Bamburi cement ltd

2007

ANNUAL REPORT & FINANCIAL STATEMENTS

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Bamburi cement ltd

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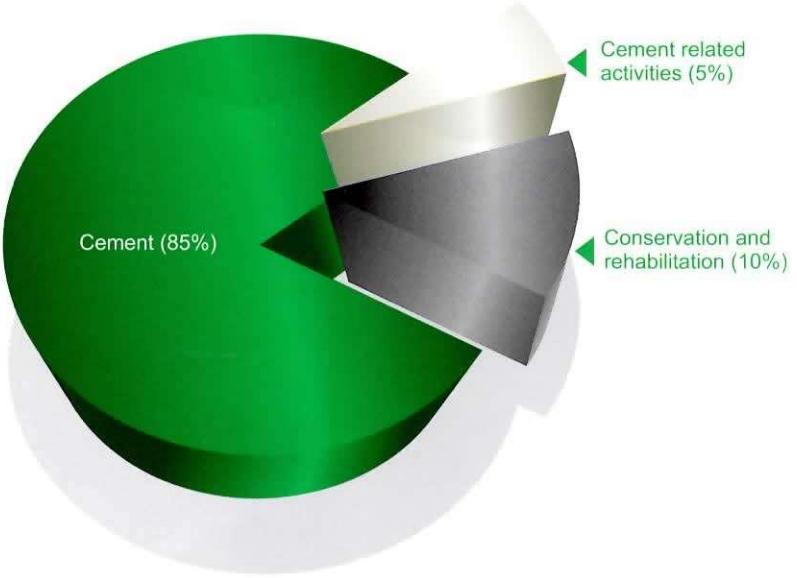
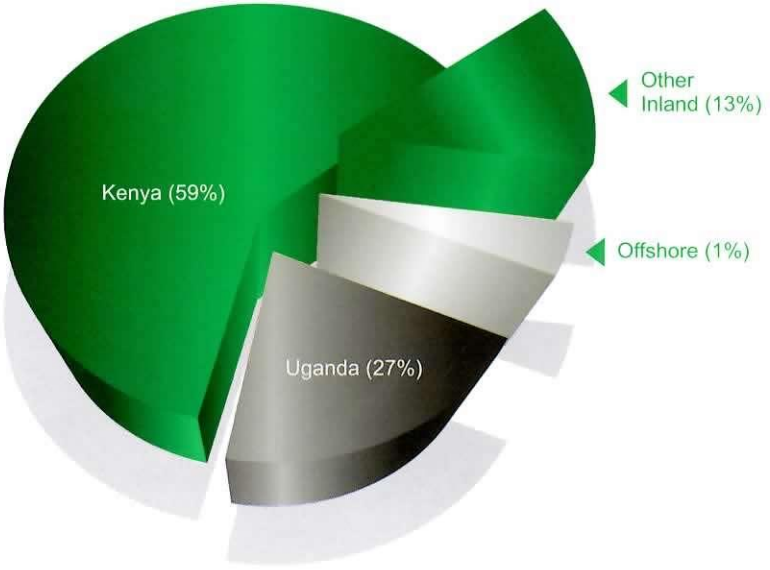
Consolidated Highlights

