LAFARGE

BAMBURI CONSTRUCTION SOLUTIONS FOR BUILDING BETTER CITIES

Annual Report
and Financial Statements

2014

Bamburi cement

Part of you. From the start


MORE HOUSING

CONTENTS

GROUP INFORMATION 4

2014 HIGHLIGHTS 6

BUSINESS HIGHLIGHTS 8

CHAIRMAN'S STATEMENT 12

INTERVIEW WITH THE MANAGING DIRECTOR 14

OUR BUSINESS IN REVIEW

WHAT WE DO 18

VALUE ADDED STATEMENT 19

BOARD OF DIRECTORS 20

BOARD OF DIRECTORS PROFILES 22

EXECUTIVE MANAGEMENT TEAM 24

CORPORATE GOVERNANCE STATEMENT 26

RISK PROFILE 29

SHAREHOLDER PROFILE 31

OUR OPERATIONS IN REVIEW

KENYA 34

UGANDA 35

BUILDING THE BRANDS 36

OUR SYSTEMS 37

BUILDING A SUSTAINABLE BUSINESS

BUILDING COMMUNITIES 38

BUILDING SUSTAINABLY 41

BUILDING A CIRCULAR ECONOMY 41

CORPORATE SOCIAL RESPONSIBILITY 42

FINANCIAL REVIEW 46-114

SHAREHOLDER INFORMATION

NOTICE OF THE ANNUAL GENERAL MEETING 118

PROXY FORM 119

GROUP INFORMATION

Our Vision

To delight our customers with innovative construction solutions while being committed to sustainability.

Our Values

We are committed to sustaining a culture that embodies Company values of Ownership, Accountability and Ambition among employees and contractors to drive priorities for the business.

Ownership

We are committed to doing things differently and drive for results by thinking creatively so as to offer practical solutions to our customers through the involvement of all employees and contractors to ensure the success of the organization.

Our Priorities

To enable us achieve our vision, the Group identified priorities in six key areas:

1. Health and Safety

We are dedicated to upholding best practices in Health and Safety within our Plants, Offices,Sites we operate in and along our supply chain in the region.

2. Market Leadership

We are committed to being a leader in Eastern Africa market, focusing on delighting our customers in both domestic and inland export markets.

3. Industrial Excellence

We are committed to achieving plant mastery and robust operations to ensure achievement of clinker and cement production and dispatch targets.

4. Cost Management

To be the lowest delivered cost in our markets through management of variable costs as well as the consistent reduction of Fixed Cost and Sales, General and Administration costs (SGA).

5. Sustainability

Ensure secured license to operate, by building sustainable relationships with our stakeholders through a robust and professional stakeholder engagement program, development of communities and caring for the environment.

6. People Development

We are dedicated to having a favourable and constructive work environment that enhances talent development and retention.

ORMATION

Accountability

We strive to be accountable to each other and team work is a key pillar in the work place, when we work as a team, projects are accomplished on time and mistakes are minimized.
We also expect all employees to have integrity.

Ambition

We are focused on achieving greater results by going the extra mile in accomplishing projects before or on time and empowering our employees and contractors to always exceed the expectations of our customers.

About Us

Bamburi Cement Ltd

A subsidiary of Lafarge, a world leader in building materials that is listed on the Nairobi Securities Exchange. The Company has three subsidiaries (Hima Cement, Bamburi Special Products and Lafarge Eco systems). It also has an integrated plant based in Mombasa and a grinding plant located in Athi River.

Hima Cement

Uganda based subsidiary with a cement factory located in Kasese, Western Uganda.

Bamburi Special Products

Wholly owned subsidiary and the largest supplier of Ready Mix Concrete and Precast blocks in Kenya.

Lafarge Eco systems

A wholly owned subsidiary that manages Company reserve land rehabilitates exhausted quarries and ensures the sustainable utilization of the rehabilitated quarries.

2014 HIGHLIGHTS

ABOUT BAMBURI CEMENT LTD

KEY FIGURES
(at December 31, 2014)

2
countries

932
employees

36,029
revenues
in Kshs million

3
production sites (Cement)

2
production sites (Concrete)

4
rehabilitated quarries

BAMBURI PROFILE

KEY FIGURES BY ACTIVITIES
(at December 31, 2014)

1. Cement	94%
2. Ready Mix, Pre Cast & Others	6%

OUR PRESENCE IN EAST AFRICA

2014 HIGHLIGHTS

ABOUT LAFARGE

A world leader in building materials and top ranking player in the cement, aggregate and concrete industries, we contibute to the construction of cities around the world. Our innovative solutions provide them with more housing and make them more compact, more durable, more beautiuful and better connected. The Group employs 63,000 employees in 61 countries and posted sales of 12.8 billion Euros in 2014.

KEY FIGURES
(at December 31, 2014)

61
countries

63,000
employees

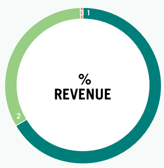
12,843
revenues
in million euros

1,612
production sites

• Lafarge - **Registration Document 2014**

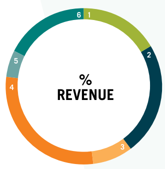
GROUP PROFILE

KEY FIGURES BY ACTIVITIES
(at December 31, 2014)



1. Cement	66.5%
2. Aggregates and concrete	33.1%
3. Other	0.4%

KEY FIGURES BY GEOGRAPHIC AREA
(at December 31, 2014)

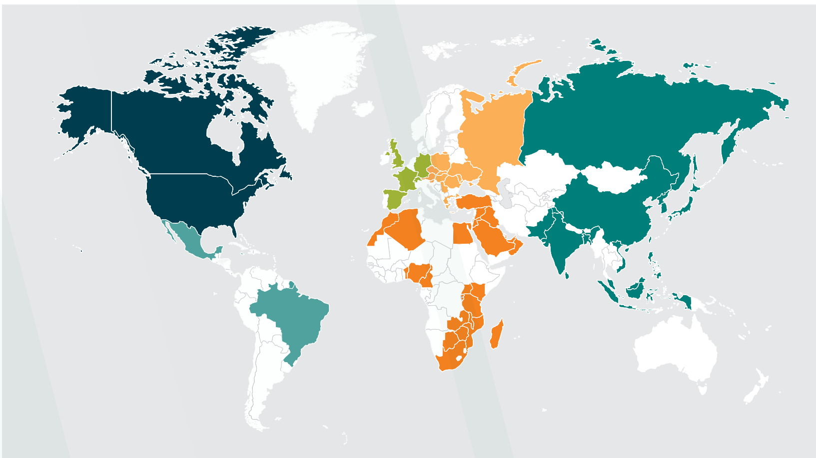


1. Western Europe	16.4%
2. North America	23.5%
3. Central and Eastern Europe	8.3%
4. Middle East and Africa	28.9%
5. Latin America	5.5%
6. Asia	17.4%

LAFARGE WORLDWIDE (DECEMBER 31, 2014)

LAFARGE WORLDWIDE (December 31, 2014)

Western Europe · North America · Central and Eastern Europe · Middle East and Africa · Latin America · Asia



World map of Lafarge's presence as of December 31, 2014 (plants and sales offices).

CEMENT WORLD LEADER

55
countries

37,000
employees

8,545
revenues
in million euros

149
production sites

N°2 AGGREGATES & N°4 CONCRETE

37
countries

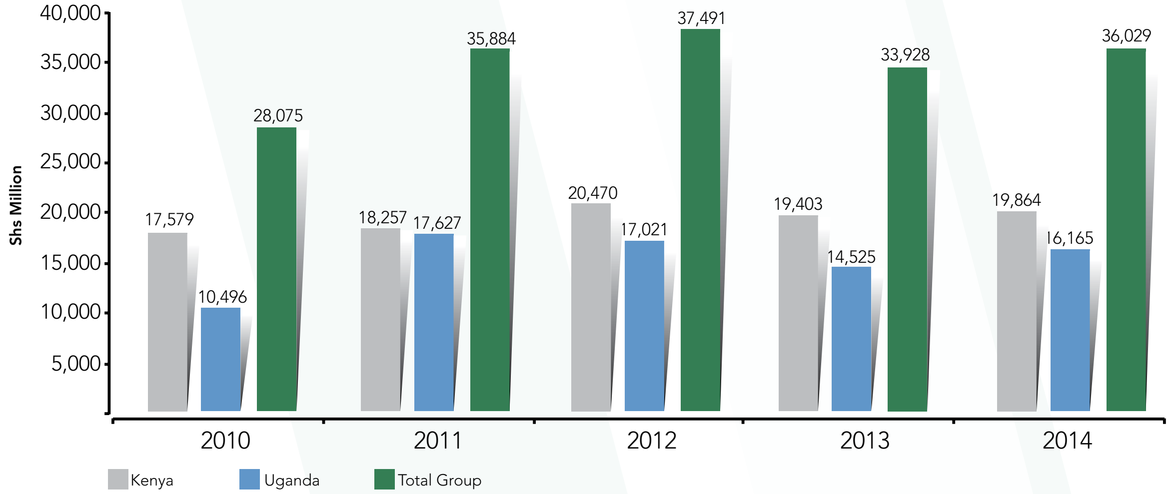
26,000
employees

4,253
revenues
in million euros

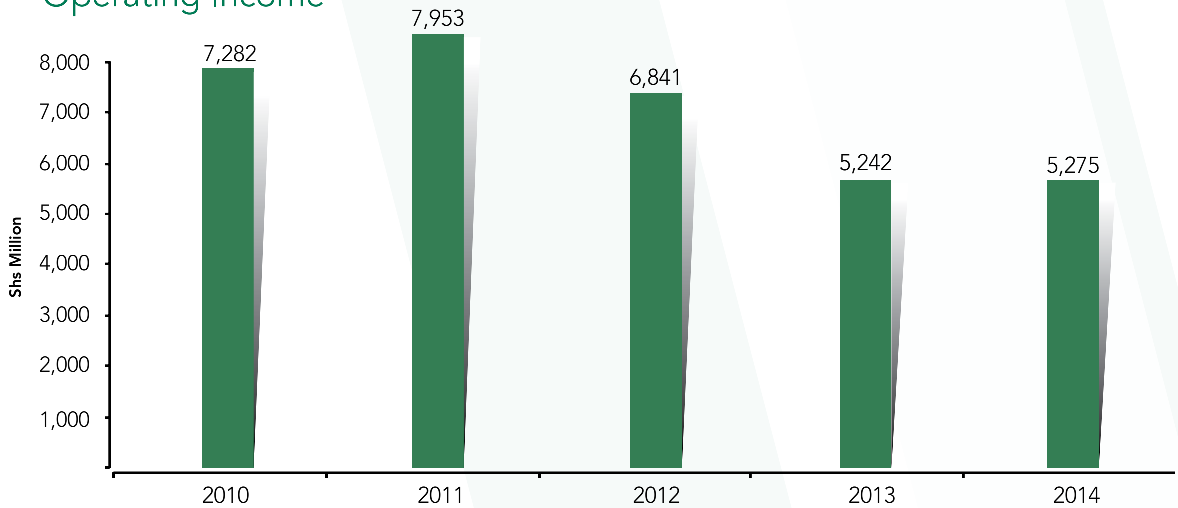
1,463
production sites

KEY FINANCIAL HIGHLIGHTS

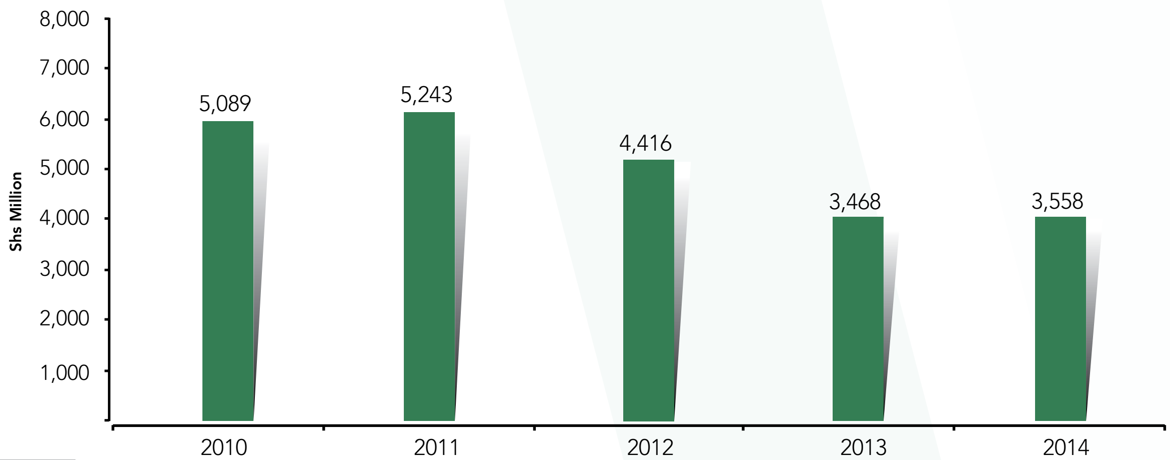
Group Turnover



Operating Income

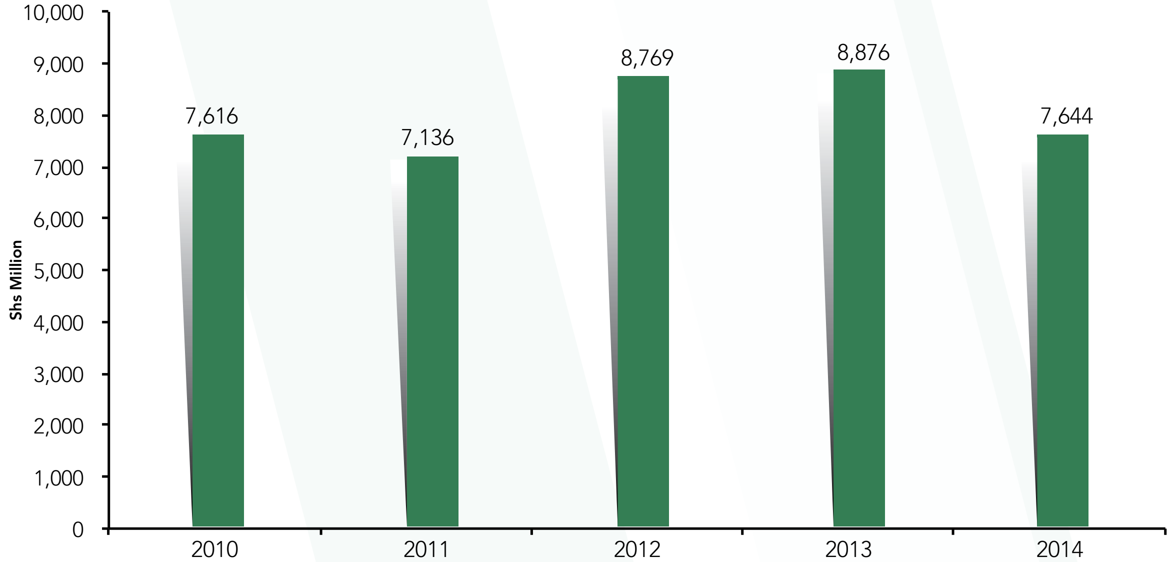


Profit attributable to shareholders

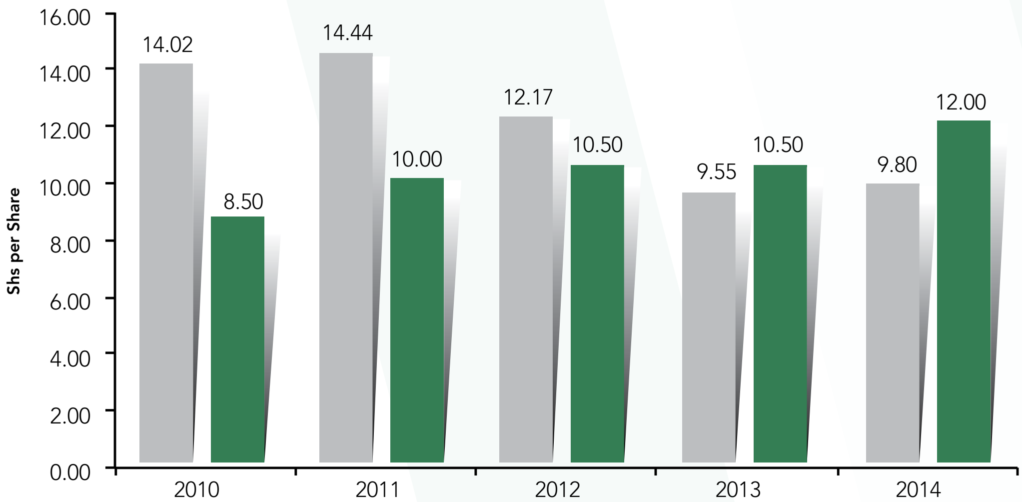


KEY FINANCIAL HIGHLIGHTS

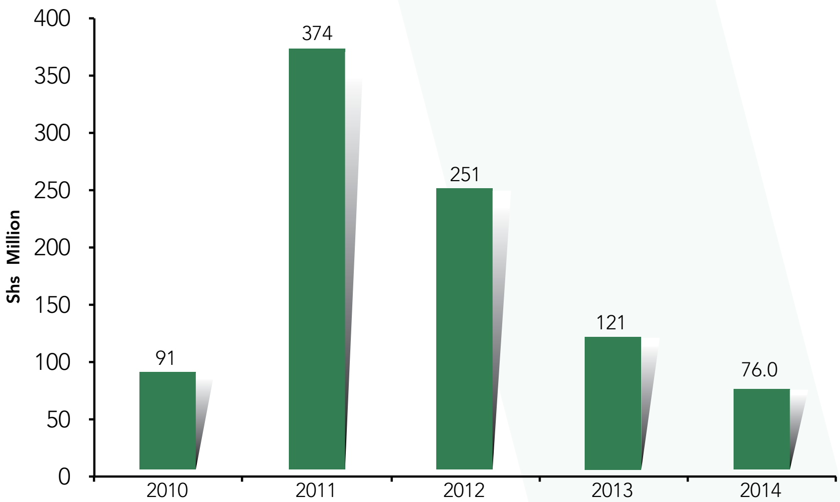
Net Cash



Earnings/ Dividend per Share

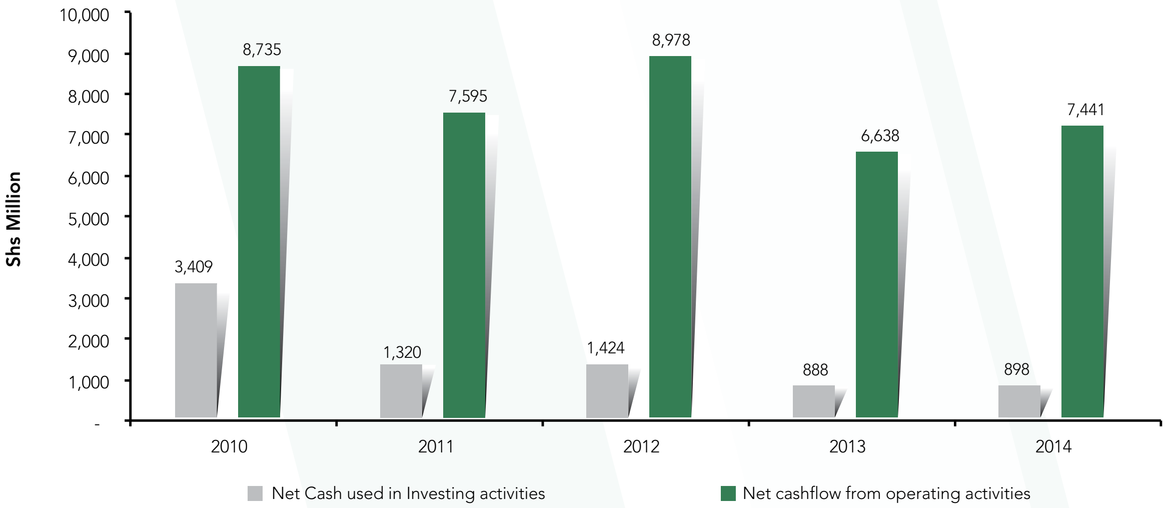


Finance Costs

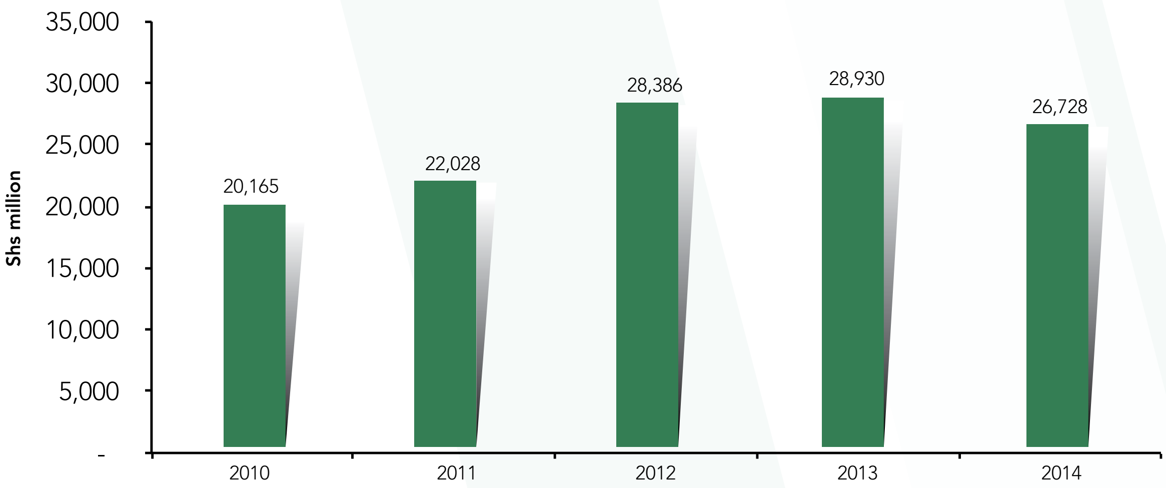


KEY FINANCIAL HIGHLIGHTS

Investments and Net Cashflows from Operating Activities



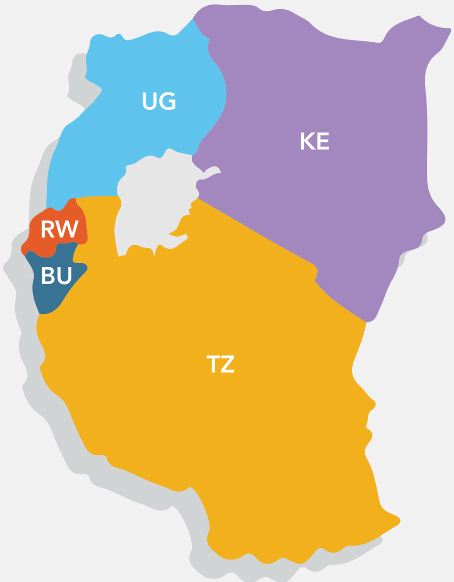
Shareholder Equity



INDUSTRY HIGHLIGHTS

East Africa

Cement consumption in East Africa grew ahead of GDP, largely supported by strong growth in the home markets, the recovery of the Great Lakes region from geopolitical tensions, closer economic integration within the East African Community as well as a predominantly stable macroeconomic environment supporting good domestic demand. Government spending on infrastructure and housing in the region has also spurred demand for cement.



