushioned the business from escalating manufacturing costs through relentless containment of fixed costs.

During the year, the Pozzolana Drier Project was completed and the commissioning phase started. The drier is expected to bolster the plant's cement grinding position. The fire protection project was also initiated with upgrade of the fire hydrants and sprinkler system expected to be complete in 2010.

Cost environment

Total variable costs rose by 14% mainly due to cost pressures particularly in power, fuel and key production inputs partly cushioned by reduced transport rates and lower use of imported clinker. The production fixed costs remained flat mainly due to benefit of cost reduction initiatives. Maintenance costs were comparatively lower than prior year mainly due to fire repairs in 2008 and enhanced preventive maintenance practices.

Bamburi Special Products

During the year, the company's revenues grew by 31.5% to Shs 526 million mainly attributed to resilient pre-cast volumes, improved laying and distribution revenue streams and maiden ready mix concrete volumes. Despite the strong top line performance, profit after tax slid -23% to Shs 10 million (2008: Shs 13 million) mainly due to slow take-off of ready mix associated costs coupled with significant cost pressure on power, key inputs and spare parts.

Sales

Following the launch of Ready Mix Concrete in December 2008, the company managed to dispatch 9,766m^3. Despite lower than projected volumes due to delayed initialization of construction projects, ready mix concrete continues to be received well in the market for its convenience and quality. Pre-cast volumes which include paving blocks and road channels grew by 3% to 517,351 m^2 (2008: 506,856 m^2).

Industrial Operations

The company's commitment to the safety of its employees and contractors continues to yield positive results with 894 days without any lost time injury being attained.

During the year, production grew by 3% over 2008 while overall production costs grew by 40.4% exacerbated by inflationary pressure on key raw materials, higher maintenance costs and escalating power prices. Ready mix associated operating expenses key among them leasing and insurance of new truck mixers partly negated net margins.

In a bid to solidify consistent product quality, the company invested in a state of the art BCMix and Eurotech ready mix concrete production software with enhanced residual error margin in batching. In response to the anticipated growth in demand, the company has put in place measures to boost its distribution and pumping capacity.

Lafarge Eco-Systems Limited

Lafarge Eco Systems Ltd is mandated to manage all mining reserve land and rehabilitate the exhausted quarries as well as sustainably utilize the rehabilitated areas.

The company's profit before tax rose by 46.1% to Shs. 19.9 million mainly due to strong revenue growth and successful cost containment initiatives. Revenues grew by 10.8% to Shs 154 million bolstered by improved domestic tourism and revenue diversification initiatives.

Operations

During the year, the Haller Park and forest trails, attracted 164,186 visitors (2008: 153,000) depicting strong recovery of domestic tourism from the adverse effects of the post election crisis in the first quarter of 2008. An increase in demand for various park events and functions such as weddings, company parties and product launches was witnessed.

The subsidiary progressed well in securing the group's mining reserve land by planting 518,000 biofuel seedlings in Vipingo and Diani (2008: 353,000 seedlings). The conservation efforts continue to elicit support from local communities who provide seedlings to the company. During the year, 39 community based organizations supplied 219,000 seedlings to the company compared to 130,000 seedlings produced by 24 local community groups in 2008.

Despite low yields in 2009 occasioned by insufficient rain, tree growth was greatly enhanced through well maintained plots and diversification to more drought resistant tree species to complement Casuarina, which is drought sensitive.

The company is also in the process of relocating its indigenous tree nursery from South Quarry to the trails leading to the active quarry viewing site edge to showcase the botanical side of quarry rehabilitation, ecosystem development and biodiversity conservation while appreciating cement production.

UGANDA

Hima Cement Limited

The company's operating profit grew by 55% to Shs. 1.6 billion mainly due to better selling prices, re-organization of distribution operations coupled with improved clinker productivity at Kasese plant reducing dependency on imported clinker for cement production.

Sales

The company's turnover increased by 21% to Shs 10 billion. Export sales revenues grew by 32% to Shs 4.7 billion mainly due to an 11% growth in export sales volumes to 0.28 million metric tonnes on the back of improved demand in key inland Africa markets. Domestic cement sales revenues rose by 13% to Shs 5.3 billion mainly due to distribution structure re-organization partly negated by aggressive competitive landscape and imports from the Far East.

To cushion the company from a rapidly evolving competitive landscape and enhance competitiveness, the company introduced a dealer loyalty incentive scheme. The scheme was structured to reward high performing distributors with a focus on cash improvement and customer loyalty. The scheme has improved the company's working capital position and is expected to contribute strongly to future sales volumes.

Industrial Operations

The plant recorded improved operations, with better clinker output and improved kiln reliability despite sustained power supply and quality challenges. Clinker production rose by 6% over 2008 to 192Kt while Cement output dropped by 4% to 339Kt as a result of erratic power supply and quality exacerbated by decline in domestic sales dispatches.

The Dura quarry, which is expected to significantly increase the mining reserves, was re-opened and mining commenced in February 2009. The introduction of dura limestone will go along way in improving raw meal quality with the consequent effect of improving clinker production.

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 mid 2010.

Part of you. From the start.

Overview

Bamburi Cement Limited and its subsidiaries strive to the highest standards of business integrity, ethical values and professionalism. The Group subscribes to the principle: corporate governance rules, both legislated and internal, structure the way in which a company conducts its operations and that good governance will contribute to better company performance while facilitating efficient, effective and entrepreneurial management to deliver shareholder value in the long term.

The Group believes that reputation is critical for commercial success and ensures that the Company's reputation is enhanced by behaviours of which the Group is proud including discipline, independence, responsibility, fairness, social responsibility, transparency and accountability to all stakeholders.

Separation of Responsibilities

The roles and responsibilities of the Board of Directors and those of the Management are clearly set out.

The Board of Directors take overall responsibility for the Company. It exercises leadership and sound judgement in directing the Company to achieve sustainable growth and acts in the best interests of the shareholders. The Company has a schedule of matters that are reserved for the Board of Directors.

Further, roles of the Chair and the Group Managing Director are separate in line with best practise.

THE BOARD OF DIRECTORS

The composition of the board is set with the aim of having a board with an appropriate balance of skills and experience to support the Company's strategy and meet the requirements to lead the Company effectively.

The board membership includes ten directors, of which seven are non-executive directors. The position of Chair is held by an independent non-executive director. The non-executive directors are experienced and knowledgeable individuals from a range of industries and backgrounds. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its committees, ensuring that matters are fully debated and no individual or group dominates the Board's decision making process. They are responsible for bringing independent judgement to the Board, constructively challenging the strategy proposed by the Management, scrutinising and challenging performance across the Company's businesses while assessing risk and the integrity of the financial information and controls.

The executive directors are responsible for proposing strategy and implementing operational decisions while the non-executive directors complement the skill and experience of executive directors, bringing independent judgement.

To ensure the effective functioning of the board, board papers are distributed two weeks prior to each meeting and all directors have unlimited access to Company employees, officers, information and records.

The Board is required to have at least four meetings and any additional meetings can be called as deemed necessary. In the year under review, the Board had four meetings and the attendance is as indicated on page 22.

Chair

The Chair is responsible for the operation, leadership and governance of the Board, ensuring the Board is efficient, focused and operates as a unit. He is the facilitator at board and shareholder meetings ensuring flow of opinions and leading discussions to ensure robust and constructive challenge and debate among those present.

The Chair represents the Board in external communications in consultation with the Group Managing Director and is available for consultation with shareholders throughout the year.

Group Managing Director

The Group Managing Director is responsible for the day to day management of the Company including implementation of polices and strategy.

Board authority delegated to Management is delegated through the Group Managing Director, who is supported in this role by the Executive Committee.

Company Secretary

The Company Secretary provides the Board as a whole and directors individually, with detailed guidance on the discharge of their duties in terms of legislation and regulatory requirements of the relevant jurisdictions. The Company Secretary is the central source of information and advice to the Board and within the Company on matters of good governance and business ethics ensuring that the proceedings and affairs of the Board, the Company itself and its shareholders are properly administered.

The Company Secretary is also secretary to the Audit and Nomination & Corporate Governance Committees.

Corporate Governance

Board Meeting Attendance

Name of Director	Category	26 February	3 June	31 August	24 November
R. Kemoli	Non-executive	√	√	√	√
J.C. Hillenmeyer	Non-executive	x	x	n/a	n/a
C. Kisire	Non-executive	√	√	√	√
S. M'Mbijjewe	Non-executive	√	√	√	√
R. Lumbasyo	Non-executive	x	x	n/a	n/a
A. Kazongo	Non-executive	n/a	n/a	√	√
S. Karanja	Non-executive	√	√	√	√
H. Mansi	Executive	√	√	√	√
J. Stull	Non-executive	n/a	n/a	√	√
D. Brugier	Non-executive	n/a	n/a	√	√
B. Le Bras	Non-executive	√	x	n/a	n/a
D. Njoroge	Executive	√	√	√	√
J. Oigara	Executive	√	x	√	√

Board Training

To ensure that the Board remains up to date on new legislation, best practise, changing risks together with the ever changing business environment, all directors are provided with the opportunity and encouraged to attending training.

In the year under review, the members of the Audit Committee underwent training on the roles, responsibilities and potential risks of audit committee members while the entire Board made a visit to Cairo where they visited a cement plant there to understand the different business environment and market.

BOARD COMMITTEES

The Board governs through clearly mandated committees enhanced by monitoring and reporting systems. Each committee has terms of reference approved by the Board and the Chair of each committee are required to report on their proceedings at the board meeting immediately following the committee meeting.

The committees have the power to make recommendations to the Board but have no power to make decisions on behalf of the Board.

Audit Committee

In 2009, the Audit Committee Charter was reviewed in light of the changing business environment and the need to strengthen the Committee. The responsibilities of the Committee include review of financial results to ensure relevance and confirm the quality and acceptability of the accounting methods adopted, considering the appointment and/or termination of external auditors, their fees, independence and objectivity together with ensuring existence of anti fraud procedures.

In compliance with corporate governance standards, the Committee consists entirely of independent non executive directors. The internal audit department reports directly to the Audit Committee.

The Group Internal Audit Manager attends all Board Audit Committee meetings, while the internal and external auditors only attend when necessary. The Group Managing Director and Group Finance Director attend by invitation.

The Committee is required to meet at least four times a year, normally one day prior to the Board meetings and additional meetings may be called if deemed necessary.