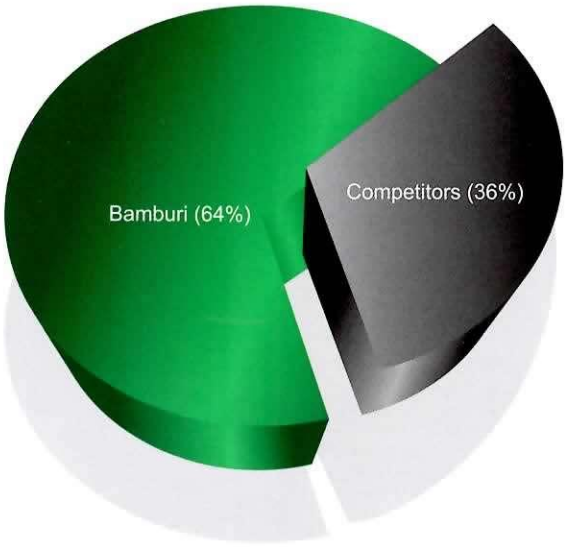
Employees by Business area



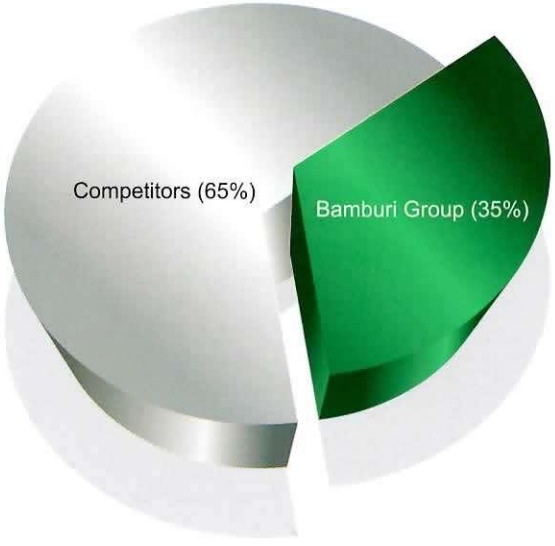
Sales by region



Estimated Market Share - Kenya

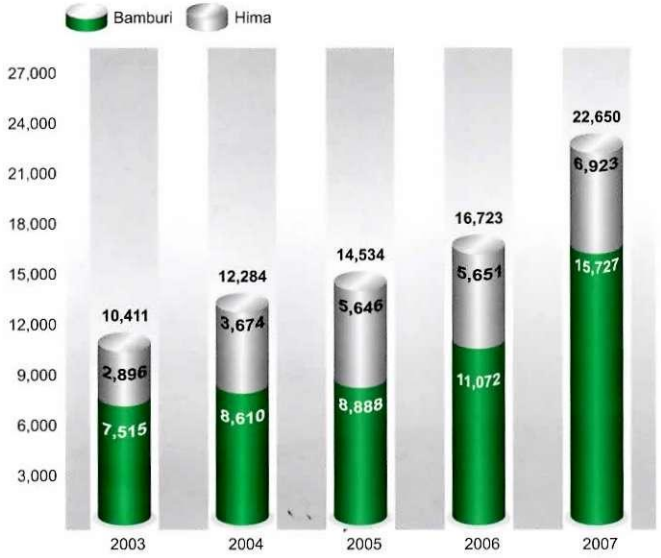


Estimated Market Share - Uganda

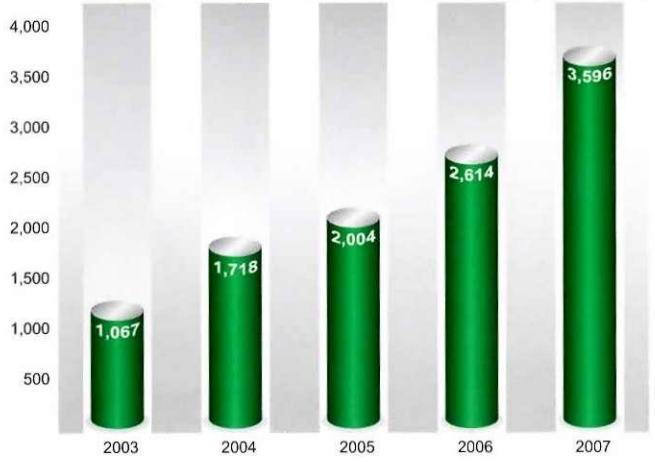


Five-Year Performance Review

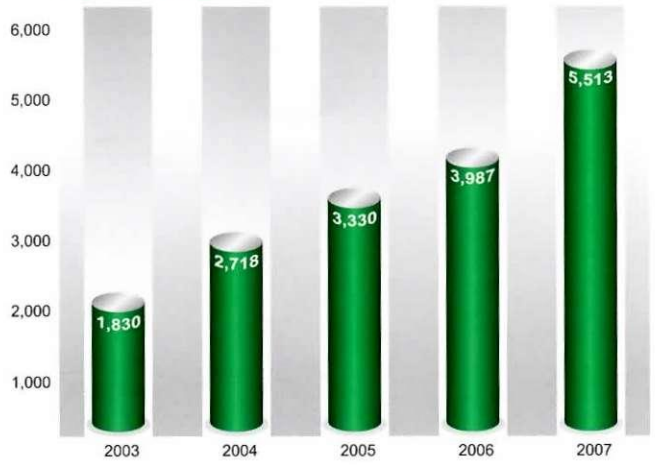
Turnover
(Kshs million)



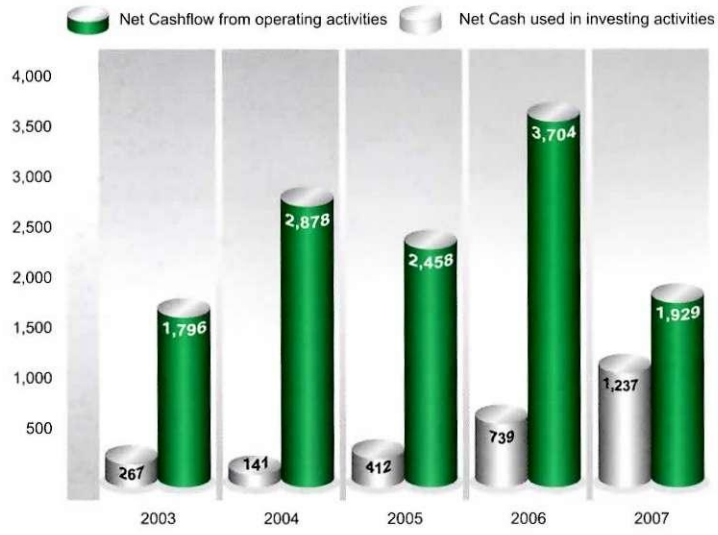
Profit attributed to shareholders (Kshs million)



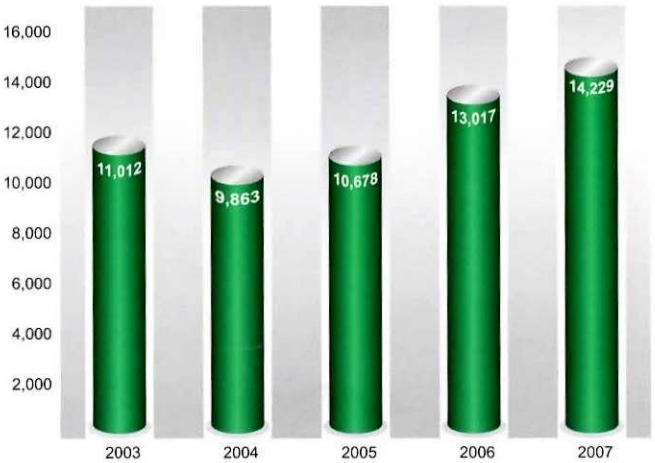
Operating Income (Kshs million)



Investments and Net Cashflow
from Operating Activities (Kshs million)

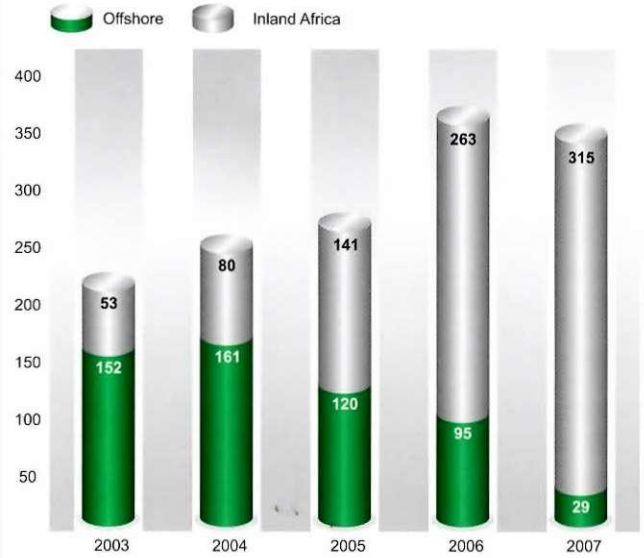


Shareholder Equity (Kshs million)

