ARM CEMENT LTD
(formerly Athi River Mining)
Kenya • Tanzania • South Africa • Rwanda

39TH ANNUAL REPORT & FINANCIAL STATEMENTS 2012

RHINO CEMENT
Building Africa

Kaloleni Clinker plant.

Our strategy aims to make the company resilient in uncertain times and competitive environments, whilst creating opportunities to increase cement capacity, improve operating efficiencies and increase shareholder value.

RHINO CEMENT
Building Africa

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The trade and business practices of the company shall be directed to benefit the community, society and the country at large to the extent possible and affordable and shall be in accordance with the laws of the countries where its business operations are carried on.

RHINO CEMENT
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NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 2013 Annual General Meeting will be held at Laico Regency Hotel, Nairobi on Wednesday, 10th July 2013 at 10.30 a.m.

AGENDA

Ordinary Business

1. To read the Notice convening the meeting.

2. To approve the minutes of the previous Annual General Meeting held on 24th July 2012.

3. To receive the Balance Sheet and Accounts for the year ended 31st December 2012 together with the Reports thereon of the Directors and Auditors.

4. To approve the Directors Remuneration as provided in the accounts for the year ended 31st December 2012.

5. To approve the payment of a first and final dividend of Kshs. 0.50 cents per share in respect of the year ended 31st December 2012.

6. To re-elect Directors:

6.1 Mr. Wilfred Murungi retires from the Board under the provisions of Article 95 of the Articles of Association and being eligible, offers himself for re-election.

6.2 Ms. Stella Kilonzo having been appointed a Director during the year retires under the provisions of Article 93 of the Articles of Association and offers herself for re-election.

6.3 Mr. Andrew Alli having been appointed a Director during the year retires under the provisions of Article 93 of the Articles of Association and offers himself for re-election.

7. To note that Deloitte & Touche continue in office as auditors in accordance with the provisions of Sec.159 (2) of the Companies Act and to authorise the Directors to fix their remuneration for the ensuing financial year.

Special Business

8. To consider and if thought fit to pass the following resolution as a Special resolution:

That the Articles of Association of the Company be amended by adding a new Article 36 in place of existing Article 36, as follows:

"The company may, if required by law, deliver or pay to any prescribed regulatory authority any unclaimed assets including but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends or interest thereon remaining unclaimed beyond prescribed statutory periods. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder or his or her estate, for the relevant unclaimed assets."

By Order of the Board

R.R. Vora
Secretary
Date: 8th April 2013

Note: A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not also be a member.

ARM CEMENT LTD
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PROXY FORM

I/We____

of ____

being a member/s of ARM Cement Limited, hereby appoint:

____

of____

or failing him/her,____

of____

as my/ our proxy to vote for me/us and on my/ our behalf at the Annual General Meetings of the Company to be held on 10th July 2013 and at any adjournment thereof

Number of Shares held ____

Account number of member ____

As witness my/our hand this_________________day of____________________2013

Signature______________________________

Important Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company
2. In case of a member being a corporation, this form must be completed either under its common seal, or under the hand of an offer or duly authorized attorney.
3. To be valid, the proxy form must be deposited at the registered office of the Company not less than 48 hours before the time fixed for the meeting
4. If you wish, you may appoint the Chairman of the meeting as your proxy.

www.armafrica.com

Tear of hear

The Secretary

ARM Cement Limited

P.O. Box 41908 - 00100

Nairobi, Kenya

Dar plant view of feeding hoppers.

ARM is committed to become a good corporate citizen not only in the compliance of all relevant laws and regulations but also by actively assisting in the improvement of quality of life of the people in the communities in which it operates. The company shall encourage its employees to be involved voluntarily in various community development activities meant for improvement in the quality of life of the people.

DIRECTORS & CORPORATE INFORMATION

Directors	Mr R Ashley*	-	**Chairman**
	Mr P H Paunrana	-	**Group Managing Director**
	Mr S L Bhatia **	-	**Deputy Managing Director**
	Mr A Mathur **	-	**Finance Director**
	Mr W Murungi		
	Mr D M Ndonye		
	Mr M Turner *		
	Mr A Alli***		
	Mrs S Kilonzo		
	* British ** Indian *** Nigerian		
Audit and Risk Committee	Mr D M Ndonye	-	**Chairman**
	Mr R Ashley		
	Mr W Murungi		
	Mrs S Kilonzo		
Strategy and Investments Committee	Mr R Ashley	-	**Chairman**
	Mr P H Paunrana		
	Mr S L Bhatia		
	Mr A Mathur		
	Mr M Turner		
	Mr A Alli		
Nomination, Remuneration and Human Resource committee	Mr W Murungi	-	**Chairman**
	Mr M Turner		
	Mr D Ndonye		
	Mrs S Kilonzo		
Secretary	Mr R R Vora Certified Public Secretary (Kenya) Marakwet House P O Box 48405 - 00100 GPO Nairobi		
Registered office	Rhino House, Chiromo Road Westlands P O Box 41908 - 00100 GPO Nairobi		
Auditors	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 - 00100 GPO Nairobi		
Legal advisers	Walker Kontos Advocates Hakika House Bishops Road P O Box 60680 - 00200 Nairobi		

DIRECTORS & CORPORATE INFORMATION

CONTINUATION

Bankers	CFC Stanbic Bank Limited Kenyatta Avenue P O Box 30550 - 00100 GPO Nairobi
	Barclays Bank of Kenya Limited Barclays Plaza Branch P O Box 46661 - 00100 GPO Nairobi
	Bank of Africa Kenya Limited Taifa Road P O Box 69562 - 00400 Nairobi
	Citi Bank NA P O Box 30711 - 00100 GPO Nairobi
Rhino Cement Foundation	
Chairman	Mr. T Mbathi
Trustees	Mr. D Ndonye Mr. R R Vora Mr. P H Paunrana Mrs. A Paunrana


ARM
RHINO CEMENT

CHAIRMAN'S STATEMENT

Rick Ashley with Stella Kilonzo at Rhino Cement hardware dealer

The Board will exercise leadership, enterprise, integrity and judgement in directing the company to achieve continuing prosperity and to act in the best interest of the company based on transparency, accountability and responsibility.

RHINO CEMENT
Building Africa

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure once again to present to you the Annual Report and Financial Statements for the year ended 31st December 2012. We are already well into 2013 as I write this report. Therefore, as has become the custom, the Chairman's Statement places the financial year being reported in context with regard to the operating environment we faced and provides an indication of the outlook and targets for the current year, 2013.

I mentioned previously that your Company will strive to provide as full a picture of our activities as is practicable within the space afforded in our Annual Report and Financial Statements. My report, as Chairman of your Board, will concentrate on matters of Strategy, Policy and Governance. Allow me to begin by reviewing the business environment and our operations in our two most important markets, Kenya and Tanzania.

KENYA

During 2012, the Kenyan economy regained stability following the volatility of the foreign exchange and high interest rates experienced in the previous year. GDP growth rates increased from 4.4% in 2011 to 5.1% in 2012, and the construction sector once again experienced robust growth on the back of private sector housing demand and government expenditure

Rhino cement packing plant.

on infrastructure. Total cement consumption increased to 3.9 million tons during 2012, and per capita consumption, a strong indicator of the country's development level, increased to 92Kg, up from 85Kg the previous year. Whilst the cement market in Kenya grew by 11% during the year, sales of Rhino Cement grew substantially more, by 35% as a result of improvements in productivity, and continuing emphasis on customer service and superior quality of Rhino Cement.

This increase in market share was achieved in a year when a new player entered the market, and the cement industry became even more competitive with existing players announcing plans to increase capacity.

As Kenya prepared for the general elections of March 2013, economic activity began to slow down in the country, and cement consumption declined in the first quarter of 2013. As I write this statement, the trend has reversed and once again the construction sector has begun to accelerate. Fundamentally, the peaceful elections and formation of a new government under President Uhuru Kenyatta, in accordance with the new constitution, will be enormously beneficial for the Kenyan economy. Cement consumption is expected to continue growing, and your Company will seek ways to supply the growing market with higher quality cement at affordable prices. However, increased supply and competition will be the main concerns going forward.

It is worthwhile to note that whilst almost all new players are producing cement using imported clinker (an intermediate product of the cement manufacturing process), ARM's strategy remains to manufacture its own clinker. The investment in such integrated plants – both in Kenya and Tanzania - is significantly higher than that required for a grinding plant, but we firmly believe that this approach allows the Company to control and capture the entire value chain, from mining limestone, to manufacturing cement of different grades and high strengths.

TANZANIA

Let me now turn to Tanzania, and our progress there. For a number of years now, the Tanzanian economy has been growing at a faster rate than Kenya, and achieved a GDP growth rate of 6.8% in 2012. Cement consumption in Tanzania increased by 13% during the year, and per capita consumption now stands at 67Kg. As a comparison, Kenya's per capita consumption in 2012 was 92Kg, and Rwanda's 34Kg. Nigeria's per capita cement consumption stood at 108Kg, South Africa's at 222kg, Angola's at 240Kg and Egypt's

Dar es Salaam cement plant, concrete paving and landscaping in progres

President Kikwete at KAM Dinner in Nairobi in Sept 2012.

at 554Kg. Clearly, the potential for further growth in cement consumption in East Africa is still huge. However, this growth has begun to attract new players, and existing cement manufacturers have announced plans to increase capacity. We believe your Company has had an early advantage in this market in terms of the capacity we are investing in.

Rhino Cement was successfully launched in Tanzania in October 2012 on completion and commissioning of the Dar es Salaam grinding plant. The plant is operating well and the Rhino Cement brand is increasing market penetration and market share each month. Rhino Cement market share is currently around 12% of the Tanzanian market, though imported cement still enjoys a significant market share of around 15%. As the advantages of locally produced Rhino Cement become apparent, the company expects the market share to grow during the year.

The ongoing investment in the 1.2 million ton per year clinker plant in Tanga, Tanzania, will be the largest capacity increase in the region in many years. The Tanga plant will add a further 750,000 tons per year of clinker based cement capacity. It will give your company a significant cost advantage, with ability to increase market share and dislodge cement and clinker imports in the region. We are now confidently looking at commissioning the plant during the first quarter of 2014.

STRATEGY

Your Company's strategy continues to be single minded - it is not about being the best or the biggest, or overcoming competition and achieving the highest margins, but about making a difference to all our stakeholders, including you, our shareholders, in a significant way.

I feel it is worth repeating how we focus on creating value for all our stakeholders:

- We build plants at lower than industry average costs, creating value for our shareholders

Shareholders at the 38th Annual General Meeting held in July 2012.

- We manufacture high quality, high strength cement economically and efficiently creating value for our customers

- We empower our employees to make social investments, creating value for both the employees and for our communities

Onesmus Kipkosgei and Mathew Mbui, ARM Sales Executives with Rick Ashley and Stella Kilonzo at a Rhino Cement retail outlet.

- In Building Africa, we are creating value for Africa and its people

Our strategy aims to make the company resilient in uncertain times and competitive environments, whilst creating opportunities to increase cement capacity, improve operating efficiencies and increase shareholder value.

As we continue the work of further increasing our market presence in Kenya, Tanzania and Rwanda, and completing the ongoing projects, we are also focusing our attention on new locations within the region, for building a new clinker based cement plant. As we go forward, this will remain at the heart of our strategy - Building Africa.

SHAREHOLDER VALUE & SHARE PERFORMANCE

In the past 12 months or so, since my last report, your company's share price has increased from Ksh 42 (on a 5 for 1 split basis) to Ksh 70. This represents a growth of 67%, but more importantly, we believe is a resounding endorsement of our strategy. Your Company is now worth Ksh 34.7 billion, and ranks 11th amongst the top listed companies on the Nairobi Securities Exchange.

GOVERNANCE

Board governance and policy setting goals to implement strategy remain at the heart of your Board's role. During the year, the Board and the various committees benefitted from the experience of both AFC's Andrew Alli and Stella Kilonzo who joined the Board. Stella Kilonzo brings to the Board a wealth of legal and financial markets experience from her previous role as the CEO of the Capital Markets Authority. I take this opportunity to once again welcome Stella Kilonzo and Andrew Alli to the ARM Board.

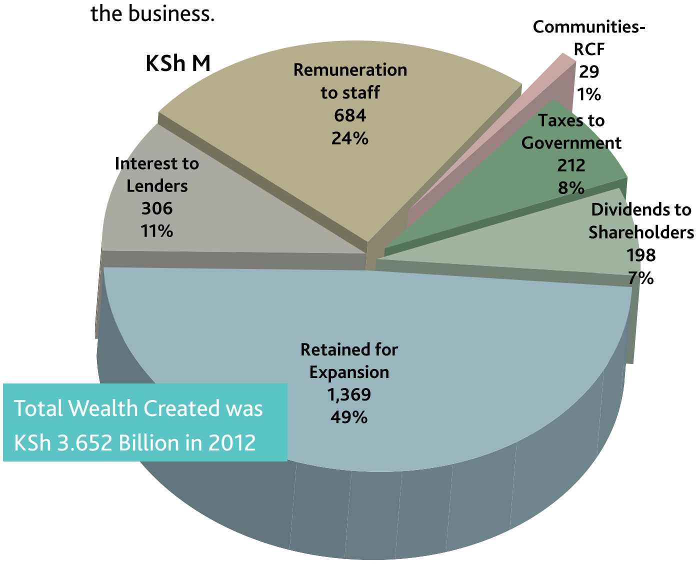
RISK MANAGEMENT POLICY

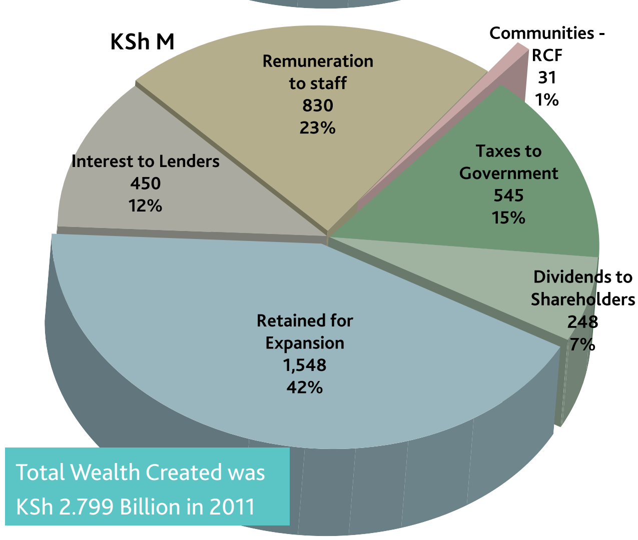
During the year, your Board constantly monitored and reviewed the operations and the challenges faced by the Company. A number of key policy decisions were made during the year to further strengthen the role of internal audit and risk management, as well as to create a real time MIS (management information systems) dashboard and the IT platform. Over the past year, much progress has been made in these areas. In the skills development and talent retention, progress is also clearly visible. The company has now embarked on several programs that will enable employees across all our plants and locations to communicate and integrate with each other, and work with the same values in a common company culture.

DISTRIBUTION OF WEALTH CREATED

As Chairman of the Board, I particularly take pride in presenting the chart showing the distribution of wealth created during the financial year.

You will notice that dividends to shareholders remained at 7% of the wealth created; the bulk of the wealth created continues to be reinvested in expanding capacity and growing the business.





ENVIRONMENTAL POLICY

Environmental management and compliance of the laws and regulations are an integral part of the company's strategy to remain significant to our neighbours and communities. Your Board has instituted policies to ensure that required investment in plant and equipment is made in areas that will allow the company to maintain environmental management to international best practices.

