BUILDING FOR GROWTH

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

A member of
LafargeHolcim

Bamburi
cement
Part of you. From the start

Bamburi cement
Part of you. From the start

A member of LafargeHolcim

OUR VISION

To be the undisputed leader and the preferred partner by providing innovative solutions for nation building

OUR STRATEGY
BUILDING FOR GROWTH
based on 4 pillars

Growth
Grow faster than the market by capturing opportunities from the Big 4 agenda

Performance
Be the best cash cost company in the country through innovation & operational excellence

People
Become an agile, lean and performance focused organization by empowering our people

Sustainability
Be the most respected company by all stakeholders by creating shared value with them

Contents

2018 OVERVIEW

About LafargeHolcim

As a global leader in building materials, we run **4 business segments**:

- Cement
- Aggregates
- Ready-Mix Concrete
- Solutions & Products

Our focus is on **solving our customers' building challenges**, from individual homes to major infrastructure projects

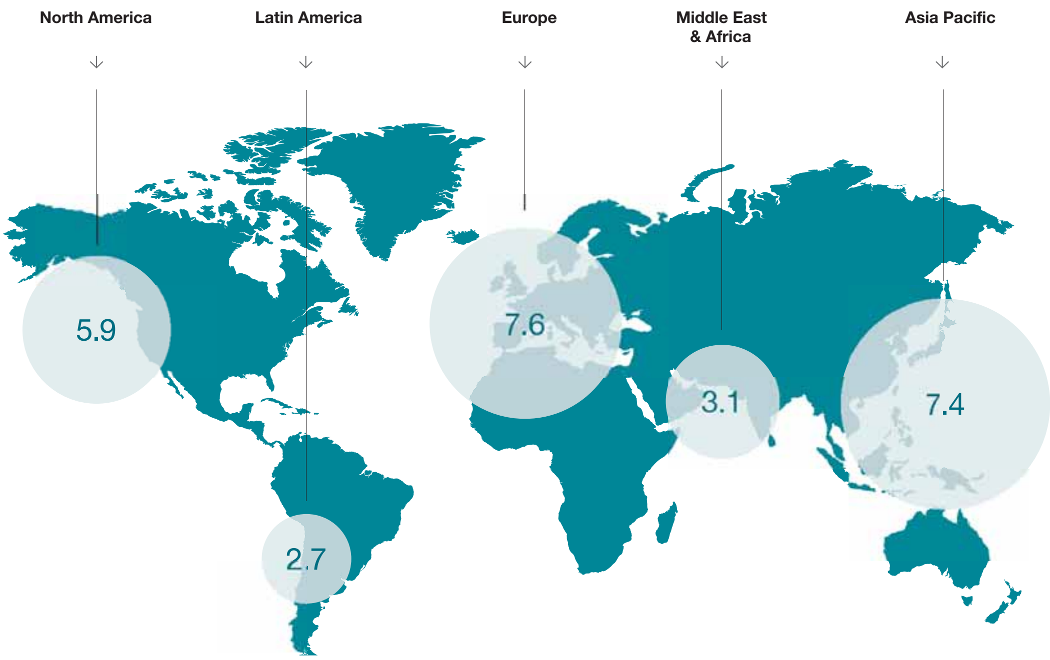
Innovative and forward-looking, we are prepared to face urbanization, population growth and climate challenges

Employing around **75,000 people in around 80 countries**, we are a globally diverse team

Our Four Value Drivers

- GROWTH
- SIMPLIFICATION & PERFORMANCE
- FINANCIAL STRENGTH
- VISION & PEOPLE

Net Sales by Region (CHF bn)



About Bamburi Cement Group

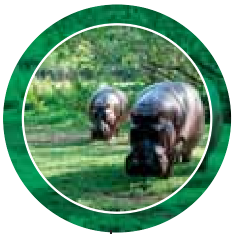
KENYA

Bamburi Cement Ltd

A subsidiary of LafargeHolcim, the world leader in building materials. Two Plants located in Mombasa and Athi River

Bamburi Special Products Ltd

Wholly owned subsidiary of the company and the largest supplier of Ready Mix Concrete and Precast blocks



Lafarge Eco Systems Ltd

Wholly owned subsidiary of the company, focus on sustainability of land use and quarry rehabilitation.

Binastore Ltd

A one-stop shop where one can find a wide range of construction products, services and expertise for their construction needs

UGANDA

Hima Cement Ltd

Uganda based subsidiary with two plants - Hima Plant in Kasese and Tororo Grinding Station in Tororo – with a total cement production capacity of 1.7 million tonnes.

Bonastore Ltd

A one-stop shop where one can find a wide range of construction products, services and expertise for their construction needs

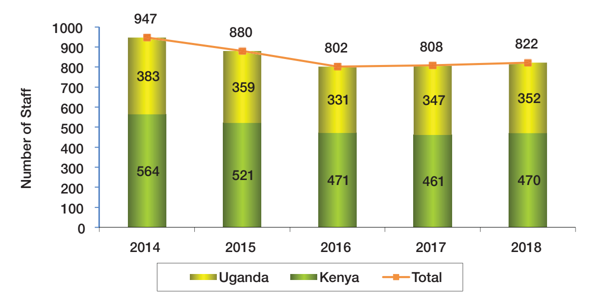
RWANDA

Hima Cement Rwanda

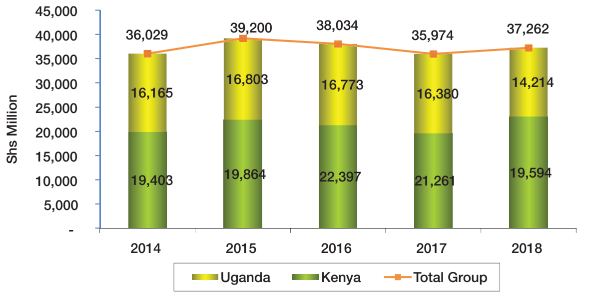
Rwanda based subsidiary of Hima Cement Ltd. It is the preferred supplier of high quality cement solutions to Rwanda and high quality ReadyMix Concrete to Kigali and neighbouring districts.

Group - Key Financial Highlights

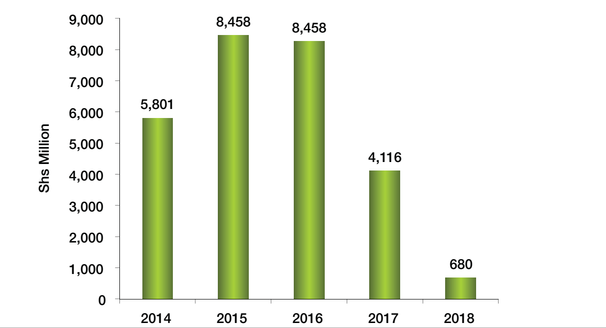
Employees



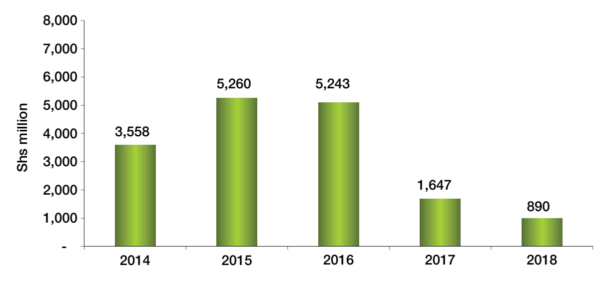
Group Turnover



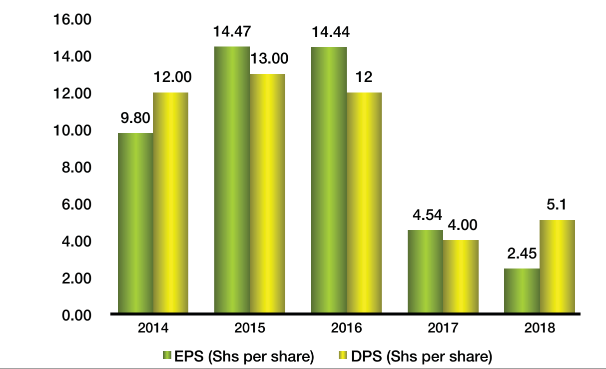
Group Profit before tax



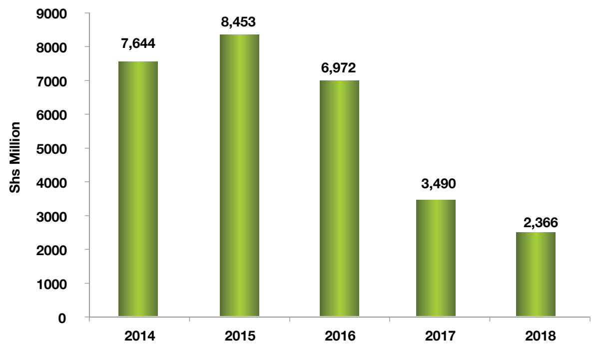
Group Profit attributable to shareholders



Group Earnings/ Dividend per Share



Group Cash and Cash Equivalents



Value Added Statement (Shs)

Customers
36,234M

Customers are at the heart of our business. We understand our local markets and strive to exceed our customers' expectations. We are concerned with providing our customers with the highest quality products and respond appropriately to their concerns.

Banks
103M

We create value for our financial services providers through the financial product and services we access from them enabling us to finance our operations and investments.

Payment to Governments
1,470M

By working closely with both National and County governments, we bring the benefits of private sector operation; providing revenue for the exchequer through various taxes and payments and influencing practices in the construction sector through policy dialogue and sharing of our experience and expertise.

Shareholders (Dividend)
907M

We provide shareholders with open and transparent information and encourage two-way communication while observing the highest standards of corporate governance and ethical business practices.

Suppliers
30,172M

We work collaboratively with several strategic suppliers. We cascade our high business conduct through these relationships. We ensure that we treat our suppliers with the utmost respect and encourage co-creation.

Our Employees
3,150M

Our employees drive our business. We strive to create a diverse and inclusive workplace where all our colleagues can reach their full potential while providing competitive remuneration and benefits and prioritizing their health and safety

Communities
40M

We seek to create social, environmental and economic benefits for communities where we operate.

Capital Expenditure
5,059M

We are consistently improving our productive capacity through investments in machinery, equipment, technology and other assets so as to maintain our competitive advantage.

Retained for Sustainable Growth
963M

Cash retained for sustainable operations in our business.

Chairman's Statement

"Successful launch of our Capacity Expansion in Kenya and Uganda, will solidify our market leadership position going forward"

This statement covers Bamburi Cement Limited ('the Company') and its subsidiaries (together, 'the Group').

Investing for future growth through the capacity expansion

We are pleased to announce that in the second half of 2018, we successfully commissioned the Shs 7.9 billion capacity expansion projects in Athi River, Kenya and Tororo, Uganda, on time and within budget. We believe that these will support our "Building for Growth" ambition and grow our market leadership position in the region.

Our next phase of expansion will enable us to solidify our cost ambitions, by matching our clinker capacity to our cement grinding capacity.

Economic Environment in our main East African markets

The Kenyan economy rebounded in 2018 with strong growth at 6%, spurred by favourable weather conditions that resulted in recovery of the agriculture sector, increased tourism, the stable macroeconomic environment and Diaspora inflows.

Uganda also recorded similar growth driven by increased agriculture output from the favourable weather conditions, macroeconomic stability and remittance flows from Diaspora.

GDP growth rate in Rwanda remained strong at 7% driven by favourable agricultural output together with stable macroeconomic conditions.

Energy and Power prices

Energy and power costs, remain the biggest cost components in the production and distribution of products.

In 2018, both our Kenya and Uganda operations were affected by rising fuel, coal and petcoke costs following global market price increases. While power prices in Uganda remained stable, we experienced increased power prices in Kenya, over and above the record high power prices of 2017. Given the favourable weather conditions and stable macroeconomic conditions in the year, the variable fuel and forex component of power price in Kenya, has reduced significantly since June 2018. However, this was offset by increase in the fixed power tariffs from July 2018.

While we appreciate government efforts in reducing power prices by investing in cheaper alternatives like geothermal and wind power, we note with concern that power prices in Kenya still remain the highest in the region. We continue to lobby government for more efforts to reduce power prices, to make Kenyan manufactured products competitive.

Cement Market & Competition

Despite the sound economic growth, the Kenyan cement market recorded its second successive decline at 5% in 2018 in addition to the decline of 8.2% in 2017, with total decline of 13.6% compared to 2016. The decline was attributed to low private sector investment delays in Government disbursements for infrastructure projects.

Overall cement market in Uganda grew by only an estimated 1% in 2018, behind GDP growth, despite stable interest rates in the economy, recovery in private sector and increase in public sector investment, in particular, the ramp up of key infrastructure projects.

The Rwanda cement market grew at 7% in line with GDP.

With excess cement grinding capacity in Kenya and Uganda, our regional market has remained competitive with price pressure across all segments. To counter this, we launched key commercial and customer excellence initiatives, which alongside our product quality and strong brand position, enabled us to grow our leadership position across the region.

Performance Review

Turnover grew by 4% to Shs 37.2 billion despite a declining market and increased competition in our biggest market – Kenya, reflecting a growth in our market leadership despite these challenges.

The Group's profit after tax declined by 69% to Shs 0.6 billion in 2018 as a result of additional provisions, mainly receivables, in Uganda, increase in energy costs and higher power prices in Kenya.

Due to the lower profitability and significant investment in capacity expansion, our cash balances came under pressure and we closed the year at Shs 0.9 billion compared to Shs 2 billion in 2017.

2019 Outlook

In Kenya we envisage a rebound in the cement market as pent up private investment grows in line with the rebounding economic growth. We also expect that the market will be spurred by the Government's Big 4 Agenda push towards affordable housing and unlocking of funds for infrastructure development. As a result of these, and following two years of market decline, we expect a market growth in Kenya of 2-3% in 2019.

Uganda GDP is expected to be fuelled by increase in infrastructure spending, especially to support the oil industry, and agriculture. The cement market is expected to grow in line with the economy.

Beyond 2019, we expect Kenya and Uganda to both achieve cement growth rates above GDP, as is the norm for maturing countries. In addition, we expect growth in the inland export markets of Democratic Republic of Congo, South Sudan and Rwanda. However, we remain concerned in respect of regional political and trade disputes likely to adversely affect sales.

As the markets in our region are expected to remain highly competitive, our key focus will be to continue to build on our commercial and customer excellence initiatives as we work to sustain our market leadership growth momentum. We will achieve this through an offering of differentiated innovative high quality products, building solutions, excellence in customer service and brand management. We shall also continue building on our customer value chain and route to market.

From an industrial level, we shall utilize our new capacities to improve on availability in the market place, while continuing to drive process improvement and cost optimisation initiatives.

We shall also continue to drive our supply chain processes towards best in class amongst our peers.

Appreciation

We owe a debt of gratitude to all our shareholders, the Board of Directors, Management and staff for steering the business through another challenging year while putting Bamburi Cement Limited in a much better position to deliver on the "Building for Growth" agenda.

The opportunities to build for growth exist. The Board has the confidence that the Group has the leadership and the talent necessary for this next stage.

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

12 April 2019.

Group Managing Director's Statement

"We continue to channel our efforts and focus on pro-active measures to prevent accidents from happening with our Health & Safety Improvement Plans."

The Group embarks on Building for Growth

In 2018, we started executing our Strategy 2022 – "Building for Growth" which is founded on four pillars of Growth, Performance, People and Sustainability.

Growth is the key pillar of our strategy. In 2018 we commissioned phase 1 of our Shs 8 billion grinding capacity increase projects in both countries. With production capacity no longer a constraint, we will embark on driving innovation on our products and services in order to keep up with the consistently changing needs and demands of our end users and customers.

The Performance pillar is about flawless operational execution and cost optimisation. 2018 was a challenging year in terms of costs. We were impacted by a high cost operating environment on account of higher prices for inputs into production such as coal, power and fuel, as well as higher levels of provisioning in Uganda. The challenges of 2018 notwithstanding, cost optimisation will remain a key area of focus to enable us achieve profitable growth

We consider our People as the most important asset. We have put in place new organisations in both countries, installing relevant talent with appropriate skills and experiences. Successful and effective execution of our strategic agenda will depend on our people. Our objective is to attract, develop and retain top local talent that will be passionate in executing the strategy. Both our "Be Ready" training program and the Graduate Trainee scheme target early career joiners and prepares them for an exciting and successful long term career journey with The Group.

Last but not least, Sustainability remains at the core heart of our business. We have continued to champion different initiatives such as the Green Initiative Challenge (in partnership with KenGen Foundation and Better Globe Forestry), the Builders' Academy, The Baobab Foundation, and Health & Safety. These, and many more to come, are core to our values and remain fundamental in differentiating us as the leaders in our industry.

Health and Safety

Health and Safety remains an overarching value in our operations. 2018 was a good year in Kenya with zero fatality on the road and on our industrial sites. Unfortunately, our operations in Uganda registered five recordable fatalities on the road arising from five road accidents involving third party road users We continue to support the authorities to improve safety around third party road users in both countries.

We continue to channel our efforts and focus on pro-active measures to prevent accidents from happening with our Health & Safety Improvement Plans (HSIP). In Kenya, we closed all the HSIP actions at 100% in 2018, while in Uganda we closed the same at 83%.

In road safety, our Kenyan contracted transporters installed In-Vehicle Motoring System (IVMS) to encourage positive, safety oriented driver behaviour and we have registered positive outcomes so far. We also trained 100% of our drivers on a new defensive driving methodology and Uganda trained 60% of its drivers on the same. Uganda also migrated its transporters to the IVMS system to allow us better monitor driver performance and behaviour.

Financial performance

Our Financial performance has been negatively impacted by a flat or declining cement market, additional provisions mainly on receivables in Uganda, and a higher operating cost environment. Despite the decline in the Kenyan domestic market of 5% in 2018, and a flat market in Uganda, the Group Turnover grew by 4% over 2018 to Shs 37.2 billion. This represents a competitive growth ahead of a declining market, driven by our strategic commercial initiatives founded on the Growth pillar of our "Building for Growth" strategy.

Operating profit for the year declined by 80% to Shs 0.84 billion on account of the factors already highlighted. As a consequence of the decline in operating Profit and increase in interest cost due to the Shs 197 million capacity expansion financing loan taken in Uganda, Profit before tax also declined by 83% to Shs 0.68 billion.

Our cash balance at the end of 2018 was Shs 0.9 billion, down from Shs 2 billion in 2017, the drop arising from lower profitability impacting level of cash generated from operations, and the need to finance capacity expansion in both countries.

Outlook for 2019

For 2019, we expect growth in cement market demand driven by economic growth in both Kenya and Uganda which is projected to be around 6%.The 'Big four agenda' in Kenya and Government sponsored Infrastructure projects in Uganda are expected to fuel the growth of the Cement market in both countries. We are currently well positioned to contribute towards these noble initiatives for the benefit of the people.

The competitive landscape is projected to remain aggressive with the cement over capacity situation across the region. Thanks to the acceleration of the execution of our "Building for Growth" Strategy, the Group will continue leveraging on its wide range of innovative products and technology to meet the needs of the dynamic markets. We will continue to drive our commercial excellence agenda while focusing on cost optimisation in order to drive profitability.

Conclusion

I would like to thank all our product and services end users, channel partners, customers, suppliers, employees, shareholders, governments of the countries and counties in which we operate, and all stakeholders, including the community that we are part of, for the support rendered to us during the past year. We will continue to count on your valued support.

We commit to generating and sharing greater value with all Stakeholders as we embark on our journey of "Building for Growth". Based on the foundation we have laid in 2018, we look forward to a better year in 2019.

Seddiq Hassani
Group Managing Director

12 April 2019

Board of Directors

NON-EXECUTIVE DIRECTORS

DR. JOHN P.N. SIMBA, 74, MBS EGH OGW LLB, LLD (Hon.).

John is an Advocate of the High Court of Kenya and Senior Partner at Simba & Simba Advocates. He previously worked with the Attorney General's Chambers, Industrial and Commercial Development Corporation, National Bank of Kenya and the Executive Secretariat and Technical Unit - Parastatal Reform Program.

Additionally, he has previously served as Chairman in the Federation of Kenya Employers, Kenya Bankers' Association, Retirement Benefits Authority as well as APA Insurance Company Limited and as President of the Rotary Club of Nairobi. Currently, he is Chairman of Sanlam Kenya Plc, Sanlam Life Insurance Limited, Choice Tea Brokers Limited, Funguo Investments Limited, Africa Energy Group Limited and Kenya Hospital Association while serving as a director in several other companies.

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

John is the Chairman of the Board of Directors, Chairman of the Nomination Remuneration & HR Committee and member of the Hima Cement Limited Board of Directors.

ALICE OWUOR, 60, OGW MBA, BComm

Alice is a career tax administrator having served the Kenya Revenue Authority (KRA) for 31 years. She served in various critical areas of tax administration within diverse locations in Kenya since joining KRA in 1984 as an assessor and retiring as Commissioner, Domestic Taxes in 2016. She was part of the KRA transformation team leading in the automation revolution and shift from manual back office processes through iTax implementation together with restructuring of the domestic taxes department to support devolution.

Further to sitting in various committees in KRA, Alice has also been Audit Committee chair and Chair of the Kenya Institute of Management (KIM), Kenya liaison for Commonwealth Association of Tax Administration and founder/president of the Soroptimist International Club of Milimani. She is a Fellow of the KIM while also serving as a director of the Centre for Corporate Governance, Prudential Life Assurance Kenya and Moving The Goalposts.

Alice is the Chair of the Audit & Risk Committee and a member of the Nomination, Remuneration & HR Committee.

DR HELEN GICHOHI, 58, OGW MBS PhD Zoology, MSc Bio of Conservation, B. Ed (Science)

Helen is currently the Conservation Ambassador for Africa for Fauna and Flora International. From 2012 to January 2017 she served as Equity Group Foundation's Managing Director. Prior to that she led the African Wildlife Foundation (AWF) for 11 years having joined AWF as its first Director of the Heartlands Program in 2001, rising to become the Vice President for Programs in 2002 and AWF's first President in 2007. Helen has also worked at the Wildlife Conservation Society and African Conservation Centre, where she was the Managing Director.

She is a recipient of several awards including the Charlotte Wyman Trust's Women in Conservation Program and the Giai Environmental Award for 2012 at the WIFTs Foundation International Visionary Awards. She is a fellow of the Aspen Institute's Energy and Environment Program and a McCluskey Fellow of the Yale School of Forestry and Environmental Studies.

She previously served on the boards of Equity Bank Kenya Ltd and the Kenya Wildlife Service. Her current board positions include at Equity Group Holdings Limited, Ol Pejeta Conservancy and the African Wildlife Foundation.

Helen is a member of the Nomination, Remuneration & HR Committee.

RITA KAVASHE, 54, MBS MBA, BEd

Rita is a captain of the automotive industry with over 20 years experience. She joined General Motors East Africa Limited (GMEA) in 1995 as a Direct Sales Executive after which she rose through the ranks holding positions in Kenya and South Africa before she was appointed Managing Director, GMEA (now known as Isuzu East Africa) in 2011.

Rita has served as a director of several Government entitles including the Privatisation Commission of Kenya, Kenya Roads Board, National Transport & Safety Board, Government Private Sector Liaison Committee together with several private entities such as Governing Council - AA of Kenya, Kenya Vehicle Manufacturers Association, Kenya Private Sector Alliance and Institute of Directors (Kenya) among others.

She is the Chair of the Kenya Motor Industry Association and the Kenya Roads Board while also a director of the Board of Kenya Vision 2030 Delivery Secretariat, Kenya Association of Manufacturers and Palmhouse Foundation Advisory Board.

Rita is a member of the Audit & Risk Committee.

JOSEPH MUNA KIMOTE, 47, MBA, BA Economics

Joseph is the General Manager, Strategy, Research & Development - National Social Security Fund (NSSF), which position he had held since 2010. Before that, he held several positions including Director - Institutional Planning and Development, United States International University; Project Manager - USAID/EPC Trade Development Programme, Export Promotion Council, among others.

Joseph is a member of the Institute of Directors of Kenya, Kenya Institute of Management and Institute of Human Resource Management.

Joseph is a member of the Audit & Risk Committee.

MBUVI NGUNZE, 51, BComm, FCA (England and Wales)

Mbuvi returns to the Bamburi Group where he previously spent eight years from 1998 as Finance Manager, Group Finance Director and Managing Director - Hima. He then moved to Lafarge Group where he held various roles including VP Group Internal Communications, Audit Director and General Managing Mbeya Cement in Tanzania.

After leaving Lafarge, Mbuvi joined Kenya Airways as Chief Operating Officer in September 2011 and was promoted to Group MD and CEO in November 2014, a position he held until May 2017.

Mbuvi is a Fellow of the Institute of Chartered Accountants in England & Wales. He was a director in Bamburi Cement Limited, Hima Cement Limited, Athi River Mining Limited, Kenya Airways PLC, Jambojet Limited, Precision Air, IATA Board of Governors and African Airlines Association. He is currently Senior Advisor Operations & Strategy at Catalyst Principal Partners - an East African focused PE fund, while also serving as Chair of Safarilink Aviation Limited and Kenya Association of Air Operators. Further, Mbuvi is a member of the Boards of Lewa Wildlife Conservancy, IPL and St Andrews Turi. He also provides mentorship to scale up entrepreneurs with Endeavor Kenya.

