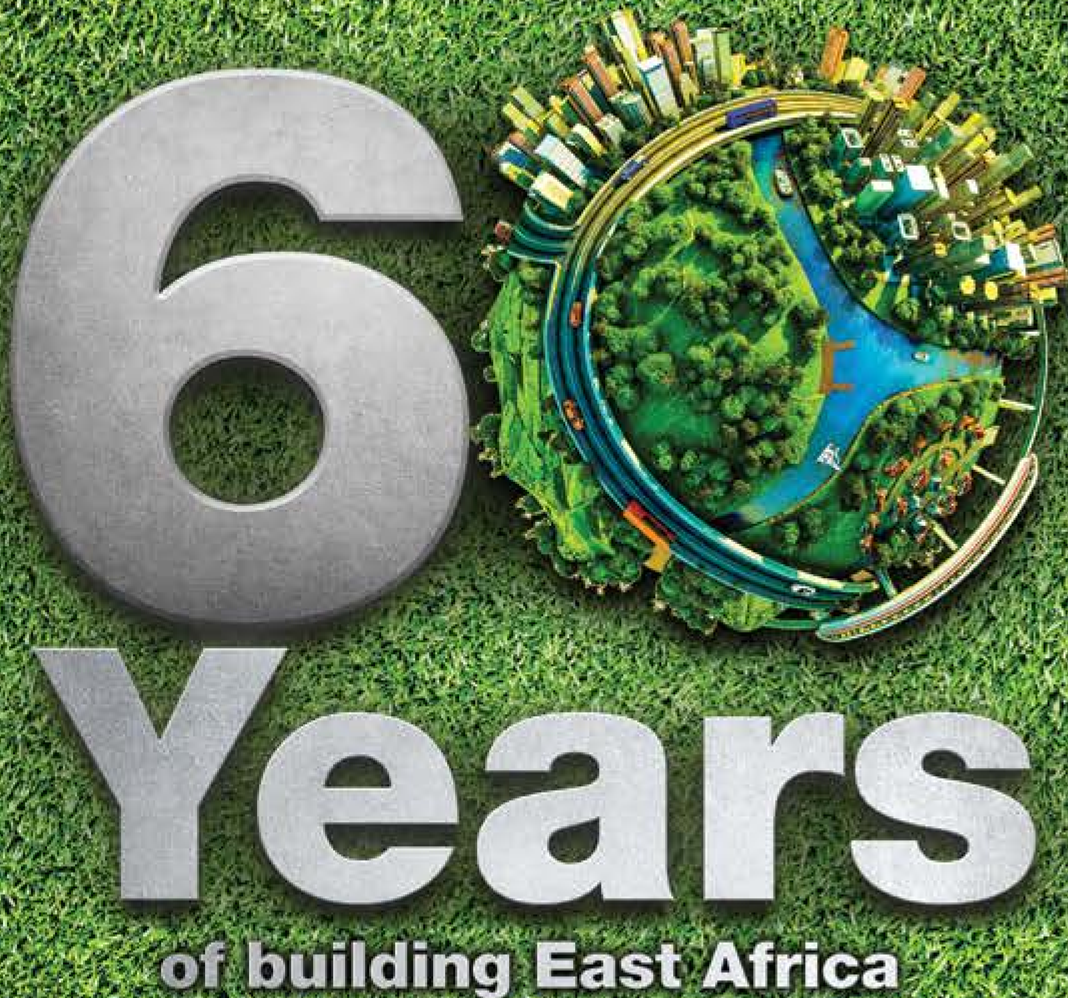
Bamburi cement

Part of you. From the start.

2013 ANNUAL REPORT AND FINANCIAL STATEMENTS



LAFARGE
Building better cities™

60 years
of **Building East Africa**

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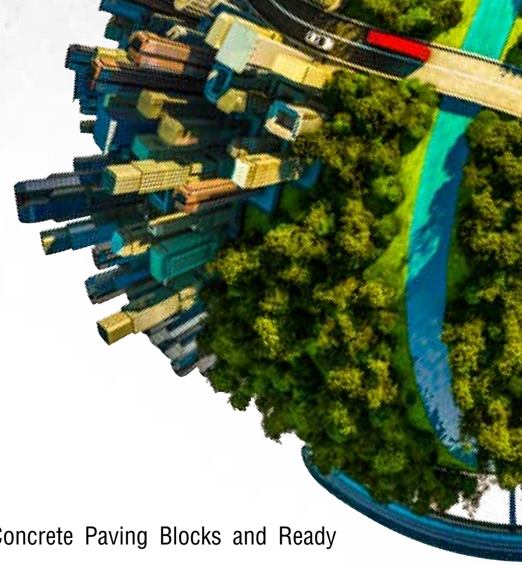


Who We Are

BAMBURI CEMENT LIMITED

Bamburi Cement Limited is a subsidiary of Lafarge, the world leader in building materials and is listed on the Nairobi Securities Exchange. The Company has three subsidiaries namely Hima Cement Limited, Bamburi Special Products Limited and Lafarge Eco Systems Limited.

Bamburi Cement started as a subsidiary of Cementia Holding A.G. in 1951 and its first fully integrated plant in Mombasa officially opened in 1954. The initiation of its world renowned quarry rehabilitation program in Mombasa began in 1972. As an industry captain and leading cement producer, it opened a grinding plant in Athi River near Nairobi in 1998 and thereafter, acquired Hima Cement Ltd in Kasese, Uganda in 1999.

Throughout the Company's legacy of 60 years of cement manufacture and innovation in East Africa, and backed by Lafarge's 180 years of expertise, their brands have commanded leadership in all the markets they operate in. It is the only integrated one-stop shop for all cement and concrete solutions with a clear dedication to sustainability.

Hima Cement has over the years undergone tremendous transformation in terms of output, operational and human resource capability. Today the new Hima cement factory located in Kasese – Western Uganda, has the capacity to produce 850,000 tons cement per annum up from 170,000 tons. As with all Lafarge plants, Hima operates under stringent quality control processes and has over the last decade built a reputation of being the Ugandan cement manufacturer that produces consistently high quality cement products.

Bamburi Special Products was launched in 1998 to stimulate growth in the concrete market. It pioneered development of concrete paving solutions and shifted market consumption patterns from Asphalt to Concrete. The Company has revolutionized the concrete industry and has rapidly grown in its two divisions - Concrete Paving Blocks and Ready Mix Concrete. Today Bamburi Special Products is the largest supplier of Ready Mix Concrete and Precast Blocks in Kenya.

Lafarge Eco Systems, the environmental and rehabilitation division of the Company was set up in 1971, as Bamburi Nature Trails. It is mandated to manage all mining reserve land, rehabilitate exhausted quarries as well as sustainably utilize the rehabilitated quarries. Since inception Lafarge Eco Systems has restored numerous quarries and won international acclaim and awards for its rehabilitation work as well as for best practices. Today the Company owns and manages world class nature and environmental parks developed from rehabilitated quarries.

OUR VISION

To be a World Class Producer that provides Construction Solutions to our Customers across Eastern Africa, with a Commitment to Sustainability

OUR VALUES

Ownership: We are committed to doing things differently and drive for results by always thinking outside the box through the involvement of all employees and contractors to ensure success of the organization.

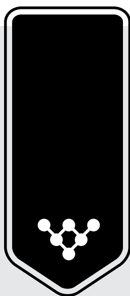
Accountability: Team work is a key pillar in the work place and we strive to be accountable to each other. This is because when we work as a team, projects are accomplished on time and mistakes are less. In addition, we expect our employees and contractors to have a greater level of integrity.

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 keep the end in mind.

LAFARGE GROUP

LAFARGE IN BRIEF

A world leader in building materials and top ranking player in the cement, aggregates and concrete industries, we contribute to the construction of cities around the world. Our innovative solutions provide them with more housing and make them more compact, more durable, more beautiful and better connected. The Group employs 64,000 people in 62 countries and posted a sales of € 15.2 billion in 2013.



KEY FIGURES
(at December 31, 2013)

62
countries

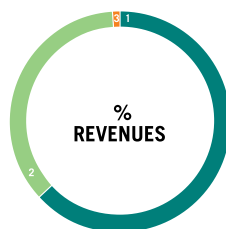
64,000
employees

15,198
revenues
in million euros

1,636
production sites

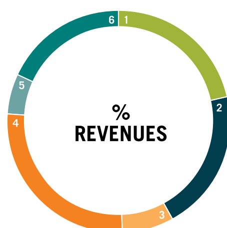
LAFARGE PROFILE

GROUP REVENUES BY ACTIVITIES
(at December 31, 2013)



1. Cement	63.5%
2. Aggregates and concrete	35.9%
3. Other	0.6%

GROUP REVENUES BY GEOGRAPHIC AREA
(at December 31, 2013)



1. Western Europe	21.4%
2. North America	20.6%
3. Central and Eastern Europe	7.5%
4. Middle East and Africa	26.9%
5. Latin America	5.7%
6. Asia	17.9%

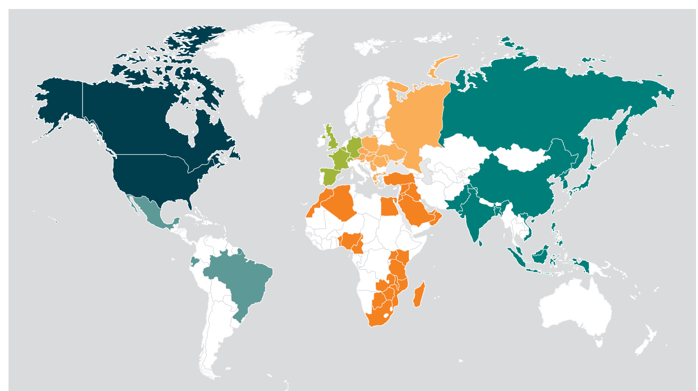
NET INCOME GROUP SHARE

601 M€

LAFARGE PROFILE

LAFARGE WORLDWIDE (December 31, 2013)

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, 2013 (plants and sales offices).

CEMENT WORLD LEADER

56
countries

38,000
employees

9,657
revenues
in million euros

155
production sites

N°2 AGGREGATES & N°4 CONCRETE

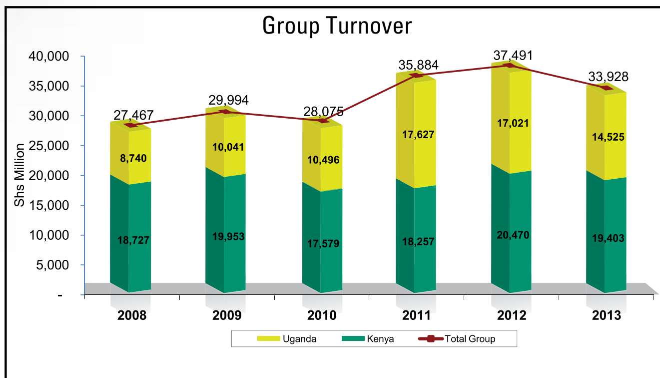
37
countries

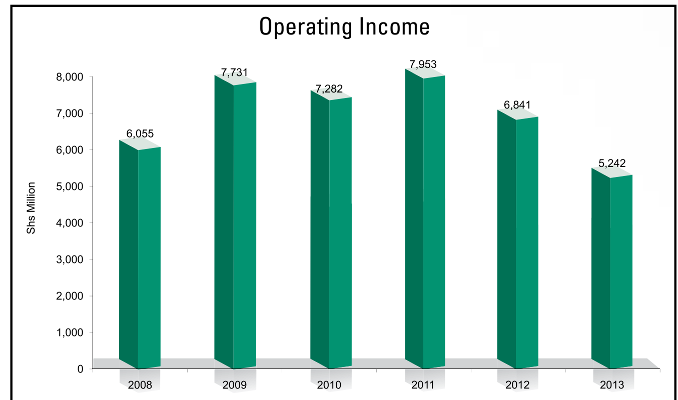
25,000
employees

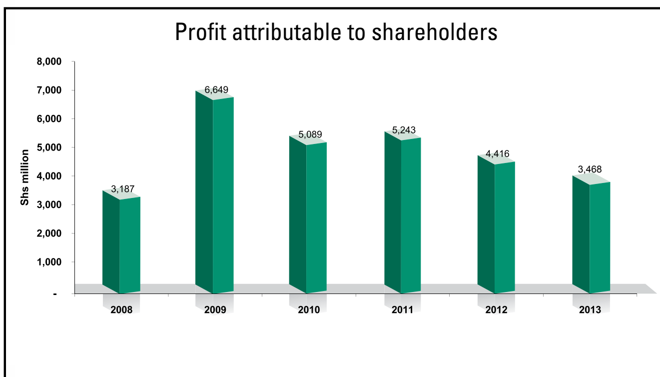
5,451
revenues
in million euros

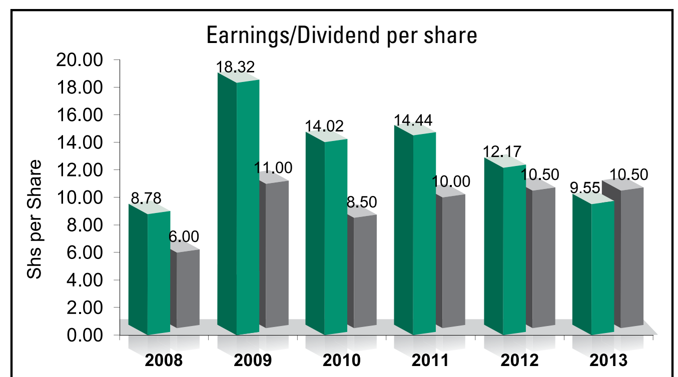
1,481
production sites

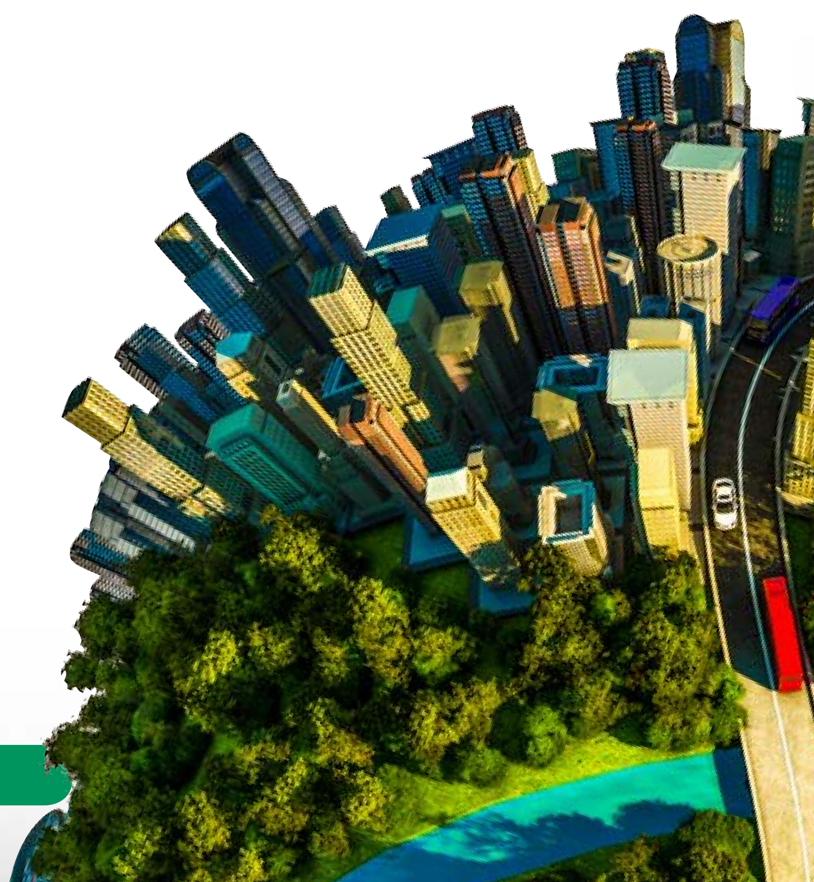
6 Year Performance Highlights



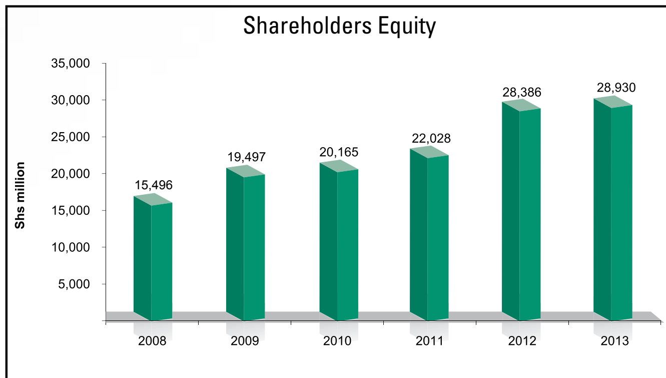


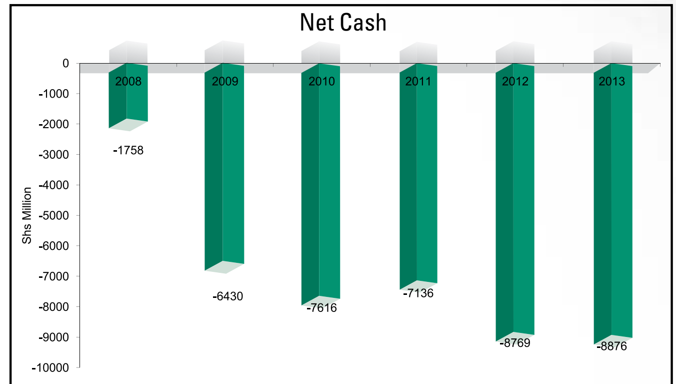


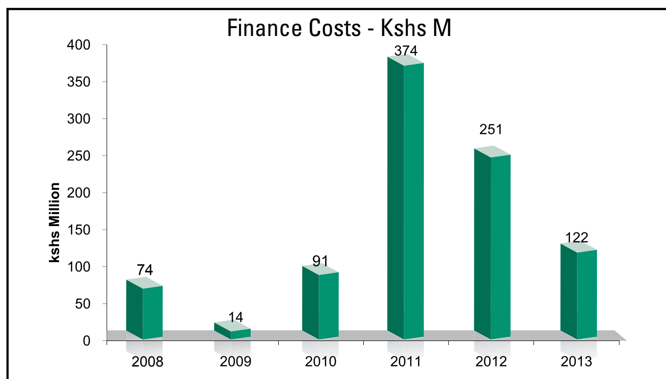


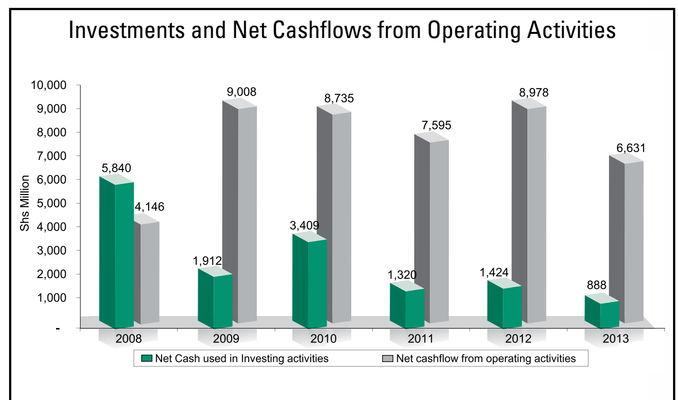


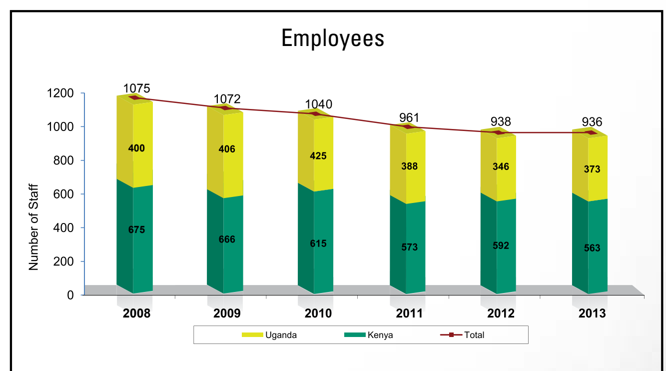
6 Year Performance Highlights

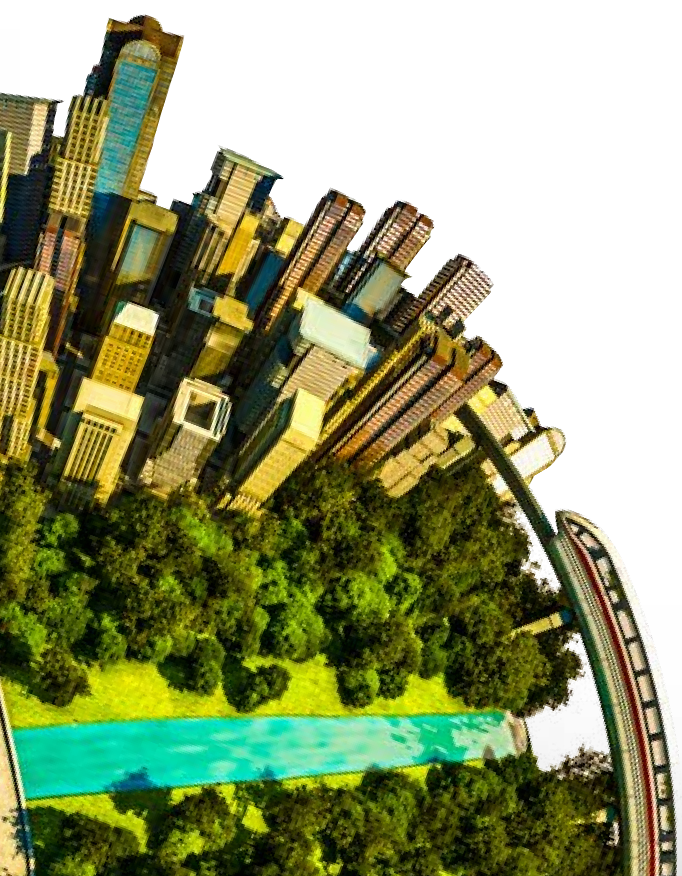












Value Added Statement

Shs million

WE ARE COMMITTED TO THE DEVELOPMENT OF THE REGION

2013 was a historic year for Kenya as the country held the first elections under the new constitution and celebrated 50 years of independence. 2014 will mark the 60th year of Bamburi operations in the region, which is not only a clear illustration of a shared past, but also of the Company's commitment to the development of this region.