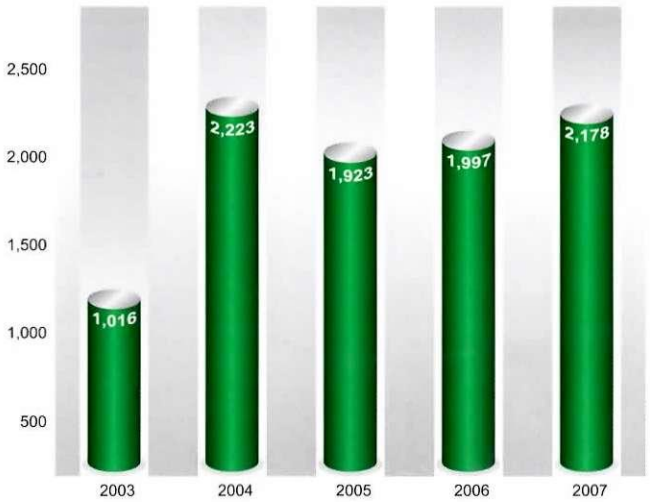


Five-Year Performance Review

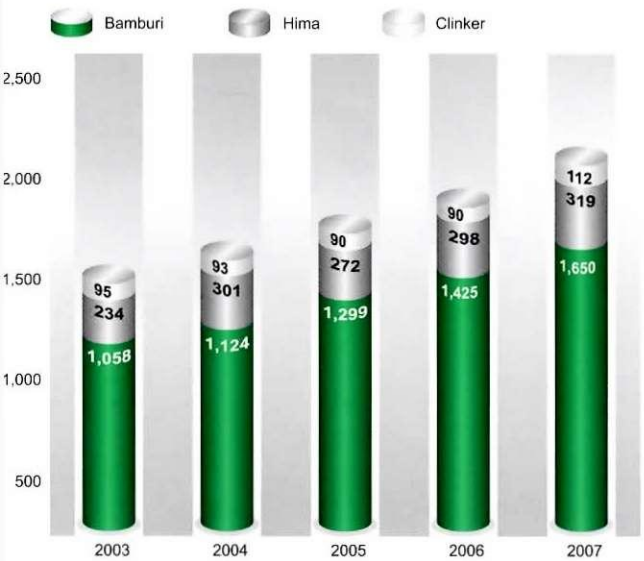
Export Sales
(Thousand Tons)



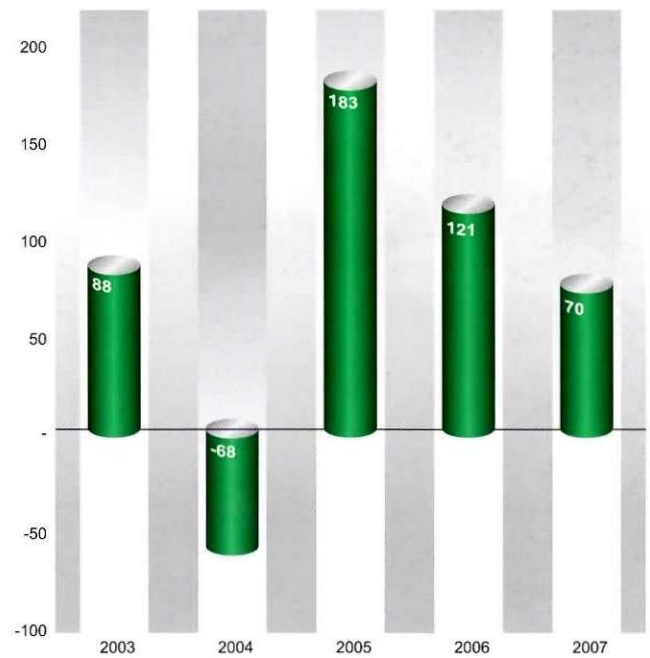
Dividends
(Kshs million)



East Africa Sales Volume
(Thousand Tons)



Finance (Income) / Costs
(Kshs million)



Value Added Statement

Financial Flows to our Stakeholders in 2007

Customers

Net Cash from our activities
Kshs 20,574m

Staff Cost
Kshs 1,827m

Employees

Dividends
Kshs 2,541m

Shareholders

Contribution
Kshs 57m*

Communities

Interest
Kshs 7m

Banks

Taxes
Kshs 3,023m*

Government

Capital Investments
Kshs 1,237m

Purchases
Kshs 13,766m*

Suppliers

The data used in this value added statement comes from the group consolidated financial statements, with the data marked with an *, which has been estimated. Taxes comprise direct and indirect taxes.

DIRECTORS

Executive

M Puchercos (French)	- Group Managing Director
D Njoroge	- General Manager, Hima Cement Limited
A Sigei	- Group Finance Director

Non Executive

R Kemoli	- Chairman
J C Hillenmeyer (French)	
S W Karanja	
A Hadley (British)	- Resigned on 4 October 2007
E Meuriot (French)	- Appointed on 7 December 2007
E Leo (South African)	- Retired on 31 March 2007
R Lumbasyo	
C C Kisire	
S M'Mbijjewe	

SECRETARY

M Nderitu - Resigned 30 May 2007
B Kanyagia - Appointed on 1 June 2007
Kenya-Re Towers, Upper Hill
P.O Box 10921 - 00100
Nairobi

REGISTERED OFFICE

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

REGISTRARS

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

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii", Ring Road
Westlands
P.O. Box 40092 - 00100
Nairobi

PRINCIPAL BANKERS

Barclays Bank of Kenya Limited
Nkrumah Road Branch
P.O Box 90182
Mombasa

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

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

Citibank
Centre Court Nakasero
P.O Box 7505
Kampala

The Group

OUR VISION

To be the leading market and end user oriented Cement Company across Eastern Africa, with a strong and clear dedication to our communities by 2010.

OUR AMBITIONS

To drive us towards attaining our vision, we have tangible ambitions in 5 key areas:

1. Safety, Health and Environment

We are dedicated to:

- Training employees, contractors and business partners and adopting Best Practices to ensure safety for all.
- To the good health of our employees and welfare of our local communities.
- Protecting the natural environment and limiting the impact of our activities on the ecology.

2. Innovation

- We are committed to top line growth through the introduction of new and innovative products. We commit to have a significant proportion of our turnover generated from new products by 2010.

3. Sustainable Market Leadership

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

4. Profitable Enterprise

- To protect and augment our profitability by enhancing production and other internal efficiencies while realizing our aim to make cement affordable to our customers and end users.

5. Team Achievement

We are focussed on:

- Attracting the best talent, developing the skills and potential of our people and recognizing and rewarding achievement:
- Building a disciplined and motivated workforce that drives for outstanding results.

Through these tangible five ambitions, we strive to embrace our values as one entity 'Driven by the Same Energy'.

OUR VALUES

The Lafarge brand stands for commitment to excellence and the values of the group are expressed in the 'Lafarge Way'.

The Lafarge way

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

Making our people successful
- Expecting people to give their best
- Leading by example
- Achieving greater results through teamwork

Focusing on performance improvement
- Resulting from actions of all
- Making performance a daily commitment
- Sharing systems and tools

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

LAFARGE GROUP

Lafarge in Brief

Bamburi Cement Limited is a subsidiary of Lafarge, the world leader in building materials. Lafarge holds top ranking positions in all three of its divisions: Cement, Aggregates & Concrete and Gypsum.

