Bamburi cement

2011 ANNUAL REPORT AND FINANCIAL STATEMENTS

60

60 Years of
Manufacturing
Excellence

LAFARGE

bringing materials to *life*

Hippos at Haller Park

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Employee making concrete blocks

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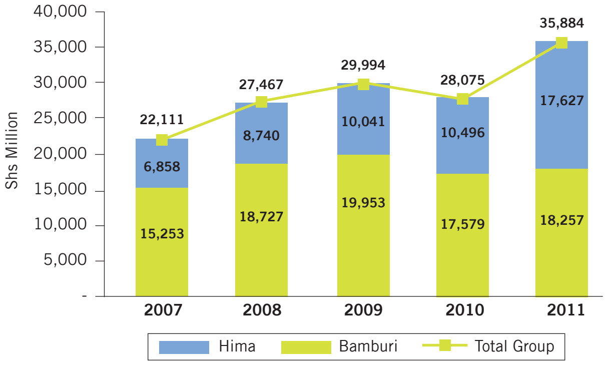
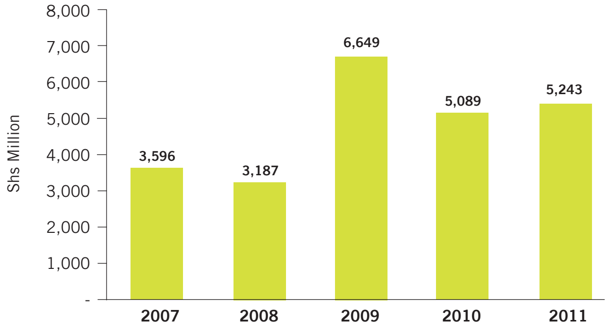
5 YEAR PERFORMANCE HIGHLIGHTS

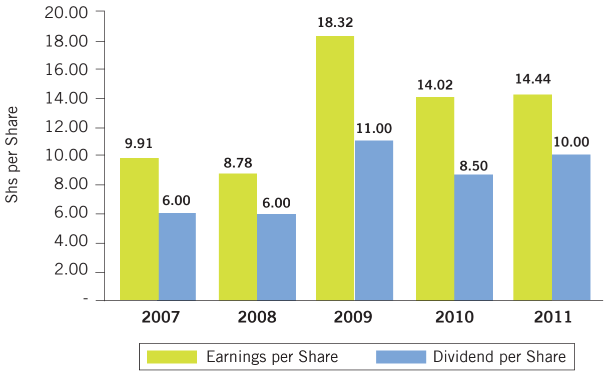
Group Turnover



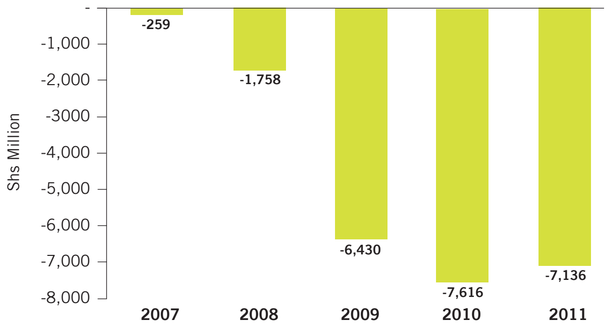
Profit Attributable to Shareholders



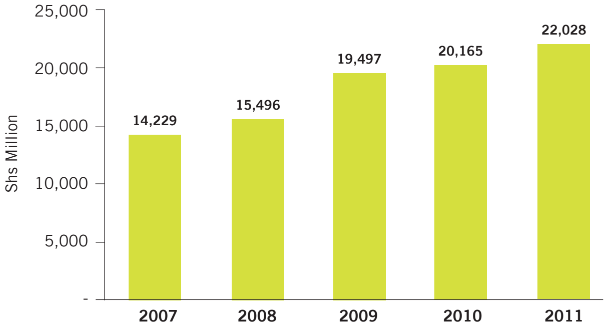
Earnings/Dividend per Share



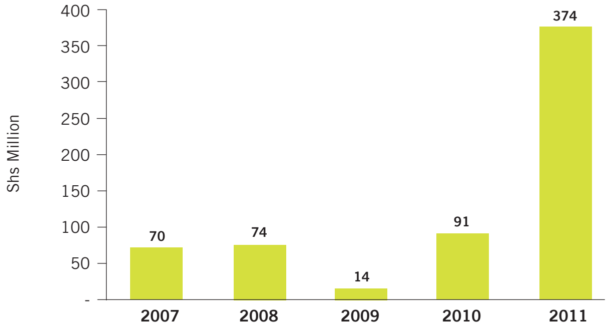
Net Indebtedness



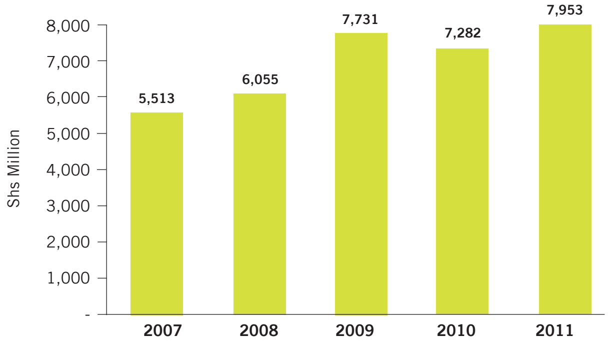
Shareholder Equity



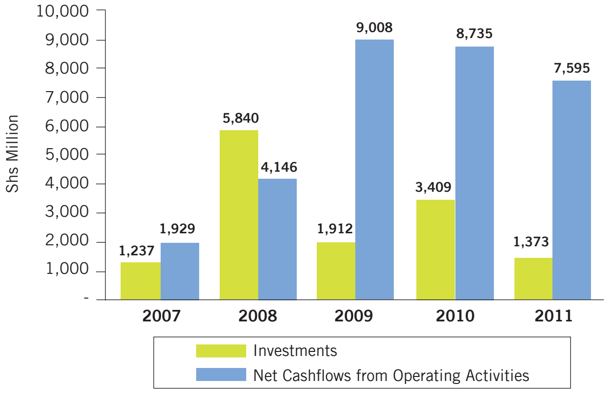
Finance Costs



Operating Income

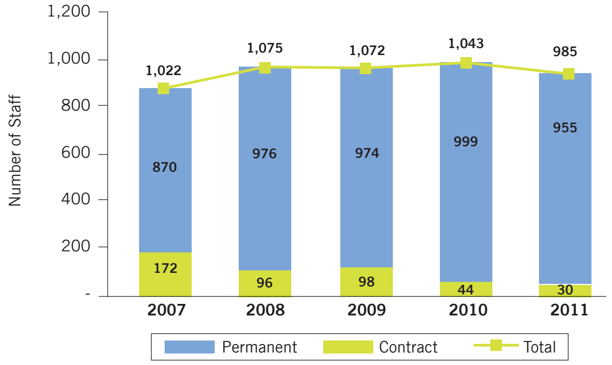


Investments and Net Cashflows from Operating Activities



OTHER PERFORMANCE HIGHLIGHTS

Employees



VALUE ADDED STATEMENT

Financial Impact on Various Stakeholders

CUSTOMERS	**EMPLOYEES**	**COMMUNITIES**
Net cash from our activities Shs 35,884m	Staff Costs Shs 2,275m	Contribution Shs 84m
GOVERNMENT	**BANKS**	**SHAREHOLDERS**
Taxes Shs 2,300m	Interest Shs 374m	Dividends Shs 3,268m
SUPPLIERS	**DEBT FINANCIERS**	**PROJECTS**
Purchases Shs 25,169m	Loan Shs 1,572m	Capital Investments Shs 1,373m

Our Vision

To be a World Class producer that provides construction solutions to our customers across Eastern Africa with a commitment to sustainability.

Our Values

All employees and contractors are expected to embrace our company values of **Ownership, Accountability** & **Ambition** to help drive our priorities for the business.

Ownership

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

Accountability

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

Ambition

We are focused on achieving greater results by going the extra mile in accomplishing projects before or on time and empowering our employees and contractors of always keeping the end in mind.

Our employees and contractors embracing all our values is vital to the success of our business in providing World Class service of consistent quality products that are delivered to the market on time, and on budget. This also ensures our internal and external customers are always treated as guests in every aspect of interaction with us.

As part of the Lafarge family, we are bound by shared values. The Lafarge brand stands for commitment to excellence and the values of the group are expressed in the 'Lafarge Way'.

The Lafarge Way

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

Making our people successful

- Expecting people to give their best.
- Leading by example.
- Achieving greater results through teamwork.

Focusing on performance improvement

- Resulting from actions of all.
- Making performance a daily commitment.
- Sharing systems and tools.

With a multi-local organization

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

Our Priorities

To enable us achieve our vision as a World Class producer through demonstrated behaviors reflecting our values, the Group identified tangible priorities in five key areas:

1. Safety & Health Excellence

We are dedicated to:

- Training employees, contractors and business partners and adopting Best practices to ensure safety for all.
- The good health of our employees and welfare of our local communities

2. Sustainable Market Leadership

We are committed to being the leader in Eastern Africa market, with strong sales to the inland export markets.

3. Industrial Excellence

We are committed to achieving mastered and robust plants while ensuring the achievement of clinker and cement production and dispatch targets.

4. Cost Reduction

Have the lowest delivered cost in our markets through management of variable costs, and consistent reduction of Fixed Costs and Sales, General and Administration costs (SGA).

5. People Development

We are focused on ensuring employee engagement through a robust performance culture and conducive work environment that enhances talent development

6. Image and Stakeholder relationship

Ensure secured license to operate through a robust and professional stakeholder engagement.

Lafarge Group

Lafarge in Brief

Located in 64 countries with 68,000 employees, Lafarge is a world leader in building materials, with top-ranking positions in its Cement, Aggregates & Concrete businesses. In 2011, Lafarge posted sales of 15.3 billion euros.

For the second year in a row, Lafarge ranked amongst the top-10 of 500 companies evaluated by the "Carbon Disclosure Project" in recognition of their strategy and actions against global warming. With the world's leading building materials research facility, Lafarge places innovation at the heart of its priorities, working for sustainable construction and architectural creativity.

Additional information is available on the web site at www.lafarge.com.

ONE
ownership • accountability • ambition

CORPORATE INFORMATION

DIRECTORS

Executive

H. Mansi (Egyptian)	-	Managing Director
D. Njoroge	-	General Manager, Hima Cement Limited
E. Kironde	-	Finance Director (Appointed 30 November 2011)
J. Oigara	-	Resigned 30 November 2011

Non Executive

R. Kemoli	-	Chairman
S. W. Karanja		
C. C. Kisire		
S. M'Mbijjewe		
D. Brugier (French)		
J. Stull (American)		
A Kazongo	-	Removed 25 February 2011

SECRETARY

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

REGISTERED OFFICE

6th Floor, Kenya-Re Towers, Upper Hill
P. O. Box 10921 – 00100 GPO
Nairobi

REGISTRARS

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

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P. O. Box 40092 – 00100 GPO
Nairobi

PRINCIPAL BANKERS

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

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

NON EXECUTIVE DIRECTORS

RICHARD KEMOLI, 76 holds a B. Sc (Econ) London Degree from Makerere University, Kampala and a Diploma in Management Studies at Regent Street Polytechnic (now University of Westminster, London). He is a fellow of the Institute of Directors, United Kingdom. He has over thirty years experience with Commonwealth Development Corporations (now ACTIS).

He is the Chairman of the Boards of Directors of Bamburi Cement Limited and the Unga Group of Companies together with being a director in several other public and private companies.

SHEILA M'MBIJJEWE, MBS, 54 is a Chartered Accountant ICAEW and a Certified Public Accountant. She is the Chairperson of the Audit Committee.

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

CHRIS C. KISIRE, 45 is a holder of Bachelor of Commerce - Accounting Major and a Masters of Business & Administration degrees from the University of Nairobi. He also holds Certified Public Accountant of Kenya, CPA (K) and Certified Public Secretary of Kenya, CPS (K) qualifications. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). He has business experience spanning over nineteen years in Finance, Administration and Business Management both locally and internationally.

JOHN STULL, 51 holds a Bachelor of Science Degree in Chemical Engineering from the University of Akron and a Business Management Degree from Harvard University. He was, until January 2012, the Regional President, Sub-Saharan Africa and is now Chief Executive Officer, United States of America. He joined Lafarge in 1992 as Operations Manager rising to Plant Manager, Alpena MI with overall responsibility of the largest cement plants in North America. In 1996, he was promoted to Vice President, Manufacturing US Region, a position he held until 2000 when he was promoted to President Missouri Division, Ready-mix and Aggregates.

Thereafter, John held numerous positions including Senior Vice President, Marketing and Supply Chain, Paris and Regional President, Latin America.

AMB. SOLOMON W KARANJA, 75 is a BA graduate of Makerere University and holds an MA from University of London. He has worked as a Deputy to the University of East Africa Registrar and was the first Kenyan Registrar of the University of Nairobi. Subsequently he held the position of Executive Chairman, East Africa Portland Cement Company for twelve years until he was appointed Executive Chairman National Bank of Kenya in 1987. He has served as Chairman of the Kenya Golf Union, Muthaiga Golf Club and Fidelity Shield Insurance Company. Amb. Karanja has also been appointed by the Government to serve on several commissions.

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

Amb. Karanja is the Chairman of the Kenya Medical Supplies Agencies.

DOMINIQUE BRUGIER, 53 is a graduate mechanical engineer from Ecole des Arts et Metiers, Paris. He joined Lafarge in 1991 as a Mechanical Expert. He moved to Lafarge China in 1995 as a Maintenance Manager, became Project Manager in 1997 and rose to Industrial Director in 2005. In 2009, he was promoted to the position of Director, Performance and Progress, East and West Sub-Saharan, Africa.

EXECUTIVE DIRECTORS

HUSSEIN MANSI, 45, Managing Director (MD), is a graduate of the University of Cairo, B. Sc (1988) and has a Post Graduate Certificate of Business Administration from the University of Leicester, UK (2004). He began his career in 1989 as a Design Engineer Saudi Building Systems.

In January 1999, Hussein joined the Orascom Cement Division, which was acquired by Lafarge in 2007, as Works Director - Sales and Marketing, Egyptian Cement Company rising to Commercial Director, Algeria Cement Company, a position he held until December 2008 following which he was appointed MD, Bamburi Cement Limited.

DAVID NJOROGE, 41 is a holder of a Bachelor of Commerce degree, Accounting major and is a Certified Public Accountant. He has attended managerial, financial and leadership related courses, both locally and internationally and has broad experience in finance and related fields. He joined the company in 1999 as Finance Manager a position he held until 2002 when he was promoted to Finance Director. In April 2006, he was appointed General Manager, Hima Cement Ltd and also responsible for the Group's capacity increase projects in Uganda.

He is also a director at the Nairobi Stock Exchange where he chairs the Finance and Manpower Committees.