Mbuvi was appointed to the Board on 30 August 2018. He serves on the Audit & Risk and the Nomination, Remuneration & HR Committees.

Board of Directors

PIERRE DELEPLANQUE, 54, MBA

Pierre joined Lafarge in 1997 as CFO, Lafarge Venezuela which role he held until June 2001 when he was appointed Post Merger Integration Leader following the Lafarge acquisition of Blue Circle Industries. He has since held various roles including CFO Lafarge Philippines, CEO Lafarge Ecuador, Post Merger Leader following Orascom acquisition, CEO Heracles General Cement Company in Greece and Area Manager Emerging Europe.

He was appointed Area Manager East Africa, South Africa and Indian Ocean in February 2018.

Pierre was appointed to the Board on 7 June 2018 and is a member of the Nomination, Remuneration & HR Committee.

VASILEIOS KARALIS, 45, MSc International Banking & Finance, BSc Mathematics

Vasileiois worked in PricewaterhouseCoopers, Greece for four years before joining Lafarge Greece in 2007 as an analyst within the Finance Department. He was subsequently promoted to Assistant Controller - Industrial & Capex and Operations Controller. In 2013, he moved to Lafarge SA in France as Investment and M&A Projects Manager after which he was transferred to Lafarge Indonesia as Controlling VP. Following the merger, in 2016 Vasileois was appointed the Holcim Indonesia Head of Controlling. In 2018, he was appointed the Middle East & Africa Regional Controller, a position he held until beginning of 2019 when he was appointed Head of Finance, East & South Africa and Indian Ocean.

He was appointed to the Board on 21 March 2019.

EXECUTIVE DIRECTORS

SEDDIQ HASSANI, 49, MSc Eng Mechanics, MSc Eng Aeronautics, PhD Mechanics

Seddiq worked as an auditor and strategy consultant in Arthur Andersen Casablanca before joining Lafarge Morocco 2000. There, he held several positions including Control Manager, CEO Lafarge Gypsum Morocco, Purchasing & Logistics Director and Marketing & Strategy Director until he was appointed the LafargeHolcim Head of Growth & Innovation for Middle East and Africa in 2015.

Seddiq was appointed to the Board and as Group Managing Director on 9 February 2018.

He is a member the Nomination, Remuneration & HR Committee and the Hima Cement Limited Board of Directors.

NICOLAS GEORGE, 38, MSc Engineering

Nicolas joined Lafarge in 2007 as China Strategy Manager a position he held until 2010 when he was transferred to the head office as Middle East & Africa Strategy Manager. In 2013, he was appointed Chief Executive Officer, LafargeHolcim Myanmar and in 2017, he was given the additional responsibility as Head of Strategy, South East Asia & China.

On 8 February 2018, Nicolas was appointed Managing Director Hima Cement Limited.

He was appointed to the Board on 9 February 2018.

GRACE OLUOCH, 49, BComm, CPA (K)

Grace previously worked at Unilever, which she joined in 1992 as Management trainee. She went on to hold various positions including Controlling Director Africa Middle East & Turkey, Finance Director Nigeria, Finance Director East & South Africa and Finance Transformation Director Africa.

She is a member of the Institute of Certified Public Accountants of Kenya.

Grace was appointed Finance Director on 18 October 2018.

SECRETARY BETTY KANYAGIA, 44, LLB, CPS (K), MCIArB

Betty practised with a law firm in Nairobi before joining PricewaterhouseCoopers, Tax and Legal Services Department as a Consultant. She joined Bamburi Cement Limited in 2003 as the Compensation and Benefits Manager, a position she held until she took over as Company Secretary in June 2007.

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

Executive Committee Members

SEDDIQ HASSANI
Group Managing Director

GRACE OLUOCH
Finance Director

GEOFFREY NDUGWA
Commercial Director

BENSON WANGALWA
Transformation Director

MOSES WERE
Supply Chain Director

IRENE NAIBO
Human Resource & Organization Director

LAURENT NOËL
Growth Director

BUSINESS REVIEW

What We Do

CEMENT

NGUVU®	32.5 grade cement used for general building and structural works
MULTIPURPOSE®	32.5 grade cement used for home repairs and general applications
SUPASET®	32.5 grade for precast and high early strength applications
TEMBO®	32.5 grade cement for multipurpose applications
POWERMAX®	42.5 grade blended cement that offers superior strength for use in building, civil and structural works.
POWERPLUS®	42.5 grade pure cement used for high strength concrete
POWERCRETE®	52.5 grade cement made in conformance to Chinese standards to meet the requirements for the Standard Gauge Railway project.
ROADCEM®	Hydraulic Road Binder for soil stabilization in road construction works

CONCRETE PRODUCTS

Readymix Concrete	pre mixed concrete delivered to customer site as a ready to use construction product
BamburiBlox	high quality pre-cast concrete paving blocks that offer a variety of paving solutions
Precast Mould	a variety of moulded precast concrete products ranging from block drainage, hollow blocks, road kerbs, edge restraints to fencing products

Haller Park

Haller Park - a world famous ecological and ecotourism showcase which was once a Bamburi quarry wasteland then rehabilitated into a rich diverse tropical ecosystem. Haller Park is a recreational hot-spot ideal for experiential learning and serene outdoor experiences

Forest Trails

Bamburi Forest Trails - a verdant cool Forest with open grasslands and fitness trails transformed from a Bamburi quarried barren landscape. It's cool, serene and fresh ambiance free from noise makes it an ideal destination for outdoor activities, events and excursions. The fitness trails are used for leisure walking, jogging and cycling

Operational Review

The commissioning of our new capacity in both Kenya and Uganda has provided an opportunity to grow our market share

GROUP

Cement demand for the year 2018 in East Africa contracted largely impacted by the market slowdown in Kenya driven by lower infrastructure investments by Government together with the impact of tight liquidity situation on the Individual Home Builders segment and flat market growth in Uganda. We, however, experienced growth in line with GDP in the Rwanda market, driven by a stable macroeconomic environment and infrastructure spend by Government.

The Kenyan market contracted despite the economy growing at an estimated 6% in 2018 compared to 5% growth in prior year. The Ugandan market remained flat notwithstanding increase in public sector investment and stable interest rates in the economy.

The commissioning of our new capacity in both Kenya and Uganda has provided an opportunity to grow our market share, continue our leadership position and increase new product portfolio to our customers. New additional cement grinding capacities have also been launched in Uganda in an already overcapacity market putting further pressure on cement prices.

"Binastore" in Kenya and "Bonastore" in Uganda with several shops redesign and new shops completed in the year further enhancing our route to market proposition to our customers while offering assorted building materials in addition to cement.

Future Outlook

We remain optimistic that 2019 will see a recovery in demand in the regional markets. We remain conscious of lower cement demand growth than GDP due to completion of major government projects such as SGR and decrease in private sector credit growth across the markets.

We expect positive improvement on costs with decreasing global oil prices and expected stabilization of power prices with the injection of new renewable and cheaper sources in Kenya. The Group is well positioned to capture opportunities that arise, given the increased capacities commissioned in 2018, a well-balanced product portfolio and talented workforce.

KENYA

Bamburi Cement Ltd

2018 was a challenging year with lower performance compared to prior year impacted by a higher cost environment mainly occasioned by energy and raw materials due to rising oil prices.

Turnover for the period grew by 4% driven by higher volumes from contractors and the distribution segment supported by the retail strategy execution.

Operating profit remained flat at Shs. 1.8 billion on account of higher raw material and energy prices driven by rising global oil prices despite a 4% growth in revenue to Shs. 22.3 billion.

The overall cement market contracted by 5% to close at 5,493kt (2017: 5,785kt), as a result of lower infrastructure segment uptake due to reduced funds disbursements to key projects by Government, poor credit growth to the private sector coupled by unfavourable microeconomic environment suppressing the Individual Home Builders (IHB) segment.

Clinker production was above prior year by 13kt while cement production was above by 125kt.

Future Outlook

We are optimistic that the market will recover driven by the resilience of the construction sector, the Big Four Agenda by Government and housing deficit in the country. We shall focus on our process mastery, innovation of new products and enhanced customer experience to drive our top line while containing the costs environment through operational efficiency.

Bamburi Special Products Ltd

This is a wholly owned subsidiary of Bamburi Cement Limited and the largest supplier of ready-mix concrete and precast blocks in Kenya. The Company's turnover reduced by 1% compared to prior year as a result of the difficult business environment during the second half of the year.

Profit before tax increased to Shs. 7.6 million (2017 – loss of Shs 8.9 million) driven by better costs management and higher volumes. 2018 was a depressed market with slow recovery from 2017 on account of lack of liquidity in the market, impacting the financial position of small and medium sized contractors who form our key customer base. The market is very fragmented with increased competition, which has led to increased pressure on pricing and extended credit lines due to liquidity situation.

Future Outlook

The ready-mix concrete segment outlook is positive supported by the Big Four Agenda. The order pipeline for the first quarter of the year remains positive despite many projects slowing down due to lack of financing. We are focusing on enhancing our capacity for delivery in order to ensure that we better serve our customers. Whereas the market landscape in the precast segment continues to be increasingly competitive with new entrants in the market and increased price competition, our focus is on maintenance of high quality standards, strong cost control and enhanced market coverage to ensure continued competitiveness and profitability. We expect to post much better results in 2019.

Operational Review *(continued)*

Lafarge Eco Systems Ltd

This is a wholly owned subsidiary of Bamburi Cement Limited which manages rehabilitated ecosystems and hosts visitors at Haller Park and Forest Trails. The Company also manages Bamburi Cement's reserve land and housing estates.

The Company's turnover and operating profit stood at Shs. 148 million and Shs. 2.9 million respectively primarily driven by increased visitor numbers and prudent cost management while undertaking of a number of major critical projects.

Haller Park and Forest Trails hosted over 181,000 visitors in the year, 94% of whom were from educational groups and local residents while 6% were international visitors. There was a significant increase on the numbers of local tourists in the year, as residents took advantage of the new SGR to tour Mombasa.

Future Outlook

The Company is optimistic that higher revenues will be realized in 2019 as projects initiated in 2018 start bearing fruit and the continued growth in the international tourism sector in Mombasa presents an opportunity for attracting more visitors to Haller Park and Forest Trails.

UGANDA

Hima Cement Ltd

Turnover was slightly behind 2017 due to the combined effect of mixed market conditions and production challenges at the Hima Plant in Kasese.

Operating profit decreased on the backdrop of low turnover, price pressure and increased variable costs in Kasese. The variable costs were driven by increases in costs of imported fuel (petcoke), taxes on paper bags and costs of imported slag. The Company profitability was also adversely impacted by additional provisions, mainly receivables.

With the commissioning of Tororo Grinding Station, production constraints have reduced significantly.

Future outlook

The Company's profitability in 2019 is expected to progressively recover due to top line growth and cost management initiatives, despite the competitive environment. Hima Cement will continue to focus on supplying key strategic projects in domestic and export markets to continue the market share recovery and optimize product mix effect on price and overall margins. The Company will also leverage its good brand equity for large projects, developing new products to penetrate new segments and gain share in targeted markets through a more efficient commercial organization. The Company has also implemented a number of actions that will accelerate growth including the rollout of Bonastore with the objective of establishing a robust retail business model with a dedicated purchasing platform.

However, on the downside, variable costs are expected to increase due to higher inflation while the security risks in East DRC and South Sudan are expected to remain.

Our Projects

Our Capacity Increase Projects

The Group made strategic investments totalling US$ 80 million in Kenya and Uganda aimed at meeting projected increased demand in both domestic and regional markets, driven by growth in the construction sector such as the Individual Home Builder segment and in major infrastructure projects.

The Projects were successfully delivered in 2018 within budget while achieving excellent Health & Safety performance.

The new production lines have injected an additional production capacity of 900,000 tonnes per year at the Nairobi Grinding Plant and 800,000 tonnes per year at the Tororo Grinding Plant using modern vertical roller mill technology for cement grinding,

The capacity increase is expected to result into improved customer satisfaction through increased product diversification, increased output and improved truck turnaround time.

Marketing Highlights

Bamburi Cement at a glance

Improving construction on site

Site advisor program was conducted countrywide to improve professional building as well as health and safety practices at construction sites.

Over
1000
customers
rewarded

Zawadi Challenge 2018

In 2018, we run the Zawadi 4 and Zawadi 5 awards to recognize and reward customer loyalty.

PowerMax

PowerMax® CEM II 42.5 ex-Nairobi Plant was enriched to meet key customer requirements including workability and sulphate resistance for durability. PowerMax® is best for structural applications and big projects.

The B-Zawadi Consumer Promotion

B-Zawadi promotion was launched in 2018 targeted at **Fundis** and **Individual Home Builders** to reward loyalty. The promotion was supported through above the line advertising and site activations to build awareness and participation.

Contractor Engagement

Bamburi Cement continues to work in partnership with the National Construction Authority in an effort to improve construction standards and skills within the industry and jointly held two events in 2018. These were a 2 day Contractor seminar held at the Bomas of Kenya in Nairobi and the International Construction Research Conference and Exhibition (ICORCE)

Bamburi online

Bamburi Cement bolstered its online presence unveiling its social media pages on Facebook and Twitter.
Follow us on:

@CementBamburi @BamburiCement

Hima Cement; 2018 at a glance.

Brand building in brief

Customised solution

In response to customer needs, Hima Cement in 2018 introduced Multipurpose® in 5kg and 1kg bags of cement making the brand more accessible to end users for small jobs which are packaged in a new hybrid bag. Additionally, Supaset® 32.5R was introduced in the North,East and Central markets.

End User and customer engagement

Hima Cement, hosted the Construction and Hardware Dealers Association event to appreciate customers.

Masons training programs geared towards improving professionalism in construction and building brand awareness were conducted in Mubende.

Customer promotion

The company launched a sales promotion 'Kwekula Amazike' promotion offering customers and retailers the opportunity to win cash or airtime prizes. The promotion supported sales uptake.

Exhibitions and Sponsorships

Hima Cement and Bonastore participated in various exhibitions to connect and engage with customers and stakeholders. These include:

- Uganda Trade Expo
- NTV,NBS,BBS Homes and propertyExpo
- Uganda Institute of Professional Engineers conference
- Uganda Revenue Authority Trade fair
- Uganda Manufacturers Association Trade Show
- Uganda-China Economic investment and Trade Forum Sponsorship
- Uganda Society of Architects

The company also maintained its sports sponsorship campaign through rugby, football and kickboxing in line with its brand building agenda.

Hima Cement recognized

In 2018 Hima Cement won 3 awards namely the People's Choice Award 1st place for most valued brand in the cement category, UNBS Best Quality Award in the Construction Category and The President of Uganda Exporters Award.

Franchise Network Highlights

Kenya

Binastore Official Launch

Binastore Kenya, the specialized retail franchise network, was officially launched into the Kenyan market in February 2018. The Binastore network offers a broad range of trusted and genuine construction materials enriching customer experience. Binastore strategic partnerships with reliable and trusted brands such as Mabati Rolling Mills, Stanley Tools, Kansai Plascon Paints, Yale, and Union amongst other reputable companies ensure that the product range at the Binastore are trusted, genuine and reputable products and brands.

In 2018, Binastore expanded its network to 5 stores countrywide namely:

- Binastore Riddles- Juja;
- Binastore Blue Nile- Likoni Road;
- Binastore Centaur- Kawangware;
- Binastore Fabs- Syokimau; and
- Binastore Master Piece- Nyamira.

Uganda

Bonastore is a retail franchise with a purchasing platform for all major category building materials addressing professionals and home owner's needs. We are continuously looking for new products to add to our range to satisfy the needs of our customers.

Bonastore offers 4 different store experiences - Access, Standard, Mega and Service centres located across the country.

Health and Safety

KENYA

The year started on a high note with Kenya being recognized as the only country in the LafargeHolcim Middle East and African region to close the 2018 Health and Safety Improvement Plan at 100%.

We had the following five strategic objectives in 2018 each sponsored by EXCOM.

1. Road Safety

In road safety, we trained drivers of all our contracted transporters on the new group approved Aegide methodology which focuses on practical and technical driving skills. We also managed to have all our transporters install in-vehicle monitoring systems (IVMS) which allows us to monitor freewheeling, harsh braking, harsh acceleration, speeding and driving hours. That allows us to proactively correct driving behaviour before an accident occurs. A total of 12, 160 boda boda riders and drivers were trained in defensive driving.

In May 2018, we hosted our contracted transporters for their annual meeting that focused on a review of the 2017 performance. During the meeting, the company recognized the most improved transporter and five star transporters for four consecutive years while also setting the 2018 road safety targets.

Impressively, in 2018, a second transporter from Kenya qualified into the prestigious 5 star transporter's rank.

This milestone put Kenya in the lead again as the only country in Middle East and Africa with 5 star transporters.

2. Health

Great progress was made in refining our emergency response plans by reviewing the existing emergency plans and carrying out drills to test the robustness of these plans. We also trained our people across all sites on how to respond to emergencies while working at height or confined spaces. A PPE suitability review was also carried out with changes effected in especially gloves and goggles.

3. Energy Isolation

Special isolation procedures were developed for all critical equipment and availed on site for easy access.

4. Housekeeping

All sites focused on eliminating housekeeping issues from the source to ensure sustainability with significant progress.

5. Structural Integrity

Several rehabilitation projects were carried out, both in the Mombasa and Nairobi plants. These projects were delivered on time and with no safety incidents.

UGANDA

Hima Cement achieved an 83% closure rate on the 2018 Health and Safety Improvement Plan.

The Company did not register any fatalities on its sites in 2018. However, it registered four (4) Lost Time Injuries (LTIs) a 50% increase compared to 2017. The Company recorded LTIFR rate of 1.23, a 13% decline compared to prior year.

Road Safety

Road Fatalities

In 2018, nine road fatalities were registered, 5 of which were classified as recordable and attributed to poor truck driving behaviour. As a result, the Company rolled out an in-cabin driver training program to improve driver behaviour and reduce road fatalities.

Transporter Development

The Company began migration to the new In Vehicle Monitoring System (IVMS), which will aid in monitoring driver behaviour. The system is expected to be fully completed by early 2019. Monthly reports on driver behaviour will be captured thereafter to ensure full compliance to IVMS.

In addition, the Company instituted a driver and transporter consequence/reward management program aimed at improving road safety performance and building relationships.

Health

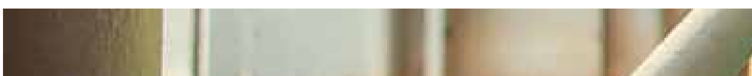
With the Ebola outbreak in the Democratic Republic of Congo, we continued to sensitize and conduct health screenings on entry points at the plants to minimize the risk of exposure to the disease. Several health drills were conducted to test the effectiveness of the Response Procedure particularly for Ebola.

Employees underwent annual risk based medical checks to determine the level of occupational risk exposure of our operations with no significant occupationally related illness or injuries registered.

What next?

The 2019 Health and Safety Improvement Plan will include the 2018 pending actions - securing a solution for Dura quarry, implementation of IVMS, implementation of the circulation plans for trucks and pedestrians.

Other initiatives will be developed to ensure that leading indicators are regularly monitored in order to improve our health and safety performance.



Health and Safety Management System Audits

We carried out 12 audits across all sites with over 100 employees from different sites being trained and participating. This good practice was shared with other LafargeHolcim entities in South Africa, Zambia and Tanzania.

Global Health and Safety Days

In 2018, health and safety days were held in May and June focusing on the main sources of fatalities within industrial sites i.e. working at height, energy isolation, mobile equipment and confined spaces. We also took the opportunity to recognize and reward the health and safety employee and contractor of the year 2017.

What Next?

Our Health and Safety Improvement Plan for 2019 is ready and will focus on road safety, health risk management, housekeeping and working at height.

Our People and Systems

KENYA

Training Update

We continued to drive the learning and development agenda in 2018 with a strong focus on building leadership and commercial competencies. We launched a number of internal programs taking advantage of not only Group practise but extensive local experience and facilitators. These programs included:

1. Perform Together

Perform Together is a change management workshop rolled-out in form of training labs and practical sessions. The objective of the program is to improve plant KPI achievement by enhancing soft skills management

2. Life Supervisory Development Program

LIFE is a Supervisory development program designed to help supervisors to expand and apply managerial knowledge and skills that impact people, processes, and productivity. LIFE is a blended and interactive learning path where competencies are developed through formal training, coaching and on the job experiences. We trained 24 industrial supervisors in 2018 who will be graduating in 2019.

3. Be Ready Training

The BE READY Program targets new engineers hired in a cement plant, who are either fresh graduates or have no significant experience in cement manufacturing. It is a one year blended learning journey offering a systemic perspective across plant processes and functions, while instilling the mindset and behaviours at the core of the new company culture.

4. Step up - Graduate Training Program

Step up is a graduate trainee program targeting young university graduates in commercial and other support functions. In April 2018, 3 commercial graduates joined the program which ran for 6 months.

5. Active Management Behaviour Training

This provides participants with behavioural management tools that Plant Leadership can use to in-still operational excellence in their teams. As a result, Coaching for Empowerment is enhanced and being practiced actively in the Plant by the Managers and Supervisors.

Health Update

Our workplace health program in 2018 saw the Company launch a health promotion initiative dubbed ‘Fukuza Tumbo’.

This initiative, supported by an accredited fitness coach, saw staff grouped into teams that allowed them to be accountable to each other, participate in a wide range of wellness activities such as running, gym sessions for strength training, zumba aerobics and conversations on healthy living.

Employer Of The Year award

In 2018, Bamburi Cement emerged top 5 at the annual FKE Employer Of The Year award.

The companies were evaluated in the following categories: Leadership and Governance, Corporate Performance, Innovations and Productivity, Responsible Business Conduct, Inclusiveness and Diversity, Workplace Environment, Learning and Development, and Effective Human Resource Practices and Industrial Relations.

UGANDA

Employee headcount 2018 was 351 including Hima Rwanda and DRC. As Hima continues to grow its footprint in the building sector, the staffing profile reflects a strengthened commercial and operational team. We recruited 25 new joiners to our teams, bringing a range of skills and competencies to support the business growth.

The new Tororo Grinding station was successfully resourced through existing staff, not only providing growth opportunities for our industrial team members but also supporting the organizational efficiency initiatives in our Kasese Plant. In Kasese we completed the second phase of the Housing Welfare Plan, renovating 16 staff houses and 1 guest house.

The partnership with the Private Sector Fund for its Skills Development – a Government of Uganda project funded by World Bank enabled training of students, 9 of whom have been absorbed on contract as FTE equivalent in production, maintenance and quality departments.

Our Systems

We continue to reap benefits out of the business model application implemented in 2017 which enables us to run our business optimally, while creating value for our customers and other stakeholders. Furthermore, the Group undertook the following in 2018:

- Implemented and configured the retail franchise business segment, Binastore and Bonastore, onto the business model platform with SAP running as the main ERP. This has provided both of them an opportunity to improve stakeholder management, through efficient planning and reporting.
- Improved the ERP system integration with our main banks, by enhancing security features and including a more agile process. This improved the efficiency of customer cash collections, through real time receipting and reduction in processing errors thereby enhancing customer experience while trading with us.
- Upgraded the technical local area network by replacing the old network equipment and redesigned the underlying network, resulting in better connectivity and improved user access to business applications.
- Replaced our Production IT systems with a better Technical Information System (TIS) environment at our cement plants, that better integrates our production processes into the business model, resulting in better management of the production process.

Going forward, the focus in 2019 and beyond, will be to further leverage on our sound business model, by implementing cutting edge digital solutions that maximize value for our customers and other stakeholders.

Risk and Control

Business Risk Management:

The Board through the assistance of the Audit and Risk Committee, is responsible for maintaining and reviewing effective business risk management and for determining the nature and extent of the significant risks the Group is able and willing to take, to achieve its business objectives.

In 2018, the Group conducted a comprehensive business risk assessment of business risks and opportunities, developing a risk and opportunities mapping together with a target mapping. Thereafter, the Group developed clear action plans to achieve the target risk and opportunities mapping. Management continues to follow up on these action plans.

It is the opinion of the Board that the system of business risk management in place, provides reasonable assurance that business risk management is adequate and effective.

Internal Control Risk Management

The Board is dedicated to the identification of key internal control risks and providing reasonable assurance to the shareholders that the risks are fully understood and managed.

The Audit and Risk Committee and the respective Company ExCom (Executive Committees), ensures constant review of the internal controls for alignment with the ever changing business environment, while ensuring that the business runs smoothly.

In 2018, the Board has conducted a review of internal policies and internal control of significant risks and material systems.

The Board has received confirmation and assurance, that Management has taken or is taking the necessary actions to remedy any failings or weaknesses identified.