The Lafarge Group is present in 76 countries and has about 90,000 employees. Its sales for 2007 amounted to 17.6 Billion Euros up from 16.9 Billion Euros in 2006. The Cement Division has operations in 46 countries with 166 plants worldwide.

The customer is at the heart of Lafarge business. It offers the construction industry and general public innovative solutions that bring greater safety, comfort and quality to their everyday surroundings. Lafarge offers all construction industry sectors; (from architect to tradesman, from distributor to end user), a comprehensive range of products and solutions for each stage of the building process.

2007 Key Figures

Consolidated

Sales: **17,614 million Euros**
Operating Income: **3,242 million Euros**

Cement Division

Sales: **10,280 million Euros**
Operating Income: **2,481 million Euros**

In 2007, Lafarge demonstrated its ability to accelerate its objectives. The Excellence 2008 objectives for growth in earnings per share and return on capital employed were exceeded, a year early in 2007.

Cement demand worldwide has experienced uninterrupted growth over nearly 20 years. By building new capacity in fast growing markets, thanks to the acquisition of Orascom Cement, Lafarge is ideally positioned to benefit fully from this growth.

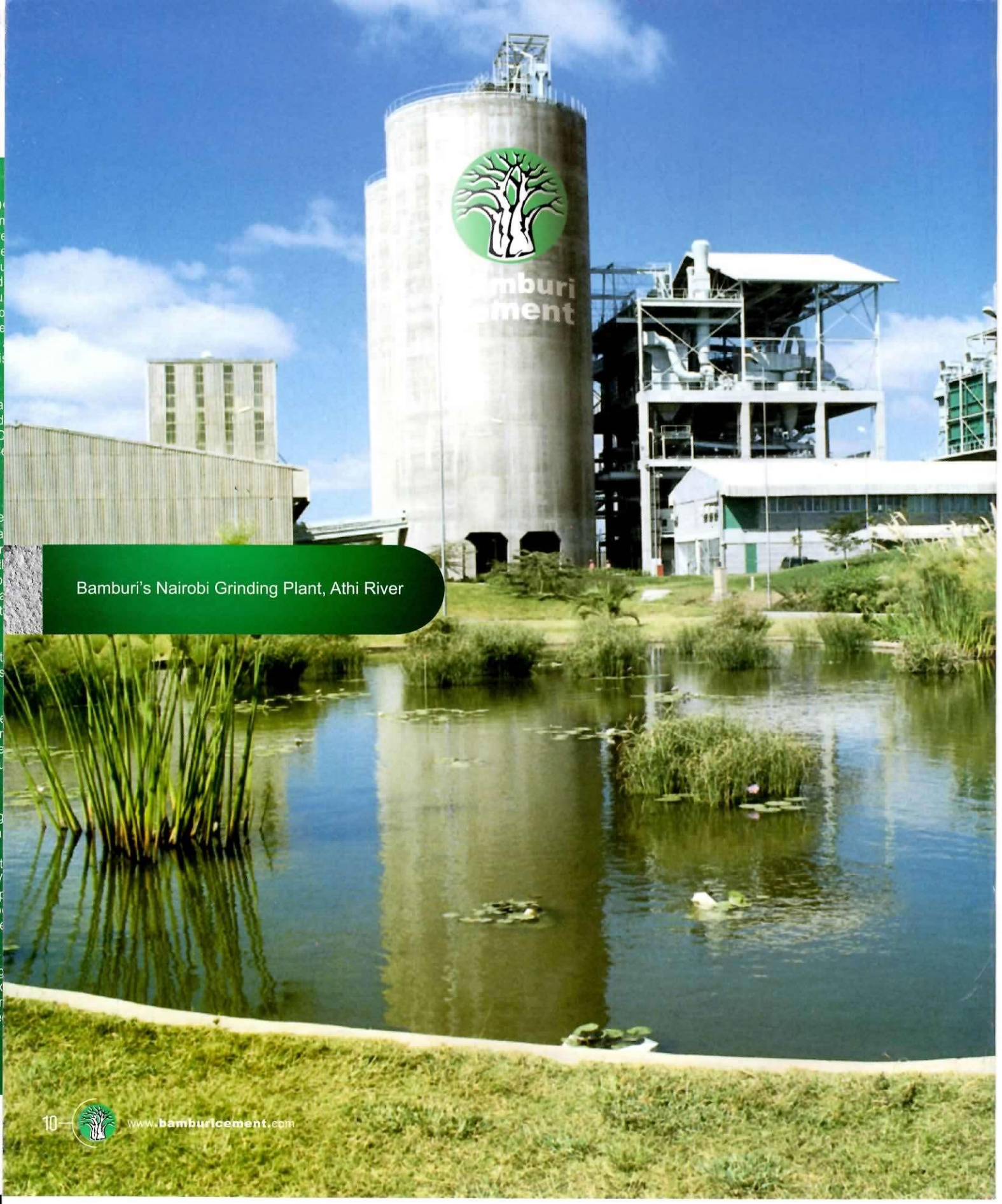
Bamburi Cement Companies

Bamburi cement ltd

Hima cement ltd

LAFARGE ECO SYSTEMS

Bamburi special products ltd



Bamburi's Nairobi Grinding Plant, Athi River

Management Team

michel puchercos
Group Managing Director

albert sigei
Group Finance Director

tim kaloki
Sales Director

david njoroge
General Manager
Hima Cement

susan maingi
Human Resources & Organization Director

robert nyangaya
Marketing Director

henri nicot
Industrial Director

tariq iqbal
Head of Supply Chain

Foreword

'The Group's performance during the year reflected gains on key investments in people, processes, partners and communities in building a strong foundation for future success.'

Strong results

Despite the challenging operating environment across the region, the group achieved strong performance, highlights of which are given below:

- Our consolidated sales grew by 34% to Kshs. 22.1 billion.
- Operating profit reached Kshs. 5.5 billion (2006: 3.9 billion).
- Growth in our Uganda operations was on target despite power quality challenges and capacity constraints, with sales volume rising 9.6%, driven largely by exports.
- We continued with our commitment to reducing operating costs by implementing the Excellence 2008 initiatives. We are on track to achieving the cost savings set by this program.
- We enhanced our safety improvement initiatives with road safety being a key focus.