Audit Committee Meetings Attendance:

Name of Directors	25 Feb	24 April	1 June	30 August	22 Nov
J.C. Hillenmeyer	x	x	x	n/a	n/a
S. M'Mbijjewe	√	√	√	√	√
C. Kisire	√	√	√	√	√
R. Lumbasyo	x	x	x	n/a	n/a
A. Kazongo	n/a	n/a	n/a	√	√
D. Brugier	n/a	n/a	n/a	√	√
Auditors					
S. Kibirige	√	√	√	√	√
PricewaterhouseCoopers	n/a	n/a	√	n/a	n/a
Deloitte & Touche	√	n/a	n/a	n/a	n/a

Nomination and Corporate Governance Committee

This committee comprises of three non-executive directors. It considers the composition of the Board and its committees, the retirement, appointment and replacement of directors making suitable recommendations to the Board together with the continuous evaluation of the balance of skills, knowledge and experience of the Board.

During the year under review, the committee noted a gap on operational and technical skills as a result of which Dominique Brugier was appointed to the Committee.

This committee reviews corporate governance trends providing the Board with elements of comparison and benchmarking to current market practises. The committee is required to meet at least twice a year while other meetings may be scheduled where necessary.

Executive Committee

The Executive Committee (ExCom) comprises of the Group Managing Director, General Manager – Hima, Finance Director, Human Resources & Organization Director, Industrial Director, Marketing Director, Projects Director – Kenya, Sales Director and Supply Chain Director.

The ExCom is responsible for the operational activities of the Company, developing strategy and policy proposal for consideration by the Board together with implementation of Board directives.

The ExCom has specific responsibility for the risk management system reviewing the significant risks and subsequently reports to the Board, through the Audit Committee, on material changes and associated mitigating actions.

Responsibility and authority are delegated by the Group Managing Director to individual members of the ExCom who are accountable to the Group Managing Director for the performance of their departments. The ExCom is required to meet at least twice a month while additional meetings may be scheduled where necessary.

CONTROL ENVIRONMENT ASSESSMENT

Risk Management

Recognising that effective risk management is integral to the Company objectives, Management is continuously developing and enhancing its risk and control procedures to improve the mechanisms for risk identification, evaluation, monitoring and management. Identified risks and risk management are subject to regular review to ensure compliance with internal controls and legislation.

The risk management system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and there is an ongoing process in place for identifying, assessing, managing, monitoring and reporting the significant risks faces by the individual companies and the Group as a whole.

Internal Controls

Internal controls comprise of methods and procedures adopted by Management to provide reasonable assurance in safeguarding assets, prevention and detection of error, accuracy and completeness of accounting records together with reliability of financial statements. The Company has documented its processes as business process flow charts and narratives. The Internal Audit Department performs independent evaluations of the adequacy and effectiveness of the controls, financial reporting mechanisms and records, information systems while providing additional assurance in safeguarding assets and financial information. These controls can only provide reasonable, not absolute, assurance against material misstatement or loss.

CODE OF CONDUCT

All employees are required to maintain the highest ethical standards in ensuring the Company's business practises are conducted in a manner which, in all reasonable circumstances, is above reproach. To this end, the Group has a Code of Business Conduct to which all employees must adhere, with regular training and education, including e-learning, undertaken to ensure compliance.

The Group has developed a procedure that specifies the manner in which any potential violations of the Code of Business Conduct should be handled together with the method and level of investigation. The procedure also establishes a whistle blowing hotline that is independently operated to enable employees make confidential disclosures of suspected breaches.

The Code of Business Conduct is enforced with appropriate discipline in consistent basis and action taken to prevent recurrence of breach.

COMMUNICATION

The Group subscribes to the principles of objective, honest, prompt, balanced, relevant and clear communication of its strategy and activities. To this end, the Group continues to promote dialogue with shareholders, media and investors. Shareholders are encouraged to attend the Annual General Meeting, which provides the shareholders with the opportunity to question the Board.

The Group holds formal presentation of financial results with press releases in the media and posted on the corporate website www.bamburicement.com as soon as possible after the release of the results.

The combination of effects of the Global Financial Crisis, the 2008 post-election violence and the prolonged drought and crop failure negatively affected the region's economic, social and environmental position making it an extremely difficult year for communities and businesses.

In line with the Group's Vision, which is has special emphasis on dedication to the communities where we operate in, we redoubled rather than reduce our commitments towards supporting the wellbeing many individuals, communities and the region's economies as a whole.

We remain focussed on playing our role in the realization of better, more prosperous communities in the regions – supported with access to good educational, health and sanitation facilities as well as fostering environmental sustainability.

Safety Performance

In 2009, we achieved significant improvements in safety performance (Total Injury Frequency Rate of 0.74% in Kenya for 1.3M employee hours worked and 1.37% in Uganda for 0.7M hours worked). Our aim is to attain and maintain Zero fatalities in Group operations throughout the region.

Road Safety

Road safety continued to present the most significant challenges even as the Group maintained a general drop in incidents over the three-year period ending December 2009. The good performance of the road safety can largely be attributed to numerous safety programmes initiated in partnership with our stakeholders in the transport sector and driven by the following elements:

Transport Owner Commitment
The prevailing good relationship with our transporters has significantly helped in producing valuable results in our regular engagements with them. The Group safety team carries out monthly visits to the transporters sites to strengthen relationships with transport owners while audit visits (to check for compliance) are carried out once every year.

Defensive Driving Training
Basic and refresher defensive driving sessions have played a key role in modelling our drivers and in streamlining their conduct on the road. The driver has to attain a 70% pass mark in the two pronged training (Practical and theory) to be allowed to carry our product.

Global Positioning System (GPS) installation
The Group has successfully implemented a strict GPS regulation that requires that all trucks carrying our products to have GPS equipment.

By December 2009 we had achieved 100% GPS installation on all trucks. The GPS is already providing crucial information on how the trucks are handles from the time they are loaded at the plant to the time the products are delivered at their destination.

The system supports online and real-time tracking and has proven invaluable in decision making on regarding driver coaching requirements, hiring, and traffic rule violations which include. As a result, traffic violations per day have come down from an average of 80 to 2.

Journey Planning and Checkpoints
One key learning from previous accidents is that when left to plan their own journeys, many drivers will use every tactic – including speeding – to help shorten the length of time taken to complete their journey.

With the implementation of the Journey Planning regulation, which binds drivers to a detailed sector-by-sector plan from point of loading to point of discharge, there has been a significant improvement of safety on the roads. The regulation enforced through checkpoints along the route. In addition, drivers are required to take a 15-minute rest after every two hours of continuous driving.

Road Safety Campaign
In December 2009, we launched a road safety campaign themed "Epuka Ajali" (avoid accidents), in partnership with our transporters, Transports Ministries and the Police departments in Kenya and Uganda. The campaign involved running of three different safety trains (a convoy of trucks branded with campaign messages) which originated from Mombasa, Nairobi and Kampala cities.

The campaign has been exceptionally effective and is now being replicated at other Lafarge Business units as a best practice.

Corporate Social Responsibility

Industrial Safety

For 2009 we made advancement in our sites and amplified our safety maturity level in each site through the remarkable improvement in the cross plant audits results. This success was contributed by each person working on the sites.

Some of the key drivers of success in 2009:

Implementation of Group Advisories

We successful completed the implementation of the Group Advisories, namely: the Lock Out, Tag Out and Try Out, Conveyor Belt and Stockpile. Involvement of the site managers and supervisors in the deployment resulted into a thorough analysis of all existing gaps and a full implementation of the same. We sustained compliance of standards implemented in 2008.

Leadership Involvement

In June 2009 the Group introduced a tool, Visible Felt Leadership (VFL). The VFL tool went a long way in enhancing the visibility of Group leadership onsite, engaging employees and contractors on safety issues, as a testimony of the seriousness of safety issues within the Group.

Training

Over the years, we have entrenched a routine of communicating safety related messages at regular awareness forums at every site. The one-hour training session, which also involves all Executive Committee members and senior managers, is conducted at every site each month.

Finally, our improvements prove that a superior level of performance is achievable. Our ambition to have zero accident, zero occupational health illnesses and be amongst the safest companies worldwide remains our number one priority in 2010.

CSR Initiatives

Cement for Schools 2009

Following the 2008 post election violence that saw 118 schools in the country partially destroyed or completely burnt down, thousands of school going children found themselves exposed to harsh learning conditions.

In line with the Group's commitment to facilitating secure and humane learning environments and in response to the emergency assistance request by the Government of Kenya, the Group joined hands with the Ministry of Education to launch the Cement for Schools (CfS) programme to support the reconstruction of which were severely damaged.

We pledged cement valued at Shs 14 Million, while the Ministry of Education is providing the necessary required logistical support.

The project is currently underway, with the initial rehabilitation phase currently focused on assisting schools that were directly affected by post elections violence. So far, sixty schools have received part of the cement we pledged.

A second phase will broaden the scope to cover any other schools facing challenges with constructing or restoring vital learning facilities.

The Group remains confident that through the Cement for Schools programme many of the affected school children will get a second chance undergo learning in the right kind of environment.

Disaster response

Following the prolonged drought during 2008 and 2009, Mutomo District was is one of the regions identified by the Kenya Red Cross Society (KRCS) as the most affected drought in 2009. An appeal sent out by KRCS in January 2009 indicated that nearly 3 million Kenyans faced starvation unless steps were to mitigate the same.

In response to this appeal, the group donated food Shs 1 million which was delivered by a team from Bamburi together with KRCS officials. About 3,500 families of Mutumo benefited from the donation.

The donation to Mutomo District was part of a Shs 5 million kitty that the Group set aside for supporting families affected by drought.

Malaria Project – Hima

During 2009, one of the most significant initiatives towards enhancing community health was the Hima Malaria project. The Group funded a USD 250,000 project, in conjunction with the Hima Town Council, to help significantly reduce the Malaria burden within the Hima Community by 50% within two years of project implementation.

The Hima Malaria project was executed through a multi-pronged approach which included: Community mobilization; Health Education; Distribution of Insecticide Treated Nets (ITNs); indoor residual spraying of insecticide; Malaria control in pregnancy, and; improved access to diagnosis and other recommended treatments

At least 28,000 residents of Hima town in Uganda, all within a radius of approximately 5 to 10 kilometers from the Hima plant, will benefit from the project.

Schools Projects in Uganda

In July, we signed an MoU with SNV Netherlands Development Organisation to enhance our collaboration in popularising physical education and sports in 15 primary schools in Kamwenge District as well as to improve hygiene and sanitation at Kanara Primary School in Kamwenge District.

Some of the activities that we commenced under the partnership, included: the construction of a 12-stance ecosan toilet at Kanara Primary School; the provision of schools with netballs, football and volleyball; the engagement of some 5 primary schools in Hima Town Council and 4 primary schools along Kamwenge – Dura road in writing competition around the subject, "improving safety within the community", during the June Safety Month.