Kenya

The market grew ahead of GDP following recovery in the infrastructure segment as a result of good public investment, the trickle-down effects of infrastructure expansion on Individual Home Builders (IHB) segment activity, an increase in diaspora remittances and a stable macro-economic environment further stimulating demand.

Uganda

The market grew ahead of the GDP growth rate supported by recovery in the infrastructure segment as a result of good public investment as well as rising credit growth driven by robust private consumption and improvement in IHB activity.

01 Capacities continued to grow at rates above the growth in demand, putting pressure on prices

02 Continued focus on vertical integration activities, enhanced route to market, channel partner programmes, brand building and innovation to grow revenues

03 The Kenya and Uganda markets remain in a clinker manufacturing deficit and cement surplus in the short run, however the group's markets extend to larger Eastern and Inland Africa markets which are in a cement-deficit position

04 Progressive excellence in cost optimisation with a key focus on energy costs, which are a key component of our cost of production

Outlook

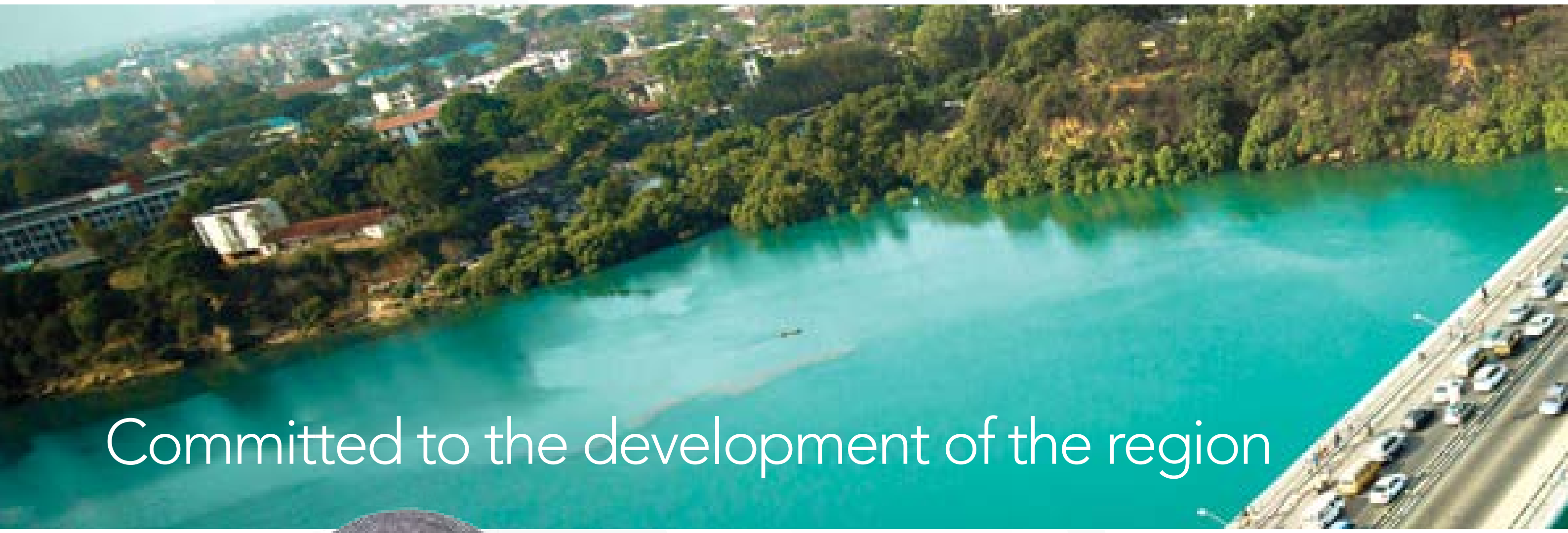
Risks

- Geopolitical tensions
- Security concerns
- Currency and commodities risks

Opportunities

- Current stability of the geopolitical climate
- Stable macro-economic indicators
- Greater East African Community integration
- Favourable weather and fuel prices

CHAIRMAN'S STATEMENT



Committed to the development of the region

I take great pleasure as the Chairman of Bamburi Cement Limited in presenting another year of great success. It has been an exciting year for the country and the region. In Kenya we have seen the devolved government take shape with a more inclusive form of governance now in place. County governments have rolled out various development projects whose benefits are now starting to be felt at grassroots level. We have seen growth in all our home markets of Kenya and Uganda and a recovery of our export inland African markets, as the peace dividend in eastern DR Congo starts bearing fruit.

2014 was historic for Kenya as the country floated its first ever sovereign Eurobond of US$ 2bn that was oversubscribed by 400%. This strongly signals increased investor confidence and the future outlook of the country as a regional business hub.

The Kenyan government continued to put more focus on bilateral cooperation with Asian partners especially China. The national government made further significant investments in public infrastructure, notably in power, roads, ports and railways. Likewise in Uganda, we are also seeing significant government investment in infrastructure projects with more focus on power and roads. Such projects in both our main countries of operation, have opened up new opportunities for economic growth and productivity among various industry sectors such as ours.

The macro-economic environment in Kenya has been favourable with GDP growth estimated at 5.2% compared to 5.7% in 2013 (rebased). Annual inflation dropped to 6.9% while exchange rates were relatively stable. The benchmark interest rate as set by the regulator (Central Bank of Kenya) remained at 8.5% for the better part of the year. In Uganda, we also experienced high GDP growth rates of 5.7% supported by growth in public infrastructure and relatively stable single digit inflation at 2.7%. The benchmark interest rate remained at 11% for the better part of the year. On an industry level, the cement sector grew above the GDP growth rates in our markets of operation (Kenya and Uganda). This was driven by a stable macro-economic environment, which has supported good individual home builder (IHB) performance. Another contributor has been increased government expenditure in large public infrastructure projects in the oil industry, transportation and construction centred around public-private partnerships (PPPs).

CHAIRMAN'S STATEMENT

"The East African region continues to experience dynamic growth propagated by increased investment interest and large scale development projects in the member countries. A growing population and increased spending power has generated more demand for quality and affordable housing solutions. New markets are opening up as a result of regional integration and co-operation. This presents unique opportunities for Bamburi to continue on its growth trajectory and play an even bigger role in the region's development agenda but more importantly; to do so in a sustainable manner"

Current and Prospective Key Projects in the region

KENYA	UGANDA
Standard gauge railway	Entebbe-Kampala express road
Lamu Port	600MW Karuma dam
JKIA expansion and greenfield	185MW Isimba dam
500km of road on PPP	Jinja Nile bridge
LAPSET	
East Africa Railway Network	

All these factors have played in favour of our company and provided opportunities for us to not only grow our business, but also push ourselves to provide more innovative products that suit the sophisticated construction needs of our wide range of customers.

We are fully committed to continuously growing shareholder value. We have increased our EPS by 3% to Kshs 9.80. The Board has proposed a dividend payout of Kshs 4.4bn which translates into a 9% increase in dividend per share to Kshs.12. At Bamburi, we are not only focused on financial performance, but also on building a sustainable business that will continue to generate value for all stakeholders into the foreseeable future.

Our priority areas have remained safety, health and environment in ensuring sustainable and profitable operations across all the regions we operate in. The initiatives we deployed throughout the year include increased staff participation in making our operations safe: involving our suppliers and distributors in making our environment safe especially on our roads; and applying strict global standards to minimise the impact of our operations on the environment.

Clean energy and efficient operations remains an area we have a keen interest in. We invested in key projects during the year to drive energy efficiency throughout our production process and we entrench our resolve to be a socially and environmentally responsible corporate citizen.

Future outlook

There are several factors that we believe will promote growth in the cement industry in the mid-term. One, we anticipate further global economic growth and improved regional demand. Two, economic integration within the East Africa Countries will deepen even further. Three, regional governments have committed to investing more in infrastructure in both the public and private sectors. Lastly, the maturation of county government structures and systems in Kenya will translate into increased spending on local development projects.

Of course, there are some challenges that we are monitoring such as the reliability, sufficiency and quality of power supply. As the largest power consumer in both Kenya and Uganda, this is critical to us. Political stability and security which impact on our supply and distribution network, our operations and the welfare of our employees, are also very important considerations. Going forward, market competition is bound to increase with the opening up of more growth opportunities in the region.

Bamburi Cement Limited takes full cognisance of these factors and we intend to leverage our regional presence, global brand association and international expertise to take our business to the next level. Through cutting edge research and innovation we believe we have what it takes to be a truly customer-centric business, one that provides not only the best products, but also the right construction solutions to meet its customers' needs.

We will continue to engage with our stakeholders especially in the provision of reliable and stable power to ensure more efficient production and operations in our plants. We are excited about the Kenyan national government's continued commitment to an improved power generation mix.

Greater focus will be put on the execution of our strategic goals as well as our uncompromising stand when it comes to health and safety.

In conclusion, I would like to thank my board and management team for their exemplary performance in ensuring another year of success at Bamburi.

Dr John P.N. Simba, OGW, MBS

CHAIRMAN

Committed to delighting customers

What type of year did the group experience?

2014 was a mixed bag of results. Our markets in the region have continued to grow but we have not fully benefited from the same. At the same time, our cost of production was impacted by inflationary pressures to key inputs. That said, we made good progress in improving our operational performance and building sustainable operations across our markets. Of special note are the changes we made to the key management team as well as the provision of increased autonomy to the Hima management team, which will help increase efficiency in decision making.

What are some of the highlights of the year?

As a business, we are concerned about much more than just profitability. Personally, I am very proud of our achievements in health and safety. We made good progress in road safety culture entrenchment with zero fatalities on the roads. We also achieved zero fatalities across our industrial sites though we recorded two Lost Time Injuries (LTIs) in the period. There has also been significant improvement in organisational engagement in promoting health and safety in the work environment.

On another aspect, our Mombasa plant was audited externally by Lafarge Group against the Health and Safety Management System (HSMS) and registered a performance of 2.6 against a target of 3.0 which is highly impressive.

On the commercial side, we have been striving to reinforce our customer focus. In addition, Bamburi invested in its brand and drove innovation in the cement industry in the region. While capitalising on our brand, we launched and commenced production of **POWERCRETE**, which is a high end product, first of its kind in East Africa, and which has stringent production requirements and is being used in major infrastructure projects in the region such as the Standard Gauge Railway. We have also rolled out sales force training to bolster sales productivity and effectiveness with a focus on customer relationship management. We have also prepared the launch of new products for roads in 2015.

Any challenges you faced in 2014?

Competition has been on the increase with the market now having nine players across Kenya and Uganda and this has kept our prices under pressure. The increased costs of operations especially high power costs has added more pressure on our margins. Despite these constraints, we still managed to produce a robust set of results based on our ability to innovate and anticipate future construction needs.

"We are operating in an ever increasingly competitive environment with more discerning customers who demand for customised construction solutions. It becomes crucial for Bamburi to continuously identify the intrinsic customer needs and address them through innovative and affordable solutions that improve their quality of life."

with innovative solutions

How about bottom-line performance?

I am proud of the continuous efforts of my entire team in ensuring another good year for the company and its shareholders. We posted growth in most of our key financial metrics. Turnover went up by Kshs 2.1bn to Kshs 36.0bn due to better performance in Uganda and a growth in domestic volumes of 2% and export volumes of 22%. Pre-tax profit grew by Kshs 285mn to Kshs 5.8bn mainly due to the recovery of domestic market prices in Uganda as well as market growth across the region. Our costs went up by 6% due to increased production and the challenges mentioned earlier. We put a number of cost containment measures into place. First, we increased alternate fuels substitution across the sites and completed the heavy fuel oil to petcoke conversion in Uganda. Secondly, we implemented actions around sustaining operational efficiency in energy consumption, usage of raw materials and increase the production of clinker. Thirdly, we renegotiated key contracts to achieve lower operating costs. Our cash position also reduced by Kshs 1.2bn to Kshs 7.6bn after the 2013 dividend payout and loan repayments made in the year and we have now fully repaid the loan taken for the expansion in Hima.

What can we look forward to in 2015?

The industry will definitely become more competitive and at the same time our customers will develop more sophisticated needs and tastes. We see this as an opportunity to leverage on our strengths: our market leadership position, strong brands, geographical coverage, improved customer service as well as skilled and motivated teams. These will generate value for all stakeholders and drive the bottom line. Collaboration with all our stakeholders across a broad base of agendas will see us establish a sustainable business for the mutual benefit of all parties.

We will put more focus on our customers, new products, new services, focused attention on their needs will be at the heart of our preoccupation. As an example, we have made great headway into setting up our affordable housing agenda and in the coming year will be launching our pilot initiative. This will combine access to construction funding via a microfinance partnership, provide construction technical assistance, link the borrowers to our network of reliable and convenient retailers of building materials, and provide access to alternative construction technologies

Proactively positioning the company to the evolution in the markets remains a key focus area for us.

We will continue to mitigate inflationary cost risks through continuous improvement in plant and logistical efficiencies. Some of the key projects planned for 2015 include process optimisation for better energy consumption and increased alternate fuels substitution across sites.

Anything you would like to say in parting?

I would like to extend my appreciation to our customers for their brand loyalty over the years; to our suppliers and distributors for reinforcing our business operation; to my staff for their dedication and resilience; and to the governments, the communities we operate in and other stakeholders for their continued collaborative engagement with us.

Bruno Pescheux

MANAGING DIRECTOR

OUR BUSINESS IN REVIEW

SS IN REVIEW

WHAT WE DO

Cement

- **POWERMAX** - a 42.5 grade blended cement that offers superior strength for use in building, civil and structural works.
- **POWERCRETE** - a 52.5 grade cement made in conformance to Chinese standards to meet requirements for special projects such as the Standard Railway project.
- **NGUVU** - a 32.5 grade cement used for general building and structural works.
- **SUPASET** - a 32.5 grade cement and for general building and structural works (Export brand).
- **MULTIPURPOSE** - a 32.5 grade cement used for general building and structural works.
- **POWERPLUS** - a 42.5 grade pure cement used for high strength concrete.

Concrete products

- BAMBURI READYMIX CONCRETE - pre mixed concrete delivered to customer site as a ready to use construction product.
- BAMBURIBLOX - high quality pre-cast concrete paving blocks that offer paving solutions under the brand name "BamburiBlox"
- BAMBURI PRECAST MOULD - these are pre-cast mould products that include drainage and edge restraints products, fencing and walling products

Haller Park

Forest Trails

Eco Tourism and Education

- Haller Park is a flourishing Eco System consisting of forest, wetland and grassland habitats created through the Company's effort to rehabilitate quarry wastelands. Haller Park hosts over 400 species of indigenous plants as well as a variety of wildlife that attracts foreign and local visitors. It also offers educational tours diverse educational institutions.
- Bamburi Forest Trails is a rehabilitated quarry that offers a cool environment for fitness, recreation and education as well as a venue for functions and events in a lush forest setting.

VALUE ADDED STATEMENT

	Kshs Million	Kshs Million	
Description	2014	2013	% change
Revenue	36,029	33,928	6%
Investment & other income	602	395	52%
Cash value created	**36,631**	**34,323**	**7%**
Value Distributed:			
Human Capital-remuneration	2,425	2,337	4%
Social capital-community investment	60	84	-3%
Government taxes	1,793	1,808	-1%
Shareholder	5,648	3,911	44%
Repayment to lenders and interest charge	663	422	57%
Directors' remuneration	4	4	0%
Project capital	827	915	-10%
Suppliers	26,423	24,807	6%
Cash (drawn)/retained for sustainable growth	(1,212)	35	-3,563%
Cash value distributed	**36,631**	**34,323**	**7%**
Number of employees	932	936	0%
Cash value created by employee	**39**	**37**	**5%**

BOARD OF

STANDING (L-R): Daniel Pettersson, Fabrizio Olivares , Dominique Brugier, Betty Kanyagia (Company Secretary), Amb. Solomon Karanja, Chris Kisire, Eric Kironde

SEATED (L-R): Catherine Langreney, Dr. John Simba, Bruno Pescheux, Sheila M'Mbijjewe

MISSING – Thomas Farrell

DIRECTORS

BOARD OF DIRECTORS PROFILES

Non - Executive Directors

DR JOHN SIMBA, 70, MBS, OGW LLB, LLD (Hon.).

Dr John Simba is an Advocate of the High Court of Kenya and Senior Partner at Simba & Simba, Advocates. He has previously worked with the Attorney General's Chambers, Industrial & Commercial Development Corporation and National Bank of Kenya.

Dr Simba formerly served as Chairman, Federation of Kenya Employers, Kenya Bankers' Association, Retirement Benefits Authority, APA Insurance Company Limited and the University of Nairobi Council and as President of the Rotary Club of Nairobi. He is currently Chairman of Pan Africa Insurance Holdings Limited, Choice Tea Brokers Limited, a director in several companies and Chancellor of Pwani University.

He is a member of the Law Society of Kenya, East African Law Society, Commonwealth Lawyers Association, International Bar Association and the Institute of Directors, Kenya.

He is also the Chairman of the Board of Directors and Chairman of the Nomination & Corporate Governance Committee.

CHRIS C. KISIRE, 48, BComm, MBA, CPA (K), CPS (K)

Chris Kisire is the Chief Finance Officer, National Bank Limited.

His business experience spans more than 23 years in Finance, Administration and Business Management both locally and internationally. He is an alumni of Strathmore Business School/IESE, AMP 2010 and a member of ICPAK and ICPSK.

Mr Kisire is a member of the Audit Committee.

DOMINIQUE BRUGIER, 56, BMechE

Dominique Brugier joined Lafarge in 1991 as a Mechanical Expert, moved to Lafarge China in 1995 as a Maintenance Manager, became Project Manager in 1997 and was appointed Industrial Director in 2005. In 2009, he was promoted to the position of Director, Performance and Progress, East and West Sub-Saharan, Africa then to General Manager, Lafarge Industrial Performance, Middle East & Africa in 2013.

In July 2014, Mr Brugier was appointed Resource Allocation Director within the new worldwide Lafarge Industrial Performance division.

He is a member of the Audit Committee.

SHEILA M'MBIJJEWE, 57, MBS, ICAEW, CPA(K)

Sheila M'mbijjewe's previous jobs include Finance Director at PricewaterhouseCoopers, Stagecoach International and Standard Chartered Bank Kenya.

Ms M'mbijjewe is the Chairperson of the Audit Committee.

AMB. SOLOMON W KARANJA, 78, BA, MA

Amb Solomon Karanja has worked as a Deputy to the University of East Africa Registrar and was the first Kenyan Registrar of the University of Nairobi. He subsequently held the position of Executive Chairman, East Africa Portland Cement Company for 12 years until he was appointed Executive Chairman National Bank of Kenya in 1987. He has served as Chairman of the Kenya Golf Union, Muthaiga Golf Club and Fidelity Shield Insurance Company. Amb. Karanja has also been appointed by the Government to serve on several commissions.

He retired as a Director of Muthaiga Country Club and also as the Kenyan Ambassador & Permanent Representative to UN Habitat after serving two three year terms.

Amb. Karanja is the Chairman of the Kenya Medical Supplies Agencies. He is a member of the Nomination & Corporate Governance Committee.

THOMAS FARRELL, 58, BA, JD Law

Prior to joining Lafarge, Thomas Farrell was a corporate attorney with Shearman & Sterling, New York (U.S.A.) and Paris (France) offices.

Mr Farrell joined Lafarge in 1990 as Vice-President of Strategy. From 1992 to 2002, he managed various Lafarge operating units in France, Canada and India.

In June 2002, Mr Farrell was appointed Executive Vice President (EVP), Lafarge North America and in September 2007, he was appointed Lafarge Group EVP, Co-President of the Aggregates & Concrete Division and a member of the Executive Committee. In January 2012, Farrell was appointed Group EVP, Operations.

He is a member of the Nomination & Corporate Governance Committee.

CATHERINE LANGRENEY, 49, MSEE, MBA, CPM

Catherine Langreney started her career in 1991 working as an engineer and in procurement in various organisations in France and the United States of America including Alcatel USA and Bell Canada Technologies.

She joined Lafarge in 2002 as Vice President, Purchasing, Lafarge North America, until 2006 when she was promoted to Group SVP Purchasing. In 2011, Langreney was appointed Country CEO, Tanzania – a key regional collaborator of the Company. Since 2013, she has also been in charge of Lafarge Cement, Malawi.

Ms Langreney combines her business knowledge with her engineering background to drive change.

Executive Directors

BRUNO PESCHEUX, 59, BSc

Bruno Pescheux, a graduate engineer from Ecole Centrale de Paris, began his career in Lafarge in July 1990 as a plant production manager in France. He held various positions in France until August 2001 when he was promoted to Managing Director, Lafarge Asia Technical Center, Cement Division. In 2009, Mr Pescheux was appointed Managing Director, Lafarge Cement, Syria, a position he held until he was appointed Managing Director of the Group in July 2014.

He is a member of the Nomination and Corporate Governance Committee.

ERIC KIRONDE, 48, BSc, FCCA, CPA(U), CPA(K), ACMT

Prior to joining the Group, Eric Kironde worked at Nile Breweries Limited (Uganda) as an Internal Audit Manager and PricewaterhouseCoopers, where his last position was Audit Manager.

Mr Kironde joined the Group in August 2001 as Finance Manager, Hima Cement Limited, and has since held various finance positions within the Bamburi Group and Lafarge, including a 20-month secondment to Ashaka Cement Company in Nigeria. He was Director of Internal Control for Lafarge Sub Sahara Africa, based in Nairobi before being appointed Finance Director in November 2011.

DANIEL PETTERSSON, 40, MSc, MBA

Daniel Pettersson joined Lafarge in 2006 as Strategy and Development Manager, Head Office. Thereafter, he moved to the Democratic Republic of Congo as Business Development Director, a position he held until he was appointed General Manager, Ash Resources, Lafarge South Africa, in 2010.

Mr Pettersson is the Managing Director, Hima Cement Limited.

Alternate Director

FABRIZIO OLIVARES, 53, MCF

Before joining Lafarge, Fabrizio Olivares worked at Inergy Automotive Systems, Rhoda Chemicals, Ingersoll-Rand and Motorola.

He joined Lafarge in May 2008 as Senior VP Finance, Aggregates & Concrete Division, a position he held until April 2012 when he was appointed Senior VP Finance, Regional Operations Cement, Aggregates & Concrete for a number of Countries covering about one third of the Lafarge Group.