Creating new opportunities for our customers

The Group dedicated significant resources over the last year to develop its products. Our new product, Plastaplus, was successfully launched in pursuit of our ambition to create new opportunities for our valued customers. We maintained a strong focus in the regional markets in order to consolidate our leadership position and to position ourselves for future growth

Investing for the future

In addition to investing in our employees, we dedicated significant resources to increase our production capabilities. During the year, the group invested Kshs. 0.4 billion in a new cooler at our Mombasa Plant aimed at boosting our production efficiency. In Uganda, at our Kasese Plant, we commenced the construction of a new production line at a cost of Kshs. 7 billion to more than double our capacity, expected to be commissioned by 2010. These investments are aimed at meeting customer demand, increasing efficiency and lowering operational costs with the overall aim of growing returns to our shareholders. The group spent a total of Kshs. 1.8 billion on various projects in 2007.

Partnership with Communities

Our Green Schools Project had a very successful year in Kenya as it continued to fulfil one of its core purposes of providing water in some of the participating schools by the completion of 17 water tanks for 9 schools. This brought the total number of tanks constructed to 143 to date. In Uganda, we planted 13,000 trees in the 7 schools that we identified for the project. We also commenced the construction of one water tank in each of the schools.

During the year, Bamburi Cement received a gold award from Total under the auspices of the Total Eco Challenge program in recognition of the tree planting work done by Bamburi Cement.

In 2007, the Group began the pursuit of Clean Development Mechanism (CDM) as a means to achieving its sustainable development ambition. CDM is one of the two mechanisms under the Kyoto Protocol which aims at reducing green house gases that cause global warming. It provides for purchase of green house gas reductions while supporting sustainable development. The Group's CDM activities target the substitution of our primary CO2 intensive fuels - coal and heavy fuel oil with carbon neutral biomass wastes from the agriculture industry and plantating of woody biomass to provide feed stock for future fuel substitution as well as enhance biodiversity and forest cover. Through Lafarge Eco Systems, the group is establishing a 900 ha biofuel plantation over a six year period in Mombasa. In 2007, 150 ha of biofuel plantation was established. These activities which create good neighbourliness and contribute to economic and social development have been and will continue to be implemented in partnership with local communities surrounding our sites.

In an effort to reduce road carnage, the group continued to work with our transporters on several initiatives including defensive driving training, road patrols and assessment of transporter premises.

In Uganda, community outreach activities to the youth and adults continued as focal point on health interventions in Hima. The high response during Our World Aids day's celebration themed *"Unite for Children, Unite against Aids"* that brought in community members was a reflection of the effectiveness of communication flowing from the ART program launched in August 2006. From the days sampled, a prevalence rate of 8.9 % was noted pointing at the need for intensified intervention.

Building on a strong foundation

Our human resources team continues to deliver competitive advantage to the business by introducing new talent and aligning them with other team members to form a formidable 'engine' that is focused on achieving our vision. By focusing on the strengths of each individual and encouraging a positive, winning attitude among our staff, we have developed a truly committed and value creating team. We view the 'one business unit one team' concept as an asset and core to our strategic initiatives in the region.

We progressed on the 'one team' concept through synchronization of structures, harmonization of policies and procedures and aligning all staff towards one common vision *'to be the leading market and end user oriented cement company across Eastern Africa, with a strong and clear dedication to our communities'*. The harmonization project, one of the key pillars of this process that was launched in 2007 aimed at standardizing and improving reward and other human resource policies and procedures across East Africa, has so far produced tangible positive results. Incentives such as performance based bonus schemes recognize measurable results among our best employees and teams. Additionally, we are committed to our Code of Conduct which supports integrity and good corporate governance throughout the organization.

Our efforts to grow and improve as a company would not be possible without the leadership of the talented strong team of Board of Directors, as well all our employees. Our customers, suppliers, transporters, distributors and other business partners also deserve commendation for their hard work and loyalty.

Future Growth

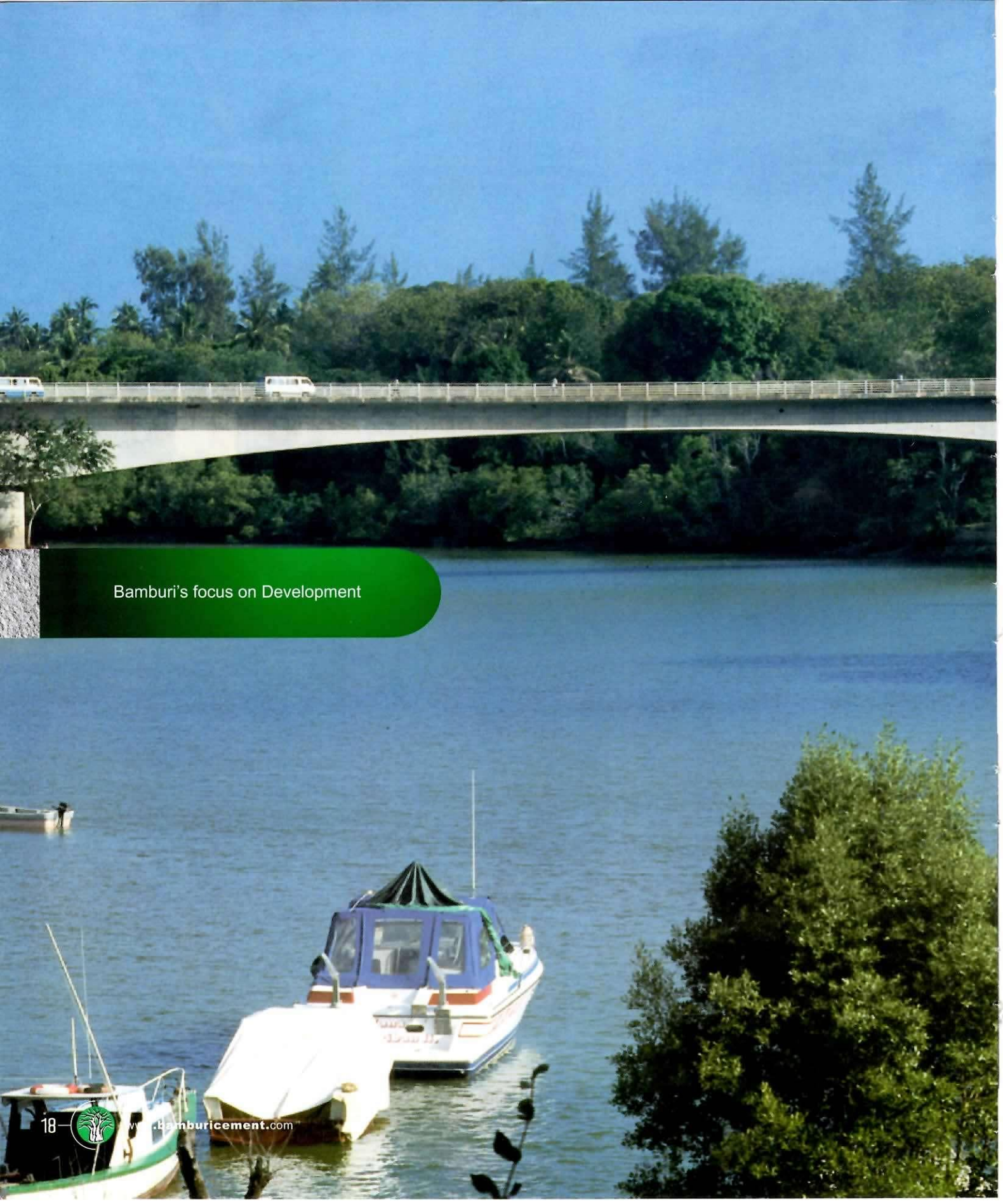
The Group expects a robust year 2008 with increased construction activities and other infrastructural development across all markets despite a slow start in the first quarter due to the political situation. The Group expects to serve its diverse customer needs better on an innovative platform. Power supply and quality in Uganda will remain a challenge until the recently awarded 4-year contract for the construction of the 250MW Hydropower Bujagali dam is completed.