In addition, through the Greenschools project, we provided 33,000 tree seedlings to schools and a further 5,000 to Mubende Rehabilitation Center.

We also donated 344 three-seater desks, 21 teachers' tables, 21 office chairs and 80 nursery kids chairs to six schools under the Green Schools Project. The beneficiary schools were: Rugonjo Moslem Primary School, St. Jude Rwemirama Primary School, Nyabbani Secondary School, Bisozi Primary School, Ngoma Primary School and Tiger Nursery School.

Biofuel project

In 2009 518,000 biofuel seedlings were planted. Of those 219,000 seedlings were bought from community nurseries. 39 Community Based Organizations (CBOs) have been trained on nursery management. As a result, these CBOs have become suppliers for Bamburi Cement, earning their communities Shs 2.5 million in revenue from the seedlings in 2009. CBOs are also increasingly being engaged in plantation maintenance outside the cultivation season, at a fee. In addition, new tree plantations were maintained by neighbouring communities through the Shamba System arrangement, where neighbours are allowed to cultivate crops between the young trees on seasonal cultivation contracts. In return they tend to the young trees. Despite challenges of access control and safety, the scheme has been very successful.

During 2010, another 150ha will be planted, diversifying species to include more drought resistant tree species to replace Casuarina, which is proving to be too drought sensitive for the land available.

Quarry Rehabilitation

The process of rehabilitating some 14 ha of open quarry at Bamburi started in 2009. Of these, 12 ha was planted with Casuarinas as pioneer tree while the remaining 2 ha, mainly slope, was grassed.

Separately, 40 ha of earlier established pioneer plantations have been pruned and thinned, and many old fallen trees have been cleared and sold.

The indigenous tree nursery in South Quarry is being relocated to a more suitable site, and will be included into the visitors' trails to showcase the botanical side of rehabilitation, ecosystem development and biodiversity conservation. The new nursery site links into the route to the Viewing Site at the edge of the active South Quarry, where visitors can appreciate Haller Park in the context of cement production and quarry rehabilitation.

Sustainability ambitions for Lafarge

The Lafarge's Sustainability Ambitions are clear, measurable and ambitious objectives that the Group is committed to achieving by 2012. The ambitions are meant to drive the Group's attainment of industry leadership while building it up as a company with an exemplary record for environmental protection, social responsibility and corporate governance.

The ambitions are a result of a review and in-depth dialogue with stakeholders and Lafarge's management team, leading to the definition of the major issues for the Group: the areas where it has a real impact and those where Lafarge can positively influence the industry. Bamburi Cement's Corporate Social Responsibility(CSR) pillars are guided by the Lafarge Sustainability Ambitions (see table below) and partake in the groups annual audited CSR reports.

The most notable achievement for the Lafarge group in 2009, was a significant breakthrough in reducing our carbon footprint by exceeding the CO_2 emissions reduction target one year in advance. Lafarge is following a voluntary approach on a global scale.

For ten years, the Group has been publicly committed to reducing its global net emissions per tonne of cement by 20% between 1990 and 2010 at the end of 2009, the Group had reduced its emissions by 20.7% (Figure verified by Ernst and Young) thanks to the mobilization of operating units in three areas:

- The improvement of energy efficiency through mastered production processes
- The substitution of fossil fuels by alternative energy sources, such as biomass or industrial waste
- The development of new ranges of products meeting market requirements, using additives and recovering by-products from other industries.

In 2009 and for the fifth year in a row, Lafarge was listed in the 'Global 100 Most Sustainable Corporations in the World'.

Management	▪ **Safety:** halve the lost time injury frequency rate, with the objective of zero fatalities ▪ **Fair competition:** test all main business units for compliance with the competition policy established by Lafarge several years ago ▪ **Local communities:** establish training on local stakeholder relationship management for all operational heads, to embed best practice across the Group ▪ **Customer satisfaction:** carry out an annual customer satisfaction survey and implement the OTIFIC programme (On Time, In Full, Invoiced Correctly) in all major business units. Develop new products, with a target of Euro 1billion in annual sales.
Social	▪ **Women:** double the proportion of women in senior management positions ▪ **Employee skills:** introduce reporting on training at business unit level ▪ **Health:** develop a comprehensive healthcare programme for all employees, to include as a minimum regular medical examinations ▪ **HIV / AIDS and Malaria:** extend the AIDS and malaria prevention programmes for workers and their families developed in Africa to the other developing countries where Lafarge operates
Environmental	▪ **Environmental audits:** carry out an environmental audit at least every four years on each of the Group's 2,000 site ▪ **Quarry rehabilitation:** reach a rate of 85% of Lafarge's quarries with a rehabilitation plan in conformity with the methodology developed with WWF ▪ **Biodiversity:** screen all quarries using criteria validated by WWF International and develop a site biodiversity program for those with realisable potential ▪ **CO_2 emissions:** reduce net CO_2 emissions per tonne of cement by 20% between 1990 and 2010 ▪ **Other emissions:** targets to reduce dust (-30%), NOx (-20%) and SOx (-20%) emissions.

Stakeholder relations

In Kenya and Uganda, the most remarkable achievement has been in institutionalizing the way we manage stakeholder relations. Following a top management training held in Kampala in February 2009 by the Lafarge Groups Vice Presidents for Stakeholder Relations and Environment, a clear and structured approach was adopted at all our sites for engaging stakeholders. During 2009 we held a total of 99 formal stakeholders meetings.

The process includes formulation and training of stakeholder committees, annual stakeholder mapping exercises and finally execution of annual stakeholder communication and engagement plans. This cycle has ensured that we are up to date with all issues affecting our neighbours as well as understanding the impact of our operations in the areas we operate – and ensuring that all issues are addressed. In the next page is a chart outlining our stakeholder relation interactions for 2009 at various sites.

The program has been fully implemented in Mombasa and Nairobi grinding plant sites while in Uganda the framework will be completed in 2010.

Stakeholder engagement in Kamwenge

In March 2009, we set up an Internal Stakeholder Committee to address numerous emerging communication issues within Kamwenge District in Uganda on matters related to the Dura quarry. This was followed by a number of communication initiatives, which included: regular meetings with the local community representatives; safety sensitization activities for school communities and for public service vehicle drivers especially those operating in trading centres along the haulage route from Dura quarry.

In the ensuing series of stakeholder meetings, we were able to successfully tackle most of the contentious issues with the local communities. In addition, we gave an update on other community social initiatives that Hima has undertaken, including: the construction of classrooms, completion of the community health centre, tree planting project, building of sanitation blocks, donation of school furniture and supporting women's groups by donation of grain mills.

Meeting Type	Location						
	Kisauni	Vipingo	Diani	Mbaraki	Kathiani	Mutomo	Kasese
Quarterly Stakeholders Committee Meeting	4	3	3	N/A	4	3	N/A
Broad Consultative Forum	2	2	2	N/A	0	3	N/A
Courtesy calls to local officials	6	4	3	2	3	3	4
Meeting with Area MP or other leaders	2	2	0	N/A	4	4	4
Meeting with employees living around the factory	2	N/A	N/A	N/A	1	N/A	4
Local community events e.g. sports or cultural days	2	2	2	N/A	2	1	2
Plant visits by community representatives	2	2	N/A	2	4	N/A	4
Totals per site	**20**	**15**	**10**	**4**	**18**	**14**	**18**

Sponsorships

Bamburi Rugby Super Series

Support for the Group's flagship sponsorship activity, the annual Bamburi Rugby Super Series (BRSS) continued for the sixth consecutive year. The Group maintained the sponsorship at Shs. 9 Million, similar to the year 2008 sponsorship package.

Since we took over title sponsorship of this fifteen-a-side rugby tournament, we have seen it grow both in size and stature. The month-long rugby tournament is continues to attract thousands of local rugby enthusiasts and millions more worldwide who are able to catch up with the action through the live DSTV broadcast which commenced in 2009.

In addition, the key attributes of the rugby game which include Strength, Endurance and Resilience go hand-in-hand with the attributes of our products – making the sponsorship even more appealing.

The eight-year-old tournament which is run by The Kenya Rugby Football Union (KRFU), with participation from the Uganda Rugby Union and Tanzania Rugby Union also allows the respective unions to select their national fifteens teams. The sponsorship has therefore given us the opportunity to contribute to development of Rugby in the region.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 59th Annual General Meeting of the Shareholders of Bamburi Cement Limited will be held in Mombasa at the Nyali International Beach Hotel on Thursday 10 June 2010 at 2.00 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 2009.

4. To declare dividends:

   a) To ratify the payment of interim dividend of Shs 1.50/= per ordinary share paid in October 2009;

   b) To ratify the payment of a special dividend of Shs 4.00/= per ordinary share paid in April 2010;

   c) To declare a final dividend payment of Shs 5.50/= per ordinary share for the year ended 31 December 2009.

5. To approve Directors' fees for 2009 and increase Directors' fees in 2010.

6. To re-elect directors:

   a) In accordance with the Company's Articles of Association C. Kisire and S. M'Mbijjewe 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. Stull, A. Kazongo and D. Brugier, who were appointed directors on 4 June 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 2010.

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

By order of the Board

B. Kanyagia
Secretary
30 April 2010

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 2009

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Bamburi
cement

REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting their report together with the audited financial statements for the year ended 31 December 2009.

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	9,596
Taxation charge	(2,626)
Group profit for the year	**6,970**
Attributable to:	
Equity holders of Bamburi Cement Limited	6,649
Non - controlling interest	321
	6,970

DIVIDENDS

During the year, an interim dividend amounting to Shs 544 million (2008 – Shs 1,161 million) which amounts to Shs 1.50 per share (2008 – Shs 3.20 per share) was paid. The Directors recommend that a final dividend of Shs 5.50 (2008 – Shs 2.80) per share equivalent to a total sum of Shs 1,997 million (2008 – Shs 1,017 million) be paid to shareholders. The Directors further recommend a special interim dividend of Shs 4.00 (2008 - Nil) per ordinary share equivalent to a total sum of Shs 1,452 million arising from the divestment from Athi River Mining Ltd. The final dividend is subject to approval by the shareholders at the next Annual General Meeting.

DIRECTORS

The present Board of Directors is shown on page 6.