CORPORATE CITIZENSHIP

The Group remained committed to conducting its operations as a responsible corporate citizen in all the countries within East Africa in which it operates. The Board and I take safety, health and environment as our number one priority in guaranteeing sustainable profitable operations for all stakeholders. Focus has continued on greater people involvement in making all our operations safe, increased involvement with stakeholders to create a safe operating environment especially on the roads and applying strict global environment standards to make sure that we minimize any effect on our environment.

Despite all our efforts, it is with great regret that I report a road fatality in Uganda involving a contracted transporter that resulted

Chairman's Statement

in the death of Yosam Mugenyi, who was the driver of the truck. On behalf of the entire Group, I express my deepest condolences to the family and friends of our departed team member. Together with the Board and the Management, we will continue to focus on road safety which has proved to be a challenging aspect of our business. Given the large number of vehicles used diversely in our business, we shall continue to partner with authorities and other stakeholders to implement measures aimed at eliminating or significantly reducing road incidents.

ECONOMIC CONDITIONS

The year enjoyed relatively stable macro economic conditions witnessing a real GDP growth rate estimate of 4.8% in Kenya and 5.8% in Uganda, compared to 4.5% and 3.6% prior year in Kenya and Uganda respectively. Average annual inflation in Kenya fell to 7.2% from 9.4% in 2012 while in Uganda, average annual inflation was 5.8% compared to 14% in 2012. In addition, the local currencies of both Kenya and Uganda were fairly stable at KShs. 86/US$ and UGX 2500/US$.

Interest rates in both countries reduced with the Central Bank policy rate averaging at 8.8% and 11.7% compared to 16.5% and 23%in 2012 in Kenya and Uganda respectively. The actual commercial bank lending rates ranged at 8 - 12 percentage points above Central Bank policy rates. The gap between the Central Bank policy rate and the commercial bank lending rates indicates that there is room for bank lending rates to reduce, which would spur further growth in the construction and cement industry. Although both Government officials and business have repeatedly expressed concern that high interest rates will continue to discourage access to credit with inevitable slowdown of economic growth, not much was done to bring down the rates.

During the year, however, there was a slowdown in both Kenya and Uganda, in government funded infrastructure projects, but we expect this to recover in 2014.

MARKET CONDITIONS

The overall cement market in Kenya grew by 4%, 2% behind 2012, driven by the market contraction in the first half of the year due to elections, however there was a recovery in second half mainly in the Individual Home Builders (IHB) segment, resulting from stable macro-economic indicators, notwithstanding the slowdown in Government funded projects in the same period.

In Uganda the domestic cement market grew by 11%, driven by growth in the Individual Home Builders (IHB) and infrastructure segments, compared to 2012. The market, however, witnessed significant erosion in margin value mainly attributable to competitive pressure. The inland Africa export market reduced following civil instability in those markets.

PERFORMANCE

During the year, performance was negatively affected by a slow first half and low infrastructure expenditure in Kenya together with market positioning costs and significantly lower inland Africa exports out of Uganda. Turnover declined by KShs. 3.6 billion to KShs. 33.9 billion following a reduction of domestic and export sales by 5.2% and 27% respectively. Pre-tax profit declined to KShs 5.6 billion, 22% behind prior year, while earnings per share at KShs. 9.55 per share were 21% behind 2012.

Despite the reduction in turnover, the Group generated sufficient cash during the period to enable it maintain its 2012 cash position.

Group costs improved in the period due to lower consumption of purchased clinker after the improvements made at the Mombasa Plant, in the last quarter of 2012. In Kenya, the favorable weather conditions resulted in relatively stable power tariffs compared to 2012, until December when tariffs increased by approximately 12%. In Uganda, poor power quality and rationing continued to cause disruption to plant operations.

As part of its cost containment measures, the Group continued to increase the level of alternative fuel substitution as well as diversification with different streams of alternative fuels. In addition, the Group undertook a KShs. 487 million project that would allow use of Petcoke in Uganda, with mill commissioning scheduled for the first quarter of 2014. Use of Petcoke in place of Heavy Fuel Oil (HFO) would result in a significant reduction in energy costs. Other projects completed in the year include the installation of a KShs. 275 Million bag filter in Uganda to support our global environmental ambitions

on dust emissions.

The coffee seedling project in Kasese and Kamwenge Districts of Uganda continued with 10.7 million coffee seedlings planted. Harvesting is expected to commence in 2014 thereby providing the resulting husks as biofuel.

OUTLOOK

The implementation of the Constitution in Kenya will come with attendant challenges and opportunities. The Group remains cognizant of the institutional and fiscal developments taking place and is engaging with all levels of Government to see how it can sustainably contribute.

The market is expected to grow with planned Government expenditure, especially after the issue of the euro US$ 2 billion bond, together with the drive from Government, quasi Government bodies and the private sector for increase in the supply of housing. I expect that, despite ever increasing competitive pressure in the market, the Group will experience growth.

I expect the inland export markets out of Uganda to recover with greater political stability in those markets and the margin pressure in the domestic Uganda market to ease from 2014. I expect better power quality in Uganda following rehabilitation of the Kampala-Kasese transmission power line, whose completion is scheduled for the first quarter of 2014.

I believe that our annual report presents a fair assessment of the Group's performance and its future prospects. We have endeavored to provide good quality information in a clear manner and in line with our Corporate Governance policy together with application rules and regulations. Corporate Governance remains at the top of my agenda and I take this opportunity to remind you to read through our Statement of Corporate Governance included in this report.

In the year, David Njoroge General Manager, Hima Cement Ltd, resigned from the Group and was replaced by Daniel Petterson. I take this opportunity to thank David for his service to the Group and the Board, and wish him well in his future endeavors. In December, Mutua Kilaka was appointed a member of the Board.

The Group will continue to contribute in regional development by manufacturing products used to provide a decent living environment, encourage more sustainable land use by minimizing urban sprawl, help build structures to minimize the effects of natural disasters, connect people by building the transport infrastructure and create beautiful living spaces, villages, towns and cities.

Execution of our strategic initiatives to enable us grow shareholder value, in addition to fulfilling our other obligations as a responsible corporate citizen, will always depend on the ability of our people – at all levels – to remain focused on their functions by bringing their collective expertise, energy and passion to the business. In this respect, let me assure you, our shareholders and stakeholders, that the Bamburi Group has a great team that is able to quickly respond to market place challenges. I take this opportunity to thank each and every member of this great team - Employees, Management and the Board of Directors - for their efforts throughout a very challenging year. Into the future, we shall continue to be a critical component of the growth story in the markets we operate in.

To the shareholders, I am grateful for your continued support and I look forward to engaging with you at the Annual General Meeting and all other fora.

Dr. John P. N. Simba, OGW, MBS
Chairman

PROVIDING CONSTRUCTION SOLUTIONS TO BUILD BETTER CITIES

2013 was a challenging year for the Group and, in this statement, I will highlight the main contributors to the results.

The Group started the year cautiously with anticipation of the elections in Kenya, which saw a slow down in economic activity in the first half of the year.

Safety, Health and Environment

Safety, health and environment remain our number one priority. I sincerely believe that if we are able to operate safely, we will not only save lives but also have sustainable and profitable operations. In 2013, we continued with our programs on Visible Felt Leadership, Team Based Safety and the Safety Observation, which resulted in improved participation from all staff. Despite this improved participation, we recorded one lost time injury at Mombasa plant involving a third party contractor.

Unfortunately, road safety remained a challenge and we had one fatality on the road in Uganda involving a contracted transporter. I believe that with sustained participation by all

the people on our sites, employees and contractors, we will succeed in our target of zero fatalities and zero injuries.

We hosted the Cabinet Secretary and the Principal Secretary of Transport and Infrastructure at our site in Athi River during our annual Road Safety Campaign dubbed *"Wajibika"* which ran from Mombasa to Salgaa in December 2013. We continue to run these annual road campaigns as we seek to increase our involvement in road safety with the Government and other Stakeholders.

We completed a Kshs. 275 million investment in the installation of a bag filter in Kasese plant in line with our global environmental ambitions.

Operational and Financial Performance

The Group's turnover decreased by 10% to KShs. 33.9 billion mainly as a result of lower performance in Uganda mainly attributable to competitive pressure and lower exports to Inland Africa markets out of Uganda due to continued political tensions in those markets. In Kenya, both the domestic and export sales were behind prior year in the first four months of the year as the market demand slowed during the election period; the markets started showing signs of recovery in May and had rebounded by the start of the second half of the year. There was also a notable slowdown in the infractructure segment, where the Company is strongly positioned due to delayed payments to contractors on major projects, and this resulted in low demand in our infrastructure product category. We did, however, retain our market leadership position in Kenya and a stable share in Uganda.

Pre-tax profit was Kshs. 1.6 billion behind 2012 closing at Kshs. 5.6 billion, largely a reflection of the lower revenue. To mitigate against this reduction, the Group increased the alternative fuel substitution to above 50% in Uganda and 7% at our Mombasa plant with December alone attaining a 21% substitution ratio. In addition, due to improved plant effeciencies, a 7% increase of clinker production resulted in reduced consumption of purchased clinker. In Kenya, power tariffs increased by 12% in December 2013. However, the Energy Regulatory Commission expects to reduce the base tariffs in the second half of 2014. In Uganda, there was power rationing due to scheduled rehabilitation of the transmission lines, and this continued to disrupt the operations at the plant.

We continued to increase investment in brand support, with focus on developing our brand attributes, accompanied by a team able to translate our investment into growth. To develop the right team, we started a Sales Effectiveness Program developed specifically for Lafarge Group. It is my belief that this program, coupled with the use of the customer relationship management system launched in 2012, our team will be better trained and equipped to grow our share in an increasingly competitive market.

Our aim is to create an environment where mobility and collaboration are enhanced through technology and this is particularly vital when in a high volume business spread over different geographical sites. We migrated our e-mail platform to Google with the intention of facilitating mobility and improve the collaboration throughout the business despite continued telecommunication challenges related to disruptions to the fiber optics lines connecting the business.

Outlook for 2014

Opportunities

The world economy is expected to improve further in 2014 and the consequent increase in demand will put pressure on commodity prices. In Kenya, the new Constitution and the Government agenda have brought about many opportunities. In addition, we expect the issue of the euro bond of US$ 2 billion by the Kenyan Government to reduce domestic borrowing and ease local interest rates which will spur domestic cement consumption. Further the devolved counties in Kenya are expected to have matured their processes, which would result in increased spend on the currently under utilized infrastructure development funds. The intention of the Government, quasi Government bodies and the private sector to develop more housing in the region coincides with the Lafarge vision of Building Better Cities. The improved infrastructure in the region is expected to lower medium term costs while a stable operating environment would improve productivity.

Increased competition is likely to spur the development of new products and increase the sophistication with which Customers can use cement. As a Group, we have the necessary systems

Managing Director's Statement

and infrastructure to take advantage of this development in the market.

Challenges

However, there are certain risks that have presented themselves that I, together with Chairman and the Board, will seek to address in 2014. The industry is expected to remain competitive with new products and offers.

In Kenya, we will continue with all stakeholders at all levels to explore ways in which we can partner for mutual benefits.

Unpredictable weather patterns in 2014 in Kenya may affect agriculture, and have a ripple effect on inflation and power tariffs, although we remain optimistic that a better power generation mix may further ease power costs. In Uganda, the cost reflective power tariff and the possible increased power rates from the second quarter of 2014 will remain a challenge. To mitigate against rising tariffs in both countries, the Group will focus on improved plant efficiencies through operational mastery with the aim of reducing the unit power consumption and increased alternative fuel substitution. Further, commissioning the KShs. 487 million Petcoke mill in the first quarter of 2014 in Uganda should significantly reduce the Group energy costs.

As I conclude, I would like to highlight that the Group experienced solid growth in the last quarter of 2013, a trend which we expect to continue. We have a strong market leadership position and, with our strong brands, geographic coverage as well as skilled and motivated teams driving the top line through world class customer service, I believe that we will generate greater value for all stakeholders.

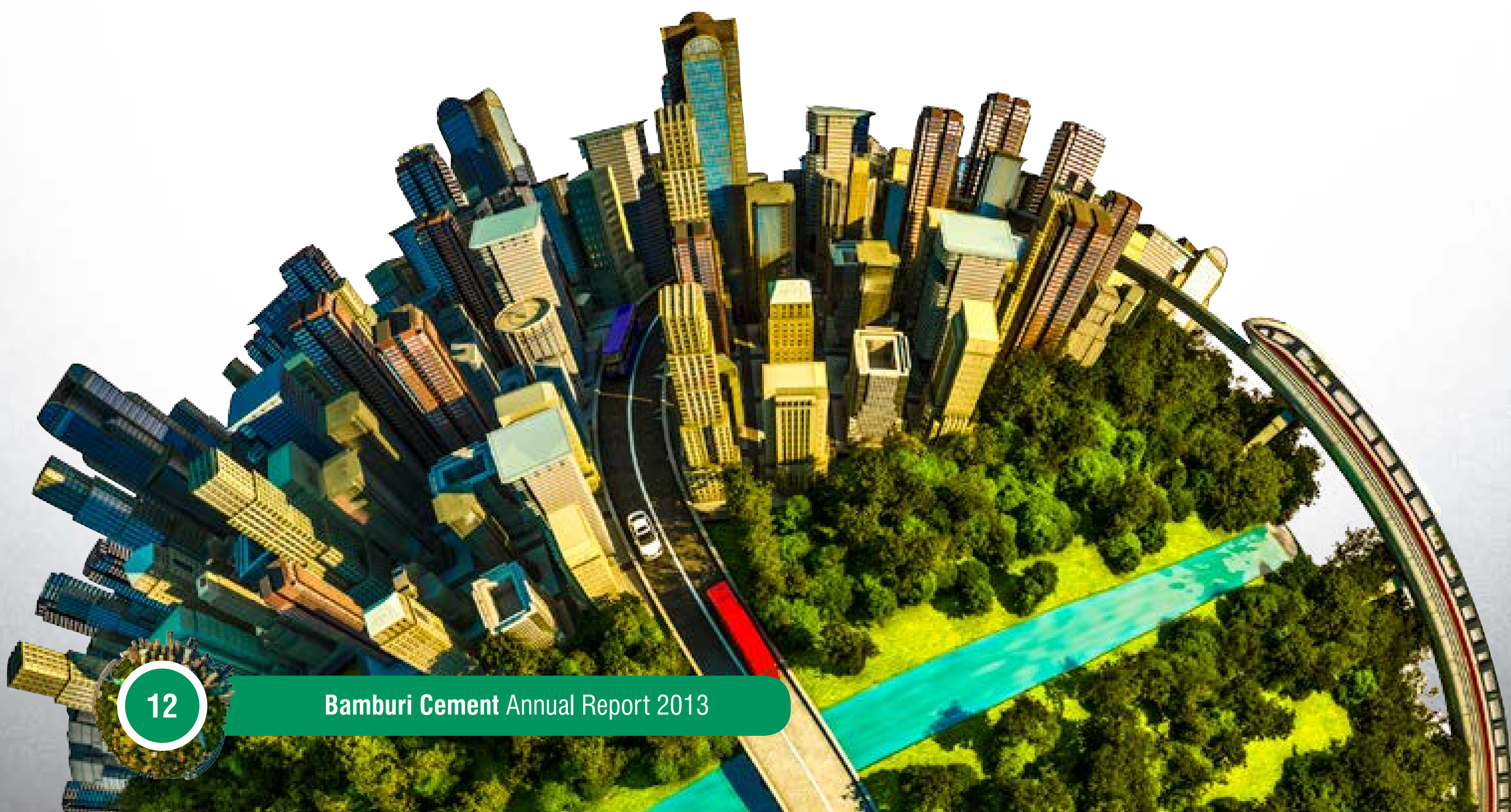
Appreciation

Through what was a truly challenging year, I was encouraged by the faith our customers continued to show in our brands while our staff displayed commitment, resilience and persistence. The Group experienced greater engagement with the Governments in the region, communities as well as other stakeholders.

To our customers, our people, regional Governments and stakeholders, I extend my sincere gratitude.

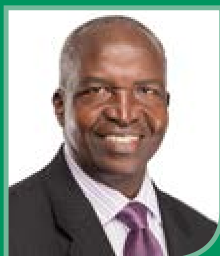
Our promise remains to provide construction solutions that will build better cities and improve the lives of our communities in a sustainable way and I count on your support in 2014 and beyond.

Hussein Mansi
Managing Director



60 years
of **Building East Africa**

The Board of Directors



DR. JOHN SIMBA 69 **OGW, MBS,** LLB, Hon LLD (NON-EXECUTIVE)

He is a 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.

John has served as Chairman of Federation of Kenya Employers, Kenya Bankers' Association and the Retirement Benefits Authority and as President of the Rotary Club of Nairobi. He is currently Chairman of several companies including Pan Africa Insurance Holdings Limited, APA Insurance Company Ltd and is a Director in several others. He is Chairman of the University of Nairobi Council and Chancellor of Pwani University.

John is a member of the Law Society of Kenya, East African Law Society, 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, 47 BComm, MBA, CPA (K), CPS (K) (NON-EXECUTIVE)

Chris is the Finance Director, National Bank of Kenya. He previously worked at Mumias Sugar Company Limited and Sovereign Group.

He has business experience spanning over nineteen years in Finance, Administration and Business Management both locally and internationally. He is an alumni of Strathmore Business School/IESE, AMP 2010.

Chris is a member of the Audit Committee.

DOMINIQUE BRUGIER, 55 BMechE (NON-EXECUTIVE)

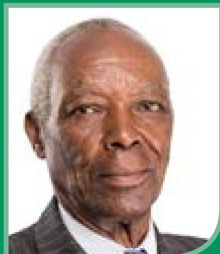
He joined Lafarge in 1991 as a Mechanical Expert, moved to Lafarge China in 1995 as a Maintenance Manager, became Project Manager in 1997 and rose to Industrial Director in 2005. In 2009, he was promoted to the position of Director, Performance and Progress, East and West Sub-Saharan, Africa, a position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

Dominique is a member of the Audit Committee.