ERIC KIRONDE, 45 is a Bachelor of Sciences (BSc) degree holder, a Fellow of the Chartered Association of Certified Accountant (FCCA), a member of the Institute of Certified Public Accountants of Uganda (ICPAU) and an Associate of The Association of Corporate Treasurers (ACMT). Prior to joining the Group, he worked at Nile Breweries Limited (Uganda) as an Internal Audit Manager and PricewaterhouseCoopers, where his last position was Audit Manager.

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

SECRETARY

BETTY KANYAGIA, 37 is a graduate of the University of Nairobi, LLB, a Commissioner for Oath and Notary Public. She practised with a law firm in Nairobi before joining PricewaterhouseCoopers, Tax and Legal Services Department as a Consultant. Betty joined Bamburi Cement Limited in 2003 as the Compensation and Benefits Manager, a position she held until she took over as Company Secretary in June 2007.

She is a member of the Law Society of Kenya, the Chartered Institute of Arbitrators, the Institute of Certified Public Secretaries of Kenya and the Commonwealth Lawyers Association.

BOARD OF DIRECTORS

Left to right:

Eric Kironde, Amb. Solomon Karanja, Richard Kemoli, Betty Kanyagia, David Njoroge, Sheila M'Mbijjewe, Hussein Mansi, Dominique Brugier, John Stull, Chris C. Kisire

Left to right:

David Njoroge, General Manager, Hima Cement

Tariq Iqbal, Supply Chain Director

Xavier DeCharentenay, Industrial Director

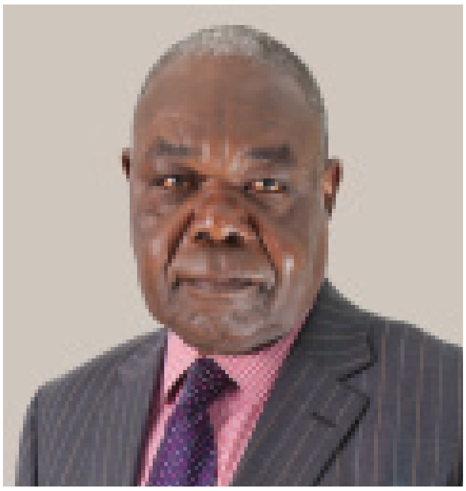
Susan Maingi, Human Resource and Organisation Director

Steve Okeyo, Sales Director

Hussein Mansi, Managing Director

Robert Nyangaya, Marketing Director

Eric Kironde, Finance Director



"Despite a challenging economic and operating environment, 2011 was a good year for Bamburi Group. We exceeded our business objectives while at the same time taking actions to ensure the future success of the Group."

The Bamburi Cement Limited Group of Companies had a good year despite a difficult operating environment. Locally, the businesses had to contend with rising fuel costs, strong depreciation of local currencies and very high inflationary pressure. Economic growth was further limited by high fuel prices, the effect of persistent droughts in the many parts of the region on hydro-generated electricity and agricultural sector.

Despite these negative macro economic factors, the Group saw solid progress on its top line and an improvement in underlying operating margin largely on account of good cost discipline. The results in 2011 are a true testament to the passion, commitment, skill and hard work of the Group's employees.

Economic Conditions

The global economy was significantly disrupted by the Islamic and Arab political turbulences, the all time high US fiscal debt and the Euro zone debt crisis. This turmoil significantly contributed to the decline in consumer wealth and economic activity worldwide hence retarding global trade and cascading into lower investments, loss of jobs and diminished consumer incomes, which had a knock-on effect on demand for goods and services.

In East Africa, the global recession negatively impacted tourism and horticultural exports while drought and rising fuel costs adversely affected the overall industrial and agricultural production.

The Kenyan economy experienced slow growth with GDP rate at 4.2% compared to 5.6% in 2010. The headline inflation closed at 18.93% mainly due to escalating food prices, transportation costs and electricity prices resulting from the persistent drought and higher oil prices. The shilling depreciated against major hard currencies due to reduced foreign currency inflows as a result of declining exports and tourism activity together with the continued country's imports. Interest rates rose in the fourth quarter of the year as the Central Bank of Kenya addressed currency depreciation and high inflation, with the Central Bank rate (CBR) at 18% at year end.

In Uganda, the economy saw steady growth despite the global economic downturn, poor energy and transport infrastructure together with lower foreign investment resulting in a 6.6% growth in real GDP. Headline inflation increased to 27% from 5% in 2010 mainly due to local currency depreciation and impact of higher fuel prices on food and transport. The huge depreciation of the local shilling triggered actions by the Bank of Uganda in the last quarter pushing up lending rates to a high of 28%.

Regulatory Framework

The industry continued to challenge the suspension of the 10% import duty on cement under the East African Community Common External Tariff (EAC CET), which reduced applicable duty to 25%. The reduction rendered the region vulnerable to influx of cheap cement imports from low cost and government subsidized cement producers from countries such as India, China, Pakistan and Egypt.

Cement Market and Competitive Landscape[1]

The cement market in East Africa grew by 9% to 7.6 million tons (MT) compared to 14.4% growth in 2010. The growth was higher in the first half of the year with the second half negatively impacted by full effects of the high cost of business and high lending rates limiting the level of investments.

In Kenya, the market grew by 10.5% to 3.5MT mainly resulting from continued government investment in infrastructural development and growth from individual home builders. In Uganda and Tanzania, the market grew by 16.2% to 1.7MT and by 2.5% to 2.5MT respectively with Tanzania mainly hit by persistent power challenges.

[1] *Source: East African Cement Producers Association and Market Intelligence*

Competition in the regional cement industry intensified due to increased cement grinding capacity and influx of imports. In Kenya, installed cement production capacity increased to about 5.65MT. In Uganda, cement production capacity remained at 2.0MT with full utilization of the Group's new capacity in Kasese.

Performance

Inspite of these resilient events, the Group performance remained good as a result of which turnover increased from KES. 29 billion in 2010 to KES. 35.8 billion in 2011 and its profitability rose to KES.8.5 billion in 2011 compared to KES. 7.5 billion in 2010.

As such, the Group, after meeting its statutory obligations, is able to propose a satisfactory final dividend for approval by the shareholders of KES. 8/= per ordinary share bringing the total dividend for the year to KES. 10/= per ordinary share. This compares with the total dividend of KES. 8.50/= paid for the year 2010.

This was possible due to the diligence of the Group's hard working employees and hawkeyed Management, who efficiently kept a close eye on expenditure.

A More Competitive Cost Structure

The Group's emphasis on protecting business fundamentals requires it to have a more competitive and sustainable cost structure. The Group continued its focus on cost reduction measures focusing on alternative fuel, plant efficiency improvements together with industrial fixed cost and selling & general administrative expenses containment measures.
The Group's ambition is to be cost leaders in the industry.

Driving a Performance Culture and Winning With People

The Group has a strong base of values and principles which have served it well over the years: accountability, ownership and ambition. In the face of increasing competition, the Group has to further increase its customer focus, speed of action, responsibility and accountability. To achieve this, the Group has made its organization more efficient and sharpened individual performance management.

The Group believes its operating framework allows it to balance scale and expertise to provide high quality construction solutions with the local customer knowledge needed to market and sell these solutions.

The Group recognizes that it is vital to have the talent and organization in place to match its growth ambition. Across the business, the Group is therefore looking ahead at what it needs to achieve and aims to equip itself with the necessary people, skills and capabilities to get there.

The Group also knows that engagement and a culture based on living its values are essential for keeping the best people.

A New Business Model

With confidence in its ability to grow, the Group launched a renewed bold vision– ***"To be a World Class Producer that Provides Construction Solutions to our Customers across Eastern Africa, with a Commitment to Sustainability".***

With its diversified product portfolio, regional presence and long standing commitment to shared value creation in which the long term interests of the Group, its communities and stakeholders are all directly linked, the Group believes it is well placed to deliver on this vision.

Looking Ahead

2012 will not be any easier than 2011, but by building on current strategy and fostering a stronger performance culture, the Group will continue growing in line with its ambitions in a way that continues to make its shareholders, customers, partners and employees proud to be associated with the Bamburi Cement Limited Group of Companies.

Tribute

I wish to thank my colleagues on the Board for their support and encouragement during deliberations on policy issues and support to Management. I take this opportunity to pay tribute to our staff and management who worked tirelessly as a team to ensure the Group remained an enviable cement producer in the region.

I applaud the Governments of Eastern Africa and business partners whose continued support has ensured the Group's success.

Finally, on behalf of the Board of Directors, Management and employees, I wish to pass our sincere gratitude to all the shareholders for their continued confidence in the Bamburi Cement Limited Group of Companies.

Richard Kemoli, FIoB MBE
Chairman

MANAGING DIRECTOR'S STATEMENT

"The Group steered ahead in growth despite the global shocks of economic recession, prolonged drought, high inflation and high energy prices."

The financial year 2011 presented mixed fortunes for businesses and governments across the region. The year started strongly with positive growth prospects ocassioned by strong macro economic indicators and investor confidence. Regrettably, there was a slow down in growth in the second half due to macro economic challenges notably significant currency depreciation of 12.9% in Kenya,borrowing rates rose above 20% and 25% in Kenya and Uganda respectively coupled with spiral inflation which edged out 18.93% in Kenya.

The cement industry was particularly affected by escalating fuel and power prices. Despite the adversities, the group was able to leverage on its new capacity in Uganda to tap into market growth opportunities and improve margins. The group also took benefit of ready mix expansion in Kenya coupled with continued focus on cost reduction initiatives to post a 12% increase in profit before tax over 2010.

Safety and Health

Safety and health of all our staff and contractors working within our sites and carrying our products across all roads networks in the region remains a key priority for the group.

During the year, the group was recognised for its maturity in safety culture by being awarded entry in the prestigious 'Lafarge Excellence Club'. This prestigious club recognises businesses which demonstrate a sustainable safety culture. In Uganda, Hima Cement received an award for the extra ordinary commitment & partnership in building health at work & in the community. The award was offered at a symposium organized by Health Initiatives for the private Sector (HIPS) a USAID sponsored organization.

Environmental Sustainability

The groups continued focus on environmental rehabilitation efforts continue to be recognized by various organizations across the world.

In 2012, the group will invest in a new Electrostatic Precipitator in Mombasa plant. This is part of the groups 2012 sustainability ambitions and will go a long way in ensuring compliance with global environmental standards.

Public Private Partnership

During the year, the group signed a Public Private Partnership agreement with the Ministry of Tourism and Kenya Tourism Development Cooperation (KTDC), where Bamburi Cement will lease a 10 acre piece of land to the government for construction of a 2,000 person capacity Conference and Convention Center. The ministry plans to put up an ultra-modern, environment-friendly conference center which will greatly benefit the Mombasa North Coast, not only the country's tourism industry, but all associated sectors.

Capacity enhancement

The group took great benefit of the state of the art cement plant at Kasese, Uganda through improved output and efficiency which saw the group tap into market growth opportunities in Uganda and neighbouring countries. The plant which was officially inaugurated by the President of the Republic of Uganda, H.E.Yoweri Museveni on 7th January 2011, increased the annual cement output capacity by 500,000 tonnes to 850,000 tonnes.

The group continues to invest for growth in the ready mix and precast businesses. During the year, the group completed works at the Mombasa precast site which is expected to deliver high quality products and services to the region. Furthermore, in line with growing demand for our ready mix products, the group invested in additional truck mixers.

Operational and financial performance

Despite the macro-economic challenges in the second half, the Group increased its turnover by 28% compared to a similar period last year. This is a clear indication that pursued strategies continue to position the company for growth.

Operating profit grew by 9% to Shs 7.9 billion, notwithstanding the growth in turnover, due to a difficult external cost environment brought about by high global fuel prices, increase in power costs, high inflation, local currency depreciation and increased competition.

Profit before tax and exceptional items was Shs 8.5 billion while the working capital improvement initiatives taken during the year went along in sustaining the cash position to Shs 7.1 billion.

Outlook for 2012

The Group remains cautious on the local and global macroeconomic environment for 2012. While early positive signs are starting to develop in the United States economy, sovereign debt concerns in the Eurozone, political instability in the Middle East, cost inflation in developing markets, and uncertain political environment in Kenya continue to make visibility difficult.

The Group remains committed to contributing to the growth of the Eastern Africa economy. The new investment in Uganda and recent expansion of its downstream business has reinforced the Group's position as the regional market leader.

The Group is well positioned to grow its footprint in the region and will focus on key strategic priorities, namely customer service and industrial excellence, strong brand equity, cost leadership, working capital optimization and a committed work force to realize its vision

Appreciation

The group appreciates the support of all its stakeholders, its loyal customers, service providers, regional governments and talented staff and will continue to rely on them as it strives to cement its market leadership position.

Hussein Mansi
Managing Director

Wheel-Loader feeding the additives belt at the Nairobi Grinding Plant

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

ECONOMIC HIGHLIGHTS

Kenya's economy experienced several shocks from the oil crisis in the Middle East as well as persistent droughts in most parts of the country. The Gross Domestic Product (GDP) growth declined to 4.2% from 5.6% in 2010 due to a difficult cost environment occasioned by high fuel costs and a strong shilling depreciation. The implementation of the new constitution is expected to spur confidence as it provides an opportunity to address long-standing social and institutional problems and implement additional reforms, including fiscal decentralization, the public expenditure framework, and land ownership. Annual average inflation in the year rose to 18.93% from a low of 4.5% in 2010 mainly driven by higher food, transport, fuel and electricity prices due to high oil prices and long drought spells. The shilling depreciated against major hard currencies edging out at Shs 89:USD, a 12% depreciation in the year.

Uganda's economy remained strong with a GDP growth of 6.6% on account of a resilient agricultural sector and increased government spending despite the external shocks of oil crisis and currency depreciation. The Uganda shilling edged out 30% weaker to the USD over the period compared to 2010. Headline inflation increased to 27% from 3% in 2010 mainly due to oil price increase impact on fuel and food prices.

SECTOR HIGHLIGHTS

East Africa cement consumption recorded an estimated growth of 9% to 7.6 million tonnes mainly due to increased government expenditure on development projects and donor funded projects. The region's per capita consumption of cement stabilized at 60 kg/person.

In **Kenya,** cement market grew by 10.5% to 3.5 million tonnes on the back of increased government investment in infrastructure development projects and a vibrant Individual Home Builder (IHB) segment. However increased capacity in the Kenyan cement industry continued to drive competitive market dynamics.

In **Uganda,** cement market grew by 16.2% to 1.7 million tons stimulated by privately financed construction projects.

SEGMENT HIGHLIGHTS

KENYA

Bamburi Cement Limited

The company's operating profit dropped to Shs 4.4 billion (2010: Shs 5.8 billion) inspite of the growth in top-line with increased volumes. This was due to increased costs mainly fuel, transport, power and raw materials occasioned by the fuel oil crisis.