Mr Olivares has 25 years' experience in financial management and international controlling with major US and European Corporations.

Company Secretary

BETTY KANYAGIA, 40, LLB, CPS (K), MCIArB

Betty Kanyagia practised with a law firm in Nairobi before joining PricewaterhouseCoopers, Tax and Legal Services Department as a Consultant. She 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.

Ms Kanyagia is a Commissioner for Oaths and Notary Public. She is a member of the Law Society of Kenya, the Chartered Institute of Arbitrators, the Institute of Certified Public Secretaries of Kenya and the Commonwealth Lawyer.

EXECUTIVE MANAGEMENT

Bruno Pescheux
MANAGING DIRECTOR

Eric Kironde
FINANCE DIRECTOR

Geoffrey Ndugwa
SALES DIRECTOR

Robert Nyang'aya
GENERAL MANAGER-BAMBURI SPECIAL PRODUCTS

Magdalene Mwende
SUPPLY CHAIN DIRECTOR

Susan Maingi
CORPORATE AFFAIRS, COMMUNICATIONS AND SUSTAINABILITY DEVELOPMENT DIRECTOR

EXECUTIVE MANAGEMENT

Peter Gibendi
MOMBASA PLANT MANAGER

Jacqueline Wanyama
HUMAN RESOURCE AND ORGANISATION DIRECTOR

Irene Onacha
MARKETING MANAGER

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Bamburi Cement Limited is appointed by the shareholders to supervise the business and affairs of the Group. The setting up of sound corporate governance and ethical business practices is critical to this role.

The Board recognises that for governance to be effective, it must be realised through leadership and collaboration, with the Board at the helm leading by example and complimenting the executive committee.

This statement provides necessary information to enable investors to evaluate the application of the Group's governance and ethical obligations, that the Group has complied with the obligations and therefore satisfied its obligations thereunder.

Board Structure and Activities

Mandate

The Board of Directors has the fundamental responsibility to promote the success of the Group and act in the best interests of the Group and its shareholders while having regard to the interest of the employees, customers and suppliers.

The operations of the Board are governed by the Board Charter which the Board has deemed to be up to date with the current needs and roles of the Board.

Membership and Size

The Board currently comprises ten members following the appointment of Bruno Pescheux as Managing Director after the resignation of Hussein Mansi as well as the resignation of Mutua Kilaka.

The Board members are all successful and experienced professionals in their respective fields, with personal integrity who do not depend financially on the fees received from the Group. They strive at all times to preserve their reputations for independence, where applicable, and governance in Kenya and elsewhere.

Recognising the benefits of diversity, there are seven nationalities represented on the Board, gender representation as well as a broad spectrum of skills and professions. The membership comprises new and long serving directors, helping the Group draw upon the experience of the longer serving directors while tapping into the new external perspectives and insights brought by the more recent appointees.

There are seven non-executive directors, five of whom are independent. The Board believes that, while all directors are equally accountable for the proper stewardship of the Group, the non-executive directors have a particular responsibility to ensure the decisions of the Group are not only in the interest of the shareholders, but take into account the interests of employees, suppliers and customers.

The Board is satisfied with the commitment and contribution of each director. The Board is further satisfied that the Board and its committees were effective in the year under review.

Operations

The Chairman, together with the Managing Director and the Company Secretary, ensures the Board operates effectively and in accordance with its Charter.

The Board is represented on the board of Hima Cement Limited, the second largest subsidiary in the Group, by the Chairman together with the Managing and Finance Directors. The Boards in Bamburi and Hima meet at least four times a year. Members of Management are invited to these meetings when deemed necessary. The dates of the meetings are set in November or December of the previous year, well in advance, and the venue is rotated around the various sites where the Group is located to provide an opportunity for the Board to interact with site staff.

The Chairman and Managing Director, either jointly or separately, have regular meetings and consultations with the independent directors.

The attendance of the Board meetings above for the year under review is indicated below.

Director	Category	6 March	6 June	24 June	7 August	4 December
J Simba	Non-executive	√	√	√	√	√
C Kisire	Non-executive	√	√	x	√	√
S M'Mbijjewe	Non-executive	√	x	x	√	√
S Karanja	Non-executive	√	√	√	√	√
D Pettersson	Executive	√	√	√	√	√
D Brugier	Non-executive	√	√	x	√	√
H Mansi	Executive	√	x	√		
B Pescheux	Executive				√	√
E Kironde	Executive	√	√	√	√	√
T Farrell	Non-executive	√	n/a[1]	√	n/a[1]	√
C Langreney	Non-executive	√	√	x	x	√
F Olivares[2]	Non-executive	n/a	√	n/a	√	n/a

[1] Represented by his alternate
[2] Alternate to T Farrell

To better serve the long-term interests of the Group stakeholders, the Board delegates matters that require specific time, attention and expertise to its committees but retains oversight through reports that the committees make to the Board. Each committee has written charters which govern its operations.

Separation of Roles

The roles of the Board and Executive are kept separate at all times, consistent with the principle of instituting an appropriate balance of power and authority. The schedule of matters reserved for the Board details specific company affairs the Board does not delegate.

The division of responsibility between the Chairman and the Managing Director is clearly defined and approved by the Board. The Chairman is responsible for leading the Board to ensure effectiveness in all aspects of its role through setting the board meeting agenda, ensuring members receive accurate, timely and clear communication while encouraging constructive relations between the Board and Management. The Chairman is also responsible for ensuring effective communication with stakeholders, including shareholders, and promoting high levels of corporate governance.

The Managing Director is responsible for the day to day management and leadership of the Group, execution of the strategy approved by the Board and policy formulation to ensure delivery of strategy.

Training and Evaluation

Induction and Training

The Company Secretary designs and facilitates a tailored induction programme for new directors, which includes visits to all group sites and meetings with senior management to enable the new Directors develop a full understanding of the Group's business.

The Directors receive appropriate continuous development in order to better perform in their role and build on their expertise. The training includes updates on regulatory developments, developments in their specific areas of expertise, new business, new products, risk management and corporate governance. The members are expected to set aside sufficient time for training.

Information

On appointment, Directors are provided with a reference manual containing all information on legal obligations they need to be aware of. The manual also contains items such as the Board Charter, Articles of Association, Code of Business Conduct Policy and corporate governance rules.

All directors are supplied with full and timely information to enable them to discharge their responsibilities. Board papers are distributed at least fourteen days before the board meeting and seven days before committee meetings. The Directors have unfettered access to any other information they may require, Management and the Company Secretary, who assists them in the discharge of their duties.

The Board can also seek independent professional advice at the Group's expense.

Performance Evaluation

The Board undertook a performance evaluation during the year. The review allows the Board to determine whether or not it has delivered on its mandate, measures the board's overall efficiency and effectiveness together with peer evaluation of each director's individual contribution.

The performance evaluation also reviews whether the independent directors remained independent by looking at whether they were in Management or were substantial shareholders their involvement in other companies, external directorships, relationships with material suppliers or whether they had material contracts with the Group. A key finding was that the length of service did not automatically preclude a director from exercising independence in decision making as the Board's long serving independent directors remained objective and unbiased. The Board is satisfied that all independent non-executive directors met the criteria for independence.

The results of the evaluation were used to discuss improvements and establish training requirements.

Board Committees

Audit Committee

The Audit Committee functions within a charter approved by the Board. It has an independent role with accountability to both the Board and shareholders. The responsibilities of the Audit Committee include assisting the Board in discharging its responsibilities to safeguard the Group assets, operating adequate and effective internal control, risk management and governance systems, preparing materially accurate financial reports, monitoring compliance with laws and regulations, overseeing the external and internal auditors together with any other roles assigned to it by the Board.

The Audit Committee members are all independent and non-executive directors. The Managing Director, Managing Director - Hima, Finance Director and the Head of Internal Audit are invited to attend the meetings. Other members of the Board can also attend the meetings.

In 2014, the Committee met five times, including a meeting with the internal and external auditors in the absence of Management. Other than the standard reports, the Committee reviewed the Hima depots and the export bond audits. The Hima team was invited to the meeting of the depots audit.

The Audit Committee is satisfied that the external auditors were effective, independent and objective. The Committee is further satisfied that the external auditors have the requisite expertise and resources to carry out their mandate.

Nomination & Corporate Governance Committee

The Nomination & Corporate Governance Committee (NCGC) is responsible for nomination of appointments/re-appointments to the Board and its committees together with compliance to corporate governance rules and regulations.

The Committee considers the board and/or committee composition, skills and experience of directors, skills gaps, the Board Charter as well as the listing requirements. In 2014, the committee reviewed the qualifications of the proposed Managing Director and made recommendations as appropriate. The Committee also reviewed succession planning for the Board.

The Committee ensures governance to facilitate effective, efficient and entrepreneurial management that will deliver long term shareholder value. During the year, the committee reviewed the proposed Capital Markets Authority corporate governance rules and attended seminars in these.

The NCGC is also responsible for review of conflict of interest declarations made by the Board. Directors are required to avoid situations where they have or can have a direct or indirect interest that conflicts with the interests of the Group. Where avoidance is not possible, Directors are required to declare the possible conflict of interest, which declaration is reviewed and assessed by the Committee. For the year under review, no actual or potential conflicts of interests were brought before the Committee for review.

Executive Committee

The day to day business and operations of the Group are delegated to the Executive Committee (EXCO). Its members are appointed by the Managing Director and the Committee consists of individuals responsible for key components of the business.

The EXCO meets at least every two weeks or more frequently if necessary and the agenda focuses specifically on delivery of performance objectives.

Company Secretary

The Company Secretary acts as secretary to the Board and all the committees of the Board. The Company Secretary attends all Board and Committee meetings and ensures that Board/ Committee procedures are complied with. The Company Secretary advises on governance matters, ensures information flows between the Board, its Committees and Management.

The Company Secretary supports the Chairman in planning the agendas, Board performance management, training and induction.

Control Environment Management

Risk Management

Accepting that risk is an inherent part of business, the Board is dedicated to the identification of key risks and providing reasonable assurance to the shareholders that the risks are fully understood and managed.

The Board is, through the assistance of the Audit Committee, responsible for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor key business risks at strategy and operational levels.

Acknowledging that risk management is designed to manage rather than eliminate the risks, the Board has defined the amount of risk the Group is able and willing to take in pursuit of its business objectives.

Internal Controls

The Board has designed internal control systems to cover all controls and each member of the ExCom is made responsible as a mega business process owner for a specific aspect of the Group operations.

Key features of the internal control system are clearly written and signed off process flows, clear definitions of accountabilities, delegation and segregation of duties together with the recognition that people are integral to internal control.

The Board, through the Audit Committee and ExCom, ensures constant review of the internal controls to ensure alignment with the ever changing business environment.

For the year under review, the Board has conducted a review of the risk management policies and internal control of significant risks and material systems. All action deemed necessary to remedy any identified weaknesses has been carried out.

It is the opinion of the Board that the system of risk management and internal controls in place, which should provide reasonable but not absolute assurance, was adequate and effective.

Code of Business Conduct

As the Group is committed to conducting its operations responsibly, the Board requires all directors, all employees and suppliers to maintain the highest levels of ethical standards.

To ensure that all employees were up to date on what was required of them, in 2012 a refresher training on the Code of Business conduct began. This training was completed in 2013 and all employees were required to submit a declaration testifying to their understanding of and commitment to compliance of the Code at the end of the sessions.

The Code of Business Conduct provides the mode and level of investigation for reported suspected breaches. It also provides a whistle blowing line that allows all employees the opportunity to make confidential disclosure relating to suspected impropriety or wrongdoing.

In 2014, the Group rolled out the Suppliers' Code of Business Conduct, which it required all its suppliers to comply to while recommending that the suppliers roll the said policy in turn to their suppliers.

Communication

The Group values open, constructive and effective communication with all its shareholders and stakeholders as it does not practise selective disclosure. The Group, taking cognisance of the importance of explaining its business development and financial results, uses various forums including the website which contains a wealth of information.

Day to day shareholder relations are the responsibility of the Managing Director, the Company Secretary and the Finance Director.

The Chairman was also available for consultation with shareholders most of which is through letters but also face to face during the annual general meeting.

Annual General Meeting

The Group holds an Annual General Meeting (AGM) of the Company each year and notice of the meeting is provided at least a month in advance. The meetings continue to be held in Mombasa in recognition of the home base of the Group.

As proof of the importance shareholders hold the AGM as the principal forum for dialogue, the number of attendees continued to grow. The AGM held on 5 June 2014 provided a forum for discussion on the financial results and include a question and answer session where all directors, in person or by proxy, and the external auditors were available to answer any questions the shareholders had.

Investors

The Group values the opinions of private investors and continued to engage them throughout the year. The Managing Director and Finance Director met with and received feedback from analysts and institutional shareholders.

Financial Results

The Group announces its financial results every six months. The half year and full year results are released within forty five days of the end of the period through publishing in two daily newspapers and posting on the website. The shareholders also get a copy of the annual report that contains the full year results.

RISK PROFILE

Strategic Risk

Environment

As part of our commitment to sustainable development, we have, for a number of years, integrated environmental aspects in our strategy and culture. We rehabilitate all our used quarries to world standards through forestation. We plant trees on the unused quarries to deter soil erosion and create new habitats where they did not exist before. Haller Park and the Nature trails in Mombasa are testimony to our commitment to the environment

In addition, we have invested significantly in taming any dust emissions from our factories both in Kenya and Uganda. In so doing, electrostatic precipitators have been replaced with more effective bag filters. This is to ensure the populations and other activities around our plants are not adversely affected by our operations.

Green Gas Emissions

We have substituted heavy furnace oil with alternative fuels such as biomass to reduce emissions of green gases at our plants in Hima Uganda and at the Mombasa Plant and Nairobi Grinding Plants in Kenya. We also began offering waste disposal services at the Mombasa plant through strategic partnerships. We dispose of hazardous materials such as old tyres, expired grains, and condemned goods in cement kilns using internationally set standards.

Industrial Labour Relations

We are up to date with the collective labour agreements at all our plants. Our cordial working relationships with the labour unions have ensured that our operations are not subjected to unnecessary labour strife, thereby avoiding strikes.

Mining Act

We are fully compliant with all the provisions of the Mining Act, and operate within the licenses issued to the company by all relevant regulatory authorities at both the national and county government.

Competition

The company continuously monitors the competitive landscape and the growth in the cement industry while abiding by the competition laws and regulations as set by the Competition Authority of Kenya. The company's belief is that competition is necessary to achieve economic efficiency and constitutes a key element of free enterprise.

The company strives to be the market leader through the provision of unrivalled construction solutions to its customers in Eastern Africa.

We continuously offer customer tailored solutions in the cement, precast and ready mix segments serving home builders, commercial operations and mega infrastructure projects.

We believe a level playing field for all industry players offers the best opportunities for all stakeholders.

Secure Operations

Through the risk management and security function, the Group has invested in safeguarding its assets. Reducing threats is part of ensuring the continuity of operations and improving employee morale, which in turn yields better productivity. There could be no operational performance without security at the workplace. Furthermore, limiting the risk of harm to the Group makes it possible to reduce the financial losses generated by incidents and other crisis situations. Security risks facing the Group are comprehensive and continuously changing. The Group can only continue with its domestic and regional operations if it takes these risks into consideration, both in terms of protection of staff in all countries and protection for its assets. Security is a cross-functional concern.

The security function was established after an evaluation and assessment phase, and is charged with coordinating the introduction of all measures required to provide protection for the Group assets, thereby ensuring the sustainability and continuity of operations. The security department, supported by other departments, makes use of business impact analysis, risk assessments, incident reporting as well as training and awareness sessions to assist in identifying, rating and mitigating risks and their impacts.

Operational Risks

Safety

our existence is anchored in safety as our number one priority. If we are not safe, our business will cease to exist. We provide a safe work place for our employees at all sites. At the plants we have demarcated areas for mandatory personal protective equipment for all employees and visitors. All contractors are accorded the same level of safety conditions as the employees. Management closely tracks safety statistics, which are an integral part of the Group's key performance indicators.

Occupational Health

As required by the Occupational Health and Safety Act, 2007 in Kenya, all our employees across the group (industrial and non-industrial) have undergone risk based health assessments for the last three years to ensure they are fit for and suited to the work they have been employed to do, and meet the inherent health requirements for the relevant occupation. These assessments ensure the health of employees is not adversely affected by their work or working environment. This approach has helped the business to be more strategic in employee placement and support.

Information Security and Business Continuity

Given the risks associated with data loss and systems unavailability, or worse, potential theft of company data, the Group's information security function, in collaboration with the parent security team, has implemented several measures to safeguard our enterprise information. We have several system controls in place, which are constantly monitored. All teams work together to ensure the controls are working effectively.

Crisis Management

A sustainable business needs to effectively manage risk and crises with minimal negative impact. Robust systems have been put in place to handle and manage crises. A critical component of these systems is the identification and prevention of an incident or situation from turning into a crisis and to manage any crisis situation. Our approach to incident management involves a 4 step crises management cycle

STEP 1:Prevention

Actions to reduce or eliminate the possibility of a crisis. happening

STEP 2: Preparedness

Being ready to handle a crisis, ensuring that business can continue.

STEP 3: Response

Internal notification, analysis and actions to resolve.

STEP 4: Recovery

Close-out, review and corrective actions to prevent recurrence.

In our industry crisis scenarios can occur in many situations such as Natural disasters, Industrial incidents, health & safety incidents, environmental incidents, off-site incidents involving employees or contractors, protests, product and service related issues, security incidents and unexpected legal challenges and decisions.

A comprehensive Crisis Management System is in place and has been cascaded throughout our operations. The Country Crisis Management System includes:

- An Emergency Response Plan
- A Business Continuity Plan
- An Evacuation Plan
- A Crisis Management Plan

We have a fully formed Crisis Management Team whose members are regularly trained to carry out their roles during a crisis scenario.

Our crisis management system enables effective and continuous stakeholder engagement that reduces the likelihood of an incident escalating into a crisis and minimizes the impact on our stakeholders

SHAREHOLDER PROFILE

Top 10 Shareholders as at 31 December 2014

Rank	Name of Shareholder	Shares	%
1	Fincem Holding Ltd	106,360,798	29.30%
2	Kencem Holding Limited	106,360,797	29.30%
3	Standard Chartered Nominees A/C KE11396	55,150,278	15.19%
4	Paramount Company Ltd	12,462,450	3.43%
5	Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	3,702,785	1.02%
6	Standard Chartered Kenya Nominees A/C KE20086	2,500,000	0.69%
7	Standard Chartered Nominees A/C 9098AC	2,203,355	0.61%
8	Standard Chartered Nominees Non Res A/C KE9273	2,173,700	0.60%
9	Standard Chartered Nom A/C KE 11916	1,896,460	0.52%
10	Baloobhai Chhotabhai Patel	1,797,405	0.50%

Share Analysis by Domicile as at 31 December 2014

DOMICILE	NUMBER OF SHARES	%	NUMBER OF HOLDERS
Foreign Institutions	242,757,123	66.88%	56
Foreign Individuals	283,223	0.08%	49
Local Institutions	106,419,588	29.32%	659
Local Individuals	13,499,341	3.72%	2,454
TOTAL	362,959,275	100.00%	3,218

Share Analysis by volume as at 31 December 2014

VOLUME	NUMBER OF SHARES	%	NUMBER OF HOLDERS
1 – 500	249,784	0.07%	1,222
501 – 5,000	2,455,152	0.67%	1,220
5,001 – 10,000	1,635,718	0.45%	230
10,001 – 100,000	13,353,224	3.68%	396
100,001 – 1,000,000	42,088,768	11.60%	134
1,000,001- 99999999999	303,176,629	83.53%	16
TOTAL	362,959,275	100.00%	3,218

OUR OPERATIONS IN REVIEW

ONS IN REVIEW

KENYA

Bamburi Cement Limited

The operating profit declined by 7% mainly from the impacts of a new mining levy introduced and a 26% increase in power costs as a result significant tariff increases in the first half of the year through to August. However, these factors were countered by a growth in the domestic market especially in the latter part of the year, better clinker production and improvements in operational efficiency

Clinker production was up by 3% compared to 2013 due to plant mastery as well as kiln debottlenecking that occurred towards the end of the year. We further reduced our clinkerisation energy costs in Mombasa and additive drier energy costs in Nairobi through alternative fuel substitutions.

Variable costs increased from the previous period due to the impact of power prices and increased purchased clinker consumption. This rise was partially offset by gains made from better power consumption due to better clinker and cement production methods, lower raw material prices and alternate fuels substitution,

Industrial fixed costs increased slightly due to the timing of our plant shutdowns in 2014, which were more than in 2013.

Bamburi Special Products

This a wholly owned subsidiary of the Group and the largest supplier of Ready Mix Concrete and Precast blocks in Kenya.

Revenues at Bamburi Special Products grew by 37% mainly driven by a 60% growth in Ready Mix Concrete sales. As a result, operating profit improved by over 300% The growth was however impacted by inflationary pressures on raw material costs and higher selling and distribution costs.

Overall we continue to see growth and increased uptake in the Ready Mix segment, with the product being a convenient alternative to conventional site mixing. Our pre-cast volume grew by 53% in 2014. The segment is however becoming increasingly competitive, though we continue to play a lead role in increasing the products on offer at the same consistent high quality standards of Bamburi. In 2014, we began supplying some of these high quality pre-cast products, to the Mombasa port extension project.

Lafarge Eco Systems

This is wholly owned subsidiary, incorporated to sustainably utilise the Group's land and rehabilitate quarries, using the land and quarries as a show case of environmental responsibility and also to engage neighbouring communities and stakeholders.

Revenues at Lafarge Eco Systems dropped by 9% due to low park fees on the back of a subdued tourism industry at the coastal region. This was further impacted by higher labour costs after a 39% salary award to the union employees by the Industrial Court. As a result the company for the first time reported a loss for the period.

Outlook for Kenya

We expect the positive macro-economic indicators experienced in 2014 to continue into 2015, including strong overall economic growth, increased market demand and the country to surpass its expected GDP growth. Key cost factors such as power costs are also expected to be favourable with the global reduction of fuel prices and the improvement in power generation mix in Kenya.

On the other hand, there remains the risk of forex fluctuations as well as exposure to the threat of insecurity and its negative impact on tourism and the economy. We however, are confident in the national government's resolve to maintain a stable monetary environment and to tackle insecurity in the country. Despite the anticipation of increased competition in our markets, we believe that we have the right fundamentals; our strong brands, the right value added solutions, a good cost leadership position, strong and skilled teams, as well as well mastered plants, that will enable us to fully exploit the expected strong market growth.

The Precast segment is becoming increasingly competitive and our key focus will be building even further on our strengths in this business. We continue to innovate around new products while maintaining high quality standards in line with our mother brand. Expansion of our geographical footprint and leveraging on our sales force effectiveness programme will enable us to drive our top-line. Lastly, through elaborate cost containment measures and team capacity building, we aim to achieve better operational efficiency in the business.