SHEILA M'MBIJJEWE, 56 **MBS,** ICAEW, CPA(K) (NON-EXECUTIVE)

Sheila's previous positions have included Finance Director at PricewaterhouseCoopers, Stagecoach International and Standard Chartered Bank Kenya. She is a member of the Monetary Policy Committee of the Central Bank of Kenya.

Sheila is the Chairperson of the Audit Committee.



AMB. SOLOMON W KARANJA, 77 BA, MA (NON-EXECUTIVE)

He has worked as a Deputy to the University of East Africa Registrar and was the first Kenyan Registrar of the University of Nairobi. Subsequently he held the position of Executive Chairman, East Africa Portland Cement Company for twelve years 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, 57 BA, JD Law (NON-EXECUTIVE)

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

Thomas 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, Thomas 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, Thomas was appointed Group EVP, Operations.

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

The Board of Directors

CATHERINE LANGRENEY, 48 MSEE, MBA, CPM (NON-EXECUTIVE)

Catherine started her career in 1991 working in various organizations including Alcatel USA and Bell Canada Technologies in France and the United States of America, in Engineering and Procurement roles.

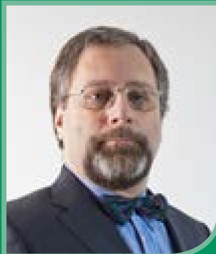
She joined Lafarge in 2002 as Vice President, Purchasing, Lafarge North America until 2006 when she was promoted to Group SVP Purchasing. In 2011, Catherine was appointed Country CEO, Tanzania – a key regional collaborator of the Company.

Catherine combines her business knowledge with her engineering background to drive change.

MUTUA KILAKA, 61 CBS, SS, BA (NON-EXECUTIVE)

Mutua is a career administrator who begun his career in the Government in 1977. He has held the position of Under Secretary in the Ministry of Commerce, Office of the President and Ministry of Technical Training & Applied Technology between 1987 and 1992. He has held other positions in the Ministry of Information & Broadcasting, Ministry of Water & Development and Ministry of Roads, Housing & Public Works. He is currently the Financial Secretary, National Treasury.

Mutua Kilaka was appointed to the Board on 5 December 2013.



FABRIZIO OLIVARES, 52 MCF (ALTERNATE)

Fabrizio has almost twenty five (25) years experience in Financial management and International controlling with major US and European Corporations.

He joined Lafarge in May 2008 as Senior VP Finance, Aggregates & Concrete Division a position he held 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.

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

HUSSEIN MANSI, 47 BSc, MBA (EXECUTIVE)

Hussein is a Master of Business Administration and holds a Bachelor of Science degree in Civil Engineering.

He began his career in 1991 in Saudi Building Systems as a Design Engineer and later as the Sales Manager.

In January 1999, Hussein joined the Orascom Cement Division, as Works Director, Sales and Marketing. In 2003 he moved to Algeria Cement Company as the Commercial Director a position he held until December 2008.

He then moved to Lafarge through the acquisition of Orascom in 2007. In January 2009 he moved to Bamburi Cement, Lafarge unit in Kenya and Uganda as Managing Director, a position he currently holds.

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

ERIC KIRONDE, 47 BSc, FCCA, CPA(U), CPA(K), ACMT (EXECUTIVE)

Eric 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 twenty month secondment to Ashaka Cement Company in Nigeria. He was Director of Internal Control for Lafarge Sub Saharan Africa, based in Nairobi before being appointed Finance Director in December 2011.

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

DANIEL PETTERSSON, 39 MSc, MBA (EXECUTIVE)

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

He became a member of the Board on 5 June 2013 following his appointment as General Manager, Hima Cement Limited.

BETTY KANYAGIA, 39 LLB, CPS (K), MCIArB (COMPANY SECRETARY)

Betty 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.

Betty 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 Lawyers Association.

The Board of Directors

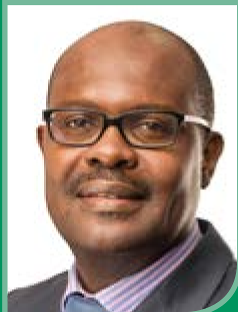
From Left to Right
Sitting: Sheila M'Mbijjewe, Catherine Langreney, Betty Kanyagia
Standing: Dominique Brugier, Eric Kironde, Hussein Mansi, John Simba, Amb. Solomon Karanja, Chris Kisire, Daniel Pettersson
Missing: Thomas Farrell, Fabrizio Olivares, Mutua Kilaka

Executive Management Team

From Left to Right
Sitting: Susan Maingi, Hussein Mansi, Jacqueline Wanyama
Standing: Daniel Pettersson , Steve Okeyo, Robert Nyangaya, Tariq Iqbal, Eric Kironde, Xavier Decharentanay

Executive Management Committee

Hussein Mansi, Managing Director
Hussein is a Master of Business Administration and holds a Bachelor of Science degree in Civil Engineering. He began his career in 1991 in Saudi Building Systems as a Design Engineer and later as the Sales Manager. In January 1999, Hussein joined the Orascom Cement Division, as Works Director, Sales and Marketing. In 2003 he moved to Algeria Cement Company as the Commercial Director a position he held until December 2008. He then moved to Lafarge through the acquisition of Orascom in 2007. In January 2009 he moved to Bamburi Cement, Lafarge unit in Kenya and Uganda as Managing Director, a position he currently holds.



Eric Kironde, Finance Director
is a Bachelor of Sciences (BSc) degree holder, a Fellow of the Chartered Association of Certified Accountant (FCCA), a member of the Institute of Certified Public Accountants of Uganda (ICPAU) and an Associate of The Association of Corporate Treasurers (ACMT). Prior to joining the Group, he worked at Nile Breweries Limited (Uganda) as an Internal Audit Manager and PricewaterhouseCoopers, where his last position was Audit Manager. Eric 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 twenty month secondment to Ashaka Cement Company in Nigeria. He was Director of Internal Control for Lafarge Sub Sahara African, based in Nairobi before being appointed as the Finance Director, Bamburi Cement Limited in December 2011.

Daniel Pettersson, General Manager, Hima Cement Limited
Daniel joined Lafarge in 2006 as Strategy and Development Manager, Corporate Office. Thereafter, he moved to the Democratic Republic of Congo as Business Development Director, a position he held until 2010 when he was appointed the General Manager, Ash Resources, Lafarge South Africa.
He was appointed as General Manager, Hima Cement Limited in June 2013.

Jacqueline Wanyama, Human Resources & Organization Director
is a Master of Business Administration (International Business) and Bachelor of Commerce (Business Administration) degree holder and is a member of the Institute of Human Resource Management, Kenya. She has over 10 years experience in Human Resources & Organization Development across Sub Saharan Africa, gained from working experiences in leading multinational organizations such as British American Tobacco, Standard Chartered Bank and Colgate Palmolive. Jacqueline joined Lafarge in July 2011 as the Regional Organization Development Director for Sub Saharan Africa and later Bamburi Cement Limited as the Human Resources & Organization Director, in June 2012.

Robert Nyangaya, General Manager, Bamburi Special Products
is a Bachelor of Commerce (Accounting Option) degree holder from the University of Nairobi and a Certified Public Accountant, CPA (K). He worked for 11 years at the local subsidiary of Eastman Kodak Company (Kodak Kenya) in various capacities including Finance, Sales and Marketing. Before joining Bamburi Cement Limited in 2001, Robert was looking after Eastman Kodak distributor operations in Sub Saharan Africa. In Bamburi Group, he has served as Commercial Manager for Hima Cement Limited, as the Marketing Director Bamburi Group, before his appointment as General Manager – Bamburi Special Products Limited in March 2012

Executive Management Committee

Steve Okeyo, Sales Director
is Sales Director and acting Marketing Director. He holds a Bachelor of Arts degree from the University of Nairobi and a Master of Science Degree in Business Administration from the United States International University in Nairobi. Steve built most of his management career at the Coca-Cola Company where, for over ten years, he worked in different markets across East Africa and the Indian Ocean Islands. He held different responsibilities from Operations Marketing to General Management. His last assignment was Country Manager for Uganda where he successfully stabilized a previously-declining business. Steve joined the Group in 2010 as Sales Director and took up an expanded role including Marketing in 2012.

Susan Maingi, Corporate Affairs and Communications Director
is a Business Education and Sociology graduate from Kenyatta University, an AIESEC Board of Advisor, and a member of the Institute of Human Resource Management, Kenya. She joined Bamburi Cement Limited, in 2002 as the Career Development Manager from an audit and management consulting firm, KPMG. She was appointed to the role of Human Resources & Organizational Director in 2007, where she played a key role in the development of the Human Resources function within the Group in East Africa to be a strategic business partner. Susan was later appointed to the position of Corporate Affairs and Communications Director in June 2012.

Tariq Iqbal, Supply Chain Director
is a holder of an HND (Civil Engineering). Prior to joining the Group, Tariq worked with Pacific Consultants International (Japan) as a Building Engineer. Tariq joined Bamburi Cement Limited in December 1996 as the Commercial Manager, Simbarite Limited (Bamburi Cement Subsidiary) and has since held various positions within the Bamburi Group. He was the Project Manager responsible in setting up Bamburi Special Products in 1998. He was the General Manager of Bamburi Special Products before being appointed the Supply Chain Director in October 2007.

Xavier Decharentanay, Industrial Director
holds a technical degree in Mining Engineering with a specialty in Materials from Ecole des Mines de Saint-Etienne with experience of optimization of production standards. He started as the Assistant to the Industrial Manager in Metaleurop SA and later on held the position of Managing Director in Recytech SA before joining the Lafarge Group in 2008 as the Projects Director in Lafarge SA. He later joined Bamburi Cement Limited in September 2009 as the Industrial Manager before being appointed to the Industrial Director position in 2011.

Corporate Information

DIRECTORS

Executive

H Mansi	(Egyptian)	- Managing Director
E Kironde	(Ugandan)	- Finance Director
D Pettersson	(Swedish/Nigerian)	- General Manager, Hima Cement Limited - Appointed 6 June 2013
D Njoroge	(Kenyan)	- General Manager, Hima Cement Limited - Resigned 6 June 2013

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)	- Appointed 5 December 2013
F Olivares	(Italian)	- (Alternate to T Farrell)

SECRETARY

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

REGISTERED OFFICE

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

REGISTRARS

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

AUDITORS

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

PRINCIPAL BANKERS

Citibank N A
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

60 years
of **Building**
East Africa

Statement of Corporate Governance

INTRODUCTION

The Board of Directors of Bamburi Cement Limited recognises that sound corporate governance and ethical business practises are core values of the Group. Believing that investors will recognise significant long term value, the Board conducts the business in an open and responsible manner while at all times providing investors a thorough understanding of how the business is managed.

The Board recognizes that for governance to be effective, it must be realised through leadership and collaboration. With this in mind, the Board complements, enhances and supports the Executive.

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

BOARD

Mandate

The Board of Directors has the fundamental responsibility to promote the success of the Group and act in the best interest 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 having been reviewed in 2012 is up to date with the current needs and roles of the Board.

Membership & Size

The Board currently comprises of ten members following the replacement of David Njoroge with Daniel Pettersson in June 2013 and the appointment of Mutua Kilaka in December 2013.

Recognizing the benefits of diversity, there are seven nationalities represented on the Board and two female directors. The membership comprises of 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.

With the appointment of Mr Kilaka, the number of non-executive directors rose to seven, 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 that its current size, composition with the balance between independent and non-independent directors, the experience and skills the directors bring onboard is optimal.

Operations

The Chairman, together with the Chief Executive Officer and the Secretary, ensures that 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. The Board in both Bamburi and Hima meet at least four times a year. Members of Management are invited to these meetings when deemed necessary. The meetings rotate around the various sites to provide an opportunity for the Board to interact with the local staff at the different sites.

The Chairman and Chief Executive Officer, either jointly or separately, have regular meetings and consultations with the independent directors.

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 a charter which governs its operations and minutes of the Audit and Nomination & Corporate Governance (NCGC) committees are included in Board papers.

The attendance of the Board meetings and the meetings of the two committees mentioned above for the year under review is indicated below.

Director	Category	Bamburi Cement	NCGC	Audit Committe	Hima Cement
J Simba	Non-executive	4/4	2/2	-	4/4
C Kisire	Non-executive	4/4	-	4/4	-
S M'Mbijjewe	Non-executive	4/4	-	4/4	-
S Karanja	Non-executive	4/4	2/2	-	-
H Mansi	Executive	4/4	2/2	-	4/4
D Brugier	Non-executive	3/4	-	3/4	-
D Njoroge	Executive	1/1	-	-	1/1
D Pettersson	Executive	2/2	-	-	3/3
E Kironde	Executive	4/4	-	-	4/4
T Farrell	Non-executive	1/1[1]	0/2	-	-
C Langreney	Non-executive	3/4	-	-	-
Alternate	Alternate To				
F Olivares	T Farrell	3/3	-	-	-

[1] Represented by his alternate

Separation of Roles

There is a clear division of responsibilities between the Board and Executive. 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 Chief Executive Officer is clearly defined and approved by the Board. The Chairman is responsible for leadership of the Board, facilitation of contributions of the non-executives, review of Board performance and Board strategy.

The Chief Executive Officer 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 & EVALUATION

Induction & Training

The Company Secretary designs and facilitates a tailored induction programme for new directors, which include 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 Group is committed to the continuous development of its directors in order to build on their expertise, ensure the Board is up to date with global business changes while developing a more detailed understanding of the Group and the environment in which it operates.

Information

Upon appointment, Directors are provided with a reference manual containing all information on legal obligations the Directors should be aware of. The manual also contains items such as the Board Charter, Articles of Association and Code of Business Conduct Policy.

During their tenancy, all directors are supplied with full and timely information to enable them discharge their responsibilities. Board papers are distributed at least fourteen days before the board meeting and seven days for committee meetings.

The Directors have access to Management together with access to the advice of the Company Secretary and any other experts at the cost of the Group.

Performance Evaluation

The Board undertakes review of its performance both collectively and of individual members, action plans are developed following this review to ensure closure of any

identified gaps. The last performance review was undertaken in June 2012.

Following the change in Chairmanship in December 2012, the Board felt there was insufficient time and focus to allow adequate evaluation by the incoming Chairman. As such, a full board evaluation will be carried out during the current financial year.

BOARD COMMITTEES

Audit Committee

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

The Audit Committee assists the Board discharge the responsibilities to safeguard the Group assets, operate adequate and effective internal control, risk management and governance systems, prepare materially accurate financial reports, monitor compliance with laws, regulations and the Group Code of Business conduct while also providing oversight of the external and internal auditors. The Audit Committee provides a communication channel between the Board, auditors and other quality assurance providers.

In 2013, the Committee reviewed the financial statements, management letter, internal audit reports on the two largest subsidiaries together with management responses thereto, operational risks and 2014 budget. The HR & Organization Director was invited to one meeting to discuss HR related concerns.

The Committee has reviewed the appropriate information from the internal auditors, external auditors, management and other sources deemed necessary to fulfil its obligations.

Nomination & Corporate Governance Committee

The NCGC is responsible for nomination of 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 2013, the Committee reviewed the qualifications of the proposed directors and made recommendations as appropriate. Board appointments are made on the basis of contributions the proposed non-executive director can make to the improved performance of the Board.

The Committee ensures governance to facilitate effective, efficient and entrepreneurial management that will deliver long term shareholder value.

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, there were 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. Its members are appointed by the Chief Executive Officer and the Committee consists of individuals responsible for key components of the business.

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

Company Secretary

The Secretary acts as secretary to the Board and all the committees of the Board. The Secretary ensures that board procedures are followed, has responsibility for corporate governance matters, ensures information to the Board is available in a timely manner and arranges for board training and induction.

The Secretary supports the Chair in planning the agendas and performance management for the Board and committees.

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 key features of risk management put in place by the Board are establishment of procedures, continuous identification, evaluation and management of significant risks, development

of processes to mitigate the risks together with continuous and regular monitoring of the mitigation processes and their effectiveness. Risk management is designed to manage rather than eliminate the risks.

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.

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.

Further, all contracts contain the standards and practices to which the Group expects its suppliers and contractors to adhere to failure to which the contracts are terminated.

Communication

The Group values open, constructive and effective communication with its shareholders and stakeholders. The Group also takes cognisance of the importance of explaining its business development and financial results. This is achieved through various forums including the website which contains a wealth of information.

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

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

Annual General Meeting

The Group holds an Annual General Meeting 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.

The AGM provides a forum for discussion on the financial results and include a question and answer session. In the year under review, the AGM was held in Mombasa on 6 June 2013 and was attended by all directors, in person or by proxy, who were available to answer any questions the shareholders had. The external auditors were also present and responded to shareholders' questions. The meeting recorded the highest shareholder attendance of all time.

Investors

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

Two email addresses for the Finance Director and the Company Secretary were opened during the year. These are dedicated to shareholder and investor issues. The addresses have already recorded significant email correspondence.

Financial Results

The Group announces its financial results every six months. A summary of the annual and half year results are published in two daily newspapers and posted on the website. The shareholders also get a copy of the annual report that contains the full year results.

Shareholders Information

TOP 10 SHAREHOLDERS AS AT 31 DECEMBER 2013

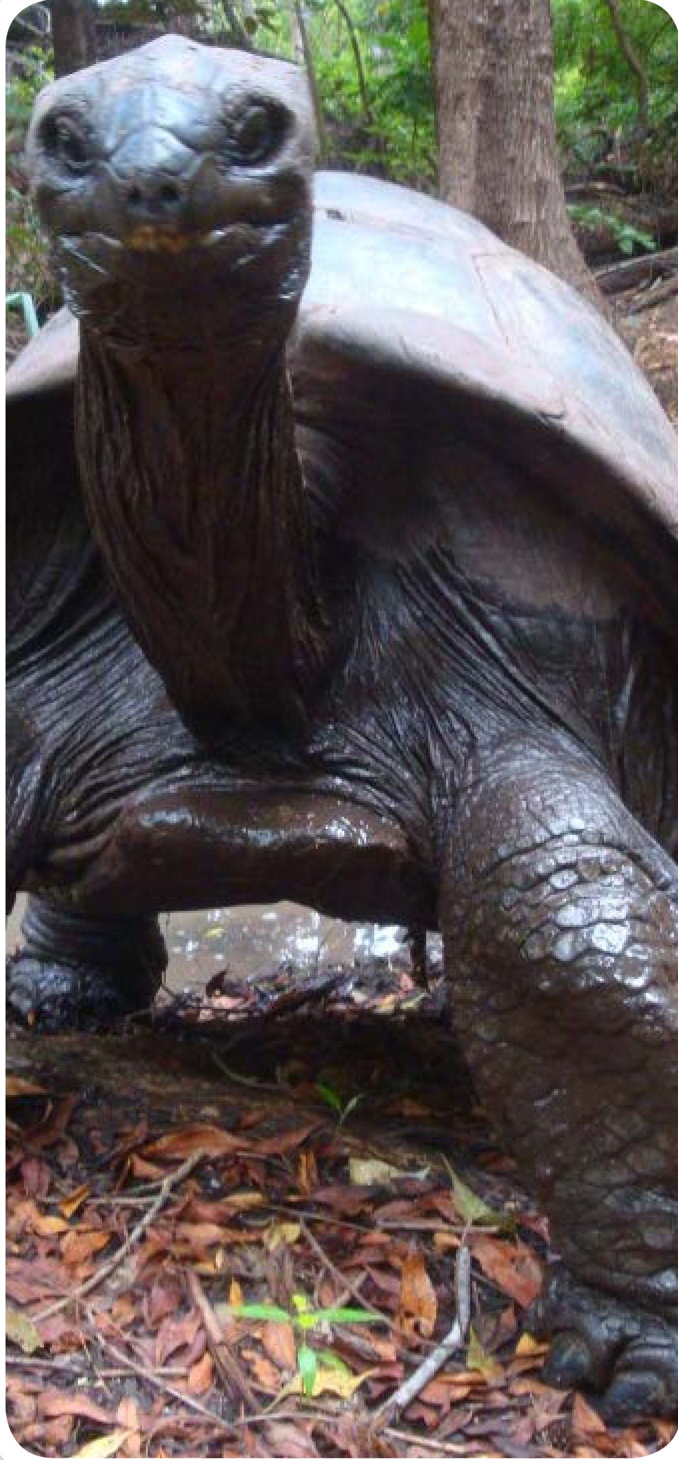
Rank	Name of Shareholder	Shares	Percentage
1	Fincem Holding Ltd	106,360,798	29.30%
2	Kencem Holding Limited	106,360,797	29.30%
3	Standard Chartered Nominees A/C KE11396	55,150,278	15.19%
4	Paramount Company Ltd	20,400,000	5.62%
5	Baloobhai Chhotabhai Patel	5,500,190	1.52%
6	Standard Chartered Nominees A/C 9098AC	2,105,855	0.58%
7	Standard Chartered Nominees A/C KE11916	1,896,460	0.52%
8	Standard Chartered Nominees A/C 9230	1,797,379	0.50%
9	Board of Trustees National Social Security Fund	1,749,853	0.48%
10	SCB A/C Pan African Unit Linked FD	1,442,422	0.40%

SHARE ANALYSIS BY VOLUME AS AT 31 DECEMBER 2013

VOLUME	NUMBER OF SHARES	%	NUMBER OF HOLDERS
1 – 500	229,358	0.063%	1,149
501 – 5,000	2,277,820	0.628%	1,114
5,001 – 10,000	1,414,196	0.390%	199
10,001 – 100,000	12,452,043	3.431%	372
100,001 – 1,000,000	40,732,593	11.222%	137
1,000,001- 99999999999	305,853,265	84.267%	14
TOTAL	362,959,275	100.00%	2,985

SHARE ANALYSIS BY DOMICILE AS AT 31 DECEMBER 2013

DOMICILE	NUMBER OF SHARES	%	NUMBER OF HOLDERS
Foreign Institutions	245,938,992	67.76%	53
Foreign Individuals	265,464	0.07%	49
Local Institutions	104,250,019	28.72%	653
Local Individuals	12,504,800	3.45%	2,230
TOTAL	362,959,275	100.00%	2,985



60 years
of **Building East Africa**

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

HIGHLIGHTS

Cement consumption in East Africa was estimated at 9.1 million tons, which represents a growth of 8% over 2012 levels. The market in Kenya grew by 4% to 3.8 million tons. The growth in the sector was lower than forecasted GDP growth of 4.8% compared to 4.5% growth in 2012. The slower growth experienced in the first half was due to elections but rebounded in the second half from increased activity in the individual home builder (IHB) segment. In Uganda the market grew by 5.8% to 1.7 million tons which was mainly a reflection of economic growth with Uganda achieving 6% GDP growth compared to 3.6% growth in 2012.