AUDITORS

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

BY ORDER OF THE BOARD

B. Kanyagia
Secretary
Nairobi
25 February 2010

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
25 February 2010

Hussein Mansi
Director

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 38 to 84 which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income , consolidated and company statements of changes in equity and consolidated statement of cash flows 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 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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

iii) the company's statement of financial position is in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)
25 February 2010
Nairobi

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 Shs'million	2008 Shs'million
Revenue		29,994	27,467
Direct Costs	4	(16,447)	(14,915)
Gross Profit		13,547	12,552
Investment income	5	103	42
Other gains and losses	6	1,557	(39)
Distribution costs		(857)	(1,895)
Staff costs	7	(2,233)	(2,205)
Other operating costs	8	(2,725)	(2,491)
Finance costs	9	(14)	(74)
Insurance claim	23(c)	218	(1,001)
Profit before taxation	10	9,596	4,889
Taxation charge	11	(2,626)	(1,477)
Profit for the year	12	6,970	3,412
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		67	158
Net gain/(loss) on revaluation of available for sale financial assets	20(b)	60	(700)
Cumulative gain reclassified from equity on disposal of available for sale investments	20(c)	(1,197)	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		(1,070)	(542)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,900	2,870
Profit attributable to:			
Equity holders of the parent		6,649	3,187
Non-controlling interests		321	225
		6,970	**3,412**
Total comprehensive income attributable to:			
Equity holders of the parent		5,562	2,610
Non-controlling interests		338	260
		5,900	**2,870**
Earnings per share – basic and diluted	13	Shs 18.32	Shs 8.78
Dividends per share	14(c)	Shs 11.00	Shs 6.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 Shs'million	2008 Shs'million
ASSETS			
Non current assets			
Property, plant and equipment	15(a)	11,847	10,267
Prepaid operating lease rentals	16	9	9
Intangible assets	17	101	23
Capital work in progress	18	6,259	5,477
Other equity investments	20	906	2,186
Goodwill	21	217	217
		19,339	**18,179**
Current assets			
Corporate tax recoverable	11(c)	9	403
Inventories	22	4,338	5,001
Trade and other receivables	23(a)	1,999	2,814
Bank and cash balances	24(a)	6,427	1,818
		12,773	**10,036**
TOTAL ASSETS		**32,112**	**28,215**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	1,815	1,815
Revaluation surplus	26(a)	2,249	2,445
Fair value reserve	26(b)	703	1,840
Translation reserve	26(c)	56	19
Retained earnings		14,674	9,377
Equity attributable to owners of the company		19,497	15,496
Non-controlling interests		1,444	1,106
Total equity		**20,941**	**16,602**
Non-current liabilities			
Deferred tax liability	27	2,445	2,222
Provision for liabilities and charges	28	581	540
Loan from ultimate holding company	30(b)	2,962	3,408
Term Loan	30(c)	239	-
		6,227	**6,170**
Current liabilities			
Corporate tax payable	11(c)	356	62
Unclaimed dividends	14(a)	30	30
Provision for liabilities and charges	28	202	91
Trade and other payables	29	3,986	4,096
Loan from ultimate holding company	30(b)	370	1,104
Bank overdrafts	30(a)	-	60
		4,944	**5,443**
		32,112	**28,215**

The financial statements on pages 38 to 84 were approved by the board of Directors on 25 February 2010 and were signed on its behalf by:

Joshua Oigara
Director

Hussein Mansi
Director

COMPANY STATEMENT OF FINANCIAL POSITION
At 31 December 2009

	Notes	2009 Shs'million	2008 Shs'million
ASSETS			
Non current assets			
Property, plant and equipment	15(b)	8,400	7,606
Prepaid operating lease rentals	16	1	1
Intangible assets	17	100	22
Capital work in progress	18	556	1,734
Investments in subsidiaries	19	968	968
Other equity investments	20	906	2,186
Loan to subsidiary	34 (iii)	-	41
		10,931	**12,558**
Current assets			
Corporate tax recoverable	11(c)	-	392
Inventories	22	3,409	4,140
Trade and other receivables	23(a)	2,203	2,120
Bank and cash balances	24	5,865	1,127
		11,477	**7,779**
TOTAL ASSETS		**22,408**	**20,337**
EQUITY AND RESERVES			
Capital and reserves			
Share capital	25	1,815	1,815
Revaluation surplus	26(a)	2,126	2,309
Fair value reserve	26(b)	703	1,840
Retained earnings		12,094	7,586
Shareholders' funds		**16,738**	**13,550**
Non-current liabilities			
Deferred tax liability	27	1,762	1,712
Provision for liabilities and charges	28	500	486
		2,262	**2,198**
Current liabilities			
Corporate tax payable	11(c)	328	-
Unclaimed dividends	14(a)	30	30
Provision for liabilities and charges	28	149	91
Trade and other payables	29	2,901	3,364
Loan from ultimate holding company	30(b)	-	1,104
		3,408	**4,589**
		22,408	**20,337**

The financial statements on pages 38 to 84 were approved by the board of Directors on 25 February 2010 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 2009

	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	Non-controlling interests Shs'million	Total Shs'million
At 1 January 2008	1,815	2,786	2,540	(108)	7,196	14,229	846	15,075
Profit for the year	-	-	-	-	3,187	3,187	225	3,412
Other comprehensive income for the year								
Exchange differences on translation of foreign operations	-	(79)	-	127	75	123	35	158
Net loss on available for sale investments	-	-	(700)	-	-	(700)	-	(700)
Total comprehensive income for the year	**-**	**(79)**	**(700)**	**127**	**3,262**	**2,610**	**260**	**2,870**
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)	-	-	-
Dividends:								
- final dividends for 2007 declared and paid	-	-	-	-	(182)	(182)	-	(182)
- interim 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**
At 1 January 2009	**1,815**	**2,445**	**1,840**	**19**	**9,377**	**15,496**	**1,106**	**16,602**
Profit for the year	-	-	-	-	6,649	6,649	321	6,970
Other comprehensive income for the year								
Exchange differences on translation of foreign operations	-	5	-	37	8	50	17	67
Net gain on available for sale investments	-	-	60	-	-	60	-	60
Cumulative gain reclassified from equity on disposal for sale investments	-	-	(1,197)	-	-	(1,197)	-	(1,197)
Total comprehensive income for the year	**-**	**5**	**(1,137)**	**37**	**6,657**	**5,562**	**338**	**5,900**
Transfer of excess depreciation	-	(287)	-	-	287	-	-	-
Deferred tax on excess depreciation	-	86	-	-	(86)	-	-	-
Dividends:								
- final dividends for 2008 declared and paid	-	-	-	-	(1,017)	(1,017)	-	(1,017)
- interim for 2009 declared and paid	-	-	-	-	(544)	(544)	-	(544)
At 31 December 2009	**1,815**	**2,249**	**703**	**56**	**14,674**	**19,497**	**1,444**	**20,941**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009 (Continued)

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 2009

	Share capital Shs'million	Revaluation reserve Shs'million	Fair value reserve Shs'million	Retained earnings Shs'million	Total Shs'million
At 1 January 2008	**1,815**	**2,552**	**2,540**	**6,038**	**12,945**
Profit for the year	-	-	-	2,648	2,648
Other comprehensive income for the year					
Net loss on available for sale investments	-	-	(700)	-	(700)
Total comprehensive income for the year	**-**	**-**	**(700)**	**2,648**	**1,948**
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)	-
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**
At 1 January 2009	**1,815**	**2,309**	**1,840**	**7,586**	**13,550**
Profit for the year	-	-	-	5,886	5,886
Other comprehensive income for the year					
Net gain on available for sale investments	-	-	60	-	60
Cumulative gain reclassified from equity on disposal of available for sale investments	-	-	(1,197)	-	(1,197)
Total comprehensive income for the year	**-**	**-**	**(1,137)**	**5,886**	**4,749**
Transfer of excess depreciation	-	(262)	-	262	-
Deferred tax on excess depreciation	-	79	-	(79)	-
Dividends:					
- final dividends for 2008 declared and paid	-	-	-	(1,017)	(1,017)
- interim dividends for 2009 declared and paid	-	-	-	(544)	(544)
At 31 December 2009	**1,815**	**2,126**	**703**	**12,094**	**16,738**

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 STATEMENT OF CASH FLOWS
For the year ended 31 December 2009

	Notes	2009 Shs'million	2008 Shs'million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	10,669	5,887
Interest received	5	85	10
Interest paid	9	(14)	(74)
Taxation paid	11(c)	(1,732)	(1,677)
Net cash generated from operating activities		**9,008**	**4,146**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment, intangible assets and expenditure on capital work in progress		(3,281)	(5,876)
Proceeds from disposal of available for sale investments	20 (c)	1,346	-
Proceeds from disposals of property, plant and equipment		5	4
Dividends received	5	18	32
Net cash used in investing activities		**(1,912)**	**(5,840)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to Group shareholders	14(b)	(1,561)	(1,343)
Loans received from ultimate holding company	30(b)	-	6,379
Term loan received	30(c)	239	-
Loans repaid	30(b)	(1,104)	(1,867)
Net cash (used in)/generated from financing activities		**(2,426)**	**3,169**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,670**	**1,475**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At beginning of the year		1,758	259
Net increase in cash and cash equivalents above		4,670	1,475
Effect of exchange rate changes on cash held in foreign currencies		(1)	24
At end of the year	**24(b)**	**6,427**	**1,758**

Notes to the Financial Statements

1 ACCOUNTING POLICIES

Statement of compliance

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

For the Kenyan companies Act reporting purposes, in these financial statements the balance sheet is represented by/ equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

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

(i) Standards and interpretations effective in the current period

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the group:

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. The application of IFRS 8 does not have any material effect for the Group.

IAS 1 Presentation of financial statements

A revised version of IAS 1 was issued in September 2007. It prohibits 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 in a statement of comprehensive income. As a result, the group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. The adoption does not have any impact on retained earnings.

The Group also adopted the use of the titles per revised IAS 1 of 'statement of financial position' and 'statement of cash flows' to describe the 'balance sheet' and cash flow statement respectively.

IAS 23 Borrowing costs

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated financial position.

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

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

IFRS 3, 'Business combinations'

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 27, 'Consolidated and separate financial statements'

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'

The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements.

IFRIC 17, 'Distribution to non-cash assets to owners'

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of

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the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

IFRIC 18, 'Transfers of assets from customers'

IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Group's financial statements are not impacted by applying IFRIC 18.

IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments'

IFRIC Interpretation 19 was issued on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

IFRS 9, 'Financial instruments part 1: Classification and measurement'

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

(iii) Early adoption of standards

The Group did not early-adopt new or amended standards in 2009.

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 Group either 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.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at the initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(c) Revenue recognition

Sales are recognised upon dispatch for self collection or else on delivery of

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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.