OUTLOOK

We look forward with confidence to, once again, achieving a robust growth in 2013, particularly in Tanzania. We also continue to work hard to achieve the commissioning of the clinker plant in Tanga.

We remain convinced of the robust growth in cement demand in our markets particularly from private sector housing demand and public infrastructure projects. We note the temptation to use duty free imported cement in some of the larger public sector projects but would caution that there are huge longer term benefits to supporting the locally manufactured cement which outweigh the perceived short term benefits. Government plans suggest these projects will consume over 10% of overall demand in the coming years.

APPRECIATION

The delivery of shareholder value requires many committed partners.

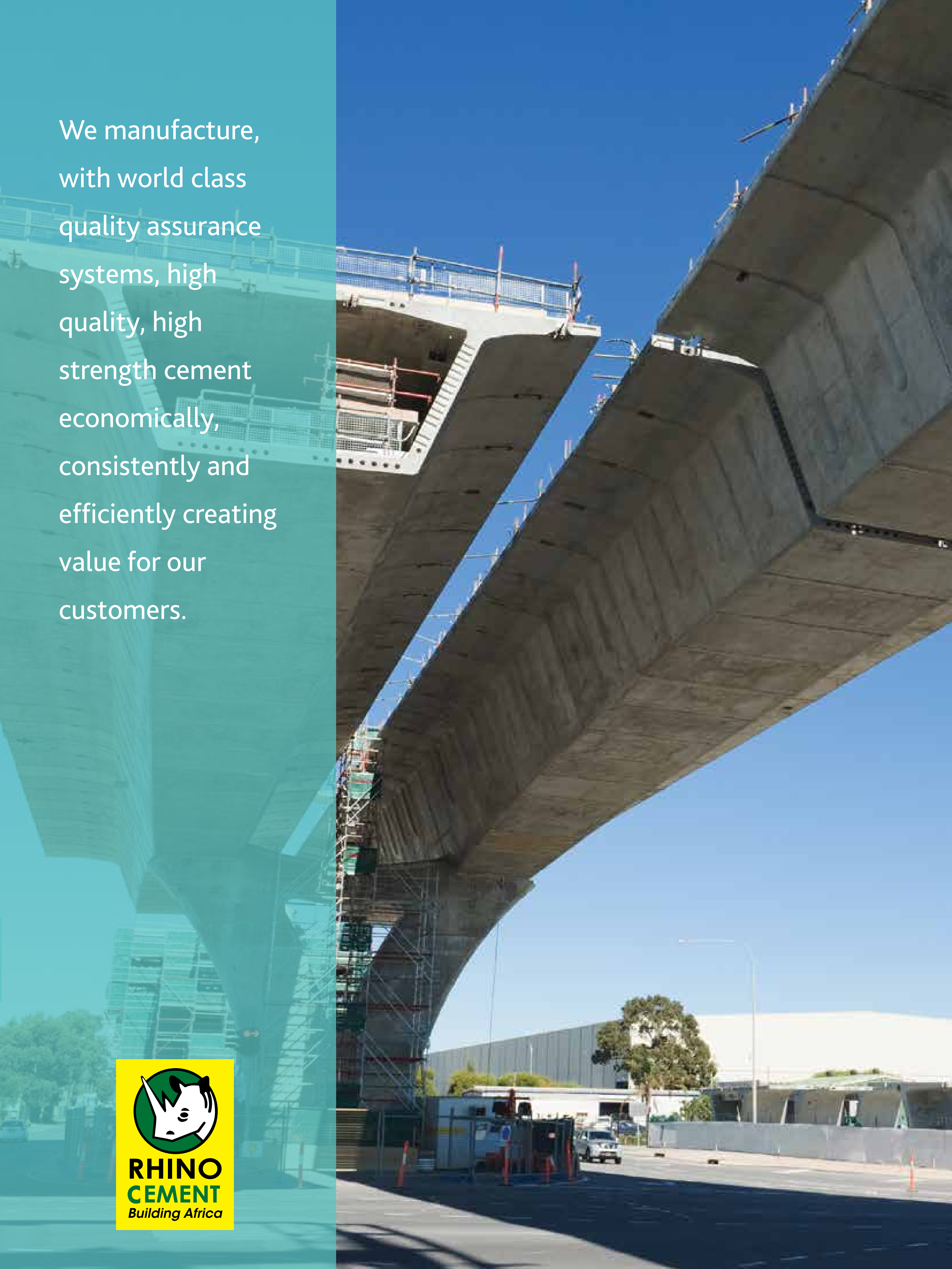
I take this opportunity on behalf of the Board to applaud management and all our employees on another year of exceptional performance, and unwavering commitment to the bold vision of the company.

I must also acknowledge the guidance and support of my colleagues on the Boards, particularly in Kenya and in Tanzania. Their advice and wise counsel remains fundamental to your Company's progress.

Sincerely,
Rick Ashley
CHAIRMAN

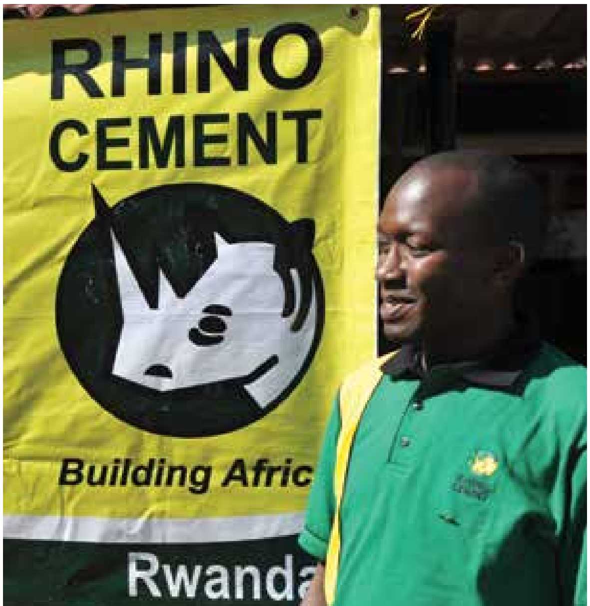
Managing Director's Report

Pradeep Paunrana


We manufacture, with world class quality assurance systems, high quality, high strength cement economically, consistently and efficiently creating value for our customers.
RHINO
CEMENT
Building Africa

MANAGING DIRECTOR'S REPORT

A REWARDING YEAR



ARM Sales Executive, Onesmus Kipkosgei at a sales drive function.

2012 was a successful year for the ARM Group, with increased capacity utilization at the Kaloleni and Athi River and Kigali plants, and commissioning of the grinding plant at Dar Es Salaam. During the year exchange rates and interest rates remained stable, and the construction sector continued to grow at brisk pace. As demand for cement increased, competition amongst the cement manufacturers intensified, especially with the entry of one more cement company in the market. ARM however managed to grow cement volumes by 35% in Kenya, and overall as a Group by 64% in 2012.

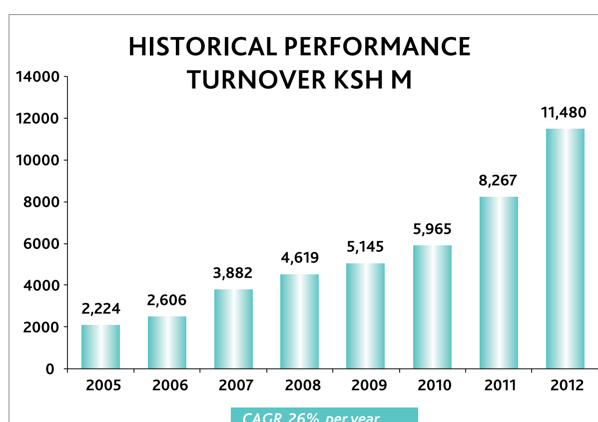
Measures taken during the year also resulted in fewer power outages and increased production efficiencies. During the year, the company also supplemented its locally manufactured clinker with imported clinker. Whilst the local manufacturing cost of clinker was reduced, the overall margins declined due to the impact of imported, but costlier clinker. The commissioning of the clinker plant at Tanga will eliminate the need to import clinker, and this will reflect in higher profit margins going forward.

The contribution of cement business to the Group turnover has been increasing rapidly over the past few years, and stood at 82% in 2012. The non-cement business remained stable during the year and made a positive contribution to the Group.

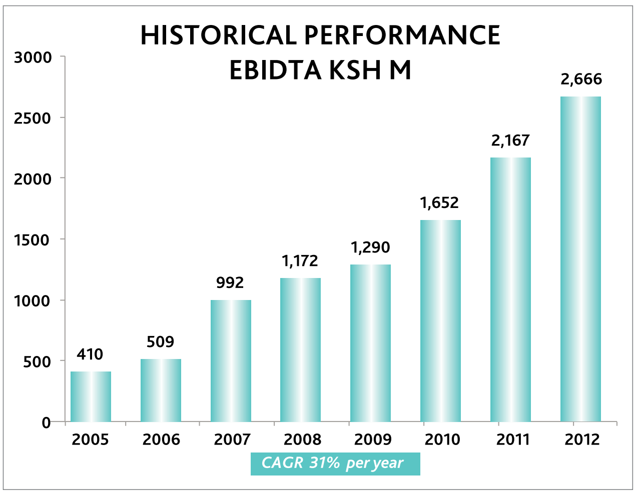
Deputy Managing Director Surendra Bhatia, with Dar es Salaam cement plant General Manager Girish Kumar. In the background gypsum storage building and 15,000 ton capacity clinker silo.

2012 ANNUAL RESULTS

The year marked the commissioning of the cement grinding plant at Dar Es Salaam in the last quarter of the year. Group turnover increased by 39% to KSh 11.4 billion from KSh 8.2 billion in 2011. Cement sales grew by 64% from increased market share in Kenya and Rwanda, and contribution of 3 months sales from Dar Es Salaam which became operational in October 2012. The company's turnover has been growing over the last 8 years at a cumulative average growth rate (CAGR) of 26%, almost 5 times the underlying average GDP growth rate during this period for the region.



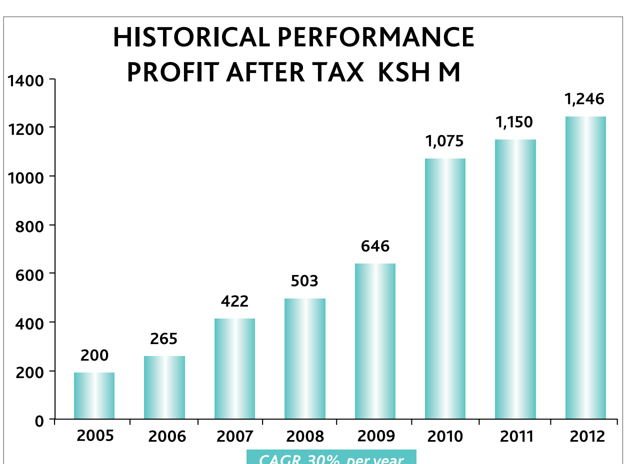
The company earnings before interest, tax and depreciation increased from KSh 2.17 billion in 2011 to KSh 2.67 billion in 2012, an increase of 23%. The EBIDTA margin for 2012 declined from 26% in 2011 to 23%, mainly as a result of utilizing imported clinker in increasing cement volumes and sales.



GROUP PROFIT

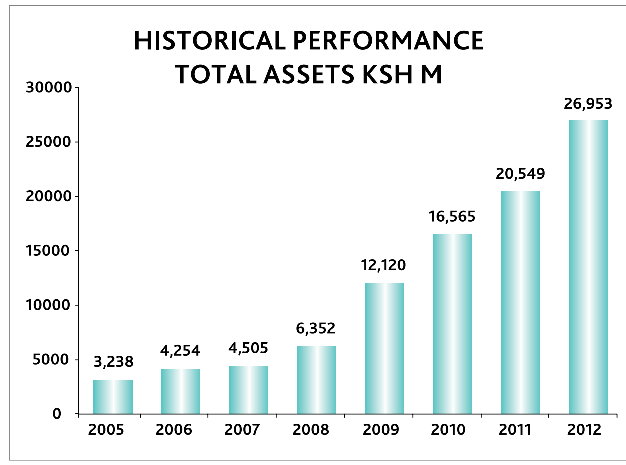
Although Group profit before tax increased by 31% to KSh 1.79 billion over the previous year, net profit for the year stood at KSh 1.25 billion, an increase of 8% over the previous year. The increase in net profit growth is lower due to a higher effective tax charge. In 2011, the company had the tax benefit of accelerated investment deduction allowances on capital expenditure made in prior years. These allowances were fully utilized in 2011, and the effective tax charge for 2012 was therefore higher.

Net profit margin consequently declined from 14% in 2011 to 10.9% in 2012

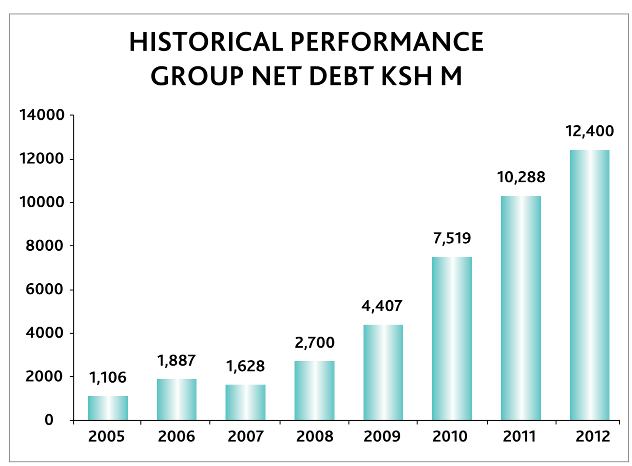


TOTAL ASSETS

Total assets grew to KSh. 26.9 billion in 2012 from KSh 20.5 billion in 2011 as a result of investments in the Tanga and Dar Es Salaam plants.



Although the company raised KSh 4.3 billion from AFC in September 2012, net debt increased by KSh 2.5 billion during the year, to KSh 12.4 billion. Out of the disbursement from AFC, KSh 2.3 billion was held in short term deposits as at December 31, 2012. The additional debt was raised to complete the construction of the clinker plant in Tanga.



MANAGING DIRECTOR'S REPORT

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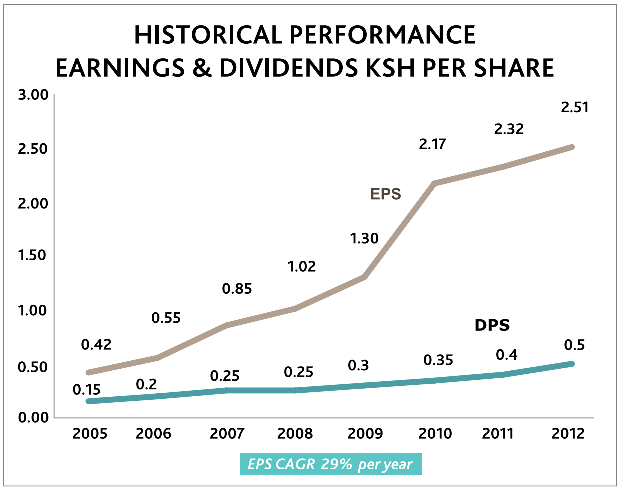
EARNINGS AND DIVIDENDS PER SHARE

Earnings per share has been growing steadily over the last 8 years, at a cumulated average growth rate (CAGR) of 29.1%, and stood at KSh 2.51 in 2012.



Finally, I thank the management team and the entire staff of ARM for an excellent performance during 2012.

I would also like to acknowledge the continued support of our distributors, loyal customers, engineers and industry professionals in helping us to grow the cement sales volumes by over 64% during this year. Similarly I would like to thank our suppliers of raw materials, spare parts, transport and other services for their support in our progress during the year. Finally, I must thank all our bankers and financiers for their continued support and confidence in our strategy for growing the cement business.