The industry continued to expand with volumes from recent expansion and new players in the market, which increased competitive pressure. The Kenya and Uganda markets are projected to remain in a clinker manufacturing deficit and cement surplus in the short run, but the Group's markets extend to the larger Eastern and Inland Africa markets which have a cement production deficit.

The Group's outlook for this region is positive with the announcement by Lafarge Group of additional capacity increase over the next 5 years, as part of its over 10 million ton expansion in Sub Saharan Africa. The Group will continue to focus on its vertical integration activities to deliver value added products to customers in the region, an enhanced route to market, channel partner program, brand building and new products to grow revenues. Cost optimization has now evolved into a culture which is expected to secure the bottom line with focus on energy costs which are a significant part of our cost of production.

The Group's marketing campaign during the year focused on establishing individual brand identities with communication campaigns for both cement and concrete brands. In addition, the Group continued interaction with engineers, architects, quantity surveyors, contractors and developers through forums, talks, expos and sponsorships one of which showcased a Lafarge product -'Ductal® ultra high strength concrete' to highlight the Group's innovation capability.

The Builders Academy program (A masons engagement forum) has been running in Kenya and Uganda for 11 years now and in 2013 we expanded the scope to include Rwanda and Eastern Democratic Republic of Congo (DRC). These forums allow us to impart knowledge and skills with a focus on good construction practices. We have interacted with more than 100,000 masons in the region since inception of the program.

Despite a positive outlook, certain risks still remain within the regions in which we operate and which could have an impact on us going forward. With easing conflict in Eastern DRC and the resultant peace and stability in the Great Lakes region, Uganda is expected to experience growth in the export market in 2014. However the risk of withdrawal of donor support might impact cement domestic demand in the short term. As a region, we are exposed to commodity and currency shocks and the Group seeks to grow its dollar denominated sales to hedge against these shocks.

SEGMENT HIGHLIGHTS

KENYA

Bamburi Cement Limited

The Company's operating profit remained flat compared to 2012 inspite lower volumes driven by slower demand in the first half of 2013, lower infrastructure spend as well as low inland Africa exports. This was partly offset by better industrial performance in Kenya resulting in lower purchased clinker consumption and lower overall energy cost. Domestic demand grew by 4%, which was two percentage points lower than the growth in 2012, while Export demand was 22% lower, driven by political tension in the Great Lakes region which constrained outflows from Uganda thereby reducing demand from Kenya

into Uganda.

The Nairobi Grinding Plant continued operating safely achieving 7 years without any Lost Time Injury (LTI). The Mombasa Plant recorded a lost time injury in June when a contractor's employee was injured on site while working on a conveyor belt. By the end of the year, the Plant had achieved 196 days without Lost Time Injury (LTI). The Company continued to encourage the participation of all its employees and contractors, in driving the safety culture and continued to record an increase in the participation levels through the Visible Felt Leadership, Task Observation, Safety observation and Team based leadership programs.

Clinker production for the period was 7% higher compared to 2012 due to improved kiln performance and reliability. The team was able to ramp up alternative fuel substitution to 7% compared to 2% in 2012 and achieved 21% in the month of December, a record for the Mombasa plant. Cement production was 8% lower compared to 2012 due to the lower exports into Uganda. Variable costs were lower by 8% compared to 2012 on account of lower use of purchased clinker and better energy prices. Industrial Fixed costs remained relatively flat compared to 2012, while Selling, General and Administrative Costs (SGA) increased by 27% mainly on account of an increase in provisions and increased brand building costs.

We expect some inflationary pressure on our cost base in 2014 with projections of lower than normal rainfall in parts of the country. In addition, the Company, as is the rest of the economy, continues to be exposed to global commodity price changes and changes on account of exchange rate fluctuations.

Bamburi Special Products

Bamburi Special Products Limited (BSP), a wholly owned subsidiary of the Group, is the largest supplier of Ready Mix Concrete and Precast Blocks in Kenya.

BSP reported 2,355 days without LTI in 2013. In addition to this, BSP recorded a 32% reduction in the number of first aid injuries, with the aim of achieving zero injuries at all its sites. Focus in the coming year will be to increase staff and contractor participation, to reduce the frequency injury rate and sustain the zero lost time status.

Revenues at BSP grew by 5% driven by 12% growth in Ready Mix Concrete sales, but saw a 3% decline in Precast sales due to low demand in the first half of the year. We continue to register increased uptake in the Readymix segment with our product being a convenient alternative to conventional concrete site mixing and we expect continued growth in this segment. The Precast segment is becoming increasingly competitive and the Company continues to play a leading role in increasing the products on offer with the same consistent high quality standards that the Bamburi brand stands for. The Company continues to expand its geographic footprint and will also leverage on the Group's sales force effectiveness program to drive top line accompanied by brand support.

Operating profit dropped by 67% ,driven by higher raw material costs and the effect of higher production fixed costs to cover the increased plant capacity, in addition to increased Selling, General and Administrative Costs (SGA) costs due to increased provisions in bad and doubtful debts. In the coming year, various cost containment measures have been put in place and a significant amount of time invested in developing the team to drive operational efficiency.

Lafarge Eco-Systems Limited

Lafarge Eco-Systems Limited (LES) is a wholly owned subsidiary incorporated to sustainably utilize the Group's land and rehabilitate quarries, using the land and quarries as a showcase of environmental responsibility and also to engage neighboring communities and other stakeholders.

In 2013, LES revenues grew by 4% compared to 2012. However the company recorded a loss of KShs. 19 million on account of a steep increase in staff costs after the Industrial court awarded a 37% wages increase for the 2009 – 2011 period.

Haller Park and Bamburi Forest Trails attracted a total of

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

139,000 local and oversees visitors compared to 156, 830 visitors in 2012 due to a slow first half of the year. The Park continues to attract event organizers for large functions in a forest setting successfully hosted. In addition to being a tourist attraction, the Park also acts as a sanctuary for captured or orphaned animals and the year the park received rescued Zebra, Lesser Kudu and Owls. The wildlife team was also called in to capture animals that pose a risk to the community which included a male BushBuck on the Mombasa - Malindi road and a 5 meter long python that was found at Bandari College.

The area under the Biofuel plantation cover was held constant at 768 hectares with a focus on maintenance, monitoring and thinning. The Biofuel Project continues to be a key lever in managing stakeholder relations and community integration and it has helped avoid encroachment into company land and thereby securing reserves. The project continues to provide employment opportunities for communities around the limestone reserve lands of Diani and Vipingo through the Shamba System with 154 shamba system farmers participating in 2013.

UGANDA

Hima Cement Limited

Operating profits for Hima Cement dropped by 58% to KShs. 1.1 billion compared to 2012 mainly due to reduced exports into inland Africa, which also exerted margin pressure in the Uganda domestic market. Revenues were 15% lower versus 2012. Export volumes declined in DRC due to reduction in demand coupled by lack of access to the market, while the Rwanda market though slow in the first half, rebounded in the second half of the year. The unavailability of hard currency in South Sudan continued to depress that market for most of the year, which diminished further with the start of internal conflict in December.

The Plant sustained its safety standards and achieved 1,191 days without Lost Time Injury (LTI) with a continued increase in the participation of employees and contractors in the Company safety programs.

Clinker production declined by 10% in 2013 due to the increased frequency and duration of power interruptions experienced at the Plant. Rehabilitation work on part of the electricity transmission line started in September and was scheduled for completion by the end of the first quarter of 2014. Cement production remained at the 2012 production levels despite the high frequency and outages of power. The team due to improved plant mastery through the Plant Operating Model, have been able to adapt operations to match power availability as well as optimize milling to ease power consumption practices.

Alternative fuel substitution was above 50% in the year compared to 44% in 2012 as the plant continued to improve its burning mastery as well as the increased maturity of the Company's alternative fuel supply chain model. Variable costs increased slightly on account of higher specific heat and power consumption as a consequence of the high frequency and duration of power interruptions. The Company embarked on a review of quarry costs with the aim of reducing costs which resulted in developing a new logistics model that will be rolled out in the first quarter of 2014. Work on the Petcoke mill was at an advanced stage with commissioning expected early January 2014. Industrial Fixed costs remained relatively flat compared to 2012. The plant carried out a quarry audit as part of the Company's practice to determine quality of material as the first step towards updating the mining plan.

Selling General and Administrative (SGA) Costs increased by 34% driven by increased marketing costs. SGA costs are projected to come under pressure as the Company increases its brand support and reviews the organization required to support the Uganda operation. The Company will continue its energy and power reduction cost initiatives, optimizing its logistics model to achieve lowest delivered costs and on plant mastery to manage industrial fixed costs.

60 years
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East Africa

Sustainability Statement

Our focus continues to be on building sustainable relationships with our stakeholders at Local and National level. As a member of the Lafarge Group, we have entered a new phase in our sustainability commitment with the launch of Sustainability Ambitions 2020. The 34 sustainability ambitions are organized around the three main pillars of sustainable development - social, economic and environmental – and they are coupled with demanding quantitative targets.

We firmly believe that a responsible Company must meet the challenges of society, that it has an active role to play in the development of the communities within which it operates and that the implementation of proactive measures in favour of sustainability, creates value not only for its shareholders, but also for its teams, its customers and the community at large.

Corporate responsibility is not an empty term, it is the demonstration of our commitment to the positive contribution that we intend to make to society, future generations and better cities.

Building Communities

Our sustainability ambitions are focused on the realm of Health and Safety; Employee diversity and skills, as well as Community development and outreach.

Health and Safety

We are committed to upholding good safety practices and behaviour, not just within our Plants, offices or around the areas in which we operate, but at every point along our supply chain in the region. This is a commitment that Lafarge has made for all its operations worldwide.

Over the years, we have put in place several far-reaching measures to achieve the highest-level in Safety and Health – through our policies and standards, and we have achieved significant milestones in our journey towards becoming a global showcase in Health and Safety and making our operations amongst world safest places to work. Towards this end, we received recognition from Lafarge Group earlier in the year by becoming the first country in Africa and Middle East to attain the Silver Membership status in the prestigious Lafarge Heath and Safety excellence Club.

The Bamburi Group continues to make great strides in achievement of this ambition with 2013 depicting very strong Health and Safety fundamentals, our total Injury frequency rate was at 0.51 against an internal target of 1.2 while the Lost Time frequency rate was at 0.18, exceeding Lafarge set target of 0.45. To put this performance into perspective, we benchmarked ourselves against our peers within Lafarge Group, and were happy to note that the Bamburi Group was ahead of North America and West Canada country clusters in terms of level of workplace injury rates and among the Top 5 countries worldwide amongst country clusters with more that 5 million working hours annually.

Industrial Safety

We continue to maintain our priority of delivering a safe work place through the Risk based approach in Health and Safety, and applying the Lafarge Heath and Safety Management system whose ten areas of focus are: Ambition, Policy and Rules, Leadership, Accountability and Organization, Consultation and Empowerment, Risk Management, Emergency Preparedness, Incident Reporting and Investigation, Competent People, Communication, Documentation and Record Keeping and Audit and Maturity path.

In 2013 we conducted Comprehensive Health and Safety Management System audits across all the industrial sites and depots. The results now provide a baseline against which the sites will work to align their Health and Safety management practices to a HSMS system and we anticipate that all sites will have attained a target level of 3.0 before mid of 2014.

We continue to consolidate our success in managing safety through increasing the level of management and shop floor employee involvement in promotion of a safe working environment. Our Visible Felt Leadership (VFL) program has so far achieved close to 5,000 conversations by management

and have taken place at the shop floor across all our 10 sites of operation. People development is part of this agenda, and in this regard the Company continues to invest in developing competent persons in Health and Safety. In 2013, we increased the training hours to 23,277 compared to 18,927 in 2012, representing a 23 % increase. Employees and contractors were constantly encouraged, not only to work towards, but also to expect and demand a safe working place from site management teams and through our Safety observation (near-miss reporting) program; their contribution is visible and practical. In 2013 we saw a total number of 16,407 safety observation reports filled, with a rate of management closure of the improvement actions standing at 65%. Although this is a significant improvement from 2012, our focus remains to achieve the threshold of 75% closure rate.

This year we have also sought to have a strong process of reward and recognition of workers who do well in Health and Safety. So far a total of 465 such recognitions have taken place across the various sites.

Road Safety

We continue to champion a road safety culture geared towards achieving zero major accidents. To this end we have engaged in extensive partnerships with stakeholders as well as implemented programs for employees and contractors to make roads in East Africa safer.

It is important to note that we cover over 100 million kilometres on the road each year with trucks transporting our materials and finished goods safely. Our rate of fatal crashes is below 1 per 100m kilometers, which is above global best average of 2 per 100m kilometers.

For the sixth year, the Bamburi Group conducted its annual road safety campaign and road show in partnership with the ‘Safeway, Right Way’ organization. Through the campaign we communicated safe driving messages to more than 150,000 road users on the Northern corridor and trained close to 500 boda boda operators in 6 centers along the way. We also had a chance to engage widely with key stakeholders at the National Government level, County Governments along the corridor, Members of the National Legislature and with the National Transport and Safety Authority (NTSA).

Daily Monitoring of driver behavior on the road remained a key engagement for us. Transporter Safety compliance in Uganda improved 3% points to reach 77%. In Kenya, we edged upwards by 1% point to close at 90% compliance based on a revised KPI that included tracking of journey plan compliance, through our network of checkpoints along our major routes.

We recognize that we must continue to be vigilant on our roads in Kenya and Uganda, as we experienced one contractor driver fatality in Uganda. We also encountered a number of incidents attributed to third parties outside our span of control, and though this did not affect our recordable incident statistics, we still view this as a setback to our strong record.

We will continue to focus on our key areas: continual enhancement of our driver training and identification system, use of the Bamburi Group driver’s pass, improved journey planning and management and use our electronic fleet (GPS) management system (launched in 2009) to improve on our road safety. We do acknowledge the important role the adoption of similar measures by the Government of Kenya through National Transport and Safety Authority (NTSA), is playing in complementing the efforts to create safe highways in the country in order to secure the movement of people and trade.

Health

Last year, the Group re-launched its health policy in the month of April, demonstrating commitment in upholding health. Our ambitions are focused on four pillars namely; Occupational Health Risk Prevention, Medical Intervention, Health Promotion (Wellness) and Stakeholder’s Health. Our overall goal is to have a 50% reduction in the number of persons exposed to dust, noise, ergonomics exposures and those who have to use PPE as a means of protection by the year 2020.

Sustainability Statement

In addition we conducted occupational and wellness campaigns in all our operational sites that saw 100% employees and 50% contractors participate. The wellness campaign is a proactive and preventive approach that is designed to allow an individual to evaluate their health through use of sustainable, integrated and cost efficient medical examination. The campaign resulted in the development and launch of the Chronic Disease Management program, in October 2013, which seeks to educate, empower and provide self management skills.

In Kenya, our community services saw the Company reach out to 4,467 mothers and children under five who received services through Mother to Child program at the Company staff clinic in Mombasa. This program received special mention by the Ministry of Health, as it has the highest number of male participation in couple counseling and testing in the County.

Other health promotion activities included a partnership with Coast General Hospital in Mombasa County on Cancer Awareness, that saw over 1,000 people screened for cancer; development of Youth Vocational holiday camps, that saw the teenagers and youth undergo life skills training that focused on adolescent sexuality, decision making, HIV/ Aids and drugs and alcohol abuse; blood donation drive dubbed '*toa damu okoa maisha*' in joint collaboration with the National Blood Transfusion Center in Mombasa.

In Uganda, we similarly launched a blood donation drive in Kasese in collaboration with the Fort Portal Regional Blood Bank. We also started Good Life at School (GLAS) program in five schools in Kasese with current registered students on the program standing at 500. This program mainly targets secondary schools, using the peer education model and provides a forum in which health habits are discussed by teenagers to influence positive behavior. We value this program as it provides a platform to build the future leaders by giving them skills and awareness to surmount enduring challenges ahead.

To achieve sustainable results and move to the next level in Health and Safety the Group will focus on the following initiatives: full internalization Visible Felt Leadership program; full implementation of our Health and Safety standards; increasing our sense of urgency and lowering our tolerance level; moving from lagging to leading indicators; improving staff Competency level by engaging both middle management and supervisors; integrating Health and Safety into performance management and improving our Health and Safety communication.

Human Resources

People Development is one of our strategic priorities and the company's mission in people development 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.

In 2013 we continued to build on our leadership and management frameworks in order to strengthen our delivery of business operations. To this effect a new leadership team was formed to drive our Uganda operations. In addition we have continued to resource and develop the industrial teams so as to ensure the right team is in place to deliver organization results. Our investment in people development and engagement in Uganda was a key pillar in our HR operations in 2013.

In both Kenya and Uganda we have continued to strengthen the commercial functions with additional resources to improve our frontline operations. Furthermore, we launched several Sales Development Programs in order to enhance our responsiveness to our markets and customers. Sales Force Effectiveness training was also launched in Kenya with a plan to roll out in Uganda in 2014. These programs ensured that we are able to apply consistent world class approaches to managing relations with our customers, driving sales and delivering excellence.

Our industrial plants continue the implementation of the Plant Operating Model that has allowed better mastery in our operations through continuous skills and competency improvement. In 2013, we launched the Better Leader Program in which 105 supervisors (62 Kenya and 43 Uganda) were equipped with skills for future management roles. All these

efforts are aimed at achieving overall industrial mastery.

Community Development and Outreach

We believe that our success will be greater if our practices enhance our competitiveness while simultaneously advancing social and economic conditions in the communities in which we operate. Our priority continues to build sustainable relationships with our stakeholders both at a local and national level and be recognized as a model for sustainability.