Sales

The company's total sales revenues increased to Shs 20.5 billion (2010: Shs 19.8 billion). Despite increased competitive landscape, domestic volumes grew by 6.9% to 1.4 million tonnes with revenues growing to Shs 16.2 billion (2010: Shs 15.2 billion) leveraging greatly on the Dealer Loyalty Program. Export cement sales revenues dipped marginally to Shs 4.4 billion (2010: Shs 4.6 billion).

Industrial Operations

Mombasa Plant

The plant sustained a score of over 70%, achieving 74.89% in the annual safety audit. The plant achieved 299 days without Lost Time Injury (LTI).

Clinker production increased by 8.8% to 956kt (2009: 878kt), due to improved kiln reliability and output.

To reduce the cost of fuels, the plant focused on alternative fuel substitution achieving a substitution rate of 3% mainly through using tyres as alternative fuel. The plant continues to explore other alternative fuels in a bid to control its energy costs.

Cement production increased in line with demand.

Nairobi Grinding Plant

The plant achieved five years without any lost time injury (LTI), a true testament of excellence in safety and maturity of safety standard.

The plant attained a record cement output of 1.3 million tonnes in 2011 (2010: 1.2 million tonnes) mainly due to better mill utilization and process mastery.

Source of macroeconomic figures: Economist intelligence unit (eiu)
Source of cement market figures: East African Cement Producers Association (EACPA)

Bamburi Special Products donates Shs 1 million to Mombasa Homes Expo

Cost environment

Total variable costs increased marginally by 6% despite effective cost increases of 46% and 26% on fuel and power respectively. This was mainly due to improved process optimization and lower imported clinker consumption, as a result of improved clinker production.

The production fixed costs in the year reduced by 6% mainly due to cost rationalization across the board and continued focus on preventive maintenance practices.

Bamburi Special Products Limited

Bamburi Special Products Ltd (BSP), a wholly owned subsidiary, is the largest supplier of Ready Mix concrete and precast blocks in Kenya.

During the year, the company's revenues grew by 64% to Shs 1,207 million attributed to growth in both ready mix and precast revenue streams.

Profit before tax increased to Shs 123 million (2010: Shs 77 million) in line with top line performance.

Sales

Ready Mix operations continued on the growth path recording an impressive growth in sales volumes to 48,731 m^3 (2010: 27,190 m^3). This was due to increased uptake of ready mix as a convenient alternative to conventional concrete mixing processes.

Pre-cast volumes increased to 733,277 m^2 (2009: 506,169 m^2) bolstered by opening of a Mombasa operation in May.

Operations

The company attained 1,624 days without any lost time injury, an achievement that accentuates the company's continued commitment to safety.

During the year, overall production costs grew by 64% due to increased production exacerbated by inflationary pressure on key raw materials and high fuel prices.

The company made significant investment in extra truck mixers and an additional block making machine which was commissioned in May 2011.

The additional capacity is expected to significantly bolster production and cement the company's market leadership position.

Lafarge Eco-Systems Limited (LES)

Operations:

Haller Park and Bamburi Forest Trails attracted a total of 178,629 visitors (2010: 169,637, 2009: 171,078). Terrorism threats caused a drop in international visitation; but increased numbers from domestic tourism and educational institutions compensated for the lost overseas tourist numbers and revenue. Bamburi Forest Trails are becoming an increasingly popular venue for events and functions, from weddings to company parties to concerts. In 2011 56 paying functions were held. The biggest of them was the Safaricom Classical Fusion Concert which attracted 3,450 people. This also put Bamburi Cement's environmental quarry rehabilitation success into the limelight again, after featuring prominently on television and print press earlier in the year. The rehabilitated quarries were re-certified as Wildlife Habitat Sites by the US-based Organization "Wildlife Habitat Council", which works with corporate organizations towards restoring and/or conserving corporate lands for biodiversity and wildlife conservation. The Bamburi quarries were also certified as Corporate Lands for Learning, in recognition of the environmental education offered at Haller Park and Bamburi Forest Trails.

Biofuel plantations have increased to 702ha, with a total of more than 2.7 million seedlings planted. Rainfall has been good in 2011, and tree survival and growth better than the previous years. Of the new species introduced in 2010, Cassia siamea and Neem have grown very well. Community integration into the plantations has continued to grow. In 2011 around Shs 4.2m has been paid to community based organizations by purchasing their seedlings for planting. A new scheme where Community Based Organizations are paid to maintain the plantations where the trees are too big to allow cultivation of crops has been adopted, complementing the Shamba System applied in the very young plantations. Through this active integration, plus various Corporate Social Responsibility activities strong relationships have been built up with the communities around the Biofuel sites, as well as with local administration.

Two of Bamburi Cement's three housing estates have been renovated while in the third estate renovations are being completed in 2012 at Shs 35m. A guesthouse for employees has been opened in one of the estates in line with cost cutting initiatives for the group.

UGANDA

Hima Cement Limited

The company recorded impressive financial performance with pre-tax profit growing by 141% to 3 billion (2010: 1.2 billion) on account of increased capacity from the new integrated production line at Kasese Plant and continued aggressive focus on cost reduction initiatives.

Sales

The company's turnover increased to Shs 17.6 billion (2010: Shs 10.5 billion). Domestic cement sales revenues rose to Shs 11.2 billion (2010: Shs 7.1 billion) due to aggressive selling that saw the company's market share growing two fold. Export sales revenues increased to Shs 6.4 billion (2010: Shs 3.4 billion) on the back of growth in inland Africa markets, improved distribution network and strong devaluation of the Uganda Shilling vis a vis the US dollar.

Industrial Operations

During the year, the plant registered an improvement in its safety audit score by 2.8% to 76.21% (2010: 73.40%) due to implementation of safety improvement programs. Worth noting is that Hima Cement Limited joined Lafarge Group's exclusive club 'the Excellence Club'. This is after the fulfillment of strict safety performance standards and demonstration of excellence in safety maturity audits. These achievements were realized despite higher plant activities brought about by the new production.

Overall clinker and cement production increased to 469kt (2010: 283kt) and to 786kt (2010: 429kt) respectively, being full impact of the new integrated production line and efficiency improvements in the case of the existing line.

Cost Environment

The company experienced a difficult external cost environment characterized by rising fuel costs, spiraling inflation and strong devaluation of the Uganda shilling. To counter these external effects, the company pursued a number of cost containment measures. The company's efforts to increase alternative fuels usage were bolstered by the new production line's high capacity feeding system and improvement in supply logistics for various alternative fuels. The plant was able to achieve an alternative fuel (coffee husks and rice husks) substitution rate in the region of 30% against use of the more expensive heavy fuel oil. There is room to achieve higher substitution rates going forward.

During the year under review, the company continued with its aggressive reduction of industrial fixed cost and selling and general administrative costs as a way of cushioning its margins.

KAMPALA SERENA HOTEL

Kampala Serena Hotel, one of Uganda's Landmarks built using our Cement Products

The Bamburi Cement Limited Group of Companies remains committed to the highest standards of corporate governance believing that corporate governance is central to the effective management of the business and increasing shareholder value.

In furtherance of this commitment, the Group undertakes its businesses in full compliance of the laws and in observance of local customs and cultures in the countries within which it operates.

SEPARATION OF RESPONSIBILITIES

There is a clear division of responsibility between the Chairman and the Managing Director, which is set out in writing in the Board Charter and approved by the Board.

The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. He also ensures effective communication with shareholders and facilitates relations between the different board members.

The Managing Director is responsible for the day to day management of the Company and the execution of the strategy agreed by the Board.

THE BOARD OF DIRECTORS

Mandate

All matters relating to the Board are guided by the Board Charter.

The Board is collectively responsible for promoting the success of the Company. The Board provides leadership for the Group and concentrates its efforts on strategic issues, governance, key projects, major investments, controls and monitors performance against the agreed targets. The Board also reviews regular updates on health and safety, which are critical for the Group.

To ensure it meets its responsibilities, the Board undertakes annual self evaluations while the Chairman and the Managing Director evaluate the performance of the individual members. The performance of the Chairman is evaluated by the Nomination & Corporate Governance Committee.

Membership

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

As at the date of this report, the Board had nine directors, six of whom are non-executive directors. The position of Chair is held by an independent non-executive director. The non-executive directors are experienced and influential individuals from a range of industries and backgrounds, who bring wide and varied experience to the Board and committee deliberations. The Board is satisfied of the independence of the directors who have executive and non-executive directors' roles with other companies and that they all have sufficient time available to devote to the Company.

Information and Development

The Chairman, working with the Company Secretary, ensures all members of the Board are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. Board papers are distributed two weeks prior to each meeting while the quality and supply of information provided is reviewed as part of the board evaluation process.

The Company has a programme for meeting the Board's training and development needs. Training begins with comprehensive and tailored inductions that include visits to all sites including the Plants. Subsequent training is available on an ongoing basis to meeting any particular needs. Training was held during the year for the Audit Committee members to update their knowledge on the reporting standards.

Further, all directors have access to the advice and services of the Company Secretary together with unlimited access to Company employees, officers, information and records. Directors can also obtain independent professional advice, where necessary and in furtherance of their duties, at the Company's expense following the procedure laid down in the Board Charter.

The Board is required to have at least four meetings and any additional meetings can be called as deemed necessary. In the year 2011, the Board had four meetings and the attendance is as indicated on the next page.

Company Secretary

Appointment and removal of the Company Secretary is a matter reserved for the Board. She is the central source of information and advice to the Board and within the Company on matters of good governance and business ethics. She has the responsibility for ensuring board procedure are followed and governance matters complied with.

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

Board Meeting Attendance

Name of Director	Category	25 February	9 June	24 August	30 November
R Kemoli	Non-executive	√	√	√	√
C Kisire	Non-executive	√	√	√	√
S M'Mbijjewe	Non-executive	√	√	√	√
A Kazongo	Non-executive	x	n/a	n/a	n/a
S Karanja	Non-executive	x	√	√	√
H Mansi	Executive	√	√	√	√
J Stull	Non-executive	√	√	√	√
D Brugier	Non-executive	√	√	√	√
David Njoroge	Executive	√	√	√	√
Joshua Oigara	Executive	√	√	√	√
Eric Kironde	Executive	n/a	n/a	n/a	√

BOARD COMMITTEES

The Board has delegated some of its responsibilities to committees, which review the respective matters delegated to them and make recommendations to the Board. All decisions, however, can only be made by the Board.

Each committee has terms of reference approved by the Board and the Chair of each committee is required to report on their proceedings at the board meeting immediately following the committee meeting.

Audit Committee

The Audit Committee comprises entirely of independent non-executive directors. The Group Internal Audit Manager together with the internal and external auditors are required to attend the Board Audit Committee meetings while the Managing Director and Finance Director attend by invitation. The Chairperson has direct access to the Group Internal Audit Manager.

The Audit Committee is responsible for monitoring the integrity of the financial statements and financial results together with reviewing the effectiveness of controls and risk management systems. It reviewed the external and internal audit work plans, the external auditors fees together with the Management's implementation of the recommendations from the auditors.

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

Audit Committee Meetings Attendance:

Name of Directors	24 February	8 June	23 August	29 November
S M'Mbijjewe	√	√	√	√
C Kisire	√	√	√	√
A Kazongo	x	n/a	n/a	n/a
D Brugier	√	√	√	√
Auditors				
S Kibirige	√	n/a	n/a	√
P M'Mbijjewe	n/a	√	√	n/a
Deloitte	√	n/a	n/a	n/a

Nomination & Corporate Governance Committee

The committee comprises of three directors, two of whom are non-executive.

The NCG Committee evaluates the balance of the skills on the Board, recommends appointment of directors, reviews the performance of the Board and manages succession planning. It also reviews corporate governance policies taking into account the Company's corporate governance objectives.

The committee is required to meet at least once a year while other meetings can be held when need arises.

Executive Committee

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

The day to day management of the Company is delegated to the ExCom, which is chaired by the Managing Director. It creates the framework of strategy, organization and objectives to ensure the successful delivery of results.

The ExCom is required to meet at least twice a month while additional meetings may be scheduled where necessary. In 2011, the ExCom had twelve full day and twelve half day meetings.

CONTROL ENVIRONMENT ASSESSMENT

Risk Management

Accepting that risk is an inherent part of doing business, the Group has designed risk management systems to identify, evaluate and monitor key risks while providing assurance that these are fully understood and managed.

Identified risks and risk management are subject to regular review to ensure compliance with internal controls and legislation.

The risk management system is designed to provide reasonable but not absolute assurance that risks are appropriately identified, evaluated and managed.

Internal Controls

The Board has overall responsibility for the systems of internal control which are fully embedded in to the operations of the Company. Certain responsibilities, such as review of the effectiveness of the internal control system and ensuring any required remedial action has been taken on identified weaknesses, are delegated to the Audit Committee.

Internal controls comprise of methods and procedures adopted by Management to provide reasonable assurance in safeguarding assets, prevention and detection of error, accuracy and completeness of accounting records together with reliability of financial statements.

During the year, the Company reviewed all the business cycles and the final versions were approved. The benefits from the process were seen during the year but will have better impact in the coming year.