Looking forward, we are committed to building an integrated Group across all of our businesses in East Africa. By investing in our people, new products and marketing strategies, new technologies and our communities, we plan to take significant steps towards maintaining the profile of Bamburi Cement as market leader in Eastern Africa in line with our 2010 vision.

Thank you.

Richard Kemoli
Chairman

Michel Puchercos
Managing Director



Bamburi's focus on Development

Economy

The group thrived in an economic environment that was good for growth, providing significant business opportunities in all key sectors. The Kenyan economy sustained a strong momentum (2007 GDP 6.5% compared to 6.1% in 2006) bolstered by improved production in various sectors, particularly tourism, telecommunications, manufacturing, agriculture and infrastructural development, all resulting from significant improvements in the macroeconomic conditions and various economic reforms undertaken by the government. Overall inflation at 9.8% was negatively affected by high international oil prices and unstable food prices but still remained below the 14.5% level of 2006. Relations with donors improved from the first quarter of 2007, which prompted increased World Bank funding. The key focus remained the implementation of specific Economic Recovery Papers on poverty eradication, free primary education and implementation of Vision 2030 programmes.

Despite adverse effects of power shortages, Uganda GDP growth was 6.0% (4.5% in 2006) driven by growth in agriculture, resilient private sector growth in telecommunications, exports and donor-aid projects. General price levels experienced less volatility to reach 5.7% in 2007 (7.2% in 2006), partly due to the effect of a stronger shilling on prices of imports and more stability in the prices of food and power.

Construction Sector

Cement demand in the region continued to be strong stirred by robust economic growth. Overall market in East Africa grew by an estimated 14.8%. The construction sector experienced strong growth due to stable Individual Home Builder (IHB) demand and growth in the contractor segment mainly driven by public and private infrastructure projects. In Uganda particularly, there was sustained investment in commercial buildings, hotels, roads and the rehabilitation of airport facilities' ahead of the Commonwealth Heads of Government (CHOGM) summit held in November 2007.

Safety, Health and Environment

We continued with the Group's commitment to achieve good results in a safe environment. We championed good safety behaviour and practices for our staff and contractors alike. In 2007, we made significant investments in various Health and Safety programs across the Group. We implemented various group safety standards, especially those relating to Working at Height, Personal Protective Equipment, Log Out Tag Out Try Out (LOTOTO) and Contractors' Safety Management (CSM) and Mobile Equipment Advisory. Every staff and contractor continued to live by their commitment to our Safety policy through responsible behaviour and active engagement of one another. Towards the end of the year, we launched Health and Safety committees for all contractors at each of our sites, both in Kenya and Uganda.

Road safety continued to be a challenge. We put significant effort towards road safety improvement with frequent patrols and defensive driving training sessions for our transporters. In the spirit of true partnership, we agreed to have same benchmarks and behaviour with our transporters. Our long-range strategy is to shift a significant portion of our bulk material transport from road to rail when the railway system improves.

Key Highlights

Kenya

Bamburi Cement Ltd

The cement market recorded strong growth of 15.5%. Bamburi Cement demonstrated remarkable performance during the year, with domestic cement volumes growing by 27% on the back of Individual Home Builder demand and growth in the contractor segment mainly driven by public and private infrastructure projects. However, export sales reduced by 13.6% due to realignment of product flows with reduced volumes going to the Indian Ocean markets. The Group however realized an increase of 20% on export volumes into the Inland Africa market.

In responding to strong cement demand, cement production improved by 14.9%. We recorded a 35% drop in clinker production due to an unfortunate fire incident in October 2007 at the Mombasa plant disrupting clinkering operations. Most of the repairs are now complete and normal operations are quickly resuming. Among other investments, the group invested Kshs. 400 million in a new cooler at our Mombasa Plant aimed at boosting production efficiency.

We demonstrated our commitment to achieving our innovation ambition by launching a 'first in the market' new product, Plasta Plus, which helped boost the group's turnover by Kshs. 75 million in just four months.

Bamburi Special Products

Bamburi Special products, Bamburi Cement Limited's subsidiary that deals in concrete products under the brand name "Bamburiblox" demonstrated good performance in the year. The company's turnover grew by 14% in the year that saw the introduction of a new product, the Inverter Block Drain and the commercialisation of the kerbstones' business.

Lafarge Eco Systems Limited

Lafarge Eco Systems Ltd, a fully owned subsidiary of Bamburi Cement Ltd is mandated is to manage all Bamburi Cement Ltd mining reserve lands, rehabilitate its mined quarries and develop and maintain self sustaining ecosystems in the rehabilitated quarries. The rehabilitated quarries, a publicly accessible showcase of Bamburi Cement's environmental responsibility and success, attracted 166,000 visitors in the year.

In 2007, the company's turnover and profit before tax increased by 39% to Kshs. 120.8 million. Profit after tax was Kshs. 18.9 million.

Uganda

Hima Cement recorded very good performance in 2007 with overall sales volumes increasing by 9%. The domestic volumes growth was on account of infrastructural development projects ahead of the Commonwealth Heads of Government Meeting (CHOGM) held in Uganda in November 2007, and sustained Individual Home Builder (IHB) demand. Robust growth and continued focus presented significant opportunities in the export markets.