(d) Translation of foreign currencies

i) Transactions and balances

Transactions in foreign currencies during the year are translated into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the end of reporting period. The resulting differences from conversion and translation are dealt with in the profit or loss for the year in which they arise.

ii) Translation of foreign operations

The results and financial position of all the group entities (none of which has the currency of a hyperinflationery economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated into Kenya Shillings using exchange rates prevailing at the end of the reporting period;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised under other comprehensive income and accumulated in a separate heading, translation reserve, in the consolidated statement of changes in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, the cummulative amount of the exchange differences relating to that foreign entity, recognised in other comprehensive income and accumulated on the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(e) 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(f) 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.

(g) 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.

(h) 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 recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Increases are recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Decreases arising from revaluation of assets are recognised in profit or loss. However, decreases that offset previous increases of the same asset are recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Each year the difference between depreciation based on the revalued carrying amount of an asset (the

Notes to the Financial Statements

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.

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 statement of comprehensive income in the year in which the disposal or retirement occurs.

(i) Intangible assets

Computer software costs are stated at cost less accumulated amortisation and any accumulated impairement losses. 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.

(j) 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.

(k) 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.

(l) 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.

(m) Financial instruments

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

Financial assets

i) Classification and measurement

The Group classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity financial assets; and available for sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if:

a) it has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit taking; or; c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other that a financial asset held for trading may be designated as at fair value through profit or loss if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or b) the financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or c) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss are recognised initially at fair value; transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income

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incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Held to maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale of other than an insignificant amount of held-to-maturity assets occurs, the entire category would be tainted and classified as available for sale.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available for sale investments are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale investments are intially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, which are recognised in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognised in the statement of comprehensive income when the Group's right to receive the dividends is established.

ii) Reclassification of financial assets

Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

iii) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

iv) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include; the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, delinquency, and initiation of bankruptcy proceedings as well as observable changes in national or local economic conditions that correlate with default on receivables.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are

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reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Financial liabilities and equity instruments issued by the Group.

i) Classification and measurement

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

Equity instruments

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.

Financial liabilities

Financial liabilities are classified as other financial liabilities. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

ii) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(n) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to changes in fuel prices and foreign exchange rate risk. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately. The derivatives do not qualify for hedge accounting.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(o) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on net basis, or realise the asset and settle the liability simultaneously.

(p) Retirement benefits obligations

The Group operates a defined contribution pension scheme for eligible employees. The scheme is administered by an independent administration 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 collective bargaining agreement.

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

(q) Impairment of non financial assets

At each reporting period end, 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.

(r) 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 reporting period end taking into account the risks and uncertainties surrounding the obligation.

Restructuring Provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the year 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

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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.

(s) 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 reporting period end.

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 reporting period end

(t) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (the Group Managing Director). The management then allocates resources to and assesses the performance of the operating segments of the Group. 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 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 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.

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.

(u) Comparatives

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

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.

Income taxes

The group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

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3 SEGMENT INFORMATION

In accordance with IFRS 8, Operating segments, the information presented hereafter by operating segment is the same as that reported to the Chief Operating Decision Maker (the Group Managing Director) for the purposes of making decisions about allocating resources to the segment and assessing its performance.

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.

Group management internally evaluates its performance based upon:

- Operating income before capital gains, impairment and restructuring
- Capital employed (defined as the total of goodwill, intangible and tangible assets and working capital).

Year ended 31 December 2009 - All figures in million of Kenya Shillings

	Kenya	Uganda	Group
Revenue	19,953	10,041	29,994
Profit before taxation	8,015	1,581	9,596
Income taxation expense	(2,115)	(511)	(2,626)
Profit for the year	5,900	1,070	6,970
Segment assets	23,382	8,730	32,112
Segment liabilities	5,785	5,386	11,171
Capital additions	456	2,825	3,281
Depreciation and amortisation	656	180	836

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

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 unquoted investments. Segment liabilities comprise operating liabilities, dividends payable and certain corporate borrowings.

In addition to the depreciation and amortisation reported above, impairment losses of Shs.11 million (2008: Nil) were recognised in respect of property, plant and equipment. These losses were attributable to Kenya reportable segment.

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Information about major customers

Included in the revenues of Shs. 29,994 million (2008: Shs. 27,467 million) are approximately Shs. 1,131 million (2008: Shs. 1,216 million) which arose from sales to the group's largest customer.

	GROUP 2009 Shs'million	GROUP 2008 Shs'million
4 DIRECT COSTS		
Energy	4,781	3,922
Maintenance supplies and contract works	1,275	1,427
Imported clinker	2,440	3,567
Packaging	1,052	948
Additives and production supplies	2,014	1,530
Freight of raw materials	2,572	2,428
Purchased cement and clinker costs	1,286	873
Others	1,027	220
	16,447	**14,915**
5 INVESTMENT INCOME		
Interest income – Held to maturity bank deposits	85	10
Dividends income – Available for sale equity investments	18	32
	103	**42**
6 OTHER GAINS AND LOSSES		
Profit on disposal of Available for sale equity investments (note 20(c))	1,203	-
Profit/(loss) on disposal of property, plant and equipment	2	(99)
Loss on impairment of property, plant and equipment	(11)	-
Sundry income	222	151
Net foreign exchange gains/ (losses)	141	(91)
	1,557	**(39)**
7 STAFF COSTS		
The following items are included within staff costs:		
Salaries and wages	1,483	1,445
Staff welfare costs	499	501
Retirement benefits costs	251	259
	2,233	**2,205**

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	GROUP	
7 STAFF COSTS (Continued)	**2009**	**2008**
The number of persons employed by the Group at the year end was:	**Numbers**	**Numbers**
Full time	974	979
Contractors	98	96
	1,072	**1,075**

The decrease in full time employees is due to retirements.

	2009 Shs'million	2008 Shs'million
8 OTHER OPERATING COSTS		
Depreciation	810	668
Amortisation	26	17
Professional fees	602	554
Telecommunication costs	292	226
Transport and travelling costs	215	283
Promotion, marketing and donation costs	115	166
Rentals, security and business licences	319	293
Bank charges	68	45
Impairment losses on trade receivables	36	69
Other costs	242	170
	2,725	**2,491**
9 FINANCE COSTS		
Interest expense	**14**	**74**
10 PROFIT BEFORE TAXATION		
The profit before taxation is arrived at after charging		
Staff costs (note 7)	2,233	2,205
Depreciation	810	668
Amortisation of intangible assets	26	17
Directors' emoluments: (note 34 (iv))		
- Fees	5	4
- Other emoluments	115	108
Auditors' remuneration	9	9

Notes to the Financial Statements

11 TAXATION

	GROUP 2009 Shs'million	GROUP 2008 Shs'million
(a) Taxation charge		
Current taxation based on the adjusted profit at 30%	2,069	1,232
Underprovison of current tax in prior years	354	-
Net current taxation charge	2,423	1,232
Deferred tax charge (note 27)	506	261
Over provision of deferred tax in prior years (note 27)	(303)	(16)
Net deferred tax charge	203	245
Total taxation charge	2,626	1,477
(b) Reconciliation of expected tax based on accounting profit to taxation charge:		
Profit before taxation	9,596	4,889
Tax calculated at the domestic rates applicable of 30 %	2,879	1,467
Tax effect of income not subject to tax	(366)	(10)
Tax effect of expenses not deductible for tax purposes	62	36
Underprovison of current tax in prior years	354	-
Over provision of deferred tax in prior years	(303)	(16)
Total taxation charge	2,626	1,477

	GROUP 2009 Shs'million	GROUP 2008 Shs'million	COMPANY 2009 Shs'million	COMPANY 2008 Shs'million
(c) Corporate tax movement				
Net tax (recoverable)/payable at beginning of the year	(341)	104	(392)	120
Taxation charge	2,069	1,232	1,722	956
Taxation paid	(1,732)	(1,677)	(1,333)	(1,468)
Prior years underprovision	334	-	331	-
Foreign exchange differences	(3)	-	-	-
Net tax payable/(recoverable) at end of the year	347	(341)	328	(392)
Comprising:				
Tax payable	356	62	328	-
Tax recoverable	(9)	(403)	-	(392)
Net tax payable/(recoverable) at end of the year	347	(341)	328	(392)

Notes to the Financial Statements

12 PROFIT FOR THE YEAR

Included in the profit for the year is an amount of Shs 5,886 million (2008 – Shs 2,648 million) which relates to and is dealt with in the company's financial statements.

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:

	2009	2008
Net profit attributable to shareholders (Shs million)	6,649	3,187
Weighted average number of ordinary shares (million)	363	363
Basic and diluted earnings per share (Shs)	18.32	8.78

There were no potentially dilutive shares as at 31 December 2009 and as at 31 December 2008. There were also no discontinued operations during the year (2008: Nil).

14 DIVIDENDS

	GROUP & COMPANY	
	2009 Shs'million	2008 Shs'million
(a) Unclaimed dividends		
At beginning of year	30	20
Declared during the year	1,561	1,343
Dividends claimed in the year - note (b)	(1,561)	(1,343)
Dividends returned	-	10
At end of year	**30**	**30**
(b) Payments during the year 2009:		
Final dividend for previous year	1,017	182
Interim dividend for current year	544	1,161
	1,561	**1,343**
(c) Dividends declared in respect of the year		
Interim dividend - paid in the year	544	1,161
Final dividend proposed – post year end	1,997	1,017
Special interim dividend – post year end	1,452	-
	3,993	**2,178**
Dividends per share (based on number of shares per note 13)	**Shs 11.00**	**Shs 6.00**

Proposed final dividend
On 23 October 2009, an interim dividend of Shs 1.50 (2008-Shs 3.20) per share representing an amount of Shs 544 million (2008: Shs 1,161 million) was declared and paid.

Notes to the Financial Statements

14 DIVIDENDS (Continued)

In respect of the current year, the Directors propose that a final dividend of Shs 5.50 (2008 – Shs 2.80) per share equivalent to a total sum of Shs 1,997 million (2008 – Shs 1,017 million) be paid to the shareholders.

The Directors further propose a special interim dividend of Shs. 4.00 (2008 – Nil) per ordinary share equivalent to a total sum of Shs 1,452 million arising from the divestment from Athi River Mining Limited.
The final 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. For resident shareholders, withholding tax is only deductible where the shareholding is below 12.5%.