Stakeholder Engagement

We held regular engagements with our stakeholders within the local community members in Kenya and Uganda at all our sites in Mombasa County, Kilifi County, Kwale County, Machakos County and in Hima Kasese and Kamwenge Districts, with a view to discuss and support on development projects, environmental and security issues as well as how to continue co-existing amicably.

Education and Infrastructure Development

At Bamburi Group, we are of the view that involvement in the Communities in which we operate helps us build long-term relations and brings more value to bear on people's lives. We consider the Community a social partner and our structured developmental activities are mapped out with this in mind.

In Uganda , we have been involved in providing support through donations in cement or kind in various infrastructure projects including: the construction of a 3-classroom block at Hima Public Primary School, completion of the administration block for the Kamwenge District Local Government, construction of classrooms at Rwesande Primary School Hima, Nyakasanga Primary School Hima, Rusekere Secondary School Fort Portal, Fort Portal Islamic Primary School and construction of latrines for Rwimi Primary School in Kasese.

On infrastructure, in partnership with the Uganda Roads Authority (URA), we contributed over Kshs 24 million to the completion of the construction works of Dura-Rwimi road with the objective of improving road conditions and therefore safety of the road. Furthermore, Kasese district experienced intense flooding that destroyed infrastructure including Mubuku Bridge. In joint collaboration with the Roads Authority, we donated 1000 gunny bags for sand and provided an excavator to support the reconstruction. More long term measures will be implemented towards reconstruction of destroyed structures.

On health, we donated over 1,350 bags of cement to 4 institutions for re-construction and/or improvements. The institutions include Kilembe Hospital, Sanyu Babies Home, an orphanage in Kampala; TERREWODE (The Association of Rehabilitation and Re-Orientation of Women for Development), for the construction of an integration centre for women recovering from fistula; and to the Rotary Cancer Ward at Nsambya Hospital, to support the completion of the 32-bed capacity ward.

In Kenya, on the education front we supported more than 17 institutions towards the construction of classrooms, dormitories and related infrastructure, through cash contributions and cement donations amounting to over Kshs 3 million and 1000 cement bags respectively. Beneficiaries included Ereteti Secondary School - Kitengela; St. Paul's School - Athi River; St. Mark's Enkututo Primary School - Kitengela; Noonkopir Township Primary School - Kitengela; Ngelani Ranch Primary School - Athi River; Lukenya Girls Centre of Excellence - Athi River; Nthuluni Primary School, Thithi Secondary School, Mavoko Secondary School, Athi River and Oloshaiki Primary School. In Vipingo Mombasa we supported Denyenye Primary School, Diani, Gongoni Secondary School, Sirini Primary School and Chimboni primary School. Other beneficiaries include Kinanie Administration Police Post at the Chief's Camp and Divisional C.I.D Headquarters Athi River, the construction of Administrative police post and two extra offices respectively; and the Chiefs' Office - Ngombeni Diani, for the construction of new ablution block.

We also contributed more than Kshs 400,000 towards the Mekatilili Education Fund Kilifi County and Kisauni Bursary

Fund which will be used to educate top 100 girls from form 1 to 4 and needy students.

On infrastructure, we commissioned the 4th borehole funded and constructed by the Company in Mwembelegeza sub-location which adjoins the Mombasa Plant and has a population of about 28,000. This borehole will serve over 125 households including the District Commissioners headquarters.

Sponsorships and Awards

We continue to contribute to the development of Sports in form of sponsorship. In Uganda we support Golf through the Hima Golf Open and the Captaine Prize tournament. While in Kenya we support Rugby through the Bamburi Rugby Super Series.

In October 2013, Bamburi Group under the East African Business Council auspicises, received a Corporate Citizen Award presented by H. E. The President of Kenya during the EABC 2nd East African Community day at the official opening of the Nairobi International Trade Fair. Other companies recognized were British American Tobacco, Nation Media Group and General Motors Kenya.

Building a Circular Economy

Our ambitions are focused on three areas; Energy consumption and resource efficiency with a target of 50% utilization of non-fossil fuels, 30% of which should be biomass; the implementation of Biodiversity Management plans in 100% quarries and cement plants; the continuous program to reduce environmental footprint.

Reduction in CO2 Emissions

We invested Kshs 0.3 billion in the upgrading the Electrostatic Precipitators with more efficient bag filter technology in Uganda, to curb stack emissions from the old production line (RK2). This is a key milestone in the Company's compliance to Global Environmental Standards and is in line with its Sustainability Ambition goals. The project is similar to the investment of Kshs 540 million made in 2012 in Kenya at our Mombasa Plant.

Energy consumption and resource efficiency

Waste Tyre Management Program

Kenya generates more than one million scrap tyres annually and this is increasing, in addition to a backlog of discarded tyres that has accrued over the past 10 to 15 years. Scrap tyre management (collection and disposal) poses adverse negative environmental, safety and health effects to the general public, more so given there are no established and certified methods of disposal in Kenya and across the East African region. There are currently no established stockpiles across the region and tyres are either continually dumped into the environment, destroyed or re-used using methods that pollute the air, soils and ground water (i.e. tyres which are burned in the open to extract steel belting which are then sold as scrap metal).

In 2010 we identified an opportunity of working on substituting the fossil fuel with Waste tyres in Kenya. In line with our sustainability ambitions, we approached private partners and National Environmental Management Authority (NEMA) to form a strategic alliance to give the country a solution for safe disposal of waste tyres which have been a big challenge to NEMA. Furthermore, together with NEMA, other partners and with high level private sector teams, the Company is driving the validation of an Organizational model for Waste Tyre Management in Kenya.

We note that to date this project has been a progressive success story with an average supply of 400 tons of Waste tyres a month delivered at the Plant in Mombasa, and a monthly substitution rate of 3% to 5% being consistently achieved. Our target over the next few years is to achieve 10% substitution rate.

Coffee Development Project

The Hima Coffee Development Project was born out of the need to secure sustainable access to renewable energy while benefiting local coffee producing communities towards poverty alleviation and economic growth. Our operations in Uganda have made enormous achievements on use of biomass as an

alternative fuel (AF), with an above 50% substitution ratio. This is in tandem with one of the Sustainability Ambitions 2020 objective of "Use 50% of non-fossil fuels in our cement plants by 2020 (including 30% biomass)".

The biomass is sourced from local communities in Uganda and northern Tanzania. The streams of biomass used include coffee husks, rice husks, palm kernels and sugar bagasse. Coffee husks forms the highest component of the alternative fuel accounting for up to 50% of the total Alternative Fuel. Coffee is produced in large quantities in Uganda and is the second largest coffee producer by volume in Africa. The large volumes of coffee husks that were traditionally dumped are now being used as fuel.

To ensure continuity of the biomass supply, especially coffee husks, Hima Cement embarked on the "Coffee Project" whose aim is to supply coffee seedlings to the local farmers and offer agricultural extension services through partnership with local associations. Three farmers' associations are involved in the implementation - Bukonzo Joint Cooperative Micro Finance Society Limited (BJC), Kamwenge District Farmers Organization (KADIFO) and Kasese District Farmers Association (KADIFA). Other partners include Local Government Authorities (Kasese and Kamwenge District Local Government (KDLG) whose role is to mobilize farmers and to provide agricultural extension services as well as the Uganda Coffee Development Authority (UCDA) to provide certified coffee seeds required for the project and offer training.

The project covers the following coffee production processes: Coffee seedling production and distribution, Coffee development and Coffee agricultural extension services with the objective to substantially increase coffee production in Kasese and Kamwenge districts as well as raise living standards by increasing household incomes. Farmer groups are involved in the entire process from nursery to distribution and extension services. The farmers and communities benefit through the sale of coffee and job creation in the coffee mills in order to supply a clean renewable energy in form of coffee husks to Hima plant.

Hima Cement and Lafarge finance seedlings purchase at a cost of Kshs 10 per seedling while farmers contribute Kshs 2 per seedling to be utilized on offering agricultural extension services and other related training/ monitoring costs on a co-financing approach.

The Coffee Project in Kasese and Kamwenge district (an investment Euro 400,000 over 3 years) was launched in 2011. Since 2012, 10.7 million coffee seedlings have been distributed to more than 40,000 farmers in Uganda. In the next phase we are targeting to plant 9.6 million coffee seedlings by 2015 involving an additional 40,000 farmers with introduction of new coffee millers (approx. 100 in number).

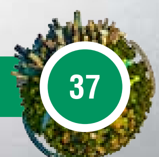
Hima Plant, today, replaces over 50% of its fossil fuels with alternative solutions.

Solid Waste Management Project

The Lafarge group has been active for years in Waste Management. In 2011, more that 8 million tons of Waste has been co-processed in our world network as alternative fuel or alternative raw material, including 750 000 tons of Shredded Solid Waste (SSW).

In 2013, Bamburi Group commenced a long term journey of developing a cost-effective, integrated and environmentally friendly solid waste management system for and in conjunction with Mombasa County Government. A major goal for the County is the achievement of sustainable development without degrading the natural environment which the population depends on. Proper disposal of solid waste would impact the health and safety of people, negative visual effect and environmental sustainability.

The solid waste management plan integrating the complementarities between landfill and cement kiln recovery will favor the attainment of environmental and social goals and is in line with mission of Lafarge of building better cities. This project, which will become the first of its kind in Sub Saharan Africa, demonstrates our commitment to this vision.



Sustainability Statement

The Company will utilize alternative fuels derived from solid waste to reduce use of fossil fuels, preserve natural resources and reduce carbon dioxide emissions to improve climate change. This is part of the Sustainable development actions in line with our 2020 ambitions in regard to environmental, energy efficiency and community development outreach initiatives.

Biodiversity

Through Lafarge Eco Systems, the environmental and rehabilitation arm of the business, we remain strong in our vision to be the centre of excellence in Land management, Quarry rehabilitation and Biodiversity management.

Apart from continuous preservation of our rehabilitated quarries (Haller Park and Forest trails) which today are renowned World class parks, we embarked on a number of projects including the greening of our Mombasa Plant to create an ecosystem rich in biodiversity through the planting of indigenous trees and shrubs and fruit trees. In 2013, with guidance from Lafarge Eco Systems more than 1,200 ornamental shrubs, over 100 indigenous trees and more than 20 fruit trees have been planted at all the disused areas of the Plant. The involvement of staff in the tree planting initiatives have helped entrench environmental awareness and ownership of biodiversity conservation in Plant.

Lafarge Eco Systems, in partnership with WWF, initiated an awareness campaign addressing coral mining companies and individuals, owners of the mined land, local Government and regulation agencies; with an objective to introduce the sustainability factor into the coral stone mining business and consider how quarrying can be improved to allow rehabilitation and productive use of the land post mining.

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Report of the Directors

The Directors have the pleasure of presenting their annual report together with the audited financial statements for the year ended 31 December 2013, which show the state of the Group affairs.

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 parks created from rehabilitated quarries.

RESULTS	2013 Shs. million	2012 Shs. million
Group profit before tax	5,516	7,176
Tax charge	(1,843)	(2,294)
Group profit for the year	**3,673**	**4,882**
Attributable to:		
Owners of the parent company	3,468	4,416
Non-controlling interests	205	466
	3,673	**4,882**

DIVIDENDS

During the year, an interim dividend of Shs. 2.00 (2012 - Shs 2.00) per ordinary share amounting to Shs. 726 million (2012 – 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 9.00 (2012 – Shs 8.50) per ordinary share equivalent to a total sum of Shs 3,267 million (2012 – Shs 3,085 million).

DIRECTORS

The Directors who served during the year and to the date of this report are shown on page 20.

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

6 March 2014

Statement of Directors' Responsibilities

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

Eric Kironde
Director
6th March 2014

Hussein Mansi
Director
6th March 2014

Building a better
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Report of the Independent Auditors to the Members

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 2013, 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 2013, 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 45 to 116.

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 independent 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group and of the company as at 31 December 2013 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 Groups and the Company's statement of financial position and statement 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

16 April, 2014

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	2013 Shs'million	2012 Shs'million
Revenue	4	33,928	37,491
Cost of sales	5	(25,411)	(27,635)
Gross profit		8,517	9,856
Investment income	6	473	657
Other gains and losses	7	(78)	(71)
Distribution costs		(73)	(115)
Marketing expenses		(168)	(154)
Administration expenses	8	(1,435)	(1,363)
Other expenses	9	(1,599)	(1,383)
Finance costs	10	(121)	(251)
Profit before tax	11(a)	5,516	7,176
Tax charge	12(a)	(1,843)	(2,294)
Profit for the year		**3,673**	**4,882**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		554	(797)
Income tax effect		-	-
		554	(797)
Net gain /(loss) on revaluation of available-for-sale financial assets	19(b)	335	(188)
Income tax effect		-	-
		335	(188)
Loss on hedging instruments entered into for cash flow hedges	25(d)	-	(33)
Income tax effect		-	-
		-	(33)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		889	(1,018)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain	27	47	-
Income tax effect		(14)	-
		33	-
Gain/(loss) on revaluation of property, plant and equipment		-	7,259
Revaluation adjustment on land and buildings	15(a)	(20)	-
Income tax effect		6	(411)
		(14)	6,848
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		19	6,848
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**908**	**5,830**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,581**	**10,712**
Profit for the year attributable to:			
Owners of the parent company		3,468	4,416
Non-controlling interests		205	466
		3,673	**4,882**
Total comprehensive income attributable to:			
Owners of the parent company		4,374	10,086
Non-controlling interests		205	626
		4,581	**10,712**
Earnings per share – basic and diluted	**13**	**Shs 9.55**	**Shs 12.17**

Company Statement of Profit or Loss and Other Comprehensive Income

	Notes	2013 Shs'million	2012 Shs'million
Revenue	4	20,583	22,877
Cost of Sales	5	(14,527)	(17,002)
Gross profit		6,056	5,875
Investment income	6	683	1,238
Other gains and losses	7	(141)	(15)
Distribution costs		2	26
Marketing expenses		(130)	(103)
Administration expenses	8	(884)	(860)
Other expenses	9	(870)	(738)
Profit before tax	11(a)	4,716	5,423
Tax charge	12(a)	(1,512)	(1,547)
Profit for the year		**3,204**	**3,876**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on revaluation of available-for-sale financial assets	19(b)	335	(188)
Income tax effect		-	-
		335	(188)
Loss on hedging instruments entered into for cash flow hedges		-	(15)
Income tax effect		-	-
		-	(15)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		335	(203)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains	27	36	-
Income tax effect		(11)	-
		25	-
Gain on revaluation of property, plant and equipment		-	6,501
Income tax effect		-	(183)
		-	6,318
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		25	6,318
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**360**	**6,115**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,564**	**9,991**
Earnings per share – basic and diluted	**13**	**Shs 8.83**	**Shs 10.68**

Consolidated Statement of Financial Position

	Notes	2013 Shs'million	2012 Shs'million
ASSETS			
Non-current assets			
Property, plant and equipment	15(a)	25,651	25,572
Prepaid operating lease rentals	16	206	175
Intangible assets	17	118	160
Other equity investments	19	787	452
Goodwill	20	217	217
		26,979	**26,576**
Current assets			
Inventories	21	5,357	5,606
Trade and other receivables	22(a)	1,487	1,712
Corporate tax recoverable	12(c)	317	375
Cash and cash equivalents	23(a)	8,876	8,769
		16,037	16,462
TOTAL ASSETS		**43,016**	**43,038**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	1,815	1,815
Asset revaluation reserves	25(a)	7,963	8,307
Fair value reserve	25(b)	584	249
Translation reserve	25(c)	(306)	(860)
Retained earnings		**18,874**	**18,875**
Equity attributable to owners of the company		28,930	28,386
Non-controlling interests		2,580	2,475
Total equity		**31,510**	**30,861**
Non-current liabilities			
Deferred tax liability	26	4,191	4,033
Provision for liabilities and charges	27	1,025	556
Term loan	28(a)	309	577
		5,525	**5,166**
Current liabilities			
Unclaimed dividends	14(a)	26	23
Provision for liabilities and charges	27	410	505
Trade and other payables	29	5,236	6,195
Term loan	28(a)	309	288
		5,981	**7,011**
		43,016	**43,038**

The financial statements were approved and authorised for issue by the board of Directors on 06 March, 2014 and were signed on its behalf by:

Eric Kironde
Director

Hussein Mansi
Director

Company Statement of Financial Position

	Notes	2013 Shs'million	2012 Shs'million
ASSETS			
Non-current assets			
Property, plant and equipment	15(b)	14,217	14,935
Prepaid operating lease rentals	16	1	1
Intangible assets	17	86	124
Investments in subsidiaries	18	937	968
Other equity investments	19	787	452
Loan to subsidiary	33 (iii)	169	202
		16,197	**16,682**
Current assets			
Inventories	21	3,156	3,537
Loan to subsidiary	33 (iii)	29	29
Trade and other receivables	22(a)	1,493	2,197
Corporate tax recoverable	12(c)	72	119
Bank and cash balances	23 (a)	8,539	7,821
		13,289	13,703
TOTAL ASSETS		**29,486**	**30,385**
EQUITY AND RESERVES			
Capital and reserves			
Share capital	24	1,815	1,815
Asset revaluation reserves	25(a)	7,658	7,880
Fair value reserve	25(b)	584	249
Retained earnings		13,562	13,922
Total Equity		**23,619**	**23,866**
Non-current liabilities			
Deferred tax liability	26	1,556	1,615
Provision for liabilities and charges	27	923	556
		2,479	2,171
Current liabilities			
Unclaimed dividends	14(a)	26	23
Provision for liabilities and charges	27	402	404
Trade and other payables	29	2,960	3,921
		3,388	4,348
		29,486	**30,385**

The financial statements were approved and authorised for issue by the board of Directors on 06 March, 2014 and were signed on its behalf by:

Eric Kironde
Director

Hussein Mansi
Director

Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the parent								
	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Fair value reserve Shs'million Note 25(b)	Cash flow hedging reserve Shs million Note 25(d)	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 2012	1,815	1,823	437	33	(63)	17,983	22,028	2,146	24,174
Profit for the year	-	-	-	-	-	4,416	4,416	466	4,882
Other comprehensive income for the year	-	6,688	(188)	(33)	(797)	-	5,670	160	5,830
Total comprehensive income for the year	**-**	**6,688**	**(188)**	**(33)**	**(797)**	**4,416**	**10,086**	**626**	**10,712**
Transfer of excess depreciation	-	(291)	-	-	-	291	-	-	-
Deferred tax on excess depreciation	-	87	-	-	-	(87)	-	-	-
Withholding tax paid on Subsidiary's dividend payout	-	-	-	-	-	(104)	(104)		(104)
Unclaimed dividend write back [note 14(a)]	-	-	-	-	-	6	6	-	6
Dividends [note 14(b)]:									
- final dividends for 2011 declared and paid	-	-	-	-	-	(2,904)	(2,904)	(45)	(2,949)
- interim dividends for 2012 declared and paid	-	-	-	-	-	(726)	(726)	(252)	(978)
	-	-	-	-	-	(3,630)	(3,630)	(297)	(3,927)
At 31 December 2012	**1,815**	**8,307**	**249**	**-**	**(860)**	**18,875**	**28,386**	**2,475**	**30,861**

Consolidated Statement of Changes in Equity

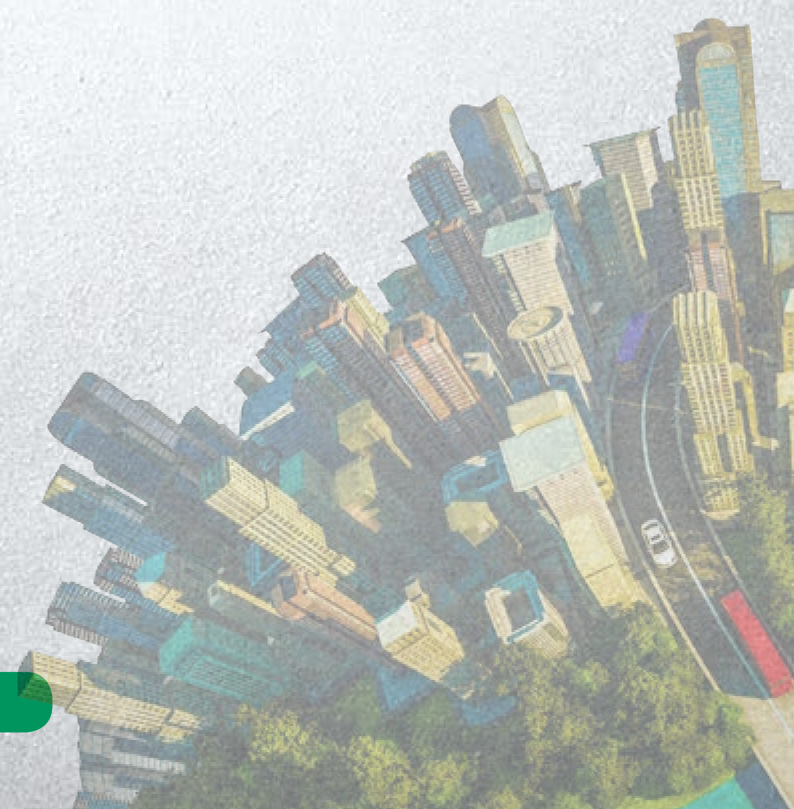
	Attributable to the equity holders of the parent							Non-Controlling Interests	
	Share capital	Asset revaluation reserve	Fair value reserve	Cash flow hedging reserve	Translation reserve	Retained earnings	Total		Total
	Shs'million Note 24	Shs'million Note 25(a)	Shs'million Note 25(b)	Shs million Note 25(d)	Shs'million Note 25(c)	Shs'million	Shs'million	Shs'million	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

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 fair value reserve represents the cumulative gains and losses arising from revaluation of available-for-sale investments from cost to fair value based on the market values of the equities at the end of the reporting period – 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).
- The cash flow hedging reserves represents the cumulative effective portion of gains or losses arising on changes of fair value of hedging instruments entered into for cash flow hedges. There were no hedging contracts entered into during the year- Note 25(d).