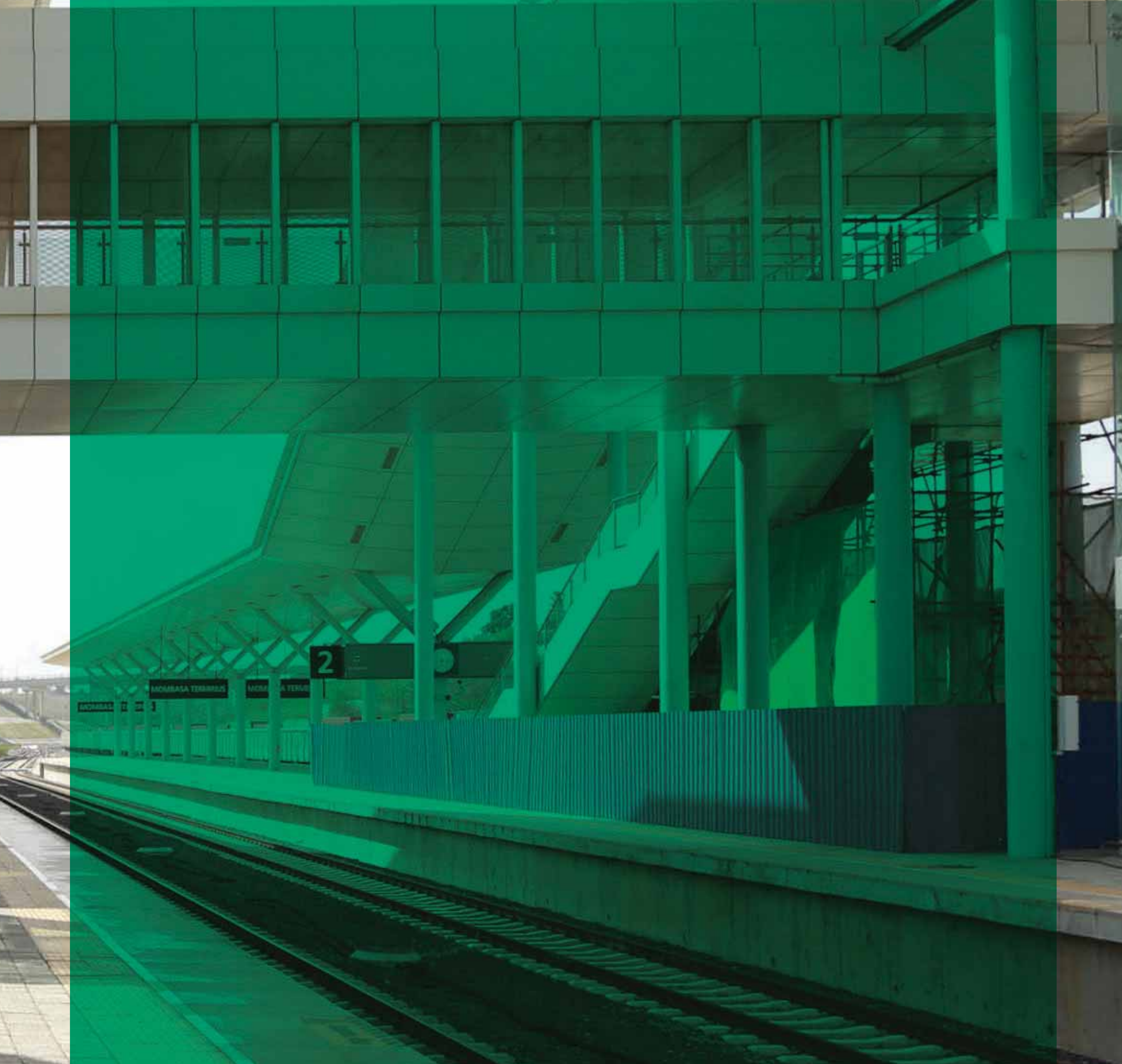
Internal Controls

In 2018, the Group implemented a set of 60 Minimum Control Standards (MCS). These controls, when fully operational, will mitigate the key control risks in the business operations. Management has made an assessment of existing gaps and defined action plans to ensure full operation of these MCSs.

The Board, through the Audit and Risk Committee has reviewed the implementation of the Minimum Control Standards and is satisfied that the control environment is sufficient to ensure efficient business operations.


Exit
Kutoka
Lift
Lifti
1

SUSTAINABILITY REVIEW



Our Sustainability Framework

The Bamburi Cement Group recognizes sustainable practices as critical business imperatives that seeks to create value for the business, people and the planet. Sustainable development presents extensive opportunities and challenges for us given the diverse sustainability impacts and benefits created by our operations – from extraction, processing to distribution. We seek to mitigate these impacts through world class sustainability practices and, where possible, to enhance value for our stakeholders.

Our sustainability agenda is underpinned by LafargeHolcim's overarching sustainability intention to "create shared value with society" and the **LafargeHolcim 2030 Plan**, which is a broad set of clear commitments and targets that are supportive of the United Nations Sustainable Development Goals (SDGs).

We conduct our activities professionally and responsibly, carefully managing the sustainability risks of our business so as to protect our employees, the natural environment and the communities in which we operate while creating value for our customers and stakeholders.

Our passion for **people, health, safety** and the **environment** remains at the heart of everything we do.

Our Sustainability agenda is premised on actions that we anticipate will better livelihoods, create jobs and sustain communities within which we operate and work. We are optimistic that collaboratively, through sustainability practices, we can positively contribute towards meeting the challenges faced by communities in which we operate.

Since our establishment in 1951, we have set the pace in the East Africa Region, with cumulative investments in programs and CSR activities. Our programs purpose to forge strategic engagements with communities to create "shared value".

Our sustainability actions are anchored on four key themes as follows:

People and Communities

People and communities to benefit from the Group's innovative solutions.

Climate

Substantial reduction of CO_2 to mitigate climate change.

Water and Nature

Positive impact on biodiversity and increased access to water.

Circular Economy

Manage waste-derived resources to promote a circular economy.

PEOPLE AND COMMUNITIES

Stakeholder Engagement

KENYA

Building strong and lasting relationships is principal to our continued successful coexistence with national and local communities within our areas of operations.

Bamburi Cement continued active engagement with various stakeholders such as Kenya Power, Ketraco, Kenya Ports Authority and the Ministry of Industrialization, Energy & Mining on key issues related to power, mining legislation and regulations as well as infrastructure. Bamburi Cement sponsored the Kenya Association of Manufacturers Energy Management Awards in 2018.

The Company also held interactions with officials and stakeholders of different counties where it operates. Local stakeholders include Mwembelegeza and Vipingo residents.

Community relations

Donations

Over the years, Bamburi Cement has invested in supporting and developing infrastructure for schools. In 2018, the Company donated furniture to Kasuitu Primary School and Athi River Secondary School in Athi River; it also refurbished walk ways for Machakos School for the blind to help students better access school facilities. In addition, we graded roads to Ngurunga for the benefit of the community as well as improving access to raw materials. In Mombasa Bamburi Cement commissioned the solar power system donated to Bamburi Primary School.

Shamba System

43 farmers from Vipingo, Bureni and Mfrejini were beneficiaries of the Shamba System program at Vipingo quarry. The program supports neighbouring communities to improve their food security by allowing farmers to conduct subsistence farming at the Company's reserve land.

Maternal Child Health

The Maternal Child Health Promotion Program at the Staff Clinic in Mombasa, is founded on preventing diseases and premature deaths among mothers and children. This program received more than 3,500 children under the age of five and an average of 700 mothers providing services such as family planning, antenatal care, vaccinations, proper nutrition advice, child growth and development monitoring among others.

Afya ya Nguvu

The Afya ya Nguvu medical scheme dedicated to our retail customers entered its second year enrolling more than 700 beneficiaries who enjoy health care services from reputable private sector health facilities.

Baobab Trust

Baobab Trust is supported by Bamburi Cement and the Haller Foundation among other donors.

Nguuni Nature Sanctuary

This is one of the green lungs and recreational areas in Mombasa which hosts a variety of wildlife including elands, oryx, giraffes, Ostriches, Waterbucks, Guinea Fowls and over 250 bird species. The sanctuary provides excellent facilities for school educational tours with 7,938 children visiting and 8,885 other visitors recorded in 2018.

Camping at the Nguuni camp site is becoming an increasingly popular activity. In 2018, the camp site hosted 139 campers.

The Twiga Trek, launched in 2017, proved to be a successful school cycling event organised by Kenya Kesho Trust with an increase in the number of participating cyclists in 2018. The Nature Sanctuary was listed by Trip Advisor as No. 8 out of 28 things to do in Mombasa.

Nguuni Environmental Centre: Library

Bamburi Cement supports the children library at Nguuni. The library is stocked with 9,000 books including the recently introduced Revision Curriculum Books and hosted over 3,500 readers in the year. It also has a computer laboratory and a crafts workshop where women are taught skills that they use for revenue generation. In 2018, Bamburi Cement donated computers and computer desk to the library.

Nguuni Health Centre

The clinic continued to treat patients from the surrounding area and is especially appreciated by members of the local community particularly those who have no access to medical care. 377 children were vaccinated while 3,150 patients were treated at the clinic.

Mtopanga Organic Farm

Mtopanga Farm is geared towards supporting rural grassroots farmers. In 2018, a series of 5 week trainings focusing on Family Backyard Garden, Fish Farming, Biogas and Bee Keeping were conducted within 2 communities namely Imani and Dzanikeni - Nguu Tatu. Four head-farmers were trained in a train the trainers module. They are expected to cascade what they have learnt to other farmers on site thereby ensuring greater impact and skills transfer. In addition, the farm hosted 50 farmers from 4 new communities who underwent a full orientation of the farm.

A new initiative dubbed 'The Youth Farming Initiative - Schools Project' was launched during the year, focusing on teaching farming to school children. The School Garden project encouraged students from Bamburi Primary (61 students) and Jole Urabi (31) Primary Schools through weekly lessons on various farming methods. The students attended all their lessons and successfully grew their own vegetables. After the training, the students had the opportunity to develop an area replicating what they have learned at the farm.

Stakeholder Engagement *(continued)*

UGANDA

Community Relations

Developing strong and lasting relationships is paramount to our continued success co-existing with local communities neighbouring our various operations in Uganda. Fundamental to this, is the shared understanding of the impacts and benefits our business brings.

In preparation for the start of operations at the new Tororo Grinding Station in Eastern Uganda, Hima Cement held community engagement forums in Rubongi and the wider Tororo District community. This was through medical camps as well as meeting with community leaders to sensitize them on available work and business opportunities for locals.

Community Health

We held a two day medical camp outside the Tororo Grinding Station in April, providing various medical services including testing and treatment of common ailments such as malaria and typhoid, management of non-communicable diseases such as diabetes and hypertension, ENT services, de-worming for children, family planning, HIV testing and counselling. In total, 2700 people were treated.

Access to health services remains a major challenge for most people especially in rural areas. For this reason, we supported the construction of a general ward at Hima Health Centre, which serves the community within a 20 km radius of the Hima Plant. The project was handed over to the local community leadership in September 2018.

Education

The Company built an additional 4 classroom block at Dura Primary School in Kamwege and a 2 classroom block at Nyacyonga Primary School, a school neighbouring our Kigali Office. The Company also constructed a girl's dormitory at Luzinga High School in Kamuli.

In 2018, 58 students were enrolled on the Hima Cement Bursary Scheme benefiting from tuition fee totalling UShs 168 million (Shs 4.5 million).

Community support

Through a partnership with SOS Children's Villages, we promote income generation for households in Harugongo community through agribusinesses and micro-credit structures. This project supports over 600 households in Kabarole who are now earning a living. SOS Children's Village, the implementing partner, can now resettle abandoned children back to families who are now capable of caring for them. The program has generated goodwill for Hima Cement from the Harugongo community that lives where the Company mines pozzolana.

We donated over 47 tons of cement for the refurbishment of classrooms, computer laboratories, training centres and local communities water projects at Kisoko High School in Tororo, Akwang Secondary School in Agago District Jabana Sector in Kigali, Resource and Training Center in Kabale Mukujju, Core TC in Tororo and Ichupa Upcycle Project in Mbale.

CLIMATE

Climate Change

KENYA

Green Initiative Challenge: Combating desertification through afforestation

Bamburi's partnership with KenGen Foundation through the Green Initiative Challenge (GIC) promotes the value and critical importance of building a culture of tree growing and reforestation. It is designed to encourage and enable schools to participate in environmental activities by developing small forests and woodlots within their compounds for multiple benefits. The campaign encourages the planting of micro-forests and woodlots in schools, rewarding the best performing schools with educational scholarships, and infrastructure development. The program targets schools around the 7-Forks hydropower stations in Embu, Kitui and Machakos counties.

Under the Shs 120 Million, 10-year program, the target is to plant a total of 460 acres with 300,000 commercial and wood fuel trees and 113,956 fruits trees in 919 new schools. The objective is to boost awareness and participation of school children in environmental conservation via sustainable management and harvesting of tree seedlings, providing schools with a renewable source of wood fuel and thereby reducing pressure on surrounding forest resources, contributing to the reduction of greenhouse gases through carbon sequestration by growing woodlots and securing the catchment area around the hydro generation dams.

Participating schools plant multi-purpose tree species called Cassia Siamea and Melia Volkensii on their 0.5 acre school plots. Cassia Siamea is a fast growing tree that provides almost immediate benefits through coppicing while Melia Volkensii produces commercially valuable timber.

WATER AND NATURE

KENYA

The sustainability agenda of reclaiming and restoring land for economic use

Where it all began

Coastal forests covered much of the Kenya coast up to about 300 years ago. Over time the forests were cut down and only a few patches remain. East African coastal forests have high biodiversity value and are classified as one of the 21 global biodiversity hotspots. By the time Bamburi Cement acquired land at the Kenya Coast, it consisted mostly of the secondary coastal bush and scrubland of low economic and biodiversity value.

Sustainable Development Goal (SDG) 15 calls for all to protect, restore and promote the sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss.

Lafarge Eco Systems Limited is mandated to carry out quarry rehabilitation, ecosystems development, biodiversity conservation, education and awareness for sustainable ecosystems services in line with Bamburi's commitment to sustainability.

In line with the SDG 15 call, Lafarge Eco Systems has established world class ecosystems through rehabilitating and restoring Bamburi Cement coral limestone quarried wasteland.

Since 1971, the company has successfully transformed over 320 hectares of barren limestone quarries into world award winning showcases namely Haller Park and Forest Trails (also known as Bamburi Nature Trails), that are rich ecosystems of habitats including wetlands, grasslands, forests, scrublands and rocky outcrops which support rich biodiversity of plant life, insects, mammals, reptiles, amphibians and arthropods. The diversity of vegetation in the restored quarry ecosystems is considerable, with over 430 species of plants ranging from mangroves, palms and majestic indigenous shade trees to coastal forests where several of these plants are rare and endangered; a haven for botanists. Each plant plays an important role in the overall harmony of the ecosystem.

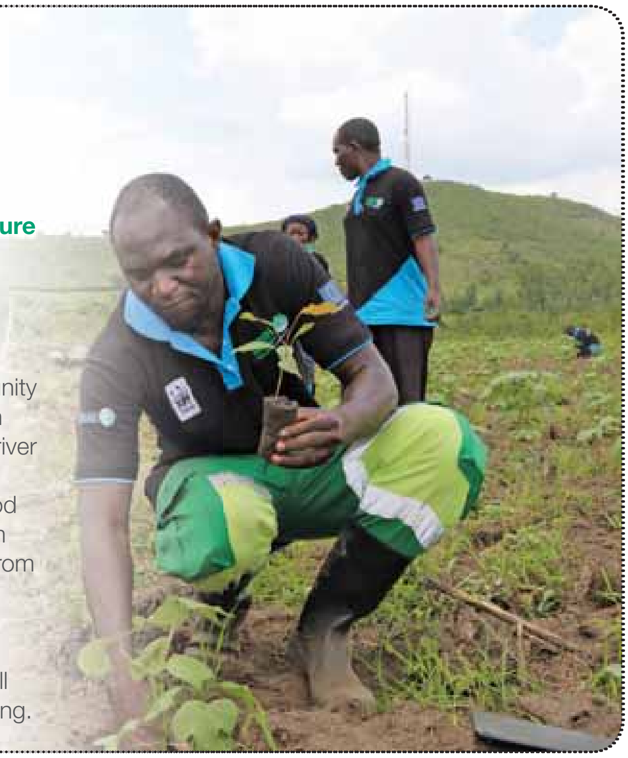
Listed in the International Union for Conservation of Nature (IUCN) Red List are 84 vegetation species found in Haller Park and Forest Trails including species designated as Least Concern, Vulnerable, Endangered and Near Threatened.

Many of the indigenous species are now reproducing in the restored ecosystems and forming populations that positively impact on ecosystems services.

UGANDA

Environment Partnership with World Wide Fund for Nature (WWF)

In 2018, we continued with the initiative of Promoting Sustainable Land Management Practices among farmers in Kasese district under the Payment for Watershed Services Scheme. River Mubuku is the source of water for the community in Kasese. The program works with and educates farmers on better farming practices while ensuring the protection of the river bank and water quality. Interventions include soil protection, increased land cover through planting of trees, promoting food security and protection of River Mubuku catchment area from flooding. 204 farmers with over 200 acres of land benefited from the project. 6300 tree seedlings from the Hima Plant nursery comprising different species of trees including Eucalyptus, Pine and Cassia were planted by various communities in Kasese. Today, farmers harvest bigger yields, while the overall community enjoys better water quality and reduction in flooding.



CIRCULAR ECONOMY

Geocycle

Co-Processing: a safe and more responsible solution to waste management

The Group continues its effort to use alternative fuel in processing. Co-processing of waste in cement kilns offers a superior environmentally friendly solution to waste management e.g. used tyres, rice husks, coffee husks, waste oil, that leaves zero residue and no waste.

In addition:

- co-processing reduces greenhouse gas emissions since waste is used to replace fossil fuels and raw materials
- due to the use of waste as alternative fuel or raw materials, the company contributes to the preservation of fossil fuels and other natural resources that would normally be mined to be used in cement production.

Mombasa Plant achieved an alternative fuel substitution level of 8.9% while Hima Plant achieved a record 58% substitution on biomass, the highest in the LafargeHolcim MEA region.

The Group has continued to work with Government agencies and the private sector in promoting a circular economy that is geared towards a zero waste future.

GOVERNANCE

Governance Auditor's Report

The Code of Corporate Governance for Issuers of Securities in Kenya ("the Code") requires the Board of a listed company to subject the Company to an annual Governance Audit to check the level of compliance with sound governance practices.

The Annual Governance Audit should be conducted by a competent and recognized professional accredited for that purpose by the Institute of Certified Secretaries (ICS). In compliance with the Code, Bamburi Cement Company Limited **("the Company"** or **"Bamburi")** retained Ms. Catherine Musakali of Dorion Associates **("the Auditor")** to conduct a Governance Audit of the governance structures, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the law, the Code, as well as the latest developments in corporate governance; and that the Company has adopted best practices in corporate governance as a means of ensuring sustainability. The Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

The scope of the Audit is derived from the Code, the Companies Act, 2015 and the Governance Audit Tool developed by the ICS. More specifically, the Audit covers the following broad areas:

1. Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board systems and procedures;
7. Consistent shareholder and stakeholders' value enhancement; and
8. Corporate social responsibility and investment.

Governance Auditor's Responsibility

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the Company in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our Audit in accordance with the Institute of Certified Secretaries Governance Audit Standards and Guidelines, which conform to global Standards. These standards require that we plan and perform the Governance Audit to obtain reasonable assurance on the adequacy and effectiveness of the Company's policies, systems, practices and processes. The Audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the Board has put in place a satisfactory governance framework in compliance with the corporate governance legal and regulatory requirements, and in this regard, we issue an unqualified opinion.

Catherine Musakali

FCS. Catherine Musakali, ICPSK GA. No 006

Dorion Associates,

Thompsons Estate, Diani Close, Compound 7, House 3

Nairobi.

Tel No.: +254202353383/+254 72261611

Corporate Governance Statement

INTRODUCTION

The Board of Directors of BambuThe Board of Directors of Bamburi Cement Limited believes that strong corporate governance is critical to the delivery of sustainable long term business success that generates shareholder value while ensuring the Group contributes to the communities in which it operates. In 2018, the Board undertook several activities to ensure continued strengthening of its corporate governance foundations including review and, where deemed necessary, updating of all its governance documents.

This statement provides necessary information to enable investors evaluate how the Company has applied the principles of the CMA Code of Governance for Issuers of Securities to the Public and should be read together with the wider corporate governance report on the website as well as the report of the Corporate Governance Auditor contained in this annual report.

Board

Mandate

The Board of Directors is entrusted by the Shareholders to have overall conduct of the Group's business and provide leadership.

The Board's operations are governed by the law, the Articles of Association and the Board Charter. The Board has identified material issues that can only be adequately handled by it as contained in the Schedule of Matters Reserved for the Board.

For other matters, the Board is supported by three committees - the Audit & Risk Committee, the Nomination Remuneration & HR Committee and the Executive Committee - to which it has delegated certain responsibilities as provided for under each committee's specific charter.

For purposes of efficiency, the Board has identified additional matters, which it has included in the Schedule of Matters Delegated by the Board, which are delegated to Management.

Membership and Size

There were several changes within the Board. In June, José Cantillana and Thibault Dornon (alternate to O Guitton) resigned from the Board. After acting as both Managing Director and Finance Director at the beginning of the year, in October 2018 Eric Kironde resigned as Finance Director but remained within the Group. The following appointments were made - Pierre Deleplanque was appointed in June 2018, Mbuvi Ngunze was appointed in August 2018, Grace Oluoch was appointed in October 2018 while Vasileios Karalis was appointed in March 2019.

The Board continued reinventing itself to respond to the business needs and changing environment. All the executive directors were appointed during the year while there were two non-executive director appointments, bringing in a fresh set of eyes while retaining historical knowledge carried by the longer serving directors.

The diversity strategy continued through the integration of skill sets including accounting, engineering, economic, legal and business management. Further, there are at least four nationalities represented on the Board.

Corporate Governance Statement *(continued)*

The Board currently comprises five independent non-executive directors, three non-executive directors and three executive directors. With a higher proportion of independent non-executive directors, the Group has the benefit of their independent judgement, adequate monitoring of strategy and agreed objectives within the risk appetite set by the Board together with proper management of minority shareholders interests.

For the year under review, the Directors are satisfied with the effectiveness of the Board and its Committees.

Operations

The Chairman is responsible for the Board's operations. Together with the Managing Director and the Secretary, the Chairman sets the agenda for the Board as guided by the Board Annual Work Plan.

In 2018, the Board undertook a review of all the Charters and Schedules mentioned above. The Board also reviewed its annual work plan. The Board is satisfied that these are adequate and responsive to the Group's needs.

To adequately cover the Board's annual work plan, meeting dates are agreed in November of the preceding year. The Board ordinarily holds four meetings a year, each covering a specific quarter of the year. However in 2018, necessitated by the needs of the business, the Board convened four additional meetings. This included a strategy session at which the medium and long-term strategy for both Kenya and Uganda were discussed at length.

Board meetings are held at different Group sites providing the Directors opportunity for site visits to better understand site specific issues and to interact with site employees.

While the Group does not specify a time requirement that each director must dedicate for the business of the Group, Directors are expected to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company to perform their duties. With Board papers and other documents being sent at least fourteen days in advance, the Directors are expected to be sufficiently prepared for and fully participate at the meetings. The attendance report for the year under review is contained in the table below.

Director	Category	Board	Audit & Risk Committee	NR&HR Committee	AGM
John Simba	Non-executive	8/8	-	3/4	1/1
Seddiq Hassani	Executive	7/7	4/4	3/3	1/1
Alice Owuor	Non-executive	7/8	4/5	3/3	1/1
Eric Kironde	Executive	6/7	3/3	-	1/1
Helen Gichohi	Non-executive	5/8	-	3/4	1/1
José Cantillana	Non-executive	2/2	-	1/1	-
Joseph Kimote	Non-executive	8/8	5/5	-	1/1
Mbuvi Ngunze	Non-executive	4/4	1/1	1/1	-
Nicolas George	Executive	6/7	4/4	-	1/1
Olivier Guitton[1]	Non-executive	4/8	-	-	0/1
Rita Kavashe	Non-executive	8/8	5/5	-	0/1
Pierre Delaplanque	Non-executive	3/5	-	1/2	1/1
Grace Oluoch	Executive	1/1	1/1	-	-
Thibault Dornon[2]	Alternate	1/1	-	-	-

NOTE: numbers are attendance/number of meetings entitled to attend

[1] Represented by alternate for one meeting

[2] Alternate to O Guitton until 7 June 2018

The Chairman and Group Managing Director meet at least once a month, where the Group Managing Director updates the Chairman on any matters that require the Chairman's attention. Further, the Chairman and/or the Group Managing Director hold discussions with the Directors, individually or jointly, to keep Directors updated and provide opportunity for the Directors to raise any issues or concerns in between the meetings.

Director Compensation

Director compensation is reviewed annually by the Board and approved by the Shareholders. The details of the Director compensation are contained in the Directors' Remuneration Report which is contained elsewhere in this Annual Report.

The executive Directors and the LafargeHolcim nominees do not receive any additional compensation for their service on the Board.

Separation of Roles

The roles of the Chairman and the Chief Executive are separately held and the division of their responsibilities is clearly established and agreed by the Board to ensure that no one has unfettered powers of decision.