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 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**
At 1 January 2009	1,307	21,214	646	724	23,891
Foreign exchange adjustments*	2	(18)	6	1	(9)
Additions	16	2,106	168	96	2,386
Disposals	-	-	(6)	(6)	(12)
Transfers	(1)	38	(25)	1	13
At 31 December 2009	**1,324**	**23,340**	**789**	**816**	**26,269**
Depreciation					
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**
1 January 2009	246	12,355	426	597	13,624
Foreign exchange adjustments*	-	(18)	1	1	(16)
Charge for the year	19	676	79	36	810
Disposals	-	-	(3)	(6)	(9)
Transfers	(1)	35	(22)	1	13
At 31 December 2009	**264**	**13,048**	**481**	**629**	**14,422**
Net book value					
At 31 December 2009	**1,060**	**10,292**	**308**	**187**	**11,847**
At 31 December 2008	**1,061**	**8,859**	**220**	**127**	**10,267**

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

Notes to the Financial Statements

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 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**
At 1 January 2009	857	18,256	326	489	19,928
Additions	-	1,165	151	87	1,403
Disposals	-	-	-	-	-
Transfers	-	38	(25)	-	13
At 31 December 2009	**857**	**19,459**	**452**	**576**	**21,344**
Depreciation					
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**
At 1 January 2009	46	11,551	251	474	12,322
Charge for the year	8	541	51	9	609
Disposals	-	-	-	-	-
Transfers	-	35	(22)	-	13
At 31 December 2009	**54**	**12,127**	**280**	**483**	**12,944**
Net book value					
At 31 December 2009	**803**	**7,332**	**172**	**93**	**8,400**
At 31 December 2008	**811**	**6,705**	**75**	**15**	**7,606**

Notes to the Financial Statements

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	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Cost	12,899	10,780	8,803	7,400
Accumulated depreciation	(4,679)	(4,053)	(3,405)	(3,060)
Net book value	8,220	6,727	5,398	4,340

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 in Kenya and Contrad Properties Limited in Uganda. 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 (2008: Shs 504 million) located in Mombasa and limestone deposits with a carrying value of Shs 93 million (2008: Shs 99 million) in Kasese, Uganda.

The Group's plant and machinery, office equipment and mobile plant with a cost of Shs 1,100 million were fully depreciated as at 31 December 2009 (2008: Shs 1,136 million). The normal annual depreciation charge on these assets in the year ended 31 December 2009 would have been Shs 203 million (2008: Shs 195 million).

The company's plant and machinery, office equipment and mobile plant with a cost of Shs 861 million were fully depreciated as at 31 December 2009 (2008: Shs 866 million). The normal annual depreciation charge on these assets in the year ended 31 December 2009 would have been Shs 149 million (2008: Shs 145 million).

16 PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 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

17 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP Shs'million	COMPANY Shs'million
Cost		
At 1 January 2008	367	298
Foreign exchange adjustments*	5	-
At 31 December 2008	**372**	**298**
At 1 January 2009	372	298
Additions	104	104
Transfers	(13)	(13)
At 31 December 2009	**463**	**389**
Amortisation		
At 1 January 2008	327	259
Charge for the year	17	17
Foreign exchange adjustments*	5	-
At 31 December 2008	**349**	**276**
At 1 January 2009	349	276
Charge for the year	26	26
Transfers	(13)	(13)
At 31 December 2009	**362**	**289**
Net book value		
At 31 December 2009	**101**	**100**
At 31 December 2008	**23**	**22**

*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	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
At 1 January	5,477	1,449	1,734	966
Additions	3,124	5,876	238	2,244
Transfers to property plant and equipment	(2,229)	(1,880)	(1,301)	(1,476)
Transfers to intangible assets	(104)	-	(104)	-
Impairment losses recognised in profit or loss	(11)	-	(11)	-
Foreign exchange adjustments*	2	32	-	-
At 31 December	**6,259**	**5,477**	**556**	**1,734**

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

Notes to the Financial Statements

19 INVESTMENTS IN SUBSIDIARIES

Held at cost less impairment provisions:
Details of the subsidiaries in the Group are provided below:

		COMPANY	
	Holding %	2009 Shs'million	2008 Shs'million
Simbarite Limited (Kenya)	100	53	53
Less: impairment provision		(22)	(22)
		31	**31**
Bamburi Special Products Limited (Kenya)	100	20	20
Bamburi Cement Limited, Uganda (Kenya)	100	-	-
HimCem Holdings Limited (Channel Islands)	100	911	911
Lafarge Eco Systems Limited (Kenya)	100	5	5
Diani Estate Limited (Kenya)	100	1	1
Kenya Cement Marketing Limited (Kenya)	50	-	-
Portland Mines Limited (Kenya)	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 2009 was Shs 906 million (2008: Shs 2,186 million). Changes in the fair values are recognised in the other comprehensive income and accumulated in fair value reserve in equity.

a) Movement in available-for-sale investments

	GROUP AND COMPANY	
	2009 Shs'million	2008 Shs'million
At 1 January	2,186	2,886
Disposals (note 20(b))	(1,340)	-
Fair value gains/(losses) (note 20(b))	60	(700)
At 31 December	**906**	**2,186**

Notes to the Financial Statements

20 OTHER EQUITY INVESTMENTS (Continued)

b) Analysis of the equity investments

Quoted investments	Number of shares: At 1.1.2008 Units	Additions/ (disposals) Units	At 31.12.2008 Units	Valuation: At 1.1.2008 Shs' million	Additions/ (disposals) Shs' million	Decrease in market value Shs' million	At 31.12.2008 Shs' million
East African Portland Cement Limited	11,265,068	-	11,265,068	1,298	-	(403)	895
Kenya Oil company Limited	90,550	-	90,550	11	-	(4)	7
Athi River Mining Limited	13,959,300	-	(13,959,300)	1,577	-	(293)	1,284
				2,886	**-**	**(700)**	**2,186**

Quoted investments	Number of shares: At 1.1.2009 Units	Additions/ (disposals) Units	At 31.12.2009 Units	Valuation: At 1.1.2009 Shs' million	Additions/ (disposals) Shs' million	Increase/ (decrease) in market value Shs' million	At 31.12.2009 Shs' million
East African Portland Cement Limited	11,265,068	-	11,265,068	895	-	6	901
Kenya Oil company Limited	90,550	-	90,550	7	-	(2)	5
Athi River Mining Limited	13,959,300	(13,959,300)	-	1,284	(1,340)	56	-
				2,186	**(1,340)**	**60**	**906**

c) Gain on disposal of the equity investments

	2009 Cost Shs'million	2009 Proceeds Shs'million	2009 Gain on disposal Shs'million	2008 Cost Shs'million	2008 Proceeds Shs'million	2008 Gain on disposal Shs'million
Quoted investments	143	1,346	1,203	-	-	-
Comprising:						
Cummulative gain reclassified from fair value reserve on disposal			1,197			-
Gain during the year			6			-
			1,203			**-**

d) Disposals of the equity investments comprise:

	GROUP AND COMPANY 2009 Shs'million	2008 Shs'million
Cost of equity investments disposed	143	-
Cummulative gain reclassified from fair value reserve on disposal	1,197	-
Total disposals (note 20(b))	**1,340**	**-**

Notes to the Financial Statements

21 GOODWILL

	GROUP 2009 Shs'million	GROUP 2008 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 is not impaired. The recoverable amount of the cash generating units was assessed by reference to value in use.

22 INVENTORIES

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Raw materials	624	665	498	623
Bio fuel supplies	208	132	208	132
Consumables and spare parts	1,944	1,401	1,409	955
Finished and semi-finished goods	945	1,976	725	1,718
Fuel and packaging	617	827	569	712
	4,338	**5,001**	**3,409**	**4,140**

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.

23 TRADE AND OTHER RECEIVABLES

(a) Analysis of trade and other receivables:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Trade receivables	435	589	62	463
Prepayments	1,095	1,394	813	695
Deposits	21	19	20	19
Other receivables	239	655	78	250
Receivables from related companies (Note 34 (ii))	209	157	1,230	693
	1,999	**2,814**	**2,203**	**2,120**

Notes to the Financial Statements

23 TRADE AND OTHER RECEIVABLES(Continued)

(b) Details of insurance claim receivable:

	GROUP AND COMPANY	
	2009 Shs'million	2008 Shs'million
Insurance claim receivable	-	1,001
Provision for insurance claim receivable	-	(1,001)
	-	**-**

(c) Movement in the provision for insurance claim receivable:

	2009 Shs'million	2008 Shs'million
Balance at beginning of the year	1,001	-
Impairment losses	-	1,001
Amounts written off during the year as uncollectible	(783)	-
Amounts recovered during the year	(218)	-
	-	**1,001**

In May 2009, a final payment of Shs. 218 million was received from the Insurer with respect to the insurance claim relating to the fire incident at Mombasa plant in 2007.

(d) Trade receivables:

The average credit period on sales of finished goods is 30 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 quarterly.

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		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
At beginning of year	358	289	223	220
Impairment losses	36	69	33	3
Amounts recovered	(32)	-	(14)	-
At end of year	**362**	**358**	**242**	**223**

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.

Notes to the Financial Statements

24 BANK AND CASH BALANCES

(a) Analysis of bank and cash balances:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Cash at bank and on hand	1,037	1,005	629	703
Cash deposits with related party (note 34(ii))	5,036	389	5,036	-
Short term bank deposits – Held to maturity	354	424	200	424
	6,427	**1,818**	**5,865**	**1,127**

(b) Cash and cash equivalents:

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less, net of bank overdrafts. Analysis of cash and cash equivalents is as set out below:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Bank and cash balances (note 24(a))	6,427	1,818	5,865	1,127
Bank overdrafts (note 30(a))	-	(60)	-	-
	6,427	**1,758**	**5,865**	**1,127**

(c) Short term bank deposits – Held to maturity:

The short-term bank deposits mature within 90 days from the date of placement.

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Call deposits – at amortised cost	354	424	200	424

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

	GROUP		COMPANY	
	2009	2008	2009	2008
Local currencies	5.66 %	0.9%	4.61 %	0.9%
Foreign currencies	0.33%	1.6%	0.59 %	0.4%

Notes to the Financial Statements

24 BANK AND CASH BALANCES (Continued)

(d) Cash deposit with related party:

The weighted average interest rates earned on the cash deposited with related party during the year were as shown below:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Local currencies	3.43 %	-	3.43 %	-
Foreign currencies	0.66%	2.16%	0.72%	-

25 SHARE CAPITAL

	GROUP AND COMPANY	
	2009 Shs'million	2008 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 Shs 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. When revalued and assets are sold, the portion of the revaluation reserve that relates to those assets are effectively realised and transferred directly to retained earnings. The revaluation reserve is not distributable.

b. Fair value reserve

The fair value reserve represents accumulated gains and losses arising on the revaluation of available- for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

	GROUP AND COMPANY	
	2009 Shs'million	2008 Shs'million
At 1 January	1,840	2,540
Net gain/(loss) arising on revaluation of available for sale investments (note 20(b))	60	(700)
Cummulative (gain)/loss reclassified to profit or loss on sale of available for sale investments (note 20(c))	(1,197)	-
At 31 December	**703**	**1,840**

Notes to the Financial Statements

26 RESERVES (Continued)

c. Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currency to the Group's presentation currency (Kenya shillings) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

27 DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2008: 30%). The makeup 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	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Accelerated capital allowances on property, plant and equipment	1,822	1,412	1,233	966
Foreign exchange differences	(10)	(16)	(16)	(20)
Provisions	(404)	(261)	(333)	(191)
Revaluation surplus	1,041	1,091	878	957
Other temporary differences	(4)	(4)	-	-
	2,445	**2,222**	**1,762**	**1,712**

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

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
At beginning of year	2,222	1,951	1,712	1,494
Income statement charge (note 11(a))	506	261	347	218
Prior years over provision (note 11(a))	(303)	(16)	(297)	-
Foreign exchange differences	20	26	-	-
At end of year	**2,445**	**2,222**	**1,762**	**1,712**

Deferred tax liabilities amounting to Shs 86 million (2008: Shs 86 million) in respect of the Group and Shs 79 million (2008: Shs 80 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.