Nairobi Grinding Plant, Athi River

UGANDA

Hima Cement Limited

2014 has been an outstanding year with a 33% increase in operating profits with growth in volumes to both the domestic and export markets.

Despite the growth in export volumes there were challenges emanating from security concerns in South Sudan and a slow start in the Rwanda market.

Sales, general and administrative costs increased due to a reorganization of sales team with an aim of improving commercial performance as well as expenditures in improving route to market for products and better control of the distribution channel. Industrial fixed costs were consequently also up to as a result of the implementation of projects to ensure the plant supports delivery of products.

In 2014 we undertook a significant and value adding project that was launched early in 2014 to sustain the plant operations and drive improved company results. The project has contributed to better optimization of power consumption despite continuous challenges from national grid regarding power supply. It has also provided a structure framework to plan, analyze and improve our performance with regards to fuel substitution; achieving an average of 28.6% of Petcoke substitution to heavy fuel oil. Through the implementation of new logistics model we also expect a reduction on costs for raw materials supply.

Outlook for Uganda

In 2015, we are optimistic about a general improvement in Hima Cement performance; supported by a projected 6.8% domestic GDP growth and a strong domestic market growth.

Demand growth will be boosted by launch of new infrastructural projects in the energy and transport. Through greater participation in the new infrastructure projects; the expectation is that our domestic market share will remain at 2014 levels.

Our plant focus remains driving down costs through stabilization of production and coupled with improved reliability and utilization. This will be achieved through lowering the delivered cost for raw materials and optimization of usage of petcoke and biomass substitution. Improvement of our logistic distribution costs and truck overall performance will also be a key focus area in cost control.

Hima Plant, Kasese

Building the Brands

In order to grow and maintain our market leadership, we strive to connect with the market through targeted communication activities whose key objectives are creating awareness, driving trial and usage and ultimately build brand loyalty. Through this, we are able to compete successfully by strategically focusing on the priority segments with clear value propositions and offers.

In 2014, the marketing campaign focus continued to support the individual product brands through relevant touch points.

For our flagship brands **NGUVU**, in Kenya and **MULTIPURPOSE** in Uganda, we developed a unique campaign - 'Homes are built to last forever' which had a distinct emotional appeal depicting the security and pride that a family derives from constructing a home. This campaign was activated on TV, radio, print and points of sale.

We also undertook campaigns in Kenya for the other brands - **POWERMAX**, **POWERCRETE**, **READYMIX** and **BamburiBLOX** leveraging on print and digital platforms. In Uganda, we launched the Hima Bulk Delivered Cement service with new Lafarge branded bulker trucks. In December, we launched the Cement Retail Shop Container concept where we created Hima Cement exclusive shops with partner retailers.

The key highlight for Kenya was the launch of **POWERCRETE**, the first 52.5 grade cement in East Africa. The product was developed to conform to the stringent Chinese Cement Standards in order to meet the requirements for the Standard Gauge Railway project in Kenya. This product is ideal for ultra-high strength application such as railway sleepers and so far, Bamburi is the only manufacturer in the region that has successfully produced the required specifications for this project.

Across both countries, we enhanced our interaction with the specifier segment that includes engineers, architects, quantity surveyors, contractors and developers through forums, talks, expos and sponsorships. Direct engagement with over 2,000 masons in both countries was conducted via the Builders Academy sessions that targets training and imparting knowledge and skills. The masons are our brand ambassadors and through these sessions we enhance our relationship with

them, get market feedback and address any concerns that they may have. This year, we incorporated practical sessions to demonstrate concrete and aggregate quality.

The marketing teams across our operations worked closely with the sales teams to ensure that our channel partners were well resourced. Training of frontline staff; enhanced our trade visibility through shop branding, point of sale materials and branded merchandise, as well as rallied other staff members to visit outlets and interact with the trade as an appreciation for their support.

Our Systems

One of the major achievement in enhancing our systems in 2014 from the technology team, was reducing the time it takes for the company to issue orders to its customers. This was achieved through integrating our SAP Enterprise Resource Planning System (ERP) with the various banks that serve our customers. This resulted in faster receipting process of monies deposited into our accounts, and faster reconciliation for the finance accounts receivable and treasury teams. Furthermore, we capitalised on the opportunity to leverage on various mobile solutions in the market. The Technology team implemented systems that allow our customers to pay for products using a mobile device on the existing mobile payment platforms offered by telecommunication companies. This has offered great convenience and eased transactions with our customers.

BUILDING A SUSTAINABLE BUSINESS

Our continued success is dependent on the quality of relations we have with all our stakeholders. Deliberate efforts are made to nurture strong relationships that contribute to socio-economic development that is mutually beneficial and partnering to promote the well-being and prosperity of communities we operate in. Our initiatives are well structured to ensure they deliver the desired impact. They address the unique situations and needs of the different communities we work with. We have defined our strategy along three pillars which enable us to have sustainable relationships with the communities we operate in.

Building Communities

The key to our success is to continuously invest for the long term through partnerships and engagement with the community. Not only does this enhance our competitiveness in the market, it also promotes the social and economic conditions of the surrounding communities.

Our focus areas are centred on stakeholder engagement, infrastructure development in education, health and public facilities as well as sponsorships and awards

Building Sustainably

With the increasing urbanization being witnessed in the region, it becomes imperative o us to play a bigger role in the management of social and environmental issues such as health and quality of life, climate change, waste management, resource utilisation and poverty. This is a pillar we have recently began to focus on where our goal revolves around achieving better product designs that are eco-friendly and cost effective; while maintaining sustainable sourcing of raw materials.

Our focus area will be partnering with other parties in the construction chain to enable members of the community to access affordable housing through leveraging on more sustainable and cheaper construction solutions

Building the Circular Economy

With the expansion of our operations and markets, sustainable utilization of energy remains a key are of focus for us. In all our operations, the challenge is to achieve better waste management and reduction of environmental foot print in key areas of climate, air, raw materials and energy.

Our focus areas are in energy consumption and resource management, biodiversity and CO2 emissions.

BUILDING COMMUNITIES

Under the pillar of Building Communities, our sustainability actions are focused in three areas: Health and Safety, Employee Diversity and Skills; and Community Development and Outreach.

Health and Safety

In 2014, our focus remained on building a positive health and safety culture across our operations with an aim of creating a positive attitude towards risk management and compliance with our control processes and further improve on the ability to learn from failures and safety performance indicators.

Health

We continue setting up health programs in line with the Group 2020 ambitions through the 4 pillars strategy that includes, Occupational health risk prevention, medical intervention, health promotion, wellness and stake holder's health.

For the year 2014, we achieved 100% annual occupational health assessment for our internal staff and contractors. We remain committed to health promotion and awareness programs for our staff and stake holders

Industrial Safety

Our Mombasa plant was audited externally by Lafarge group against the Health and Safety Management System (HSMS) registering a performance of 2.6 against a target of 3.0.

In line with the Lafarge HSMS, we continued to work towards developing competency skills in health and safety. Various programs for competence development and awareness creation have been carried out in the year amongst our employees and contractors since inception of this programme.

We continued with our Visible Felt Leadership (VFL) program, which allows business executives and managers to take time on the shop floor and observe supervisor and frontline worker behavior.

Employees and contractors were constantly encouraged to work towards and expect a safe working place from site management. We have a safety observation program in place that reports on near-miss incidents. The management teams at the sites also improved the rate at which issues raise at shop floor level were addressed and closed.

Kenya Operations

Safety Statistics	2014 Actual	2013 Actual
Lost Time Injuries (LTR)	2	1
Lost Time Injury Frequency Rate (LTIFR)	0.55	0.43
Total Injury Frequency Rate (TIFR)	2.49	1.36
Fatalities	0	0
Visible Felt Leadership (VFL) reports	2648	3403
Near miss reports	14127	16407

Uganda Operations

Safety Statistics	2014 Actual	2013 Actual
Lost Time Injuries (LTR)	0	0
Lost Time Injury Frequency Rate (LTIFR)	0	0
Total Injury Frequency Rate (TIFR)	0.90	1.29
Fatalities	0	0
Visible Felt Leadership (VFL) reports	1049	764
Near miss reports	7730	5256

In November we kicked off our safety campaign dubbed **"I am Committed, I am Open and I am uncompromising"** at all the sites in the countries we operate in. This campaign has enabled us to make safety observations and tag risks and hazards and closure of the generated actions is ongoing.

Road Safety

We recognize, Road safety as an issue of concerns at business and national level.

To complement the efforts by governments and respective agencies, we make it a point to share our experiences and knowledge in safety with stakeholders including communities next to our sites and along the corridors where our raw materials and finished products are transported.

In Kenya, we conducted two highly successful road safety awareness campaigns.

The first campaign was organized by Safe Way Right Way (a road safety organization that Bamburi Cement is a member alongside other organizations such as Total, EABL and DHL). The event was flagged off from our Mombasa Plant in November. Secondly, in collaboration with our contracted transporters we traditionally conduct an **Annual Road Safety Awareness Campaign** towards the end of every year before the festive season which is associated with many road accidents. In 2014, the campaign under the theme ***"Jitunze Uishi"*** which translates simply to ***"Take Care and Live"*** took place in the first week of December. The event was flagged off from the Nairobi Grinding Plant by the Transport PS, Nduva Muli and Managing Director, Bruno Pescheux.

From their starting points, both caravans traversed the Athi River - Mlolongo - Mai Mahiu - Nakuru - Salgaa - Burn Forest - Eldoret - Jua Kali - Kanduyi - Malaba route, stopping at designated points along the corridor to sensitize drivers, boda boda operators, members of the public and other road users on Road Safety. The campaigns trained close to 1,000 Boda Boda operators along the Northern corridor.

In Uganda, 2014 ended with significant improvement in road safety statistics. Out of consistent focus on major compliance aspects such as journey planning, road patrols, GPS, defensive driving, and cleaning the driver database, the road safety situation registered some notable improvements. Overall safety compliance year to date is 85%, with journey plan compliance at 88% and road patrol at 84%. With the operation of the new GPS center in July 2014, a rise in GPS violations was recorded due mainly to the fact that previously, some violations were not captured under the old GPS order. Since then, GPS compliance has steadily improved and is currently at 84%. Other factors that assisted in road safety improvement include cleaning out of driver data base to weed out inexperienced drivers in the system and review of driver training to emphasize aspects of defensive driving.

There was an increased participation by Hima employees in road safety through road patrols. 364 road patrol reports submitted compared to 174 reports submitted the previous year.

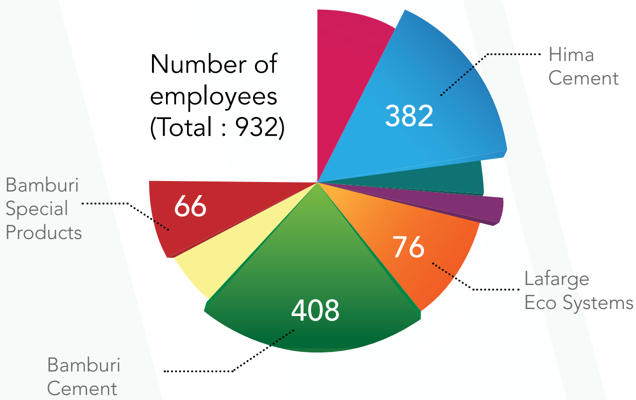
In Kenya we closed the year with zero fatalities which is a great achievement and a testimony that our continued efforts are bearing fruits however, in Uganda, we had two injury accidents and a fatality involving a boda boda passenger. The fatality was found to be as a result of third party behavior. In terms fatalities, there were 4 accidents that resulted in 4 fatalities, all the crashes were as a result of third party behavior.

Despite the improvement compared to 2013, our target for fatalities remains at Zero.

Employee Diversity and Skills

People Development is one of our priorities our mission is to recruit, develop, manage, reward, organize and retain people so as to have the necessary resources to achieve country ambitions and to contribute to the overall Lafarge Group talent pool.

2014 has been a dynamic year in terms of our managing our talent pool. In the year, we made changes to our organization structure that saw the reorganization of critical business sections such as Sales, Human Resources and Supply Chain. The new structure now accords us an optimal framework that will ensure delivery on our performance targets.



By the end of period under review, we had a total of 932 employees spread out across our operations with a gender (male to female) balance of 5:1 for our Kenyan operations.

The company has a relatively young working force with 12% of our employees below the age of 30 years and 74% of our employees between the ages of 30 to 50 years.

Due to the increased competition for talent in the cement industry, staff turnover increased by 3 percentage points.

Training and Development

Our employees are at the very frontline of all our operations. As such their career development and growth is a central part of our strategy to continue providing innovative construction solutions, maintaining high levels of safety and health and optimizing our operations. In 2014 several trainings were carried out to increase not only the capabilities of our teams but also to instil personal development and security skills amongst our employees.

These trainings included

- Sales force effectiveness for sales teams
- Up skilling for quality and pump operations teams in the ready mix section
- Pre-retirement training for staff aged 50 years and above
- Defensive driving training for all staff

We implemented different internal development programs for technical and non-technical staff at all levels. These were done through the diverse Lafarge internal systems and programs rolled out in all our sites including talent management, plant team assessments plus full implementation of Plant Operating Model in our Mombasa Plant. We also actively carry out internal and external pipeline review and succession planning to ensure that the company at all times has adequate talent to ensure sustainable operations.

Employee Welfare

We have several employee wellness initiatives that focus around annual health assessments, dental and optical check-ups as well as several health awareness sessions covering diverse topics

A critical part of our employee engagement is constant interactions with Unions. This enables better management of the relationship with our employees more effectively without any adverse impact on the company's operations and profitability. In the year there were several negotiations and a collective bargaining agreement signed for Lafarge Eco-Systems. We also finalized negotiations for Bamburi Special Products employees and initiated negotiations for Bamburi Cement Limited staff.

An employee engagement survey was done in November 2014 so as to gauge the successes of our employee engagement programs as well as identify the areas we are doing well in and the areas we need to improve on so as to retain our talent pool.

Reward and Recognition

The performance of the company is anchored on the input of our staff. We have in place robust policies and programs to ensure that good performance is recognized and rewarded. Some of the programs we have in place include a bonus program applicable to all employees, a sales incentive scheme for our sales team and a industrial bonus scheme.

Outlook

In the cement industry we shall continue to see increased competition for technical and non-technical resources due to more opportunities causing pressure on retention and attraction of talent. We will however counter this through:

- Robust career planning and implementation of agreed career actions
- Retention plans for key resources
- Review of existing compensation and benefits offerings in line with changing demographics to ensure competitiveness and drive performance
- Acceleration of variable pay versus fixed pay to reduce staff costs

Community Development and Outreach

The key to our success is to continuously invest for the long term through partnerships and engagement with the community. Not only does this enhance our competitiveness in the market, it also promotes the social and economic conditions of the surrounding communities. Our focus areas are centered on stakeholder engagement, infrastructure development in education, health and public facilities as well as sponsorships and awards

Our continued success is dependent on the quality of relations we have with all our stakeholders. Deliberate efforts are made to nurture strong relationships that contribute to socio-economic development that is mutually beneficial and partnering to promote the well-being and prosperity of communities we operate in. Our initiatives are well structured to ensure they deliver the desired impact. They address the unique situations and needs of the different communities we work with. We have defined our strategy along three pillars which enable us to have sustainable relationships with the communities we operate in.

Stakeholder engagement

In Kenya, we engaged our stakeholders both at a National and local level. At National level some of the stakeholders we interacted with include the Ministry of Energy and Petroleum, Kenya Power, KETRACO, Energy Regulatory Commission (ERC), Kenya Association of Manufacturers (KAM), National Environment Management Authority (NEMA) and Kenya Private Sector Alliance (KEPSA)- as we lobbied on development projects, environmental, industry and trade issues amongst others. In addition, we held 18 high level and consultative meetings with community leaders and members including village elders' women and youth representatives, opinion leaders, religious leaders and provincial administration in attendance. At these meeting we shared our Corporate Social Responsibility (CSR) policy, discussed the CSR projects done in the area in the past years and held discussions around security and other development issues.

Courtesy calls were made twice in the year to meet key local stakeholders for introduction of new office bearers.

In Uganda, the senior leadership team met with key stakeholders in the region such as, Rwanda Revenue Authority, Rwanda Bureau of Standards, Minister of Infrastructure, Minister of Commerce, Ambassador of Uganda and 25 key dealers. Meetings were held with key district leaders in Kasese and Kamwenge districts to provide a platform to the district leaders to highlight matters of strategic concern. Hima Cement also took part in the 3rd Annual Mineral Wealth Conference organized by the Uganda Chamber of Mines and Petroleum.

A detailed list of all the projects that we have undertaken and sponsored is available on page 42 and 43.

BUILDING SUSTAINABLY

This is a relatively new area where we have began focusing on. Our primary focus will be on Affordable Housing but going forward we expect to roll out more initiatives under this pillar.

Affordable Housing

In Kenya and Uganda we are rolling out an Affordable Housing program.

In Nyagatare, Rwanda, Hima Cement held the affordable housing program in which masons and contractors were trained on production of soil stabilised bricks (SSB) and also identified a pilot project for construction of a show case house using our SSB technology. The construction of the pilot house should be completed by the end of June 2015.

In Kenya, a pilot program has been rolled out in partnership with microfinance institutions to provide construction funds to individual home builders. In turn, Bamburi will provide construction technical assistance, house designs, bill of quantity, schedule of materials and finally link the borrowers to our network of retailers from whom to source the building materials. The target is to impact and see at least 1,000 homes constructed by end 2016.

We shall also continue with the roll out of our affordable housing program in Rwanda with the Soil Stabilised Brick (SSB) technology offering.

BUILDING THE CIRCULAR ECONOMY

As part of Lafarge Group, we believe it is possible to create synergies between multiple industries so that waste from one company can be used as fuel or raw materials for another company thus preserving natural resources. One of the facets of this pillar is energy consumption and resource management where our target is of a 50% utilization of non-fossil fuels 30% of which should be bio-mass.

Alternative Fuels

By reducing our reliance on fossil fuels in our production process, we have not only achieved a reduction in energy cost but also made an impact on society. Firstly, a reduction in CO2 emissions directly impacts the environment through better air pollution management. Secondly, prudent waste management systems for the community through utilization of waste material that would otherwise be disposed of through means which would be damaging to the environment. Thirdly, community empowerment through engaging with the surrounding communities in the production and procurement of alternate fuels and thereby improving their economic status.

In Kenya, we utilized 5 kilotonnes of waste tyres as substitution for traditional fuels used in the Mombasa plant kilns which translates into 6 to 7%% substitution rate. In addition we also used biomass at both our Mombasa and Nairobi Grinding plant with a substitution rate of 4% and 25% respectively. We procured over 2 kilotonnes of rice husks from western and central regions which were as the alternative fuel at the Nairobi Grinding Plant

In Uganda, we sustained our Coffee Development Project and managed to progressively increase alternative fuel substitution from 26% in 2010 to 57% for energy requirement in 2014. Alternative fuel used at our Hima Plant is purely biomass from agricultural waste and coffee husks account for over 50% of our biomass use. The high use of biomass not only allows us to reduce our environmental footprint by reducing our CO2 emissions but we were also able to contribute to create over 2,000 jobs in the field, carrying out collection and bagging activities of the agricultural waste.

Our aim is to substantially increase coffee production in Uganda, raise living standards by increasing household incomes and provide a supply of clean renewable energy in form of coffee husks to the Hima plant. At full maturity of the project - of which between 2011 and 2014, 16.7 million seedlings have been distributed to 50,000 farmers in Kamwenge and Kasese. At this pace, by 2020 we expect that these farmers' income will be boosted by about Kshs 3.5 billion annually from the sale of coffee beans.

We continue to explore partnership with the Mombasa County in the Solid Waste Management project that was launched in 2013.

Biodiversity

The Haller Park, which is the flagship project under Lafarge Eco Systems and based in Mombasa, plays host to various events and is a sanctuary for captured and orphaned animals as well as rescued wildlife. In 2014, we received one oryx calf, three kudu calves, one grey duiker, several vervet monkeys, monitor lizzards, pythons, owls and a Grey Parrot from the Kenya Wildlife Service (KWS). We donated a few oryx and waterbuck to KWS for the animal orphanage in Nairobi. The animals rescued brought into the park by KWS have been introduced into the ecosystem thereby increasing the animal biodiversity of the park.

The biofuels project is a key lever in stakeholder relations. It helps to circumvent encroachment onto company land through the provision of employment opportunities in the reserve lands. Biofuels tree plantations currently cover 768 hectares on Vipingo and Diani mining reserve land. 114 local farmers participated in our "Shamba System" scheme in Vipingo and Diani where they are given seasonal cultivation contracts to cultivate crops in the plantations where feasible.