Company Statement of Changes in Equity

Year ended 31 December 2012	Share Retained capital Shs'million Note 24	Asset reserve Shs'million Note 25(a)	revaluation reserve Shs'million Note 25(b)	Fair value hedging reserve Shs million Note 25(d)	Cash flow earnings Shs'million	Total Shs'million
At 1 January 2012	1,815	1,756	437	15	13,476	17,499
Profit for the year	-	-	-	-	3,876	3,876
Other comprehensive income for the year	-	6,318	(188)	(15)	-	6,115
Total comprehensive income for the year	**-**	**6,318**	**(188)**	**(15)**	**3,876**	**9,991**
Transfer of excess depreciation	-	(277)	-	-	277	-
Deferred tax on excess depreciation	-	83	-	-	(83)	-
Unclaimed dividend write back [note 14(a)]	-	-	-	-	6	6
Dividends:						
- final dividends for 2011 declared and paid	-	-	-	-	(2,904)	(2,904)
- interim dividends for 2012 declared and paid	-	-	-	-	(726)	(726)
	-	-	-	-	(3,630)	(3,630)
At 31 December 2012	**1,815**	**7,880**	**249**	**-**	**13,922**	**23,866**



Company Statement of Changes in Equity

Year ended 31 December 2013	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Fair value reserve Shs'million Note 25(b)	Cash flow hedging reserve Shs million Note 25(d)	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:						
- 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**

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 fair value reserve represents the cumulative gains and losses arising from revaluation of available-for-sale investments from cost to fair value based on the market values of the equities at the end of the reporting period – Note 25 (b).
- The retained earnings represent accumulated profit retained by the company after payment of dividends to the shareholders.
- The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes of fair value of hedging instruments entered into for cash flow hedges – Note 25 (d). However, there were no cash flow hedges in 2013.

60 years
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Consolidated Statement of Cash Flows

	Notes	2013 Shs'million	2012 Shs'million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	6,593	8,977
Interest received	6	473	651
Net foreign exchange gain/(loss)	7	45	(98)
Interest paid	10	(121)	(251)
Tax paid	12(c)	(1,808)	(1,807)
Net cash generated from operating activities		**5,182**	**7,472**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15(a)	(879)	(1,175)
Purchase of prepaid operating lease rentals	16	(28)	(10)
Purchase of intangible assets	17	(8)	(90)
Proceeds from disposals of property, plant and equipment		-	3
Withholding tax paid on dividend to Group	6	(21)	(104)
Dividends received	6	-	6
Net cash used in investing activities		**(936)**	**(1,370)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the company	14(b)	(3,811)	(3,630)
Dividends paid to non-controlling interests		(100)	(297)
Loans repaid	28(a)	(300)	(477)
Net cash used in financing activities		**(4,211)**	**(4,404)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**35**	**1,698**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At beginning of the year		8,769	7,136
Net increase in cash and cash equivalents above		35	1,698
Effects of exchange rate changes on cash held in foreign currencies		72	(65)
At end of the year	**23(b)**	**8,876**	**8,769**

Company Statement of Cash Flows

	Notes	2013 Shs'million	2012 Shs'million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	5,509	5,993
Interest received	6	485	642
Net foreign exchange gain / (loss)	7	2	(20)
Tax paid	12(c)	(1,535)	(1,371)
Net cash generated from operating activities		**4,461**	**5,244**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15(b)	(161)	(649)
Purchase of intangible assets	17	(5)	(55)
Dividends received	6	198	596
Net cash used in investing activities		**32**	**(108)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the company	14(a)	(3,808)	(3,630)
Loans repaid	33(iii)	33	29
Net cash used in financing activities		(3,775)	(3,601)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**718**	**1,535**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At beginning of the year		7,821	6,286
Net increase in cash and cash equivalents above		718	1,535
At end of the year	**23(b)**	**8,539**	**7,821**

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.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) 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).

b) New and amended standards, interpretations and improvements

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS interpretations effective as of 1 January 2013.

- IFRS 7 Financial Instrument Disclosures (revised)
- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 19 Employee Benefits (Revised 2011)
- IAS 16 Property, Plant and Equipment — Classification of servicing equipment
- IAS 32 Financial Instruments: Presentation — Tax effects of distributions to holders of equity instruments
- IAS 34 Interim Financial Reporting — Interim financial reporting and segment information for total assets and liabilities

These revised standards and interpretations did not have any material effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures in some occasions.

IFRS 7 Financial Instrument Disclosures (revised) - effective for periods beginning on or after 1 January 2013.

The amendments require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

Offsetting of financial assets and financial liabilities
Financial assets and financial liability are offset and the net amount presented in the statement of financial position when and only when, the entity:
(a) has a legally enforceable right to set off the recognised amounts; and
(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

These amendments are applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy. If an entity chooses to early adopt IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, it must make the disclosure required by IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

IFRS 7 did not have an impact on the financial performance or the financial position of the Group as the Group does not have such arrangements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements - effective for annual periods beginning on or after 1 January 2013
IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has:-

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of control.

The Group assessed its control in the subsidiaries as per the requirements of IFRS 10. IFRS 10 did not have any impact on the currently consolidated subsidiaries as disclosed in Note 18 to the financial statements.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures - effective for annual periods beginning on or after 1 January 2013.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10.

IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation — An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.

Joint venture — An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures as defined in IFRS 11 using proportionate consolidation has been removed.

Under these new categories, the legal form of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

IAS 28 has been amended to include the application of the equity method to investments in joint ventures.

IFRS 11 did not have an impact on the financial performance or the financial position of the Group as the Group does not have such arrangements.

IFRS 12 Disclosure of Interests in Other Entities – effective for annual periods beginning on or after 1 January 2013.

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries for example, where a subsidiary is controlled with less than a majority of voting rights. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include:

- Summarised financial information for each subsidiary that has non-controlling interests that are material to the reporting entity
- Significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture), if applicable
- Summarised financial information for each individually material joint venture and associate
- Nature of the risks associated with an entity's interests in unconsolidated structured entities, and changes to those risks

The Group has no subsidiaries with material non-controlling interests or unconsolidated structured entities. IFRS 12 affected disclosures only and had no impact on the Group's financial position or performance. IFRS 12 disclosures are provided in Note 18.

IIFRS 13 Fair Value Measurement - effective for annual periods beginning on or after 1 January 2013

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group.

IFRS 13 requires an entity to disclose additional information that helps users of its financial statements assess both of the following:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements
- for fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period.

Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 36 (v) to the financial statements.

IAS 19 Employee Benefits (Revised 2011) – effective for annual periods beginning on or after 1 January 2013

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures and in determining the discount rate used in accounting for employee benefit plans, an entity would include high quality corporate bonds issued by entities operating in other countries, provided that those bonds are issued in the currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds would be assessed at the currency level and not at the country level.

Application of IAS 19R has not materially impacted the Group's financial statements and only resulted in more extensive disclosures. These have been provided in Note 27.

IAS 1 Clarification of the requirement for comparative information (Amendment) - effective from 1 July 2012

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments also clarify that the opening statement of financial position presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendment did not have impact on the Group's financial statements as the Group did not have any retrospective restatement or reclassification in its financial statements.

The following improvements to International Financial Reporting Standards – 2009 -2011 Cycle were effective for annual periods beginning on or after1 January 2013

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 - effective from 1 July 2012

The amendments to IAS 1 require an allocation of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 16 Property Plant and Equipment (amendment) Classification of servicing equipment - effective for annual periods beginning on or after 1 January 2013

This amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The improvement had no impact on the Group's consolidated financial statements.

IAS 32 Financial Instruments: Presentation (amendment) -Tax effects of distributions to holders of equity instruments- effective for annual periods beginning on or after 1 January 2013

This amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The improvement had no impact on the Group's consolidated financial statements.

IAS 34 Interim Financial Reporting (amendment) - Interim financial reporting and segment information for total assets and liabilities- effective for annual periods beginning on or after 1 January 2013

This improvement clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment. The improvement had no impact on the Group's consolidated financial statements.

Standards issued but not effective

The following standards have been issued or revised and will become effective for the December 2014 year end:

IAS 32 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. These are effective for annual periods beginning on or after 1 January 2014. The Group does not expect this amendment to have material financial impact in future financial statements.

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 39 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. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group had no derivatives during the current period. However, these amendments would be considered for future novations.

IFRS 9 Financial Instruments

IFRS 9, as issued in November 2009 and October 2010, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 and Transitional Disclosures, issued in December 2011, moved the mandatory date to 1 January 2015. On 19 November 2013, the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (IFRS 9 (2013)), which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The standard does not have a mandatory effective date, but it is available for immediate application. A new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRIC Interpretation 21 Levies (IFRIC 21)

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. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 36 Recoverable Amount Disclosures for Non- Financial Assets — Amendments to IAS 36 - effective for annual periods beginning on or after 1 January 2014.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

fair value less costs of disposal.

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

Annual Improvements December 2013

The IASB issued two cycles of Annual Improvements to IFRSs – 2010-2012 Cycle and 2011-2013 Cycle – on 12 December 2013. These improvements will not have an impact on the Group, but include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards- Meaning of effective IFRSs
- IFRS 2 Share-based Payment - Definition of vesting condition
- IFRS 3 Business Combinations - *Accounting for contingent consideration in a business combination*
- IFRS 3 Business Combinations - *Scope exceptions for joint ventures*
- IFRS 8 Operating Segments - *Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets*
- IFRS 13 Fair Value Measurement - *Short-term receivables and payables*
- IFRS 13 Fair Value Measurement - *Scope of paragraph 52 (portfolio exception)*
- IAS 16 and IAS 38 - Revaluation method - proportionate restatement of accumulated depreciation
- IAS 24 Related Party Disclosures - *Key management personnel*
- IAS 38 Intangible Assets - Revaluation method - *proportionate restatement of accumulated amortisation*
- IAS 40 Investment Property - Clarifying the interrelationship between IFRS3 and IAS 40 when classifying investment property or owner-*ocuppied property.*

These improvements are effective for annual periods beginning effective on or after 1 July 2014.

c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. 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 statement of comprehensive income 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 (OCI) 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c) Basis of Consolidation (continued)

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
- 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 remeasured 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e) Translation of foreign currencies(continued)

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).

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 period;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised under other comprehensive income and accumulated in a separate heading, translation reserve, in the consolidated statement of changes in equity

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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2013 (2012: Nil).

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 the profit or loss statement.

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.

Increases in the carrying value of buildings arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of asset revaluation reserve. Increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Decreases arising from revaluation of assets are recognised in profit or loss. However, decreases that offset previous increases of the same asset are recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

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, plant and machinery	14 - 22 years
Office equipment, tool and mobile plant	3 - 10 years
Residential buildings	40 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

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 derecognition. The derecognition of intangible assets would therefore result in a loss which is recognised in profit or loss.

Intangible assets are derecognised when no future economic benefits are expected from its use.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l) Tax(continued)

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

n) Financial instruments(continued)

Cash and cash equivalents -Short term deposits	Held to maturity investments
Loans payable and borrowings	Loans and borrowings.
Trade and other payables	Loans and borrowings.

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 income statement. The losses arising from impairment are recognised in the profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Held to maturity financial assets

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

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

Available-for-sale financial assets

Available for sale investments are those that are intended to be held for an indefinite period of time,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

n) Financial instruments(continued))

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 period end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

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 the carrying amount of

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

n) Financial instruments(continued)

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, bank overdrafts, loans and borrowings.

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, bank overdrafts, loans and borrowings, 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 income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of 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.

See Note 25(d) for further details.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

p) Impairment of non-financial assets(continued)

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 the statement of 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.

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.

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 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 (r) – provisions.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the reporting date. These are further discussed under Note 1 (r) – provisions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

q) Employee entitlements(continued)

Bonus

An accrual is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal and 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.

Restructuring Provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the year in which the Group becomes legally or constructively committed to payment. The Group recognises a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and number of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided for in advance. There were no restructuring provisions in the current year.

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 OCI 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 accrue 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 27.

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) 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, net of outstanding bank overdrafts.

t) Fair value measurement

The Group measures financial instruments such as available-for-sale at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 36 (V).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Company'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 class of property, plant and equipment

The Group carries certain classes of property, plant and equipment at fair value, with changes in fair value

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 36 (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 27.

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.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

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 this 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 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.

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 usefull 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.

Contingent liabilities

As disclosed in note 30 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 Group Managing Director) for the purposes of making decisions about allocating resources to the segment and assessing its performance.

The Group analyses its organisational structure and internal reporting system for the purpose of identifying suitable segment reporting format for the Group. In particular, the Group has identified geographical segments as the primary segment reporting format that is suitable for the Group. The Group is organised on a regional basis into two main geographical segments: Kenya and Uganda.

Both geographical segments are mainly involved in the manufacture and sale of cement which comprises over 95% of the business activities of the Group. The remaining business activities, which include manufacture and sale of 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 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%
Interest income	485	9	(21)	473
Impairment loss investments [Note 18 (a)]	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**	**584**	**-**	**1,558**

3. SEGMENT INFORMATION

Year ended 31 December 2012 - All figures in millions of Kenya Shillings

	Kenya	Uganda	Adjustments and eliminations	Consolidated
Revenue :				
External customers	20,470	17,021	-	37,491
Inter-segment	3,988	365	(4,353)	-
Total revenue	24,458	17,386	(4,353)	37,491
Cost of sales	(18,151)	(13,459)	3,975	(27,635)
Gross profit	**6,307**	**3,927**	**(378)**	**9,856**
Gross profit margin	26%	23%	-	26%
Interest income	642	9	-	651
Interest expense	-	(251)	-	(251)
Profit before tax	5,486	2,277	(587)	7,176
Income tax expense	(1,570)	(724)	-	(2,294)
Profit for the year	**3,916**	**1,553**	**(587)**	**4,882**
Segment assets	**31,574**	**14,621**	**(3,157)**	**43,038**
Segment liabilities	**7,418**	**6,241**	**(1,482)**	**12,177**
Capital additions	**652**	**623**	**-**	**1,275**
Depreciation and amortization	**817**	**505**	**-**	**1,322**

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

Information about major customers

Included in the revenues of Shs 33,928 million (2012: Shs 37,491 million) are approximately Shs 1,890 million (2012: Shs 1,284 million) which arose from sales to the group's largest customer arising from the Kenyan segment.

	GROUP		COMPANY	
	2013 Shs'million	2012 Shs'million	2013 Shs'million	2012 Shs'million
4. REVENUE				
Cement	32,276	35,911	20,583	22,877
Precast products	669	642	-	-
Ready mix	843	802	-	-
Others	140	136	-	-
	33,928	**37,491**	**20,583**	**22,877**
5. COST OF SALES				
Electricity	2,955	3,101	1,966	2,063
Fuel (Coal, Fuel oil,and Alternative fuels)	4,503	5,047	2,013	2,217
Maintenance supplies and contract works	1,541	1,471	909	817
Imported clinker	1,604	3,446	1,604	3,446
Packaging	1,348	1,518	839	1,020
Additives and production supplies	3,099	2,953	1,340	1,865
Freight of raw materials	5,076	4,367	3,571	3,063
Purchased cement and clinker costs	1,251	1,883	-	128
Staff costs	1,457	1,486	957	1,047
Professional fees	157	164	41	45
Telecommunication costs	37	39	15	12
Transport and travelling costs	73	81	47	55
Rentals, security and business licences	332	408	150	147
Depreciation on property, plant and equipment	1,437	1,223	849	758
Amortisation of intangible assets and leasehold land	41	32	27	21
Inventory movement	500	416	199	298
	25,411	**27,635**	**14,527**	**17,002**
6. INVESTMENT INCOME				
Interest income – held to maturity bank deposits	473	651	464	618
Interest income – subsidiary loan [Note 33 (iii)]	-	-	21	24
Dividends income – available-for-sale investments	-	6	-	6
Dividends income from subsidiary	-	-	198	590
	473	**657**	**683**	**1,238**

The dividend income from subsidiary was received from Hima Cement Limited net of withholding tax of Shs 21 million (2012 - Shs 104 million).

	GROUP 2013 Shs'million	GROUP 2012 Shs'million	COMPANY 2013 Shs'million	COMPANY 2012 Shs'million
7. OTHER GAINS AND LOSSES				
(Loss)/Gain on disposal of property, plant and equipment	(18)	1	-	-
Rental income from residential property	17	10	17	10
Provision for bad debts additions/(recoveries)	45	(43)	(4)	26
Sundry (expense) / income*	(136)	59	(125)	(31)
Impairment loss on Simbarite investments (Note 18)	(31)	-	(31)	-
Net foreign exchange gains/(losses)	45	(98)	2	(20)
	(78)	**(71)**	**(141)**	**(15)**

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

8. ADMINISTRATION EXPENSES

	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Staff costs	880	868	550	580
Professional fees	119	82	85	63
Telecommunication costs	140	148	108	92
Transport and travel costs	90	70	49	42
Rental and security costs	166	158	78	72
Bank charges	40	37	14	11
	1,435	**1,363**	**884**	**860**

9. OTHER EXPENSES

	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Depreciation on property, plant and equipment	96	55	30	25
Amortisation of intangible assets and prepaid operating lease rentals	20	12	16	13
Technical fees	1,467	1,273	818	687
Other Costs*	16	43	6	13
	1,599	**1,383**	**870**	**738**

*Other costs include clearing and forwarding, hire of equipment

10. FINANCE COSTS

	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Interest expense on term loan	121	251	-	-

This relates to the term loan as disclosed in Note 28 (a).