The Chairman is responsible for leading the Board to ensure effectiveness in all aspects of its role through setting the Board meeting agenda; ensuring members receive accurate, timely

and clear communication while encouraging constructive relations between the Board and Management. The Chairman is also responsible for ensuring effective communication with stakeholders including shareholders, promoting high levels of corporate governance and serving as a resource to Management in matters of strategic importance to the Company.

The Managing Director is responsible for managing the day-to-day operations of the Company including leadership of the Group, execution of the strategy approved by the Board and policy formulation to ensure delivery of strategy. He is accountable for Company performance and reports directly to the Board.

Training & Evaluation

Induction and Training

The Company Secretary is responsible for the induction program for new directors. The induction is tailor made to meet the needs of each specific director and includes visits to all the Group sites in Kenya and Uganda.

During the year, several trainings were conducted both externally and internally by various topic experts. In 2018, the Company also conducted corporate governance training for the Management team while the members of the Audit & Risk Committee attended the Capital Market feedback session on the corporate governance reporting tool.

Information

Together with their letters of appointment, incoming Directors are provided with a reference manual containing all information on legal obligations the Directors should be aware of. The manual includes documents such as the Board & Committee Charters, Articles of Association, Schedules of matters reserved for and those delegated by the Board, Board policies together with corporate governance regulations.

In 2018, the Company invested in an e-board system, which ensures the Directors have real time access to all board documents contained in the reference manual together with board packs, presentations and minutes. This introduction was in line with the Group's strategy to minimise its environmental footprint by ensuring no paper documents were used at the Board. It further served to improve security of the information, which can only be accessed through the password protected platform and ease of circulation of information together with any updates in respect thereof.

The Chairman, Managing Director and the Company Secretary are available to the Board members at all times. The Board can also seek independent professional advice at the expense of the Group and have access to any internal resources that may be required.

Performance Evaluation

In 2018, the Board carried out a performance evaluation on the Board, the Chairman and the individual directors, which evaluation covered board mandate, size, composition, meetings, stakeholder/shareholder relations, independence, induction & training, Management relations, legal & ethic duties etc. The Board also reviewed the efficiency and composition of its Committees.

The evaluations were undertaken by each director, the Chairman, the Managing Director and the Company Secretary and included director self assessments. The Chairman had feedback sessions with each individual director while the Board evaluation was discussed by the full Board. The results showed high ranking in respect of induction, adequacy of Committee meetings and reports, diversity, full and accurate reporting to Shareholders, Board compliance with the Group's values together with proportion of independent directors versus non-independent directors.

Several areas of improvement were noted such as need to have an Audit & Risk Committee member with accounting background, special meetings to handle any critical matters, independent directors meetings in the absence of Management, technical training for independent directors and the Board's involvement in the Group's CSR activities. Action plans were put in place to close these gaps with the first three already closed.

The Group is pleased to confirm that each board member continues to perform effectively and to demonstrate full commitment to their role on the Board.

The Board is satisfied that all independent non-executive directors met the criteria for independence.

Corporate Governance Statement *(continued)*

Board Committees

Audit & Risk Committee

The Audit & Risk Committee comprises independent and non-executive directors. In accordance with the law, the current membership of the audit committee was appointed by the Shareholders at the 2018 general meeting. In the year, the Committee membership attained full compliance of the law following admission of a member with accounting qualification.

The Committee invites the Group Managing Director, Managing Director - Hima, Group Finance Director and the Audit & Risk Director/Head of Internal Audit to attend all its meetings. Other members of the Board can also attend the meetings while members of Management are invited to present any reports required for the Committee to discharge its duties.

The Committee held five meetings to review the Group's financial interim and annual reports, the Management Letter arising from the external audit, litigation and contingent liabilities, Kenya and Uganda Revenue Authorities claims, internal audit work plan, special audit reports, the CMA corporate governance reporting tool feedback and the reports generated therefrom. The Committee also met with the auditors in the absence of Management, which was critical as it was the first audit by Deloitte and set the tone and expectations by both sides.

For the year under review, one potential conflict was brought before the Committee for review and the Committee concluded that there was no actual conflict.

The Audit & Risk Committee reviewed and was satisfied with the independence of the incoming auditors. The Committee is also satisfied that their effectiveness while having the requisite expertise and resources to carry out their mandate.

During the year, there were changes in the staff of the Internal Control and Audit department in both Kenya and Uganda. Subsequently, the Committee is satisfied that the department is adequately sourced while also having requisite support from Management and was effective during the year under review.

Nomination, Remuneration & Human Resources Committee (NR&HRC)

The NRHRC is responsible for nomination of appointments to the Board and its Committees. 2018 was a particularly busy year for this Committee as it looked into nomination for the Group Managing Director, Managing Director - Hima, Finance Director, an independent Director as well as a proposed shareholder representative.

In line with its remuneration and HR responsibilities, the Committee reviewed and signed off the Group Remuneration Policy, the Board and employee remuneration proposals for 2018 together with amendments to the Pension Scheme Trust Deed and Rules.

During the year to better meet its obligations, composition of the Committee was reviewed to now comprise of six Directors, four of whom are independent non-executive Directors.

Executive Committee

The day to day business and operations of the Group are delegated to the Executive Committee (ExCo). Its members are appointed by the Group Managing Director and the Committee consists of individuals responsible for the key business sections of HR, Finance, Supply Chain, Operations, Growth & Strategy, Commercial and Transformation.

The ExCo meets at least twice a month or as frequently as necessary and the agenda focuses specifically on delivery of performance objectives approved by the Board.

Company Secretary

The Secretary acts as secretary to the Board as well as the Audit & Risk and NR&HR Committees of the Board.

The Secretary is the custodian of the Board documents and is responsible for advising the Board on all governance matters, Board induction and training, timely and appropriate dissemination of information, together with compliance with statutory and regulatory requirements.

The Secretary is available to give detailed practical support and guidance to the Directors, individually and collectively.

Policies

Whistle Blowing

The Group, through its Code of Business Conduct, emphasizes its commitment to ethics and compliance with laws, sets forth basic standards of behaviour for its employees when dealing with clients, suppliers, competitors and the general public, provides reporting mechanisms for known or suspected breaches while also ensuring prevention and detection of wrong doing.

In 2018, the Group re-launched its integrity line, which employees and external parties can use to raise any Code of Business Conduct or other suspected violations. To encourage reporting, reports can be made through a toll free telephone line or through online reporting and the individuals making the reports have the option of remaining anonymous.

The Board, with assistance from LafargeHolcim, reviewed all reports made through the Integrity Line and action was taken, were deemed necessary.

IT Policy

The Board has adapted the LafargeHolcim Group IT policy.

The Policy aims to create value as innovative business enabler and an efficiency driver and includes three domains - IT Security, IT Service Management and other IT processes. The Policy sets out the areas of IT responsibility, its processes and a governance model. The IT framework is designed and maintained on a regular basis to keep the approach on an appropriate level of governance and to ensure efficient and secure processes.

Procurement Policy

In 2018, the Board reviewed the Group Procurement Policy. The Policy aims at providing complete management from strategy definition to execution. It ensures that procurement creates value by leveraging size and volumes, efficient processes and systems together with combined global expertise with a consistent focus on the lowest total cost of ownership.

The Procurement Policy provides for supplier sustainability compliance, adherence to the Group's Health & Safety Standards as well as applicable laws and regulations as integral parts of any sourcing decisions.

Related Party Transactions Policy

The Board also reviewed the related party transactions policy during the year.

The Policy applies to any transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) between the Company and one or more of its Related Parties. It provides a framework for governance and reporting of Related Party Transactions.

All related party transactions are declared elsewhere in this report.

Communication

The Board's communication strategy aims to provide shareholders with the highest standards of disclosure and financial transparency. The Board announces its achievements and prospects to shareholders by way of interim and full year results. Significant matters are disseminated to the market through announcements to the regulators, publication in the newspapers and posting on the Group's website.

During the year, the Managing Director held several sessions with the media to discuss topical issues such as the results or the Group's activities on public interest issues such as affordable housing.

The Group encourages individual shareholders with enquiries to forward them, which are then managed by the Chair, the Managing Director and/or the Company Secretary.

Annual General Meeting

The Group held its Annual General Meeting (AGM) on 7 June 2018 in Mombasa, the Group's home base. Except two, all the Directors were present at the AGM and had the opportunity to meet and interact with the Shareholders present. The meeting was also attended by a representative from Deloitte, the external auditors.

Investors

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

Financial Results

The Group announces its financial results every six months. The half year and full year results are released through publication in two daily newspapers and the Group's website. The Group also releases a Q&A paper with each set of financial results to enable a deeper understanding of the results while also anticipating and responding to any questions relating thereto.

The shareholders also get a copy of the annual report, which contains the full year results, other reports and information on the Group.

Remuneration Report

for the year ended 31 December 2018

This Report is compiled in compliance to Division 6 of the Companies Act 2015 and in accordance with the Tenth Schedule of the Companies (General) Regulations 2015. Where required and as indicated, the Report has been audited by Deloitte.

Board Changes

During the year 2018, there were several changes within the Board. Eric Kironde, the Finance Director, was also acting as Group Managing Director until February 2018. He also ceased to be Finance Director in October 2018.

Seddiq Hassani, Nicolas George, Mbuvi Ngunze and Grace Oluoch were appointed during the year. Vasileios Karalis was appointed on 21 March 2019.

For the above therefore, the remuneration contained in this report is pro-rated to reflect the time actual served.

Executive Directors and LafargeHolcim Representative Directors

It is a policy of the LafargeHolcim Group that executive directors and any non-executive directors appointed as representatives of the Group on the Board of Directors do not receive any payment by virtue of their membership on the Board.

As a result, for executive directors their remuneration is only that provided for under the Remuneration Policy covering remuneration for salaried/management employees.

Remuneration Outcomes 2017 - 2018: Executive Directors

Terms of Employment

The Executive Directors are employed under service contracts that are either fixed term or open ended. The dates of these contracts are:

Name	Date of Contract	Duration	Notice Period
Eric Kironde	15 December 2011	n/a	3 months
Seddiq Hassani	9 February 2018	3 years	3 months
Nicolas George	1 March 2018	3 years	3 months
Grace Oluoch	19 October 2018	n/a	3 months

Some of the contracts have an indefinite term while others are for the indicated fixed term both of which may be terminated by either party by giving the indicated notice period.

There were no significant changes to the remuneration in respect of pension or allowances during the year.

The Company does not have any long term incentives or share option schemes.

Salary Review

The executive director salaries review was undertaken in line with the overall company salary review. At the time of the review, Eric Kironde was the only executive director. The salary review took into consideration the overall budget for increase and individual performance for the year 2017.

The increases awarded compared to the salary increases average for salaried staff are as shown below:

Name	2018	2017
Eric Kironde	2%	6%
Average staff salary increase Kenya	6%	6%
Average staff salary increase Uganda	9%	7%

Performance Bonus 2017

The performance of the Company against the internally set objectives covering all six key business pillars of Health & Safety, Customer, Results, Integrity, Sustainability and People, represented a 64% and 84.6% achievement for Kenya and Uganda respectively.

This, together with elements of individual performance, resulted in performance bonuses paid to Eric, the only executive director for whom the bonus was due, in March 2018.

NAME	SALARY		BONUS		ALLOWANCES		NON-CASH BENEFITS[1]		PENSION/SOCIAL SECURITY		TOTAL	TOTAL
	2018 '000	2017 '000	2018 '000	2017 '000	2018 '000	2017 '000	2018 '000	2017 '000	2018 '000	2017 '000	2018 '000	2017 '000
Eric Kironde	9,340	11,470	825	1,282	4,030	4,519	2,575	1,313	1,076	1,291	**17,847[2]**	**19,874**
Seddiq Hassani	33,227	-	-	-	7,587	-	9,368	-	6,279	-	**56,461**	**-**
Nicolas George	13,899	-	-	-	994	-	17,142	-	1,721	-	**33,755**	**-**
Grace Oluoch	3,677	-	-	-	655	-	791	-	-	-	**5,124[3]**	**-**
TOTAL	**60,143**	**11,470**	**825**	**1,282**	**13,266**	**4,519**	**29,876**	**1,313**	**9,076**	**1,291**	**112,577**	**19,874**

[1] includes, where applicable, school fees, home travel, insurance covers, house, company car and driver
[2] covers the period up to 18 October 2018
[3] covers the period from 18 October 2018

Remuneration Outcomes 2017 - 2018: Non-Executive Directors

Terms of Employment

The non-executive Directors (including the Chairman) are appointed by letters of appointment, which do not contain fixed term period, which appointment is subject to performance review and re-election by the shareholders at annual general meetings.

The dates of the letters of appointment are set out below:

NAME	DATE OF CONTRACT
Dr John Simba	29 November 2012
Joseph Kimote	6 June 2016
Jose Cantillana	6 June 2016
Alice Owuor	10 March 2017
Helen Gichohi	10 March 2017
Rita Kavashe	10 March 2017
Pierre Delaplanque	7 June 2018
Mbuvi Ngunze	30 August 2018
Vasileios Karalis	21 March 2019

Remuneration Report *(continued)*
for the year ended 31 December 2018

Apart from their service contracts, no director has had any material interest in any contract with the Group.

Following conclusion of the significant remuneration review authorised by shareholders, the Director's fees was reviewed taking into consideration the overall increase for employees.The increase was approved by the shareholders at the Annual General Meeting held on 7 June 2018.

The Directors are paid an annual fee, paid bi-annually, and meeting attendance fees. The fees paid in 2018 were:

Non-executive director remuneration

NAME	ANNUAL FEES	SITTING ALLOWANCE[1]	TOTAL 2018	ANNUAL FEES	SITTING ALLOWANCE	TOTAL 2017
Dr John Simba	1,195,472	2,452,125	3,647,597	1,127,804	2,439,942	3,567,746
Alice Owuor	493,628	1,878,917	2,372,545	378,059	789,460	1,167,519
Helen Gichohi	493,628	1,042,088	1,535,716	378,059	563,900	941,959
Joseph Kimote	493,628	1,759,370	2,252,998	465,688	1,008,637	1,474,325
Mbuvi Ngunze[2]	164,543	836,829	1,001,372	N/A	N/A	N/A
Rita Kavashe	493,628	1,759,370	2,252,998	378,059	676,680	1,054,739
TOTAL FEES	**3,334,527**	**9,728,699**	**13,063,226**	**2,727,669**	**5,478,619**	**8,206,288**[3]

[1] Must be read together with the attendance register for purposes of the sitting allowance

[2] Appointed 30 August 2018

[3] Exclusive of Directors who resigned in 2017. The total Directors fees was KShs 10,412,626

The Directors' travel is fully facilitated by the Company and therefore no travel and related expenses are incurred by the individual directors. However, in the unlikely event that this happened, the Company reimbursed the cost.

There is no formal requirement that the Directors hold shares in the Company and there is no share option scheme that applies to the non-executive directors or at all.

The non-executive directors are not members of the Group pension scheme.

On behalf of the Board

Dr John P. N. Simba
Chairman, Nomination, Remuneration & HR Committee

12 April 2019

Shareholder Profile

Top 10 Shareholders as at 31 December 2018

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	Standard Chartered Nominees RES A/C KE11396	56,906,640	15.68%
4	Standard Chartered Kenya Nominees Ltd A/C KE002382	9,655,125	2.66%
5	Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	5,826,390	1.61%
6	Standard Chartered Kenya Nominees Ltd A/C 9230	2,245,479	0.62%
7	Standard Chartered Nominees A/C KE11993	2,207,700	0.61%
8	ICEA Lion Life Assurance Company Ltd - Pooled	1,876,815	0.52%
9	Standard Chartered Nominees Non-Resd A/C 9661	1,443,200	0.40%
10	Equity Nominees Limited A/C 00099	1,307,163	0.36%

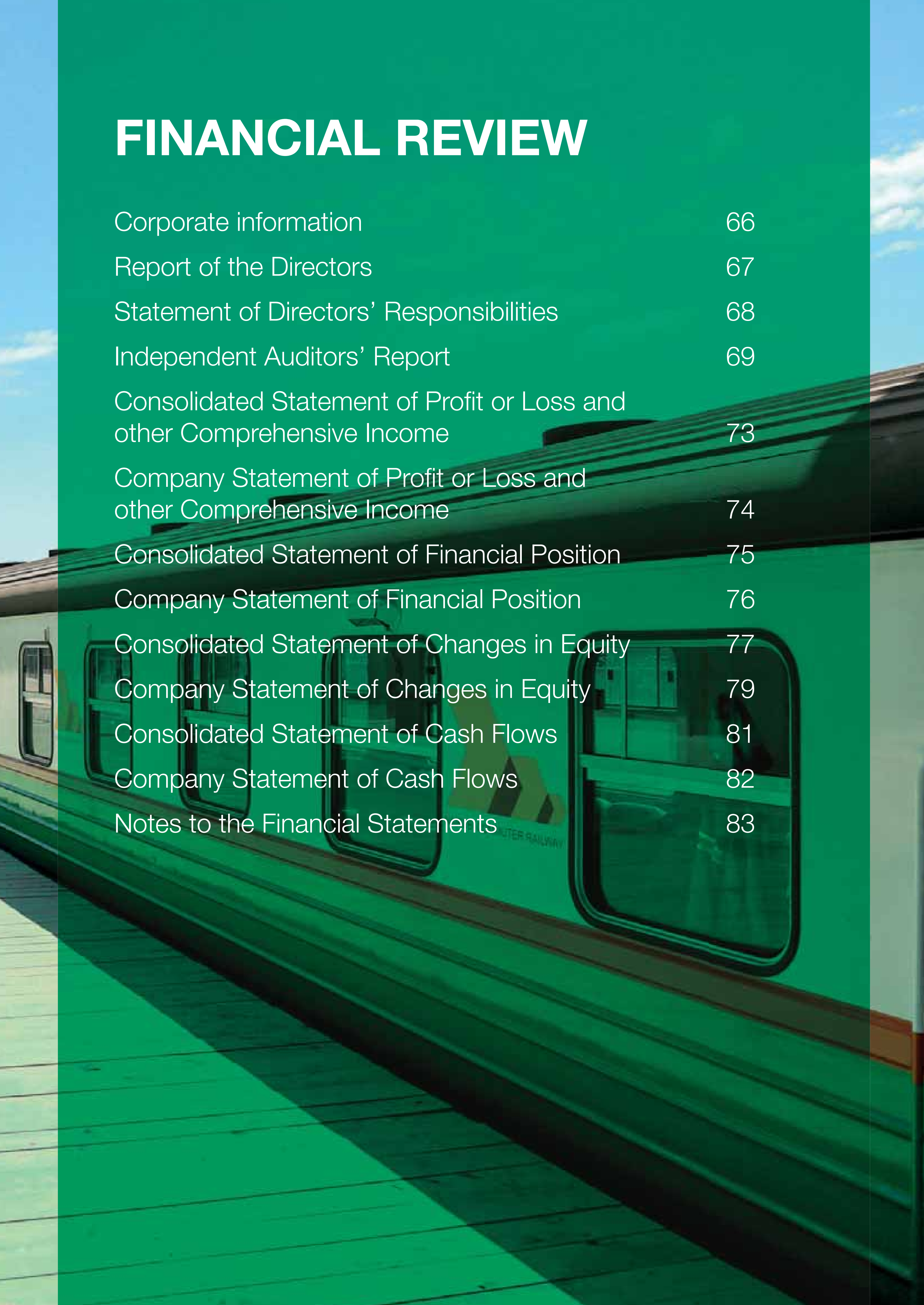
Share Analysis by Domicile as at 31 December 2018

DOMICILE	NUMBER OF SHARES	%	NUMBER OF HOLDERS
Foreign Institutions	230,786,496	63.58%	33
Foreign Individuals	494,355	0.14%	63
Local Institutions	117,140,629	32.27%	719
Local Individuals	14,537,795	4.01%	2,562
TOTAL	**362,959,275**	**100.00%**	**3,377**

Share Analysis by volume as at 31 December 2018

VOLUME	NUMBER OF SHARES	%	NUMBER OF HOLDERS
1 – 500	251,954	0.07%	1,368
501 – 5,000	2,371,427	0.65%	1,200
5,001 – 10,000	1,580,357	0.44%	222
10,001 – 100,000	14,239,540	3.92%	418
100,001 – 1,000,000	46,845,417	12.91%	156
> 1,000,000	297,670,580	82.01%	13
TOTAL	**362,959,275**	**100.00%**	**3,377**

FINANCIAL REVIEW



Corporate information

For The Year Ended 31 December 2018

DIRECTORS	Executive		
	E Kironde	(Ugandan)	Resigned 18 October 2018
	S Hassani	(Moroccan)	Appointed 9 February 2018
	N George	(French)	Appointed 9 February 2018
	G Oluoch	(Kenyan)	Appointed 18 October 2018
	Non-executive		
	J Simba	(Kenyan)	Chairman
	J Cantillana	(Spanish)	Resigned 7 June 2018
	J M Kimote	(Kenyan)	
	A Owuor	(Kenyan)	
	H Gichohi	(Kenyan)	
	R Kavashe	(Kenyan)	
	O Guitton	(French)	Resigned 21 March 2019
	T M Dornon	(French)	Resigned as alternate to O Guitton on 7 June 2018
	P Deleplanque	(French)	Appointed 7 June 2018
	M Ngunze	(Kenyan)	Appointed 30 August 2018
	V Karilis	(Hellenic)	Appointed 21 March 2019

SECRETARY

B Kanyagia
Certified Public Secretary (Kenya)
Kenya-Re Towers, Upper Hill
P. O. Box 10921 - 00100
Nairobi, Kenya

REGISTERED OFFICE

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

REGISTRARS

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

AUDITORS

Deloitte & Touche
Deloitte Place
Waiyaki Way, Muthangari
P. O. Box 40092 - 00100
Nairobi, Kenya

PRINCIPAL BANKERS

Citibank N A
Citibank House, Upper Hill
P. O. Box 30711 - 00100
Nairobi, Kenya

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

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

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

Equity Bank (Kenya) Limited
Equity Centre, Upper Hill
P.O. Box 75104 - 00200
Nairobi, Kenya

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

Report of the Directors

For he Year Ended 31 December 2018

The directors have the pleasure of presenting their annual report together with the audited financial statements of Bamburi Cement Limited (the "Company) and its subsidiaries (together the "Group") for the year ended 31 December 2018, in accordance with Section 653 (1) of the Kenyan Companies Act, 2015 which disclose the state of financial affairs

1. PRINCIPAL ACTIVITIES

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

2. RESULTS

	2018 Shs' million	2017 Shs' million
Group profit before tax	680	4,116
Tax charge	(66)	(2,143)
Group profit for the year	614	1,973
Attributable to:		
Owners of the parent Company	890	1,647
Non-controlling interests	(276)	326
	614	1,973

3. DIVIDENDS

During the year, an interim dividend of Shs 1.00 (2017 – Shs 2.50) per ordinary share amounting to Shs 363 million (2017 – Shs 907.5 million) was paid.

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of Shs 4.10 (2017 – Shs 1.50) per ordinary share equivalent to a total sum of Shs 1,489 million (2017 – Shs 544 million).

4. DIRECTORS

The directors who served during the year and up to the date of approval of this report are disclosed on page 1.

5. AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

6. DISCLOSURE OF INFORMATION TO AUDITORS

Each director at the date of approval of this report confirms that, so far as he/she is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware and that each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

By Order of the Board

B Kanyagia

Secretary

12 April 2019

Statement of Directors' Responsibilities

For The Year Ended 31 December 2018

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of their profit or loss for that year. It also requires the directors to ensure that the Group and the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Group and the Company and disclose, with reasonable accuracy, the financial position of the Group and the Company. The directors are also responsible for safeguarding the assets of the Group and the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and then applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Group and the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group and the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on **12 April 2019** and signed on its behalf by:

Dr John P.N Simba
Chairman

Seddiq Hassani
Group Managing Director

Independent Auditors' Report to the Members of Bamburi Cement Limited

For The Year Ended 31 December 2018

Report on the audit of the consolidated and company financial statements

Our opinion

We have audited the accompanying financial statements of Bamburi Cement Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 73 to 167 comprising the consolidated and company statements of financial position at 31 December 2018 and consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and company financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and Company financial statements section of our report.*

We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and company financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report to the Members of Bamburi Cement Limited *(continued)*

For The Year Ended 31 December 2018

Report on the audit of the consolidated and company financial statements *(continued)*

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Implementation of IFRS 9 On 1 January 2018, a new accounting standard for financial instruments (IFRS 9) became effective, which introduced impairment based on expected credit losses (ECL), rather than the incurred loss model previously applied under IAS 39-financial instruments. The new standard has affected the accounting for the impairment of trade receivables which is a significant asset in the statements of financial position of the Group and Company. Due to the level of judgement relating to impairment of trade receivables based on expected credit losses by the Directors and the fact that the new accounting approach is being adopted for the first time during the current year, implementation of IFRS 9 in respect of impairment of trade receivables based on ECL is considered to be a key audit matter. As disclosed in note 22 of the consolidated and company financial statements, the Group's and Company's trade receivables amounted to Shs 2.2 billion and Shs 776 million as at 31 December 2018 respectively. Key judgements in respect of the timing and measurement of expected credit losses include: • Determining the appropriate customer groupings based on credit risk characteristics and historical credit loss experience; • Determining the period over which the observed historical loss rates are appropriate; and • Adjusting the historical loss rates with forward looking macro-economic factors. Other matters arising from the implementation of the new standard: • Completeness and accuracy of data used to calculate the ECL; and • Accuracy and adequacy of the financial statement disclosures. Refer to note 2 of the consolidated and company financial statements for critical accounting judgements and key sources of estimation uncertainty. Also refer to note 37 (ii) for details on the estimated credit loss disclosure.	To respond to the key audit matter, we performed the following procedures: • We tested the design, implementation and operating effectiveness of key controls across the processes relevant to the ECL governance, data accuracy and completeness and individual provisions and production of journal entries and disclosures. • We assessed the appropriateness of customer groupings by verifying the historical data and assumptions adopted as a basis for the groupings • We assessed whether forecasted macroeconomic variables were appropriate. • We assessed whether the period over which the observed historical loss rates was appropriate in developing the expected loss rates. • We tested the data used in the ECL calculation for accuracy and completeness. • We validated the completeness and appropriateness of the related disclosures through assessing the disclosure of trade receivables and expected credit loss provision in notes 2, 22 and 37 (ii) of the consolidated and company financial statements. Based on the evidence obtained, we are satisfied that trade receivable impairment provisions were reasonable and in accordance with IFRS 9. In addition, the disclosures in the financial statements in respect of trade receivables and ECL provision were found to be appropriate.