Pradeep H Paunrana
MANAGING DIRECTOR

Rhino cement receives quality certification from the Tanzania Bureau of standards on 5th October 2012. The Hon. Nassor Mazurui Minister for Industry and Trade (Zanzibar) commended ARM for manufacturing the product in Tanzania.

Rick Ashley - Chairman Non Executive Director

Rick Ashley is a qualified accountant and brings with him over 31 years of experience in the Financial Sector. He was the Chief Executive of Old Mutual Asset Managers, Kenya, and Managing Director of KShtrel Capital (EA) Limited, having previously worked for Peat Marwick, Cayman Islands, Arthur Andersen & Company and Prudential Corporation Plc in London. Mr. Ashley serves on the Board of several companies including Apollo Investments Limited, Apollo Life Assurance Limited, Apollo Asset Management Company Limited and Protectors Limited. He is also the founding Chairman of Fund Managers Association of Kenya and previously served as a member of Market Leaders Forum, Central Bank of Kenya. He serves as a Chairman on ARM's Board, Director of Maweni Limestone Limited, ARM Tanzania Limited, Mafeking Cement Company in South Africa and member of ARM's Audit Committee.

Surendra Bhatia - Deputy Managing Director

Mr Surendra Bhatia holds a degree in electrical engineering from South Gujarat University and a Masters Degree in Management Studies (MMS) from the prestigious Bombay University in India. A University rank holder throughout engineering college, he also graduated at the top of his Masters Degree class at Bombay University. Surendra has attended many executive education programmes, including an Executive program in Leadership at the Harvard Business School.

Surendra Bhatia started his management career with TATA Group, India's largest manufacturing Group, and subsequently developed his professional career with the Bhawan Group in the Middle East and Africa.

He joined the ARM Board in the year 2000, bringing a wealth of experience in the field of strategic and corporate planning, and has been instrumental in building the company's core business of cement manufacturing, from technical design and evaluation of plants and machinery, to strengthening the company's presence in key markets and implementing best business practices in the company operations. As Deputy Managing Director, Surendra Bhatia shares a major responsibility with the Managing Director in articulating and delivering the Company's strategic plans, and growing long term shareholder value.

He represents the Company at many national and regional forums, and at investor conferences in Africa, Europe and North America. Surendra Bhatia is a trustee of several charitable organizations, and actively participates in community and cultural activities.

Daniel Ndonye - Non Executive Director

Mr Daniel Ndonye is a Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Institute of Certified Public Accountants of Kenya and Fellow of the Institute of Certified Public Secretaries of Kenya. Mr. Ndonye holds Board Director's position in several institutions including the Capital Markets Authority where he is a member of the Appeals Tribunal, Kenol Kobil Limited, Access Kenya Group Limited, Apollo Investments Limited, APA Insurance Limited and Kakuzi Limited. He joined ARM's Board in August 2010 and Chairs the Audit Committee of the Board. He is also on the Board of ARM (Tanzania) Limited, Maweni Limestone Limited and is a Trustee of the Rhino Cement Foundation.

Pradeep Paunrana - Managing Director

Pradeep H Paunrana joined Athi River Mining Ltd in 1984 after graduating with an MBA from New York University Stern School of Business. Pradeep's main academic interest at NYU and earlier at Manchester University was financial modeling and cashflow accounting. Pradeep was able to combine his business education with the entrepreneurial passion and energy of his late father in growing the Company. Over the years, Pradeep built a team of professionals with a deep culture of transparency, diligence, and innovation to execute the vision of transforming ARM, a small producer of agricultural lime into a major publicly listed cement company.

Pradeep plays an active role in several Policy and Advocacy institutions, and has chaired and participated task forces in the energy, environment and agriculture sectors. He is a Board member of Kenya Association of Manufacturers, a Trustee of the Tree Biotechnology Trust, Chairman Nairobi Greenline Trust, and member of several charitable organizations. In 2010, Pradeep was awarded the Africa Business Leader of Innovation by Africa Investor.

Atul Mathur - Finance Director

Mr Atul Mathur is a Chartered Accountant from the Institute of Chartered Accountants of India. He has over 32 years experience in various Senior Management Capacities. Prior to joining ARM as the Group Chief Financial Officer in 2005,he had worked for 13 years with the largest flexible packaging group in India. He had also worked with a leading Construction group in India for about 11 years. He specializes in Project Financing, Development & Implementation of Systems & Controls, Budgeting & Forecasting and Working Capital Management. He is currently looking at Tanzania operations as well

Michael Turner - Non Executive Director

Mr. Michael Turner joined ARM's Board in August 2010, Michael Turner is responsible for Actis's $200m Private Equity investments in East Africa for the last ten years. He has also been managing the $93m Pan Africa Actis Africa Agribusiness Fund based in Nairobi, Kenya. Mr. Turner is an experienced private equity investor and has developed a deep understanding of agribusiness, financial services, real estates and infrastructure sectors. Prior to joining Actis, Mr. Turner worked in investment banking in London, for Lehman Brothers and Kleinwort Benson, having started his career with Price Waterhouse. Mr. Turner holds a first class degree in Civil Engineering from Southampton University and is also a Fellow of the Institute of Chartered Accountant in England & Wales. Mr. Turner also serves as a Member of ARM's Remuneration and Nomination Committee.

Ramesh Vora - Company Secretary

Mr Ramesh Vora is a Member of the Institute of Chartered Secretaries and Administrators of England and a Fellow of the Institute of Certified Public Secretaries of Kenya. He is a Practicing Company Secretary with a client base of over 150 companies ranging from public companies to multinationals and other local companies. He has been the Company Secretary for ARM since 1994 and is a Trustee for Rhino Cement Foundation. Mr. Vora also serves as the Company Secretary for Group Subsidiary Companies ARM (Tanzania) Limited and Maweni Limestone Limited.

BOARD OF DIRECTORS

Continued

Andrew Alli - Non Executive Director

Mr Andrew Alli is responsible for the overall strategy and operations of the Africa Finance Corporation. The Executive Management under Andrew's leadership has undertaken over US$300m in investments across Africa, financing high - impact projects like a West African submarine cable, a wind farm in Cape Verde, a toll road in South Africa, and a green power plant in Ghana. Until his appointment, Andrew was a Partner and Deputy Chief Executive Officer of Travant Capital, a West - Africa focused private equity fund. Prior to that, he was with the International Finance Corporation, the private sector financing arm of the World Bank Group, in Washington, as an investment officer working first in the Oil Gas and Mining Department and then in the Telecommunications Department. In 2002 he was appointed IFC's Country Manager for Nigeria, responsible for managing IFC's operations. In 2006, he was appointed Country Manager for Southern Africa, where he was responsible for South Africa and seven other countries.

Mrs Stella Kilonzo - Non Executive Director

Mrs Kilonzo is the Founder of Astute Capital, an advisory and consulting company specializing in Capital markets development, policy & regulatory advice, infrastructure finance, and institutional capacity building.

Mrs Kilonzo served as the Chief Executive, Capital Markets Authority, Kenya Where she implemented various key reforms.Mrs Kilonzo has previously worked for FINRA in USA, the largest independent Regulator for all securities firms doing business in the United States, and PwC Kenya.

Mrs Kilonzo has an MBA, Corporate Finance, Loyola University Chicago & Bachelors of Commerce, First Class Honors, Catholic University of Eastern Africa and is a CPA (USA).

Wilfred Murungi - Non Executive Director

Mr Wilfred Murungi is a qualified electrical engineer. He started his career with Kenya Power and Lighting Company Limited before joining BAT where he held the position of Technical Director. In 1985 he started his own company Mastermind Tobacco. Mr. Wilfred Murungi serves on the Boards of Athi River Power Company Limited, Greenlands Agro producers Limited, NGM Company Limited, Continental Tobacco Group of Companies in Malawi, Uganda, Tanzania and Sudan, Nanyuki Ranching Limited, Ozzbeco Breweries (K) Ltd, Remu Limited (Microfinance Bank), Mitithiru Limited and Tobacco Commodities (Canada) Inc. He is the Chairman of the Chuka University College Council, and also a member of the National Economic and Social Council. He has also served on the Boards of Kenya Association of Manufacturers, Kenya Bureau of Standards and the Energy Regulatory Board. He was awarded the EBS (Elder of Burning Spear) decoration by the President of the Republic of Kenya in 2005. Eng. Murungi is on the Board of Athi River Mining Limited, Subsidiaries Mavuno Fertilizers Limited, ARM Energy Limited, ARM Tanzania Limited and Maweni Limestone Limited. He Chairs the Remuneration and Nomination Committee and is also a member of the Audit Committee of Athi River Mining Limited.

Hon. Bakari Mwapachu - Non Executive Director, Maweni Limestone Ltd

Hon. Bakari Mwapachu is a graduate from the Makerere University and he has completed a certificate course from the Harvard Business school and holds advanced Diploma in Science Management from Arthur D. Little Management Institute, Cambridge Mass., USA. He has been long standing minister in the Government of Tanzania, as Minister for Justice and Constitutional Affairs, Minister for Public Safety and Security. He has also been Chief Executive of Public Enterprises such as Board of Internal Trade, Air Tanzania, National Insurance Corporation.

He has held the position of Chairman of Parastatal institutions including Institute of Development Management, Williamson Diamonds Limited.

Apart from serving in parastatal sector, he has also been Permanent Secretary in the Ministry of Water, Energy and Minerals. He is presently the Chairman of ARM's Subsidiaries, Maweni Limestone Limited, ARM Tanzania Limited.

Dr Ben Moshi - Non Exective Director, Maweni Limestone Limited

Dr Ben Moshi is an experienced Civil servant, has served for over 25 years in the Government of Tanzania as Permanent Secretary-Ministry of Water Energy and Mineral, Permanent Secretary – Ministry of Tourism Natural Resources and Environment as well as Permanent Secretary – Ministry of Agriculture and Co-operatives. He is the former Chairman of Williamson Diamonds Limited and National Milling Corporation and served on the Board of Directors of Kilimanjaro Gemstones Limited, Minjingu Phosphates Limited, Lake Victoria Environment Management Council. Dr. Ben serves as a Director of Maweni Limestone Limited and ARM (Tanzania) Limited, subsidiaries of ARM. He is also a Director of Selous Farming Limited.

Mr Shakir Merali - Non Executive Director, Maweni Limestone Limited

Mr Shakir Merali a graduate from London School of Economics, is a seasoned Consultant and Investment Professional with over 20 years experience in Developed and Emerging Markets. He has previously worked with a range of companies, including Fortune 1000 corporations, multinational technology companies across Europe and the United States and start up companies in emerging markets. Mr Merali is now a partner at Aureos Capital in Nairobi and represents Aureos Capital on the ARM subsidiary, Maweni Limestone Limited's Board.

INTRODUCTION

ARM Cement Limited is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the Group's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Group are the observance of shareholders' interest, efficient practices and open corporate communication systems. The directors also confirm that they have complied with the corporate governance guidelines as issued by Capital Market Authority (CMA).

SEPARATION OF RESPONSIBILITIES

The roles and responsibilities of the Board of Directors and those of management are clearly set out. The Board of Directors take the overall responsibility of the Group. It exercises leadership and sound judgement in directing the Group to achieve sustainable growth and acts in the best interests of the shareholders. The Group has a schedule of matters that are reserved for the Board of Directors. Further, the role of the chair and the Group Managing Director are separate in line with best practice.

BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 9.

The Board is responsible for formulating Group policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Group and implements corporate governance policies of the Group.

The Board comprises executive and non-executive Directors. The Directors have diverse skills and are drawn from various sectors of the economy. The Board Chairman and Chairmen of Board committees are non-executive Directors.

The Board meets regularly, at least four times annually. Notices of Board meetings are issued in advance in accordance with the company's Statutes and General By-Laws and are distributed together with the agenda and Board papers to all the Directors beforehand. During the year, the Board convened and held four ordinary meetings.

The Company Secretary is always available to the Board of Directors.

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 6 to the financial statements for the year ended 31 December 2012.

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the company and its Directors or Management except those disclosed in Note 26 to the financial statements for the year ended 31 December 2012.

ROLES AND RESPONSIBILITIES

Chairman of the Board

The chairman of the Board is responsible for the operation, leadership and governance of the Board, ensuring the Board is efficient, focused and operates as a unit. He is the facilitator of the Board and shareholders' meetings ensuring flow of opinion and leading discussions to ensure robust and constructive challenge and debate among those present.

Group Managing Director

The Group Managing Director is responsible for the day to day management of the Group including implementation of policies and strategy. Board authority delegated to management is through the Group Managing Director, who is supported in this role by the executive committee.

Company Secretary

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

BOARD TRAINING

To ensure that the Board remains up to date on new legislation, best practice, changing risks together with the ever changing operating and business environment, all Directors are provided with training and are encouraged to attend training.

BOARD COMMITTEES

The Board has in place three main committees, namely Audit and Risk Committee, Nomination, Remuneration & Human Resources (HR) Committee and Strategy & Investments committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the Group's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the Group is delegated to the Managing Director.

a) Audit and Risk Committee

The Audit Committee is chaired by a non-executive Director, Mr. D.M Ndonye, and meets at least twice a year. Other members are three non-executive Directors Mr. R. Ashley, Mrs Stella Kilonzo and Mr. W Murungi. The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors and also monitors implementation of audit recommendations, on behalf of the Board.

b) Nomination, Remuneration & HR committee.

The Nomination, Remuneration & HR committee is chaired by a non-executive Director, Mr. W Murungi. The other members are three non-executive appointees of the Board Mr. M. Turner, Mrs S Kilonzo and Mr. D. Ndonye. The Committee meets at least three times a year and is responsible for assisting in, and making recommendations on, the formulation by the Board and review of the general administrative and procurement policies of the Company and the Company's Policies on Human Resource requirements.

c) Strategy & Investments committee.

The Strategy & Investments committee is chaired by a non-executive Director, Mr. R. Ashley. The other members are two non-executive appointees of the Board Mr. M. Turner and Mr Alli as well as three executive appointees of the Board Mr. P H Paunrana, Mr. S L Bhatia and Mr. A Mathur. The Committee meets at least four times a year and is responsible for assisting in, and making recommendations on the formulation by the Board and review of the Company's strategies and investments.

CONFLICT OF INTEREST

Business transactions with all parties, directors or their related parties are carried out at arm's length. The Directors are under fiduciary duty to act honestly and in the best interest of the group. The Directors have submitted their annual declaration of interests which include:-

- An acknowledgment that should it come to his/her attention that a matter concerning the group may result in a conflict of interest, the Director is obliged to declare the same and will exclude himself/herself from any discussion over the matter in question.
- An acknowledgement that should the director be appointed to the board or acquire a significant interest in business competing with the group, the director will be obliged to offer his/her resignation.
- An acknowledgement that the forgoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 26 to the financial statements for the year ended 31 December 2012.

BUSINESS ETHICS

The company conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the company's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the audit and risk department. This process is also reviewed by the Internal Auditor. The internal Auditor reports administratively to the Managing Director and functionally to the Audit and Risk Committee. As part of the independence required by the Group's governance policies, the Internal Audit annual work program and budget are separately approved by the Audit and Risk Committee, which also reviews and approves audit reports and internal audit annual report. The company has in place a chain of controls which include, but are not limited to, an annual budgeting process, a regular review of strategic initiatives, a well defined organizational structure which is kept under regular review by the Board and a review of quarterly financial and operating information by Management and the Board.

RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the company recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The company assists its staff to undertake continuous professional and development training programmes to fulfill their potential. This process is appropriately managed to align staff development with the company's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

COMPLIANCE

The Group operates within the requirements of the Constituent Charter, its Statutes and General By-Laws and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

COMMUNICATION

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

2012 BOARD &BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Audit Committee	Nomination & Remuneration Committee	Strategy & Investment Committee
Mr. R Ashley	Non-Executive	Chairman of the Board & Investments and strategy committee	Membership	√	√	n/a	√
			Attendance	3/4	4/5	n/a	3/3
Mr. P H Paunrana	Executive Director	Managing Director	Membership	√	n/a	n/a	√
			Attendance	4/4	n/a	n/a	3/3
Mr. S L Bhatia	Executive Director	Deputy Managing Director	Membership	√	n/a	n/a	√
			Attendance	4/4	n/a	n/a	3/3
Mr. A Mathur	Executive Director	Finance Director	Membership	√	n/a	n/a	√
			Attendance	4/4	n/a	n/a	3/3
Mr. W Murungi	Non-Executive	Chairman Nomination and Remuneration committee	Membership	√	√	√	n/a
			Attendance	3/4	5/5	2/2	n/a
Mr. D M Ndonye	Non-Executive	Chairman Audit & Risk Committee	Membership	√	√	√	n/a
			Attendance	4/4	5/5	2/2	n/a
Mr. M Turner	Non-Executive	Director	Membership	√	n/a	√	√
			Attendance	2/4	n/a	1/2	3/3
Mr A. Alli	Non- Executive	Director (Appointed October 2012)	Membership	√	n/a	n/a	n/a
			Attendance	1/4	n/a	n/a	n/a
S Kilonzo	Non- Executive	Director (Appointed December 2012)	Membership	√	√	√	n/a
			Attendance	1/4	1/5	1/2	n/a

√ Member of respective committee

Where a Director did not attend a Board or Board Committee meeting, an acceptable apology had been received by the Chairman well in advance of the scheduled meeting. Some Board members did not serve on the Board for the full year hence non attendance of meetings when they were not on the Board.

SHAREHOLDING PROFILES

The company, through its Registrar, files returns regularly in line with Capital Markets Authority and the Nairobi Securities Exchange under the listing regulations on transactions related to shareholders.

a) Principal Shareholders

The top 10 major shareholders, based on the company's share register as at 31 December 2012, are as follows:-

Name	No of Shares	%
Amanat Investments Limited	137,481,245	28
Paunrana Pradeep Harjivandas	89,680,000	18
CfC Stanbic Nominees Ltd A/C Nr01503	38,048,500	8
Athi River Mining employee share ownership plan	24,775,000	5
Standard Chartered Nominees non-resident. a/c 9867	15,972,500	3
Orthodox Archibishopric of Kenya and Irinoupolis	9,261,000	2
Standard Chartered Nominees A/C 9230	7,202,885	1
Wilfred Murungi	5,834,310	1
Standard Chartered Nominees Ltd non-resident. A/C 9697	5,550,500	1
National Social Security Fund Board of trustees	4,350,000	1
Others	157,119,060	32
Total	**495,275,000**	**100**

b) Distribution Schedule

Category	No. of Shareholders	No. of Shares	%
Less than 500	2,395	2,172,785	0.42
501-5,000	2,186	18,313,940	3.37
5001-10,000	139	5,991,065	1.04
10,0001-100,000	163	30,407,790	5.23
100,001 - 1,000,000	90	113,631,790	24.11
Over 1,000,000	8	324,757,630	65.84
Total	**4,981**	**495,275,000**	**100**

RICK ASHLEY
Chairman
20 March 2013

PRADEEP H PAUNRANA
Managing Director

ARM Kaloleni employee Florence Mbeyu, captured smiling at the company's Long Service Awards Ceremony.

ARM Staff plays a pivotal role in the activities of the Rhino Cement Foundation.

This has been made possible by the staff choosing projects that are close to their hearts and meet the social investment mission set by the Trustees.

RHINO CEMENT FOUNDATION

Investing In Education Health and Environment

Founded in 2010 the Rhino Cement Foundation is now in its 3rd year and continues to provide a focused system for ARM Cement Limited to implement its policy of empowering company employees in the implementation of corporate and social Investment goals. The Foundation partners with trading partners, communities and community based organisations to implement projects with the help of company staff. The mission of Rhino Cement Foundation is to promote social investments in health, education and environment projects that have a lasting impact and increase the wellbeing of our communities and lead to increase in the wealth creation in our country.

In 2012 much of the work of the Rhino Cement Foundation was to continue to complete the initial phase of the various projects commissioned in 2011, and provide continuity for the high impact projects. The Trustees received many project proposals from ARM employees, and directly from community based organizations. As a general policy, ARM plans to contribute about 2.5% of its after tax profit to the Rhino Cement Foundation each year. In 2012 the Board allocated KSh 31 million.

Employee Engagement

ARM staff plays a pivotal role in the activities of the Foundation. This has been made possible by the staff choosing projects that are close to their hearts and meet the social investment mission set by the Board of trustees. Our staff participate in undertaking feasibility assessments, monitoring and evaluation of projects, and take on leadership positions through the Foundation. Staff of ARM also contribute financially to the Foundation to support programmes they are involved in, particularly the scholarship programme for secondary school education for girls from disadvantaged families. The greatest contribution of ARM staff is in providing mentorship and social support to the students under the Foundation's education programmes.

Health

The Foundation invested 20% of total funding in improving access to quality and affordable health care for Kenyans through construction and equipping of dispensaries in Kaloleni and Athi River such as Lenga Laboratory, Ribe Dispensary and Kambe Dispensary. The Foundation has also been very active in championing blood donation drives across the country through its partnership with Blood Link.

Education

Rhino Cement Foundation's most promising initiative continues to be the scholarship program, providing full scholarships with uniforms, books, meals and health care to some of our country's neediest and brightest children who would otherwise not go to school. We currently support 85 young girls and 20 boys in some of the best high schools in the country. The Foundation also provides full financial support to a select group of 16 young men and women each year to study medicine, engineering, and social sciences at the various national universities in the country. These students are selected from hundreds of applicants each year, on the basis of their academic qualifications, financial support need and equally importantly, on their passion to make a difference in the world and contribute to their families and communities. These select group of students, the RCF Scholars, are provided with opportunities for internship during vacation, at the Company's various plants.

The Foundation spent 50% of total funding in Education projects. These projects included construction of classrooms, equipping learning facilities, Computer rooms, laboratories and libraries, provision of text books and desks to schools in Kenya and lately in Tanzania.

The Rhino Cement Foundation has also been very active in building and equipping classrooms such as Rabai Girls Secondary School, Malau High school, Mandani School, Timboni Primary School, Mareni Primary School, Mbarani Secondary School, near the Kaloleni plant..

Lucy Kariuki, PA to the Managing Director and a mentor for the girl students sponsored by RCF, officially opens the Ksh 10 million science and library block at St Annes Gichocho Secondary School in Kiambu.

Environment

Rhino cement Foundation remains strongly committed to our environmental projects particularly preservation of the environment and natural resources through partnerships to grow forests, plant trees and preserve wildlife and our national parks. RCF support also extends towards education programs that emphasize the importance of environmental conservation and biodiversity. Such programs are jointly carried out with the company's own conservation efforts and projects for providing safe, clean water to .schools and villages around the company's quarries and operations.

Appreciation

As Chairman of the Board of Trustees of the Rhino Cement Foundation, I extend my heartiest appreciation to all the members of staff who actively manage the day to day affairs of the Foundation on a purely voluntary basis. I also thank the many more who are leading various projects, and who give their personal time to support and mentor the young students all over the country. Finally, without the financial support from the Board of Directors of ARM, Paunrana Family, ARM trading partners, and business associates, the Foundation would not be able to make the strong positive impact illustrated above. Thank you and god bless you all.

Titus Mbathi

Chairman Rhino Cement Foundation

Lisa Awuor, Form 3 RCF scholar at St Anne's Gichocho Secondary School

Ramesh Vora, ARM Company Secretary and RCF Trustee joins ARM Head Office Staff in planting trees and restoring Green Belts around the Country

2013 University Scholarships

RHINO CEMENT FOUNDATION

Investing In Education Health and Environment

Rhino Cement Foundation is awarding full scholarships to deserving First year University students.

Please apply to:
rhinocementfoundation@armafrica.com
or P.O. Box 41908 - 00100, Nairobi, Kenya.

Requirements

- Joining a Public University in 2013 under one of the following programs:
  - Electrical Engineering
  - Chemical Engineering
  - Civil Engineering
  - Mechanical Engineering
  - CPA / Finance
- Enroling under regular program
- Demonstrate genuine need for financial assistance
- Complete the application form with letters from former school and community head e.g Priest, chief attached.

The last date of accepting nominations is 1st July 2013

Application forms available:

www.armafrica.com/rcf

email: rhinocementfoundation@armafrica.com or info@armafrica.com

follow us: Rhino-Cement-Foundation

tel: +254-20-3744620 | mobile: +254-721-582-369 / 733-636-456

ARM

ARM CEMENT LTD

(formerly Athi River Mining)

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of ARM Cement Limited(“the company”) and its subsidiaries (together, “the group”) for the year ended 31 December 2012 which show their state of affairs.

ACTIVITIES

The principal activities of the company and its subsidiaries are the manufacture and sale of cement, mining and processing of industrial minerals and chemicals, trading in other building products and the sale of fertilisers.

CHANGE OF COMPANY NAME AND SHARE SPLIT

At the Annual General Meeting held on 24 July 2012, the shareholders approved a change of the name of the company from Athi River Mining Limited to ARM Cement Limited. The new name reflects the growing contribution and importance of the cement business in the company and the group. The company however continues to operate the industrial minerals, lime, sodium silicate and mavuno fertilizers divisions.

At the same Annual General Meeting, the shareholders also approved a share split of five shares for every one existing share. Consequently the share split was effected on the Nairobi Securities Exchange on 24 December 2012. The Company now has 495,275,000 issued shares.

GROUP FINANCIAL RESULTS

	2012 KSh’000
Profit before taxation	1,790,296
Taxation expense	(544,658)
Profit for the year transferred to retained earnings	1,245,638
Attributable to	
Owners of the Company	1,241,573
Non-controlling interests	4,065
	1,245,638

DIVIDENDS

The Directors propose the payment of a first and final dividend of Sh 0.5 (2011 – Sh 0.4) per share totalling KSh 247,637,500 in respect of the year ended 31 December 2012 (2011 – KSh 198,110,000).

DIRECTORS

The present Directors are shown on pages 9. Mr A Alli and Mrs S Kilonzo were appointed Directors in May 2012 and December 2012 respectively.

AUDITORS

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

BY ORDER OF THE BOARD

R. R. VORA

Secretary

Nairobi

20 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the Directors to prepare consolidated 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 their operating results for that year. It also requires the Directors to ensure that the company and its subsidiaries keep proper accounting records which disclose with reasonable accuracy at any time their financial position. They are also responsible for safeguarding the assets of the Group.

The Directors are responsible for the preparation of financial statements that give a true and fair view of the company and its subsidiaries in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the company and of their operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

RICK ASHLEY
Chairman
20 March 2013

PRADEEP H PAUNRANA
Managing Director

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of ARM Cement Limited ("the company") and its subsidiaries together ("the group") set out on pages 37 to 86 which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Group and of the company as at 31 December 2012 and of the Group financial performance and cash flows 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 company, so far as appears from our examination of those books; and

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

Deloitte & Touche

Certified Public Accountants (Kenya)
6 May **2013**

Nairobi

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 KSh'000	2011 KSh'000
Revenue		11,400,569	8,180,992
Cost of sales		(8,171,396)	(5,550,453)
Gross profit		3,229,173	2,630,539
Other operating income		78,115	86,419
Net foreign exchange gains/ (losses)		22,014	(118,326)
Distribution costs		(126,971)	(226,139)
Administrative expenses		(961,576)	(736,357)
Finance costs	4	(476,948)	(306,227)
Finance income	5	26,489	33,003
Profit before taxation	6	1,790,296	1,362,912
Taxation charge	8(a)	(544,658)	(212,414)
PROFIT FOR THE YEAR	**9**	**1,245,638**	**1,150,498**
Other comprehensive income			
Exchange differences on translating foreign operations		(29,534)	76,184
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,216,104**	**1,226,682**
Profit is attributable to:			
Owners of the Company		1,241,573	1,152,373
Non-controlling interests		4,065	(1,875)
		1,245,638	**1,150,498**
Total comprehensive income is attributable to:			
Owners of the Company		1,213,224	1,226,578
Non-controlling interests		2,880	104
		1,216,104	1,226,682
EARNINGS PER SHARE – Basic and diluted	**10**	**Sh 2.51**	**Sh 2.32**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 KSh'000	2011 KSh'000
ASSETS			
Non current assets			
Property, plant and equipment	12(a)	18,622,678	16,442,852
Operating lease prepayments	13	177,882	177,327
Intangible assets	14	145,118	101,528
Goodwill	15	71,012	71,012
		19,016,690	**16,792,719**
Current assets			
Inventories	17	3,315,623	1,420,153
Trade and other receivables	18	1,929,319	1,853,873
Due from Employee Share Ownership Plan (ESOP)	19	31,697	38,216
Due from related parties	26(b)	55,630	1,794
Tax recoverable	8(c)	12,867	105,135
Short term deposits	25(d)	2,270,400	225,339
Cash and bank balances		320,874	111,794
		7,936,410	**3,756,304**
Total Asset		**26,953,100**	**20,549,023**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	495,275	495,275
Share premium		302,027	302,027
Revaluation surplus		1,324,680	1,398,911
Translation reserve		(53,714)	(25,365)
Retained earnings		4,945,503	3,827,809
Equity attributable to equity holders of the parent		7,013,771	5,998,657
Non - controlling interests	16(b)	106,749	103,869
Total equity		**7,120,520**	**6,102,526**
Non current liabilities			
Borrowings	21(a)	11,074,247	8,128,602
Deferred income tax	22	2,255,369	1,864,392
Finance leases	23(a)	124	367
		13,329,740	**9,993,361**
Current liabilities			
Borrowings	21(a)	3,917,145	2,496,821
Finance leases	23(a)	199	340
Trade and other payables	24	2,556,432	1,905,031
Due to related parties	26(d)	6,486	14,382
Unclaimed dividends	11	3,479	3,479
Tax payable	8(c)	19,099	33,083
		6,502,840	**4,453,136**
Total equity and liabilities		**26,953,100**	**20,549,023**

The financial statements on pages 37 to 86 were approved and authorised for issue by the Board of Directors on 20 March 2013 and were signed on its behalf by:

RICK ASHLEY
Chairman

PRADEEP H PAUNRANA
Managing Director

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012 KSh'000	2011 KSh'000
ASSETS			
Non current assets			
Property, plant and equipment	12(b)	9,467,529	9,318,132
Operating lease prepayments	13	1,806	1,874
Intangible assets	14	6,204	1,229
Investment in subsidiaries	16 (a)	452,642	452,642
		9,928,181	**9,773,877**
Current assets			
Inventories	17	2,143,973	1,257,041
Trade and other receivables	18	1,146,518	1,067,752
Due from Employee Share Option Plan (ESOP)	19	31,697	38,216
Due from related parties	26(c)	5,871,263	3,448,493
Current tax recoverable	8(c)	12,867	105,135
Cash and bank balances		2,279,459	24,065
		11,485,777	**5,940,702**
Total assets		**21,413,958**	**15,714,579**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	495,275	495,275
Share premium		302,027	302,027
Revaluation surplus		1,324,680	1,398,911
Retained earnings		4,983,946	3,881,431
		7,105,928	**6,077,644**
Non current liabilities			
Borrowings	21(b)	7,588,589	4,220,097
Deferred income tax	22	2,213,033	1,866,224
Finance leases	23(b)	124	367
		9,801,746	**6,086,688**
Current liabilities			
Borrowings	21(b)	2,879,200	2,477,283
Finance leases	23(b)	199	199
Trade and other payables	24	1,548,064	973,554
Due to related parties	26(e)	75,342	95,732
Unclaimed dividends	11	3,479	3,479
		4,506,284	**3,550,247**
Total equity and liabilities		**21,413,958**	**15,714,579**