CORPORATE SOCIAL RESPONSIBILITY

Environmental Conservation

- National Environment Trust Fund
- Baobab Trust
- World Environment Day and engagement
- Strategic partnership with WWF to protect the catchment area of River Mubuku, Uganda
- Training in quarry rehabilitation

Health

- Donation towards Beyond Zero Campaign, Kenya
- Cancer Awareness Event and donation to Coast General Hospital
- Construction of Placenta Pit for Ng'ombeni Dispensary, Kwale County
- Donations towards construction of Kyabenda Health Centre in Kamwenge and Kilembe Hospital in Kasese
- Activities to mark World Aids Day carried out at all the Uganda sites with Voluntary Counseling and Testing of both staff and contractors

Community Empowerment

- Fuel donations to Bamburi Police Station
- Donation of fuel, TV , construction of washrooms and electrical installation for General Service Unit (GSU) in Diani, Kwale County
- Public waiting bay at D.O Kikambala's office, Kilifi County
- Borehole construction for Mwembelegeza community in Mombasa County
- Donations of cement to Kisauni Constituency, Mtwapa Community, Nyali Constituency, Mombasa County and Kilifi South Constituency
- Works along Dura-Rwimi road in Kasese, Uganda
- Construction of 30 biogas digesters in Kasese district in partnership with Heifer Uganda and Kasese district Local government
- Training of over 150 boda boda cyclists on safe road use at Hima Town and Mityana in partnership with Uganda Police in Tororo
- Donation of excavator to Kasese district for 2 weeks
- Donation of rain coats and gumboots for use by crime preventers in support of community policing initiative in Hima town

Sponsorships

- Federation of Kenya Employers(FKE) for Eastern Africa Conference
- Kenya Association of Manufacturers (KAM) Energy management awards
- KAM Business Leadership Confrence
- Baobab Trust Fund
- Kenya Red Cross Annual Gala
- National Road Safety Campaign
- National Maritime Conference

Sports and Culture

- Bamburi Rugby Super series
- Hima Open Golf and Captain's Prize Golf Tournaments
- Mombasa International Cultural Festival
- Beaujolais Noveau
- Bastille Day
- Alliance Francais
- Donation of plaques, trophies and t-shirts to Bamburi Rifle Club
- Donation of 600 bags of cement to Buganda Kingdom for the reconstruction of the UNESCO World Heritage site Kasubi Tombs

Education

- Bursary donations Nyali and Kisauni Constituency, Mombasa County
- Donation of construction materials to Vallerye Macmillan High School, Mombasa County
- Construction of 2 classrooms at Gongoni Primary School, Kilifi County
- Cement donations to Matuga Constituency Schools and Denyenye Primary School, Kwale County
- Donations to Ngai Secondary School, St. Paul Primary School, Ngwata Primary School and Konza ABC Secondary School, Machakos County
- Donations to Kitui Primary School, Kitui County
- Renovation of a 3-classroom block at Hima public primary school
- 5-stance latrine construction at Hima Moslem School
- Donation of cement to Twezimbe Development Foundation Uganda to renovate 6 schools in Mawokota District, Uganda Prisons Service for renovation of Nyakishoroza Primary School, Kiwanga Primary School in Mukono for the renovation of a classroom block and Ntinda School of the Deaf for renovation of classroom floors

FINANCIAL REVIEW

MORE BEAUTIFUL

REVIEW

BAMBURI CEMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2014

CORPORATE INFORMATION **46**

REPORT OF THE DIRECTORS **47**

STATEMENT OF DIRECTORS' RESPONSIBILITIES **48**

REPORT OF THE INDEPENDENT AUDITORS **49**

FINANCIAL STATEMENTS:

Consolidated Statement of Profit or Loss and Other Comprehensive Income 50

Company Statement of Profit or Loss and Other Comprehensive Income 51

Consolidated Statement of Financial Position 52

Company Statement of Financial Position 53

Consolidated Statement of Changes in Equity 54-55

Company Statement of Changes in Equity 56-57

Consolidated Statement of Cash flows 58

Company Statement of Cash flows 59

Notes to the Financial Statements 60–114

DIRECTORS

EXECUTIVE

B Pescheux	(French) - Managing Director – Appointed 21 July 2014
H Mansi	(Eqyptian) - Managing Director – Resigned 21 July 2014
E Kironde	(Ugandan) - Finance Director
D Pettersson	(Swedish/Nigerian)- Managing Director, Hima Cement Limited

NON-EXECUTIVE

J Simba	(Kenyan) - Chairman
S W Karanja	(Kenyan)
C C Kisire	(Kenyan)
S M'Mbijjewe	(Kenyan)
D Brugier	(French)
C Langreney	(French/American)
T Farrell	(American)
M Kilaka	(Kenyan) - Resigned 7 August 2014
F Olivares	(Italian) - (alternate to T Farrell)

SECRETARY

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

REGISTERED OFFICE

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

REGISTRARS

Custody & Registrars Services Limited
Bruce House, Standard Street
P. O. Box 8484 – 00100
Nairobi, Kenya

AUDITORS

Ernst & Young
Kenya-Re Towers, Upperhill
P.O. Box 44286 – 00100
Nairobi, Kenya

PRINCIPAL BANKERS

Citibank NA
Citibank House, Upper Hill
P. O. Box 30711 – 00100
Nairobi, Kenya

Standard Chartered Bank Kenya Limited
Chiromo Branch, 48 Westlands Road
P O Box 30003-00100
Nairobi, Kenya

Citibank NA Uganda
Centre Court Nakasero
P. O. Box 7505
Kampala, Uganda

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

Stanbic Bank
17 Hannington Road, Crested Towers Building
P. O. Box 7131
Kampala, Uganda

The Directors have the pleasure of presenting their annual report together with the audited financial statements for the year ended 31 December 2014, which show the state of affairs of Bamburi Cement Limited (the "company") and its subsidiaries (together, "the Group".

1. PRINCIPAL ACTIVITIES

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

RESULTS	2014 Shs' million	2013 Shs' million
Group profit before tax	5,801	5,516
Tax charge	(1,898)	(1,843)
Group profit for the year	**3,903**	**3,673**
Attributable to:		
Owners of the parent company	3,558	3,468
Non-controlling interests	345	205
	3,903	**3,673**

2. DIVIDENDS

During the year, an interim dividend of Shs 6.00 (2013 – Shs 2.00) per ordinary share amounting to Shs 2,178 million (2013 – Shs. 726 million) was paid.

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of Shs 6.00 (2013 – Shs. 9) per ordinary share equivalent to a total sum of Shs 2,178 million (2013 – Shs 3,267 million).

3. DIRECTORS

The Directors who served during the year and to the date of this report are shown on page 46.

4. AUDITORS

The Company's auditors, Ernst & Young, 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

5 March 2015

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 and the Company 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. The Directors are responsible for safeguarding the assets of the Group.

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, present fairly, in all material respects, the state of the financial affairs of the Group and the parent company and of their operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal control.

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

Approved by the Board of Directors on 5 March 2015 and signed on its behalf by:

....

Director

....

Director

Building a better working world

Ernst & Young
Certified Public Accountants
Kenya-Re Towers
Upper Hill-
Off Ragati Road
PO Box 44286 - 00100
Nairobi GPO, Kenya

Tel: +254 20 2715300
Email: info@ke.ey.com
www.ey.com

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Bamburi Cement Limited (the Company) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the statement of financial position of the Company as at 31 December 2014, and the statement of profit or loss and other comprehensive income of the Company, statement of changes in equity of the Company and statement of cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 48 to 112.

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 in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 about 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 depended on our professional 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 control relevant to the Company'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 effectiveness of the Company's internal control. 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 present fairly, in all material respects, the financial position of the Group and the Company as at 31 December 2014 and of the financial performance and cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards and the requirements of 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 Group and the Company, so far as appears from our examination of those books; and,

iii) the Group's and the Company's statements of financial position and statements of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Churchill Atinda – P/No. P.1425.

Nairobi, Kenya

29 April 2015

	Notes	2014 Shs'million	2013 Shs'million
Revenue	4	36,029	33,928
Cost of sales	5	(26,683)	(25,411)
Gross profit		9,346	8,517
Investment income	6	349	473
Other gains and losses	7	253	(78)
Distribution costs		(223)	(73)
Marketing expenses		(190)	(168)
Administration expenses	8	(1,721)	(1,435)
Other expenses	9	(1,937)	(1,599)
Finance costs	10	(76)	(121)
Profit before tax	11(a)	5,801	5,516
Tax charge	12(a)	(1,898)	(1,843)
Profit for the year		3,903	3,673
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(204)	554
Income tax effect		-	-
		(204)	554
Net (loss) /gain on revaluation of available-for-sale financial assets	19(b)	(125)	335
Income tax effect		-	-
		(125)	335
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(329)	889
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain	28	36	47
Income tax effect		(11)	(14)
		25	33
Revaluation adjustment of land and buildings	15(a)	-	(20)
Income tax effect		-	6
		-	(14)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		25	19
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(304)	908
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,599	4,581
Profit for the year attributable to:			
Owners of the parent company		3,558	3,468
Non-controlling interests		345	205
		3,903	3,673
Total comprehensive income attributable to:			
Owners of the parent company		3,314	4,376
Non-controlling interests		285	205
		3,599	4,581
Earnings per share – basic and diluted	13	Shs 9.80	Shs 9.55

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Shs'million	2013 Shs'million
Revenue	4	21,075	20,583
Cost of Sales	5	(15,510)	(14,527)
Gross profit		5,565	6,056
Investment income	6	763	683
Other gains and losses	7	253	(141)
Distribution costs		7	2
Marketing expenses		(157)	(130)
Administration expenses	8	(1,081)	(884)
Other expenses	9	(963)	(870)
Profit before tax	11(a)	4,387	4,716
Tax charge	12(a)	(1,295)	(1,512)
Profit for the year		3,092	3,204
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
(Loss)/gain on revaluation of available-for-sale financial assets	19(b)	(125)	335
Income tax effect		-	-
		(125)	335
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		(125)	335
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain	28	42	36
Income tax effect		(13)	(11)
		29	25
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	25
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(96)	360
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,996	3,564
Earnings per share – basic and diluted	13	Shs 8.52	Shs 8.83

	Notes	2014 Shs'million	2013 Shs'million
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15(a)	24,263	25,651
Prepaid operating lease rentals	16	186	206
Intangible assets	17	118	118
Other equity investments	19(a)	662	787
Goodwill	20	217	217
		25,446	26,979
CURRENT ASSETS			
Inventories	21	5,585	5,357
Trade and other receivables	22(a)	2,209	1,487
Corporate tax recoverable	12(c)	107	317
Cash and cash equivalents	23(a)	7,644	8,876
		15,545	16,037
TOTAL ASSETS		40,991	43,016
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	1,815	1,815
Asset revaluation reserves	25(a)	7,683	7,963
Available-for-sale reserve	25(b)	459	584
Translation reserve	25(c)	(449)	(306)
Retained earnings		17,220	18,874
Equity attributable to owners of the Company		26,728	28,930
Non-controlling interests		2,391	2,580
Total equity		29,119	31,510
NON-CURRENT LIABILITIES			
Deferred tax liability	26	3,955	4,191
Provision for liabilities and charges	27	457	386
Employees' benefit liabilities	28	692	629
Term loan	29(a)	-	309
		5,104	5,515
CURRENT LIABILITIES			
Unclaimed dividends	14(a)	25	26
Provision for liabilities and charges	27	316	337
Employees' benefit liabilities	28	13	83
Trade and other payables	30	6,414	5,236
Term loan	29(a)	-	309
		6,768	5,991
TOTAL EQUITY AND LIABILITIES		40,991	43,016

The financial statements were approved and authorised for issue by the board of Directors on 5 March 2015 and were signed on its behalf by:

.... Director

.... Director

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	2014 Shs'million	2013 Shs'million
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15(b)	13,589	14,217
Prepaid operating lease rentals	16	1	1
Intangible assets	17	97	86
Investments in subsidiaries	18(a)	937	937
Other equity investments	19(a)	662	787
Loan to subsidiary	34 (iii)	140	169
		15,426	16,197
CURRENT ASSETS			
Inventories	21	3,507	3,156
Loan to subsidiary	34 (iii)	29	29
Trade and other receivables	22(a)	2,227	1,493
Corporate tax recoverable	12(c)	21	72
Cash and Cash equivalents	23 (a)	7,013	8,539
		12,797	13,289
TOTAL ASSETS		28,223	29,486
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	1,815	1,815
Asset revaluation reserves	25(a)	7,435	7,658
Fair value reserve	25(b)	459	584
Retained earnings		11,461	13,562
Total equity		21,170	23,619
NON-CURRENT LIABILITIES			
Deferred tax liability	26	1,409	1,556
Provision for liabilities and charges	27	419	373
Employees' benefit liabilities	28	580	550
		2,408	2,479
CURRENT LIABILITIES			
Unclaimed dividends	14(a)	25	26
Provision for liabilities and charges	27	376	324
Employees' benefit liabilities	28	9	78
Trade and other payables	30	4,235	2,960
		4,645	3,388
TOTAL EQUITY AND LIABILITIES		28,223	29,486

The financial statements were approved and authorised for issue by the board of Directors on 5 March 2015 and were signed on its behalf by:

....

Director   Director

Attributable to the equity holders of the parent

Year ended 31 December 2013	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Available--for-sale reserve Shs'million Note 25(b)	Translation reserve Shs'million Note 25(c)	Retained earnings Shs'million	Total Shs'million	Non-controlling interests Shs'million	Total Shs'million
At 1 January 2013	1,815	8,307	249	(860)	18,875	28,386	2,475	30,861
Profit for the year	-	-	-	-	3,468	3,468	205	3,673
Other comprehensive income for the year	-	(14)	335	554	33	908	-	908
Total comprehensive income for the year	-	(14)	335	554	3,501	4,376	205	4,581
Transfer of excess depreciation	-	(472)	-	-	472	-	-	-
Deferred tax on excess depreciation	-	142	-	-	(142)	-	-	-
Withholding tax paid on Subsidiary's dividend payout	-	-	-	-	(21)	(21)	-	(21)
Dividends [Note 14(b)]:								
- Final dividends for 2012 declared and paid	-	-	-	-	(3,085)	(3,085)	(50)	(3,135)
- Interim dividends for 2013 declared and paid	-	-	-	-	(726)	(726)	(50)	(776)
	-	-	-	-	(3,811)	(3,811)	(100)	(3,911)
At 31 December 2013	1,815	7,963	584	(306)	18,874	28,930	2,580	31,510

Attributable to the equity holders of the parent

Year ended 31 December 2014	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Available- -for-sale reserve Shs'million Note 25(b)	Translation reserve Shs'million Note 25(c)	Retained earnings Shs'million	Total Shs'million	Non-controlling interests Shs'million	Total Shs'million
At 1 January 2014	1,815	7,963	584	(306)	18,874	28,930	2,580	31,510
Profit for the year	-	-	-	-	3,558	3,558	345	3,903
Other comprehensive income for the year	-	-	(125)	(143)	24	(244)	(60)	(304)
Total comprehensive income for the year	-	-	(125)	(143)	3,582	3,314	285	3,599
Transfer of excess depreciation	-	(400)	-	-	400	-	-	-
Deferred tax on excess depreciation	-	120	-	-	(120)	-	-	-
Withholding tax paid on Subsidiary's dividend payout	-	-	-	-	(71)	(71)	-	(71)
Dividends [Note 14(b)]:								
- Final dividends for 2013 declared and paid	-	-	-	-	(3,267)	(3,267)	(424)	(3,691)
- Interim dividends for 2014 declared and paid	-	-	-	-	(2,178)	(2,178)	(50)	(2,228)
	-	-	-	-	(5,445)	(5,445)	(474)	(5,919)
At 31 December 2014	1,815	7,683	459	(449)	17,220	26,728	2,391	29,119

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

- The asset revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment - Note 25(a).
- The available for sale reserve represents the cumulative gains and losses arising from revaluation of available-for-sale investments (other equity investments) from cost to fair value based on the market values of the equities at the end of the reporting date – Note 25(b).
- Retained earnings represent accumulated profits retained by the Group after payment of dividends to the shareholders.
- The translation reserve represents the cumulative position of translation gains and losses arising from conversion of net assets of the foreign subsidiary Company to the reporting currency - Note 25(c).

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

Year ended 31 December 2013	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Available- for-sale reserve Shs'million Note 25(b)	Retained earnings Shs'million	Total Shs'million
At 1 January 2013	1,815	7,880	249	13,922	23,866
Profit for the year	-	-	-	3,204	3,204
Other comprehensive income for the year	-	-	335	25	360
Total other comprehensive income for the year	-	-	335	3,229	3,564
Transfer of excess depreciation	-	(317)	-	317	-
Deferred tax on excess depreciation	-	95	-	(95)	-
Dividends: (Note 14(b))					
- Final dividends for 2012 declared and paid	-	-	-	(3,085)	(3,085)
- Interim dividends for 2013 declared and paid	-	-	-	(726)	(726)
	-	-		(3,811)	(3,811)
At 31 December 2013	1,815	7,658	584	13,562	23,619

COMPANY STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 31 DECEMBER 2014

Year ended 31 December 2014	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Available- for-sale reserve Shs'million Note 25(b)	Retained earnings Shs'million	Total Shs'million
At 1 January 2014	1,815	7,658	584	13,562	23,619
Profit for the year	-	-	-	3,092	3,092
Other comprehensive income for the year	-	-	(125)	29	(96)
Total other comprehensive income for the year	-	-	(125)	3,121	2,996
Transfer of excess depreciation	-	(319)	-	319	-
Deferred tax on excess depreciation	-	96	-	(96)	-
Dividends: (Note 14(b))					
- Final dividends for 2013 declared and paid	-	-	-	(3,267)	(3,267)
- Interim dividends for 2014 declared and paid	-	-	-	(2,178)	(2,178)
	-	-	-	(5,445)	(5,445)
At 31 December 2014	1,815	7,435	459	11,461	21,170

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2014 Shs'million	2013 Shs'million
Cash generated from operations	33	7,441	6,638
Interest received	6	349	473
Interest paid	10	(76)	(121)
Tax paid	12(c)	(1,793)	(1,808)
Net cash generated from operating activities		5,921	5,182
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15(a)	(783)	(879)
Purchase prepaid operating lease rentals	16	-	(28)
Purchase of intangible assets	17	(44)	(8)
Withholding tax paid on dividend to Group	6	(71)	(21)
Net cash used in investing activities		(898)	(936)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company	14(b)	(5,445)	(3,811)
Dividends paid to non-controlling interests		(203)	(100)
Loans repaid	29(a)	(587)	(300)
Net cash used in financing activities		(6,235)	(4,211)
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		(1,212)	35
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At beginning of the year		8,876	8,769
Net (decrease) /increase in cash and cash equivalents above		(1,212)	35
Effects of exchange rate changes on cash held in foreign currencies		(20)	72
At end of the year	23(b)	7,644	8,876

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2014 Shs'million	2013 Shs'million
Cash generated from operations	33	4,888	5,511
Interest received	6	361	485
Tax paid	12(c)	(1,404)	(1,535)
Net cash generated from operating activities		**3,845**	**4,461**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15(b)	(312)	(161)
Purchase of intangible assets	17	(44)	(5)
Dividends received	6	402	198
Net cash generated from investing activities		**46**	**32**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company	14(a)	(5,446)	(3,808)
Loans repayments received	34(iii)	29	33
Net cash used in financing activities		**(5,417)**	**(3,775)**
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		**(1,526)**	**718**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At beginning of the year		8,539	7,821
Net (decrease)/ increase in cash and cash equivalents above		(1,526)	718
At end of the year	23(b)	**7,013**	**8,539**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

The consolidated financial statements have been prepared on historical cost basis of accounting except for certain items of property, plant and equipment, and available–for-sale financial assets that have been measured at fair value and except where otherwise stated in the accounting policies below.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act. The consolidated financial statements are presented in Kenyan Shillings (Shs), which is also the parent company's functional currency, and all values are rounded to the nearest million (Shs' million), except when otherwise indicated.

IFRSs also comprise International Financial Reporting Interpretations Committee interpretations (IFRIC Interpretations).

For the purpose of reporting under the Kenya Companies Act, the balance sheet in these financial statements is represented by Statement of Financial Position and the profit and loss account represented by the Statement of Profit or Loss and Other Comprehensive Income.

b) New and amended standards, interpretations and improvements

The Group applied for the first time certain standards, improvements and amendments, which are effective for annual periods beginning on or after 1 January 2014. The nature and the impact of each new standard and amendment are described below:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- Recoverable Amount Disclosures for Non- Financial Assets — Amendments to IAS 36
- Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
- IFRIC 21 Levies
- Annual Improvements 2010-2012 Cycle
- Annual Improvements 2011-2013 Cycle

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Recoverable Amount Disclosures for Non- Financial Assets — Amendments to IAS 36

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. In addition, additional disclosure requirements have been added as follows:

(a) Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.

(b) Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The Group does not expect the amendment to have any material financial impact in future financial statements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated any derivatives during the current or prior periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and amended standards, interpretations and improvements (continued)

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. IFRIC 21 did not have any significant impact on the financial performance or the financial position of the Group. The Group's measurement of levies in previous years was already in line with the interpretation.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group as it has been measuring the short-term receivables and payables at invoice amounts.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Standards, improvements and amendments issued but not yet effective

The standards improvements and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and amended standards, interpretations and improvements (continued)

Standards, improvements and amendments issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

2012-2014 cycle (issued in September 2014)

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

The amendment must be applied prospectively. These amendments are not expected to have any impact to the Group.

IFRS 7 Financial Instruments: Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.

The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and amended standards, interpretations and improvements (continued)

Standards, improvements and amendments issued but not yet effective (continued)

IFRS 7 Financial Instruments: Applicability of the offsetting disclosures to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

The amendment must be applied retrospectively. These amendments are not expected to have any impact to the Group.

IAS 19 Employee Benefits: Discount rate: regional market issue

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed. These amendments are not expected to have any impact to the Group.

IAS 34 Interim Financial Reporting: Disclosure of information 'elsewhere in the interim financial report'

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).

The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

The amendment must be applied retrospectively. These amendments are not expected to have any impact to the Group.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition

If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

This improvement has no impact on the Group as the Group has no share-based payment

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This improvement has no impact on the Group as the Group has no such transactions.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

Disclosures related to operating segments have been made on Note 3 to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and amended standards, interpretations and improvements (continued)

Standards, improvements and amendments issued but not yet effective (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments are not expected to have any impact to the Group.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

This improvement has no impact on the Group as the Group has no such transactions.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. These amendments are not expected to have any impact to the Group given that the Group has no Investment Properties.

IAS 1 Disclosure Initiative – Amendments to IAS 1

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

The standard is effective for annual periods beginning on or after 1 January 2016.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and amended standards, interpretations and improvements (continued)

Standards, improvements and amendments issued but not yet effective (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities

The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

The standard is effective for annual periods beginning on or after 1 January 2016. These amendments are not expected to have any impact to the Group.

c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

A listing of the subsidiaries in the Group is provided in Note 18.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

When the proportion of the equity held by non-controlling interests changes, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the Group. The Group recognises directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributable to the owners of the parent.

Disclosures of non-controlling interests are included in Notes 18(b).

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of Consolidation (continued)

- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

d) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is 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. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

e) Translation of foreign currencies

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Translation of foreign currencies (continued)

i) Transactions and balances (continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

ii) Translation of foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary 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 date;
- 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

When a foreign operation is sold, the cumulative 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.

f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon dispatch for self collection or else on delivery of products to customers. The sales are stated net of value added tax and discounts, and after eliminating sales within the Group.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in profit or loss.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Rental income

Rental income is recognised when the Group's right to receive the rent payment is established. The Group has residential buildings and sublets a small part of it to its employees.

g) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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.

As disclosed in Note 15(c) there were no borrowing costs capitalized during the year ended 31 December 2014 (2013: Nil).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Leases

Determination

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

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit or loss. The Company currently does not have any finance lease.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease. The amortisation is recognised as an operating expense in profit or loss.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Currently, the Group has not leased out any of its assets.

i) 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 accumulated impairment losses, if any.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation.

Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the asset 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	14 - 22 years
Plant and machinery	14 - 22 years
Office equipment and tool	3 - 10 years
Mobile plant	3 - 10 years
Residential buildings	40 years

Further details on useful lives and residual values of property, plant and equipment are given in Note 2.

Freehold land is not depreciated as it is deemed to have an indefinite useful life and is tested for impairment on an annual basis.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Additional disclosures on impairment are in Notes 1(p) and 2.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Property, plant and equipment (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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 profit or loss in the year in which the disposal or retirement occurs.

j) Intangible assets

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

Computer software are also assessed for impairment whenever there is an indication that the intangible asset may be impaired. Additional disclosures on impairment are included in Notes 1(p) and 2.