CODE OF CONDUCT

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

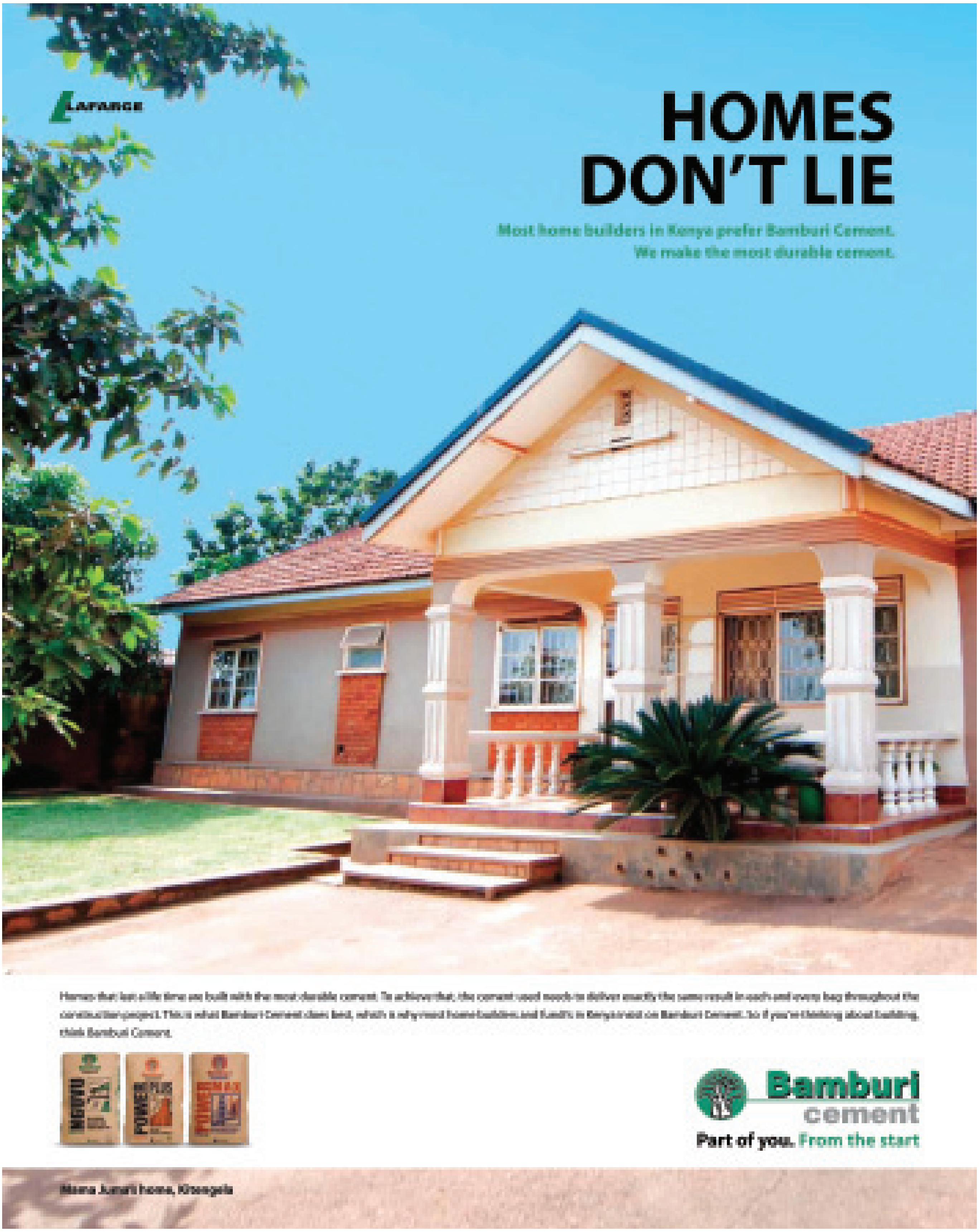
The Group has developed a procedure that specifies the manner in which any potential violations of the Code of Business Conduct should be handled together with the method and level of investigation. The procedure also establishes a whistle blowing hotline that is independently operated to enable employees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

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

COMMUNICATION

The Group is committed to maintaining open and good communication with investors through the Annual General Meeting, annual report, press releases and the corporate website www.lafarge.co.ke. During the AGM, shareholders have the opportunity to meet and question the Board.

The Group continues to promote dialogue with other stakeholders and media.


LAFARGE
HOMES DON'T LIE
Most home builders in Kenya prefer Bamburi Cement.
We make the most durable cement.
NGUVU
POWER PLUS
POWER MAX
Bamburi cement
Part of you. From the start

Homes that last a life time are built with the most durable cement. To achieve that, the cement used needs to deliver exactly the same result in each and every bag throughout the construction project. This is what Bamburi Cement does best, which is why most home builders and fundi's in Kenya insist on Bamburi Cement. So if you're thinking about building, think Bamburi Cement.

Mama Juma's home, Kitengela

OCCUPATIONAL HEALTH AND SAFETY

Overview

Bamburi Cement has once again been recognised as a member of the Lafarge Heath and Safety Excellence Club for the second year running. At the end of 2011, Hima Cement also gained admission into the prestigious club, which has exclusive membership of only 30 other Lafarge business units worldwide. To be among the best 30% of Lafarge business units globally is an outstanding achievement that means the group prides itself in being one of the world's safest businesses.

In 2011, the company registered one of the best performances in Health and Safety in our business history with some of the units achieving more than 5 years without a Lost time Incident (LTI). The business managed to be both LTI and fatality free at all the units; this was against more than seven million working hours registered last year.

Performance in Health and Safety audits

All sites registered improvements in the annual health and safety management system audits. Mombasa plant went up 1.07% to register 74.89%, Kasese Plant was up 2.79% points to register 76.21% while Bamburi Special Products (BSP), with an expanded scope that covered the new facility in Mombasa, managed to improve by 1.60 % to settle at 62.75%. Consequently the group has retained its lead in the Sub Saharan region, holding claim to the best three top scores.

Employee Involvement and participation

The Company has continued upholding the value of creating ownership in health and Safety amongst employees through their active participation. Towards this end the Team Based Safety (TBS) program continued to grow involving 100% of employees and a good number of contractors in taking up various campaigns aimed at improving workplace health and safety. One of the key activities is the safety observation program where employees are challenged to report and act on unsafe conditions in their workplaces. Training also remained key in strengthening our health and safety capacity with over 20,000 hours recorded.

Safety Leadership

For the third year running, the company continued to achieve impressive performance in the Visible Felt Leadership (VFL) program. The program requires the top 75 managers in the business to spend time engaging staff informally at their various areas of work to understand their health and safety challenges and influence the right behaviours. The program exceeded the set target by an average 15% with a total of 3521 VFL missions within the group.

Bamburi Cement Limited
MIMI NI DEREVA WA NGUVU,
NACHUNGA USALAMA BARABARANI, "JE WEWE?"
KBK 906V

Flagging off the 2011 Road Safety Campaign at the Nairobi Grinding Plant

Occupational Health

In 2011, the Company continued to work under the framework of the 3 pillars of heath which are i) Prevention of occupational illnesses and diseases using the hierarchy of risk controls ii) Re-integration of employees by facilitating access to appropriate first aid, emergency treatment, definitive care and modified duties and iii) Promotion of good health through education & screening.

Efforts in developing partnerships for developing health at work and in the community received accolades in Uganda, where Hima Cement won an award from the USAID sponsored Health initiative for the private sector (HIPS) for having a comprehensive medical scheme, a health and HIV policy, a successful peer education program and an outstanding sensitization program on HIV/AIDS, family Planning, Malaria and Sexually Transmitted Infections.

In Kenya the Company run wellness campaigns in all operational sites; through this program employees and contractors were provided the opportunity to evaluate their health through the use of sustainable, integrated and cost efficient medical examination procedures as a way of fostering prevention of lifestyles diseases. More than 1200 workers participated.

Road Safety

The Company yet again registered zero fatalities both in Kenya and Uganda, a major achievement in a continuously challenging road transport environment. The annual road safety campaigns continued in high gear at all the sites under the theme 'Kaa Chonjo, Okoa Maisha Barabarani' ('Stay Alert, Save lives on the road'). The focus of the campaign was educating the public on the dangers of fatigue and distractions while driving. The road shows involved convoys of vehicles moving along the major journey routes with banners and other forms of communication to share the message. In Uganda, road safety training was conducted in 5 primary schools in Hima and in four schools along Kamwenge – Dura road. Separate road safety and defensive riding sessions were conducted for boda-boda cyclists in Hima town and Kamwenge town. About 30 cyclists attended in Hima while over 50 boda-boda riders attended in Kamwenge town.

The company remains grateful to the Traffic Police, the Ministries of Transport, The National Road Safety Council and other stakeholders in both countries for the support they continue to accord.

Hussein Mansi receives "Champion of Champions" Award during Total Eco Challenge 10th Anniversary

ENVIRONMENT

"Long before the severity of deforestation became critical or the imperative of environmental conservation and eco system health was widely recognized by the public or policy makers, one company made an unprecedented investment in reclaiming wasteland." This was the Citation at the 10th anniversary Total Eco Challenge whose goal was to celebrate companies' lifetime achievement of environmental conservation.

Sixty years on, the company has remained faithful to the principles of rehabilitating land while spreading awareness, inspiring others to action, guiding good practice and planting more than 6 million trees year to date amongst many, many other projects.

Seedlings prepared by the community for tree planting

Industrial Ecology and Community Engagement

The Company in 2011 established the Industrial Ecology department whose main responsibility is the development, management and sourcing of alternative energy sources for the company. Being one of the highest consumers of electricity and heavy fuel oils in the region calls for a change in focus of the type and amount of energy consumed.

While success has continuously been achieved in Kasese plant (30% - 40% substitution of energy through waste recovery of coffee husks and rice husks), the goal of achieving 50% fuel substitution is in the offing in the next few years. To achieve this, the company has launched an ambitious project with 41,000 coffee farmers from Kasese and Kamwenge that will see the farmers increase their coffee production capacity while generating sufficient waste for our recovery projects. The company will provide over 14 million seedlings, a move expected to improve livelihoods and households through increased income.

In Kenya the focus has been on increasing Mombasa plant's capacity for use of alternative fuels. The plant was last year licensed as a disposal site to safely burn waste tyres by the National Environment Management Authority (NEMA) a big step in achieving this objective. The Company is also in talks with various stakeholders with a view to establish a large scale waste recovery project in Mombasa.

The Biofuel projects in Diani and Vipingo were also very successful achieving an increase in forest cover by 105 hectares i.e. approximately 426,000 trees (350,000 of which were produced by local community nurseries) earning them Shs 4.2 million cash income. 355 farmers were recruited in 2011 that were then trained, inducted and given the opportunity to plant food crops within the tree plantations.

Bamburi Nature Trails

In 2011 the environmental subsidiary extended the coverage of Bamburi Nature trails by planting more trees and rehabilitating an average of 12 hectares of land. A botanical garden was also added as a new showcase for visitors to the park, the garden features indigenous tree and plant species as well as rare vegetation. The main highlight for Haller Park visitors was also the addition of a Banded Mongoose (Mungos mungo) and a Piggy Warthog (Phacochoeros aethipicus) that were found abandoned and orphaned in Masaai Mara by the Maji Moto Group.

Mongoose at Haller Park

EDUCATION

2011 marked the completion of the "Cement for Schools" schools rehabilitation campaign with the ambitious goal of renovating 118 schools across Kenya that bore the brunt of the 2008 post election violence. Schools were significantly affected either because of direct destruction of school buildings or over capacity due to the movement of displaced families

Lafarge Group CEO Bruno Lafont observes student in a practical exercise at Mobuko Secondary School

and students. The project was very successful and received overwhelming support and recognition from the schools affected together with their respective local education authorities. The company is also grateful to the support and partnership of one of its business partners; Buzeki Enterprises Limited and the Ministry of Education.

Bamburi Cement has for the last 3 years partnered with the Kisauni CDF Bursary Fund to assist outstanding and needy students from Kisauni District who are unable to meet school financial obligations. To date a total of 152 high school students have benefitted from the fund. More than 8 schools also directly benefitted from donations towards additional classrooms, books and desks.

In Kathiani Constituency, the company made donations to both Athi River and Kasuitu Primary Schools to assist in the construction of classrooms, toilets and the fencing of the school's perimeter walls to help in the management of security.

In Uganda, the construction of Mubuku Secondary School laboratory was successfully completed in January 2011. The laboratory block was officially opened and handed over to the school by the Chairman and CEO of Lafarge, Mr. Bruno Lafont in December.

Overall as at end of 2011 Hima Cement had donated 18 newly built classroom, more than 900 desks, 12 latrines and 9 water tanks across both Kamwenge and Kasese districts in under 3 years.

HEALTH

Hima Cement successfully initiated a new program targeting secondary schools dubbed 'Good life at School' (GLAS) program. The program applies the peer education model of creating health awareness amongst the community; more than 300 students enrolled in the program. The company also organized a students' holiday program that involved the participation of employees children together with the neighboring community that focussed on alcohol and drug abuse and its impact on academic excellence.

With these new campaign formats, the company seeks to broaden its community health engagement activities using schools in the coming year.

In August 2011 Hima Cement held its monthly outreach sensitization project at Nyakakindo whose goal was to educate the community on safe male circumcision. The stakeholder team also held a community health outreach day at Rugendabara to address issues couples face in HIV/ AIDS. In both campaigns the company provided free counseling & testing, male circumcision and education on family planning.

Hima Plant Manager - Allen Mate observes at the voluntary male circumcision for HIV prevention campaign

At both the Hima and Mombasa Plant Company clinics, the 'Mother to Child' Programs continued in high gear. The programs target mothers and children less than five years old. Approximately 3,500 mothers and children benefited from this program that is fully financed by the company.

Baobab Trust – Nguuni Clinic

Bamburi Cement Ltd is the principal donor to The Baobab Trust; one of 2011's key achievement of the trust was upgrading the Nguuni Clinic which serves the neighbouring communities close to the Mombasa Plant operations.

Some of the improvements made include an extension with a rest room for patients who are seriously ill, a drug store and a reception office for the clinic administrator. The clinic was also furnished with additional health equipment to provide extra testing for patients, these included: patient beds, an autoclave, an infusion drip stand and a medical stretcher amongst other items.

STAKEHOLDER ENGAGEMENT & COMMUNITY DEVELOPMENT

The Plant Open Day's are a key event in the companies community engagement calendar as they are specifically designed to give our stakeholders the opportunity to understand our operations at the plant and get their feedback on how we can interact better.

On 1st July, 2011, the Nairobi Grinding Plant successfully held an open day which hit a record turnout of 1.2 million visitors. Guided tours were organized for the guests and a lot of entertainment and activities were lined up to engage visitors during the day. For the first time Kenya Wildlife Service (KWS) which shares the largest part of the boundary fence with the company, put up their stand while the Senior Warden for the area committed his support towards joint initiatives for Environmental Conservation.

Bamburi cement

Hon Najib Balala receives 10 acre land donation in Mombasa from Bamburi Cement Chairman for construction of 2000 capacity conference center in Mombasa

To maintain the spirit of accountability to the Kamwenge district communities, Hima Cement also organized a week long "Dura Open Day". Over 200 key stakeholders from Kamwenge district graced the occasion ranging from residents in the villages nearest to the quarry, opinion leaders that influence and make key decisions at Kanara Sub-county as well as Kasese District Local Government.

Several "High Level Stakeholder Engagements" also took place during the year including inauguration of the new Multi Million shilling Hima production factory in Kasese by H.E. President Yoweri Museveni. The factory has so far had positive significant impact on the Ugandan economy. As part of Hima's conservation environmental practices, the President also planted a tree at the new factory compound and pledged his support initiatives that would positively impact on the community.

From 14th to 17th March 2011, the Lafarge Global Vice President for Environment and Public Affairs – Mr. Jim Rushworth, was in Uganda where he took the opportunity to meet with stakeholders including the Uganda Wildlife Authority (UWA) to appraise the Dura project and level of adherence to sustainable mining activities of the company.

Managing Director, Hussein Mansi meeting with MP & Local leaders in Uganda.

Several other meetings were held during the year by the Managing Director, General Manager Hima Cement, Plant Managers and Stakeholder Committees.

As a result of full implementation of the structured stakeholder engagement programs of all our sites, the company achieved a total of 164 meetings out of 127 planned in both countries – strong evidence of the company's endeavour in building mutually beneficial relationships with our neighbours.