Notes to the Financial Statements

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	2009 Total Shs'million	2008 Total Shs'million
GROUP					
At beginning of year	54	470	107	631	572
Additional provisions	49	199	18	266	115
Utilised during the year	(41)	(41)	(32)	(114)	(56)
At end of year	62	628	93	783	631
Less: current portion	(56)	(146)	-	(202)	(91)
Non current portion	6	482	93	581	540
COMPANY					
At beginning of year	50	420	107	577	514
Additional provisions	47	100	18	165	106
Utilised during the year	(41)	(20)	(32)	(93)	(43)
At end of year	56	500	93	649	577
Less: Current portion	(56)	(93)	-	(149)	(91)
Non-current portion	-	407	93	500	486

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.

Notes to the Financial Statements

29 TRADE AND OTHER PAYABLES

	GROUP 2009 Shs'million	GROUP 2008 Shs'million	COMPANY 2009 Shs'million	COMPANY 2008 Shs'million
Trade payables	2,179	2,096	1,182	1,700
Accrued expenses	1,650	874	1,632	658
Other payables	63	177	56	110
Payable to related companies (Note 34 (ii))	94	949	31	896
	3,986	**4,096**	**2,901**	**3,364**

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 2009 Shs'million	GROUP 2008 Shs'million	COMPANY 2009 Shs'million	COMPANY 2008 Shs'million
a) Bank overdrafts - unsecured				
Standard Chartered Bank Uganda Limited	-	60	-	-

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 2009 Shs'million	GROUP 2008 Shs'million	COMPANY 2009 Shs'million	COMPANY 2008 Shs'million
At beginning of year	4,512	-	1,104	-
Loans received	-	6,379	-	2,971
Foreign exchange differences	(76)	-	-	-
Repayments	(1,104)	(1,867)	(1,104)	(1,867)
At end of year	**3,332**	**4,512**	**-**	**1,104**
Maturity:				
Repayable within one year	370	1,104	-	1,104
Repayable after one year	2,962	3,408	-	-
At end of year	**3,332**	**4,512**	**-**	**1,104**

The balance outstanding in respect of the subsidiary, Hima Cement Limited, amounting to Shs 3,332 million is repayable between September 2010 and September 2014.

Notes to the Financial Statements

30 BORROWINGS (Continued)

c) Term Loan

In June 2008, Hima Cement Limited, a subsidiary company, signed a syndicated loan facility equivalent to Shs 1,132 million (Ugx 45 billion) with lead arranger Stanbic Bank Uganda Limited, During the year, Hima Cement Limited drew Shs 239 million (2008: Nil) from the facility to finance the ongoing Ruwenzori capacity expansion project. The loan is secured against a corporate guarantee from Lafarge SA and is payable in 5 equal instalments starting June 2011 and fully matures in June 2015. The facility is structured in two tranche's of 50% each. Tranche A is at fixed interest rate equivalent to 5 year treasury bond plus 70 basis points while Tranche B is at floating interest rate equivalent to 182day treasury bill plus 100 basis points.

d) Effective interest rates

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

	GROUP		COMPANY	
	2009	2008	2009	2008
Local currencies – loans	14.98%	-	-	-
Local currencies – bank overdrafts	-	14%	-	12%
Foreign currencies – ultimate holding company	4.66%	5.4%	2.86%	4.5%

e) Borrowing facilities

As at end of the year, the Group had borrowing facilities amounting to a total of Shs 4,332 million (2008 – Shs 4,441 million), out of which the undrawn facilities amounted to Shs 2,766 million (2008 – Shs 3,294 million).

The borrowing facilities are annual facilities that were subject to review at various dates during the year 2009. They consist of overdrafts, letters of credit, guarantees among others.

31 CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Guarantees to the Group's bankers in favour of staff	274	140	226	116
Bonds issued by the Group's bankers in favour of Kenya Revenue Authority	1,030	844	1,030	844
Bonds issued by the Group's bankers in favour of suppliers	241	190	113	157
Insurance bond issued to Uganda Revenue Authority	10	10	-	-
At end of year	**1,555**	**1,184**	**1,369**	**1,117**

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.

Notes to the Financial Statements

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 2009, the Group was able to resolve the matter with KRA with respect to the additional tax assessment in 2007 for the period 2003 and 2004 amounting to shs 526 million. The KRA responded to the Groups objection and withdrew the assessment and demand. The issue is now closed.

32 CAPITAL COMMITMENTS

Authorised and contracted

Capital expenditure contracted for at the end of the reporting period but not recognised in the financial statements is as follows:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Commitments for the acquisition of property, plant and equipment	1,095	2,705	100	668

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 4,704 million (2008: Shs 4,687 million), out of which Shs 3,989 million (2008: Shs 3,339 million) amounting to 85% (2008: 71%) has been paid. The contract currency is US dollars.

Authorised but not contracted

Capital expenditure authorised but not contracted for at the reporting period end:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Commitments for the acquisition of property, plant and equipment	339	1,689	71	1,235

Notes to the Financial Statements

33 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before taxation to cash generated from operations:

		GROUP	
	Note	2009 Shs'million	2008 Shs'million
Profit before taxation		9,596	4,889
Adjustments for:			
Depreciation	15(a)	810	668
Amortisation of intangible assets	17	26	17
(Gain)/loss on disposal of property, plant and equipment	6	(2)	99
Loss on impairment of property, plant and equipment	18	11	-
Profit on disposal of equity investments	20(c)	(1,203)	-
Investment income recognised in profit	5	(18)	(32)
Interest income	5	(85)	(10)
Interest expense	9	14	74
Operating profit before working capital changes		**9,149**	**5,705**
Changes in working capital balances:			
Decrease/ (increase) in inventories		663	(1,500)
Decrease in trade and other receivables		815	387
Increase in provisions for liabilities and charges		152	59
(Decrease) /increase in trade and other payables		(110)	1,226
Increase in unclaimed dividends		-	10
Cash generated from operations		**10,669**	**5,887**

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. During the year, the Group did not sell cement to the associate (2008: 0.4%).

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	
	2009 Shs'million	2008 Shs'million
Interest received	1	1
Sales of goods and services	555	1,457
Purchases of goods and services	5,698	5,201

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

Notes to the Financial Statements

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	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Receivables from related parties	209	157	209	157
Receivables from subsidiaries	-	-	1,021	536
Total receivables (note 23(a))	209	157	1,230	693
Payables to related parties (note 29)	94	949	31	896
Short term cash deposits (note 24(a))	5,036	389	5,036	-

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 Nil (2008 - Shs 41 Million). The loan was unsecured and the related effective interest on the loan was 10% (2008 - 10%). The loan repayment period was 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	
	2009 Shs'million	2008 Shs'million
Fees for services as a director	5	4
Other emoluments		
Salaries and other short-term employment benefits	107	98
Post-employment benefits	8	10
	115	108
Total	**120**	**112**

As at year end the company had, through normal bank facilities, guaranteed loans to key management personnel amounting to Shs 14 million (2008 – Shs 16 million).

Notes to the Financial Statements

35 OPERATING LEASE COMMITMENTS

	GROUP 2009 Shs'million	GROUP 2008 Shs'million
Lease payments committed under operating leases:		
Not later than 1 year	41	54
Later than 1 year but not later than 5 years	139	162
	180	**216**

36 RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefit plans for eligible 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 administration 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 95 million (2008: Shs 82 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.

37 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the group's business and the operational risks are an inevitable consequence of being in business. The group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risks include:

- Market risk – includes currency, interest rate and other price risk
- Credit risk
- Liquidity risk

The Group's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise potential adverse effects of such risks on its financial performance within the options available in Kenya and Uganda by setting acceptable levels of risks.

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

Risk Management Framework

Financial risk management is carried out by Corporate Finance Department under policies approved by the Board of Directors.

The Group's Corporate Treasury function identifies, evaluates and hedges financial risks in close cooperation with operating units. The board provides written principals for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk, price risk, use of derivative and non derivative financial instruments.

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.

The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the Lafarge SA risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

The board has put in place an internal audit function to assist it in assessing the risk faced by the group on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

(i) Market risks

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Group Finance Director. The Group's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Group Finance Director) and for the day to day implementation of those policies.

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.

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(i) Market risks (Continued)

a) Foreign currency risk management (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

Group foreign currency risk:

31 December 2009:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
Assets			
Trade and other receivables	539	712	1,251
Bank balances	371	1,917	2,288
Total assets	**910**	**2,629**	**3,539**
Liabilities			
Trade and other payables	124	2,079	2,203
Loan from ultimate holding company	-	3,332	3,332
Total liabilities	**124**	**5,411**	**5,535**
Net exposure position	**786**	**(2,782)**	**(1,996)**
31 December 2008:			
Assets			
Trade and other receivables	-	369	369
Bank balances	156	696	852
Total assets	**156**	**1,065**	**1,221**
Liabilities			
Trade and other payables	17	848	865
Loan from ultimate holding company	-	4,512	4,512
Total liabilities	**17**	**5,360**	**5,377**
Net exposure position	**139**	**(4,295)**	**(4,156)**

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(i) Market risks (Continued)

a) Foreign currency risk management (Continued)

Company foreign currency risk:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
31 December 2009:			
Assets			
Trade and other receivables	539	712	1,251
Bank balances	334	1,680	2,014
Total assets	**873**	**2,392**	**3,265**
Liabilities			
Trade and other payables	-	1,107	1,107
Total liabilities	**-**	**1,107**	**1,107**
Net exposure position	**873**	**1,285**	**2,158**
31 December 2008:			
Assets			
Trade and other receivables	-	369	369
Bank balances	42	142	184
Total assets	**42**	**511**	**553**
Liabilities			
Trade and other payables	-	553	553
Loan from ultimate holding company	-	1,104	1,104
Total liabilities	**-**	**1,657**	**1,657**
Net exposure position	**42**	**(1,146)**	**(1,104)**

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(i) Market risks (Continued)

a) Foreign currency risk management (Continued)

Foreign currency sensitivity analysis:

The following sensitivity analysis shows how profit and equity would change if the Kenya Shilling had depreciated against the other currencies by 5% on the reporting period end with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant. This is mainly attributable to the change in value of foreign exchange receivables, payables and cash.