The useful lives of computer software are reviewed at least at the end of each reporting period. Changes in the expected useful lives are considered to modify the amortisation period and are treated as changes in accounting estimates. The amortisation expense on computer software is recognised in profit or loss.

An intangible asset is derecognised when no future economic benefits are expected from its use. The Group's intangible assets are mainly computer software which is not expected to generate any disposal proceeds on de-recognition. The de-recognition of intangible assets would therefore result in a loss which is recognised in profit or loss.

k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Inventories of consumables and spare parts are stated at the lower of cost and net realisable value. The cost of consumables and spare parts is the 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. The cost includes direct cost and appropriate overheads and is determined on the first-in first-out method.

Net realisable value of inventories 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) Tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised outside profit or loss is recognised directly in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Tax (continued)

Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. 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, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset only when there is a legally enforceable right to set off the current tax assets against current tax liabilities and when they relate to the same entity and the same taxation authority, and the Group intends to settle the tax assets and the tax liabilities on a net basis.

Value added tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable, and
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

m) 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.

n) 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.

The entity's classification of financial assets and financial liabilities is as follows:

Description of asset/liability	*Classification*
Other equity investments	Available-for-sale investments
Trade and other receivables	Loans and receivables
Loan to subsidiary	Loans and receivables
Cash and cash equivalents - cash and bank balance	Loans and receivables
Cash and cash equivalents - cash deposits with related party	Held to maturity investments
Cash and cash equivalents - Short term deposits	Held to maturity investments
Loans payable and borrowings	Loans and borrowing.
Trade and other payables	Loans and borrowing.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

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.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

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 than 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 profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss. The net gain or loss recognised in the profit or loss incorporates any dividend or interest earned on the financial asset. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in other operating expenses.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Financial assets (continued)

i) Classification and measurement (continued)

Available-for-sale financial assets

Available –or-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 initially 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 profit or loss when the Group's right to receive the dividends is established

ii) De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset .

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

iii) 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 date. 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.

Additional disclosures for impairment losses are in Note 2.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Financial assets (continued)

iii) Impairment of financial assets (continued)

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 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

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Group has not designated any financial liabilities at fair value through profit or loss. The Group also did not have derivatives designated as hedging instruments.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and term loan.

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

Financial liabilities classified as loans and borrowings.

Loans and borrowings, including trade and other payables, are initially measured at fair value, net of directly attributable transaction costs.

Loans and borrowings are subsequently measured at amortised cost using the effective interest (EIR) 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. The EIR amortisation is included in finance costs in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

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 measured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

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.

In the current year the Company had no derivatives in the financial statements.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Financial liabilities and equity instruments issued by the Group (continued)

ii) De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

o) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently 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) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

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

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Employee entitlements

Retirement benefits obligations - defined contribution plans

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. These are further discussed under Note 36.

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

The Group's obligations to the staff retirement schemes are charged to profit or loss as they fall due.

Other entitlements

Employee entitlements to long service awards and service gratuity 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 date. These are further discussed under Note 1 (s) – service gratuities, long service awards and leave pay.

Employee entitlements to annual leave are recognised when they expected to be paid to employees. A provision is made for the estimated liability for annual leave at the reporting date. These are further discussed under Note 1 (s) – service gratuities, long service awards and leave pay.

Bonus

An accrual is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, the obligation can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

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 date taking into account the risks and uncertainties surrounding the obligation.

Site restoration

The Group makes full provision for the future cost of rehabilitating its quarry sites and related production facilities on a discounted basis at the time of developing the quarries and installing and using those facilities. Site restoration provisions are disclosed in Note 27.

s) Service gratuities, long service awards and leave pay

The Group provides service gratuity to unionisable staff that retire on attaining the age of 55 years or are declared redundant. These are provided to eligible employees based on each employee's length of service with the Group, as provided for in the collective bargaining agreement. The Group also provides for long service award to staff based on the length of service.

The cost of providing service gratuity and long service awards which are considered as defined benefit plan is determined by a professional actuary using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group recognises the following changes in the net defined benefit in the consolidated statement of profit or loss as follows:

- Service costs comprising current service costs are recognized in profit or loss under cost of sales and administration expenses.
- Net interest expense or income is recognized in profit or loss under cost of sales.

Employee entitlements to annual leave are recognised when they expected to be paid to employees. A provision is made for the estimated liability for annual leave at the reporting date. Service gratuity, long service awards and leave pay provisions are disclosed in Note 28.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

u) Fair value measurement

The Group measures financial instruments such as available-for-sale at fair value at each reporting date. The Group also measures certain items of property, plant and equipment at fair value. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 37 (v).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as property, plant and equipment. Involvement of external valuers is decided upon annually by the finance director after discussion with and approval by the Group's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2. SIGNIFICANT 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 revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities within the next financial year.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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.

Further details on inventories are given in Note 21.

Revaluation of certain classes of property, plant and equipment

The Group carries certain classes of property, plant and equipment at fair value, with changes in fair value being recognised in the other comprehensive income. The Group's land, buildings, plant, and machinery were last revalued on 1 December 2012. Land and buildings were valued on the basis of open market value by independent valuers, Knight Frank Valuers Limited.

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.

Further details on property, plant and equipment are given in Note 15.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 37 (v) for further discussion.

Site restoration

The Group makes full provision for the future cost of rehabilitating its quarry sites and related production facilities on a discounted basis at the time of developing the quarries and installing and using those facilities. On an annual basis, management, with the assistance of technical staff, makes estimations on the adequacy of the site restoration provisions. The provisions are made based on the additional open space, net of rehabilitated areas, arising from quarrying operations that took place in the year. The estimated cost per hectare is then applied to determine this adequacy. The cost per hectare is periodically assessed to factor in inflation.

Site restoration provisions are disclosed in Note 27.

Post-employment benefits

The cost and the present value of the obligation of the service gratuity, long service awards and other post-employment benefits are determined using actuarial valuations by an independent actuarial valuer. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the actuary considers the interest rates of the government bond market. The actuary also considers the mean terms of the yield of the bond and the liabilities. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about service gratuity, long service awards and other post-employment benefits are given in Note 28.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment losses

At each reporting 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. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

In assessing whether there is any indication that the tangible and intangible assets may be impaired, the Group considers the following indications:

a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

d) the carrying amount of the net assets of the entity is more than its market capitalisation.

e) evidence is available of obsolescence or physical damage of an asset.

f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite

g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Further details on property, plant and equipment are given in Note 15 and intangible assets in Note 17.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The Company estimates the dividend yearly expected from each CGU and discounts these using estimated discount rates. In assessing whether there is any indication that the Goodwill is impaired, the Group considers the any observable indications that the CGU dividends have has declined during the period significantly more than would be expected in normal operations of the CGU.

For available-for-sale financial assets, the Group assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available –for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. Further disclosures on this class of assets are done in Note 19.

Useful lives and residual values of property, plant and equipment

The Group reviews the estimated useful lives and residual values of property, plant and equipment at the end of each reporting period. In reviewing the useful lives of property, plant and equipment, the Group considers the remaining period over which an asset is expected to be available for use by Group. Management also looks at the number of production or similar units expected to be obtained from the property, plant and equipment. Judgment and assumptions are required in estimating the remaining useful period and estimates of the number of production or similar units expected to be obtained from the property, plant and equipment.

During the financial year, no changes to the useful lives were identified by the Directors. Further details on property, plant and equipment are given in Note 15.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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. 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. Judgement and assumptions are required in:

- assessing the existence of a present obligation (legal or constructive) as a result of a past event,
- assessing the probability that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Estimating the amount of the obligation to be paid out.

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. Further details on income taxes are disclosed in Note 12 and Note 26.

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 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 ready mix concrete, precast products and rehabilitation of quarries that are used as source of raw materials for cement production, 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 2014 - All figures in millions of Kenya Shillings

Revenue:	Kenya	Uganda	Adjustments and eliminations	Consolidated
External customers	19,864	16,165	-	36,029
Inter-segment	3,415	-	(3,415)	-
Total revenue	23,279	16,165	(3,415)	36,029
Cost of sales	(17,331)	(12,685)	3,333	(26,683)
Gross profit	5,948	3,480	(82)	9,346
Gross profit margin	26%	22%	2%	26%
Investment income	343	6	-	349
Interest expense	-	(124)	-	(124)
Profit before tax	4,490	1,710	(399)	5,801
Income tax expense	(1,338)	(560)	-	(1,898)
Profit for the year	3,152	1,150	(399)	3,903
Segment assets	30,376	13,372	(2,757)	40,991
Segment liabilities	7,990	5,009	(1,127)	11,872
Capital additions	393	387	-	780
Depreciation and amortization	1,022	613	-	1,635

3. SEGMENT INFORMATION (continued)

Year ended 31 December 2013 - All figures in millions of Kenya Shillings

	Kenya	Uganda	Adjustments and eliminations	Consolidated
Revenue:				
External customers	19,403	14,525	-	33,928
Inter-segment	2,832	-	(2,832)	-
Total revenue	22,235	14,525	(2,832)	33,928
Cost of sales	(15,863)	(12,377)	2,829	(25,411)
Gross profit	6,372	2,148	(3)	8,517
Gross profit margin	29%	15%	-	25%
Investment income	485	9	(21)	473
Impairment loss investments [Note 18(a)]	31	-	-	31
Interest expense	(21)	(121)	21	(121)
Profit before tax	4,699	1,018	(201)	5,516
Income tax expense	(1,509)	(334)	-	(1,843)
Profit for the year	3,190	684	(201)	3,673
Segment assets	31,545	14,200	(2,729)	43,016
Segment liabilities	6,736	5,863	(1,093)	11,506
Capital additions	156	759	-	915
Depreciation and amortization	974	562	-	1,536

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 cash equivalents. Segment liabilities comprise operating liabilities, dividends payable and certain corporate borrowings.

Information about major customers

Included in the Group's revenues of Shs 36,029 million (2013: Shs 33,928 million) are approximately Shs 2,058 million (2013: Shs 1,890 million) which arose from sales to the Group's largest customer arising from the Kenyan segment.

4. REVENUE

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Cement	33,910	32,276	21,075	20,583
Precast products	990	669	-	-
Ready mix	1,085	843	-	-
Others*	44	140	-	-
	36,029	33,928	21,075	20,583

**The other revenue includes receipts from tourism activities earned by Lafarge Ecosystems Limited, a subsidiary of Bamburi Cement Limited.*

5. COST OF SALES

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Electricity	3,364	2,955	2,371	1,966
Fuel - coal, fuel oil, and alternative fuel	3,671	4,503	1,889	2,013
Maintenance supplies and contract works	1,731	1,541	1,006	909
Imported clinker	2,120	1,604	1,810	1,604
Packaging	1,290	1,348	823	874
Additives and production supplies	3,410	3,099	1,932	1,340
Freight of raw materials	4,978	5,076	3,104	3,571
Purchased cement and clinker costs	1,607	1,251	100	-
Staff costs [Note 11(b)]	1,531	1,457	875	922
Professional fees	270	157	33	41
Telecommunication costs	35	37	18	15
Transport and travelling costs	87	73	40	47
Rentals, security, business licences and levies	669	332	348	150
Depreciation on property, plant and equipment	1,470	1,437	905	849
Amortisation of intangible assets and leasehold land	29	41	20	27
Inventory movement	421	500	236	199
	26,683	25,411	15,510	14,527

6. INVESTMENT INCOME

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Interest income – held to maturity bank deposits	349	473	343	464
Interest income – subsidiary loan [Note 34 (iii)]	-	-	18	21
Dividend income from subsidiary	-	-	402	198
	349	473	763	683

The dividend income from subsidiary was received from Hima Cement Limited net of withholding tax of Shs 71 million (2013- Shs 21 million).

7. OTHER GAINS AND LOSSES

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Loss on disposal of property, plant and equipment	-	(18)	-	-
Rental income from residential property	15	17	15	17
Provision for bad debts additions/(recoveries) [Note 22 (b)]	48	45	2	(4)
Sundry (expense) / income*	20	(136)	(5)	(125)
Impairment loss on Simbarite investments [Note 18 (a)]	-	(31)	-	(31)
Net foreign exchange gains	170	45	241	2
	253	(78)	253	(141)

**Sundry (expense)/income include many items which are individually of small amounts such as sale of coal and sale of scrap net of other miscellaneous costs.*

8. ADMINISTRATION EXPENSES

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Staff costs [Note 11 (b)]	894	880	646	550
Professional fees	390	119	167	85
Telecommunication costs	142	140	111	108
Transport and travel costs	102	90	46	49
Rental and security costs	114	166	82	78
Bank charges	79	40	29	14
	1,721	1,435	1,081	884

9. OTHER EXPENSES

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Depreciation on property, plant and equipment	120	96	35	30
Amortisation of intangible assets and prepaid operating lease rentals	16	10	13	16
Technical fees	1,584	1,467	912	818
Other costs*	217	26	3	6
	1,937	1,599	963	870

Other costs include hire of equipment and clearing and forwarding costs

10. FINANCE COSTS

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Interest expense on term loan	76	121	-	-

This relates to the term loan as disclosed in Note 29(a).

11. (a) PROFIT BEFORE TAX

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
The profit before tax is arrived at after charging				
Interest expense on term loan (Note 10)	76	121	-	-
Staff costs (Note 11(b))	2,425	2,337	1,521	1,472
Depreciation on property, plant and equipment (Note 15)	1,590	1,485	940	879
Amortisation of intangible assets (Note 17)	44	50	33	43
Amortisation of prepaid lease rentals (Note 16)	1	1	-	-
Impairment losses (Note 18)	-	31	-	31
Director's fees (Note 34(iv))	4	4	4	4
Other key management emoluments (Note 34(iv))	110	116	110	116
Loss on disposal of property, plant and equipment (Note 7)	-	18	-	-
Auditors' remuneration	10	10	4	4
And after crediting:				
Interest income (Note 6)	349	473	361	485
Dividend income (Note 6)	-	-	402	198
Foreign exchange gain (Note 7)	170	45	241	2

11.(b) STAFF COSTS

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Salaries and wages	1,536	1,534	988	928
Retirement benefits costs	208	207	155	173
Staff welfare costs	681	596	378	371
	2,425	2,337	1,521	1,472
Presented as:				
Cost of sales (Note 5)	1,531	1,457	875	922
Administration expenses (Note 8)	894	880	646	550
	2,425	2,337	1,521	1,472

12. TAX

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
(a) Tax charge				
Current tax based on the adjusted profit at 30%	2,003	1,866	1,455	1,582
Deferred tax credit (Note 26)	(105)	(23)	(160)	(70)
Total tax charge	1,898	1,843	1,295	1,512

(b) Reconciliation of expected tax based on accounting profit to tax charge:

Profit before tax	5,801	5,516	4,387	4,716
Tax calculated at the domestic rates applicable of 30 %	1,740	1,655	1,316	1,415
Tax effect of income not subject to tax	-	-	(121)	(59)
Tax effect of expenses not deductible for tax purposes	158	188	100	156
Total tax charge	1,898	1,843	1,295	1,512

Income not subject to tax relates to dividends from entities where shareholding is 12.5% or more. Expenses not allowable for tax purposes include donations, disallowable staff benefits and disallowable items related to property, plant and equipment.

(c) Corporate tax recoverable				
At the beginning of the year	(317)	(375)	(72)	(119)
Tax charge	2,003	1,866	1,455	1,582
Tax paid	(1,793)	(1,808)	(1,404)	(1,535)
Tax recoverable at end of the year	(107)	(317)	(21)	(72)

13. EARNINGS PER SHARE

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

There were no potentially dilutive shares as at 31 December 2014 and as at 31 December 2013. There were also no discontinued operations during the year (2013: Nil).

	GROUP		COMPANY	
	2014	2013	2014	2013
Net profit attributable to owners of the parent company (Shs million)	3,558	3,468	3,092	3,204
Weighted average number of ordinary shares (million)	363	363	363	363
Basic and diluted earnings per share (Shs)	9.80	9.55	8.52	8.83

14. DIVIDENDS

	GROUP AND COMPANY	
	2014 Shs'million	2013 Shs'million
a) Unclaimed dividends		
At beginning of year	26	23
Declared during the year - Note 14(b)	5,445	3,811
Dividends claimed in the year	(5,446)	(3,808)
At end of year	25	26
b) Payments during the year 2014 and 2013:		
Final dividend for previous years	3,267	3,085
Interim dividend for current year	2,178	726
	5,445	3,811
c) Dividends declared/proposed in respect of the year		
Interim dividend - paid in the year*	2,178	726
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)**	2,178	3,267
	4,356	3,993
Dividends per share (based on 363 million shares)	Shs 12.00	Shs11.00

* On 30 June 2014, an interim dividend of Shs 6.00 (2013-Shs 2.00) per share representing an amount of Shs 2,178 million (2013: Shs 726 million) was declared and paid.

** In respect of the current year, the Directors propose that a final dividend of Shs 6.00 (2013 – Shs 9.00) per share equivalent to a total sum of Shs 2,178million (2013 – Shs 3,267million) be paid to the shareholders.

The final dividend is subject to approval by owners of the Company 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 owners of the Group and 5% for resident shareholders. For resident owners of the Group, withholding tax is only deductible where the shareholding is below 12.5%.

15. PROPERTY, PLANT AND EQUIPMENT

a) GROUP

Year ended 31 December 2014	Freehold land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile Plant Shs'million	Capital work-in-Progress ** Shs'million	Total Shs'million
Cost or valuation						
At 1 January 2014	7,706	33,910	1,290	967	1,039	44,912
Foreign exchange adjustments*	(17)	(607)	(14)	(16)	(81)	(735)
Additions	-	3	-	-	780	783
Disposals	-	(19)	-	(3)	-	(22)
Transfers on capitalisation	46	1,086	86	9	(1,227)	-
At 31 December 2014	7,735	34,373	1,362	957	511	44,938
Depreciation						
At 1 January 2014	493	16,992	1,014	762	-	19,261
Foreign exchange adjustments*	(8)	(124)	(12)	(12)	-	(156)
Charge for the year	39	1,365	131	55	-	1,590
Disposals	-	(17)	-	(3)	-	(20)
At 31 December 2014	524	18,216	1,133	802	-	20,675
Net carrying amount						
At 31 December 2014	7,211	16,157	229	155	511	24,263

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

** Capital work-in-progress represents costs incurred on ongoing work in respect of additions and replacements to various plants at year end. Work-in-progress is not depreciated until the equipment are completed and brought into use.

Year ended 31 December 2013	Freehold land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile Plant Shs'million	Capital work-in-Progress ** Shs'million	Total Shs'million
Cost or valuation						
At 1 January 2013	7,649	32,131	1,212	937	1,115	43,044
Foreign exchange adjustments*	77	921	29	21	(1)	1,047
Additions	-	65	49	9	756	879
Disposals	-	(38)	-	-	-	(38)
Revaluation adjustment of land and buildings ***	(20)	-	-	-	-	(20)
Transfers on capitalisation	-	831	-	-	(831)	-
At 31 December 2013	7,706	33,910	1,290	967	1,039	44,912
Depreciation						
At 1 January 2013	442	15,514	818	698	-	17,472
Foreign exchange adjustments*	8	281	21	14	-	324
Charge for the year	43	1,217	175	50	-	1,485
Disposals	-	(20)	-	-	-	(20)
At 31 December 2013	493	16,992	1,014	762	-	19,261
Net carrying amount						
At 31 December 2013	7,213	16,918	276	205	1,039	25,651

15. PROPERTY, PLANT AND EQUIPMENT (continued)

a) GROUP (continued)

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

** Capital work-in-progress represents costs incurred on ongoing work in respect of additions and replacements to various plants at year end. Work-in-progress is not depreciated until the equipment are completed and brought into use.

*** Revaluation adjustment of land and buildings relates to correction of revaluation reserve. The amount has been included in the other comprehensive income.

b) COMPANY

Year ended 31 December 2013	Freehold land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile Plant Shs'million	Capital work-in-Progress ** Shs'million	Total Shs'million
Cost or valuation						
At 1 January 2014	7,070	21,438	814	664	232	30,218
Additions	-	-	-	-	312	312
Property, plant and equipment retirement transfers	38	307	85	-	(430)	-
At 31 December 2014	7,108	21,745	899	664	114	30,530
Depreciation						
At 1 January 2014	97	14,792	566	546	-	16,001
Charge for the year	17	801	98	24	-	940
At 31 December 2014	114	15,593	664	570	-	16,941
Net carrying amount						
At 31 December 2014	6,994	6,152	235	94	114	13,589
Year ended 31 December 2013						
Cost or valuation						
At 1 January 2013	7,070	20,858	787	657	685	30,057
Additions	-	127	27	7	-	161
Property, plant and equipment retirement transfers	-	453	-	-	(453)	-
At 31 December 2013	7,070	21,438	814	664	232	30,218
Depreciation						
At 1 January 2013	81	14,045	473	523	-	15,122
Charge for the year	16	747	93	23	-	879
At 31 December 2013	97	14,792	566	546	-	16,001
Net carrying amount						
At 31 December 2013	6,973	6,646	248	118	232	14,217

15. PROPERTY, PLANT AND EQUIPMENT (continued)

c) OTHER DISCLOSURES

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

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Cost				
Plant and machinery	19,394	19,350	9,056	8,749
Freehold land and buildings	3,589	3,557	2,330	2,207
	22,983	22,907	11,386	10,956
Accumulated depreciation				
Plant and machinery	(6,375)	(6,200)	(4,785)	(4,295)
Freehold land and buildings	(1,891)	(1,864)	(1,636)	(1,055)
	(8,266)	(8,064)	(6,421)	(5,350)
Net carrying amount	14,717	14,843	4,965	5,606

The Group's land, buildings, plant, and machinery were last revalued on 1 December 2012. Land and residential buildings were valued on the basis of open market value by independent valuers, Knight Frank Valuers Limited. 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. As at 31 December 2014, the carrying value did not differ significantly from its fair value.

Land and residential buildings include land with a carrying amount of Shs 529 million (2013: Shs 529 million) located in Mombasa and limestone deposits with a carrying amount of Shs 27 million (2013: Shs 27 million) in Kasese, Uganda.

There were no borrowing costs capitalized during the year ended 31 December 2014 (2013: Nil).

d) IMPACT OF THE ENACTMENT OF THE LAND REGISTRATION ACT NO. 3 2012 ON THE COMPANY'S LAND HOLDING STATUS

The current Constitution, enacted on 27 August 2010, introduced significant changes in the landholding by non-citizens. The Constitution no longer allows foreigners and foreign bodies to own freehold land and leasehold land in excess of 99 years. Freehold land and leasehold land of more than 99 years owned by foreigners and foreign bodies automatically becomes 99 year leases upon enactment of the required legislation under Articles 65(4) of the constitution. These changes in the landholding took effect on 2 May 2012 upon the enactment of the Land Registration Act No. 3 of 2012.