	GROUP		COMPANY	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
11(a) PROFIT BEFORE TAX				
The profit before tax is arrived at after charging				
Interest expense	121	251	-	-
Staff costs (note 11b)	2,337	2,354	1,472	1,627
Depreciation on property, plant and equipment (Note 15)	1,485	1,278	879	783
Amortisation of intangible assets (Note 17)	50	36	43	34
Amortisation of prepaid lease rentals (Note 16)	1	8	-	-
Impairment losses	31	-	31	-
Foreign exchange loss	-	(98)	-	(20)
Director's fees (note 33 (iv))	4	4	4	4
Other key management emoluments	116	123	116	123
Auditors' remuneration	10	10	4	8
And after crediting:				
Interest income	473	651	485	642
Dividend income	-	-	198	596
Foreign exchange gain	46	-	2	
(Loss)/Gain on disposal of property, plant and equipment	(18)	1	-	-
(b) STAFF COSTS				
Salaries and wages	1,534	1,639	928	1,088
Retirement benefits costs	207	173	173	191
Staff welfare costs	596	542	371	348
	2,337	**2,354**	**1,472**	**1,627**
Presented as:				
Cost of sales (Note 5)	1,457	1,486	922	1,047
Administration expenses (Note 8)	880	868	550	580
	2,337	**2,354**	**1,472**	**1,627**

12. TAX

	GROUP		COMPANY	
	2013 Shs'million	2012 Shs'million	2013 Shs'million	2012 Shs'million
(a) Tax charge				
Current tax based on the adjusted profit at 30%	1,866	1,849	1,582	1,640
Deferred tax credit/charge (note 26)	(23)	445	(70)	(93)
Total tax charge	**1,843**	**2,294**	**1,512**	**1,547**
(b) Reconciliation of expected tax based on accounting profit to tax charge:				
Profit before tax	5,516	7,176	4,715	5,423
Tax calculated at the domestic rates applicable of 30 %	1,655	2,153	1,415	1,627
Tax effect of income not subject to tax	(61)	(30)	(59)	(206)
Tax effect of expenses not deductible for tax purposes	249	171	156	126
Total tax charge	**1,843**	**2,294**	**1,512**	**1,547**
(c) Net tax (recoverable)/payable at				
At the beginning of the year	(375)	(417)	(119)	(388)
Tax charge	1,866	1,849	1,582	1,640
Tax paid	(1,808)	(1,807)	(1,535)	(1,371)
Net tax balance at end of the year	**(317)**	**(375)**	**(72)**	**(119)**
Comprising				
Tax (recoverable)/payable	(317)	(375)	(72)	(119)
Net tax (recoverable)/payable at end of the year	**(317)**	**(375)**	**(72)**	**(119)**

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 2013 and as at 31 December 2012. There were also no discontinued operations during the year (2012: Nil).

	Group		Company	
	2013	2012	2013	2012
Net profit attributable to owners of the parent company (Shs million)	3,468	4,416	3,204	3,876
Weighted average number of ordinary shares (million)	363	363	363	363
Basic and diluted earnings per share (Shs)	9.55	12.17	8.83	10.68

14. DIVIDENDS

	GROUP 2013 Shs'million	COMPANY 2012 Shs'million
a) Unclaimed dividends		
At beginning of year	23	29
Declared during the year - note 14(b)	3,811	3,630
Dividends claimed in the year	(3,808)	(3,630)
Dividends written back	-	(6)
At end of year	**26**	**23**
b) Payments during the year 2013 and 2012:		
Final dividend for previous years	3,085	2,904
Interim dividend for current year	726	726
	3,811	**3,630**
c) Dividends declared/proposed in respect of the year		
Interim dividend - paid in the year	726	726
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December):	3,267	3,085
	3,993	**3,811**
Dividends per share (based on number of shares per note 13)	**Shs 11.00**	**Shs 10.50**

On 31 October 2013, an interim dividend of Sh 2.00 (2012-Shs 2.00) per share representing an amount of Shs 726 million (2012: Shs 726 million) was declared and paid.

14. DIVIDENDS (continued)

**In respect of the current year, the Directors propose that a final dividend of Shs 9.00 (2012 – Shs 8.50) per share equivalent to a total sum of Shs 3,267 million (2012 – Shs 3,085 million) 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 2013

	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**

*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.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

a) GROUP (continued)

Year ended 31 December 2012

	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 2012	1,388	30,149	1,072	811	2,067	35,487
Foreign exchange adjustments*	(25)	(765)	(29)	(15)	(47)	(881)
Additions	-	154	90	-	931	1,175
Disposals	(3)	-	-	(3)	-	(6)
Transfers	259	1,364	79	144	(1,836)	10
Revaluation surplus	6,030	1,229	-	-	-	7,259
At 31 December 2012	**7,649**	**32,131**	**1,212**	**937**	**1,115**	**43,044**
Depreciation						
At 1 January 2012	416	14,714	674	677	-	16,481
Foreign exchange adjustments*	(6)	(250)	(16)	(11)	-	(283)
Charge for the year	33	1,050	160	35	-	1,278
Disposals	(1)	-	-	(3)	-	(4)
At 31 December 2012	**442**	**15,514**	**818**	**698**	**-**	**17,472**
Net carrying amount						
At 31 December 2012	**7,207**	**16,617**	**394**	**239**	**1,115**	**25,572**

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

15. PROPERTY, PLANT AND EQUIPMENT

b) COMPANY

Year Ended 31 December 2013

	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	7,070	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
Disposals	-	-	-	-	-	-
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**
Year ended 31 December 2012						
Cost or valuation						
At 1 January 2012	863	19,918	692	576	875	22,924
Additions	-	-	90	-	559	649
Property, plant and equipment retirement	(2)	-	-	-	(14)	(16)
Transfers	225	424	5	81	(735)	-
Revaluation	5,984	516	-	-	-	6,500
At 31 December 2012	**7,070**	**20,858**	**787**	**657**	**685**	**30,057**
Depreciation						
At 1 January 2012	70	13,373	387	509	-	14,339
Charge for the year	11	672	86	14	-	783
Disposals	-	-	-	-	-	-
At 31 December 2012	81	14,045	473	523	-	15,122
Net carrying amount						
At 31 December 2012	**6,989**	**6,813**	**314**	**134**	**685**	**14,935**

15. PROPERTY, PLANT AND EQUIPMENT

(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	
	2013	2012	2013	2012
COST	Shs'million	Shs'million	Shs'million	Shs'million
Plant and Machinery	19,350	18,317	8,749	8,262
Leasehold land and Buildings & others	3,557	3,367	2,207	2,084
	22,907	**21,684**	**10,956**	**10,346**
Accumulated depreciation				
Plant and Machinery	(6,200)	(5,391)	(4,295)	(3,846)
Leasehold land and Buildings & others	(1,864)	(1,621)	(1,055)	(945)
	(8,064)	(7,012)	(5,350)	(4,791)
Net book value	**14,843**	**14,672**	**5,606**	**5,555**

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 Ltd. Plant and machinery were revalued on a depreciated replacement cost basis using a valuation model prescribed by engineers and consultants at the technical centre of the ultimate shareholder.

Land and residential buildings include freehold land with a carrying amount of Shs 529 million (2012: Shs 529 million) located in Mombasa and limestone deposits with a carrying amount of Shs 27 million (2012: Shs 27 million) in Kasese, Uganda.

There were no borrowing costs capitalized during the year ended 31 December 2013 (2012: Nil)

Notes to the Financial Statements

16. PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2013 Shs'million	2012 Shs'million	2013 Shs'million	2012 Shs'million
Cost				
As at 1 January	192	188	3	3
Foreign exchange adjustments*	(6)	(6)	-	-
Additions in the year	28	10	-	-
At 31 December	**214**	**192**	**3**	**3**
Amortisation				
At 1 January	17	11	2	2
Foreign exchange adjustments*	(10)	(2)	-	-
Charge for the year	1	8	-	-
At 31 December	**8**	**17**	**2**	**2**
Net Carrying Amount	**206**	**175**	**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	
	2013 Shs'million	2012 Shs'million	2013 Shs'million	2012 Shs'million
Cost				
At 1 January	612	522	499	444
Additions	8	90	5	55
At 31 December	**620**	**612**	**504**	**499**
Amortisation				
At 1 January	452	416	375	341
Charge for the year	50	36	43	34
	502	**452**	**418**	**375**
Net Carrying Amount	**118**	**160**	**86**	**124**

18. INVESTMENTS IN SUBSIDIARIES

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

Details of the subsidiaries in the Group are provided below:

	Principal place of business	Holding	COMPANY 2013	2012
		%	Shs'million	Shs'million
Simbarite Limited (Kenya)		100	53	53
Less: impairment loss*			(53)	(22)
		-	-	31
Bamburi Special Products Limited	Kenya	100	20	20
Bamburi Cement Limited, Uganda	Kenya	100	-	-
HimCem Holdings Limited	Channel Islands	100	911	911
Lafarge Eco Systems Limited	Kenya	100	5	5
Diani Estate Limited	Kenya	100	1	1
Kenya Cement Marketing Limited	Kenya	50	-	-
Portland Mines Limited	Kenya	50	-	-
Seruji Management Limited	Channel Islands	100	-	-
			937	968

*IMPAIRMENT LOSS MOVEMENT

	2013	2012
At 1 January	22	22
Increase in the year charged to other gains and losses to profit or loss (Note 7)	31	-
At 31 December	**53**	**22**

*Management carried out an impairment test on the investment on Simbarite Limited, and fully impaired this investment in the current 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, Portland Mines Limited and Seruji Management Limited are below Shs 1,000,000.

18. INVESTMENTS IN SUBSIDIARIES

b) Material partly-owned subsidiary

Financial information of subsidiary that have material non-controlling interests are provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2013	2012
Hima Cement Limited	Uganda	70%	70%

	2013 Shs' million	2012 Shs' million
Accumulated balances of material non-controlling interest	2,580	2,475
Profit for the year allocated to material non-controlling interest	205	466

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

Summarised statement of profit or loss	2013 Shs' million	2012 Shs' million
Revenue	14,525	17,021
Cost of Sales	(12,377)	(13,459)
Gross profit	2,148	3,562
Investment income	9	9
Other gains and losses	60	(62)
Distribution costs	(74)	(59)
Marketing expenses	(36)	(49)
Administration expenses	(298)	(258)
Other expenses	(670)	(627)
Finance costs	(121)	(240)
Profit before tax	**1,018**	**2,277**
Tax charge	(334)	(724)
Profit for the year	**684**	**1,553**
Attributable to non-controlling interests	**205**	**466**
Dividends paid to non-controlling interests	**100**	**302**

18. INVESTMENTS IN SUBSIDIARIES

b) Material partly-owned subsidiary

Summarised statement of financial position as at 31 December

	2013 Shs' million	2012 Shs' million
Non-current assets		
Property, plant and equipment and other non-current assets	11,125	10,252
Current assets		
Inventories and cash and bank balances and other current assets	3,037	3,457
Current liabilities		
Trade and other payable and other current liabilities	(2,996)	(3,326)
Non-current liabilities		
Interest-bearing loans and borrowing and deferred tax liabilities and other non-current liabilities	(2,916)	(1,782)
Total equity	**8,250**	**8,600**
Equity holders of parent	5,775	6,020
Non-controlling interest	2,475	2,580
	8,250	**8,600**
Summarised cash flow information for year ending 31 December		
Operating	731	2,325
Investing	(957)	(1,166)
Financing	(436)	(853)
Net (decrease)/increase in cash and cash equivalents	**(662)**	**306**

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 2013 was Shs 787 million (2012: Shs 452 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 2013 were both quoted in the stock market.

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

	GROUP AND COMPANY	
	2013	2012
At 1 January	452	640
Fair value (loss)/gains (note 19(b)	335	(188)
	787	452

b. Analysis of the equity investments

	Number of shares				Valuation		
	At 1.1.2012 Units	Additions/ (disposals) Units	At 31.12.2012 Units	At 1.1.2012 Shs' million	Additions/ (disposals) Shs' million	Increase/ (decrease) in market value Shs' millionShs'	At 31.12.2012 million
Quoted investments							
East African Portland Cement Limited	11,265,068	-	11,265,068	631	-	(191)	440
Kenya Oil company Limited	905,500	-	905,500	9	-	3	12
				640		**(188)**	**452**

	Number of shares				Valuation		
	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' millionShs'	At 31.12.2013 million
Quoted investments							
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**

20. GOODWILL

	GROUP	
	2013 Shs'million	2012 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	
	2013	2012	2013	2012
Raw materials	1,173	1,407	713	1,167
Bio fuel supplies	597	376	458	376
Consumables and spare parts	1,913	1,693	1,064	942
Finished and semi-finished goods	1,144	1,399	699	734
Fuel and packaging	530	731	222	318
	5,357	**5,606**	**3,156**	**3,537**

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.

22. TRADE AND OTHER RECEIVABLES

(a) Analysis of trade and other receivables:

	GROUP		COMPANY	
	2013	2012	2013	2012
Trade receivables	1,015	636	269	103
Prepayments	228	728	191	604
Deposits	42	41	30	30
Sundry debtors	34	47	26	24
Accrued interest receivable	14	20	11	10
Staff car loan scheme & other advances	30	42	23	22
Receivables from related companies (Note 33 ii))	124	198	943	1,404
	1,487	**1,712**	**1,493**	**2,197**

(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.

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	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
At beginning of year	37	80	36	10
Impairment losses	-	-	-	-
(Recoveries)/additions	45	(43)	(4)	26
At end of year	**82**	**37**	**32**	**36**

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 36 (ii).

23. CASH AND CASH EQUIVALENTS

(a) Analysis of cash and cash equivalents:

	GROUP		COMPANY	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
Cash at bank and on hand	2,734	1,614	2,475	691
Cash deposits with related party (note 33(ii))	6,142	7,130	6,064	7,130
Short term bank deposits – held to maturity	-	25	-	-
	8,876	**8,769**	**8,539**	**7,821**

(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 and other short term highly liquid investments with original maturities of three months or less, net of bank overdrafts. Analysis of cash and cash equivalents is as set out below:

	GROUP		COMPANY	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
Cash and cash equivalents: - note 23(a)	8,876	8,769	8,539	7,821

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

Cash deposits with related party (note 33(ii))	6,142	7,130	6,064	7,130
Short term bank deposits – held to maturity	-	25	-	-
Short term fixed deposits	**6,142**	**7,155**	**6,064**	**7,130**

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

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

	GROUP		COMPANY	
	2013	2012	2013	2012
Local currencies	9.09%	16.27%	8.42%	12.54%
Foreign currencies	2.32%	2.64%	3.58%	3.41%

(d) Cash deposit with related party

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

	GROUP		COMPANY	
	2013	2012	2013	2012
Local currencies	6.68%	7.86%	6.68%	7.86%
Foreign currencies	0.12%	0.11%	0.12%	0.55%

24. SHARE CAPITAL

	GROUP AND COMPANY	
	2013 Shs'million	2012 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**

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

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) Fair value reserve

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

	GROUP AND COMPANY	
	2013 Shs'million	2012 Shs'million
At 1 January	249	437
Net gain/(loss) arising on revaluation of available for sale investments (note 19(b))	335	(188)
At 31 December	**584**	**249**

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.

Notes to the Financial Statements

25. RESERVES

d) Cash flow hedging reserve

In 2011, the Group had entered into cash flow hedge contracts with its holding company Lafarge SA. The contracts have different maturity dates ranging up to 12 months from the end of the reporting period.

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

In 2012, the hedging instrument was exercised and the hedge commitment was met without replacement or rollover. The cumulative gain in the cash hedging reserve in equity was therefore charged to OCI in 2012.

Derivatives designated and effective as hedging instruments

	GROUP		COMPANY	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
As at 1 January	-	33	-	15
Charged to OCI during the year	-	(33)	-	(15)
As at 31 December	-	-	-	-

There were no outstanding cash flow hedges at the end of the reporting period (2012 nil).

26. DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2012: 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	1 Jan 2012	Profit or loss Note 12 (a)	OCI	At 31 Dec 2012
	Shs'million	Shs'million	Shs'million	Shs'million
Property, plant and equipment	3,537	314	411	4,262
Provision for staff gratuity, long service award and leave	(208)	(6)	-	(214)
Bonus payable	(15)	(7)	-	(22)
Foreign exchange loss	(26)	(5)	-	(31)
Provision for site restoration and litigation	(36)	2	-	(34)
Provision for bad debts	(26)	(1)	-	(27)
Trading losses	(362)	331	-	(31)
Foreign exchange adjustment*	212	(183)	101	130
	3,076	**445**	**512**	**4,033**

26. DEFERRED TAX LIABILITY

GROUP	1 Jan 2013 Shs'million	Profit or loss Note 12 (a) Shs'million	OCI Shs'million	At 31 Dec 2013 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 assets held by a subsidiary, HimCem Holdings Limited.

COMPANY	1 Jan 2012 Shs'million	Profit or loss Note 12 (a) Shs'million	OCI Shs'million	At 31 Dec 2012 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**

COMPANY	1 Jan 2013 Shs'million	Profit or loss Note 12 (a) Shs'million	OCI Shs'million	At 31 Dec 2013 Shs'million
Property, plant and equipment	1,783	(111)	183	1,855
Provision for site restoration and litigation	(26)	2	-	(24)
Provision for staff gratuity, long service award and leave	(186)	(5)	-	(191)
Foreign exchange loss	(34)	23		(11)
Provision for bad debts	(12)	(2)	-	(14)
	1,525	**(93)**	**183**	**1,615**

Deferred tax liabilities amounting to Shs 142 million (2012: Shs 87 million) in respect of the Group and Shs 95 million (2012: Shs 83 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	Service gratuity Shs' million	Long service awards Shs' million	2013 Total Shs' million	2012 Total Shs' million
GROUP						
At beginning of year	367	19	595	80	1,061	752
Additional provisions	331	6	117	3	457	323
Utilised during the year	-	-	(75)	(8)	(83)	(14)
At end of year	**698**	**25**	**637**	**75**	**1,435**	**1,061**
Categorised as:						
Current portion	333	4	78	5	410	505
Non-current portion	365	21	559	70	1,025	556
	698	**25**	**637**	**75**	**1,435**	**1,061**
COMPANY						
At beginning of year	324	19	556	61	960	684
Additional provisions	348	6	86	3	443	290
Utilised during the year	-	-	(73)	(5)	(78)	(14)
At end of year	**672**	**25**	**569**	**59**	**1,325**	**960**
Categorised as:						
Current portion	321	3	73	5	402	404
Non-current portion	351	22	496	54	923	556
	672	**25**	**569**	**59**	**1,325**	**960**

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

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. 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.

27. PROVISIONS FOR LIABILITIES AND CHARGES

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. 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 value.

The following table summarises the components of net benefit expense recognised in the statement of profit or loss and other

	Group			Company		
	Long service award	Gratuity	Total	Long service award	Gratuity	Total
Opening employee benefit obligation	80	595	675	61	556	617
Current Service cost- chargedto 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 finance costs	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**

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

	Kenya	Uganda	Kenya	Uganda
	%	%	%	%
- discount rate	12.8%	14.7%	13.1%	15.9%
- future salary increases	10.8%	12.7%	11.1%	13.95%
- future pension increases	7.8%	9.7%	8.1%	10.9%

A quantitative sensitivity analysis for significant assumption as at 31 December 2013 is as shown below:

Group	Interest rate		Salary escalation 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	105	(76)	105	(75)	91	(91)
Long service awards	5	(1)	3	(3)	1	(5)
Total	**110**	**(77)**	**108**	**(78)**	**92**	**(96)**

Company	Interest rate		Salary escalation 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	96	(97)	72	(72)	84	(84)
Long service awards	3	(2)	2	(2)	1	(3)
Total	**99**	**(99)**	**74**	**(74)**	**85**	**(87)**

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 2013 of 12.8 % (2012-13.1%) per annum and 14.7% (2012-15.9%) per annum has been used for Kenya and Uganda respectively.

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.

28. BORROWINGS

a) Term loan

In June 2008, Hima Cement Limited, a subsidiary company, signed a syndicated loan facility equivalent to Shs 1,789 million (Ugx 45 billion) with lead arranger, Stanbic Bank Uganda Limited. The loan is secured by a corporate guarantee from Lafarge SA and is payable in 5 equal instalments starting June 2011 and fully matures in June 2015. The facility is structured in two tranches of 50% each. Tranche A is at fixed interest rate equivalent to 5 year Treasury bond plus 70 basis points while Tranche B is at floating interest rate equivalent to 182-day Treasury bill plus 100 basis points.

The movement in term loan is as shown below:

	GROUP	
	2013	2012
	Shs'million	Shs'million
At 1 January	865	1,391
Paid during the year	(300)	(477)
Foreign exchange differences	53	(49)
At 31 December	618	865
Less; Due within one year	(309)	(288)
Due after one year	**309**	**577**

b) Effective interest rates

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

	GROUP		COMPANY	
	2013	2012	2013	2012
Local currencies – loans	12.5%	22.20%	-	-

c) Borrowing facilities

As at end of the year, the Group had working capital facilities amounting to a total of Shs 3,038 million (2012 – Shs 3,105 million), out of which the undrawn facilities amounted to Shs 2,128 million (2012 – Shs 2,240million). 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 2013. They consist of overdrafts, letters of credit, guarantees among others.

29. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
Trade payables	3,010	4,154	1,512	2,420
Accrued expenses	1,851	1,470	1,129	1,012
Other payables	361	557	304	475
Payable to related companies - Note 33 (ii)	14	14	15	14
	5,236	**6,195**	**2,960**	**3,921**

Terms and conditions of the above financial liabilities:

- Trade payables and payables to relate 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, and other staff related provisions.

30. CONTINGENCIES

a) Contingent Liabilities	GROUP		COMPANY	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
Bonds issued by the Group's bankers in favour of Kenya Revenue Authority	252	662	106	576
Bonds/guarantees issued by the Group's bankers in favour of other parties	407	228	353	220
At end of year	**659**	**890**	**459**	**796**

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 28 above and are issued in the normal course of business.

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 KShs 3.9 billion being principal tax of KShs 2 billion, penalties and interest of KShs 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 Ksh1.31 billion principal tax and Ksh1.36 billion penalties and interest. In accordance with the tax legislation, the company appealed to the Local Committee and the Value Added Tax Tribunal.

30. CONTINGENT

d) Tax matters (continued)

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 Company has continued to hold discussions with the Kenya Revenue authority in an attempt to resolve some of the matters in contention.

With the assistance of professional advice, the directors have considered all matters in contention and are confident that the objection will be successful and no material liability will crystallise to the 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 13 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.

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 2013 have been prepared on a going concern basis.

31. 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	
	2013 Shs'million	2012 Shs'million	2013 Shs'million	2012 Shs'million
Commitments for the acquisition of property, plant and equipment	127	178	101	107

Authorised but not contracted

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

	GROUP		COMPANY	
	2013 Shs'million	2012 Shs'million	2013 Shs'million	2012 Shs'million
Commitments for the acquisition of property, plant and equipment	173	339	71	236

32. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

GROUP	Note	2013 Shs'million	2012 Shs'million
Profit before tax		5,516	7,176
Adjustments for:			
Depreciation on property, plant and equipment	15(a)	1,485	1,278
Amortisation of intangible assets	17	50	36
Amortisation of leasehold land	16	1	8
Loss/(gain) on disposal of property, plant and equipment	7	18	(1)
Diminution of investments	18	31	-
Interest income	6	(473)	(651)
Dividend income	6	-	(6)
Interest expense	10	121	251
Net foreign exchange gains/(losses)	7	(45)	98
Operating profit before working capital changes		6,704	8,189
Changes in working capital balances:			
Increase/(decrease) in inventories		249	(1,413)
Increase/(decrease) in trade and other receivables		225	(116)
Increase in provisions for liabilities and charges		374	311
(Decrease)/increase in trade and other payables		(959)	2,006
Cash generated from operations		**6,593**	**8,977**

32. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

COMPANY	Note	2013 Shs'million	2012 Shs'million
Profit before tax		4,716	5,423
Adjustments for:			
Depreciation on property, plant and equipment	15(b)	879	783
Amortisation of intangible assets	17	43	34
property, plant and equipment retirement	15(b)	-	16
Diminution of investments	18	31	
Amortisation of leasehold land	16	-	-
Gain on disposal of property, plant and equipment	6	-	-
Interest income	6	(485)	(642)
Dividend income	6	(198)	(596)
Interest expense	10	-	-
Net foreign exchange (loss)/ gain		(2)	20
Operating profit before working capital changes		4,984	5,038
Changes in working capital balances:			
Increase in inventories		381	(621)
Decrease/(Increase) in trade and other receivables		704	417
Decrease in provisions for liabilities and charges		401	275
Increase/ (decrease) in trade and other payables		(961)	884
Cash generated from operations		**5,509**	**5,993**

33. RELATED PARTY TRANSACTIONS

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

(i) Related party transactions

The company receives technical assistance from the majority shareholder, which is paid for under a five year agreement. The following transactions were carried out with related parties during the year.

	GROUP	
	2013	2012
	Shs'million	Shs'million
Interest received	42	215
Sales of goods and services	360	134
Purchases of goods and services	2,463	2,712

(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	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
Receivables from related parties				
Lafarge France	2	9	2	9
Lafarge South Africa	5	1	5	1
Lafarge Technical Centre Europe	1	1	1	1
Chilanga Cement Plc Zambia	14	-	14	-
Mbeya Cement	61	-	61	-
Malawi Portland Cement	16	24	16	24
West Africa Portland Cement	(9)	13	(9)	13
Ashaka Cement Co.	2	-	2	-
Lafarge Cairo	32	150	8	150
	124	198	100	198
Receivables from subsidiaries				
Hima Cement Limited	-	-	481	767
Bamburi Special Products Limited	-	-	336	382
Lafarge Ecosystems Limited	-	-	26	57
	-	-	843	1,206
Total receivables [Note 22(a)]	124	198	943	1,404

33. RELATED PARTY TRANSACTIONS

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

PAYABLES FROM RELATED PARTIES		GROUP		COMPANY
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
Lafarge France	14	13	15	13
Lafarge South Africa	-	1	-	1
Total payables to related parties (Note 29)	14	14	15	14
Short term cash deposits [note 23(a)]	6,142	7,130	6,064	7,130

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 (d).

Terms and conditions of transactions with related parties

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 2013, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2012: 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 28 (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 Shs 198 million (2012 - Shs 231 million). The loan is unsecured and the effective interest on the loan was 10% (2012 – 10%). The loan repayment period is 10 years from January 2011. There is no material difference between the fair value and the carrying amount of the loan. The loan comprises:

	Company	
	2013	2012
	Shs'million	Shs'million
Current portion	29	29
Non-current portion	169	202
Total	**198**	**231**
The movement in Loan to subsidiary is as shown below:		
At 1 January	231	260
Paid during the year	(33)	(29)
At 31 December	**198**	**231**
Interest charged on the above loan	21	24

33. RELATED PARTIES

(iv) Key management compensation

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

	GROUP	
	2013	2012
	Shs'million	Shs'million
Fees for services as a director		
Executive	-	-
Non-executive	4	4
Total fees	**4**	**4**
Other emoluments		
Salaries and other short-term employment benefits:		
Executive	108	112
Non-executive	-	2
Total other emoluments	**108**	**114**
Post-employment benefits: Executive	8	9
Total emoluments for key management	**116**	**123**
Guaranteed long-term loans	**9**	**15**

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 KShs 1 million require a security from the directors. The loans are at a commercial terms.

34. 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	
	2013	2012
	Shs'million	Shs'million
Lease payments committed under operating leases:		
Not later than 1 year	115	120
Later than 1 year but not later than 5 years	212	212
	327	**332**

During the year ended 31 December 2013, KShs 39 million was recognized as an expense in the statement of comprehensive income in respect of the operating leases (2012: KShs 50 million).

35. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement plans for eligible employees. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The scheme is administered by an independent administration company and is funded by contributions from the Group companies and employees. The Group's obligations to the staff retirement benefits plans are charged to 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 207 million (2012: Shs 173 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).

36. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

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

Risk Management Framework

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

The Group's Corporate Treasury function identifies, evaluates and hedges financial risks in close cooperation with operating units. The board provides written 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, price risk, use of derivative and non derivative financial instruments.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the ultimate parent's policies approved by the Board of Directors.

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

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

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

(i) Market risks

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

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

36. FINANCIAL RISK MANAGEMENT

Risk Management Framework

a) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

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

Group foreign currency risk:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
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**
31 December 2012:			
Assets			
Trade and other receivables	-	1,175	1,175
Bank balances	701	1,940	2,641
Total assets	**701**	**3,115**	**3,816**
Liabilities			
Trade and other payables	1,256	2,570	3,826
Net exposure position	**(555)**	**545**	**(10)**

36. FINANCIAL RISK MANAGEMENT

(i) Market risks (continued)

a) Foreign currency risk management (continued)

Company foreign currency risk:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
31 December 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
Total liabilities	9	332	341
Net exposure position	**123**	**4,467**	**4,590**
31 December 2012:			
Assets			
Trade and other receivables	-	566	566
Bank balances	474	1,490	1,964
Total assets	**474**	**2,056**	**2,530**
Liabilities			
Trade and other payables	687	1,257	1,944
Total liabilities	**687**	**1,257**	**1,944**
Net exposure position	**(213)**	**799**	**586**

Foreign currency sensitivity analysis

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

	Effect on the profit or loss		Effect on equity	
	2013 Shs. million	2012 Shs. million	2013 Shs. million	2012 Shs. million
GROUP				
EUR	12	28	8	20
USD	207	(27)	145	(19)
	219	**1**	**153**	**1**
COMPANY				
EUR	6	(11)	4	(7)
USD	232	40	162	28
	238	**29**	**166**	**21**

b) Interest rate risk

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

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

During the year, a 5% increase/decrease of the annual interest rate would have resulted in an increase/decrease in pre-tax profit of Shs 78 million (2012 - Shs 93 million) and an increase/decrease of Shs 55 million (2012-Shs 66 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 2013, 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 of Shs 23 million (2012 - Shs 32 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 and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

The credit risk exposures are classified in three categories:

- Fully performing
- Past due
- Impaired

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

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

	GROUP		COMPANY	
	2013	2012	2013	2012
	Shs'million	Shs'million	Shs'million	Shs'million
Trade and other receivables	1,487	1,712	1,493	2,197
Bank balances	8,876	8,769	8,539	7,821

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

36. FINANCIAL RISK MANAGEMENT

a) Analysis of Group credit exposure:

	Gross 2013 Shs'million	Impairment 2013 Shs'million	Net 2013 Shs'million	Gross 2012 Shs'million	Impairment 2012 Shs'million	Net 2012 Shs'million
Fully performing	1,257	-	1,257	1,479	-	1,479
Past due	312	82	230	270	37	233
Trade and other receivables - note 22 (a)	**1,569**	**82**	**1,487**	**1,749**	**37**	**1,712**

b) Analysis of company credit risk:

	Gross 2013 Shs'million	Impairment 2013 Shs'million	Net 2013 Shs'million	Gross 2012 Shs'million	Impairment 2012 Shs'million	Net 2012 Shs'million
Fully performing	1,461	-	1,461	1,807	-	1,807
Past due	64	32	32	426	36	390
Trade and other receivables - note 22 (a)	**1,525**	**32**	**1,493**	**2,233**	**36**	**2,197**

Included in the impairment provision is an amount of Shs Nil (2012 – Shs Nil) relating to other receivables.

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

	Carrying amount	Neither past due nor	< 30	Past due but not impaired 30–60	91–120	> 120	Impaired
			impaired	days	days	days	days
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
Ageing analysis of trade receivables for Group							
2013	1,015	685	227	90	68	27	(82)
2012	636	413	143	57	43	17	(37)
Ageing analysis of trade receivables for company:							
2013	269	131	96	35	28	11	(32)
2012	103	36	51	15	5	32	(36)

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).

36. FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk management

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

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

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

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

GROUP – Financial liabilities:

	Total amount Shs'million	0-30 days Shs'million	31-90 days Shs'million	91-120 days Shs'million	120 days and and above Shs'million
31 December 2013:					
Trade and other payables	4,603	2,570	435	291	582
Term loan (Note 28)	633	-	-	-	633
	5,236	**2,570**	**435**	**291**	**1,215**
31 December 2012:					
Trade and other payables	5,301	4,007	569	122	603
Term loan (Note 28)	894	-	-	-	894
	6,195	**4,007**	**569**	**122**	**1,497**

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 and above Shs'million
31 December 2013:					
Trade and other payables (note 29)	2,960	1,765	379	53	763
31 December 2012:					
Trade and other payables (note 29)	3,291	1,840	760	506	815

36. FINANCIAL RISK MANAGEMENT

(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. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Group's policy is to keep the gearing ratio between 20% and 40%.

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
	2013 Shs'million	2012 Shs'million	2013 Shs'million	2012 Shs'million
Equity	31,510	30,861	23,619	23,868
Total borrowings-note 28(a)	(618)	(865)	-	-
Less: cash and cash equivalents - note 23(b)	8,876	8,769	8,539	7,821
Net (debt)/cash position	**8,258**	**7,904**	**8,539**	**7,821**

(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):

36. FINANCIAL RISK MANAGEMENT

GROUP		2013	2012	2013	2012
	Notes	Carrying amount		Fair Value	
Financial assets					
Other equity investments	19	787	452	787	452
Trade receivables	22 (a)	1,015	636	1,015	636
Receivables from related companies	22 (a)	124	198	124	198
Cash and cash equivalents	23(a)	8,876	8,769	8,876	8,769
		10,802	**10,055**	**10,802**	**10,055**
Financial liabilities					
Trade and other payables	29	3,010	4,154	3,010	4,154
Payables to related companies	29	14	14	14	14
Term loan	28(a)	618	865	793	952
		3,642	**5,033**	**3,642**	**5,033**
COMPANY					
Financial assets					
Other equity investments	19	787	452	787	452
Trade receivables	22 (a)	269	103	269	103
Loan to subsidiary	33 (iii)	198	231	222	250
Receivables from related companies	22 (a)	943	1,404	943	1,404
Cash and cash equivalents	23(a)	8,539	7,821	8,539	7,821
		10,736	**10,011**	**10,646**	**9,780**
Financial liabilities					
Trade payables	29	1,512	2,420	1,512	2,420
Payables to related companies	29	15	14	15	14
		1,527	**2,434**	**1,527**	**2,434**

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

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 Group'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 for which fair value is measured or 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)

Notes to the Financial Statements

36. FINANCIAL RISK MANAGEMENT

GROUP	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
31 December 2013			
Assets			
Property, plant and equipment			
-Freehold land and buildings	-	-	7,083
-Plant and machinery	-	-	9,028
Available for sale financial assets			
-Other quoted investments	787	-	-
Liabilities			
Term loan	**-**	**793**	**-**
31 December 2012			
Property, plant and equipment			
- Freehold land and buildings	-	-	7,103
- Plant and machinery	-	-	9,028
Available for sale financial assets			
-Other quoted investments	787	-	-
Liabilities			
Term loan	**-**	**952**	**-**

COMPANY	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
31 December 2013			
Property, plant and equipment			
-Freehold land and buildings	-	-	6,990
-Plant and machinery	-	-	6,417
Available for sale financial assets			
-Other quoted investments	452	-	-
Loan to subsidiary	**-**	**221**	**-**
31 December 2012			
Property, plant and equipment			
-Freehold land and buildings	-		6,990
-Plant and machinery	-	-	6,417
Available for sale financial assets			
-Other quoted investments	452	-	-
Loan to subsidiary	**-**	**250**	**-**

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. The valuations were based on market value 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 are based on valuations performed by Knight Frank Valuers Limited, an accredited independent valuer.

36. FINANCIAL RISK MANAGEMENT

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 ensures 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 assets and liabilities

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Land	Market Comparable Approach	Price per acre	KShs 1 million - KShs 30 million
Buildings	Market Comparable Approach	Estimated rental value per sqm per month Rent growth p.a	KShs 30 5%
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
Loan to subsidiary	DCF	Constant prepayment rate	10%
Term loan	DCF	Constant prepayment rate	10%

Reconciliation of the opening balances to the closing balances of the fair values of property and equipment

GROUP	Opening balance	Profit or loss	Total gains or losses other comprehensive income	Closing balance
-Freehold land and buildings	7,103	-	(20)	7,083
-Plant and machinery	9,028	-	-	6,417
	16,131	**-**	**(20)**	**13,500**
COMPANY				
-Freehold land and buildings	6,990	-		6,990
-Plant and machinery	6,417	-	-	6,417
	13,407	**-**	**-**	**13,407**

There were no purchases or sales within the revalued property, plant and equipment.

36. FINANCIAL RISK MANAGEMENT

b) Fair Value Hierarchy

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.

37. 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.

38. EVENTS AFTER THE REPORTING DATE

The Board of Directors approved the financial statements on 6 March 2014 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.

39. 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.

60 years
of **Building East Africa**

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 63rd Annual General Meeting of the Shareholders of Bamburi Cement Limited will be held in Mombasa at the Nyali International Beach Hotel on Thursday 5 June 2014 at 2.00 pm. for the following purposes:

1. To table the proxies and to note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive the Chairman's statement, the Report of the Directors and the Audited Accounts for the year ended 31 December 2013.
4. To declare dividends:
   a) To ratify the payment of the interim dividend of KES. 2.00/= per ordinary share paid on 11 October 2013;
   b) To declare a final dividend payment of KES. 9.00/= per ordinary share for the year ended 31 December 2013.
5. To approve Directors' fees for 2013 and increase Directors' fees in 2014.
6. To re-elect directors:
   a) In accordance with Article 96 of the Company's Articles of Association S Karanja retires by rotation and being eligible, offers himself for re-election;
   b) In accordance with Article 96 of the Company's Articles of Association E Kironde retires by rotation and being eligible, offers himself for re-election;
   c) In accordance with Article 101 of the Company's Articles of Association, D Pettersson, who was appointed a director on 6 June 2013, 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 2014.
8. To transact any other business of the Company of which due notice has been received.

By order of the Board

B Kanyagia
SECRETARY

23 April 2014

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 6 June 2014 and at every adjournment thereof.

AS WITNESS MY/OUR HAND(S) THIS .... DAY OF 2014

....
(Usual Signature)

Proxy forms must reach the registered office of the Company by 2.00pm Tuesday 3 June 2014

3 Staple Here

3 Staple Here

Proxy Form:

for the year ended 31 December 2013

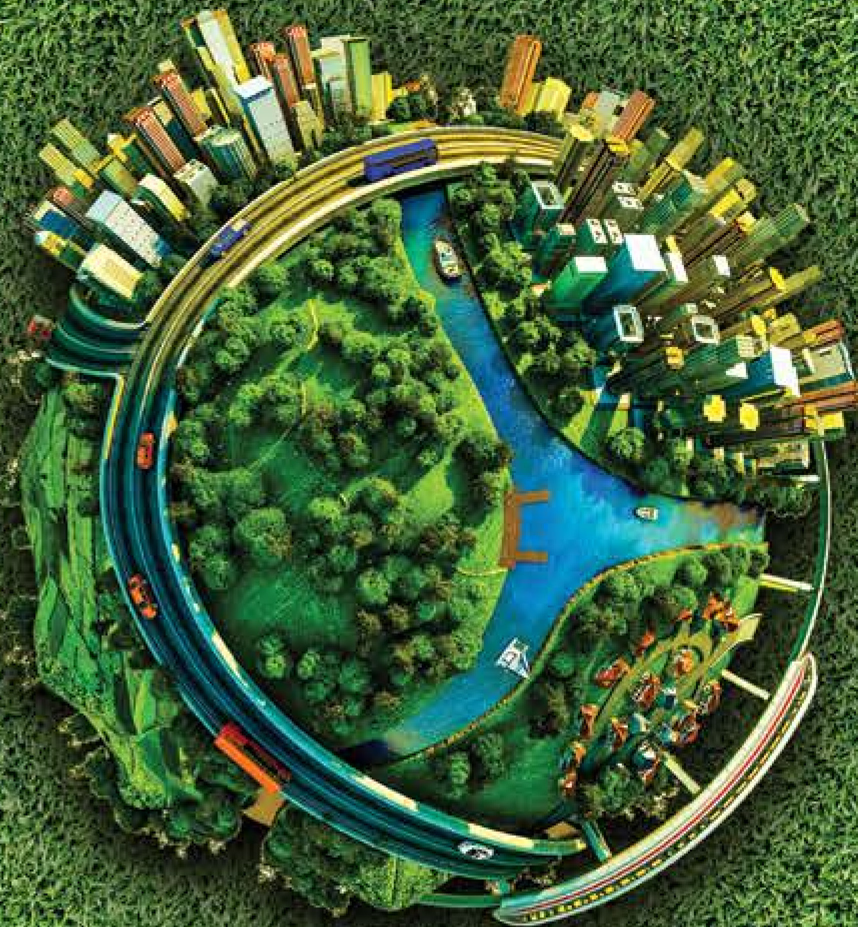
1 Cut Here

2 Fold Here

3 Fold Here

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

60 years
of **Building East Africa**



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