Independent Auditors' Report to the Members of Bamburi Cement Limited *(continued)*

For The Year Ended 31 December 2018

Report on the audit of the consolidated and company financial statements *(continued)*

Other Information

The Directors are responsible for the other information. The other information comprises the Report of the Directors and as required by the Kenyan Companies Act, 2015, the Chairman's statement, the Managing director's statement, Corporate governance statement, the Operational review report and the Sustainability report which were obtained prior to date of this report. The other information does not include the consolidated and company financial statements and our auditors' report thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated and company financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine are necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company and/or its subsidiaries or to cease their operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or its subsidiaries to cease to continue as going concerns.

Independent Auditors' Report to the Members of Bamburi Cement Limited *(continued)*

For The Year Ended 31 December 2018

Report on the audit of the consolidated and company financial statements *(continued)*

Auditors' responsibilities for the audit of the consolidated and company financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures, and whether the consolidated and company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board Audit and Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Board Audit and Risk Committee, we determine those matters that were of most significance in the audit of the consolidated and company financial statements of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Kenyan Companies Act, 2015

Report of the Directors

In our opinion, the information given in the report of Directors' report on page 67 is consistent with the financial statements.

Directors' remuneration report

In our opinion, the auditable part of the Directors' remuneration report on pages 60 to 62 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

12 April 2019

CPA Fred Aloo, Practising certificate No. 1537.
Signing partner responsible for the independent audit

Consolidated Statement of Profit or Loss and other Comprehensive Income

For The Year Ended 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Revenue	4	37,262	35,974
Cost of goods sold	5	(26,466)	(21,230)
Cost of transport service	5	(4,001)	*(4,831)*
Gross profit		**6,795**	**9,913**
Marketing and sales expenses	9(i)	(1,002)	(908)
Administration expenses	9(ii)	(3,033)	(2,445)
Impairment losses on financial assets	9	(52)	(16)
Impairment of other assets	9(iii)	(49)	(243)
Other income	7(i)	47	40
Other losses	8	(255)	(425)
Other operating expenses	10(a)	(1,463)	(1,687)
Restructuring costs	10(b)	(153)	-
Operating profit		**835**	**4,229**
Finance income	7(ii)	103	150
Finance costs	7(iii)	(258)	(263)
Finance (cost) – net		(155)	(113)
Profit before income tax	**11(a)**	**680**	**4,116**
Tax charge	12(a)	(66)	(2,143)
Profit for the year		**614**	**1,973**
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains	28	21	22
Income tax effect	12(a)	(6)	(7)
		15	15
Revaluation of property plant and equipment	15(a)	1,814	6,323
Income tax effect	12(a)	(544)	(1,897)
		1,270	4,426
(Loss)/gain on valuation of quoted equities	19(b)	(125)	39
Gain on sale of quoted equities		4	-
Income tax effect		-	(12)
		(121)	27
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,164**	**4,468**
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Exchange (losses)/gains on translation of foreign operations		(388)	25
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(388)**	**25**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**776**	**4,493**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,390	6,466
Profit for the year attributed to:			
Owners of the parent Company		890	1,647
Non-controlling interest	18(b)	(276)	326
		614	1,973
Total comprehensive income attributed to:			
Owners of the parent Company		1,401	6,052
Non-controlling interest	18(b)	(11)	414
		1,390	6,466
Earnings per share – basic and diluted	13	2.45	4.54

Company Statement of Profit or Loss and other Comprehensive Income

For The Year Ended 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Revenue	4	22,310	21,446
Cost of goods sold	5	(15,744)	(13,903)
Cost of transport service	5	(1,910)	(2,413)
Gross profit		**4,656**	**5,130**
Marketing and sales expenses	9(i)	(428)	(528)
Administration expenses	9(ii)	(1,407)	(1,371)
Impairment losses on financial assets	9	(35)	-
Impairment of other assets	9(iii)	-	(243)
Other income	7(i)	47	40
Other (losses)	8	(25)	(317)
Other operating expenses	10(a)	(887)	(935)
Restructuring costs	10(b)	(119)	-
Operating profit		**1,802**	**1,776**
Finance income	7(ii)	103	148
Finance costs	7(iii)	(53)	(58)
Finance income - net.		50	90
Profit before tax	**11(a)**	**1,852**	**1,866**
Tax charge	12(a)	(207)	(1,025)
Profit for the year		**1,645**	**841**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property plant and equipment	15(b)	-	5,904
Income tax effect	12(a)	-	(1,771)
			4,133
(Loss)/gain on revaluation quoted equities	19(b)	(125)	39
Gain on sale of quoted equities		4	-
Income tax effect	12(a)	-	(12)
		(121)	27
Actuarial gains	28	17	43
Income tax effect	12(a)	(5)	(4)
		12	39
Net other comprehensive(loss)/income not to be reclassified to profit or loss in subsequent periods		(109)	66
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(109)	4,199
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,536	5,040

Consolidated Statement of Financial Position

For The Year Ended 31 December 2018

	Notes	**2018 Shs'million**	2017 Shs'million
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15(a)	36,224	32,502
Prepaid operating lease rentals	16	124	136
Intangible assets	17	244	43
Other equity investments	19(a)	180	317
Other long term investments	18 (c)	-	10
Biological assets	34(a)	399	471
Limestone reserves	17(b)	525	-
Goodwill	20	217	217
		37,913	33,696
CURRENT ASSETS			
Inventories	21	6,862	5,422
Biological assets	34(b)	72	-
Trade and other receivables	22(a)	2,929	4,595
Corporate tax recoverable	12(c)	215	-
Cash and cash equivalents	23(a)	2,366	3,490
		12,444	13,507
TOTAL ASSETS		50,357	47,203
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	1,815	1,815
Asset revaluation reserve	25(a)	11,906	11,263
Fair value reserve	25(b)	-	102
Translation reserve	25(c)	(2,042)	(1,771)
Retained earnings		18,032	17,963
Equity attributable to owners of the Company		29,711	29,372
Non-controlling interests		3,752	3,828
Total equity		33,463	33,200
NON-CURRENT LIABILITIES			
Deferred tax liability	26	4,693	4,456
Provisions	27	289	921
Employees' defined benefit liabilities	28	479	493
Long term borrowings	33(d)	2,010	-
		7,471	5,870
CURRENT LIABILITIES			
Unclaimed dividends	14(a)	1	6
Bank overdrafts	23(c)	1,403	1,450
Provisions	27	69	52
Employees' defined benefit liabilities	28	42	80
Trade and other payables	29	7,824	6,096
Corporate tax payable	12(c)	84	449
		9,423	8,133
TOTAL EQUITY AND LIABILITIES		50,357	47,203

The financial statements on pages 73 to 167 were approved and authorised for issue by the Board of Directors on 12 April 2019 and were signed on its behalf by:

Dr John P.N Simba
Chairman

Seddiq Hassani
Group Managing Director

Company Statement of Financial Position

For The Year Ended 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15(b)	19,731	19,487
Prepaid operating lease rentals	16	-	1
Intangible assets	17	148	11
Investments in subsidiaries	18(a)	2,000	1,062
Other equity investments	19(a)	180	317
Biological assets	34(a)	399	471
Loan to subsidiary	33 (c)	25	54
		22,483	21,403
CURRENT ASSETS			
Inventories	21	3,475	2,828
Biological assets	34(b)	72	-
Loan to subsidiary	33(c)	29	29
Trade and other receivable	22(a)	1,994	2,364
Cash and cash equivalents	23 (a)	2,161	2,557
		7,731	7,778
TOTAL ASSETS		**30,214**	**29,181**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	1,815	1,815
Asset revaluation reserve	25(a)	10,662	10,899
Fair value reserve	25(b)	-	102
Retained earnings		10,063	9,019
Total equity		22,540	21,835
NON-CURRENT LIABILITIES			
Deferred tax liability	26	2,620	2,451
Provisions	27	257	614
Employees' defined benefit liabilities	28	421	444
		3,298	3,509
CURRENT LIABILITIES			
Unclaimed dividends	14(a)	1	6
Provisions	27	29	29
Employees' defined benefit liabilities	28	38	70
Trade and other payables	29	4,252	3,612
Corporate tax payable	12(c)	56	120
		4,376	3,837
TOTAL EQUITY AND LIABILITIES		**30,214**	**29,181**

The financial statements on pages 73 to 167 were approved and authorised for issue by the Board of Directors on 12 April 2019 and were signed on its behalf by:

Dr John P.N Simba
Chairman

Seddiq Hassani
Group Managing Director

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2018

	Attributable to the equity holders of the parent							
Year ended 31 December 2018	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Fair value reserve Shs'million Note 25(b)	Translation reserve Shs'million Note 25(c)	Retained earnings Shs'million	Owners of the Company Shs'million	Non-controlling interests Shs'million	Total equity Shs'million
At 1 January 2018	1,815	11,263	102	(1,771)	17,963	29,372	3,828	33,200
IFRS 9 transition adjustment net of tax	-	-	-	-	(155)	(155)	(65)	(220)
Profit for the year	-	-	-	-	890	890	(276)	614
Other comprehensive income for the year	-	889	(121)	(271)	14	511	265	776
Total comprehensive income for the year	-	889	(121)	(271)	904	1,401	(11)	1,390
Loss on fair value of quoted securities	-	-	19	-	(19)	-	-	-
Transfer of excess depreciation (net of tax)	-	(246)	-	-	246	-	-	-
Dividends: (Note 14(b))								
- Final dividends for 2017 declared and approved	-	-	-	-	(544)	(544)	-	(544)
- Interim dividends for 2018 declared and approved	-	-	-	-	(363)	(363)	-	(363)
	-	-	-	-	(907)	(907)	-	(907)
At 31 December 2018	1,815	11,906	-	(2,042)	18,032	29,711	3,752	33,463

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

- The asset revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment - Note 25(a).
- Retained earnings represent accumulated profits retained by the Group after payment of dividends to the shareholders.
- The translation reserve represents the cumulative position of translation gains and losses arising from conversion of net assets of the foreign subsidiary Company to the presentation currency - Note 25(c).

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2017

	Attributable to the equity holders of the parent							
Year ended 31 December 2017	Share capital	Asset revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Owners of the Company	Non-controlling interests	Total equity
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
	Note 24	Note 25(a)	Note 25(b)	Note 25(c)				
At 1 January 2017	1,815	7,163	75	(1,796)	19,148	26,405	3,414	29,819
Profit for the year	-	-	-	-	1,647	1,647	326	1,973
Other comprehensive income for the year	-	4,338	27	25	15	4,405	88	4,493
Total comprehensive income for the year	-	4,338	27	25	1,662	6,052	414	6,466
Transfer of excess depreciation (net of tax)	-	(238)	-	-	238	-	-	-
Dividends: (Note 14(b))								
- Final dividends for 2017 declared and approved	-	-	-	-	(2,178)	(2,178)	-	(2,178)
- Interim dividends for 2017 declared and approved	-	-	-	-	(907)	(907)	-	(907)
	-	-	-	-	(3,085)	(3,085)	-	(3,085)
At 31 December 2017	1,815	11,263	102	(1,771)	17,963	29,372	3,828	33,200

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

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

Company Statement of Changes in Equity

For The Year Ended 31 December 2018

Year ended 31 December 2018	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Fair value reserve Shs'million Note 25(b)	Retained earnings Shs'million	Total equity Shs'million
At 1 January 2018	1,815	10,899	102	9,019	21,835
Gain on intercompany asset transfer	-	-	-	76	76
Profit for the year	-	-	-	1,645	1,645
Other comprehensive income for the year	-	-	(121)	12	(109)
Loss on fair valuation of quoted equities	-	-	19	(19)	-
Total comprehensive income for the year	-	-	(102)	1,638	1,536
Transfer of excess depreciation (net of tax)	-	(237)	-	237	-
Dividends: (Note 14(b))					
- Final dividends for 2017 declared and approved	-	-	-	(544)	(544)
- Interim dividends for 2018 declared and approved	-	-	-	(363)	(363)
				(907)	(907)
At 31 December 2018	1,815	10,662	-	10,063	22,540

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

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

Company Statement of Changes in Equity *(Continued)*
For The Year Ended 31 December 2017

Year ended 31 December 2017	Share capital Shs'million Note 24	Asset revaluation reserve Shs'million Note 25(a)	Fair value reserve Shs'million Note 25(b)	Retained earnings Shs'million	Total equity Shs'million
At 1 January 2017	1,815	6,990	75	11,000	19,880
Profit for the year	-	-	-	841	841
Other comprehensive income for the year	-	4,133	27	39	4,199
Total other comprehensive income for the year	-	4,133	27	880	5,040
Transfer of excess depreciation net of tax	-	(224)	-	224	-
Dividends: (Note 14(b))					
- Final dividends for 2017 declared and approved	-	-	-	(2,178)	(2,178)
- Interim dividends for 2017 declared and approved	-	-	-	(907)	(907)
	-	-	-	(3,085)	(3,085)
At 31 December 2017	1,815	10,899	102	9,019	21,835

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

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

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2018

	Note	2018 Shs'million	2017 Shs'million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	3,712	6,458
Interest received	7(ii)	103	150
Interest paid		(197)	(25)
Tax paid	12(c)	(795)	(1,632)
Net cash generated from operating activities		2,823	4,951
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15(a)	(4,205)	(6,961)
Purchase of intangible assets	17	(315)	-
Acquisition of limestone reserves		(515)	-
Proceeds from sale of quoted equities		16	-
Proceeds from disposal of property, plant and equipment		62	120
Net cash used in investing activities		(4,957)	(6,841)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders	14(b)	(907)	(3,085)
Proceeds from borrowings	33(d)	1,983	-
Net cash generated from/(used) in financing activities		1,076	(3,085)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,058)	(4,975)
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year		2,040	6,972
Net decrease in cash and cash equivalents during the year		(1,058)	(4,975)
Effects of exchange rate changes on cash held in foreign currencies		(19)	43
Cash and cash equivalents at end of the year	23(b)	963	2,040

Company Statement of Cash Flows

For The Year Ended 31 December 2017

	Notes	2018 Shs'million	2017 Shs'million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	2,999	3,710
Interest received	7(ii)	103	148
Tax paid	12(c)	(107)	(888)
Net cash generated from operating activities		2,995	2,970
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15(b)	(2,215)	(2,588)
Purchase of intangible assets		(214)	-
Proceeds from sale of quoted equities		16	-
Loans repayments	33(c)	29	29
Net cash used in investing activities		(2,384)	(2,559)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to the shareholders	14(b)	(907)	(3,085)
Increase in investment in subsidiaries		(100)	-
Net cash used in financing activities		(1,007)	(3,085)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(396)	(2,674)
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year		2,557	5,231
Net decrease in cash and cash equivalents during the year		(396)	(2,674)
Cash and cash equivalents at the end of the year	23(b)	2,161	2,557

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), and in the manner required by the Kenyan Companies Act, 2015. The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are presented in millions of Kenya Shillings (Shs' Million), which is the functional currency of the parent Company, and the presentation currency for the consolidated financial statements.

For the purpose of reporting under the Kenyan Companies Act, 2015, the balance sheet in these financial statements is represented by statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive Income.

b) 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 2018

The following new and revised IFRSs were effective in the current year.

Impact of initial application of IFRS 9 Financial Instruments

During the year, the Group adopted IFRS 9 Financial Instruments (IFRS 9). As a result of the application of IFRS 9, there was a change in the accounting policies and these new policies were applicable from 1 January 2018. As permitted by the transition provisions of IFRS 9, the Group elected not to restate comparative period results; accordingly, all comparative period information is presented in accordance with the previous accounting policies, as indicated below.

New or amended disclosures have been provided for the current period, where applicable and comparative period disclosures are consistent with those made in the prior year.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impact of initial application of IFRS 9 Financial Instrument (continued)

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The directors of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that with the initial application of IFRS 9 the financial assets classified as held to maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Classification of financial assets in accordance with IFRS 9 has therefore not had any impact on the Group's or company financial statements in the current or prior years.

Measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

Transition disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group’s risk management activities have also been introduced.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group for the current and/or prior years as the Group has no hedging relationships and therefore no hedge accounting is required as per IFRS 9.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- Trade receivables and advance to suppliers
- Cash and bank balances

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIE (continued)

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

(i) Impact of relevant new standards and amendments to published standards (continued)

Items existing as at 1 January 2018 that are subject to impairment provision of IFRS 9	Credit risk attributes at 1 January 2018	Cumulative additional allowance recognized on 1 January 2018	Cumulative additional allowance recognized on 1 January 2018
		Group Shs'million	**Company Shs'million**
Trade receivables	For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.	192	-
Cash	All cash balances are assessed to have low credit risk at each reporting date as they are held with reputable banks	-	-
Advance to suppliers	All Advance to suppliers balances are assessed to have low credit risk at each reporting date as they are paid to regular suppliers	28	-
Total		**220**	**-**

The additional credit loss allowance of Shs 220 million as at 1 January 2018 for Group has been recognised against retained earnings. The additional loss allowance is charged against the respective assets.

The reconciliation between the ending provision for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 for the above financial instruments on 1 January 2018 has been disclosed in note 37 (ii).

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5 step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2018

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 16-*Leases*	1 January 2019, with earlier application permitted
Amendments to IAS 28 *Long term Interests in Associates and Joint Ventures*	1 January 2019, with earlier application permitted
Annual Improvements to IFRS Standards 2015–2017 Cycle- *Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements IAS 12 Income Taxes and IAS 23 Borrowing Costs*	1 January 2019, with earlier application permitted
Amendments to IAS 19 Employee Benefits *Plan Amendment, Curtailment or Settlement*	1 January 2019, with earlier application permitted
IFRS 10 Consolidated Financial Statements and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint*	1 January 2019, with earlier application permitted
IFRIC 23 *Uncertainty over Income Tax Treatments*	Effective for annual periods beginning on or after 1 January 2019

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the company anticipate that the application of IFRS 16 in the future may have a significant impact on amounts reported in the Group and company's financial statements. The full impact of IFRS 16 will be established when a detailed assessment is completed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2018 *(continued)*

Amendments to IAS 28 Long term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long term interests.

Furthermore, in applying IFRS 9 to long term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first time application of the amendments coincides with that of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Annual Improvements include amendments to four Standards.

IAS *12 Income Taxes*

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2018 (continued)

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the premeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company do not anticipate that the application of these amendments in the future will have an impact on the Group and company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2018 (Continued)

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

(iii) Early adoption of standards

The company did not early-adopt any new or amended standards in 2018.

c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the company as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

A list of the subsidiaries in the Group is provided in Note 18(a).

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of Consolidation (continued)

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

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

Disclosures of non-controlling interests are included in Notes 18(b).
All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

d) Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in profit or loss in accordance with the IFRS. If the contingent consideration is not within the scope of IFRS 9, it is measured at each reporting date and changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Business combinations and goodwill (continued)

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the business combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

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

e) Translation of foreign currencies

i) Transactions and balances

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Translation of foreign currencies (continued)

ii) Translation of foreign operations

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

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

When a foreign operation is sold, the cumulative amount of the exchange differences relating to that foreign entity, recognised in other comprehensive income and accumulated on the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

f) Revenue recognition

The Group recognises revenue from the following major sources:

- Sale of cement and cement products
- From transport services

Transport revenue is the surcharge to customer by the Group and Company for arranging delivery of cement and cement products to the customer.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Sale of cement and cement products

A Group recognizes revenue when it satisfies a performance obligation by transferring promised goods to a customer (which is when the customer obtains control of the goods). The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A performance obligation is satisfied at a point in time, for promises to transfer goods to a customer.

Transport services

A Group recognizes revenue when it satisfies a performance obligation by transferring service to a customer (which is when the customer obtains control of that service). The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A performance obligation is satisfied at a point in time, when the customer obtains control of the service.

Revenue is shown net of value added tax (VAT), returns, rebates and discounts and after eliminating sales within the Group

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Revenue recognition (continued)

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

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

Rental income
Rental income is recognised when the Group's right to receive the rent payment is established. The Group has residential buildings and sublets some of them to its employees and third parties.

Rendering of services
The Group through its subsidiary Lafarge Ecosystems Limited operates a private park and charges entry fees to tourists. Income from rendering of services is recognized when the Group transfers control of a service to a customer.

Rebates
Rebates are given to the customers who meet condition set by the Group and the Company policy. All rebates are paid in form of credit notes and the customer collects cement of equivalent value. Rebates are calculated based on tons or percentage volume depending on the signed agreement.

g) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

h) Leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued))

h) Leases (continued)

Group as a lessor

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

Currently, the Group has leased out residential houses and land to employees and third parties. See note 7 on rental income from residential property for more details.

i) Property, plant and equipment

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

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

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

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

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

Land and mineral reserves	Not depreciated
Buildings and Installations	20 - 35 years
Heavy machines and installations	20 - 30 years
Other machines	10 - 20 years
Furniture, vehicles and tools	3 - 10 years

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Property, plant and equipment (continued)

The limestone reserve is a finite resource hence amortisation is based on quantity of limestone mined. The amortisation is a rate and this is computed as a ratio of the number of limestone units mined to the total value of limestone units available during the year. The value of limestone units during the year is a product of the ratio of limestone units mined to the total number of units available at acquisition date multiplied by the total value of units available as at that date. The amortisation rate used during the year was UGX Shs 19.5 per tonne mined.

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

j) Intangible assets

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

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

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

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

k) Inventories

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

Inventories of consumables and spare parts are stated at the lower of cost and net realisable value. The cost of consumables and spare parts is the weighted average cost less provision for obsolete and slow moving items.

All other inventories are stated at the lower of cost and net realisable value. The cost includes direct cost and appropriate overheads and is determined on the first-in first-out method.

Net realisable value of inventories is the estimated selling price of the inventories in the ordinary course of the Group's business less the estimated costs of completion and the estimated costs necessary to make the sale.

l) Tax

Current income tax

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Tax (continued)

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

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

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

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

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

m) Dividends payable

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.
Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.
All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.
Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit impaired financial assets (i.e. assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

(i) Amortised cost and effective interest method (continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired (see below). For financial assets that have subsequently become credit impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit impaired financial assets, the Group recognises interest income by applying the credit adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the “finance income – interest income” line item.

(ii) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the ‘finance income’ line item in profit or loss.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item ;
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade and other receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

(i) Significant increase in credit risk (continued)

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1) The financial instrument has a low risk of default,
2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

(iii) Credit impaired financial assets

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;
(b) A breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.
If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the 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.
On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 recognised at the proceeds received, net of direct issue costs.
Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method.
Financial liabilities that arise when a transfer of a financial asset does not qualify for de recognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.
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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment of non-financial assets

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

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

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

p) Employee entitlements

Retirement benefits obligations - defined contribution plans

The Group operates a defined contribution pension scheme for eligible employees. The scheme is administered by an independent administration Company and is funded by contributions from the Group companies and employees. These are further discussed under Note 35.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Employee entitlements (continued)

Retirement benefits obligations - defined contribution plans(continued)

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

Other entitlements

Employee entitlements to long service awards and service gratuity are recognised when they accrue to employees. A provision is made for the estimated liability for long-service awards as a result of services rendered by employees up to the reporting date. These are further discussed under Note 1 (r) – service gratuities, long service awards and leave pay.

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

Bonus

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

q) Provisions

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

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

r) Service gratuities, long service award, leave pay and termination benefits

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

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

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

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

The Group recognises the following changes in the net defined benefit in profit or loss as:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Service gratuities, long service award, leave pay and termination benefits (continued)

Employee entitlements to annual leave are recognised when they expected to be paid to employees. A provision is made for the estimated liability for annual leave at the reporting date. Service gratuity, long service awards and leave pay provisions are disclosed in Note 27 & 28, to the financial statements.