As per the definition of Articles 65(3) of the constitution, the Company is a non-citizen and hence the status of its freehold land changes to 99 years lease.

Under the revised International Accounting standards No. 17 (IAS 17), a 99 year lease qualifies for a finance lease classification if the lessor transfers significantly risks and rewards incidental to the ownership of the land to the Company.

Accordingly, the new 99 year lease would qualify as a finance lease. The Company currently accounts for its land previously classified as freehold in a similar manner to finance leases.

The Company is waiting for the National Land Commission to issue guidelines that will operationalise the provisions of the constitution and the revised land laws. The Company will continue to reassess the impact of the revised land laws to the financial statements as the guidelines are issued.

16. PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Cost				
As at 1 January	214	192	3	3
Foreign exchange adjustments*	(7)	(6)	-	-
Additions in the year	-	28	-	-
At 31 December	207	214	3	3
Amortisation				
At 1 January	17	17	2	2
Foreign exchange adjustments*	3	(10)	-	-
Charge for the year	1	1	-	-
At 31 December	21	8	2	2
Net carrying amount	186	206	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.

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

17. INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Cost				
At 1 January	620	612	504	499
Additions	44	8	44	5
At 31 December	664	620	548	504
Amortisation				
At 1 January	502	452	418	375
Charge for the year	44	50	33	43
	546	502	451	418
Net carrying amount	118	118	97	86

18. INVESTMENTS IN SUBSIDIARIES

a) Information about subsidiaries

The consolidated financial statements of the Group include investment in subsidiaries as below.

These investments are unquoted and held at cost less impairment loss:

	Principal place of business	Holding %	COMPANY 2014 Shs'million	COMPANY 2013 Shs'million
Simbarite Limited	Kenya	100	-	53
Less: Impairment loss*			-	(53)
			-	-
Bamburi Special Products Limited	Kenya	100	20	20
Bamburi Cement Limited, Uganda**	Uganda	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	-	-
			937	937
*IMPAIRMENT LOSS MOVEMENT				
At 1 January			53	22
Increase in the year charged to other gains and losses to profit or loss (Note 7)			-	31
At 31 December			53	53

*The investment in Simbarite Limited was fully impaired in the previous year. In impairing Simbarite Limited, management considered the fact that the Company is currently a dormant Company and is not expected to generate any revenues. Management is considering liquidating the Company.

The impairment of Simbarite Limited relates to Kenya Segment as disclosed in Note 3.

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.

**The amount of investments for Kenya Cement Marketing Limited, Bamburi Cement Limited, Uganda and for Portland Mines Limited are below Shs 1,000,000.

b) Material partly-owned subsidiary

Financial information of subsidiary that has material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2014	2013
Hima Cement Limited	Uganda	70%	70%
		2014 Shs' million	2013 Shs' million
Accumulated balances of material non-controlling interest		2,391	2,580
Profit for the year allocated to material non-controlling interest		345	205

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations.

18. INVESTMENTS IN SUBSIDIARIES (continued)

b) Material partly-owned subsidiary (continued)

Summarised statement of profit or loss	2014 Shs' million	2013 Shs' million
Revenue	16,165	14,525
Cost of Sales	(12,614)	(12,377)
Gross profit	3,551	2,148
Investment income	6	9
Other gains and losses	(131)	60
Distribution costs	(231)	(74)
Marketing expenses	(34)	(36)
Administration expenses	(433)	(298)
Other expenses	(894)	(670)
Finance costs	(124)	(121)
Profit before tax	1,710	1,018
Tax charge	(560)	(334)
Profit for the year	1,150	684
Attributable to non-controlling interests	345	205
Dividends paid to non-controlling interests	196	100

Summarised statement of financial position as at 31 December	2014 Shs' million	2013 Shs' million
Non-current assets		
Property, plant and equipment and other non-current assets	10,360	11,125
Current assets		
Inventories and cash and bank balances and other current assets	3,044	3,037
Current liabilities		
Trade and other payable and other current liabilities	(2,547)	(2,996)
Non-current liabilities		
Interest-bearing loans and borrowing and deferred tax liabilities and other non-current liabilities	(2,462)	(2,916)
Total equity	8,395	8,250
Equity holders of parent	5,877	5,775
Non-controlling interest	2,518	2,475
	8,395	8,250
Summarised cash flow information for year ending 31 December		
Operating	1,947	731
Investing	(370)	(957)
Financing	(1,239)	(436)
Net increase /(decrease) in cash and cash equivalents	338	(662)

19.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 reporting date. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices.

The market value of the quoted equity shares at 31 December 2014 was Shs 662 million (2013: Shs 787 million). Changes in the fair values are recognised in the other comprehensive income and accumulated in fair value reserve in equity. The investments as at 31 December 2014 were both quoted in the stock market.

a. Movement in the equity investments- available-for-sale investments

	GROUP	COMPANY
	2014 Shs'million	2013 Shs'million
At 1 January	787	452
Fair value gains/(loss) (Note 19(b))	(125)	335
	662	787

b. Analysis of the equity investments

	NUMBER OF SHARES			VALUATION			
Quoted investments	At 1.1.2013 Units	Additions/ (disposals) Units	At 31.12.2013 Units	At 1.1.2013 Shs' million	Additions/ (disposals) Shs' million	Increase/ (decrease) in market value Shs' million	At 31.12.2013 Shs' million
East African Portland Cement Limited	11,265,068	-	11,265,068	440	-	337	777
Kenya Oil Company Limited	905,500	-	905,500	12	-	(2)	10
				452	-	335	787

	NUMBER OF SHARES			VALUATION			
Quoted investments	At 1.1.2014 Units	Additions/ (disposals) Units	At 31.12.2014 Units	At 1.1.2014 Shs' million	Additions/ (disposals) Shs' million	Increase/ (decrease) in market value Shs' million	At 31.12.2014 Shs' million
East African Portland Cement Limited	11,265,068	-	11,265,068	777	-	(124)	653
Kenya Oil Company Limited	905,500	-	905,500	10	-	(1)	9
				787	-	(125)	662

20. GOODWILL

	GROUP	
	2014 Shs'million	2013 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.

21. INVENTORIES

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Raw materials	1,326	1,295	938	696
Bio fuel supplies	475	475	475	475
Consumables and spare parts	2,196	1,913	1,195	1,064
Finished and semi-finished goods	1,022	1,144	699	699
Fuel and packaging	566	530	200	222
	5,585	**5,357**	**3,507**	**3,156**

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. This is included in inventory as there is a plan to utilise the same in future, upon maturity, as alternative fuel in the clinker production process. The Biofuels are not for sale.

There were no write-down of inventories in 2014 (2013:nil). There were no inventories pledged as security for liabilities.

During 2014, Shs 12.5 billion (2013: Shs 12.3 billion) and Shs 6.8 billion (2013: Shs 6.0 billion), for the Group and the Company, respectively, was recognised as an expense for inventories. This is recognised in cost of sales.

22. TRADE AND OTHER RECEIVABLES

(a) Analysis of trade and other receivables:

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Trade receivables	1,576	1,015	917	269
Prepayments	355	228	254	191
Deposits	31	42	31	30
Other receivables*	168	78	41	60
Receivables from related companies (Note 34 (ii))	79	124	984	943
	2,209	**1,487**	**2,227**	**1,493**

**The other receivables include advances to staff, insurance recoverable and accrued interest.*

(b) 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.

22. TRADE AND OTHER RECEIVABLES (continued)

(a) Analysis of trade and other receivables: (continued)

Trade and other 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	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
At beginning of year	82	37	32	36
Additions/(recoveries) charged to profit or loss under other gains and losses (Note 7)	48	45	2	(4)
At end of year	130	82	34	32

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.

Other receivables and receivables from related companies are all performing and no impairment losses have been recognised for them.

Additional disclosures for credit risk management are in Note 37 (ii).

23. CASH AND CASH EQUIVALENTS

(a) Analysis of cash and cash equivalents:

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Cash at bank and on hand	4,085	2,734	3,454	2,475
Cash deposits with related party (Note 34(ii))	3,559	6,142	3,559	6,064
	7,644	8,876	7,013	8,539

(b) Cash and cash equivalents:

For the purposes of the statement of cash flows, 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, cash deposits with related parties and other short term highly liquid investments with original maturities of three months or less. Analysis of cash and cash equivalents is as set out below:

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Cash and cash equivalents: - Note 23(a)	7,644	8,876	7,013	8,539
(c) Short term deposits – held to maturity:				
Cash deposits with related party (Note 34(ii))	3,559	6,142	3,559	6,064

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

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Local currencies	6.00%	6.68%	6.00%	6.68%
Foreign currencies	0.11%	0.12%	0.11%	0.12%

24. SHARE CAPITAL

	GROUP AND COMPANY	
	2014 Shs'million	2013 Shs'million
Authorised		
366,600,000 ordinary shares of Shs 5 each	1,833	1,833
100,000, 7% redeemable cumulative preference shares of Shs 20 each	2	2
	1,835	**1,835**
Issued and fully paid		
362,959,275 ordinary shares of Shs 5 each	**1,815**	**1,815**

25. RESERVES

a) Asset revaluation reserve

The revaluation reserve is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued amount of the asset and depreciation based on the asset original cost. When revalued assets are sold, the portion of the revaluation reserve that relates to those assets is effectively realised and transferred directly to retained earnings. The revaluation reserve is not distributable.

b) Available-for-sale reserve

The available-for-sale 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	
	2014 Shs'million	2013 Shs'million
At 1 January	584	249
Net gain/(loss) arising on revaluation of available-for -sale investments (Note 19(b))	(125)	335
At 31 December	**459**	**584**

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 disposal or partial disposal of the foreign operation.

26. DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2013: 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	At 1 Jan. 14 Shs'million	Profit or loss Shs'million	Other comprehensive income Shs'million	At 31 Dec. 14 Shs'million
Property, plant and equipment	4,249	(126)	-	4,123
Provision for staff gratuity, long service award and leave	(227)	-	11	(216)
Bonus payable	(24)	(2)	-	(26)
Foreign exchange loss	(19)	31	-	12
Provision for site restoration and litigation	(26)	8	-	(18)
Provision for bad debts	(39)	(12)	-	(51)
Trading losses	(13)	10	-	(3)
Foreign exchange adjustment*	290	(14)	(142)	134
	4,191	**(105)**	**(131)**	**3,955**

	At 1 Jan. 13 Shs'million	Profit or loss Shs'million	Other comprehensive income Shs'million	At 31 Dec. 13 Shs'million
Property, plant and equipment	4,262	(7)	(6)	4,249
Provision for staff gratuity, long service award and leave	(214)	(27)	14	(227)
Bonus payable	(22)	(2)	-	(24)
Foreign exchange loss	(31)	12	-	(19)
Provision for site restoration and litigation	(34)	8	-	(26)
Provision for bad debts	(27)	(12)	-	(39)
Trading losses	(31)	18	-	(13)
Foreign exchange adjustment*	130	(13)	173	290
	4,033	**(23)**	**181**	**4,191**

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

COMPANY	At 1 Jan. 14 Shs'million	Profit or loss (Note 12 (a)) Shs'million	Other comprehensive income Shs'million	At 31 Dec. 14 Shs'million
Property, plant and equipment	1,803	(163)	-	1,640
Provision for site restoration and litigation	(17)	(3)	-	(20)
Provision for staff gratuity, long service award and leave	(196)	(1)	13	(184)
Foreign exchange loss	(17)	10	-	(7)
Provision for bad debts	(17)	(3)	-	(20)
	1,556	**(160)**	**13**	**1,409**

26. DEFERRED TAX LIABILITY (continued)

COMPANY	At 1 Jan. 13 Shs'million	Profit or loss Shs'million	Other comprehensive income Shs'million	At 31 Dec. 13 Shs'million
Property, plant and equipment	1,855	(52)	-	1,803
Provision for site restoration and litigation	(24)	7	-	(17)
Provision for staff gratuity, long service award and leave	(191)	(16)	11	(196)
Foreign exchange loss	(11)	(6)	-	(17)
Provision for bad debts	(14)	(3)	-	(17)
	1,615	**(70)**	**11**	**1,556**

Deferred tax liabilities amounting to Shs120 million (2013: Shs 142 million) in respect of the Group and Shs 96 million (2013: Shs95 million) in respect of the Company have been transferred within equity from asset revaluation reserve to retained earnings. 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.

27. PROVISIONS FOR LIABILITIES AND CHARGES

	Site restoration and litigation Shs' million	Leave pay Shs' million	2014 Total Shs' million	2013 Total Shs' million
GROUP				
At beginning of year	692	25	717	386
Additional provisions	134	8	142	337
Utilised during the year	(78)	(8)	(86)	-
At end of year	**748**	**25**	**773**	**723**
Categorised as:				
Current portion	291	25	316	337
Non-current portion	457	-	457	386
	748	**25**	**773**	**723**
COMPANY				
At beginning of year	672	25	697	343
Additional provisions	176	8	184	354
Utilised during the year	(78)	(8)	(86)	-
At end of year	**770**	**25**	**795**	**697**
Categorised as:				
Current portion	376	-	376	324
Non-current portion	394	25	419	373
	770	**25**	**795**	**697**

The provision for site restoration and litigation relate to future outflows that will be required to settle related liabilities.

The Group makes full provision for the future cost of rehabilitating its quarry sites and related production facilities on a discounted basis at the time of developing the quarries and installing and using that facilities. The site restoration provision represents the present value of restructuring costs relating to quarry sites, which are expected to be incurred up to 2017. These provisions have been created based on the Group's internal estimates and assumptions based on the current economic environment, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

The actual restoration costs will depend upon future market prices for the necessary restructuring works required that will reflect market conditions at the relevant time. The timing of the restructuring is likely to depend on when the quarries cease to produce at economically viable rates. This, in turn, will depend upon future material prices, which are inherently uncertain.

Leave pay relates to employee benefits in the form of annual leave entitlements provided for when they accrue to employees with reference to services rendered up to the reporting date. Employees are entitled to carry forward a maximum of 10 leave working days per annum which should be fully utilised by end of the following year.

28. EMPLOYEE BENEFIT LIABILITIES

Service gratuity and long service

The provisions for service gratuity and long service awards represent entitlements that accrue as a result of services offered by employees. These are classified as defined benefit plans and are not funded. The cost and the present value of the obligation of the service gratuity, long service awards and are determined using actuarial valuations by an independent actuarial valuer.

The following table summarises the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and the amounts recognised in the statement of financial position for the respective plans:

Year ended 31 December 2014

	Group			Company		
	Long service award Shs'million	Gratuity Shs'million	Total Shs'million	Long service award Shs'million	Gratuity Shs'million	Total Shs'million
Opening employee benefit obligation	75	637	712	59	569	628
Current service cost- charged to profit or loss cost of sales	9	37	46	4	24	28
Benefits payments	(9)	(32)	(41)	(5)	(29)	(34)
Interest cost- charged to profit or loss cost of sales	10	14	24	5	4	9
Actuarial gain-charged to other comprehensive income	(9)	(27)	(36)	(7)	(35)	(42)
Closing employee benefit obligation	76	629	705	56	533	589
Categorised as:						
Current portion	-	13	13	-	9	9
Non-current portion	76	616	692	56	524	580
Total	76	629	705	56	533	589

Year ended 31 December 2013

	Group			Company		
	Long service award Shs'million	Gratuity Shs'million	Total Shs'million	Long service award Shs'million	Gratuity Shs'million	Total Shs'million
Opening employee benefit obligation	80	595	675	61	556	617
Current service cost- charged to profit or loss cost of sales	7	80	87	5	52	57
Benefits payments	(9)	(75)	(84)	(5)	(73)	(78)
Interest cost- charged to profit or loss cost of sales	9	72	81	5	63	68
Actuarial gain-charged to other comprehensive income	(12)	(35)	(47)	(7)	(29)	(36)
Closing employee benefit obligation	75	637	712	59	569	628
Categorised as:						
Current portion	5	78	83	5	73	78
Non-current portion	70	559	629	54	496	550
Total	75	637	712	59	569	628

28. EMPLOYEE BENEFIT LIABILITIES (continued)

The principal assumptions used in determining service gratuity and long service awards obligations for the Group's plans are shown below:

	2014		2013	
	Kenya %	Uganda %	Kenya %	Uganda %
- interest rate	12.1%	14.7%	12.8%	14.7%
- future salary increases	10.1%	12.7%	10.8%	12.7%
- future pension increases	7.1%	9.7%	7.8%	9.7%

A quantitative sensitivity analysis for significant assumption as at 31 December 2014 is as shown below:

Group	Interest rate		future salary increases rate		future pension increases rate	
	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million
Gratuity	103	(60)	95	(78)	89	(93)
Long service awards	4	(1)	4	(3)	2	(4)
Total	107	(61)	99	(81)	91	(97)

Company	Interest rate		Salary increases rate		Award escalation rate	
	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million
Gratuity	97	(96)	73	(75)	86	(81)
Long service awards	5	(4)	3	(3)	3	(2)
Total	102	(100)	76	(78)	89	(83)

Discount rate

IAS 19 requires the discount rate to be determined by reference to the market yields, on the reporting date, on high quality corporate bonds, or in the countries where there is no deep market in such bonds, the market yields on government bonds. The currency and term of the corporate or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligation. In the absence of a deep and liquid market in such long dated securities in Kenya and Uganda, a discount rate as at 31 December 2014 of 12.1% (2013-13.1%) per annum and 14.7% (2013-15.9%) per annum has been used for Kenya and Uganda respectively.

In Kenya, the bond selected to match the liabilities outstanding had a term of approximately 8 years and with a yield of 12.1% per annum. At this yield, the bond and the liabilities had discounted mean terms of 5.50 years and 5.68 years respectively the yield is thus considered appropriate discount rate. In Uganda, the longest bond had an outstanding term of approximately 10 years and with a yield of 14.7% per annum. It was considered appropriate to use the yield on the longest bond available as the valuation interest rate. The yield on this bond was 14.7% per annum.

Mortality rate

The actuary uses actives' mortality A49-59 ultimate as the base tables of standard mortality rates. Statistical methods are used to adjust the rates reflected on the base table based on the Company's experience of improvement or worsening of mortality.

29. BORROWINGS

a) Term loan

In June 2008, Hima Cement Limited, a subsidiary Company In Uganda, signed a syndicated loan facility equivalent to Shs 1,789 million (Ugx 45 billion) with lead arranger, Stanbic Bank Uganda Limited. The loan was secured by a corporate guarantee from Lafarge SA and was payable in 5 equal instalments starting June 2011 and was fully repaid in November 2014. The facility was structured in two tranches of 50% each. Tranche A was at fixed interest rate equivalent to 5 year Treasury bond plus 70 basis points while Tranche B was at floating interest rate equivalent to 182-day Treasury bill plus 100 basis points.

The movement in term loan is as shown below:

	GROUP	
	2014 Shs'million	2013 Shs'million
At 1 January	618	865
Paid during the year	(587)	(300)
Foreign exchange differences	(31)	53
At 31 December	-	618
Less; Due within one year	-	(309)
Due after one year	-	309

b) Effective interest rates

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

	GROUP		COMPANY	
	2014	2013	2014	2013
Local currencies – loans	12.2%	12.5%	-	-

c) Borrowing facilities

As at end of the year, the Group had working capital facilities amounting to a total of Shs 3,479 million (2013 – Shs 3,038 million), out of which the undrawn facilities amounted to Shs 2,355 million (2013 – Shs 2,128 million). The drawn amounts mainly relate to supplier trade finance, bonds and guarantees.

The working capital facilities are annual facilities that were subject to review at various dates during the year 2014. They consist of letters of credit, guarantees among others.

30. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Trade payables	4,164	3,010	2,566	1,512
Accrued expenses	2,002	1,851	1,454	1,129
Other payables	173	361	75	304
Payable to related companies - Note 34 (ii)	75	14	140	15
	6,414	5,236	4,235	2,960

Terms and conditions of the above financial liabilities:

- Trade payables and payables to related parties are non interest bearing and are normally settled on a 30 – 60 day terms.
- Other payables are non-interest bearing and have an average term of six months. These mainly relate to amounts due to statutory bodies in respect to year end staff deductions.

31. CONTINGENCIES

a) Contingent Liabilities

	GROUP		COMPANY	
	2014	2013	2014	2013
	Shs'million	Shs'million	Shs'million	Shs'million
Bonds/guarantees issued by the Group's bankers in favour of Kenya Revenue Authority and Uganda Revenue Authority	661	252	571	106
Bonds/guarantees issued by the Group's bankers in favour of other parties	463	407	347	353
At end of year	**1,124**	**659**	**918**	**459**

b) 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 borrowing facilities disclosed in Note 29 above and are issued in the normal course of business.

Included in the bonds/ guarantees issued in favour of Kenya Revenue Authority is an amount of Shs 471 million given in favour of Kenya Revenue Authority as the Company appeal the decision of the Local Committee (see (Note 31(d))

c) Legal matters

The Group is involved in a number of legal proceedings which are yet to be concluded upon. Included in the guarantees to third parties is Shs 92 million (Ugx 2,687 million) relating to a pending court case with Kampala International University. 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.

d) Tax 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 February 2012, the Kenya Revenue Authority issued a tax assessment of Shs 3.9 billion being principal tax of Shs 2 billion, penalties and interest of Shs 1.9 billion. This assessment is in respect of Company's corporate tax, and value added tax and withholding tax affairs for the years 2007 to 2011. In August 2013, the Company received a confirmed assessment of Shs 2.67 billion comprising of Shs 1.31 billion principal tax and Shs 1.36 billion penalties and interest. In accordance with the tax legislation, the Company appealed to the Local Committee and the Value Added Tax Tribunal. The basis of the Company objection relates to the specific matters of application and interpretation of tax legislation affecting the Company and the industry in which it operates.

The matters under appeal to the Local Committee related to corporate and income tax and were heard and a ruling made in July 2014. The Company won on some matters and lost in others. Subsequent to the Local Committee ruling, the Kenya Revenue Authority issued an assessment of Shs 997 million (being principal tax Shs 456 million and interest and penalties of Shs 541 million). The Company has appealed this decision to the High Court but in the meantime has given a bond of Shs 471 million in favour of KRA, as the Company appeals the local committee decision (see Note 31(b) above). The matters relating to VAT amounting to Shs 373 milllion have not yet been heard, as the Company awaits the composition of the Tax Tribunal.

With the assistance of professional advice, the directors have considered all matters in contention and are confident that the appeal will be successful and no material liability will crystallise to the Company.

e) Hima Cement Uganda Limited - mining lease suit

Hima Cement Limited, operating in Uganda, is a subsidiary of Bamburi Cement Limited. On 26 March 2013, the High Court in Kampala, Uganda, conferred the mining rights of Hima Cement Limited to East Africa Gold Sniffing Company Limited.