AWARDS AND RECOGNITION

Uganda

- Overall Investor of the Year' and Gold Award for Hima Cement's contribution to the Ugandan economy and other social responsibility activities from the Uganda Investment Authority
- Quality Awards – Best Cement Products
- USAID Award - comprehensive medical scheme, health & HIV policy, successful peer education and health promotional programs

Kenya

- Wildlife Habitat Council re-certification for biodiversity conservation
- Rookie of the Year Award nomination for 'Corporate Lands for Learning', focusing on environmental education activities in Haller Park.
- Special Lifetime Achievement Award (Champion of Champions) – Total Eco Challenge
- Fire Awards – Overall Winner – Industrial Sector

Bamburi Cement staff after receiving a fire award

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 61st Annual General Meeting of the Shareholders of Bamburi Cement Limited will be held in Mombasa at the Nyali International Beach Hotel on Thursday 7 June 2012 at 2.00 pm. for the following purposes:

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

2. To read the notice convening the meeting.

3. To receive the Chairman's statement, the Report of the Directors and the Audited Accounts for the year ended 31 December 2011.

4. To declare dividends:

   a) To ratify the payment of the interim dividend of KES. 2.00/= per ordinary share paid on 20 October 2011;

   b) To declare a final dividend payment of KES. 8.00/= per ordinary share for the year ended 31 December 2011.

5. To approve Directors' fees for 2011 and increase Directors' fees in 2012.

6. To re-elect directors:

   a) In accordance with Article 96 of the Company's Articles of Association D Njoroge retires by rotation and being eligible, offers himself for re-election;
   b) In accordance with Article 96 of the Company's Articles of Association C Kisire retires by rotation and being eligible, offers himself for re-election;
   c) In accordance with Article 101 of the Company's Articles of Association, E Kironde, who was appointed a director on 30 November 2011, retires from office and being eligible, offers himself for re-election.

7. To consider and if deemed fit pass the following resolution, special notice having been received pursuant to Sections 142 and 160(1) of the Companies Act (Cap 486 of the laws of Kenya:

   "That Ernst & Young be appointed auditors of the Company in place of the retiring auditors, Deloitte & Touche, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the Directors be authorised to fix their remuneration for 2012."

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

BY ORDER OF THE BOARD

B Kanyagia
Secretary
27 April 2012

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

Rotary Kiln 1 stack at Mombasa Plant

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Report of The Directors

The Directors have the pleasure of presenting their report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

RESULTS	**Shs Million**
Group profit before taxation	8,466
Taxation charge	(2,607)
Group profit for the year	**5,859**
Attributable to:	
Owners of the parent company	5,243
Non-controlling interests	616
	5,859

DIVIDENDS

During the year, an interim dividend of Shs 2.00/= per ordinary share amounting to Shs 726 million (2010 – Shs 544 million and a special interim dividend of Shs 1,452 million) was paid.

The Directors recommend payment of a final dividend of Shs 8.00 (2010 – Shs 7.00/=) per ordinary share equivalent to a total sum of Shs 2,904 million (2010 – Shs 2,541 million) subject to approval of the shareholders at the Annual General Meeting.

DIRECTORS

The present Board of Directors is shown on page 2.

AUDITORS

Deloitte & Touche have indicated that they will not be seeking re-appointment as auditors of the Company at the Annual General Meeting.

A resolution will be proposed at the Annual General Meeting to appoint Ernst & Young as auditors, special notice pursuant to Sections 142 and 160(1) of the Companies Act (Cap 486 of the laws of Kenya) having been received.

BY ORDER OF THE BOARD

B KANYAGIA
Secretary
23 February 2012
Nairobi

Statement of Directors' Responsibilities

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

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

The Directors accept responsibility for the annual financial statements. 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.

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 together with the Group's operating results.

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.

ERIC KIRONDE
Director
23 February 2012

HUSSEIN MANSI
Director
23 February 2012

Independent Auditors' Report

To the members of Bamburi Cement Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Bamburi Cement Limited and its subsidiaries, set out on pages 33 to 84, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, 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 as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company and its subsidiaries as at 31 December 2011 and of its profit 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

ii) the company's statement of financial position (Balance Sheet) is in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)
23 February 2012
Nairobi

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Notes	2011 Shs'million	2010 Shs'million
Revenue		35,884	28,075
Cost of sales	4	(25,920)	(18,457)
Gross Profit		9,964	9,618
Investment income	5	342	143
Other gains and losses	6	544	230
Distribution costs		(213)	(467)
Marketing expenses		(94)	(173)
Administration expenses	7	(1,151)	(1,064)
Other expenses	8	(552)	(632)
Finance costs	9	(374)	(91)
Profit before taxation	10(a)	8,466	7,564
Taxation charge	11	(2,607)	(2,265)
Profit for the year	12	5,859	5,299
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		219	(654)
Net (loss)/gain on revaluation of available for sale financial assets	20(b)	(271)	5
(Loss)/gain on hedging instruments entered into for cash flow hedges		8	28
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		(44)	(621)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,815	4,678
Profit attributable to:			
Owners of the parent company		5,243	5,089
Non-controlling interests		616	210
		5,859	**5,299**
Total comprehensive income attributable to:			
Owners of the parent company		5,130	4,662
Non-controlling interests		685	16
		5,815	**4,678**
Earnings per share – basic and diluted	13	Shs 14.44	Shs 14.02
Dividends per share	14(c)	Shs 10.00	Shs 8.50

Consolidated Statement of Financial Position

at 31 December 2011

	Notes	2011 Shs'million	2010 Shs'million
Non current assets			
Property, plant and equipment	15(a)	16,939	17,833
Prepaid operating lease rentals	16	177	187
Intangible assets	17	106	76
Capital work in progress	18	2,067	1,219
Other equity investments	20	640	911
Goodwill	21	217	217
		20,146	**20,443**
Current assets			
Corporate tax recoverable	11(c)	417	10
Inventories	22	4,305	3,523
Trade and other receivables	23(a)	1,465	1,686
Cash flow hedge contracts	24	33	28
Bank and cash balances	25(a)	7,136	7,616
		13,356	**12,863**
TOTAL ASSETS		**33,502**	**33,306**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	26	1,815	1,815
Revaluation surplus	27(a)	1,823	2,063
Fair value reserve	27(b)	437	708
Translation reserve	27(c)	(63)	(377)
Cash flow hedging reserve	27(d)	33	25
Retained earnings		17,983	15,931
Equity attributable to owners of the company		22,028	20,165
Non-controlling interests		2,146	1,461
Total equity		**24,174**	**21,626**
Non-current liabilities			
Deferred tax liability	28	3,076	2,620
Provision for liabilities and charges	29	536	529
Term loan	31(b)	619	1,067
		4,231	**4,216**
Current liabilities			
Corporate tax payable	11(c)	-	72
Unclaimed dividends	14(a)	29	30
Provision for liabilities and charges	29	216	261
Trade and other payables	30	4,080	5,215
Term Loan	31(b)	772	1,886
		5,097	**7,464**
		33,502	**33,306**

The financial statements on pages 33 to 84 were approved and authorised for issue by the board of Directors on 23 February 2012 and were signed on its behalf by:

ERIC KIRONDE **Director**	**HUSSEIN MANSI** **Director**

Company Statement of Financial Position

at 31 December 2011

	Notes	2011 Shs'million	2010 Shs'million
ASSETS			
Non current assets			
Property, plant and equipment	15(b)	7,710	8,128
Prepaid operating lease rentals	16	1	1
Intangible assets	17	103	72
Capital work in progress	18	875	810
Investments in subsidiaries	19	968	968
Other equity investments	20	640	911
Loan to subsidiary	35 (iii)	231	257
		10,528	**11,147**
Current assets			
Corporate tax recoverable	11(c)	388	-
Inventories	22	2,916	2,341
Trade and other receivables	23(a)	2,614	2,180
Cash flow hedge contracts	24	15	19
Bank and cash balances	25	6,286	7,215
Loan to subsidiary	35 (iii)	29	29
		12,248	**11,784**
TOTAL ASSETS		**22,776**	**22,931**
EQUITY AND RESERVES			
Capital and reserves			
Share capital	26	1,815	1,815
Revaluation surplus	27(a)	1,756	1,942
Fair value reserve	27(b)	437	708
Cash flow hedging reserve	27(d)	15	19
Retained earnings		13,476	12,837
Shareholders' funds		**17,499**	**17,321**
Non-current liabilities			
Deferred tax liability	28	1,527	1,707
Provision for liabilities and charges	29	536	513
		2,063	**2,220**
Current liabilities			
Corporate tax payable	11(c)	-	72
Unclaimed dividends	14(a)	29	30
Provision for liabilities and charges	29	148	147
Trade and other payables	30	3,037	3,141
		3,214	**3,390**
		22,776	**22,931**

The financial statements on pages 33 to 84 were approved and authorised for issues by the board of Directors on 23 February 2012 and were signed on its behalf by:

ERIC KIRONDE
Director

HUSSEIN MANSI
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Share capital Shs'million Note 26	Revaluation surplus Shs'million Note 27(a)	Fair value reserve Shs'million Note 27(b)	Cash flow hedge Reserve Shs million Note 27(d)	Translation reserve Shs'million Note 27(c)	Retained earnings Shs'million	Attributable to equity holders of parent Shs'million	Non-controlling interests Shs'million	Total Shs'million
At 1 January 2010	1,815	2,249	703	-	56	14,674	19,497	1,444	20,941
Profit for the year	-	-	-	-	-	5,089	5,089	210	5,299
Other comprehensive income for the year									
Exchange differences on translation of foreign operations	-	16	-	-	(433)	(41)	(458)	(196)	(654)
Net loss on available for sale investments	-	-	5	-	-	-	5	-	5
Gain on hedging Instruments entered into for cashflow hedges	-	-	-	25	-	-	25	3	28
Total comprehensive income for the year	**-**	**16**	**5**	**25**	**(433)**	**5,048**	**4,661**	**17**	**4,678**
Transfer of excess depreciation	-	(284)	-	-	-	284	-	-	-
Deferred tax on excess depreciation	-	85	-	-	-	(85)	-	-	-
Revaluation Reserve realised on disposal of property	-	(4)	-	-	-	4	-	-	-
Deferred Tax on Revaluation Realised on disposal of property	-	1	-	-	-	(1)	-	-	-
Dividends:									
- final dividends for 2009 declared and paid	-	-	-	-	-	(1,997)	(1,997)	-	(1,997)
- interim for 2010 declared and paid	-	-	-	-	-	(544)	(544)	-	(544)
- Special Interim Dividend	-	-	-	-	-	(1,452)	(1,452)	-	(1,452)
At 31 December 2010	**1,815**	**2,063**	**708**	**25**	**(377)**	**15,931**	**20,165**	**1,461**	**21,626**
At 1 January 2011	**1,815**	**2,063**	**708**	**25**	**(377)**	**15,931**	**20,165**	**1,461**	**21,626**
Profit for the year	-	-	-	-	-	5,243	5,243	616	5,859
Other comprehensive income for the year									
Exchange differences on translation of foreign operations	-	(33)	-	-	314	(131)	150	69	219
Net loss on available for sale investments	-	-	(271)	-	-	-	(271)	-	(271)
Gain on hedging instruments entered into for cashflow hedges	-	-	-	8	-	-	8	-	8
Total comprehensive income for the year	**-**	**(33)**	**(271)**	**8**	**314**	**5,112**	**5,130**	**685**	**5,815**
Transfer of excess depreciation	-	(296)	-	-	-	296	-	-	-
Deferred tax on excess depreciation	-	89	-	-	-	(89)	-	-	-
Dividends:									
- final dividends for 2010 declared and paid	-	-	-	-	-	(2,541)	(2,541)	-	(2,541)
- interim dividends for 2011 declared and paid	-	-	-	-	-	(726)	(726)	-	(726)
At 31 December 2011	**1,815**	**1,823**	**437**	**33**	**(63)**	**17,983**	**22,028**	**2,146**	**24,174**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

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

- The revaluation surplus represents the net cumulative surplus arising from revaluations of property, plant and equipment - Note 27(a).
- The fair value reserve represents the cumulative surplus or deficit arising from revaluation of available-for-sale investments from cost to fair value based on the market values of the equities at the end of the reporting period – Note 27(b).
- Retained earnings represent accumulated profits retained by the Group after payment of dividends to the shareholders.
- The translation reserve represents the cumulative position on translation gains and losses arising from conversion of net assets of the foreign subsidiary company to the reporting currency – Note 27(c).
- The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes of fair value of hedging instruments entered into for cash flow hedges – Note 27(d).

Company Statement of Changes in Equity

for the year ended 31 December 2011

				Cash flow		
	Share	Revaluation	Fair value	hedging	Retained	
	capital	surplus	reserve	reserve	earnings	Total
	Shs'million	Shs'million	Shs'million	Shs million	Shs'million	Shs'million
	Note 26	Note 27(a)	Note 27(b)	Note 27(d)		
At 1 January 2010	**1,815**	**2,126**	**703**	**-**	**12,094**	**16,738**
Profit for the year	-	-	-	-	4,552	4,552
Other comprehensive income for the year						
Net loss on available for sale investments	-	-	5	-	-	5
Gain on hedging Instruments entered into for cashflow hedges	-	-	-	19	-	19
Total comprehensive income for the year	**-**	**-**	**5**	**19**	**4,552**	**4,576**
Transfer of excess depreciation	-	(262)	-	-	262	-
Deferred tax on excess depreciation	-	78	-	-	(78)	-
Dividends:						
- final dividends for 2009 declared and paid	-	-	-	-	(1,997)	(1,997)
- interim dividends for 2010 declared and paid	-	-	-	-	(544)	(544)
- special interim dividend declared and paid	-	-	-	-	(1,452)	(1,452)
At 31 December 2010	**1,815**	**1,942**	**708**	**19**	**12,837**	**17,321**
At 1 January 2011	**1,815**	**1,942**	**708**	**19**	**12,837**	**17,321**
Profit for the year	-	-	-	-	3,720	3,720
Other comprehensive income for the year						
Net loss on available for sale investments	-	-	(271)	-	-	(271)
Gain on hedging instruments entered into for cashflow hedges	-	-	-	(4)	-	(4)
Total comprehensive income for the year	**-**	**-**	**(271)**	**(4)**	**3,720**	**3,445**
Transfer of excess depreciation	-	(266)	-	-	266	-
Deferred tax on excess depreciation	-	80	-	-	(80)	-
Dividends:						
- final dividends for 2010 declared and paid	-	-	-	-	(2,541)	(2,541)
- interim dividends for 2011 declared and paid	-	-	-	-	(726)	(726)
At 31 December 2011	**1,815**	**1,756**	**437**	**15**	**13,476**	**17,499**

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

- The revaluation surplus represents the net cumulative surplus arising from revaluations of property, plant and equipment – Note 27(a).
- The fair value reserve represents the cumulative surplus or deficit arising from revaluation of available-for-sale investments from cost to fair value based on the market values of the equities at the end of the reporting period – Note 27(b).
- The retained earnings represent accumulated profit retained by the company after payment of dividends to the shareholders.
- The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes of fair value of hedging instruments entered into for cash flow hedges – Note 27(d).