Cement production improved by 13%. We continued to harvest synergies of being 'one business unit one team' across East Africa by transferring clinker to Hima Cement to optimise our milling capacity at the Kasese Plant. We undertook several actions with the help of Lafarge's Technical Centre to increase clinker production. We expect to reap the benefits of these actions in 2008. In pursuit of our efforts to lower costs, we remained focussed to offsetting the high fuel and power prices with the use of alternative fuels such as cashew nuts and rice husks. We achieved 28% alternative fuels substitution in 2007.

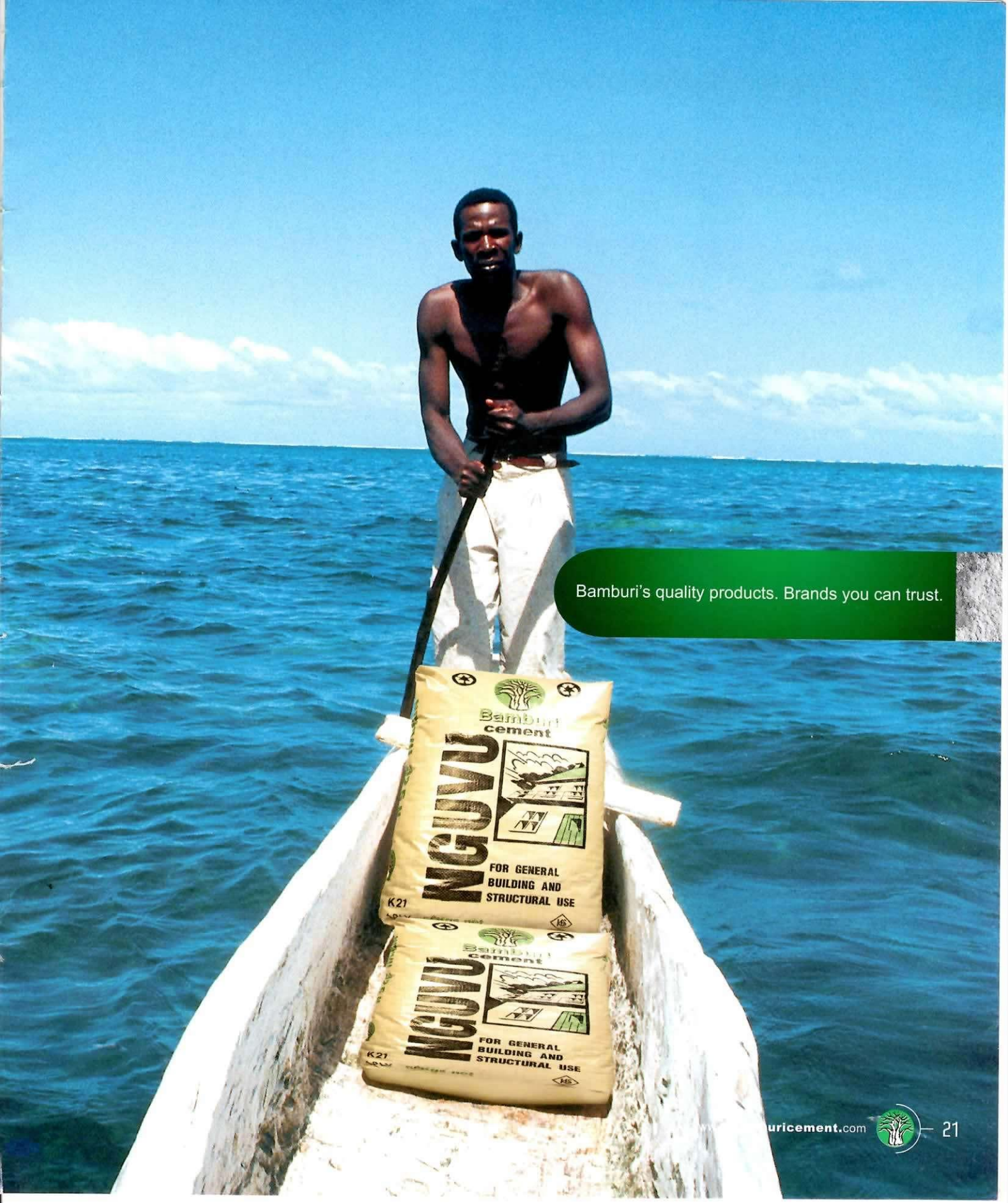
Projects

To consolidate our strong foot print in the region, the group embarked on a number of capacity expansion projects. At the Kasese Plant in Uganda, we commenced the construction of a new Kshs. 7 billion production line, expected to be commissioned by 2010. Once complete, the new plant will double our capacity. In Kenya, we commenced the exploration work at Kanziko, Kitui, to establish the existence of adequate reserves for a clinker plant. These investments are all aimed at meeting customer demand and lowering operational costs in a bid to grow returns to our shareholders. The group spent a total of Kshs. 1.8 billion on capital expenditure during the year.

Outlook

With the political deal now in place in Kenya, we expect a positive outlook for 2008. We expect the economy to resume momentum with a stable macroeconomic environment. We are optimistic that the Government will take urgent steps to improve the operating environment by moving with speed to stabilize the economy and sort out concerns over the infrastructure.

Looking ahead, the Group anticipates better results on the back of a vibrant market and the group's pursuit to serve better the needs of its diverse customer by leveraging on the innovation platform. We however expect cost pressures, particularly rising energy and transport rates.


Bamburi's quality products. Brands you can trust.
Bamburi
cement
NGUVU
FOR GENERAL
BUILDING AND
STRUCTURAL USE
K21
Bamburi
cement
NGUVU
FOR GENERAL
BUILDING AND
STRUCTURAL USE
K21

Corporate Governance Statement

In the Bamburi Group, we recognize that ethical business practices and the integrity of our internal control systems are vital to the enhancement of our financial performance and sustainability. We are committed to the standards of corporate governance as set by the Capital Markets Authority. The Board of Directors is responsible for the long term strategic direction for profitable growth of the company whilst being accountable to the shareholders for the maintenance of the highest corporate governance standards and business ethics.

Board of Directors

The Board comprises eleven directors, three of whom are executive directors while the rest are non-executive. Among the non-executive directors, five are independent directors. In addition to seeking a fair balance between executive and non-executive directors, the appointment of board members also takes cognizance of the need for a good mix of skills, experience and competencies required in the various fields of expertise, for effective management of the Group's business.

The board meets at least once every quarter and continues to maintain effective control over strategic, financial, operational and policy issues.

The following standing committees of the Board meet quarterly or as required.

Audit Committee

In accordance with regulatory requirements, the committee comprises non-executive members of the Board who are independent of the day to day management of the company's operations. Its members are Jean-Claude Hillenmeyer, Chris Kisire, Sheila M'Mbijjewe and Rachel Lumbasyo.