Hima Cement Limited had a mining lease over limestone deposits in Kasese, western Uganda, on which the expiry date was indicated as 31 December 2012. In February 2012, East Africa Gold Sniffing Company Limited (EAGSCL) gave notice that it had been issued with an exploration license over the area covered by the mining lease. Hima Cement Limited filed an application for administrative review by the Ministry of Energy against the issuance of the exploration license, which was heard and determined on 26 April 2012. The Minister of Energy held that EAGSCL's application for the exploration license did not comply with requirements of the Act and was cancelled. The Minister also held that the expiry date indicated in the Hima Cement Limited's mining lease was incorrect and that the lease had expired on 31 December 2011. Subsequent to this, the Company applied for, and received a new mining lease which was granted on 14 March 2013 for 21 years.

EAGSCL filed an application for judicial review in the High Court of the Minister's decision on the grounds that the Minister erred in hearing an administrative review application filed by Hima Cement Limited, which had no legal right under the law since the Company's mining lease had expired and that no Company known as Hima Cement Limited existed. Hima Cement Limited applied and was enjoined in this case as an interested party.

31. CONTINGENCIES (continued)

e) Hima Cement Uganda Limited - mining lease suit (continued)

On 26 March 2013, the High Court ruled that Hima Cement Limited did not follow the law in changing its name and as such no entity known as Hima Cement Limited exists in law and, therefore, there was no competent legal person to file an administrative review before the Minister.

The decision by the Minister that revoked the EAGSCL's exploration license was cancelled and the mining rights of Hima Cement Limited conferred to EAGSCL.

In conjunction with the Attorney General Chambers, Hima Cement Limited filed a Civil Appeal in the Court of Appeal of Uganda and an interim stay of execution was granted on 12 April 2013. Both parties to the suit (Hima Cement Limited and EAGSCL) subsequently agreed to have the interim stay of execution remain in force until the disposal of the suit in the court of appeal. The stay of execution allows Hima Cement Limited to continue with its operations, until the Court of Appeal makes a judgement.

On the issue of existence of the Company, Hima Cement Limited's lawyers carried out a thorough search at the Companies Registry and confirmed that Hima Cement Limited's files did exist. The Company was duly incorporated in 1994 as Hima Cement (1994) Limited and it changed its name to Hima Cement Limited in 1999, and all the documents filed subsequent to the said change of name read the new name Hima Cement Limited. Consequently, the Company received the certificate of change of name on 23 June 1999. Since the change of name in 1999, Hima Cement Limited has been fulfilling its obligations including filling returns and paying taxes.

According to the Board of Directors evaluation of the case and the legal advice received from the Company's lawyers, the directors opine that the appeal has a strong basis with a high likelihood of success. As such, the financial statements of Hima Cement Limited for the year ended 31 December 2014 have been prepared on a going concern basis.

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	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Commitments for the acquisition of property,plant and equipment	7	127	7	101

Authorised but not contracted

Capital expenditure authorised but not contracted for at the reporting date:

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Commitments for the acquisition of property,plant and equipment	35	173	35	71

33. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

GROUP	Notes	2014 Shs'million	2013 Shs'million
Profit before tax		5,801	5,516
Adjustments for:			
Depreciation on property, plant and equipment	15(a)	1,590	1,485
Amortisation of intangible assets	17	44	50
Amortisation of prepaid operating lease rentals	16	1	1
Loss on disposal of property, plant and equipment	7	-	18
Impairment loss on investment	18	-	31
Interest income	6	(349)	(473)
Interest expense	10	76	121
Net foreign exchange gains	7	24	63
Operating profit before working capital changes		7,187	6,812
Changes in working capital balances:			
(Increase)/ decrease in inventories		(228)	249
(Increase)/ decrease in trade and other receivables		(748)	175
Increase in provisions for liabilities and charges		50	374
Increase/(decrease) in trade and other payables		1,180	(972)
Cash generated from operations		**7,441**	**6,638**

COMPANY	Notes	2014 Shs'million	2013 Shs'million
Profit before tax		4,387	4,716
Adjustments for:			
Depreciation on property, plant and equipment	15(b)	940	879
Amortisation of intangible assets	17	33	43
Diminution of investments	18	-	31
Interest income	6	(361)	(485)
Dividend income	6	(402)	(198)
Net foreign exchange gains		26	55
Operating profit before working capital changes		4,623	5,041
Changes in working capital balances:			
(Increase)/ decrease in inventories		(351)	381
(Increase)/ decrease in trade and other receivables		(767)	670
Increase in provisions for liabilities and charges		101	401
Increase/ (decrease) in trade and other payables		1,282	(982)
Cash generated from operations		**4,888**	**5,511**

34. RELATED PARTY TRANSACTIONS

Note 18 provides the information about the Group's structure including the details of the subsidiaries.

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.

(i) Related party transactions

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

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

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Interest received	8	42	26	28
Sales of goods and services	865	360	3,462	2,897
Purchases of goods and services	2,362	2,463	2,816	2,606

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

RECEIVABLES FROM RELATED PARTIES	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Receivables from related parties				
Lafarge France	2	2	2	2
Lafarge South Africa	4	5	4	5
Lafarge Technical Centre Europe	1	1	1	1
Chilanga Cement Plc Zambia	6	14	6	14
Mbeya Cement	49	61	49	61
Malawi Portland Cement	16	16	16	16
West Africa Portland Cement	(7)	(9)	(7)	(9)
Ashaka Cement Co.	2	2	2	2
Lafarge Cairo	6	32	6	8
	79	124	79	100
Receivables from subsidiaries				
Hima Cement Limited	-	-	523	481
Bamburi Special Products Limited	-	-	297	336
Lafarge Ecosystems Limited	-	-	85	26
	-	-	905	843
Total receivables [Note 22(a)]	79	124	984	943
PAYABLES TO RELATED PARTIES				
Lafarge France	75	14	75	15
Lafarge Ecosystems	-	-	65	-
Total payables to related parties (Note 30)	75	14	140	15
Short term cash deposits [Note 23(a)]	3,559	6,142	3,559	6,064

34. RELATED PARTY TRANSACTIONS (continued)

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

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. Additional disclosures for short term deposits with the related party are in Note 23 (c).

Terms and conditions of transactions and balances with related parties

The sales to and purchases from related parties are made on terms as specified in the transfer pricing arrangement between the Group companies. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2014, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2013: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. There have been no guarantees or commitments provided or received for any related party receivables or payables other than as disclosed in Note 29(a).

(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 Shs169 million (2013 - Shs 198 million). The loan is unsecured and the effective interest on the loan was 10% (2013 – 10%). The loan repayment period is 10 years from January 2011. The loan comprises:

	COMPANY	
	2014 Shs'million	2013 Shs'million
Current portion	29	29
Non-current portion	140	169
	169	198
The movement in Loan to subsidiary is as shown below:		
At 1 January	198	231
Paid during the year	(29)	(33)
At 31 December	169	198
Interest charged on the above loan (Note 6)	18	21

(iv) Key management compensation

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

	GROUP AND COMPANY	
	2014 Shs'million	2013 Shs'million
Fees for services as a director		
Executive	-	-
Non-executive	4	4
Total directors fees	4	4
Emoluments for key management		
Salaries and other short-term employment benefits:		
Executive directors including other key management	103	108
Non-executive	-	-
Post-employment benefit	7	8
Total emoluments for key management	110	116
Guaranteed long-term loans	10	9

Terms and conditions of the guaranteed long-term loans

These are loans issued to executive directors as part of the employee benefit from the general employee loan schemes and include mortgage, car loan and unsecured loan from Citibank. The Company acts as the guarantor for these loans. Any guaranteed loans that exceed Shs 1 million require a security from the directors. The loans are at a commercial terms.

35. OPERATING LEASE COMMITMENTS

The Company has entered into operating lease agreements for leasing of motor vehicles and commercial premises. Future lease payments under non-cancellable operating leases are as follows:

	GROUP	
	2014 Shs'million	2013 Shs'million
Lease payments committed under operating leases:		
Not later than 1 year	116	115
Later than 1 year but not later than 5 years	229	212
	345	327

During the year ended 31 December 2014, Shs 39 million was recognized as an expense in the statement of comprehensive income in respect of the operating leases (2013: Shs 39 million).

36. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement plan 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 profit or loss 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 its 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 profit or loss of Shs 170 million (2013: Shs 207 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 11(b).

37. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group's principal financial liabilities are loans, borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations.

The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available for sale investments.

The Group is exposed to

- market risk,
- credit risk, and
- 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.

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 manages financial risks in close cooperation with operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk and price risk. 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 of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

(i) Market risk

Market risk is the risk arising from changes in market prices, such as interest rates, 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.

37. FINANCIAL RISK MANAGEMENT (continued)

(i) Market risk (continued)

There has been no change to the Group's exposure to market risks or the manner in which it measures and manages the risk.

a) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The Company manages foreign exchange risk by converting its foreign currency collections into local currency on an ongoing basis to cater for its operational requirements. The Company raises some bills in foreign currency and receives the settlements in the same currency to avoid the effect of swinging currency exchange rates.

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:	EUR Shs'million	USD Shs'million	TOTAL Shs'million
31 December 2014:			
Assets			
Trade and other receivables	-	998	998
Bank balances	299	5,143	5,442
Total assets	299	6,141	6,440
Liabilities			
Trade and other payables	183	1,436	1,619
Net exposure position	**116**	**4,705**	**4,821**
31 December 2013:			
Assets			
Trade and other receivables	-	751	751
Bank balances	249	4,203	4,452
Total assets	249	4,954	5,203
Liabilities			
Trade and other payables	3	815	818
Net exposure position	**246**	**4,139**	**4,385**

Company foreign currency risk:	EUR Shs'million	USD Shs'million	TOTAL Shs'million
31 December 2014:			
Assets			
Trade and other receivables	-	430	430
Bank balances	299	4,842	5,141
Total assets	299	5,272	5,571
Liabilities			
Trade and other payables	183	841	1,024
Net exposure position	**116**	**4,431**	**4,547**
31 December 2013:			
Assets			
Trade and other receivables	-	570	570
Bank balances	132	4,229	4,361
Total assets	132	4,799	4,931
Liabilities			
Trade and other payables	9	332	341
Net exposure position	**123**	**4,467**	**4,590**

37. FINANCIAL RISK MANAGEMENT (continued)

(i) Market risk (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 date 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.

	Effect on the profit or loss		Effect on equity	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
GROUP				
EUR	6	12	8	8
USD	235	207	165	145
	241	219	173	153
COMPANY				
EUR	6	6	4	4
USD	221	232	155	162
	227	238	159	166

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. 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 11 million (2013- Shs 78 million) and an increase/decrease of Shs 8 million (2013-Shs 55 million) in equity.

c) Price risk

Quoted investments 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 in equity investments.

At 31 December 2014, if the prices at the Nairobi Securities Exchange had appreciated/depreciated by 5% with all other variables held constant would have resulted in an increase/ decrease on other comprehensive income and equity of Shs 33 million (2013- Shs 23 million) as a result of changes in fair value of available-for-sale shares.

(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 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

37. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk management (continued)

The carrying amount of financial assets recorded in the financial statements representing the Group's maximum exposure to credit risk is as follows:

	GROUP		COMPANY	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Trade and other receivables	2,209	1,487	2,396	1,691
Bank balances	7,644	8,876	7,013	8,539

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored by the credit department. 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.

a) *Analysis of Group credit exposure:*

	Gross 2014 Shs'million	Impairment 2014 Shs'million	Net 2014 Shs'million	Gross 2013 Shs'million	Impairment 2013 Shs'million	Net 2013 Shs'million
Fully performing	1,336	-	1,336	785	-	785
Past due	370	130	240	312	82	230
Trade receivables - Note 22 (a)	1,706	130	1,576	1,097	82	1,015

b) *Analysis of Company credit risk:*

	Gross 2014 Shs'million	Impairment 2014 Shs'million	Net 2014 Shs'million	Gross 2013 Shs'million	Impairment 2013 Shs'million	Net 2013 Shs'million
Fully performing	906	-	906	237	-	237
Past due	45	34	11	64	32	32
Trade receivables - Note 22(a)	951	34	917	301	32	269

As at 31 December, the ageing analysis of trade receivables is, as follows:

Ageing analysis of trade receivables for Group:

	Carrying Amount	Neither past due nor impaired			Past due but not impaired		Impaired
			< 30 days	30–60 days	91–120 days	> 120 days	
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
2014	1,576	1,336	123	85	21	11	(130)
2013	1,015	785	95	80	28	27	(82)

Ageing analysis of trade receivables for Company:

	Carrying Amount	Neither past due nor impaired			Past due but not impaired		Impaired
			< 30 days	30–60 days	91–120 days	> 120 days	
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
2014	917	906	5	3	2	1	(34)
2013	269	237	12	8	7	5	(32)

37. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk management (continued)

Fully performing

The Group classifies financial assets under this category for those exposures that are up to 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.

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. These are fully provided for.

Management considers that the financial assets is impaired and impairment losses are incurred only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Management considers the following factors in determining that the financial statements are impaired:

a) significant financial difficulty of the customer;

b) a breach of contract, such as a default of payment by the customer;

c) it becoming probable that the customer will enter bankruptcy or other financial reorganisation; and

d) adverse changes in the payment status of customer such an increased number of delayed payments

Collateral held on trade receivable

The Company holds collateral against credit advanced to customers in the form of cash deposits and bank guarantees. Collateral is usually not held against bank balances and amounts due from related parties, and no such collateral was held at 31 December 2014 or 2013. Management assessed that the fair value of the collaterals bank guarantees approximate their carrying amounts largely due to the short-term maturities of these instruments. An estimate of the fair value of collateral held against financial assets is shown below.

There are no other significant terms and conditions associated with the use of collateral.

Fair value of collateral held against trade receivables as at 31 December 2014 and 31 December 2013 was:

	31 December 2014 Shs' million	31 December 2013 Shs' million
Bank guarantees collateral	723	455

(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.

37. FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk management (continued)

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 2014:					
Trade payables	4,164	4,032	23	51	58
31 December 2013:					
Trade payables	3,010	2,602	235	91	82
Term loan	618	-	-	-	618
	3,628	2,602	235	91	700

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 2014:					
Trade payables (Note 30)	2,566	2,279	199	76	12
31 December 2013:					
Trade payables (Note 30)	1,512	1,017	379	53	63

(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.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. The Group's policy is to keep the gearing ratio between 20% and 40%, where applicable. As at 31 December 2014, the Group and Company were in net cash position hence not geared.

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	
	2014 Shs'million	2013 Shs'million	2014 Shs'million	2013 Shs'million
Equity	29,119	31,510	21,170	23,619
Trade and Other payables – Note 30	6,414	5,236	4,235	2,960
Total borrowings-Note29(a)	-	618	-	-
Less: cash and cash equivalents - Note 23(b)	(7,644)	(8,876)	(7,013)	(8,539)
Net cash position	(1,230)	(3,022)	(2,778)	(5,579)

37. FINANCIAL RISK MANAGEMENT (continued)

(v) Fair value of financial assets and liabilities

a) Comparison by class of the carrying amount and fair values of the financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The table below sets out the Group's classification of each class of financial assets and liabilities, and comparison of the carrying amount and their fair (excluding accrued interest):

GROUP		Carrying amount	Fair Value		
		2014	2013	2014	2013
Financial assets	Notes	Shs'million	Shs'million	Shs'million	Shs'million
Other equity investments	19	662	787	662	787
		662	787	662	787
Financial liabilities					
Term loan	29(a)	-	618	-	460
		-	618	-	460
COMPANY					
Financial assets					
Other equity investments	19	662	787	662	787
Loan to subsidiary	34 (iii)	169	198	97	103
		831	985	759	890

Other equity investments are quoted shares. Fair value of the quoted shares is based on price quotations at the reporting date.

Management assessed that the fair value of trade receivables, receivables from related companies, cash and cash equivalents, trade payables and payables to related companies approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair values of the Company's loan to subsidiary and term loan are determined by using Discounting Cash Flows (DCF) method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

b) Fair Value Hierarchy

The table below shows an analysis of all assets and liabilities measured at fair value in the financial statements or for which fair values are disclosed in the financial statements by level of the fair value hierarchy. These 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)

37. FINANCIAL RISK MANAGEMENT (continued)

(v) Fair value of financial assets and liabilities (continued)

b) Fair Value Hierarchy (continued)

GROUP	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
31 December 2014			
Assets			
Property, plant and equipment			
-Freehold land and buildings	-	-	7,211
-Plant and machinery	-	-	16,157
Available -for -sale financial assets			
-Other quoted investments	662	-	-
Liabilities			
Term loan	-	-	-
31 December 2013			
Property, plant and equipment			
- Freehold land and buildings	-	-	7,213
- Plant and machinery	-	-	16,918
Available-for-sale financial assets			
-Other quoted investments	787	-	-
Liabilities			
Term loan	-	460	-

COMPANY	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
31 December 2014			
Property, plant and equipment			
-Freehold land and buildings	-	-	6,994
-Plant and machinery	-	-	6,152
Available-for-sale financial assets			
-Other quoted investments	452	-	-
-Loan to subsidiary	-	97	-
31 December 2013			
Property, plant and equipment			
-Freehold land and buildings	-		6,973
-Plant and machinery	-	-	6,646
Available-for-sale financial assets			
-Other quoted investments	452	-	-
-Loan to subsidiary	-	103	-

37. FINANCIAL RISK MANAGEMENT (continued)

(v) Fair value of financial assets and liabilities (continued)

b) Fair Value Hierarchy (continued)

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

The Group's freehold land, buildings, plant, and machinery were last revalued on 1 December 2012. There are no significant differences between the fair values as at the valuation date and the current carrying amounts.

The valuations were based on market values as follows:

Comparable Method for valuation of land and buildings

Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property.

As at 1 December 2012, the properties' fair values were based on valuations performed by Knight Frank Valuers Limited, an accredited independent valuer.

Depreciated replacement cost for plant and machinery

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.

In using the depreciated replacement cost basis the engineers and consultants at the technical centre of the ultimate shareholder ensures that this is consistent with methods of measuring fair value as per the requirements of IFRS 13.

The engineers and consultants ensure that:

1) The highest and best use of the property and machinery is its current use, and
2) The principal market or in its absence, the most advantageous market, exit market, for the property and machinery is the same as the market in which the property and machinery was or will be purchased, entry market.

In addition, the engineers and consultants ensure that the resulting depreciated replacement cost is assessed to ensure market participants are willing to transact for the property and machinery in its current condition and location at this price. The inputs used to determine replacement cost are consistent with what market participant buyers will pay to acquire or construct a substitute the property and machinery of comparable utility. The replacement cost has also been adjusted for obsolescence that market participant buyers will consider.

Description of valuation techniques used and key inputs to valuation of assets and liabilities

LEVEL 2	Valuation technique	Significant observable inputs	Range (weighted average) Interest rate
Loan to subsidiary	DCF	Interest rate and repayment period of 6 years	10%
Term loan	DCF	Interest rate and repayment period of between 1-2 years.	20%

LEVEL 3

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Land	Market Comparable Approach	Price per acre	KShs 1 million - KShs 30 million	0.5% (2013: 0.5%) increase (decrease) would result in an increase (decrease) in fair value by Shs 32.25 million
Buildings	Market Comparable Approach	Estimated rental value per sqm per month Rent growth p.a	KShs 30 5%	0.5% (2013: 0.5%) increase (decrease) would result in an increase (decrease) in fair value by Shs 2.7 million
Plant and machinery	Depreciated replacement cost for plant and machinery	Capital expenditure for a model plant at above capacity assuming supply from Europe	KShs 500 million-714 million	0.5% (2013: 0.5%) increase (decrease) would result in an increase (decrease) in fair value by Shs 32.09 million

37. FINANCIAL RISK MANAGEMENT (continued)

(v) Fair value of financial assets and liabilities (continued)

b) Fair Value Hierarchy (continued)

The significant unobservable inputs used in the fair value measurement of the Company's property and equipment are price per acre, estimated rental value per sqm per month and capital expenditure for a model plant at above capacity assuming supply from Europe. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

38. COUNTRY OF INCORPORATION

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

39. EVENTS AFTER THE REPORTING DATE

The Board of Directors approved the financial statements on 5 March 2015 and authorised that the financial statements be issued. On this date, the Directors were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the Group and results of its operation as laid out in these financial statements.

40. CURRENCY

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

LAFARGE

Dream big. You've got Powermax

Powermax is the ideal cement for high strength concrete structures such as dams, bridges, highways and high rise buildings. Its low heat of hydration reduces cracking making it suitable for mass concrete works.

Use **POWERMAX** for your large scale projects.

Hima cement

Part of you. From the start

SHAREHOLDER INFORMATION

INFORMATION

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 64th Annual General Meeting of the Shareholders of Bamburi Cement Limited will be held in Mombasa at the Nyali International Beach Hotel on Thursday 4 June 2015 at 2.00 pm for the following purposes:

1. To table the proxies and 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 2014.
4. To declare dividends:
   a) To ratify the payment of the interim dividend of KES. 6.00/= per ordinary share paid on 10 October 2014;
   b) To declare a final dividend payment of KES. 6.00/= per ordinary share for the year ended 31 December 2014.
5. To approve Directors' fees for 2014 and increase Directors' fees in 2015.
6. To re-elect directors:
   a) In accordance with Article 96 of the Company's Articles of Association C Kisire retires by rotation and, being eligible, offers himself for re-election;
   b) In accordance with Article 96 of the Company's Articles of Association T Farrell retires by rotation and, being eligible, offers himself for re-election;
   c) In accordance with Article 101 of the Company's Articles of Association, B Pescheux, who was appointed a director on 21 July 2014, retires from office and, being eligible, offers himself for re-election.
7. To note that Ernst & Young 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 2015.
8. To transact any other business of the Company of which due notice has been received.

By order of the Board

B Kanyagia
SECRETARY
22 April 2015

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.

PROXY FORM

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

I/WE____

____

of ____

____

a member of BAMBURI CEMENT LIMITED hereby appoint

____

of

____

or in his/her place THE CHAIRMAN OF THE MEETING as my/our proxy and/or representative to vote at his/her discretion for me/us and on my/our behalf at the Annual General Meeting to be held on Thursday 4 June 2015 and at every adjournment thereof.

AS WITNESS my/our hand(s) this ______________ day of _______________________ 2015

____

(Usual Signature)

____

Proxy forms must reach the registered office of the Company by 2.00 pm Tuesday 2 June 2015.

Bamburi Cement Limited Corporate Office, Nairobi
6th Floor, Kenya-Re Towers,
Mara Ragati Road, Upper Hill
P.O.BOX 10921 - 00100, Nairobi, Kenya
TEL: (+254 - 20) 2893000 / 2710487
Fax: (+254 - 20) 2710581
www.lafarge.co.ke