The Group recognises a liability and expense for termination benefits at the earlier of the following dates:

(a) when the Group can no longer withdraw the offer of those benefits; and
(b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

s) Cash and short-term deposits

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

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

t) Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group Managing Director (the “MD”). The MD makes strategic decisions and is responsible for allocating resources and assessing performance of the operating segments (see note 3).

u) Fair value measurement

The Group measures financial instruments such as available-for-sale at fair value at each reporting date. The Group also measures certain items of property, plant and equipment at fair value. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 39(b), to the financial statements.

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

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

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Fair value measurement (continued)

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

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

v) Biological assets

Biological assets comprise of eucalyptus, Casuarina, Cassi siamea and Neem plantations.

Eucalyptus Casuarina, Cassi siamea and Neem plantations are measured on initial recognition and at each reporting date at fair value less costs to sell. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less costs to sell are recognised in the statement of comprehensive income in the year in which they arise. Additions and replanting of biological assets include cost of planting and upkeep until they mature. Subsequently all costs of upkeep and maintenance of mature biological assets are recognised in the income statement in the period in which they are incurred.

w) Comparatives

Where necessary comparatives have been adjusted to conform with changes in presentation in the current year, specifically, Shs 471 million relating to bio fuels accounted for as inventory as reported in the prior year financial statements have been reclassified from inventory to biological assets in accordance with the requirements of IAS 41. The reclassification from inventories to bio fuels has not resulted in the change in the amounts reported in the prior years. Relevant IAS 41 disclosures for current and prior year are included in Note 34.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

Inventories provisioning and inventories count

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.

The inventories counts for raw materials – bulk materials including clinker, gypsum, bauxite, pozzolana and bulk cement, are carried out through a survey by an independent surveyor. This surveying process requires judgement and estimation.

Further details on inventories are given in Note 21, to the financial statements.

Revaluation of certain classes of property, plant and equipment

The Group carries certain classes of property, plant and equipment at fair value, with changes in fair value being recognised in other comprehensive income. The Group's land, buildings, plant, and machinery were last revalued on 1 December 2017. Land and buildings were valued on the basis of open market value by independent valuers, Knight Frank Valuers Limited.

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

Further details on property, plant and equipment are given in Note 15, to the financial statements.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 39, to the financial statements, for further discussion.

Site restoration

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

Site restoration provisions are disclosed in Note 27, to the financial statements.

Post-employment benefits

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

Impairment losses for non-financial assets

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

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

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

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

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

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

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

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

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

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

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

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

Impairment losses for non-financial assets (continued)

For available-for-sale financial assets, the Group assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available–for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. The Group treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. Further disclosures on this class of assets are done in Note 19, to the financial statements.

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

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

Contingent liabilities
As disclosed in Note 30 to the financial statements, the Group is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The Directors evaluate the status of these exposures on a regular basis to assess the probability of the Group incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation has been established. Judgement and assumptions are required in:

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

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made. Further details on income taxes are disclosed in Notes 12, 26 and 30 (c), to the financial statements.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Impairment of financial assets (continued)

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3. SEGMENT INFORMATION

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

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

Both geographical segments are mainly involved in the manufacture and sale of cement which comprises over 95% of the business activities of the Group. The remaining business activities, which include manufacture and sale of ready mix concrete, precast products and rehabilitation of quarries that are used as source of raw materials for cement production, are not deemed significant for separate segment reporting. There are no segments that are aggregated.

Revenue, assets and liabilities of the segment are measured in a manner consistent with that of the financial statements. The transactions are carried at arm's length sales between the segments are made at prices that approximate market prices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SEGMENT INFORMATION (continued)

Group management internally evaluates its performance based upon:

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

Year ended 31 December 2018 - All figures in millions of Kenya Shillings

	Kenya	Uganda	Adjustments and eliminations	Consolidated
Revenue				
External customers	23,048	14,214	-	37,262
Inter-segment	380	-	(380)	-
Total revenue	23,428	14,214	(380)	37,262
Cost of sales	(18,647)	(12,200)	380	(30,467)
Gross profit	4,781	2,014	-	6,795
Gross profit margin	21%	14%	-	18%
Other income	47	-	-	47
Finance income	96	7	-	103
Finance costs	51	197	-	248
Restructuring costs	153	-	-	153
Profit/(loss) before tax	1,730	(1,050)	-	680
Income tax expense	(199)	133	-	(66)
Profit/(loss) for the year	1,531	(917)	-	614
Segment assets	29,640	21,476	(974)	50,142
Segment liabilities	4,998	6,077	(148)	10,927
Depreciation and amortisation	1,206	805	-	2,011
Impairment of capital work in progress	-	39	-	39

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SEGMENT INFORMATION (continued)

Year ended 31 December 2017 - All figures in millions of Kenya Shillings

	Kenya	Uganda	Adjustments and eliminations	Consolidated
Revenue :				
External customers	19,594	16,380	-	35,974
Inter-segment	2,951	-	(2,951)	-
Total revenue	22,545	16,380	(2,951)	35,974
Cost of sales	(17,249)	(11,763)	2,951	(26,061)
Gross profit	5,296	4,617	-	9,913
Gross profit margin	23%	28%	-	28%
Other income	40	-	-	40
Finance income	148	12	(10)	150
Finance costs	58	215	(10)	263
Profit before tax	1,953	2,163	-	4,116
Income tax credit	(1,080)	(1063)	-	(2,143)
Profit for the year	873	1,100	-	1,973
Segment assets	29,479	18,872	(1148)	47,203
Segment liabilities	7,467	6,987	(451)	14,003
Depreciation and amortisation	1,020	641	-	1,661
Impairment of assets	243	-	-	243

Total assets are shown by the geographical area in which the assets are located. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and cash equivalents. Segment liabilities comprise trade and other payables, dividends payable and certain corporate borrowings. This figure excludes investment in subsidiaries, corporate tax and deferred taxation.

Information about major customers:

Included in the Group's revenues of Shs 37,262 million (2017: Shs 35,974 million) are approximately Shs 380 million (2017: Shs 2,951 million) which arose from sales to the Group's largest customer arising from the Kenyan segment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

4. REVENUE

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Cement (Note 6(i))	33,956	33,309	20,919	19,586
Precast products	625	635	-	-
Ready mix	923	958	-	-
Other*	62	41	-	-
Transport services	1,696	1,031	1,391	1,860
Net sales	37,262	35,974	22,310	21,446

**The other revenue includes mainly service delivery income from tourism activities earned by Lafarge Eco Systems Limited, a subsidiary of Bamburi Cement Limited.*

5. COST OF SALES

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Distribution costs				
Cost of transport services	4,001	4,831	1,910	2,413
Packaging materials	1,286	1,054	652	622
Diesel	68	48	1	2
Other distribution expenses	1,611	1,488	1,012	899
Total distribution cost	**6,966**	**7,421**	**3,575**	**3,936**
Production cost of goods sold				
Elimination of cost of sales-intra-group	(1,079)	(3,663)	-	-
Cost of finished goods purchased	4,704	4,681	2,424	1,897
Third party raw materials costs	5,133	4,580	1,951	1,932
Production materials	830	573	371	339
Energy	3,015	2,776	1,940	1,688
Electricity	3,509	3,209	2,539	2,170
Staff costs (Note 11b)	2,163	1,783	1,299	1,164
Other production expenses	2,519	1,751	2,034	1,466
Maintenance expenses	1,385	1,416	814	950
Changes in inventory	(428)	28	(315)	(101)
Depreciation	1,706	1,492	1,022	861
Amortisation	44	14	-	14
Total production cost of goods sold	**23,501**	**18,640**	**14,079**	**12,380**
Cost of sales	**30,467**	**26,061**	**17,654**	**16,316**
Cost of goods sold	26,466	21,230	15,744	13,903
Transport service costs	4,001	4,831	1,910	2,413
Cost of sales	**30,467**	**26,061**	**17,654**	**16,316**

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

6. i) REBATES

The Group and the Company offer rebates to the customers who meet the terms and conditions based on the existing rebates policies. The cement revenues are presented net of rebates. During the year the rebates offered by the Group and the Company were as follows:

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Rebates	892	1,094	932	1,166

7. OTHER INCOME AND FINANCE INCOME/COSTS

i) Other income

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Rental income	47	40	47	40
Total other income	47	40	47	40

ii) Finance income

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Interest income-cash deposits with local banks	103	150	96	138
Interest income-Group	-	-	7	10
Total finance income	103	150	103	148

iii) Finance costs

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Interest paid to banks	197	25	-	-
Interest on tax matters	-	173	-	-
Interest cost on pension benefit obligations	61	65	53	58
Total finance costs	258	263	53	58

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

8. OTHER GAINS AND LOSSES

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Gain/(loss) on disposal of assets	2	37	-	(79)
Foreign exchange losses	(257)	(203)	(25)	-
Foreign exchange gains	-	19	-	40
Write down of valuation balances*	-	(278)	-	(278)
Total other gains and losses	**(255)**	**(425)**	**(25)**	**(317)**

* This relates to unreconciled balances arising from system migration in 2017.

9 OPERATING EXPENSES

(i) Marketing and sales expenses

Marketing and sales expenses comprise mainly third party services with respect to advertising; route to market expenses; builders academy training costs; promotional; and customers loyalty program expenses. The total amount incurred during the year for the Group was Shs 1,002 million (2017: Shs 908 million) and for the Company Shs 428 million (2017: Shs 528 million).

(ii) Administration expenses

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Staff costs (note 11(b))	1,030	1,038	538	547
Third party services	844	583	490	390
Other administration expenses	872	650	173	275
Bank charges	25	33	21	14
Depreciation	176	129	107	143
Prepaid operating lease	9	-	1	-
Amortisation of intangible assets	77	12	77	2
Total administration expenses	**3,033**	**2,445**	**1,407**	**1,371**

(iii) Impairment of other assets

Capital work in progress (Note 15(a))	39	171	-	171
Intangible assets – software (Note 17a)	-	14	-	14
Impairment of Joint venture -Note 18(c)	10	-	-	-
Prepayments	-	58	-	58
	49	**243**	**-**	**243**

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
10 OTHER EXPENSES				
(a) Technical fees (Note 33 (i))	1,463	1,687	887	935
(b) Restructuring costs	153	-	119	-

In order to achieve operational efficiency, the Group undertook rationalization of the staff which resulted in restructuring of the group. The restructuring costs which are a one off, principally represent packages for employees' redundancies.

11. (a) PROFIT BEFORE TAX

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Profit before tax is arrived at after charging				
Staff costs (Note 11(b))	3,182	3,190	1,837	1,889
Depreciation on property, plant and equipment (Note 11(c))	1,882	1,621	1,129	1,004
Amortisation of intangible assets (Note 17)	121	26	77	16
Amortisation of prepaid lease rentals (Note 16)	9	8	1	-
Directors' fees (Note 33)	13	10	13	10
Auditors' remuneration	11	10	5	6
And after crediting:				
Interest income (Note 7)	103	150	103	148
Gain/(loss) on disposal of property, plant and equipment (Note 8)	2	37	-	(79)
Net foreign exchange (losses)/gains (Note 8)	(257)	(184)	(25)	40

(b) STAFF COSTS

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Salaries and wages	1,950	1,710	981	1,016
Retirement benefits costs	246	241	129	123
Staff welfare costs	997	1,239	727	750
	3,193	3,190	1,837	1,889
Presented as:				
Cost of sales (Note 5)	2,163	2,152	1,299	1,342
Administration expenses (Note 9)	1,030	1,038	538	547
	3,193	3,190	1,837	1,889

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

11. (c) DEPRECIATION AND AMORTIZATION

Depreciation on property, plant and equipment and amortisation of intangible assets and prepaid lease charge is presented as follows:

	GROUP 2018 Shs'million	GROUP 2017 Shs'million	COMPANY 2018 Shs'million	COMPANY 2017 Shs'million
Depreciation				
Cost of production (Note 5)	1,706	1,492	1,022	861
Administration expenses (Note 9)	176	129	107	143
	1,882	**1,621**	**1,128**	**1,004**
Amortization				
Cost of production (Note 5)	44	14	-	14
Administration expenses (Note 9)	77	12	77	2
	121	**26**	**77**	**16**

12 TAX

	GROUP 2018 Shs'million	GROUP 2017 Shs'million	COMPANY 2018 Shs'million	COMPANY 2017 Shs'million
(a) Tax charge				
Current tax based on the adjusted profit at 30%	110	1,956	43	1,113
Income taxation - previous years	114	335	-	-
Deferred tax (credit) (Note 26):				
-current year	(231)	(121)	78	(88)
-prior years	73	(27)	86	-
	(158)	(148)	164	(88)
Total tax charge	66	2,143	207	1,025
Other comprehensive income				
Actuarial gain (Note 28)	(6)	(7)	(5)	(4)
Revaluation of property plant and equipment	(544)	(1,897)	-	(1,771)
Revaluation of available for sale securities	-	(12)	-	(12)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

12. TAX (continued)

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

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Profit before tax	680	4,116	1,852	1,866
Tax calculated at the domestic rates applicable of 30%	204	1,234	556	560
150% investment deduction	(497)	-	(497)	-
Tax effect of expenses not deductible for tax purposes	172	601	62	465
Under provision of deferred tax in prior years	73	(27)	86	-
Income tax prior years	114	335	-	-
Total tax charge	66	2,143	207	1,025

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

(c) Corporate tax payable

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
At the beginning of the year	449	(168)	120	(105)
Tax charge -Current	64	1,956	43	1,113
-Prior years	151	335	-	-
Tax paid	(538)	(1,632)	(96)	(869)
Withholding tax paid	(257)	(32)	(11)	(19)
At end of the year	(131)	449	56	120
Tax (recoverable)	(215)	-	-	-
Tax payable	84	449	56	120

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

13. EARNINGS PER SHARE

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

There were no potentially dilutive shares as at 31 December 2018 and as at 31 December 2017.

	GROUP	
	2018 Shs'million	2017 Shs'million
Profit for the year attributable to owners of the parent Company (Shs million)	890	1,647
Weighted average number of ordinary shares (million)	363	363
Basic and diluted earnings per share (Shs)	2.45	4.54

14. DIVIDENDS

	GROUP AND COMPANY	
	2018 Shs'million	2017 Shs'million
(a) Unclaimed dividends		
At beginning of year	6	6
Write back of Dividends	(5)	-
Declared and approved during the year –[Note 14 (b)]	907	3,085
Dividends claimed/paid in the year	(907)	(3,085)
At end of year	1	6
(a) Dividends declared/approved during the year 2018 and 2017:		
Final dividends for previous year	544	2,178
Interim dividends for current year	363	907
	907	3,085
(a) Dividends declared/proposed in respect of the year		
Interim dividend - paid in the year*	363	907
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)**	1,489	544
	1,852	1,451
Dividends per share (based on 363 million shares)	Shs 5.10	Shs 4.00

* On 30 August 2018, an interim dividend of Shs 1.00 (23 August 2017: Shs 2.50) per share representing an amount of Shs 363 million (2017: Shs 907 million) was declared and paid.

** In respect of the current year, the directors propose that a final dividend of Shs 4.10 (2017 - Shs 1.50) per share equivalent to a total sum of Shs 1,489 million (2017 - Shs 544 million) be paid to the shareholders.

Withholding tax

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

15. PROPERTY, PLANT AND EQUIPMENT

a) GROUP

Year ended 31 December 2018

	Freehold land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Capital work-in-progress ** Shs'million	Total Shs'million
Cost or valuation					
At 1 January 2018	12,036	38,250	1,853	6,749	58,888
Additions	769	1,856	125	1,455	4,205
Revaluations	-	1,814	-	-	1,814
Transfers from capital work in progress	290	5,900	129	(6,319)	-
Transfer to intangible assets	-	-	-	(13)	(13)
Disposals	-	(61)	(8)	-	(69)
Write offs***	-	(17)	(108)	(39)	(164)
Translation differences*	(59)	(252)	101	(168)	(378)
At 31 December 2018	13,036	47,490	2,092	1,665	64,283
Depreciation					
At 1 January 2018	1,796	23,087	1,819	-	26,736
Charge for the year	222	1,570	90	-	1,882
Eliminated on disposal	-	-	(4)	-	(4)
Write offs***	-	(17)	(108)		(125)
Translational differences*	(67)	(268)	(61)	-	(430)
At 31 December 2018	1,951	24,372	1,736	-	28,059
NET BOOK VALUE	**11,085**	**23,118**	**356**	**1,665**	**36,224**

* The foreign exchange adjustments arise from the translation of the carrying amounts of assets held by a subsidiary, Himcem Holdings Limited into the Group's reporting currency.

** Capital work-in-progress represents costs incurred on ongoing work in respect of additions and replacements to various plants at year-end. Capital work-in-progress is not depreciated until the plants are completed and brought into use. See Note 9 (iii) for details on impairments.

*** These assets (NBV Shs 39 million) were written off following a fixed assets verification exercise during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

15. PROPERTY, PLANT AND EQUIPMENT (continued)

a) GROUP

Year ended 31 December 2017

	Freehold land and residential buildings	Plant and machinery	Office equipment and tools	Capital work-in-progress **	Total
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
Cost or valuation					
At 1 January 2017	7,619	33,516	1,128	565	42,828
Reclassifications***	2,395	(116)	743	63	3,085
Additions	230	121	35	6,575	6,961
Revaluations	1,838	4,485	-	-	6,323
Transfers from capital work in progress	34	210	-	(244)	-
Disposal	(79)	-	(54)	-	(133)
Impairments	-	-	-	(171)	(171)
Translation differences*	(1)	34	1	(39)	(5)
At 31 December 2017	12,036	38,250	1,853	6,749	58,888
Depreciation					
At 1 January 2017	386	20,402	947	-	21,735
Reclassifications***	1,196	1,232	657	-	3,085
Charge for the year	213	1,308	100	-	1,621
Eliminated on disposal	-	-	(54)	-	(54)
Translational differences*	1	(3)	1	-	(1)
At 31 December 2017	1,796	22,939	1,651	-	26,386
NET BOOK VALUE	10,240	15,311	202	6,749	32,502

* The translation adjustments arise from the translation of the carrying amounts of assets held by a subsidiary, Himcem Holdings Limited.

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

*** Reclassification in 2017 represents movement of assets between asset classes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

15. PROPERTY, PLANT AND EQUIPMENT (continued)

b) COMPANY

Year ended 31 December 2018

	Freehold land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Capital work-in-progress ** Shs'million	Total Shs'million
Cost or valuation					
As at 1 January 2018	9,519	25,752	1,404	2,400	39,075
Transfers from capital WIP	-	2,312	57	(2,369)	-
Additions	337	1,123	53	702	2,215
Disposals	-	-	(4)	-	(4)
Transfer to a subsidiary**	(838)	-	-	-	(838)
At 31 December 2018	9,018	29,187	1,510	733	40,448
Depreciation					
As at 1 January 2018	895	17,438	1,255	-	19,588
Charge for the year	69	1,002	58	-	1,129
Eliminated on disposal	-	-	-	-	-
At 31 December 2018	964	18,440	1,313	-	20,717
Net carrying amount					
At 31 December 2018	8,054	10,747	197	733	19,731

Year ended 31 December 2017

	Freehold land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Capital work-in-progress ** Shs'million	Total Shs'million
Cost or valuation					
As at 1 January 2017	7,113	21,564	901	187	29,765
Reclassification*	978	(418)	523	-	1,083
Transfers	-	-	-	36	36
Additions	88	121	31	2,348	2,588
Revaluations	1,419	4,485	-	-	5,904
Disposals	(77)	-	(53)	-	(130)
Impairments	-	-	-	(171)	(171)
At 31 December 2017	9,519	25,752	1,404	2,400	39,075
Depreciation					
As at 1 January 2017	149	16,640	765	-	17,554
Reclassification*	661	(45)	467	-	1,083
Charge for the year	85	843	76	-	1,004
Eliminated on disposal	-	-	(53)	-	(53)
At 31 December 2017	895	17,438	1,255	-	19,588
Net carrying amount					
At 31 December 2017	8,624	8,314	149	2,400	19,487

* Retirements include property, plant and equipment that was scrapped off (derecognised) during the year (See Note 15c) for details.

** This relates to land transferred to Diani Estates Limited, a subsidiary company at Net Book Value of Shs 838 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

15. PROPERTY, PLANT AND EQUIPMENT (continued)

c) OTHER DISCLOSURES

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

	GROUP		COMPANY	
	2018 Shs' Millions	2017 Shs' Millions	2018 Shs' Millions	2017 Shs 'Millions
COST				
Land	1,371	533	528	528
Buildings and installations	4,300	2,668	1,944	1,004
Machines	25,362	18,477	11,640	8,809
TOTAL	**31,033**	**21,678**	**14,112**	**10,341**
ACCUMULATED DEPRECIATION				
Land		-	-	-
Buildings and installations	(1,242)	(1,048)	(554)	(497)
Machines	(9,841)	(8,700)	(6,550)	(5,940)
TOTAL	**(11,083)**	**(9,748)**	**(7,104)**	**(6,437)**
Net carrying amount	**19,950**	**11,930**	**7,008**	**3,904**

The Group's and the Company's land, buildings, plant, and machinery were last re-valued on 1 December 2017. Land and residential buildings were valued on the basis of open market value by independent valuers, Knight Frank Valuers Limited.

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

Freehold land and residential buildings at cost include land with a carrying amount of Shs 528 million (2017: Shs 529 million) located in Mombasa and Athi River.

There were no borrowing costs capitalised during the year ended 31 December 2018 (2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

16. PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2018 Shs' Millions	2017 Shs' Millions	2018 Shs' Millions	2017 Shs 'Millions
Cost				
At 1 January	200	199	3	3
Foreign exchange adjustments*	(6)	(2)	-	-
At 31 December	194	200	3	3
Amortisation				
At 1 January	64	57	2	2
Foreign exchange adjustments*	(3)	(1)	-	-
Charge for the year	9	8	1	-
At 31 December	70	64	3	2
Net carrying amount	124	136	-	1

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

* The foreign exchange adjustments arise from the translation of the carrying amounts of assets held by a subsidiary, Himcem Holdings Limited into the reporting currency.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

17. (a) INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP		COMPANY	
Cost	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
At 1 January	528	697	382	554
Additions	315	-	214	-
Impairment of software	(82)	(172)	-	(172)
Transfer of WIP	13	-	-	-
Foreign exchange adjustments	(3)	3	-	-
At 31 December	771	528	596	382
Amortisation				
At 1 January	491	625	371	513
Impairment of software	(82)	(158)	-	(158)
Charge for the year	121	26	77	16
Foreign exchange adjustments	(3)	(2)	-	-
	527	491	448	371
Net carrying amount	244	43	148	11

(b) LIMESTONE RESERVES

	GROUP		COMPANY	
Cost	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
At 1 January	156	158	-	-
Additions	515	-	-	-
*Foreign exchange adjustments	2	(2)		
At 31 December	673	156	-	-
Amortisation				
At 1 January	152	147	-	-
Charge for the year	1	6	-	-
*Foreign exchange adjustments	(5)	(1)		
	148	152	-	-
Net carrying amount	525	**4	-	-

* The foreign exchange adjustments arise from the translation of the carrying amounts of assets held by a subsidiary, Himcem Holdings Limited into the Group's reporting currency.

** In prior year, this amount was included in Property, plant and equipment under the freehold land and residential buildings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

18. INVESTMENTS IN SUBSIDIARIES

a) Information about subsidiaries

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

These investments are unquoted and held at cost less accumulated impairment loss.

			COMPANY	
	Principal place of business	Holding %	2018 Shs'million	2017 Shs'million
Bamburi Special Products Limited	Kenya	100	20	20
Bamburi Cement Limited, Uganda*	Uganda	100	-	-
Himcem Holdings Limited	Channel Islands	100	911	911
Lafarge Eco Systems Limited	Kenya	100	130	130
Diani Estate Limited**	Kenya	100	839	1
Binastore Limited***	Kenya	100	100	-
Kenya Cement Marketing Limited*	Kenya	50	-	-
Portland Mines Limited*	Kenya	50	-	-
			2,000	1,062

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

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

** During the year the Company increased its investment by Shs 838 million in Diani Estate Limited through transfer of land.