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Notes	2011 Shs'million	2010 Shs'million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	7,595	10,949
Interest received	5	342	128
Realised/unrealised Foreign Exchange gain	6	417	-
Interest paid	9	(374)	(91)
Taxation paid	11(c)	(2,300)	(2,251)
Net cash generated from operating activities		**5,680**	**8,735**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment, intangible assets and expenditure on capital work in progress		(1,373)	(3,429)
Proceeds from disposals of property, plant and equipment		-	5
Dividends received	5	-	15
Net cash used in investing activities		**(1,373)**	**(3,409)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company	14(b)	(3,268)	(3,993)
Loans repaid	31(b)	(1,572)	(3,034)
Term loan received	31(b)	-	2,872
Net cash used in financing activities		**(4,840)**	**(4,155)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(533)**	**1,171**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At beginning of the year	**25(a)**	7,616	6,427
Net increase in cash and cash equivalents above		(533)	1,171
Effects of exchange rate changes on cash held in foreign currencies		53	18
At end of the year	**25(b)**	**7,136**	**7,616**

Notes to the Financial Statements

for the year ended 31 December 2011

1 ACCOUNTING POLICIES

Statement of compliance

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

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2011

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The Group continued to disclose such items in the statement of changes in equity and the amendment had no effect on the Group's financial statements.
IAS 24, Related Party Disclosures (as revised in 2010)	IAS 24 (as revised in 2010) has been revised on the following two aspects: (a) IAS 24 (as revised in 2010) has changed the definition of a related party and (b) IAS 24 (as revised in 2010) introduces a partial exemption from the disclosure requirements for government-related entities. The Group is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2010) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.
Amendments to IAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

1 ACCOUNTING POLICIES (Continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2011 (Continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the Group's financial statements.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 9, Financial Instruments – Classification and Measurement (2010)	1 January 2015
IFRS 10,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 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
Amendment to interpretations	
IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction; prepayments of a minimum funding requirement	1 January 2013
New interpretations	
IFRIC 20, Striping Costs in the production phase of a surface mine	1 January 2013

The above amendments are generally effective for annual period beginning on or after 1 January 2012. The group will apply the amendments prospectively. Other than presentation, the directors anticipate no material impact to the group's financial statements.

1 ACCOUNTING POLICIES (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

- **IFRS 9, Financial Instruments**
  IFRS 9 *Financial Instruments* issued in November 2010 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition.

  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 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 recognised 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 recognised in profit or loss.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

  The group is yet to assess IFRS 9's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2015.

- **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.

  The Group is yet to assess IFRS 10's full impact and intends to adopt the standard no earlier than the accounting period beginning on or after 1 January 2013.

- **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.

  The group is yet to assess IFRS 11's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

- **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.

- **IFRS 13 Fair Value Measurements**
  IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

  IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

  With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and;
- Level 3 - unobservable inputs for the asset or liability.

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.

- **Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)**
  These amend IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

  The above amendments are generally effective for annual periods beginning on or after 1 January 2012. The Group will apply this amendment prospectively. The directors anticipate no material impact to the Group's financial statements currently. However, the Group would have to apply this standard to any such arrangements entered into in the future.

- **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)**
  These amend IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and Other Comprehensive Income (OCI) to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement.

- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified

- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The Group will apply the amendments prospectively. Other than presentation, the directors anticipate no material impact to the Group's financial statements.

- **IAS 19 (as revised in 2011)- 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 financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may not have an impact on the financial statements.
- **IAS 28 Investments in Associates and Joint Ventures (2011)**

  This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

  The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

  The standard is effective for annual periods beginning on or after 1 January 2013. The Group will apply this amendment prospectively. The directors, however, anticipate no material impact to the Group's financial statements.

(iv) Early adoption of standards

The Group did not early-adopt any new or amended standards in 2011.

(a) Basis of preparation

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

(b) Consolidation

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified.

(c) Revenue recognition

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

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

(d) Translation of foreign currencies

i) Transactions and balances

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

ii) Translation of foreign operations

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

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

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

(e) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.
All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leases

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

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

(g) Goodwill

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

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

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

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

(i) Intangible assets

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

(j) Taxation

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

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

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

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

(k) Inventories

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

(l) Dividends payable

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

(m) Financial instruments

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

Financial assets

i) Classification and measurement

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

Financial instruments at fair value through profit or loss are recognised initially at fair value; transaction costs are taken directly to the profit or loss for the year. Gains and losses arising from changes in fair value are included directly in the profit or loss for the year. The net gain or loss recognised in the profit or loss for the year incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Held to maturity financial assets

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

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

Available-for-sale financial assets

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

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

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

Dividends on available for sale equity instruments are recognised in the profit or loss for the year when the Group's right to receive the dividends is established.

ii) Reclassification of financial assets

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

iii) De-recognition of financial assets

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

iv) Impairment of financial assets

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

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

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

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

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

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

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

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

Financial liabilities and equity instruments issued by the Group.

i) Classification and measurement

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

Equity instruments

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

Financial liabilities

Financial liabilities are classified as other financial liabilities.

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

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

ii) De-recognition of financial liabilities

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

(n) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to changes in fuel prices and foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

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

(o) Offsetting

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

(p) Retirement benefits obligations

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

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

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

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

(q) Impairment of non financial assets

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

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

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

(r) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period end taking into account the risks and uncertainties surrounding the obligation.

Restructuring Provisions

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

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

(s) Employee entitlements

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

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the reporting period end

(t) Segmental reporting

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

Segment result is segment revenue less segment expenses.

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

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

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

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

(u) Comparatives

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Inventories provision

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

Impairment losses

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

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

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

Useful lives of property, plant and equipment

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

Contingent liabilities

As disclosed in note 32 to these financial statements, the Group is exposed to various contingent liabilities in the normal course of business including a number of legal cases.

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

Income taxes

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

3 SEGMENT INFORMATION

In accordance with IFRS 8, Operating segments, the information presented hereafter by operating segment is the same as that reported to the Chief Operating Decision Maker (the Managing Director) for the purposes of making decisions about allocating resources to the segment and assessing its performance. The Group analyses its organisational structure and internal reporting system for the purpose of identifying suitable segment reporting format for the Group. In particular, the Group has identified geographical segments as the primary segment reporting format that is suitable for the Group. The Group is organised on a regional basis into two main geographical segments: Kenya and Uganda.

Both geographical segments are mainly involved in the manufacture and sale of cement which comprises over 95% of the business activities of the Group. The remaining business activities, which include manufacture and sale of ready mix concrete, paving blocks and rehabilitation of quarries that are used as source of raw materials for cement productions, are not deemed significant for separate segment reporting.

Group management internally evaluates its performance based upon:

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

Year ended 31 December 2011 - All figures in million of Kenya Shillings

	Kenya	Uganda	Group
Revenue	18,221	17,663	35,884
Interest income	313	29	342
Interest expense	-	(374)	(374)
Profit before taxation	5,907	2,559	8,466
Income taxation expense	(1,677)	(930)	(2,607)
Profit for the year	4,230	1,629	5,859
Segment assets	24,012	9,490	33,502
Segment liabilities	5,495	3,833	9,328
Capital additions	584	752	1,336
Depreciation and amortisation	772	559	1,331

Year ended 31 December 2010 - All figures in million of Kenya Shillings

	Kenya	Uganda	Group
Revenue	17,579	10,496	28,075
Interest income	141	2	143
Interest expense	-	(91)	(91)
Profit before taxation	6,556	1,008	7,564
Income taxation expense	(1,957)	(308)	(2,265)
Profit for the year	4,599	700	5,299
Segment assets	24,065	9,241	33,306
Segment liabilities	5,719	5,961	11,680
Capital additions	847	2,582	3,429
Depreciation and amortisation	731	284	1,015

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

In addition to the depreciation and amortisation reported above, impairment losses of Shs Nil (2010: 11 million) were recognised in respect of property, plant and equipment. These losses were attributable to Kenya reportable segment.

Information about major customers

Included in the revenues of Shs 35,884 million (2010: Shs 28,075 million) are approximately Shs 1,939 million (2010: Shs 1,420 million) which arose from sales to the group's largest customer.

Notes to the Financial Statements

for the year ended 31 December 2011

		GROUP	
		2011 Shs'million	2010 Shs'million
4	**COST OF SALES**		
	Energy	8,106	5,088
	Maintenance supplies and contract works	1,178	1,062
	Imported clinker	1,506	1,429
	Packaging	1,451	1,052
	Additives and production supplies	2,849	2,013
	Freight of raw materials	4,216	2,303
	Purchased cement and clinker costs	1,529	1,368
	Staff costs	1,567	1,455
	Professional fees	491	425
	Telecommunication costs	60	40
	Transport and Travelling costs	61	82
	Rentals, Security and business licences	371	210
	Depreciation	1,161	922
	Amortisation	23	20
	Other	1,351	988
		25,920	18,457
5	**INVESTMENT INCOME**		
	Interest income – Held to maturity bank deposits	342	128
	Dividends income – Available for sale equity investments	-	15
		342	143
6	**OTHER GAINS AND LOSSES**		
	Gain on disposal of property, plant and equipment	1	5
	Sundry income	126	225
	Net foreign exchange gains/(losses)	417	-
		544	230
7	**ADMINISTRATION EXPENSES**		
	Staff costs	708	672
	Professional fees	47	41
	Telecommunication costs	132	138
	Transport and travelling costs	122	57
	Rentals, security and business licences	83	95
	Bank charges	59	61
		1,151	1,064

			GROUP	
			2011 Shs'million	2010 Shs'million
8	**OTHER EXPENSES**			
	Depreciation		65	61
	Amortisation		12	12
	Contract works		35	51
	Technical fees		402	444
	Other costs		38	64
			552	632
9	**FINANCE COSTS**			
	Interest expense		374	91
10	**(a)**	**PROFIT BEFORE TAXATION**		
		The profit before taxation is arrived at after charging		
		Staff costs (note 10b)	2,275	2,127
		Depreciation	1,226	983
		Amortisation of intangible assets	25	29
		Amortisation of leasehold land	10	3
		Directors' emoluments: (note 35 (iv))		
		- Fees	4	4
		- Other emoluments	152	134
		Auditors' remuneration	8	9
	(b)	**STAFF COSTS**		
		Defined contribution plans	86	85
		Defined benefit plans - Gratuities	129	60
		Other employee benefits	2,060	1,982
			2,275	2,127
		Presented as;		
		Cost of sales (Note 4)	1,567	1,455
		Administration expenses (Note 7)	708	672
			2,275	2,127
		The number of people employed by the Group at year ended was:		
		Full time	955	999
		Casuals and contract	30	44
		Total number of staff	985	1,043

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11 TAXATION

	GROUP	
	2011 Shs'million	2010 Shs'million
(a) Taxation charge		
Current taxation based on the adjusted profit at 30%	1,829	1,992
Over provision of current tax in prior years	-	(3)
Net current taxation charge	1,829	1,989
Deferred tax charge (note 28)	779	338
Over provision of deferred tax in prior years (note 28)	(1)	(62)
Net deferred tax charge	778	276
Total taxation charge	2,607	2,265
(b) Reconciliation of expected tax based on accounting profit to taxation charge:		
Profit before taxation	8,466	7,564
Tax calculated at the domestic rates applicable of 30 %	2,540	2,269
Tax effect of income not subject to tax	-	(5)
Tax effect of expenses not deductible for tax purposes	68	66
Over provison of current tax in prior years	(1)	(3)
Over provision of deferred tax in prior years	-	(62)
Total taxation charge	2,607	2,265

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
(c) Net tax (recoverable)/payable at the beginning of the year	62	347	72	328
Taxation charge	1,829	1,992	1,829	1,986
Taxation paid	(2,300)	(2,251)	(2,295)	(2,239)
Prior Year Under provision	-	(3)	6	(3)
Foreign Exchange differences	(8)	(23)	-	-
Net tax payable at end of the year	(417)	62	(388)	72
Comprising				
Tax Payable	-	72	-	72
Tax Recoverable	(417)	(10)	(388)	-
Net tax (recoverable)/payable at end of the year	(417)	62	(388)	72

12 PROFIT FOR THE YEAR

Included in the profit for the year is an amount of Shs 3,720 million (2010 – 4,552 million) which relates to and is dealt with in the parent company's separate financial statements.

13 EARNINGS PER SHARE

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

	2011	2010
Net profit attributable to owners of the Group (Shs million)	5,243	5,089
Weighted average number of ordinary shares (million)	363	363
Basic and diluted earnings per share (Shs)	14.44	14.02

There were no potentially dilutive shares as at 31 December 2011 and as at 31 December 2010. There were also no discontinued operations during the year (2010: Nil).

14 DIVIDENDS

	GROUP & COMPANY	
	2011 Shs'million	2010 Shs'million
(a) Unclaimed dividends		
At beginning of year	30	30
Declared during the year	3,267	3993
Dividends claimed in the year - note 14(b)	(3,268)	(3,993)
At end of year	29	30
(b) Payments during the year 2011:		
Final dividend for previous years	2,542	1,997
Interim dividend for current year	726	544
Special interim dividend – post year end	-	1,452
	3,268	3,993
(c) Dividends declared in respect of the year		
Interim dividend - paid in the year	726	544
Final dividend proposed – post year end	2,904	2,541
	3,630	3,085
Dividends per share (based on number of shares per note 13)	Sh 10.00	Shs 8.50

Proposed final dividend
On 31 October 2011 an interim dividend of Sh 2.0 (2010-Shs 1.50) per share representing an amount of Shs 726 million (2010: Shs 544 million) was declared and paid.

In respect of the current year, the Directors propose that a final dividend of Shs 8.00 (2010 – Shs 7.00) per share equivalent to a total sum of Shs 2,904 million (2010 – Shs 2,541 million) be paid to the shareholders.

The final dividend is subject to approval by owners of the Group at the Annual General Meeting and has not been included as a liability in these financial statements.

Withholding tax
Payment of dividends is subject to withholding tax at a rate of 10% for non-resident owners of the group and 5% for resident shareholders. For resident owners of the group, withholding tax is only deductible where the shareholding is below 12.5%.