The financial statements on pages 37 to 86 were approved and authorised for issue by the Board of Directors on 20 March 2013 and were signed on its behalf by:

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RICK ASHLEY
Chairman

PRADEEP H PAUNRANA
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital KSh'000	Share premium KSh'000	Revaluation surplus* KSh'000	Translation reserve** KSh'000	Retained earnings KSh'000	Attributable to equity holders of the parent KSh'000	Non controlling interest KSh'000	Total KSh'000
At 1 January 2011	495,275	302,027	1,465,354	(99,570)	2,782,339	4,945,425	(18,566)	4,926,859
Profit/(loss) for the year	-	-	-	-	1,152,373	1,152,373	(1,875)	1,150,498
Other comprehensive income for the year	-	-	-	74,205	-	74,205	1,979	76,184
Total comprehensive income for the year	**-**	**-**	**-**	**74,205**	**1,152,373**	**1,226,578**	**104**	**1,226,682**
Non-controlling interests arising on the								
acquisition of Kigali Cement Company Limited	-	-	-	-	-	-	122,331	122,331
Transfer of excess depreciation	-	-	(94,918)	-	94,918	-	-	-
Deferred tax on excess depreciation	-	-	28,475	-	(28,475)	-	-	-
Dividends declared - 2010	-	-	-	-	(173,346)	(173,346)	-	(173,346)
At 31 December 2011	**495,275**	**302,027**	**1,398,911**	**(25,365)**	**3,827,809**	**5,998,657**	**103,869**	**6,102,526**
2012								
At 1 January 2012	495,275	302,027	1,398,911	(25,365)	3,827,809	5,998,657	103,869	6,102,526
Profit for the year	-	-	-	-	1,241,573	1,241,573	4,065	1,245,638
Other comprehensive loss for the year	-	-	-	(28,349)	-	(28,349)	(1,185)	(29,534)
Total comprehensive income for the year	-	-	-	(28,349)	1,241,573	1,213,224	2,880	1,216,104
Transfer of excess depreciation	-	-	(106,045)	-	106,045	-	-	-
Deferred tax on excess depreciation	-	-	31,814	-	(31,814)	-	-	-
Dividends declared - 2011	-	-	-	-	(198,110)	(198,110)	-	(198,110)
At 31 December 2012	**495,275**	**302,027**	**1,324,680**	**(53,714)**	**4,945,503**	**7,013,771**	**106,749**	**7,120,520**

* The revaluation surplus represents the surplus arising from revaluation of equipment and is not distributable.

** The translation reserve represents the change in exchange rates at the beginning of the year and at the close of the year on translation from the functional currencies of the foreign operations to the presentation currency (Kenya Shillings).

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital KSh'000	Share premium KSh'000	Revaluation Surplus* KSh'000	Retained earnings KSh'000	Total KSh'000
At 1 January 2011	495,275	302,027	1,465,354	2,824,242	5,086,898
Total comprehensive income for the year	-	-	-	1,164,092	1,164,092
Transfer of excess depreciation	-	-	(94,918)	94,918	-
Deferred tax on excess depreciation	-	-	28,475	(28,475)	-
Dividends declared - 2010	-	-	-	(173,346)	(173,346)
At 31 December 2011	**495,275**	**302,027**	**1,398,911**	**3,881,431**	**6,077,644**
At 1 January 2012	495,275	302,027	1,398,911	3,881,431	6,077,644
Total comprehensive income for the year	-	-	-	1,226,394	1,226,394
Transfer of excess depreciation	-	-	(106,045)	106,045	-
Deferred tax on excess depreciation	-	-	31,814	(31,814)	-
Dividends declared - 2011	-	-	-	(198,110)	(198,110)
At 31 December 2012	**495,275**	**302,027**	**1,324,680**	**4,983,946**	**7,105,928**

* The revaluation surplus represents the surplus arising from revaluation of equipment and is not distributable

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 KSh'000	2011 KSh'000
Cash flows from operating activities			
Cash generated from operations	25(a)	1,293,458	2,557,313
Interest paid	25(e)	(820,005)	(477,874)
Interest received	5	26,489	33,003
Corporation tax paid	8(c)	(85,311)	(73,858)
Net cash generated from operating activities		**414,631**	**2,038,584**
Cash flows from investing activities			
Additions to property, plant and equipment	25(b)	(2,722,033)	(4,029,693)
Additions to intangible assets	14	(48,002)	(66,454)
Proceeds of disposal of property, plant and equipment		684	2,953
Net cash used in investing activities		**(2,769,351)**	**(4,093,194)**
Cash flows from financing activities			
Dividends paid	11(b)	(198,110)	(173,346)
Finance lease payments	23(c)	(243)	(230)
Borrowings received	25(c)	5,221,351	2,119,371
Repayment of amounts borrowed	25(c)	(694,759)	(1,160,777)
Net cash generated from financing activities		4,328,239	785,018
Net increase/(decrease) in cash and cash equivalents		**1,973,519**	**(1,269,592)**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents 1 January		(1,204,038)	134,788
Net increase / (decrease) in cash and cash equivalents above		1,973,519	(1,269,592)
Effect of translation adjustment on cash held in foreign			
Subsidiaries		746	(69,234)
Cash and cash equivalents 31 December	**25(d)**	**770,227**	**(1,204,038)**

1 Accounting policies

Statement of compliance

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

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

(i) New standards and amendments to published standards effective for the year ended 31 December 2012

The following new and revised IFRSs have been applied in the current year and have not affected the amounts reported in these financial statements.

Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.
Amendments to IFRS 7 Disclosures – Transfers of Financial Assets	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The application of the amendment had no effect on the Group's financial statements as the Group did not transfer any such financial assets during the year.
Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property, will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation. The application of the amendments had no effect on the Group's financial statements as the Group has no investment property in its statement of financial position.
Amendments to IFRS 1 Severe Hyperinflation	The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time The amendments had no effect on the Group's financial statements as the Group did not trade in such hyperinflation environment

1 Accounting policies (Continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2012

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets	Effective for annual periods beginning on or after 1 July 2012
IFRS 9, Financial Instruments – Classification and Measurement	1 January 2013
IFRS 10 - Consolidated financial statements. IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 19, Employee Benefits (2011) - Revised requirements for pensions and other post retirement benefits, termination benefits and other changes.	1 January 2013
IAS 27, Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IFRIC 20, Stripping costs in the production phase of a surface mine	1 January 2013

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

Amendments to IFRS 7: Disclosures-Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of financial assets. However, if the Group enters into transfers of financial assets in the future, disclosures regarding those transfers may be affected.

1 **Accounting policies (Continued)**

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

IFRS 9, Financial Instruments

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2011 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value.

Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the standard may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

1 Accounting policies (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IAS 27 (as revised in 2012), Separate Financial Statements

IAS 27 has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements.

IAS 28 (as revised in 2012), Investments in Associates and Joint Ventures

IAS 28 has been amended for conforming changes based on issuance of IFRS 10 and IFRS 11.

The Directors anticipate that IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 as detailed above will be adopted in the Group's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standards may affect amounts and disclosures in the financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements. However, the Group is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

1 Accounting policies (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to IAS 12 -Deferred Tax -Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The above amendments are effective for annual periods beginning on or after 1 January 2012. The Group will apply this amendment prospectively. Currently the amendment has no impact on the Group's financial statement as the Group does not hold investment property. However the Group may apply the standard to any such arrangements entered to in future.

IAS 19 (as revised in 2012), Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. However, the Directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

(iv) Early adoption of standards

The Group did not early-adopt any new or amended standards in the period.

1 Accounting policies (Continued)

Basis of preparation

The Group prepares its financial statements under the historical cost convention, modified to include the revaluation of certain assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, ARM (Tanzania) Limited, Mavuno Fertilizer Limited, ARMSA (Pty) Limited, Maweni Limestone Limited, Mafeking Cement (Pty) Limited and Kigali Cement Company Limited all made up to 31 December. Mavuno Fertilizer Limited did not operate in the year. Mavuno Fertilizer Limited's intended operations were undertaken by Athi River Mining Limited from the year 2011.

Revenue recognition

(i) Sale of goods

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1 **Accounting policies (Continued)**

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Kenya shillings, which is the functional currency of the company and the presentation currency for the consolidated financial statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated to Kenya shillings using exchange rates prevailing at the end of reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the Group's translation reserve. Such differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs 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 added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

Taxation

The taxation charge represents the sum of the current taxation charge and the deferred taxation charge for the year.

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

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. All property, plant and equipment except computer equipment and furniture and fittings are subsequently shown at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation and any accumulated impairment losses. Any revaluation increase arising on the revaluation of such property, plant and equipment is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued property, plant and equipment is recognised in profit or loss. Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset's original cost is transferred from the revaluation reserves to retained earnings. On the subsequent sale or retirement of a revalued item of property, plant and equipment, the attributable revaluation surplus remaining in the item's revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

1 Accounting policies (Continued)

Depreciation

Depreciation is calculated to write off the cost or valuation of property, plant and equipment in equal annual instalments over their estimated useful lives. The annual rates in use are:

Freehold land	Nil
Buildings	2.5%
Heavy commercial vehicles and quarrying equipment	10%
Plant, machinery and equipment	5% to 15%
Motor vehicles	10% to 25%
Furniture and fittings	7.5% to 15%
Computer hardware	20% to 30%

Capital work in progress

Capital work in progress relates to property and plant under construction. Cost includes materials, direct labour and any other direct expenses incurred in respect of the project. The amounts are transferred to the appropriate property, plant and equipment categories once the project is completed and commissioned.

Leases

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

Assets held under finance leases are capitalised at their fair value on the inception of the lease and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease so as to achieve a constant rate of interest on the outstanding liability over the remaining term of the lease.

Payments to acquire leasehold interests in land are accounted for as operating lease prepayments and are amortised over the period of the lease.

Rental payments in respect of operating leases are charged to the statement of comprehensive income in the year to which they relate.

Intangible assets-computer software costs

Costs incurred on acquisition or development of computer software are accounted for at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight line basis over the estimated useful life not exceeding a period of 4 years.

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of

1 **Accounting policies (Continued)**

the 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.

Investment in subsidiaries

The investments in subsidiaries are stated at their acquisition cost less any accumulated impairment losses.

Inventories

Inventories are stated at lower of cost and net realisable values. Cost is calculated on the weighted average cost basis and includes direct production costs, labour and relevant transport costs. Work in progress comprises raw materials costs, direct labour costs, other direct costs and related production overheads. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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 at an Annual General Meeting.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from the date of advance.

Revaluation reserve

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

Translation reserve

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

Retirement benefit obligations

The Group contributes to the statutory National Social Security Fund in Kenya and Tanzania. The Group's obligations under the schemes are determined by local statute and are currently at Sh 200 per employee per month in Kenya and 10% of the gross pay of each employee in Tanzania. The Group's contributions are charged to the statement of comprehensive income in the year to which they relate. ARMSA (Pty) Limited and Mafeking Cement (Pty) Limited do not contribute to any retirement benefits scheme for their employees.

Employee benefits

Employees' entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated

1 Accounting policies (Continued)

liability in respect of annual leave accrued at the statement of financial position date.

Financial instruments

A financial asset or liability is recognised when the Group becomes party to the contractual provisions of the instrument.

Financial assets

Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired. Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

i) Financial assets at fair value through profit or loss ("FVTPL")
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 into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management.

ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

iii) Held-to-maturity financial assets
Held-to-maturity financial assets 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 occurs other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

iv) Available-for-sale financial assets
This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

Recognition of financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are dealt with in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group

1 Accounting policies (Continued)

has transferred substantially all risks and rewards of ownership.

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Financial instruments

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of the asset exceeds its recoverable amount.

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 end of each reporting period, taking into account the risks and uncertainties surrounding the obligation.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision maker (Group management). Management allocates resources to and assess the performance of the operating segments of the Group. The operating segments are based on the Group's management and internal reporting structure. In accordance with IFRS 8 the Group has the following business segments; cement and lime and other products segments (see note 3).

Contingent liabilities

Contingent liabilities arise if there is a possible obligation; or a present obligation that may, but probably will not, require an outflow of economic resources; or there is a present obligation, but there is no reliable method to estimate the monetary value of the obligation.

Comparatives

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

2 Critical accounting judgments and key sources of estimation and uncertainty in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key areas of judgement and sources of estimation uncertainty

The following are the critical judgements and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have had the most significant effect on amounts recognised in the financial statements and that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) *Critical judgements in applying accounting policies.*

Deferred income tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

b) *Key sources of estimation uncertainty*
Property, plant and equipment and intangible assets

The Group reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each reporting period.

Impairment

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

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

Contingent liabilities

The Group is exposed to various contingent liabilities in the normal course of business.

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.

Contingent liabilities are disclosed in note 29 to the financial statements.

3 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Group's reportable segments has not changed.

The bulk of the Group operations are within Kenya, Tanzania and South Africa. The critical business segments are:

- Cement and lime.
- Other products.

	Cement and Lime		Other products		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	KSh'000	**KSh'000**	**KSh'000**	**KSh'000**	**KSh'000**	**KSh'000**
Sales & Other income	9,443,065	5,613,120	2,036,619	2,687,294	11,479,684	8,300,414
Expenditure	7,677,833	4,271,051	2,011,554	9,689,387	9,736,891	6,937,502
Profit before taxation	1,765,232	1,342,069	25,065	20,843	1,790,297	1,362,912
Assets	22,910,135	17,418,865	4,042,965	3,097,075	26,953,100	20,515,940
Liabilities	19,237,603	13,802,747	594,977	610,667	19,832,580	14,413,414
Depreciation & Amortization	313,364	306,707	117,955	110,162	431,319	416,869
Capital Expenditure	**3,017,339**	**4,185,388**	**23,455**	**85,813**	**3,040,794**	**4,271,201**

Revenue reported above represents revenue generated from external customers.