*** During the year the company invested Shs 100 million in subsidiary Binastore Limited.

b) Material partly-owned subsidiary

Financial information of subsidiary that has material non-controlling interests is provided below:
Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2018	2017
Hima Cement Limited	Uganda	30%	30%

	2018 Shs' million	2017 Shs' million
Accumulated balances of material non-controlling interest	3,752	3,828
(Loss)/profit for the year allocated to material non-controlling interest	(276)	326
Other comprehensive income	265	88
Total comprehensive income allocated to material non-controlling interest	(11)	414

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

18. INVESTMENTS IN SUBSIDIARIES (continued)

b) Material partly-owned subsidiary (continued)

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

Summarised statement of profit or loss	2018 Shs' million	2017 Shs' million
Revenue	14,214	16,380
Cost of goods sold	(10,004)	(9,391)
Cost of transport service	(2,196)	(2,372)
Gross profit	**2,014**	**4,617**
Marketing and sales expenses	(584)	(315)
Administration expenses	(1,329)	(984)
Other gains and losses	(231)	(222)
Other operating expenses	(731)	(752)
Operating (loss)/profit	**(861)**	**2,344**
Finance income	7	12
Finance costs	(197)	(205)
Net finance costs	(190)	(193)
(Loss)/profit before tax	**(1,051)**	**2,151**
Tax credit/(charge)	133	(1,064)
(Loss)/profit for the year	**(918)**	**1,087**
Other comprehensive income , net of tax	1,270	293
Total comprehensive income	352	1,380
Profit for the year	(276)	326
Other comprehensive income	200	88
	(76)	414
Dividends paid and allocated to non-controlling interests	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

18. **INVESTMENTS IN SUBSIDIARIES** (continued)

b) Material partly-owned subsidiary (continued)

Summarised statement of financial position as at 31 December	2018 Shs' million	2017 Shs' million
Non-current assets	16,001	12,827
Property, plant and equipment and other non-current assets		
Current assets	4,767	6,045
Inventories and cash and bank balances and other current assets		
Current liabilities	(4,898)	(5,002)
Trade and other payables and other current liabilities		
Non-current liabilities	(4,184)	(1,985)
	11,686	11,885
Total equity and reserves		
	7,934	8,057
Equity holders of parent	3,752	3,828
Non-controlling interest		
	11,686	11,885
Summarised cash flow information for year ending 31 December		
Operating cash (out) in flows	(129)	2,115
Investing cash in (out) flows	(2,491)	(4,366)
Financing cash inflow	1,983	-
Net decrease in cash and cash equivalents	(637)	(2,251)

c) Long-term investment

Hima Cement Rwanda Limited, a 100% owned subsidiary of Hima Cement Limited entered into a joint venture November 2015 to undertake manufacture of soil stabilized bricks. The Joint Venture shall be carried out in phased approach. As at 31 December 2018, the project had not taken off and therefore the investment of Shs 10 million was impaired because there was very low like-hood to continue with this project.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

19. OTHER EQUITY INVESTMENTS –FVTOCI

These represent Investments in Equity instruments designated as at FVTOCI which are carried at fair value annually at the close of business on the reporting date. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices.

The market value of the quoted equity shares at 31 December 2018 was Shs 180 million (2017: Shs 317 million). Changes in the fair values are recognised in other comprehensive income and accumulated in the available-for-sale revaluation reserve in equity. The investments as at 31 December 2018 were both quoted in the stock market.

a) Movement in the equity investments

	GROUP AND COMPANY	
	2018	2017
East African Portland Cement Limited	Shs'million	Shs'million
At 1 January	305	265
Fair value (loss)/gain (Note 19(b))	(125)	40
At 31 December	180	305
Kenya Oil Company Limited		
At 1 January	12	13
Fair value gain/(loss) (Note 19(b))	4	(1)
Elimination on disposal	(16)	
At 31 December	-	12
Total equity investment as at 31 December	180	317

b) Analysis of the equity investments

	Number of shares			Valuation			
Quoted investments	At 1.1.2018 units	additions/ (disposals) units	At 31.12.2018 units	At 1.1.2018 Shs' million	Additions/ (disposals) Shs' million	increase/ (decrease) in market value Shs' million	At 31.12.2018 Shs' million
East African Portland Cement Limited	11,265,068	-	11,265,068	305	-	(125)	180
Kenya Oil Company Limited	905,500	(905,000)	500	12	(16)	4	-
				317	(16)	(121)	180

	Number of shares			Valuation			
Quoted investments	At 1.1.2017 units	Additions/ (disposals) units	At 31.12.2017 units	At 1.1.2017 Shs' million	Additions/ (disposals) Shs' million	increase/ (decrease) in market value Shs' million	At 31.12.2017 Shs' million
East African Portland Cement Limited	11,265,068	-	11,265,068	265	-	40	305
Kenya Oil Company Limited	905,500	-	905,500	13	-	(1)	12
				278	-	39	317

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

20. GOODWILL

	GROUP	
	2018 Shs'million	2017 Shs'million
At beginning and end of the year	217	217

The goodwill amounting to Shs 217 million 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. The whole amount has been allocated to the subsidiary, which the Group considers as a cash generating unit (CGU). Determination of goodwill impairment involves an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The Company estimates the dividend expected yearly from the CGU and discounts it using estimated discount rates.

The amount of the goodwill has been determined based on a value in use calculation using cash flow projections covering a period of 16 years from the year 2014. This is based on the expected life of the plant. The cash flows from the cash generating unit are based on expected return on capital invested of 8% and a stable market share. The expected cash flows are based on past experience on earnings generated from the CGU. The yearly earnings generated are expected to remain stable in the period stipulated. Management is of the opinion that any possible reasonable change in these assumptions would not cause the global carrying amount to exceed the recoverable amount.

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.

Sensitivity analysis

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount of the CGU to which goodwill is allocated. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

At the beginning of the financial year and at the end of the year the recoverable amount was substantially in excess of its book value.

A 10 % underperformance against budgeted dividend receivable would reduce the headroom by 16% and would therefore not result in any impairment charge.

21. INVENTORIES

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Raw materials	3,348	2,227	711	547
Semi-finished and finished products	1,501	876	1,170	731
Fuels	529	421	529	421
Parts and supplies	2,224	2,373	1,259	1,401
Provision for obsolete inventory (Parts and supplies)	(740)	(475)	(194)	(272)
Parts and supplies net of provision	1,484	1,898	1,065	1,129
	6,862	5,422	3,475	2,828

During 2018, Shs 13.2 billion (2017: Shs 10.8 billion) and Shs 7.7 billion (2017: Shs 6.3 billion), for the Group and the Company, respectively, was recognised as an expense for inventories. This is recognised in cost of sales.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

22. TRADE AND OTHER RECEIVABLES

(a) Analysis of trade and other receivables:

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Trade receivables	2,292	2,948	776	840
Other receivables*	232	98	85	82
Provision for bad and doubtful debts	(547)	(225)	(151)	(116)
Net trade and other receivables	1,977	2,821	710	806
Prepayments	786	1,575	612	415
Deposits	-	-	-	-
Receivables from related companies [Note 33 (ii)]	166	199	672	1,143
	2,929	4,595	1,994	2,364
Movement in provisions for bad and doubtful debts				
At beginning of year	225	209	116	116
IFRS 9 day one adjustment	273	-	-	-
Foreign exchange adjustments	(3)	-	-	-
Increase in allowance for bad debts charged to profit or loss (Note 9)	52	16	35	-
At end of year	547	225	151	116

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

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 and the Company. Before accepting any new customer, the Group and the Company 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.

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

Other receivables and receivables from related companies are all performing and no impairment losses have been recognised for them. Additional disclosures for credit risk management are in Note 36 (ii).

23. CASH AND CASH EQUIVALENTS

(a) Analysis of cash and cash equivalents:

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Cash at bank and on hand	1,663	3,387	1,458	2,454
Short term bank deposits	703	103	703	103
	2,366	3,490	2,161	2,557

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

23. CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation to cash flow statement

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

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Bank and cash balances: - Note 23(a)	2,366	3,490	2,161	2,557
Bank overdrafts (Note 23(c))	(1,403)	(1,450)	-	-
Balances per statement of cash flows	963	2,040	2,161	2,557
(c) Analysis of bank overdrafts				
Equity Bank Limited	45	-	-	-
Standard Chartered Bank Uganda Limited	188	1,216	-	-
Citibank Uganda Limited	895	234	-	-
Stanbic Bank Uganda	275	-	-	-
	1,403	1,450	-	-

Bank overdrafts are unsecured and have been classified as current liabilities. The bank overdraft at Standard Chartered Bank Uganda Limited was in Uganda shillings (UGX) and at average interest rates of 18% p.a. The bank overdraft at Citibank was in multicurrency denominated in Uganda shillings (UGX), Euros (EURO) and United States dollar (US$) at an average interest rate of 10% p.a. The bank overdraft at Stanbic Bank Uganda was in Uganda shillings (UGX) at an average interest rate of 14% p.a.

The Group does not have an unconditional settlement of the liability for at least 12 months after the reporting period.

(d) Short term deposits

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Call deposits-at amortised cost	703	103	703	103

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

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Local currencies	4.06%	3.01%	4.06%	3.01%
Foreign currencies	0.66%	0.3%	0.66%	0.20%

(e) Non-Cash transactions-Company

During the year the company transferred land with a net book value of Shs 838 million to its subsidiary company, Diani Estate Limited at a consideration of Shs 838 million in the shares of the subsidiary company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

24. SHARE CAPITAL

	GROUP AND COMPANY	
	2018 Shs'million	2017 Shs'million
Authorised		
366,600,000 ordinary shares of Shs 5 each	1,833	1,833
100,000, 7% redeemable cumulative preference shares of Shs 20 each	2	2
	1,835	1,835
Issued and fully paid		
362,959,275 ordinary shares of Shs 5 each	1,815	1,815

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

25. RESERVES

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

b) Fair value reserves
The fair value reserve represents accumulated gains and losses arising on the revaluation of equity instruments designated as at FVTOCI .The cumulative gain or losses is not to be reclassified to profit or loss when those assets have been disposed of or are determined to be impaired instead it is transferred to retained earnings.

	GROUP AND COMPANY	
	2018 Shs'million	2017 Shs'million
At 1 January	102	75
Net (loss)/gain arising on revaluation of equity investments (Note 19(b))	(121)	39
Recognized through retained earnings*	19	
Income tax effect	-	(12)
At 31 December	-	102

*The loss on revaluation of the equity investment has been recognized through OCI up-to the maximum available amount in the fair value reserve. The balance has been recognized directly in retained earnings through the statement of changes in equity, FVTOCI treatment has been irrevocably elected for adoption of IFRS 7

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

26. DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2017: 30%). The make-up of the deferred tax liability at the year-end and the movement on the deferred tax account during the year are as presented below:

GROUP	At 1 January 2018	Profit or (loss) (Note 12(a))	Other comprehensive income (Note 12(a))	Foreign exchange adjustment/ other	At 31 December 2018
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
Property, plant and equipment	4,938	1,495	544	-	6,977
Provision for staff gratuity, long service awards and leave	(183)	(33)	6	-	(210)
Bonus payable	(68)	7	-	-	(61)
Net foreign exchange gain	30	-	-	-	30
Net foreign exchange loss	8	(93)	-	-	(85)
Provision for site restoration and litigation costs	(47)	12	-	-	(35)
Provision for bad debts	(60)	(24)	-	(132)	(216)
Tax losses	(5)	5	-	-	-
Provision for obsolete inventories	(171)	11	-	-	(160)
Provision for Petcoke and slag	(13)	3	-	-	(10)
Provision for site inventory	36	(95)	-	-	(59)
Provision for customer rebates	(23)	5	-	-	(18)
Provision for wage increment	(12)	12	-	-	-
Foreign currency translation (gain)/loss on translations	14	-	-	(23)	(9)
Fair value on asset held for sale	12	(12)	-	-	-
Provision for non recoverable costs	-	(66)	-	-	(66)
Provision for restructuring	-	(30)	-	-	(30)
Tax losses	-	(1,355)	-	-	(1,355)
	4,456	(158)	550	(155)	4,693

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. DEFERRED TAX LIABILITY (continued)

GROUP	At 1 January 2017	Profit or (loss) (Note 12(a))	Other comprehensive income (Note 12(a))	Foreign exchange adjustment*	At 31 December 2017
	Shs'million	Shs'million	Shs'million	Shs'million	Shs'million
Property, plant and equipment	3,157	(116)	1,897	-	4,938
Provision for staff gratuity, long service awards and leave	(204)	14	7	-	(183)
Bonus payable	(71)	3	-	-	(68)
Net foreign exchange gain	102	(72)	-	-	30
Net foreign exchange loss	(11)	19	-	-	8
Provision for site restoration and litigation costs	(39)	(8)	-	-	(47)
Provision for bad debts	(38)	(22)	-	-	(60)
Tax losses	2	(7)	-	-	(5)
Provision for obsolete inventories	(224)	53	-	-	(171)
Provision for Petcoke and slag	-	(13)	-	-	(13)
Provision for site inventory	-	36	-	-	36
Provision for customer rebates	-	(23)	-	-	(23)
Provision for wage increment	-	(12)	-	-	(12)
Foreign exchange gain/loss on translations	-	-	-	14	14
Fair value on asset held for sale	-	-	12	-	12
	2,674	(148)	1,916	14	4,456

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

26. DEFERRED TAX LIABILITY (continued)

COMPANY	At 1 January 2018 Shs'million	Profit or loss (Note 12 (a)) Shs'million	Other comprehensive income Shs'million	At 31 December 2018 Shs'million
Property, plant and equipment	2,798	841	-	3,639
Provision for site restoration and litigation costs	(28)	3	-	(25)
Bonus payable	(44)	12	-	(32)
Foreign exchange gain	9	21	-	30
Provision for staff gratuity, long service awards and leave	(167)	(19)	5	(181)
Provision for obsolete inventories	(83)	15	-	(68)
Foreign exchange loss	0	(32)	-	(32)
Provision for bad debts	(22)	(23)	-	(45)
Provision for customer rebates	(24)	14	-	(10)
Provision for restructuring	-	(28)	-	(28)
Fair value on asset held for sale	12	(12)	-	-
Tax losses	-	(628)	-	(628)
	2,451	164	5	2,620

COMPANY	At 1 January 2017 Shs'million	Profit or loss (Note 12 (a)) Shs'million	Other comprehensive income Shs'million	At 31 December 2017 Shs'million
Property, plant and equipment	1,065	(38)	1,771	2,798
Provision for site restoration and litigation costs	(22)	(6)	-	(28)
Bonus payable	(38)	(6)	-	(44)
Foreign exchange gain	90	(81)	-	9
Provision for staff gratuity, long service awards and leave	(184)	13	4	(167)
Provision for obsolete inventories	(133)	50	-	(83)
Foreign exchange loss	(10)	10	-	(-)
Provision for bad debts	(16)	(6)	-	(22)
Provision for customer rebates	-	(24)	-	(24)
Fair value on asset held for sale	-	-	12	12
	752	(88)	1,787	2,451

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

27. PROVISIONS

Year ended 31 December 2018

GROUP	Site restoration and litigation Shs' million	Leave pay Shs' million	2018 Total Shs' million
At beginning of year	921	52	973
Additional provisions	128	29	157
Utilised during the year	(760)	(12)	(772)
At end of year	**289**	**69**	**358**
Categorised as:			
Current portion	-	69	69
Non-current portion	289	-	289
	289	**69**	**358**
COMPANY			
At beginning of year	**614**	**29**	**643**
Additional provisions	6	8	14
Utilised during the year	(363)	(8)	(371)
At end of year	257	29	286
Categorised as:			
Current portion	-	29	29
Non-current portion	257	-	257
	257	**29**	**286**

Year ended 31 December 2017

GROUP			
At beginning of year	695	59	754
Additional provisions	290	-	290
Utilised during the year	(64)	(7)	(71)
At end of year	**921**	**52**	**973**
Categorised as:			
Current portion	-	52	52
Non-current portion	921	-	921
	921	52	973

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

27. PROVISIONS (continued)

COMPANY

At beginning of year	**668**	**33**	**701**
Additional provisions	10	-	10
Utilised during the year	(64)	(4)	(68)
At end of year	614	29	643
Categorised as:			
Current portion	-	29	29
Non-current portion	614	-	614
	-		
	614	**29**	**643**

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

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

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

The amount of provisions made is based on the Group's assessment of the basis for the claims and the level of risk on a case-by-case basis. The provision depends on the Group's assessment of the stage of the proceedings and the arguments in its defence. The occurrence of events during proceedings may lead to a reappraisal of the risk at any time.

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

28. EMPLOYEE BENEFIT LIABILITIES

Service gratuity and long service

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

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

Year ended 31 December 2018

	Group			Company		
	Long service award Shs'million	Gratuity Shs'million	Total Shs'million	Long service award Shs'million	Gratuity Shs'million	Total Shs'million
Opening employee benefit obligation	40	533	573	22	492	514
Current service cost- charged to profit or loss cost of sales	6	38	44	3	36	39
Benefits payments	(9)	(126)	(135)	(5)	(125)	(130)
Interest cost - charged to profit or loss cost	6	55	61	3	50	53
Actuarial gain-charged to other comprehensive income	(2)	(19)	(21)	(1)	(16)	(17)
Translation gains	-	(1)	(1)	-	-	-
Closing employee benefit obligation	41	480	521	22	437	459
Categorised as:						
Current portion	6	36	42	5	33	38
Non-current portion	35	444	479	17	404	421
Total	41	480	521	22	437	459

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

28. EMPLOYEE BENEFIT LIABILITIES (continued)

Year ended 31 December 2017

	Group			Company		
	Long service award Shs'million	Gratuity Shs'million	Total Shs'million	Long service award Shs'million	Gratuity Shs'million	Total Shs'million
Opening employee benefit obligation	58	617	675	27	524	551
Current service cost- charged to profit or loss cost of sales	5	22	27	2	20	22
Benefits payments	(8)	(100)	(108)	(8)	(97)	(105)
Interest cost - charged to profit or loss cost of sales	6	61	67	3	56	59
Reversal of unutilised provisions	(11)	(53)	(64)	-	-	-
Actuarial gain-charged to other comprehensive income	(9)	(13)	(22)	(2)	(11)	(13)
Translation gains	(1)	(1)	(2)	-	-	-
Closing employee benefit obligation	40	533	573	22	492	514
Categorised as:						
Current portion						
Non-current portion	10	70	80	5	65	70
	30	463	493	17	427	444
Total	40	533	573	22	492	514

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

	2018		2017	
	Kenya	Uganda	Kenya	Uganda
	%	%	%	%
Interest rate	12.1%	12.3%	12.3%	14.9%
Future salary increases	10.1%	10.3%	10.3%	12.9%
Long service award escalation rate	7.1%	7.3%	7.3%	9.9%

Other disclosures

Mortality rate

The actuary uses actives' mortality A49-52 ultimate and pensioners' mortality A55 as the base tables of standard mortality rates. Statistical methods are used to adjust the rates reflected on the base table based on the Company's experience of improvement or worsening of mortality.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

28. EMPLOYEE BENEFIT LIABILITIES (continued)

Other disclosures (continued)

Sensitivity of the Results:

The results of the actuarial valuation will be more sensitive to changes in the financial assumption than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, the actuaries have relied on the calculations of the duration of the liability. Based on this methodology, the results of the sensitivity analysis are summarised in the table below:

A quantitative sensitivity analysis for significant assumption as at 31 December 2018 is as shown below:*

Group	Interest rate		Future salary increases rate		Award escalation rate	
	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million
Gratuity	454	472	472	455	463	463
Long service awards	47	49	48	48	49	46
Total	501	521	520	503	512	509

Company	Interest rate		Salary escalation rate		Award escalation rate	
	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million	+1/2% Shs'million	-1/2% Shs'million
Gratuity	415	430	430	415	422	422
Long service awards	23	23	23	23	24	23
Total	438	453	453	438	446	445

Since the bulk of the benefits payable under the Scheme are salary related, the sensitivity of the liability to a change in the salary escalation assumption is not expected to be materially different. However, the impact of a change in salary escalation is expected to be less than the impact of a change in the discount rate as a portion of the liabilities (for example the liability in respect of pensions in payment and deferred pensioners) would not be affected by a change in the salary escalation rate.

Characteristics and Risks of the Scheme:

The Scheme is of a defined benefit nature (i.e. salary and service related). Therefore one of the main risks relating to the benefits under the Scheme is the rate of salary growth. As the benefits are based on the final salary, any changes in salary that differ from the salary escalation rate assumed will have a direct bearing on the benefits paid and the present value of the benefit obligation under the scheme. The Company's experience with respect to pre-retirement exit experience, actual ages of retirement and mortality will also impact the benefits payable under the Scheme, when compared with the assumption made. The Scheme is registered under irrevocable trust with the Retirement Benefits Authority.

Discount rate

IAS 19 requires the discount rate to be determined by reference to the market yields, on the reporting date, on high quality corporate bonds, or in the countries where there is no deep market in such bonds, the market yields on government bonds. The currency and term of the corporate or government bonds should be consistent with the currency and estimated term of the post- employment benefit obligation. In the absence of a deep and liquid market in such long dated securities in Kenya and Uganda, a discount rate as at 31 December 2018 of 12.3% (2017-12.8%) per annum and 14.9% (2017-17.51%) per annum has been used for Kenya and Uganda respectively. In this case, the government bond rates were used to determine the discount rates.

In Kenya, the bond selected to match the liabilities outstanding had a term of approximately 6 years and with a yield of 12.8% per annum. At this yield, the bond and the liabilities had discounted mean term of 4.13 years and the yield is thus considered appropriate discount rate. In Uganda, the longest bond had an outstanding term of approximately 15 years and with a yield of 15% per annum. It was considered appropriate to use the yield on the longest bond available as the valuation interest rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

29. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2018	2017	2018	2017
	Shs'million	Shs'million	Shs'million	Shs'million
Trade payables	2,682	3,467	1,734	1,606
Accrued expenses	2,155	651	608	492
Other payables	674	561	409	435
Payable to related companies - Note 33 (b)	2,313	1,417	1,501	1,079
	7,824	6,096	4,252	3,612

Terms and conditions of the above financial liabilities:

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

30. CONTINGENT LIABILITIES

a) Guarantees

	GROUP		COMPANY	
	2018	2017	2018	2017
	Shs'million	Shs'million	Shs'million	Shs'million
Guarantees and bonds issued by the Group's bankers in favour of Kenya Revenue Authority and Uganda National Roads Authority	101	588	101	571
Guarantees and bonds issued by the Group's bankers in favour of other parties	173	595	43	522
At end of year	274	1,183	144	1,093

The guarantees and bonds are issued by the Group's and the Company's bankers in favour of third parties. The Group and the Company has entered into counter-indemnities with the same banks. These guarantees and bonds are part of the borrowing facilities disclosed in Note 30 (d) and are issued in the normal course of business.

b) Legal matters

The Group and the Company are involved in a number of legal proceedings which are yet to be concluded upon. The Directors have evaluated the pending cases and determined that no material liabilities are likely to arise from these cases which arose in the normal course of business. The Group and the Company have an in-house legal department that assessed the court cases in arriving at the above conclusion. These include:

Hima Cement Limited (HLC) - mining lease suit

Hima Cement Limited had a mining lease over limestone deposits in Kasese, western Uganda, whose expiry date was 31 December 2012. In February 2012, East Africa Gold Sniffing Company Limited (EAGSCL) gave notice that it had been issued with an exploration license over the area covered by the mining lease. Hima Cement Limited filed an application for administrative review by the Ministry of Energy and Mineral Development against the issuance of the exploration license, which was heard and determined on 26 April 2012. The Minister for Energy and mineral development held that EAGSCL's application for the exploration license did not comply with requirements of the Mining Act, 2003 and was cancelled. The Minister also held that the expiry date indicated in the Hima Cement Limited's mining lease was incorrect and that the lease had expired on 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

30. CONTINGENT LIABILITIES (continued)

b) Legal matters (continued)

Hima Cement Limited - mining lease suit (continued)

Subsequent to this, Hima Cement Limited applied for, and received a new mining lease which was granted on 14 March 2013.

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

0n 26 March 2013, the High Court ruled that Hima Cement Limited did not follow the law in changing its name and as such no entity known as Hima Cement Limited exists in law and, therefore, there was no competent legal person to file an administrative review before the Minister. The decision by the Minister that revoked the EAGSCL's exploration license was cancelled and the mining rights of Hima Cement Limited conferred to EAGSCL.

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

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

According to the Board of Directors evaluation of the case and the legal advice received from the Company's lawyers, the Directors opine that the appeal has a strong basis with a high likelihood of success. As such, the financial statements of Hima Cement Limited for the year ended 31 December 2018 have been prepared on a going concern basis.

c) Tax matters

The Group is regularly subjected to evaluations, 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 relation to cases where a group entity is deemed to have failed to comply with tax laws.

During the year the company reached an agreement with the Kenya Revenue Authority on a tax assessment relating to prior years which the company had disputed. A full settlement of the agreed principal tax amounting to Shs 161 million relating to corporate tax, Value Added Tax (VAT) and PAYE and Shs 171 million relating to management and technical fees was paid in 2018. Management has applied for a waiver of interest and penalties accrued amounting to Shs 288 million, the Directors are of the opinion that the waiver will be granted.

d) Borrowing facilities

At the end of the year, the Group had working capital facilities amounting to total of Shs 9.1 billion (2017 - Shs 6.6 billion), out of which the undrawn facilities amounted to Shs 7 billion (2017 – Shs 3.6 billion). The drawn amounts mainly relate to supplier trade finance, bonds and guarantees.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

31. CAPITAL COMMITMENTS

Authorised and contracted

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

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Commitments for the acquisition of property, plant and equipment	419	2,298	218	787

Commitments during the year relate to phase 1 of capacity expansion in both Kenya and Uganda.