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for the year ended 31 December 2011

15 PROPERTY, PLANT AND EQUIPMENT

a) GROUP

	Land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile plant Shs'million	Total Shs'million
Cost or valuation					
At 1 January 2010	1,324	23,340	789	816	26,269
Foreign exchange adjustments *	(56)	(512)	(35)	(22)	(625)
Additions	97	7,141	135	20	7,393
Disposals	-	-	-	(4)	(4)
Transfers	-	(23)	-	-	(23)
At 31 December 2010	1,365	29,946	889	810	33,010
At 1 January 2011	1,365	29,946	889	810	33,010
Foreign exchange adjustments *	(3)	(16)	(4)	(2)	(25)
Additions	26	73	-	-	99
Disposals	-	-	-	(2)	(2)
Transfers	-	146	187	5	338
At 31 December 2011	1,388	30,149	1,072	811	33,420
Depreciation					
At 1 January 2010	264	13,048	481	629	14,422
Foreign exchange adjustments*	(23)	(158)	(23)	(20)	(224)
Charge for the year	28	831	84	40	983
Disposals	-	-	-	(4)	(4)
At 31 December 2010	269	13,721	542	645	15,177
At 1 January 2011	269	13,721	542	645	15,177
Foreign exchange adjustments*	117	(34)	(2)	(1)	80
Charge for the year	30	1,027	134	35	1,226
Disposals	-	-	-	(2)	(2)
At 31 December 2011	416	14,714	674	677	16,481
Net book value					
At 31 December 2011	972	15,435	398	134	16,939
At 31 December 2010	1,096	16,225	347	165	17,833

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

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

b) COMPANY

	Land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile plant Shs'million	Total Shs'million
Cost or valuation					
At 1 January 2010	857	19,459	452	576	21,344
Additions	-	362	67	-	429
Transfers	-	(23)	-	-	(23)
At 31 December 2010	857	19,798	519	576	21,750
At 1 January 2011	857	19,798	519	576	21,750
Additions	6	11	-	-	17
Transfers	-	109	173	-	282
At 31 December 2011	863	19,918	692	576	22,049
Depreciation					
At 1 January 2010	54	12,127	280	483	12,944
Charge for the year	8	606	51	13	678
At 31 December 2010	62	12,733	331	496	13,622
At 1 January 2011	62	12,733	331	496	13,622
Charge for the year	8	640	56	13	717
At 31 December 2011	70	13,373	387	509	14,339
Net book value					
At 31 December 2011	793	6,545	305	67	7,710
At 31 December 2010	795	7,065	188	80	8,128

(c) OTHER DISCLOSURES

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Cost	20,198	20,016	9,521	9,222
Accumulated depreciation	(6,089)	(4,006)	(4,286)	(3,835)
Net book value	14,109	16,010	5,235	5,387

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) OTHER DISCLOSURES (Continued)

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

Land and residential buildings include freehold land with a carrying value of Shs 504 million (2010: Shs 504 million) located in Mombasa and limestone deposits with a carrying value of Shs 56 million (2010: Shs 79 million) in Kasese, Uganda.

The Group's plant and machinery, office equipment and mobile plant with a cost of Shs 1,021 million were fully depreciated as at 31 December 2011 (2010: Shs 900 million). The normal annual depreciation charge on these assets in the year ended 31 December 2011 would have been Shs 170 million (2010: Shs 150 million).

The company's plant and machinery, office equipment and mobile plant with a cost of Shs 729 million were fully depreciated as at 31 December 2011 (2010: Shs 711 million). The normal annual depreciation charge on these assets in the year ended 31 December 2011 would have been Shs 122 million (2010: Shs 119 million).

16 PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Net carrying value at beginning and end of year	177	187	1	1

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

17 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP Shs'million	COMPANY Shs'million
Cost		
At 1 January 2010	463	389
Additions	4	-
At 31 December 2010	467	389
At 1 January 2011	467	389
Additions	55	55
At 31 December 2011	522	444
Amortisation		
At 1 January 2010	362	289
Charge for the year	29	28
At 31 December 2010	391	317
At 1 January 2011	391	317
Charge for the year	25	24
At 31 December 2011	416	341
Net book value		
At 31 December 2011	106	103
At 31 December 2010	76	72

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

18 CAPITAL WORK IN PROGRESS

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
At 1 January	1,219	6,258	810	556
Additions	1,219	974	397	666
Transfers to property plant and equipment	(376)	(4,942)	(332)	(306)
Retirements	-	(106)	-	(106)
Foreign exchange adjustments*	5	(965)	-	-
At 31 December	2,067	1,219	875	810

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

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19 INVESTMENTS IN SUBSIDIARIES

Held at cost less impairment provisions:

Details of the subsidiaries in the Group are provided below:

		COMPANY	
	Holding %	2011 Shs'million	2010 Shs'million
Simbarite Limited (Kenya)	100	53	53
Less: impairment provision		(22)	(22)
		31	31
Bamburi Special Products Limited (Kenya)	100	20	20
Bamburi Cement Limited, Uganda (Kenya)	100	-	-
HimCem Holdings Limited (Channel Islands)	100	911	911
Lafarge Eco Systems Limited (Kenya)	100	5	5
Diani Estate Limited (Kenya)	100	1	1
Kenya Cement Marketing Limited (Kenya)	50	-	-
Portland Mines Limited (Kenya)	50	-	-
Seruji Management Limited (Channel Islands)	100	-	-
		968	968

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

20 OTHER EQUITY INVESTMENTS – Available for sale

These represent Available-For-Sale investments, which are carried at fair value annually at the close of business on the reporting date. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices. For other investments, fair value is determined by reference to the current market for similar instruments or by reference to the discounted cash flows of the underlying net assets. The market value of the quoted equity shares at 31 December 2011 was Shs 640 million (2010: Shs 911 million). Changes in the fair values are recognised in the other comprehensive income and accumulated in fair value reserve in equity.

a) Movement in available-for-sale investments

	GROUP AND COMPANY	
	2011 Shs'million	2010 Shs'million
At 1 January	911	906
Fair value (loss)/gains (note 20(b))	(271)	5
At 31 December	640	911

20 OTHER EQUITY INVESTMENTS - Available for sale (Continued)

b) Analysis of the equity investments

	Number of shares			Valuation			
						Increase/	
	At	Additions/	At	At	Additions/	(decrease) in	At
	1.1.2010	(disposals)	31.12.2010	1.1.2010	(disposals)	market value	31.12.2010
Quoted investments	Units	Units	Units	Shs'million	Shs'million	Shs'million	Shs'million
East African Portland Cement Limited	11,265,068	-	11,265,068	901	-	-	901
Kenya Oil company Limited	905,500	-	905,500	5	-	5	10
				906	-	5	911

	Number of shares			Valuation			
						Increase/	
	At	Additions/	At	At	Additions/	(decrease) in	At
	1.1.2011	(disposals)	31.12.2011	1.1.2011	(disposals)	market value	31.12.2011
Quoted investments	Units	Units	Units	Shs'million	Shs'million	Shs'million	Shs'million
East African Portland Cement Limited	11,265,068	-	11,265,068	901	-	(270)	631
Kenya Oil company Limited	905,500	-	905,500	10	-	(1)	9
				911	-	(271)	640

21 GOODWILL

	Shs'million	Shs'million
At beginning and end of the year	217	217

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

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

22 INVENTORIES

	GROUP		COMPANY	
	2011	2010	2011	2010
	Shs'million	Shs'million	Shs'million	Shs'million
Raw materials	536	485	256	384
Bio fuel supplies	350	281	350	281
Consumables and spare parts	1,505	1,515	928	986
Finished and semi-finished goods	959	884	637	473
Fuel and packaging	955	358	745	217
	4,305	3,523	2,916	2,341

The Bio fuel supplies relate to direct operating costs incurred in respect to the on-going Bio-fuels project. These costs include those relating to labour, seedlings, transportation and other directly attributable overheads.

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23 TRADE AND OTHER RECEIVABLES

(a) Analysis of trade and other receivables:

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Trade receivables	(19)	301	(71)	50
Prepayments	744	711	665	596
Deposits	34	29	28	27
Other receivables	525	466	466	270
Receivables from related companies (Note 35 (ii))	181	179	1,526	1,237
	1,465	1,686	2,614	2,180

(b) Trade receivables:

The average credit period on sales of finished goods is 30 days. The bulk of the trade receivables are covered by bank guarantees in favour of the Group. Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed quarterly.

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
At beginning of year	80	362	10	242
Impairment losses	-	(255)	-	(212)
(Recoveries)/additions	(43)	(27)	26	(20)
At end of year	37	80	36	10

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

24 CASH FLOW HEDGE CONTRACTS

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Derivatives designated and effective as hedging instruments	33	28	15	19

The Group has entered into cash flow hedge contracts with its holding company Lafarge SA. The contracts have different maturity dates ranging upto 12 months from the end of the reporting period.

25 BANK AND CASH BALANCES

(a) Analysis of bank and cash balances:

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Cash at bank and on hand	2,283	1,272	1,458	896
Cash deposits with related party (note 35(ii))	4,828	6,077	4,828	6,077
Short term bank deposits – Held to maturity	25	267	-	242
	7,136	7,616	6,286	7,215

(b) Cash and cash equivalents:

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Bank and cash balances (note 25(a))	7,136	7,616	6,286	7,215

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

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Short term fixed deposits	4,853	2,674	4,828	2,424

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

	GROUP		COMPANY	
	2011	2010	2011	2010
Local currencies	9.52%	2.50%	7.72%	3.14%
Foreign currencies	0.87%	0.26.%	1.13%	0.41%

(c) Cash deposit with related party

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

	GROUP		COMPANY	
	2011	2010	2011	2010
Local currencies	7.86%	3.13%	7.86%	3.13%
Foreign currencies	0.11%	0.24%	0.55%	0.24%

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26 SHARE CAPITAL

	GROUP AND COMPANY	
	2011 Shs'million	2010 Shs'million
Authorised		
366,600,000 ordinary shares of Shs 5 each	1,833	1,833
100,000, 7% redeemable cumulative preference shares of Shs 20 each	2	2
	1,835	1,835
Issued and fully paid		
362,959,275 ordinary shares of Shs 5 each	1,815	1,815

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

27 RESERVES

a. Revaluation reserve

The revaluation reserve arises on the revaluation of property, plant and equipment. When revalued and assets are sold, the portion of the revaluation reserve that relates to those assets are effectively realised and transferred directly to retained earnings. The revaluation reserve is not distributable.

b. Fair value reserve

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

	GROUP AND COMPANY	
	2011 Shs'million	2010 Shs'million
At 1 January	708	703
Net gain arising on revaluation of available for sale investments (note 20(b))	(271)	5
At 31 December	437	708

c. Translation reserve

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

d. Cash flow hedging reserve

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

28 DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2010: 30%). The makeup of the deferred tax liabilities at the year end and the movement on the deferred tax account during the year are as presented below:

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Accelerated capital allowances on property, plant and equipment	3,054	3,162	1,063	1,132
Foreign exchange differences	44	(19)	2	(8)
Provisions	(568)	(280)	(258)	(217)
Revaluation surplus	838	931	720	800
Tax losses	(292)	(1,174)	-	-
	3,076	2,620	1,527	1,707

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
At beginning of year	2,620	2,445	1,707	1,762
Charge/(credit) to profit or loss for the year (note11 (a))	779	338	(180)	(4)
Prior years over provision (note11 (a))	(1)	(62)	-	(51)
Foreign exchange differences	(322)	(101)	-	-
At end of year	3,076	2,620	1,527	1,707

Deferred tax liabilities amounting to Shs 89 million (2010: Shs 85 million) in respect of the Group and Shs 80 million (2010: Shs 78 million) in respect of the company has been transferred within shareholders' equity from retained earnings to revaluation reserves. This represents deferred tax on the difference between the actual depreciation charge on the property, plant and equipment and the equivalent depreciation charge based on the historical cost of the property, plant and equipment.

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29 PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring, site restoration and litigation Shs'million	Service gratuity and holiday pay Shs'million	Long service awards Shs'million	2011 Total Shs'million	2010 Total Shs'million
GROUP					
At beginning of year	64	635	91	790	783
Additional provisions	5	21	5	31	103
Utilised during the year	-	(69)	-	(69)	(96)
At end of year	69	587	96	752	790
Less: current portion	(58)	(158)	-	(216)	(261)
Non current portion	11	429	96	536	529
COMPANY					
At beginning of year	57	513	90	660	649
Additional provisions	1	18	5	24	69
Utilised during the year	-	-	-	-	(58)
At end of year	58	531	95	684	660
Less: Current portion	(58)	(90)	-	(148)	(147)
Non-current portion	-	441	95	536	513

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

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

30 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Trade payables	1,474	3,257	1,586	1,448
Accrued expenses	2,226	1,517	1,131	1,319
Other payables	313	337	253	330
Payable to related companies (Note 35 (ii))	67	104	67	44
	4,080	5,215	3,037	3,141

The average credit period on purchases is 34 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

31 BORROWINGS

a) Loan from ultimate holding company – unsecured

During the year, Lafarge SA, the ultimate holding company, did not extend any loans to the company nor its subsidiary, Hima Cement Limited. The loan balances are as shown below.

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
At beginning of year	-	3,332	-	-
Loans received	-	-	-	-
Foreign exchange differences	-	(298)	-	-
Repayments	-	(3,034)	-	-
At end of year	-	-	-	-

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31 BORROWINGS (Continued)

b) Term Loan

In June 2008, Hima Cement Limited, a subsidiary company, signed a syndicated loan facility equivalent to Shs 1,789 million (Ugx 45 billion) with lead arranger Stanbic Bank Uganda Limited, during the year, Hima Cement Limited drew Shs 177 million (2010: Shs 1,225 million) from the facility to finance the ongoing Ruwenzori capacity expansion project. The loan is secured against a corporate guarantee from Lafarge SA and is payable in 5 equal instalments starting June 2011 and fully matures in June 2015. The facility is structured in two tranche's of 50% each. Tranche A is at fixed interest rate equivalent to 5 year treasury bond plus 70 basis points while Tranche B is at floating interest rate equivalent to 182day treasury bill plus 100 basis points.

The movement in term loan is as shown below;

	GROUP	
	2011 Shs'million	2010 Shs'million
At 1 January	2,953	239
Received during the year	177	2,872
Paid during the year	(1,693)	-
Foreign exchange differences	(46)	(158)
At 31 December	1,391	2,953
Less; Due within one year	(772)	(1,886)
Due after one year	619	1,067

c) Effective interest rates

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

	GROUP		COMPANY	
	2011	2010	2011	2010
Local currencies – loans	12.76%	8.94%	-	-

d) Borrowing facilities

As at end of the year, the Group had borrowing facilities amounting to a total of Shs 3,105 million (2010 – Shs 3,280 million), out of which the undrawn facilities amounted to Shs 1,716 million (2010 – Shs 2,630 million).

The borrowing facilities are annual facilities that were subject to review at various dates during the year 2011. They consist of overdrafts, letters of credit, guarantees among others.

32 CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Bonds issued by the Group's bankers in favour of Kenya Revenue Authority	576	563	576	563
Bonds issued by the Group's bankers in favour of suppliers	321	456	220	221
At end of year	897	1,019	796	784

Guarantees

The guarantees and bonds are issued by the Group's bankers in favour of third parties and the Group has entered into counter-indemnities with the same banks. These guarantees are part of the bank facilities disclosed in note 31 above and are issued in the normal course of business.

Legal matters

The Group is involved in a number of legal proceedings which are yet to be concluded upon. Included in the guarantees to third parties is Shs 92 million (Ugx 2,687 million) relating to a pending court case with Kampala International University. The Directors have evaluated the pending cases and determined that no material liabilities are likely to arise from these cases which arose in the normal course of business.