3 Operating segments (Continued)

Geographical information

	Kenya	Tanzania	South Africa	Rwanda	Eliminated on consolidation	Total
	KSh'000	KSh'000	KSh'000	KSh'000	KSh'000	KSh'000
31 December 2012						
Sales and other income	10,450,040	816,503	154,620	400,243	(286,042)	11,535,364
Cost of sales and other expenditure	8,709,063)	(774,698)	(153,755)	(393,594)	286,042	(9,745,068)
Profit before taxation	1,740,977	41,805	865	6,649	-	1,790,296
Assets	21,419,918	11,428,845	265,350	418,090	(6,579,103)	26,953,100
Liabilities	14,308,119	11,208,264	354,216	226,320	(6,264,339)	19,832,580
Depreciation and amortisation	384,716	28,046	3,487	8,671	-	424,920
Capital expenditure	**535,054**	**2,504,002**	**-**	**6,736**	**-**	**3,045,792**
31 December 2011						
Sales and other income	7,853,043	355,229	285,490	12,816	(206,164)	8,300,414
Cost of sales and other expenditure	(6,472,198)	(376,445)	(281,498)	(13,525)	206,164	(6,937,502)
Profit before taxation	1,380,845	(21,216)	3,992	(709)	-	1,362,912
Assets	15,720,716	8,078,826	244,738	384,633	(3,912,973)	20,515,940
Liabilities	9,636,935	7,843,203	332,799	197,107	(3,596,630)	14,413,414
Depreciation and amortisation	373,827	30,450	5,242	7,350	-	416,869
Capital expenditure	**1,044,736**	**3,226,465**	**-**	**-**	**-**	**4,271,201**

		GROUP	
		2012	2011
		KSh'000	KSh'000
4	**Finance costs**		
	Interest payable on:		
	- Loans	664,443	254,448
	- Bank overdrafts	155,558	78,998
	- Finance leases	4	144,428
	Total borrowing costs	820,005	477,874
	Less: Amounts included in the cost of qualifying assets (note 21(a))	(321,043)	(241,508)
		498,962	236,366
	Net foreign exchange (gain)/losses on borrowings	(22,014)	69,861
		476,948	**306,227**
5	**Finance income**		
	Interest receivable	26,489	33,003
6	**Profit before taxation**		
	The profit before taxation is arrived at after charging:		
	Depreciation property, plant and equipment (note 12(a))	424,831	412,178
	Depreciation on strategic spares (note 17)	10,919	8,442
	Amortisation of operating lease prepayments (note 13)	973	973
	Amortisation of intangible assets (note 14)	1,336	3,718
	Operating lease rentals - motor vehicles	28,300	26,251
	Directors' emoluments: - fees (non-executive)	5,338	5,467
	- other emoluments (executive)	112,644	102,241
	Staff costs (note 7)	566,736	571,844
	Auditors' remuneration - company	4,396	4,396
	- subsidiaries	3,687	3,687
	Loss on disposal of property, plant and equipment	291	857
7	**Staff costs**		
	Wages and salaries	564,716	558,789
	Social security cost (NSSF)	4,941	5,123
	Leave pay	(2,921)	4,068
	Other staff costs	-	3,864
		566,736	571,844
	Executive Directors' emoluments	112,644	103,515
		679,380	**675,359**

		GROUP		COMPANY	
		2012	2011	2012	2011
		KSh'000	KSh'000	KSh'000	KSh'000
8	**Taxation**				
a)	**Taxation charge**				
	Current taxation charge based on taxable income:	176,544	15,129	167,949	-
	Prior year over provision	(12,949)	-	-	-
		163,595	**15,129**	**167,949**	**-**
	Deferred tax charge (note 22)				
	Current year charge	370,184	197,285	361,508	216,928
	Prior year under/(over) provision	10,879	-	(14,699)	-
		381,063	**197,285**	**346,809**	**216,928**
		544,658	**212,414**	**514,758**	**216,928**
b)	**Reconciliation of tax charge to expected**				
	taxation based on accounting profit				
	Profit before taxation	1,790,296	1,362,912	1,741,152	1,381,020
	Tax calculated at a tax rate of 30%	537,089	408,874	522,346	414,306
	Tax effect of:				
	- Income not subject to tax	35	(7,461)	-	-
	- Expenses not deductible for tax purposes	9,604	15,903	7,111	7,524
	Prior year current taxation over provision	(12,949)	-	-	-
	Prior year deferred taxation under/(over) provision	10,879	-	(14,699)	-
	Tax effect of investment deduction earned at a rate in excess of				
	100% of cost of related assets	-	(204,902)	-	(204,902)
	Taxation charge	**544,658**	**212,414**	**514,758**	**216,928**
c)	**Current tax (recoverable)/payable movement**				
	At 1 January	(72,052)	(13,323)	(105,135)	(41,175)
	Taxation charge	163,595	15,129	167,949	-
	Taxation paid	(85,311)	(73,858)	(75,681)	(63,960)
	At 31 December	**6,232**	**(72,052)**	**(12,867)**	**(105,135)**
	Comprising				
	Income tax recoverable	(12,867)	(105,135)	(12,867)	(105,135)
	Income tax payable	19,099	33,083	-	-
		6,232	**(72,052)**	**(12,867)**	**(105,135)**

These balances receivable and payable have not been offset in the statement of financial position as the Group does not have a legal right of offset.

9 Profit for the year

The profit attributable to shareholders dealt with in the company separate financial statements is KSh 1,226,394,000 (2011 – KSh 1,164,092,000).

10 Earnings per share

Basic earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the parent company by the number of ordinary shares in issue at the reporting date. The basic and diluted earnings per share are the same as there are no dilutive effects on earnings.

	2012	2011
Profit attributable to ordinary shareholders (KSh'000)	1,241,573	1,152,373
Weighted average number of ordinary shares in issue (note 20)	495,275,000	495,275,000
Basic and diluted earnings per ordinary share (KSh)	2.51	2.32

During the year, there was a share split of 5 shares for every one existing share resulting in an increase in the number of shares issued from 99,055,000 to 495,275,000 shares. The prior year EPS has been adjusted to reflect the share split. If there was no share split the EPS would have been Sh 12.53 (2011: 11.63).

11 Dividends

(a) Dividends per share

The Directors propose the payment of a first and final dividend of KSh 0.5 (2011 – KSh 0.4) per share totalling KSh 247,637,500 in respect of the year ended 31 December 2012 (2011 – KSh 198,110,000). The dividend per share disclosed here in respect to 2011 has been adjusted for the effect of the share split that occurred during 2012. This dividend is subject to approval by shareholders at the Annual General Meeting to be held later in 2013 and has not been included as a liability in these financial statements.

The dividends payable are subject to, where applicable, deduction of withholding tax as required under the Kenyan Income Tax Act, Chapter 470 Laws of Kenya.

(b) The movement in the dividends payable account is as follows:

	GROUP & COMPANY	
	2012	**2011**
	KSh'000	**KSh'000**
At 1 January	3,479	3,479
Final dividend declared	198,110	173,346
Dividends paid	(198,110)	(173,346)
At 31 December	**3,479**	**3,479**

12 (a) Property, plant and equipment-Group

	Freehold land KSh'000	Buildings on leasehold land KSh'000	Heavy commercial vehicles and quarrying equipment KSh'000	Computer hardware plant machinery motor vehicles, furniture and Fittings KSh'000	Capital work in progress KSh'000	Total KSh'000
At 1 January 2011	250,497	1,892,833	150,477	5,742,153	4,623,846	12,659,806
Acquisitions through business combinations	-	108,519	-	56,032	-	164,551
Additions	6,661	-	31,932	13,398	4,219,210	4,271,204
Transfers	-	1,139,661	-	241,854	(1,381,515)	-
Disposals	-	-	-	(6,226)	-	(6,226)
Translation gain/(loss)	-	(18,672)	(437)	13,548	268,385	262,824
At 31 December 2011	**257,158**	**3,122,341**	**181,972**	**6,060,759**	**7,729,926**	**17,352,156**
At 1 January 2012	257,158	3,122,341	181,972	6,060,759	7,729,926	17,352,156
Additions	26,274	7,125	52,716	39,340	2,917,621	3,043,076
Transfers	-	2,023,719	-	1,859,292	(3,883,011)	-
Disposals	-	-	-	(2,290)	-	(2,290)
Translation gain/(loss)	2,435	9,320	143,365	(86,651)	(503,375)	(434,906)
At 31 December 2012	**285,867**	**5,162,505**	**378,053**	**7,870,450**	**6,261,161**	**19,958,036**
Comprising						
At cost	36,252	4,572,572	237,054	2,956,633	6,261,161	14,063,672
At valuation 2009	249,615	589,933	140,999	4,913,817	-	5,894,364
	285,867	**5,162,505**	**378,053**	**7,870,450**	**6,261,161**	**19,958,036**
Depreciation						
At 1 January 2011	-	16,806	16,017	437,716	-	470,539
Acquisitions through business combinations	-	5,732	-	24,531	-	30,263
Charge for the year	-	68,012	19,438	324,728	-	412,178
Eliminated on disposal	-	-	-	(4,130)	-	(4,130)
Translation (loss)/gain	-	(21)	116	359	-	454
At 31 December 2011		**90,529**	**35,571**	**783,204**	**-**	**909,304**

12 (a) Property, plant and equipment-Group (Continued)

	Freehold land KSh'000	Buildings on leasehold land KSh'000	Heavy commercial vehicles and quarrying equipment KSh'000	Computer hardware plant machinery motor vehicles, furniture and Fittings KSh'000	Capital work in progress KSh'000	Total KSh'000
At 1 January 2012	-	90,529	35,571	783,204	-	909,304
Charge for the year	-	80,348	23,126	321,357	-	424,831
Eliminated on disposal	-	-	-	(1,302)	-	(1,302)
Translation (loss)/gain	-	12,542	(12,839)	2,822		2,525
At 31 December 2012	**-**	**183,419**	**45,858**	**1,106,081**	**-**	**1,335,358**
NET BOOK VALUE(REVALUATION BASIS)						
At 31 December 2012	**285,867**	**4,979,086**	**332,195**	**6,764,369**	**6,261,161**	**18,622,678**
At 31 December 2011	**257,158**	**3,031,812**	**146,401**	**5,277,555**	**7,729,926**	**16,442,852**
NET BOOK VALUE (COST BASIS)						
At 31 December 2012	**200,435**	**3,383,957**	**146,046**	**4,392,419**	**8,607,421**	**16,730,278**
At 31 December 2011	**174,566**	**2,507,268**	**118,574**	**3,914,128**	**7,729,926**	**14,444,462**

Property, plant and equipment were revalued on 31 December 2009, by Peter Huth, Registered Valuers and Estate Agents. Land and buildings were valued on the open market value basis while plant and equipment were valued on a depreciated replacement cost basis.

Freehold land and buildings for the company and all the assets for ARM (Tanzania) Limited with a net book value of KSh 1,514,391,625 (2011 – KSh 1,514,391,625) have been charged to secure banking facilities granted to the Group as disclosed in note 21.

Included above are assets with a total cost of KSh 35,233,996 (2011 – KSh 34,240,445) which were fully depreciated as at 31 December 2012. The normal depreciation charge would have been Kh 7,542,700 (2011 – KSh 10,755,407).

12 (b) Property, plant and equipment-Company

	Freehold land KSh'000	Buildings on leasehold land KSh'000	Heavy commercial vehicles and quarrying equipment KSh'000	Computer hardware plant machinery motor vehicles, furniture and Fittings KSh'000	Capital work in progress KSh'000	Total KSh'000
Cost or valuation						
At 1 January 2011	250,497	1,804,582	141,397	5,370,996	1,396,553	8,964,025
Additions	6,661	-	31,067	13,397	993,611	1,044,736
Transfers	-	1,121,701	-	241,854	(1,363,555)	-
Disposals	-	-	-	(1,820)	-	(1,820)
At 31 December 2011	**257,158**	**2,926,283**	**172,464**	**5,624,427**	**1,026,609**	**10,006,941**
At 1 January 2012	257,158	2,926,283	172,464	5,624,427	1,026,609	10,006,941
Additions	26,274	7,125	52,716	20,502	428,437	535,054
Disposals	-	-	-	(2,290)	-	(2,290)
At 31 December 2012	**283,432**	**2,933,408**	**225,180**	**5,642,639**	**1,455,046**	**10,539,705**
Comprising						
At cost	33,817	2,416,235	84,181	728,822	1,455,046	4,718,101
At valuation 2009	249,615	517,173	140,999	4,913,817	-	5,821,604
	283,432	**2,933,408**	**225,180**	**5,642,639**	**1,455,046**	**10,539,705**
Depreciation						
At 1 January 2011	-	12,929	14,130	292,185	-	319,244
Charge for the year	-	65,470	18,515	286,121	-	370,106
Eliminated on disposal	-	-	-	(541)	-	(541)
At 31 December 2011	**-**	**78,399**	**32,645**	**577,765**	**-**	**688,809**
At 1 January 2012	-	78,399	32,645	577,765	-	688,809
Charge for the year	-	73,245	19,246	292,191	-	384,682
Eliminated on disposal	-	-	-	(1,315)	-	(1,315)
At 31 December 2012	**-**	**151,644**	**51,891**	**868,641**	**-**	**1,072,176**

12 (b) Property, plant and equipment-Company (Continued)

	Freehold land KSh'000	Buildings on leasehold land KSh'000	Heavy commercial vehicles and quarrying equipment KSh'000	Computer hardware plant machinery motor vehicles, furniture and Fittings KSh'000	Capital work in progress KSh'000	Total KSh'000
NET BOOK VALUE (REVALUATION BASIS)						
At 31 December 2012	**283,432**	**2,781,764**	**173,289**	**4,773,998**	**1,455,046**	**9,467,529**
At 31 December 2011	**257,158**	**2,847,884**	**139,819**	**5,046,662**	**1,026,609**	**9,318,132**
NET BOOK VALUE (COST BASIS)						
At 31 December 2012	**163,181**	**2,544,852**	**108,657**	**3,189,890**	**1,568,549**	**7,575,129**
At 31 December 2011	**151,373**	**2,421,232**	**111,993**	**3,608,614**	**1,026,609**	**7,319,820**

Property, plant and equipment were revalued on 31 December 2009, by Peter Huth, Registered Valuers and Estate Agents. Land and buildings were valued on t open market value basis while plant and equipment were valued on a depreciated replacement cost basis.

Freehold land and buildings with a net book value of KSh 1,465,878,347 (2011 – KSh 1,225,878,347) have been charged to secure banking facilities granted to the company as disclosed in note 21.

Included above are assets with a total cost of KSh 35,233,996 (2011 – KSh 34,240,445) which were fully depreciated as at 31 December 2012. The normal depreciation charge would have been Kh 7,542,700 (2011 – KSh 10,755,407).

13 Operating lease prepayments

	Group KSh'000	Company KSh'000
COST		
At 1 January 2011	33,326	2,707
Acquisitions through business combinations	145,607	-
Exchange adjustment	755	-
At 31 December 2011	**179,688**	**2,707**
At 1 January 2012	179,688	2,707
Exchange adjustment	(480)	-
At 31 December 2012	**179,208**	**2,707**
AMORTISATION		
At 1 January 2011	2,864	765
Charge for the year	973	68
Exchange adjustment	(1,476)	-
At 1 January 2012	2,361	833
Charge for the year	973	68
Exchange adjustment	(2,008)	-
At 31 December 2012	**1,326**	**901**
NET BOOK VALUE		
At 31 December 2012	**177,882**	**1,806**
At 31 December 2011	**177,327**	**1,874**

14 Intangible assets

	Group	Company
	KSh'000	KSh'000
COST		
At 1 January 2011	66,219	15,671
Acquisitions through business combinations	3,390	-
Additions	66,454	1,229
Exchange adjustment	(14,408)	-
At 31 December 2011	**121,655**	**16,900**
At 1 January 2012	121,655	16,900
Acquisitions through business combinations	-	-
Additions	48,002	6,256
Exchange adjustment	(690)	-
At 31 December 2012	**168,967**	**23,156**
AMORTISATION		
At 1 January 2011	12,018	12,018
Acquisitions through business combinations	2,740	-
Charge for the year	3,718	3,653
Exchange adjustment	1,651	-
At 31 December 2011	**20,127**	**15,671**
At 1 January 2012	20,127	15,671
Acquisitions through business combinations	-	-
Charge for the year	1,336	1,281
Exchange adjustment	2,386	-
At 31 December 2012	**23,849**	**16,952**
NET BOOK VALUE		
At 31 December 2012	145,118	6,204
At 31 December 2011	**101,528**	**1,229**

15 Goodwill

On 24 January 2009, Athi River Mining Limited acquired all the shares held by the minority shareholders in ARM Tanzania Limited. On 1 December 2011, Athi River Mining Limited acquired 35% equity interest in and also effectively acquired control of Kigali Cement Company Limited whose principal activity is to buy raw materials and to produce finished cement for the Rwanda market. Goodwill arising from the above transactions is shown below:

	2012	2011
	KSh'000	KSh'000
Balance at the beginning of the year	71,012	50,908
Goodwill recognised from business combination	-	20,104
Balance at year end	**71,012**	**71,012**
Allocation of goodwill to the acquired subsidiaries		
ARM Tanzania Limited	50,908	50,908
Kigali Cement Company Limited	20,104	20,104
	71,012	**71,012**

During the current financial year, the Directors assessed the recoverable amount of goodwill and determined that the goodwill was not impaired. The recoverable amount of the cash generating units was assessed by reference to value in use, including the value of the land and the rights over mineral deposits.