	GROUP	
	2009 Shs. Million	2008 Shs. Million
Group		
EUR	4	1
USD	2	(2)
	6	**(1)**
Company		
EUR	5	-
USD	5	(2)
	10	**(2)**

b) Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates in the form of long term loans and short term loans (overdrafts). The group also holds cash deposits with financial institutions. The interest rates on the cash deposits are fixed and agreed upon in advance.

Management closely monitors the interest rate trends to minimise the potential adverse impacts of interest rate changes. Deposits are placed at fixed interest rates and management is therefore able to plan for the resulting income. For the facilities with variable rates, the Group is in regular contact with the lenders in a bid to obtain the best available rates.

During the year, a 5% increase/decrease of the annual interest rate would have resulted in an increase/decrease in pre-tax profit of Shs 4 million (2008 - Shs Nil).

c) Price risk

Quoted assets are valued at their market prices. These values are subject to frequent variations and adverse market movements. This risk is mitigated by the fact that equity investments are held for strategic rather than trading purposes. The Group does not actively trade on equity investments.

At 31 December 2009, if the prices at the Nairobi Stock Exchange had appreciated/depreciated by 5% with all other variables held constant would have resulted in an increase/ decrease on other comprehensive income of Shs 45 million (2008 - Shs 109 million) as a result of changes in fair value of available for sale shares.

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Credit risk management

Credit risk refers to the risk that a 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.

The credit risk exposures are classified in three categories:

- Fully performing
- Past due
- Impaired

Maximum exposure to credit risk before collateral held or other credit enhancements

The carrying amount of financial assets recorded in the financial statements representing the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Trade receivables	435	589	62	463
Other receivables	1,564	2,225	2,141	1,657
	1,999	**2,814**	**2,203**	**2,120**
Bank balances	**6,427**	**1,818**	**5,865**	**1,127**

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 credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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.

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Credit risk management (Continued)

Analysis of Group credit exposure:

	Gross 2009 Shs'million	Impairment 2009 Shs'million	Net 2009 Shs'million	Gross 2008 Shs'million	Impairment 2008 Shs'million	Net 2008 Shs'million
Fully performing	1,950	-	1,950	2,595	-	2,595
Past due	814	765	49	1,626	1,407	219
Trade and Other Receivables (note 23(a))	**2,764**	**765**	**1,999**	**4,221**	**1,407**	**2,814**

Included in the impairment provision is an amount of Shs Nil (2008 – Shs 1,001 million) relating to insurance claim receivable and Shs 403 million (2008 – Shs 49 million) relating to other receivables.

Analysis of company credit risk:

	Gross 2009 Shs'million	Impairment 2009 Shs'million	Net 2009 Shs'million	Gross 2008 Shs'million	Impairment 2008 Shs'million	Net 2008 Shs'million
Fully performing	2,130		2,130	1,899	-	1,899
Past due	753	680	73	485	264	221
Trade and Other Receivables (note 23(a))	**2,883**	**680**	**2,203**	**2,384**	**264**	**2,120**

Included in the impairment provision is an amount of Shs Nil (2008 – Shs 1,001 million) relating to insurance claim receivable and Shs 403 million (2008 – Shs 41 million) relating to other receivables.

Fully performing

The Group classifies financial assets under this category for those exposures that are upto date and in line with contractual agreements. These exposures will normally be maintained within approved product programs and with no signs of impairment or distress.

Past due but not impaired

The financial assets that are past due relate to trade receivables overdue by over 30 days. The receivables are not impaired and continue to be paid. The Group is actively following these receivables. No collateral is held with respect to the debt.

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)
(ii) Credit risk management (Continued)

Impaired financial assets

Impaired financial assets are financial assets for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the agreement(s). No collateral is held with respect to the debt.

(iii) Liquidity risk management

This is the risk that the group will encounter difficulties in meeting its financial commitments from its financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations.

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 remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows and exclude the impact of netting agreements. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

GROUP – Financial liabilities:

	Total amount Shs'million	0-30 days Shs'million	31-90 days Shs'million	91-120 days Shs'million	120 days and above Shs'million
31 December 2009:					
Trade and other payables (note 29)	3,986	2,510	376	566	534
Unclaimed dividends	30	-	-	-	30
Loan from ultimate holding company	3,332	-	-	-	3,332
Term Loan	239	-	-	-	239
	7,587	**2,510**	**376**	**566**	**3,896**
31 December 2008:					
Trade and other payables (note 29)	4,096	2,203	627	217	1,049
Unclaimed dividends	30	-	-	-	30
Loan from ultimate holding company	4,512	-	-	-	4,512
Bank overdrafts	60	60	-	-	-
	8,698	**2,263**	**627**	**217**	**5,591**

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Liquidity risk management (Continued)

COMPANY – Financial liabilities:

	Total amount Shs'million	0-30 days Shs'million	31-90 days Shs'million	91-120 days Shs'million	120 days and above Shs'million
31 December 2009:					
Trade and other payables (note 29)	2,901	1,342	222	522	815
Unclaimed dividends	30	-	-	-	30
	2,931	**1,342**	**222**	**522**	**845**
31 December 2008:					
Trade and other payables (note 29)	3,364	845	1,173	289	1,057
Unclaimed dividends	30	-	-	-	30
Loan from ultimate holding company	1,104	-	-	-	1,104
	4,498	**845**	**1,173**	**289**	**2,191**

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(iv) Capital risk management

The Group's objectives when managing capital are:

- To ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.
- To maintain a strong capital base to support the current and future development needs of the business.

The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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.

There have been no material changes in the Group's management of capital during the year.

The constitution of capital managed by the Group is as shown below:

	GROUP		COMPANY	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
Equity	20,941	16,602	16,738	13,550
Total borrowings	(3,571)	(4,512)	-	(1,104)
Less: cash and cash equivalents (note 24(b))	6,427	1,758	5,865	1,127
Net debt	2,856	2,754	5,865	23
Gearing	-	17%	-	-

Notes to the Financial Statements

37 FINANCIAL RISK MANAGEMENT (Continued)

(v) Fair value of financial assets and liabilities

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices);and
iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Note	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million	Total Shs'million
GROUP AND COMPANY					
31 December 2009					
Available for sale financial assets					
Investment in quoted shares	20	906	-	-	906
31 December 2008					
Available for sale financial assets	20	2,186	-	-	2,186
Investment in quoted shares					

There were no transfers between levels 1, 2 and 3 in the period.

38 FAIR VALUE

The directors consider that there is no material difference between the fair value and carrying value of the bank's financial assets and liabilities where fair value details have not been presented.

39 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.

40 POST BALANCE SHEET EVENTS

The Board of Directors approved the financial statements on 25th February 2010 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.

41 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.

Shareholding

Top 10 Shareholders

Rank	Name	2009 Total Shares	2009 % Holding	2008 Total Shares	2008 % Holding
1	Fincem Holding Ltd	106,360,798	29.30%	106,360,798	29.30%
2	Kencem Holding Limited	106,360,797	29.30%	106,360,797	29.30%
3	Board of Trustees - National Social Security Fund	53,670,234	14.79%	54,368,634	14.98%
4	Bamcem Holding Nominees Ltd	45,000,000	12.40%	45,000,000	12.40%
5	Baloobhai Chhotabhai Patel	5,000,990	1.38%	4,180,305	1.15%
6	Kenya Commercial Bank Nominees Ltd - A/c 769G	1,623,100	0.45%	2,057,850	0.57%
7	Barclays (K) Nominees Ltd - A/c 1256	1,255,850	0.35%	1,673,100	0.46%
8	Kenya Reinsurance Corporation Ltd	1,171,543	0.32%	1,171,543	0.32%
9	Old Mutual Life Assuarance Co. Ltd	1,095,540	0.30%	1,095,540	0.30%
10	Barclays (K) Nominees Ltd - A/c 1853	970,600	0.27%	1,020,600	0.28%
	SHARES SELECTED	**322,509,452**	**88.86%**	**323,289,167**	**89.06%**
	SHARES NOT SELECTED - 2,989 shareholders (2008: 2,967 shareholders)	40,449,823	11.14%	39,670,108	10.94%
	TOTAL SHARES ISSUED - 2,999 shareholders (2008: 2,977 shareholders)	**362,959,275**	**100.00%**	**362,959,275**	**100.00%**

Analysis by Domicile

DOMICILE	2009 Shares	2009 % Holding	2009 Holders	2008 Shares	2008 % Holding	2008 Holders
Foreign Institutions	259,736,429	71.56%	27	259,620,073	71.53%	22
Foreign Individuals	303,802	0.08%	46	260,146	0.07%	45
Local Institutions	90,282,713	24.87%	619	90,415,936	24.91%	623
Local Individuals	12,636,331	3.49%	2,307	12,663,120	3.49%	2,287
TOTAL	**362,959,275**	**100.00%**	**2,999**	**362,959,275**	**100.00%**	**2,977**

Analysis by Volume

VOLUME	2009 Shares	2009 % Holding	2009 Holders	2008 Shares	2008 % Holding	2008 Holders
1 - 500	243,859	0.07%	1,092	237,802	0.07%	1,081
501 - 5,000	2,469,721	0.68%	1,219	2,449,731	0.67%	1,212
5,001- 10,000	1,654,081	0.46%	231	1,621,216	0.45%	226
10,001 - 100,000	11,219,832	3.09%	358	11,650,606	3.21%	363
100,001 - 1,000,000	25,832,930	7.12%	90	23,710,753	6.53%	85
1,000,001 - 9999999999	321,538,852	88.58%	9	323,289,167	89.07%	10
TOTALS	**362,959,275**	**100.00%**	**2,999**	**362,959,275**	**100.00%**	**2,977**

Notes

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

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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 Thursday 10 June 2010 and at every adjournment thereof.

AS WITNESS my/our hand(s) this ___________________________day of ___________________________ 2010

____
(Usual Signature)

Proxy forms must reach the registered office of the company by 2.00 pm Tuesday 8 June 2010.

Staple here

Staple here

Proxy form:

for the year ended 31 December 2009

Fold here

Fold here

Affix Stamp

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


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Bamburi Concrete