Authorised but not contracted

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

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Commitments for the acquisition of property, plant and equipment	-	-	-	-

32. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

GROUP	Notes	2018 Shs'million	2017 Shs'million
Profit before tax		680	4,116
Adjustments for:			
Depreciation on property, plant and equipment	15(a)	1,882	1,621
Amortisation of intangible assets	17	121	26
Amortisation of prepaid lease rentals		9	8
Amortisation of limestone reserves		1	6
Impairment of property, plant and equipment		39	171
Impairment of intangible assets		-	14
Interest income	7(ii)	(103)	(150)
Interest expense		197	24
Loss/(gain) on disposal of property, plant and equipment	8	3	(37)
Impairment of joint venture		10	-
Net foreign exchange gains		(116)	(19)
Operating profit before working capital changes		2,723	5,780
Changes in working capital balances:			
(Increase)/decrease in inventories		(1,440)	435
Decrease in employees' benefit liabilities		(52)	(22)
IFRS 9 transition adjustment		(298)	-
Decrease in trade and other receivables		1,666	392
Decrease/(increase) in provisions		(615)	-
Decrease/(increase) in trade and other payables		1,728	(127)
Cash generated from operations		3,712	6,458

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

32. CASH GENERATED FROM OPERATIONS (continued)

COMPANY	Notes	2018 Shs'million	2017 Shs'million
Profit before tax		1,852	1,866
Adjustments for:			
Depreciation on property, plant and equipment	15(b)	1,129	1,004
Amortisation of intangible assets	17	77	16
Amortisation of prepaid operating lease		1	-
Impairment of property, plant and equipment		-	171
Impairment of intangible assets		-	14
Interest income	7	(103)	(148)
Loss on disposal of property, plant and equipment	8	4	79
Net foreign exchange losses/(gains)		14	(18)
Operating profit before working capital changes		2,974	2,984
Changes in working capital balances:			
(Increase)/decrease in inventories		(647)	575
Decrease in employees' benefit liabilities		(52)	(13)
Decrease/(increase) in trade and other receivables		370	(124)
Decrease in provisions		(286)	-
Increase in trade and other payables		640	288
Cash generated from operations		2,999	3,710

33. RELATED PARTY TRANSACTIONS

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

The ultimate parent of the Group is LafargeHolcim Ltd, incorporated in Switzerland. There are other companies which are related to Bamburi Cement Limited through common shareholdings and directorships.

(a) Related party transactions

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

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

GROUP		Sales of goods and services Shs'million	Purchases of goods and services Shs'million	Interest received Shs'million
Entity with significant influence over the Group:				
Lafarge SA(technical services)	2018	-	1,463	-
	2017	-	1,687	-
Other related companies				
Lafarge-Holcim Trading	2018	-	3,085	-
	2017	-	892	-
Lafarge Energy Solutions2018	2018	-	1,991	-
	2017	-	921	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

33. RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions (continued)

COMPANY		Sales of goods and services Shs'million	Purchases of goods and services Shs'million	Interest received Shs'million
Entity with significant influence over the Group:				
Lafarge SA	2018	-	887	-
	2017	-	935	-
Subsidiaries:				
Hima Cement Limited	2018	380	-	-
	2017	2,950	-	-
Bamburi Special Products Limited	2018	604	-	7
	2017	617	-	13
Other Related parties				
Lafarge-Holcim Trading	2018	-	2,020	-
	2017	-	892	-
Lafarge Energy Solutions	2018	-	1,643	-
	2017	-	817	-

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

RECEIVABLES FROM RELATED PARTIES

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Receivables from related parties				
Lafarge France	10	10	10	10
Lafarge South Africa	5	5	5	5
Lafarge Technical Centre Europe	8	10	6	10
Chilanga Cement Plc Zambia	6	6	6	6
Malawi Portland Cement	8	8	8	8
Ashaka Cement Co.	2	2	2	2
Lafarge Cairo	7	7	7	7
Lafarge MEA IT services	46	-	32	-
Other related parties	74	151	103	136
	166	199	179	184

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

33. RELATED PARTY TRANSACTIONS (continued)

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

RECEIVABLES FROM RELATED PARTIES (continued)

	GROUP		COMPANY	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Receivables from subsidiaries				
Hima Cement Limited	-	-	61	450
Bamburi Special Products Limited	-	-	240	318
Lafarge Eco Systems Limited	-	-	151	158
Binastore Limited	-	-	69	-
Diani Estate Limited	-	-	(28)	33
	-	-	493	959
Total receivables [Note 22(a)]	166	199	672	1,143
Holcim Technology Limited	508	452	371	303
Lafarge France	405	421	275	303
Lafarge Eco Systems Limited	-	-	162	154
Other related parties	1,400	544	693	319
Total payables (Note 29)	2,313	1,417	1,501	1,079

Terms and conditions of transactions and balances with related parties

The sales to and purchases from related parties are made on terms as specified in the transfer pricing arrangement between the Group companies. Outstanding balances at the year-end are unsecured and interest free. For the year ended 31 December 2018 the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2017: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. There have been no guarantees or commitments provided or received for any related party receivables or payables.

(c) 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 54 million (2017 - Shs 83 million). The loan is unsecured and the effective interest on the loan was 10% (2017 – 10%). The loan repayment period is 10 years from January 2011. The loan comprises:

	Company	
	2018 Shs'million	2017 Shs'million
Current portion	29	29
Non-current portion	25	54
	54	83

The movement in loan to subsidiary is as shown below:

At 1 January	83	112
Paid during the year	(29)	(29)
At 31 December	54	83
Interest charged on the above loan (Note 7)	10	10

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

33. RELATED PARTY TRANSACTIONS (continued)

(d) Loan due to a related company-Non-current liability.

During the year, Hima Cement Limited, a subsidiary of Bamburi Cement Limited, received USD 20 million from Cemasco B. V, a related company. The term of the loan is 5 years with a moratorium of 3 years. The loan is unsecured and attracts interest of 6 Month USD LIBOR + 3.5%.

	GROUP	
	2018	2017
	Shs'million	Shs'million
At 1 January	-	-
Loan received during the year	1,983	-
Foreign exchange loss	27	-
At 31 December	2,010	-

(e) Key management personnel compensation

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

	GROUP AND COMPANY	
	2018	2017
	Shs'million	Shs'million
Fees for services as a director		
Executive	-	-
Non-executive	13	10
Total directors' fees	**13**	**10**
Emoluments for directors		
Salaries and bonuses	61	101
Short term employee benefits	43	47
Post-employment pension-defined contribution	9	19
Total emoluments for directors	**113**	**167**
Guaranteed loans to executive directors	**1**	**1**
Emoluments for key management personnel (excluding the directors):		
Salaries and bonuses	115	55
Short term employee benefits	41	17
Post-employment pension-defined contribution	6	5
Total emoluments for key management personal	**162**	**77**
Total emoluments for directors and other key management personnel	288	254

	GROUP AND COMPANY	
	2018	2017
	Shs'million	Shs'million
Guaranteed long-term loans to key management staff	1	1
Guaranteed long-term loans to executive directors and key management personnel	2	2

Terms and conditions of the guaranteed long-term loan

The long-term loans to executive directors and key management staff are issued as part of the employee benefit from the general loans for unsecured loans from Citibank. The Company acts as the guarantor for these loans. Any guaranteed loans that exceed Shs. 1.5 million require a security from all staff. The loans are at a company-negotiated rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

34. BIOLOGICAL ASSETS (GROUP AND COMPANY)

Biological assets comprise eucalyptus, casuarina, cassi siamea and neem tree plantations. These are carried at fair value less costs to sell. The fair values of the trees plantations is determined by company's internal valuation experts based on recent market transaction prices.

There was no harvest during the year. (2017 Nil) and the company expects to commence harvesting in 2019.

The fair value of the tree plantation has remained the same as prior year due to minimal biological transformation as the trees have matured. In addition the market price for these biological assets has relatively remained the same as last year.

(a) Non-current assets

Changes in carrying amounts of non-current biological assets comprise:

	2018 Shs'million	2017 Shs'million
Year ended 31 December 2018		
At start of year	471	471
Transfer to current assets	(72)	-
At end of year	399	471

(b) Current assets

	2018	2017
Growing biological assets ready for use as at the reporting date		
At start of year	-	-
Transfer from non-current assets	72	-
At end of year	72	-

The following table presents the Company's biological assets that are measured at fair value at 31 December 2018;

	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
Biological assets-trees	-	471	-

There were no transfers between any levels during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

35. OPERATING LEASES

Group as a lessor

The Group has entered into operating lease agreements for leasing out of various properties and premises. Future lease incomes expected under operating leases are as follows:

	GROUP	
	2018 Shs'million	2017 Shs'million
Lease income expected under operating leases:		
Not later than 1 year	43	40
Later than 1 year but not later than 5 years	174	132
	217	172

All the commitments relate to future rent payable based on the existing contracts and projected renewals. The lease agreements are between the Group and tenants and have no provisions relating to contingent rent payable. The terms of renewal vary from one lease to another and may include a written notice to the lessors before the expiration of the leases and the lessors will grant to the lessee new leases of the said premises/properties for a further term as may be mutually agreed by the parties.

Group as a lessee

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

	GROUP	
	2018 Shs'million	2017 Shs'million
Lease payments committed under operating leases:		
Not later than 1 year	280	52
Later than 1 year but not later than 5 years	570	67
	850	119

All the commitments relate to future rent payable based on the existing contracts and projected renewals. The lease agreements are between the Group and landlords and have no provisions relating to contingent rent payable. The terms of renewal vary from one lease to another and may include a written notice to the lessors before the expiration of the leases and the lessors will grant to the lessee new leases of the said premises/properties for a further term as may be mutually agreed by the parties.

During the year ended 31 December 2018, Shs 280 million was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of the operating leases (2017: Shs 204 million).

36. RETIREMENT BENEFITS SCHEME

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

36. RETIREMENT BENEFITS SCHEME (continued)

The total expense recognised in profit or loss of Shs 245 million (2017: Shs 198million) and Shs 129 million (2017: Shs 35 million) represents contributions payable to these plans by the Group and Company, respectively, at rates specified in the rules of the plans. The expense has been included within the retirement benefits costs under staff costs in Note 11(b).

37. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

The Group is exposed to;

- market risk;
- credit risk; and
- liquidity risk.

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

Risk Management Framework

Financial risk management is carried out by Group's Corporate Treasury Department under policies approved by the Board of Directors. The Group's Corporate Treasury function identifies, evaluates and manages financial risks in close cooperation with operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk and price risk. The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the LafargeHolcim risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.
The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

(i) Market risk

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

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

a) Foreign currency risk management

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(i) Market risk (continued)

a) Foreign currency risk management (continued)

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

Group foreign currency risk:

	Denominated in EUR Shs'million	Denominated in USD Shs'million	TOTAL Shs'million
31 December 2018:			
Assets			
Trade and other receivables	40	119	159
Bank balances	-	411	411
Total assets	40	530	570
Liabilities			
Trade and other payables	100	3	103
Bank Overdraft	1	-	1
Net exposure position	(61)	527	466
31 December 2017:			
Assets			
Trade and other receivables	-	42	42
Bank balances	26	1,607	1,633
Total assets	26	1,649	1,675
Liabilities			
Trade and other payables	441	935	1,376
Bank overdraft	-	1,216	1,216
Net exposure	(415)	(502)	(917)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(i) Market risk (continued)

a) Foreign currency risk management (continued)

Company foreign currency risk:

	Denominated in EUR Shs'million	Denominated in USD Shs'million	TOTAL Shs'million
31 December 2018:			
Assets			
Trade and other receivables	40	114	154
Bank balances	23	410	433
Total assets	63	524	587
Liabilities			
Trade and other payables	99	-	99
Net exposure position	(36)	524	488
31 December 2017:			
Assets			
Trade and other receivables	-	4	4
Bank balances	9	1,283	1,292
Total assets	9	1,287	1,296
Liabilities			
Trade and other payables	287	59	346
Net exposure	(278)	1,228	950

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(i) Market risk (continued)

a) Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The following sensitivity analysis shows how profit and equity would change if the Kenya Shilling had depreciated against the other currencies by 5% (2017: 5%) on the reporting date with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant. This is mainly attributable to the change in value of foreign exchange receivables, payables and bank balances.

The following sensitivity analysis shows how profit and equity would change if the Kenya Shilling had depreciated against the other currencies by 5% (2017: 5%) on the reporting date with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant. This is mainly attributable to the change in value of foreign exchange receivables, payables and bank balances.

	Effect on profit or loss before tax		Effect on equity	
	2018 Shs' million	2017 Shs' million	2018 Shs' million	2017 Shs' million
GROUP				
EUR	(3)	1	(2)	1
USD	26	80	18	56
	23	81	16	57
COMPANY				
EUR	(2)	1	(1)	1
USD	26	64	18	45
	24	65	17	46

b) Interest rate risk

The Group and the Company 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 and the Company is in regular contact with the lenders in a bid to obtain the best available rates.

During the year, a 5% (2017:5%) increase/decrease of the annual interest rate would have resulted in an increase/decrease in pre-tax profit of Shs 35 million (2017: Shs 18 million) and an increase/decrease in equity of Shs. 33 million (2017: Shs. 13 million). The assumed movement in interest rate sensitivity analysis is based on the currently observable market environment. This is the amount by which interest rates generally fluctuate by.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(i) Market risk (continued)

a) Price risk

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

At 31 December 2018, if the prices at the Nairobi Securities Exchange had appreciated/depreciated by 5% with all other variables held constant would have resulted in an increase/decrease on other comprehensive income and equity for the Group and Company of Shs 9 million (2017- Shs 15 million) as a result of changes in fair value of available-for-sale shares.

(ii) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group and the Company. The Group and the Company have adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's and the Company'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.

GROUP AND COMPANY

Trade Receivables

The average credit period on sales of goods is 30 days. No interest is charged on outstanding trade receivables.

The Group and Company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognized a loss allowance of 100% against all receivables over 365 days past due because historical experience has indicated that these receivables are generally not recoverable where they are not fully or partially secured by a bank guarantee.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group/Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over 365 days past due, whichever occurs earlier. The write off will be the excess of the amount owing over the security of the bank guarantee required of the credit customers. In case of unsecured debtors, who are predominantly in the contractors' segment, the write off will be the entire amount owing to the Company.

The following tables detail the risk profile of trade receivables based on the Group/Company's provision matrix. As the group and company's historical credit loss experience shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is further distinguished between the Group's different customer bases

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk (continued)

The Group's current credit risk grading framework comprises the following categories:

Contractors:

Category	Description	Basis for recognizing Expected Credit Loss (ECL)
Performing -P	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL
P – Under watch	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL
Doubtful - D	Amount is >90 days past due and there is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off - W/O	There is evidence indicating that the debtor is in severe financial difficulty and the Group/Company has no realistic prospect of recovery unless the Company is holding a bank guarantee covering the amount and or the amounts are subject to court proceeding and the adverse probable outcome is ranked high.	Amount is written off

Distributors:

Category	Description	Basis for recognizing Expected Credit Loss (ECL)
Performing -P	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL
P – Under watch	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL
Doubtful - D	Amount is >90 days past due and there is evidence indicating the asset is credit-impaired, and there no security held.	Lifetime ECL - credit-impaired
Write-off - W/O	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery of any amounts above the bank guarantee value and or the amounts are subject to court proceeding and the adverse probable outcome is ranked high..	Amount is written off

Cash customers, predominantly retail

Category	Description	Basis for recognizing Expected Credit Loss (ECL)
Doubtful	There is evidence indicating that cash customers have stopped trading despite them having a debit balance in their account. An indicator of probable lapse on systems credit checks or overriding of controls	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery of any amounts above the bank guarantee value and or the amounts are subject to court proceeding and the adverse probable outcome is ranked high.	Amount is written off

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk (continued)

Accounts Receivable Trade – Aggregated after applying the segment matrices above

Loss Rate – derived*		1-30 past due 0%	31-60 past due 0%	61-90 past due 0%	More than 90 days past due 48%
	Gross Carrying Amount million Shs				Life time ECL allowance (Gross carrying amount x lifetime ECL rate) million Shs
Advance	(168)	-	-	-	-
Current	465	-	-	-	-
1-30 past due	220	-	-	-	-
31-60 past due	54	-	-	-	-
61-90 past due	38	-	-	-	-
More than 90 days past due	166	-	-	-	100
TOTAL	**776**				**100**

*This is a resultant and not determinant Loss Rate given that allowances are on specific individual debtors and not collectively determined.

Accounts receivable other

Loss Rate - Actual		1-30 past due 0%	31-60 past due 0%	61-90 past due 0%	More than 90 days past due 100%
	Gross Carrying Amount million Shs				Life time ECL allowance (Gross carrying amount x lifetime ECL rate) Million Shs
					-
0-90 days	34	-	-	-	-
Over 91 days	51	-	-	-	51
TOTAL	**85**	**-**	**-**	**-**	**51**

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk (continued)

A reconciliation of the impairment loss accounts:

GROUP	Trade receivables Shs'million	Advances to suppliers Shs'million	Cash and bank balances Shs'millionn	Deferred tax impact on IFRS 9 Shs'million	Total Shs'million
31 December 2017					-
At 1 January 2017	(209)	-	-	-	(290)
Increase in loss allowance arising from financial assets recognized in the year	(16)	-	-	-	(16)
At 31 December 2017	(225)	-	-	-	(225)
31 December 2018					
At 1 January 2018 - *as previously reported*	(225)	-	-	-	(225)
Adjustment upon application of IFRS 9	(270)	(28)	-	78	(220)
At 1 January 2018 – *restated*	(495)	(28)	-	-	(523)
(Increase)/decrease in loss allowance arising from new financial assets (recognized)/derecognised in the year	52	-	-	-	(52)
At 31 December 2018 under IFRS 9	(547)	(28)	-	78	(497)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk (continued)

The tables below detail the credit quality of the Company's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades

COMPANY

31 December 2018	Note	External credit rating	Internal credit rating	12-rnonth or lifetime ECL	Gross carrying amount	Loss allowance	Net Carrying Amount	Classification
					Shs'million	Shs'million	Shs'million	
Loans to related parties	33 iii)	N/A	Performing	Lifetime ECL (not credit Impaired - SPPI)	54	-	54	Amortized cost
Cash and Cash equivalents	23	AAA/BBB	Performing	Lifetime ECL (simplified approach -SPPI)	2,161	-	2,161	Amortized cost
Trade and other receivables – Third Party	22 a)	N/A	Performing, Doubtful, In default, Write-off	Lifetime ECL (simplified approach - SPPI)	1,471	(131)	1,340	Amortized cost – FVTPL*
Quoted Equities – Available for sale	19	Marked to market –NSE**	N/A	Irrevocable (FVTOCI)*	305	(125)	180	FVTOCI*

*FVT: Future Value through
** NSE: Nairobi Securities Exchange

i) For the loan to related parties, the gross carrying amount represents the maximum amount the Company expects to receive in principal payments from its subsidiary - Bamburi Special Products, and the net carrying amount represents the amortized cost of the loan receivable without discounting given that the discounting yields an immaterial difference in the carrying amounts.

(ii) The Banks used by the Company are either determined or approved by the ultimate Parent's Corporate Finance and Treasury (CFT) department in Zurich. The Banks are classified as either Relationship Banks or Niche Banks. Relationship banks are preferred to Niche Banks, any banks outside the Bank List require written approval from CFT in Zurich.

(iii) For trade receivables, the Group/Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL (which in the case of the Group/Company is the same as the 12-month ECL). The Group determines the expected credit losses on these items by using a provision matrix, estimate based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Notes 19, 22, 23 and 33 include further details on the loss allowance for these assets respectively.

(iv) The loss allowance on quoted equities (available for sale assets) measured at FVTOCI is recognized through other Comprehensive Income and accumulated in the investment revaluation (fair value) reserve. See note 19. FVTOCI has been irrevocably elected and applies because the shares are held neither for sale nor are they contingent for business combination.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk

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 the group's 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.

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 2018:					
Trade payables	2,682	1,022	865	476	319
Related party payables	2,313	871	549	380	513
Borrowings	2,010	-	-	-	2,010
Other payables	684	379	30	-	-
Accrued expenses	2,155	1,306	589	81	179
31 December 2017:					
Trade payables	3,467	2,684	487	296	-
Related party payables	1,417	142	420	420	435
Other payables	561	561	-	-	-
Accrued expenses	651	245	406	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (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 2018:					
Trade payables	1,732	1,212	346	173	-
Related party payables	1,501	120	630	750	-
Other payables	409	379	30		
Accrued expenses	608	346	81	49	130
31 December 2017:					
Trade payables	1,606	1,112	346	148	-
Related party payables	1,079	88	463	528	-
Other payables	435	435	-	-	-
Accrued expenses	492	175	168	147	-

38 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 maximising the return to stakeholders through the optimisation of the debt and equity balance.
- To maintain a strong capital base to support the current and future development needs of the business.

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. The Group's policy is to keep the gearing ratio between 20% and 40%, where applicable. As at 31 December 2018, the Group and Company were in net cash position hence not geared (2017: net cash position).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

38 CAPITAL RISK MANAGEMENT (continued)

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

	GROUP		COMPANY	
	2018	2017	2018	2017
	Shs'million	Shs'million	Shs'million	Shs'million
Equity	33,463	33,200	22,540	21,835
Trade and other payables	7,784	6,096	4,252	3,612
Borrowings	2,010	-	-	-
Less: cash and cash equivalents	(2,366)	(3,490)	(2,161)	(2,557)
Net cash position	(7,428)	(2,606)	(2,091)	(1,055)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

39. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

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

GROUP

	Notes	Carrying amount		Fair Value	
		2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Financial assets					
Other equity investments	19	180	317	180	317

COMPANY

	Notes	Carrying amount 2018 Shs'million	Carrying amount 2017 Shs'million	Fair Value 2018 Shs'million	Fair Value 2017 Shs'million
Financial assets					
Other equity investments	19	180	317	180	317

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

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

The carrying values of the Company's loan to subsidiary is determined by using Discounting Cash Flows (DCF) method at discount rate that reflects the market interest rate as at the end of the reporting period.

b) Fair value hierarchy

The table below shows an analysis of all assets and liabilities measured at fair value in the financial statements or for which fair values are disclosed in the financial statements by level of the fair value hierarchy. These are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

39. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
GROUP			
31 December 2018			
Assets			
Property, plant and equipment			
-Freehold land and buildings	-	-	11,054
-Plant and machinery	-		23,152
Biological assets	-	471	-
Fair value designated at FVTOCI - equity securities	180	-	-
31 December 2017			
Assets			
Property, plant and equipment			
-Freehold land and buildings	-	-	10,240
-Plant and machinery	-	-	15,310
Biological assets	-	471	-
Available -for -sale financial assets as per IAS 39			
-Other quoted investments	317	-	-
COMPANY			
31 December 2018			
Assets			
Property, plant and equipment			
-Freehold land and buildings	-	-	8,053
-Plant and machinery	-	-	10,747
Biological assets	-	471	-
Available-for-sale financial assets			
Fair value designated at FVTOCI - equity securities	180	-	-
31 December 2017			
Assets			
Property, plant and equipment			
-Freehold land and buildings	-	-	8,624
-Plant and machinery	-	-	8,314
Biological assets	-	471	-
Available-for-sale financial assets as per IAS 39			
-Other quoted investments	317	-	-

39. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

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

The Group's freehold land, buildings, plant, and machinery were last revalued on 1 December 2017 for the parent company and December 2018 for Hima Cement Limited.

The valuations were based on market value as follows:

Comparable method for valuation of land and buildings

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

The properties' fair values were based on valuations performed by Knight Frank Valuers Limited, an accredited independent valuer.

Depreciated replacement cost for plant and machinery

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

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

The engineers and consultants ensure that:

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

39. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Description of valuation techniques used and key inputs to valuation of assets and liabilities				
	Valuation technique	Significant observable inputs		Range (weighted average) Interest rate
LEVEL 2	-	-		-
LEVEL 3				
	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Land	Market Comparable Approach	Price per acre	Between Shs 1 million and Shs 30 million	0.5% (2017: 0.5%) increase (decrease) would result in an increase/(decrease) in fair value by Shs 32.25 million.
Buildings	Market Comparable Approach	Estimated rental value per square meter per month.	Shs 30 per square meter	0.5% (2017: 0.5%) increase (decrease) would result in an increase/(decrease) in fair value by Shs 2.0 million.
		Rent growth p.a.	5%	
Plant and machinery	Depreciated replacement cost for plant and machinery	Capital expenditure for a model plant at above capacity assuming supply from China.	Between Shs 1,358 million and Shs 2,729 million.	0.5% (2017: 0.5%) increase (decrease) would result in an increase/(decrease) in fair value by Shs 20.4 million.

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

40. RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified for consistency with the current year presentation. Material adjustment was done on the Group's and the Company's cost and accumulated depreciations (See Note 15(a) and (b) and (c)) for details. These reclassifications had no effect on the reported results of net carrying value of the property, plant and equipment and the operations.

41. COUNTRY OF INCORPORATION

The Company is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015. The ultimate parent of the Group is LafargeHolcim Ltd, incorporated in Switzerland.

42. EVENTS AFTER THE REPORTING DATE

The Board of Directors approved the financial statements on 12 April 2019 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.

BUILDING FOR GROWTH

BAMBURI CEMENT LIMITED
Corporate Office,
Kenya-Re Towers, 6th Floor,
Mara Ragati Road, Upper Hill
P.O. Box 10921 - 00100,
Nairobi, Kenya
Tel: (+254 - 20) 2893000 / 2710487
Fax: (+254 - 20) 2710581

CementBamburi BamburiCement