16 (a) Investment in subsidiaries

	2012	**2011**
	KSh'000	**KSh'000**
ARM (Tanzania) Limited	252,317	252,317
ARM SA (Pty) Limited	33,014	33,014
Mavuno Fertilizer Limited	7,259	7,259
Maweni Limestone Limited	52	52
Mafeking Cement (Pty) Limited	75,000	75,000
Kigali Cement Company Limited	85,000	85,000
	452,642	**452,642**

16 (a)Investment in subsidiaries (Continued)

Details of the subsidiary companies are as follows:

Company	Percentage holding	Country of incorporation and domicile	Principal activity
ARM (Tanzania) Limited	100%	Tanzania	Extraction and processing of limestone
ARMSA (Pty) Limited	100%	South Africa	Manufacture of silicate liquid
Mavuno Fertilizer Limited	100%	Kenya	Not operational
Maweni Limestone Limited	100%	Tanzania	Manufacture of Cement
Mafeking Cement (Pty) Limited	70%	South Africa	Not yet operational
Kigali Cement Company Limited	35%	Rwanda	Manufacture of Cement
ARM Rwanda Limited	100%	Rwanda	Not operational
ARM Africa Cement (MAU) Limited	100%	Mauritius	Not operational
ARM Rhino Cement Limited	100%	Mauritius	Not operational

16 (a) Investment in subsidiaries (Continued)

In 2011, Athi River Mining Limited acquired 35% equity interest in and also effectively acquired control of Kigali Cement Company Limited, whose principal activity is to buy raw materials and to produce finished cement for the Rwanda market and export. The board of directors of Kigali Cement Company Limited comprises seven board members of which four represent Athi River Mining Limited. Athi River Mining therefore has a majority voting right of 53.84% in addition to exercising management control of the Company.

Athi River Mining Limited also holds 100% of the equity interest in other companies which are all dormant. These are ARM Zambia Limited, ARM Energy Limited, ARM Mineral and Chemical Limited, Mavuno and ARM Botswana Limited .These companies have not yet commenced operations and have not been consolidated in view of the insignificance of the amounts involved.

	2012	2011
	KSh'000	KSh'000
16 (b) Non controlling interests		
Balance at the beginning of the year	103,869	(18,566)
Share of the income/(loss) for the year	4,065	(1,875)
Non-controlling interest arising from acquisition of Kigali Cement Company Limited (note 15)	-	122,331
Share of other comprehensive (loss)/income for the year	(1,185)	1,979
	106,749	**103,869**

	GROUP		COMPANY	
	2012	2011	2012	2011
	KSh'000	KSh'000	KSh'000	KSh'000
17 Inventories				
Raw materials	2,133,852	696,762	1,099,025	553,451
Finished goods	200,989	128,771	181,028	122,324
Packaging materials	100,597	40,583	96,043	40,583
Stores, spares and laboratory inventories	636,824	507,922	566,089	506,888
Work in progress	1,035	860	1,035	860
Goods in transit	276,108	68,118	234,535	55,798
Impairment provision on spare parts	(33,782)	(22,863)	(33,782)	(22,863)
	3,315,623	**1,420,153**	**2,143,973**	**1,257,041**

Depreciation amounting to KSh 10,919,000 (2011: KSh 8,442,000) has been charged to the strategic spares.

18 Trade and other receivables

	GROUP		COMPANY	
	2012	2011	2012	2011
	KSh'000	KSh'000	KSh'000	KSh'000
Trade receivables	1,176,730	992,438	1,045,839	869,041
Other receivables and prepayments	752,589	861,435	100,679	198,711
	1,929,319	**1,853,873**	**1,146,518**	**1,067,752**

19 Due from Employee share option plan (ESOP) - loans and receivable

In 2005, the Company established an Employee Share Ownership Plan (ESOP) for purposes of encouraging employees to own shares in the Company. This is a separate trustee administered plan operating within the ESOP rules as contained in the plan's Trust Deed.

In accordance with the provisions of the plan's Trust Deed and rules, as approved by shareholders at the annual general meeting held on 17 June 2005, employees who are in permanent employment with the Group for a minimum period of three years may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of Athi River Mining Limited on exercise. Options may be exercised at any time from the date of vesting to the date of their expiry.

On 30 November 2007, 6,055,000 ordinary shares of KSh 5 each were issued to the ESOP at KSh 15 each (market price at the time of approval by the Board and Annual General Meeting in 2005) resulting in a total consideration of KSh 90,825,000. The shares issued to the ESOP carry pari passu rights with regard to dividends and voting rights. Dividends relating to unexercised shares accrue to the ESOP.

On 10 December 2010, further options were granted to the ESOP to purchase 3,945,000 ordinary shares of KSh 5 nominal value each at KSh 160 each (market price on that date). This grant, together with the earlier issue of 6,055,000 shares, has now completed the allocation of 10,000,000 shares to the ESOP Scheme approved by the Annual General Meeting in 2005. Following the share split in December 2012 these options translate to 19,725,000 ordinary shares of KSh 1 each, granted at KSh 32 each. These options are eligible for conversion into ordinary shares over the next 4 years, following the completion of the Tanzania cement plants.

The amount due from ESOP is accounted for as a loan and receivable financial instrument. At each reporting period end, the Group reviews the outstanding balance from the ESOP to determine whether the receivable is impaired. Any impairment loss is recognised through profit or loss in the year in which it arises. The movement in the ESOP receivable balance during the year is as shown below;

	GROUP & COMPANY	
	2012	**2011**
	KSh'000	**KSh'000**
Amount due from ESOP		
At 1 January	38,216	48,959
Repayments	(6,519)	(10,743)
Impairment	-	-
At 31 December	**31,697**	**38,216**

20 Share capital

Authorised:		
675,000,000 ordinary shares of KSh 1 each (2011: 135,000,000 ordinary shares of KSh 5 each)	675,000	675,000
Issued and fully paid:		
495,275,000 (2011: 99,055,000) fully paid ordinary shares of Sh 1 (2011: KSh 5 each).	495,275	495,275

At an Annual General Meeting held on 24 July 2012, the shareholders approved a share split of 5 shares for every one existing share resulting in a change in authorised capital from 135,000,000 shares of KSh 5 each to 675,000,000 share of KSh 1 each. The share split was effected during the year resulting in an increase in the number of shares issued from 99,055,000 to 495,275,000.

At the 2008 Annual General Meeting held on June, 9 2008, the shareholders authorised Directors;

a) To exercise borrowing powers of the Company to borrow money or raise capital or other finance (in any currency) for the purpose of facilitating the expansion of the Company's operations and to create and issue unsecured convertible bonds or notes to any person lending such money or granting such capital or finance and;

b) In their sole discretion and as they deem fit and at such premium as they may determine (but subject to such regulatory and other authorisations, consents, filings and approvals as required by law), to allot and issue by way of private transaction or offer up to a maximum of 25,000,00 ordinary shares of Sh five (KSh 5.00) each in the Capital of the Company, credited as fully paid and ranking pari passu in all respects with the existing ordinary shares of Kenya Shillings Five (KSh 5.00) each by way of redemption and in exchange for such convertible bond or notes.

	2012	2011
	KSh'000	KSh'000
21 (a) Borrowings – Group		
Bank loans	10,710,345	6,634,252
Aureos income note	860,000	850,000
Equity linked notes*	1,600,000	1,600,000
Bank overdrafts	1,821,047	1,541,171
Total	**14,991,392**	**10,625,423**
On demand or within one year	3,917,145	2,496,821
In the second year	1,178,841	2,705,065
After 2 years but within 5 years	4,320,917	5,027,127
After 5 years	5,574,489	396,410
Total	**14,991,392**	**10,625,423**
Less: amount due for settlement within one year	(3,917,145)	2,496,821
Amount due for settlement after one year	11,074,247	8,128,602

Analysis of borrowings by currency

	Borrowings in US$'000	Kshs Equivalent KSh'000	Borrowings in local currency KSh'000	Total borrowings KSh'000
2012				
Bank loans	68,751	5,912,593	4,797,752	10,710,345
Bank overdrafts	11,960	1,028,536	792,511	1,821,047
Aureos income note	10,000	860,000	-	860,000
Equity linked notes*	-	-	1,600,000	1,600,000
At 31 December 2012	**90,711**	**7,801,129**	**7,190,263**	**14,991,392**

21 (a) Borrowings – Group (Continued)

	Borrowings in	Kshs Equivalent	Borrowings in local currency	Total borrowings
2011	**US$'000**	**KSh'000**	**KSh'000**	**KSh'000**
Bank loans	77,684	6,045,615	588,637	6,634,252
Bank overdrafts	16,305	1,385,901	155,270	1,541,171
Aureos income note	10,000	850,000	-	850,000
Equity linked notes*	-	-	1,600,000	1,600,000
At 31 December 2011	**103,989**	**8,281,516**	**2,343,907**	**10,625,423**

*The equity lined notes were raised by way of private placement. They are unsecured notes that have a coupon rate of 12% with an equity upside on maturity of up to 1.2% depending on Athi River Mining Ltd's share price performance on the Securities Exchange. The notes are redeemable in full on 20 April 2015.

The borrowing costs capitalized in relation to construction and installation of qualifying assets during the year amount to KSh 321,043,000 (2011 – KSh 241,508,000).

The average interest rates incurred on the borrowings during the year were as follows:

	2012	2011
	%	%
Bank overdrafts (KSh)	14.50	13.60
Bank overdrafts (US $)	4.50	4.50
Bank loans (KSh)	13.00	12.50
Bank loans (US $)	6.00	7.50
Equity linked notes (KSh)	12.00	12.00

(b) Borrowings – Company

	2012	2011
	KSh'000	KSh'000
Bank loans	6,186,743	2,706,209
Bank overdrafts	1,821,046	1,541,171
Aureos income note	860,000	850,000
Equity linked notes	1,600,000	1,600,000
	10,467,789	**6,697,380**
The borrowings are repayable as follows:		
On demand or within one year	2,879,200	2,477,283
In the second year	1,008,608	676,262
After 2 years and within 5 years	3,772,774	3,291,538
After 5 years	2,807,207	252,297
Total	**10,467,789**	**6,697,380**

21 (b) Borrowings – Company (Continued)

	2012	2011
Less: amount due for settlement within one year	(2,879,200)	(2,477,283)
Amount due for settlement after one year	**7,588,589**	**4,220,097**

Analysis of borrowings by currency

	Borrowings in US$ '000	Kshs equivalent KSh'000	Borrowings in local currency KSh'000	Total borrowings KSh'000
2012				
Bank loans	68,751	5,912,593	274,150	6,186,743
Bank overdrafts	11,960	1,028,536	792,510	1,821,046
Aureos income note	10,000	860,000	-	860,000
Equity linked notes	-	-	1,600,000	1,600,000
At 31 December 2012	**90,711**	**7,801,129**	**2,666,660**	**10,467,789**

	Borrowings in US$ '000	Kshs equivalent KSh'000	Borrowings in local currency KSh'000	Total borrowings KSh'000
2011				
Bank loans	24,913	2,117,572	588,637	2,706,209
Bank overdrafts	16,305	1,385,901	155,270	1,541,171
Aureos income note	10,000	850,000	-	850,000
Equity linked notes	-	-	1,600,000	1,600,000
At 31 December 2012	**51,218**	**4,353,473**	**2,343,907**	**6,697,380**

The average interest rates incurred on the borrowing during the year were as follows:

	2012 %	2011 %
Bank overdrafts (Sh)	14.50	13.50
Bank loans (Sh)	13.00	12.00
Bank loans (US$)	5.50	7.50
Equity linked notes (Sh)	12.00	12.00

21 (c) Borrowings analysed by lending institutions

	2012 KSh'000	2011 KSh'000
(i) ARM Kenya		
Loans		
Eastern and Southern African Trade and Development Bank (PTA)	139,585	210,089
Stanbic Bank Kenya Limited	760,653	1,036,271
Citibank NA	910,588	1,200,000
African Finance Corporation (AFC) *	4,349,709	-
East Africa Development Bank	-	16,000
Bank overdrafts		
Barclays Bank of Kenya Ltd	157,037	198,219
Stanbic Bank (K) Ltd	933,854	527,249
Fina Bank Limited	184,964	209,367
Citibank NA	393,462	419,481
Bank of Africa Limited	151,729	186,856
Other borrowings		
Commercial paper	26,208	243,849
Equity Linked Note	1,600,000	1,600,000
AUREOS – Convertible Note	860,000	850,000
(ii) Maweni Limestone Limited		
Loans		
Eastern and Southern African Trade and Development Bank (PTA)	1,415,991	1,491,919
Development Bank of South Africa Limited	2,132,548	2,257,591
Stanbic Bank Mauritius	845,342	-

21 (c) Borrowings analysed by lending institutions (Continued)

	2012 KSh'000	2011 KSh'000
(iii) ARM (Tanzania) Limited		
East African Development Bank - loan	-	31,470
(iv) ARM (Rwanda) Limited -		
Bank Commercial Du Rwanda Ltd - loan	83,522	84,643
(v) Kigali Cement Company Limited - loans		
Bizimungu Jean Berchmans	44,504	43,611
Bank Commercial Du Rwanda Ltd	1,696	16,041
Fina Bank Rwanda	-	2,767
	14,991,392	**10,625,423**

As at 31 December 2012, the company had outstanding letters of credit amounting to Sh 811,795,598 (2011 – KSh 64,068,750).

* African Finance Corporation (AFC) facility

At an Annual General Meeting held on 12 June 2007, the shareholders approved and authorised the directors to raise new funding through a convertible debt. The offer to Africa Finance Corporation (AFC) was approved by the regulatory authorities.

During the year ended 31 December 2012, the Company issued to Africa Finance Corporation (AFC) 50 convertible notes of Usd 1,000,000 each for a tenure of 6 years at an annual interest of 5% payable quarter plus 2.5% interest accrued every quarter and payable on maturity. The notes are redeemable at a premium of 10% on maturity or the holder may convert the notes into new ordinary shares at a fixed rate of $0.64 per share any time during the six year tenor.

(d) Details of securities

The borrowings from African Finance Corporation (AFC) is secured by a first Ranking asset debenture dated 12 February 2012 for the aggregate amount of KSh 240,000,000, created by the Borrower in favour of the Bank ranking pari passu with the debentures created by the borrower in favour of Barclays Bank of Kenya LTD, Bank of Africa Kenya Limited, PTA Bank, Citibank, CFC Stanbic Bank and Standard Chartered Bank Limited. First Ranking legal charges (Supplemental to the above debenture) for KSh 240,000,000 created by the borrower in favour of the bank over property: Title Numbers: Mbwaka/ Maereni 119, 120, 151, 539, 552, 554, 555, 556, 576, 577, 578, 582, 666, 670 & 672, Land Ref Numbers 337/52, 53, 57, 663, 669 & 846, Title Numbers Mbwaka/ Marreni 112 and 581 ranking pari-passu with the legal charges/Mortgages created by the Borrower in favour of Barclays Bank of Kenya LTD, Bank of Africa Kenya LTD, CFC Stanbic Bank, Citibank, Standard Chartered Bank and PTA Bank.