Taxation matters

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

In February 2012, the Kenya Revenue Authority issued a tax assessment of Shs 2,053 million excluding interest and penalties. This assessment is in respect of company's corporate tax, income tax, value added tax and withholding tax affairs for the years 2007 to 2011. The company has formally objected to a principal amount of Shs 2,021 million of the assessment in accordance to the tax legislation. The basis of the company objection relates to the specific matters of application and interpretation of tax legislation affecting the company and the industry in which it operates.

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

33 CAPITAL COMMITMENTS

Authorised and contracted

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Commitments for the acquisition of property, plant and equipment	178	1,091	107	25

Notes to the Financial Statements

for the year ended 31 December 2011

33 CAPITAL COMMITMENTS (Continued)

Authorised but not contracted

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Commitments for the acquisition of property, plant and equipment	177	163	107	86

34 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before taxation to cash generated from operations:

		GROUP	
	Note	2011 Shs'million	2010 Shs'million
Profit before taxation		8,466	7,564
Adjustments for:			
Depreciation	15(a)	1,226	983
Amortisation of intangible assets	17	25	29
Amortisation of leasehold land	10	10	3
Gain on disposal of property, plant and equipment	6	(1)	(5)
Interest income	5	(342)	(128)
Dividend income	5	-	(15)
Interest expense	9	374	91
Realised Exchange Gain/(Loss)		(417)	-
Operating profit before working capital changes		9,341	8,522
Changes in working capital balances:			
(Increase)/decrease in inventories		(775)	681
(Increase)/decrease in trade and other receivables		(223)	132
Increase in financial assets		-	(28)
Increase in provisions for liabilities and charges		(21)	30
Decrease/(increase) in trade and other payables		(727)	1,612
Cash generated from operations		7,595	10,949

35 RELATED PARTIES

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

(i) Related party transactions

In the normal course of business, the Group sells cement to an associate of its ultimate shareholder. During the year, the group did not sell cement to the associate (2010: Nil).

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

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

	GROUP	
	2011 Shs'million	2010 Shs'million
Interest received	-	79
Sales of goods and services	213	782
Purchases of goods and services	1,520	1,925

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

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Receivables from related parties	181	179	181	179
Receivables from subsidiaries	-	-	1,345	1,058
Total receivables (note 23(a))	181	179	1,526	1,237
Payables to related parties (note 30)	67	104	67	44
Short term cash deposits (note 25(a))	4,828	6,077	4,828	6,077
Cash flow hedges (note 24)	33	28	15	19

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

Notes to the Financial Statements

for the year ended 31 December 2011

35 RELATED PARTIES (Continued)

(iii) Loan to subsidiary

As at the end of the year, the balance due to the company in respect of a loan to its subsidiary, Bamburi Special Products Limited, amounted to Shs 260 Million (2010 - Shs 286). The loan was unsecured and the related effective interest on the loan was 10% (2010 – 10%). The loan repayment period is 10 years from January of 2011. There is no material difference between the fair value and the carrying values of the loan.

Loan Comprises:

	2011 Shs'million	2010 Shs'million
Current	29	29
Non-current	231	257
Total	260	286

(iv) Key management compensation

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

	GROUP	
	2011 Shs'million	2010 Shs'million
Fees for services as a director:		
Executive	3	3
Non executive	1	1
Total fees	4	4
Other emoluments		
Salaries and other short-term employment benefits:		
Executive	141	124
Non executive	2	2
	143	126
Post-employment benefits	9	8
	152	134
Total Remuneration	156	138
Guaranteed Long-term Loans	23	18

36 OPERATING LEASE COMMITMENTS

	GROUP	
	2011 Shs'million	2010 Shs'million
Lease payments committed under operating leases:		
Not later than 1 year	121	175
Later than 1 year but not later than 5 years	213	167
	334	342

37 RETIREMENT BENEFITS SCHEME

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

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

The total expense recognised in the income statement of Shs 86 million (2010: Shs 85 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. The expense has been included within the retirement benefits costs under staff costs in note 10.

38 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

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

Risk Management Framework

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2011

38 FINANCIAL RISK MANAGEMENT (Continued)

(i) Market risks

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

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

a) Foreign currency risk management

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

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

Group foreign currency risk:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
31 December 2011:			
Assets			
Trade and other receivables	-	751	751
Bank balances	112	2,109	2,221
Total assets	112	2,860	2,972
Liabilities			
Trade and other payables	21	1,396	1,417
Net exposure position	91	1,464	1,555
31 December 2010:			
Assets			
Trade and other receivables	-	938	938
Bank balances	543	3,040	3,583
Total assets	543	3,978	4,521
Liabilities			
Trade and other payables	131	2,505	2,636
Net exposure position	412	1,473	1,885

38 FINANCIAL RISK MANAGEMENT (Continued)

(i) Market risks (Continued)

a) Foreign currency risk management (Continued)

Company foreign currency risk:

	EUR Shs'million	USD Shs'million	TOTAL Shs'million
31 December 2011:			
Assets			
Trade and other receivables	-	751	751
Bank balances	59	1,740	1,799
Total assets	59	2,491	2,550
Liabilities			
Trade and other payables	9	332	341
Total liabilities	9	332	341
Net exposure position	50	2,159	2,209
31 December 2010:			
Assets			
Trade and other receivables	-	938	938
Bank balances	443	2,951	3,394
Total assets	443	3,889	4,332
Liabilities			
Trade and other payables	48	675	723
Total liabilities	48	675	723
Net exposure position	395	3,214	3,609

38 FINANCIAL RISK MANAGEMENT (Continued)

(i) Market risks (Continued)

a) Foreign currency risk management (Continued)

Foreign currency sensitivity analysis

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

	2011 Shs Million	2010 Shs Million
Group		
EUR	5	21
USD	73	72
	78	93
Company		
EUR	3	64
USD	108	159
	111	223

b) Interest rate risk

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

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

During the year, a 5% increase/decrease of the annual interest rate would have resulted in an increase/decrease in pre-tax profit of Shs 78 million (2010- Shs 93 million).

c) Price risk

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

At 31 December 2011, if the prices at the Nairobi Securities Exchange had appreciated/depreciated by 5% with all other variables held constant would have resulted in an increase/ decrease on other comprehensive income of Shs 32 million (2010 Shs 46 million) as a result of changes in fair value of available for sale shares.

38 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Credit risk management

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

The credit risk exposures are classified in three categories:

- Fully performing
- Past due
- Impaired

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

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Trade receivables	(19)	301	(71)	50
Other receivables	1,484	1,385	2,685	2,130
	1,465	1,686	2,614	2,180
Bank balances	7,136	7,616	6,286	7,215

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

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

38 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Credit risk management (Continued)

Analysis of Group credit exposure:

	Gross 2011 Shs'million	Impairment 2011 Shs'million	Net 2011 Shs'million	Gross 2010 Shs'million	Impairment 2010 Shs'million	Net 2010 Shs'million
Fully performing	1,150	-	1,150	1,274	-	1,274
Past due	352	37	315	526	114	412
Trade and other receivables (note 23(a))	1,502	37	1,465	1,800	114	1,686

Analysis of company credit risk:

	Gross 2011 Shs'million	Impairment 2011 Shs'million	Net 2011 Shs'million	Gross 2010 Shs'million	Impairment 2010 Shs'million	Net 2010 Shs'million
Fully performing	2,158	-	2,158	1,503	-	1,474
Past due	492	36	456	753	47	706
Trade and other receivables (note 23(a))	2,650	36	2,614	2,256	47	2,180

Included in the impairment provision is an amount of Shs Nil (2010 – Shs 403 million) relating to other receivables.

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

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

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

38 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Liquidity risk management

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

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

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

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

GROUP – Financial liabilities:

	Total amount Shs'million	0-30 days Shs'million	31-90 days Shs'million	91-120 days Shs'million	120 days and above Shs'million
31 December 2011:					
Trade and other payables (note 30)	4,080	2,271	1,016	555	238
	4,080	2,271	1,016	555	238
31 December 2010:					
Trade and other payables (note 30)	5,215	3,841	495	643	236
Loan from Ultimate holding company	2,953	-	-	-	2,953
	8,168	3,841	495	643	3,189

Notes to the Financial Statements

for the year ended 31 December 2011

38 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Liquidity risk management (Continued)

COMPANY – Financial liabilities:

	Total amount Shs'million	0-30 days Shs'million	31-90 days Shs'million	91-120 days Shs'million	120 days and above Shs'million
31 December 2011:					
Trade and other payables (note 30)	3,037	1,549	963	422	103
Unclaimed dividends	29	-	-	-	29
	3,066	1,549	963	422	132
31 December 2010:					
Trade and other payables (note 30)	3,141	1,770	475	655	241
Unclaimed dividends	30	-	-	-	30
	3,171	1,770	475	655	271

(iv) Capital risk management

The Group's objectives when managing capital are:

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

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

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

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

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

38 FINANCIAL RISK MANAGEMENT (Continued)

(iv) Capital risk management (Continued)

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

	GROUP		COMPANY	
	2011 Shs'million	2010 Shs'million	2011 Shs'million	2010 Shs'million
Equity	24,174	21,626	17,499	17,321
Total borrowings	(1,391)	(2,953)	-	-
Less: cash and cash equivalents (note 25(b))	7,136	7,616	6,286	7,215
Net debt position	5,745	4,663	6,286	7,215
Gearing	-	-	-	-

(v) Fair value of financial assets and liabilities

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

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices);and

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

GROUP AND COMPANY	Note	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million	Total Shs'million
31 December 2011					
Available for sale financial assets					
Investment in quoted shares	20	640	-	-	640
Cash flow hedge contracts	24	-	33	-	33
Total		640	33	-	673

38 FINANCIAL RISK MANAGEMENT (Continued)

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

GROUP AND COMPANY	Note	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million	Total Shs'million
31 December 2010					
Available for sale financial assets					
Investment in quoted shares	20	911	-	-	911
Cash flow hedge contracts	24	-	28	-	28
		911	28	-	939

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

39 FAIR VALUE

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

40 COUNTRY OF INCORPORATION

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

41 SUBSEQUENT EVENTS

The Board of Directors approved the financial statements on 23 February 2012 and authorised that the financial statements be issued. On this date, the Directors were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the Group and results of its operation as laid out in these financial statements.

42 CURRENCY

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

Shareholding

Top 10 Shareholders as at 31 December 2011

Rank	Name of Shareholder	Shares	%age
1	Fincem Holding Ltd	106,360,798	29.30%
2	Kencem Holding Limited	106,360,797	29.30%
3	Board of Trustees - National Social Security Fund	50,990,913	14.05%
4	Paramount Company Ltd	36,333,600	10.01%
5	Baloobhai Chhotabhai Patel	5,000,990	1.38%
6	Board of Trustees - National Social Security Fund	2,377,721	0.66%
7	Standard Chartered Nominees Ltd – A/c 9230	2,193,779	0.60%
8	Kenya Reinsurance Corporation Ltd	1,171,543	0.32%
9	Old Mutual Life Assurance Company Ltd	970,540	0.27%
10	Standard Chartered Nominees Ltd – A/c 9098AC	948,855	0.26%

Share Analysis by Domicile as at 31 December 2011

DOMICILE	NUMBER OF SHARES	%	NUMBER OF HOLDERS
Foreign Institutions	254,771,953	70.19%	55
Foreign Individuals	296,732	0.08%	47
Local Institutions	95,637,933	26.35%	638
Local Individuals	12,252,657	3.38%	2,306
TOTAL	**362,959,275**	**100.00%**	**3,046**

Share Analysis by Volume as at 31 December 2011

VOLUME	NUMBER OF SHARES	%	NUMBER OF HOLDERS
1 – 500	240,579	0.066%	1,154
501 – 5,000	2,353,308	0.648%	1,155
5,001 – 10,000	1,739,624	0.479%	239
10,001 – 100,000	11,746,723	3.236%	374
100,001 – 1,000,000	35,853,300	9.878%	116
1,000,001- 99999999999	311,025,741	85.692%	8
TOTAL	**362,959,275**	**100.00%**	**3,046**

Directors Shareholding as at 31 December 2011

	NAME OF DIRECTOR	SHAREHOLDING
1.	Richard Kemoli	45,000
2.	Chris Kisire	1,000
	TOTAL	**46,000**

Savannah Monitor at Haller Park

Proxy Form

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

I/WE ____

____

of ____

____

a member of BAMBURI CEMENT LIMITED hereby appoint ______________________________

____

of ____

or in his/her place THE CHAIRMAN OF THE MEETING as my/our proxy and/or representative to vote at his/her discretion for me/us and on my/our behalf at the Annual General Meeting to be held on Thursday 7 June 2012 and at every adjournment thereof.

AS WITNESS my/our hand(s) this ______________________ day of ______________________ 2012.

____

(Usual Signature)

Proxy forms must reach the registered office of the Company by 2.00 pm Tuesday 5 June 2012.

3 Staple here

3 Staple here

1 Cut here

Proxy form:

for the year ended 31 December 2011

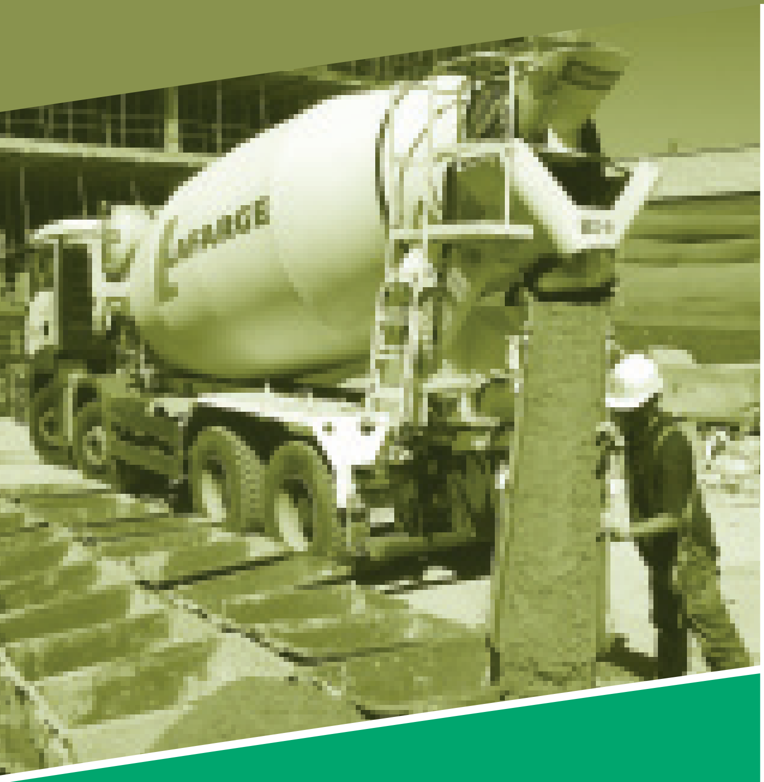
2 Fold here

3 Fold here

Affix stamp

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

Banjan Tree at Haller Park



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