The general short term borrowings, letters of credit and foreign currency facilities with CFC Stanbic Bank Limited are secured by a first ranking debenture over all the company's assets for Sh 225,000,000 and USD 19,134,000 together with a first legal charge for Sh 225,000,000 and USD 19,134,000 over the company's freehold and leasehold properties ranking pari passu with the legal charges in favour of other lenders, Barclays Bank of Kenya Limited, Citibank NA and Bank of Africa Kenya Limited.

The overdraft facility and letters of credit with Bank of Africa Kenya Limited are secured by a pari passu debenture stamped for Sh 120,000,000 over all the assets of the company.

The overdraft and loan facilities with Barclays Bank of Kenya Limited are secured by a legal charge over certain properties for | Sh 264,000,000 and a debenture of Sh 264,000,000 over all the assets of the Group.

21 Borrowings (Continued)

(d) Details of securities (Continued)

The loan from Eastern and Southern African Trade and Development Bank (PTA) is secured by an all assets debenture of USD 5,940,000.

Athi River Mining Kenya Limited is a guarantor to Maweni Limestone Limited's obligations to Eastern and Southern African Trade and Development Bank, Development Bank of Southern Africa Limited and East African Development Bank under facilities agreements amounting to US $ 50,000,000.

The Equity linked notes are unsecured and mature in 2015.

The Aureos income note is unsecured and matures in 2015.

22 Deferred income tax

Deferred income tax is calculated on all temporary differences under the liability method using the currently enacted tax rate of 30% for Kenya, Tanzania and Rwanda and 29% for South Africa.

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
	KSh'000	**KSh'000**	**KSh'000**	**KSh'000**
The net deferred taxation liability is attributable to the following items:				
Liabilities:				
Accelerated capital allowances	1,753,667	1,744,308	1,711,331	1,779,117
Revaluation surplus	524,174	555,988	524,174	555,988
	2,277,841	**2,350,033**	**2,235,505**	**2,335,105**
Assets:				
Leave pay provision	(3,314)	(8,286)	(3,314)	(3,636)
Unrealised exchange losses	(5,423)	(35,020)	(5,423)	(35,018)
Bonus provision	(3,276)	-	(3,276)	-
General bad debt provision	(10,459)	(18,967)	(10,459)	(6,859)
Tax losses available for future offset	-	(423,368)	-	(423,368)
	(22,472)	**(485,641)**	**(22,472)**	**(468,881)**
Net deferred taxation liability	**2,255,369**	**1,864,392**	**2,213,033**	**1,866,224**
The movement on the deferred taxation account is as follows:				
At 1 January	1,864,392	1,666,792	1,866,224	1,649,296
Income statement charge (note 8(a))				
- current year	370,184	197,285	361,704	216,928
- prior year overprovision	10,879	-	(14,699)	-
Exchange adjustment	9,914	315	-	-
At 31 December	**2,255,369**	**1,864,392**	**2,213,229**	**1,866,224**

23 (a) Finance leases - Group

	Minimum lease payments		Present value of minimum lease payments	
	2012	**2011**	**2012**	**2011**
	KSh'000	**KSh'000**	**KSh'000**	**KSh'000**
Amounts payable under finance leases				
Within one year	400	784	323	707
In the second to fifth years inclusive	-	-	-	-
	400	784	323	707
Less: Future finance charges	(77)	(77)	-	-
Present value of lease obligations	323	707	323	707
Less: Amount due for settlement within 12 months			(199)	(340)
Amounts due for settlement after 12 months			124	367

(b) Finance leases – Company

			Present value of minimum lease payments	
	2012	**2011**	**2012**	**2011**
	KSh'000	**KSh'000**	**KSh'000**	**KSh'000**
Amounts payable under finance leases;				
Within one year	244	244	193	193
In the second to fifth years inclusive	165	529	130	373
	409	773	323	566
Less: Future finance charges	(86)	(207)	-	-
Present value of lease obligations	323	566	323	566
Amount due for settlement within 12 months			(199)	(199)
Amounts due for settlement after 12 months			124	367

23 (c) Finance leases - analysis by cash flows:

	GROUP		COMPANY	
	2012	2011	2012	2011
	KSh'000	KSh'000	KSh'000	KSh'000
At 1 January	707	1,026	566	-
New financing received	-	-	-	770
Repayments	(243)	(230)	(243)	(204)
Exchange adjustment	(141)	(89)	-	-
At 31 December	**323**	**707**	**323**	**566**

It is the Group's policy to acquire some of its motor vehicles through finance leases. The average lease term is 4 years. The weighted average rate of interest accruing on the obligations under finance lease agreements during the year was 13.50 % (2011: 13.50 %). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The carrying value of the company's motor vehicles under lease obligations as at 31 December 2012 was Sh 323,000 (2011 – KSh 705,883).

The Group's obligations under the finance leases are secured by the lessor's charges over the leased assets.

	GROUP		COMPANY	
	2012	2011	2012	2011
	KSh'000	KSh'000	KSh'000	KSh'000
24 Trade and other payables				
Trade payables	1,811,064	1,269,059	984,236	662,817
Other payables and accruals	736,170	625,703	554,630	300,468
Leave pay provision	9,198	10,269	9,198	10,269
	2,556,432	**1,905,031**	**1,548,064**	**973,554**

25 Notes to the consolidated statement of cash flows

	2012 KSh'000	2011 KSh'000
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before taxation	1,790,296	1,362,912
Adjustments:		
Depreciation	424,831	412,178
Amortisation of operating lease prepayments	973	973
Amortisation of intangible assets	1,336	3,718
Finance cost recognised in profit before tax	498,962	306,227
Finance income recognised in profit before tax	(26,489)	(33,003)
Net unrealised foreign exchange loss	(22,014)	118,187
Loss on disposal of property, plant and equipment	291	857
Working capital changes	2,668,186	2,172,049
Increase in inventories	(1,895,470)	(290,268)
Increase in trade and other receivables	(75,446)	(4,903)
Movement in related party balances	(61,732)	(3,944)
Increase in trade and other payables	651,401	673,636
Decrease in due from ESOP	6,519	10,743
Cash generated from operations	**1,293,458**	**2,557,313**

25 Notes to the consolidated statement of cash flows

	2012 KSh'000	2011 KSh'000
(b) Analysis of additions to property, plant and equipment		
Additions in the year (note 12(a))	3,043,076	4,271,201
Less:		
Interest capitalised (note 4)	(321,043)	(241,508)
Acquisition in cash	**2,722,033**	**4,029,693**
(c) Analysis of cash flow by borrowings (note 21(a))		
At 1 January	9,084,252	7,654,676
Received	5,221,351	2,119,371
Repayment	(694,759)	(1,160,777)
Exchange adjustment	(440,499)	470,982
	13,170,345	**9,084,252**
(d) Analysis of cash and cash equivalents		
Cash and bank balances	320,874	111,794
Bank overdrafts (note 21(b))	(1,821,047)	(1,541,171)
Short-term deposits (Usd)	2,270,400	225,339
	770,227	**(1,204,038)**

The short term deposits are held with Bank of Africa Limited. The effective interest rate on the deposits as at 31 December 2012 was 0.27% (2011 – 8.5%).

	2012 KSh'000	2011 KSh'000
(e) Analysis of interest paid		
Interest included in the cost of qualifying		
assets (note 4)	321,043	241,508
Interest charged to profit or loss(note 4)	498,962	236,366
	820,005	**477,874**

26 Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties also include the management personnel, their associates and close family members.

In the normal course of business, transactions are conducted with related parties at terms and conditions similar to those offered to other customers. Transactions with related parties during the year and related party outstanding balances as at the year end are disclosed below;

26 Related party transactions and balances (Continued)

(a) Transactions

	2012	2011
	KSh'000	KSh'000
Sales:		
ARM (Tanzania) Limited	11	5,438
ARMSA (Pty) Limited	423,114	123,829
Maweni Limestone Limited	1,407	76,897
Kigali Cement Company Limited	30,293	-
	454,825	**206,164**
Purchases - operating lease rentals		
Chiromo Holdings Limited	-	5,400

The outstanding balances arising from sale and purchase of goods and services between the company and its related parties are as shown below:

(b) Due from related parties – Group

	2012	2011
	KSh'000	KSh'000
ARM Rhino Cement Limited	2,691	897
ARM Africa Cement (MAU) Limited	2,561	897
Maweni Limestone Limited	50,378	-
	55,630	**1,794**
(c) Due from related parties – company		
Maweni Limestone Limited	3,263,986	2,773,920
ARM (Tanzania) Limited	425,842	325,647
ARMSA (Pty) Limited	163,623	180,128
Mafeking Cement Company Limited	207,490	167,004
ARM Africa Cement (MAU) Limited	2,691	897
ARM Rhino Cement Limited	2,561	897
Kigali Cement Company Limited	55,483	-
Maweni Limestone Limited (Dar es salaam)	1,749,587	-
	5,871,263	**3,448,493**
d) Due to related parties – Group		
Due to Directors	6,486	14,382
(e) Due to related parties – company		
Due to Directors	3,049	10,732
Due to ARM (Rwanda) Limited	72,293	85,000
	75,342	**95,732**

26 Related party transactions and balances (Continued)

(f) Key management compensation

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

	2012	2011
	KSh'000	KSh'000
Salaries and other benefits	239,015	196,470
(g) Directors' remuneration		
Fees for services as Directors (non executive)	5,338	5,467
Other emoluments (included in key management compensation)	112,644	102,241
	117,982	**107,708**

All the companies disclosed in the note are subsidiaries except Chiromo Holdings limited which is related through common Directorship.

27 Operating lease commitments

The company as a lessee:

Rental payments during the year amounted to KSh 28,300,000 (2011 – KSh 26,251,000). At the balance sheet date, the company had contracted for the following future lease payables:

	2012	2011
	KSh'000	KSh'000
Within one year	31,077	21,297
In the second to fifth year inclusive	50,777	24,011
After five years	-	1,050
	81,854	**46,358**

Leases are negotiated for an average term of five years and rentals are reviewed as per the provisions of the lease agreements. The leases are not cancellable unless one is in breach of the conditions provided for in the lease agreements.

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
	KSh'000	**KSh'000**	**KSh'000**	**KSh'000**
28 Capital commitments				
Authorised and contracted for	-	1,147,500	-	-
Authorised but not contracted for	**3,949,466**	**1,642,500**	**103,236**	**240,000**
29 Contingent liabilities				
Guarantees	22,682	-	22,682	-

30 Financial risk management

The Group's activities expose it to a variety of financial risks including credit, liquidity and market risks which mainly comprise effects of changes in foreign currency and interest rates risk. The Group's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Risk management is carried out by the Group's senior management under policies approved by the Board of Directors. Senior management identify, evaluate and where possible hedge financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the prior year.

Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. Monetary assets and liabilities held in foreign currencies are closely monitored to ensure that the risk of being materially affected by adverse foreign currency fluctuations is effectively managed and minimised.

The Group has a natural hedge of its foreign exchange risk on foreign currency denominated borrowings by matching commitments on dollar borrowings obligations with dollar denominated sales receipts.

At 31 December 2012, if the Kenya Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the pre tax profit for the year would have been KSh 4,823,000 (2011: KSh 66,725,950) higher/lower, mainly as a result of translation of US dollar payables and bank balances.

(ii) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds both at fixed and floating interest rates. The risk is managed by the Group through a close management monitoring control. During the year, an increase/decrease of 5 percentage points on average borrowing rates would have resulted in an increase/decrease in pre tax profit by KSh 744,763,100 (2011 - KSh 957,793,144).

Credit risk

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

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

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

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

30 Financial risk management (Continued)

	Fully performing KSh'000	Past due KSh'000	Impaired KSh'000	Total KSh'000
At 31 December 2012				
Trade receivables	1,148,329	28,401	106,979	1,283,709
Provision for impairment	-	-	(106,979)	(106,979)
	1,148,329	28,401	-	1,176,730
Due from related parties	55,630	-	-	55,630
Investments in short term deposits	2,270,400	-	-	2,270,400
Bank balances	320,874	-	-	320,874
	3,795,233	**28,401**	**-**	**3,823,634**

The amount that best represents the Group's maximum exposure to credit risk as at 31 December 2011 is made up as follows:

	Fully performing KSh'000	Past due KSh'000	Impaired KSh'000	Total KSh'000
At 31 December 2011				
Trade receivables	875,893	116,545	93,171	1,085,609
Provision for impairment	-	-	(93,077)	(93,077)
	875,893	116,545	-	992,438
Due from related parties	1,794	-	-	1,794
Bank balances	111,794	-	-	111,794
Investments in short term deposits	225,339		-	225,339
	1,214,820	**116,545**	**-**	**1,331,365**

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The finance department is actively following this debt.

The debt that is impaired has been fully provided for. However, the finance department are following up on the impaired debt.

30 Financial risk management (Continued)

Liquidity risk

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

	Less than 1 month KSh'000	Between 1-3 months KSh'000	Over 3 months KSh'000	Over 12 months KSh'000	Total KSh'000
At 31 December 2012					
Borrowings	-	403,146	1,028,980	12,598,085	14,030,211
Finance leases	-	461	-	-	461
Trade payables	288,606	1,192,417	330,041	-	1,811,064
Due to related parties	-	6,486	-	-	6,486
	288,606	**1,602,510**	**1,359,021**	**12,598,085**	**15,848,222**
At 31 December 2011					
Borrowings	-	29,543	2,467,278	8,128,602	10,625,423
Finance leases	-	707	-	-	707
Trade payables	704,414	564,645	-	-	1,269,059
Due to related parties	-	-	14,382	-	14,382
	704,414	**594,895**	**2,481,660**	**8,128,602**	**11,909,571**

31 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

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

Consistent with others in the industry, the Group monitors capital on the basis of the 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. Total capital is calculated as equity plus net debt.

31 Capital risk management (Continued)

Details of the Group's capital and gearing ratio are provided below;

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
	KSh'000	**KSh'000**	**KSh'000**	**KSh'000**
Share capital	495,275	495,275	495,275	495,275
Share premium	302,027	302,027	302,027	302,027
Revaluation surplus	1,324,680	1,398,911	1,398,911	1,398,911
Retained earnings	4,945,503	3,827,809	4,983,946	3,881,431
Translation reserve	(53,714)	(25,365)	-	-
Equity	**7,013,771**	**5,998,657**	**7,180,159**	**6,077,644**
Total borrowings including				
Finance leases	15,145,553	10,625,423	10,645,116	6,697,946
Less: cash and bank - balances	(2,591,274)	(337,133)	(2,279,459)	(24,065)
Net debt	12,554,279	10,288,290	8,365,657	6,673,881
Total capital	**19,568,050**	**16,286,947**	**15,545,816**	**12,751,525**
Gearing	**64%**	**63%**	**54%**	**52%**

32 Incorporation

The company is domiciled and incorporated in Kenya under the Kenyan Companies Act.

33 Currency

The financial statements are presented in thousands of Kenya Shillings (KSh'000).

NOTES

NOTES

As we continue the work of further increasing our market presence in Kenya, Tanzania and Rwanda, and completing the ongoing projects, we are also focusing our attention on new locations within the region, for building a new clinker based cement plant. As we go forward, this will remain at the heart of our strategy - Building Africa.

RHINO CEMENT
Building Africa

Mechanical erection at the 4,000 tons per day Clinker plant at Tanga.

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ARM SA (PTY) LIMITED
Johannesberg
South Africa

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