The audit committee plays the key role of reinforcing best practice in corporate governance particularly in the areas of internal controls and risk management. Its main duties are to:

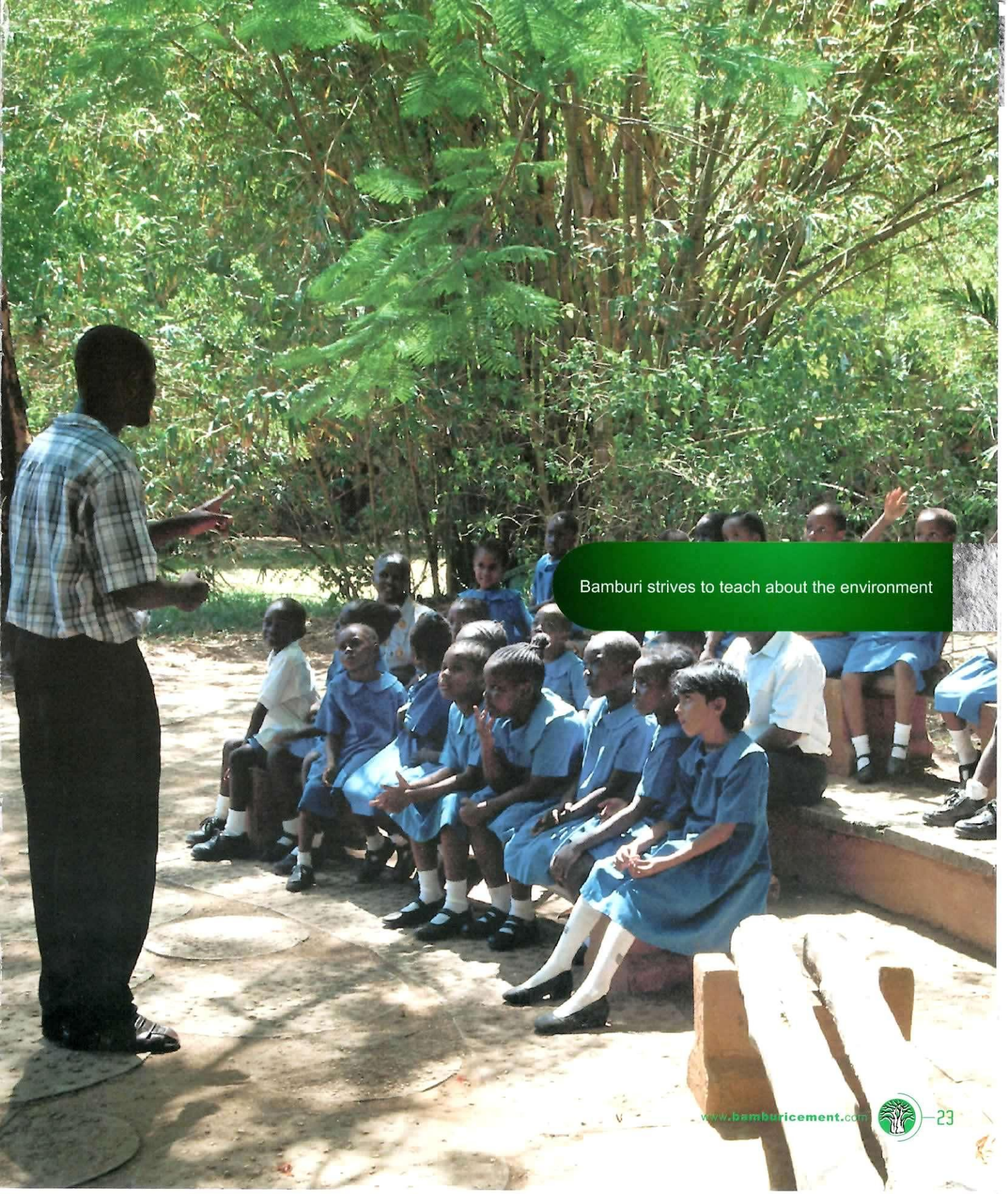
- Ensure that the systems of internal control are soundly conceived and effectively administered and seek assurance that effective control systems are in place and regularly monitored;
- Define responsibilities of the internal control function;
- Review the extent of compliance against policies, procedures and laws;
- Review financial statements and interim results;
- Discuss the mandate and review the findings of internal and external auditors.

Nomination and Remuneration Committee

This committee is responsible for appraising the performance of senior management staff, continuous review and rationalisation of human resources policies, and advising the Board on matters relating to remuneration for senior management and board members. It is also responsible for the appointment of directors to the board. Its membership comprises Richard Kemoli, Eric Meuriot and Michel Puchercos.

Executive Committee

The Managing Director chairs an East African Executive management committee, which comprises the executive directors and other senior executives. The committee meets at least once a month and its mandate is to deal with operational issues, and to improve communication and co-ordination through the various companies in the group. The committee members are Michel Puchercos, David Njoroge, Albert Sigei, Henri Nicot, Susan Maingi, Timothy Kaloki, Robert Nyangaya and Tariq Iqbal.



Bamburi strives to teach about the environment

Social Responsibility Initiatives

Kenya

Bamburi Cement's responsibility and understanding of its contribution to the communities it operates in, is epitomized in its vision statement *"…to be the leading market and end user oriented cement company across Eastern Africa, with a strong and clear dedication to our communities"*. All communities in all the locations where the Group operates in East Africa are our valued stakeholders.

Environment

The Group's Environmental policy is premised on a commitment to conduct its activities in a responsible manner to protect and enhance the environment.

We are pleased to report that the Green Schools Project had a very successful year. The project, whose core objective is the provision of concrete water tanks and tree seedlings to schools in arid and semi arid areas, ensures that clean water and a future source of wood fuel is accessible. In the year 2007, 17 water tanks were constructed for 9 schools, bringing the total number of water tanks constructed to 143 to date. The tot

Nine new schools were recruited to the Green Schools Project Network 7 in Kanziko and 2 in Athi River. The planting done in specific districts was as follows: Mwingi (16,500) Machakos (23, 015), Mutomo (1,700), Kajiado (10,250), Bondo (15,000), Marakwet (16,700) and Coast (58,960), all totalling 130 715 seedlings. Monitoring of Rarieda and Marakwet schools projects was done in November 2007. The Green Schools project continues to expand, and as a result, 403,328 trees have been planted to date.

We launched the Bamburi Primary School Green Schools Project on 3rd April 2007 and planted 2,000 seedlings in conjunction with our Mombasa-based employees. In order to strengthen our brand recognition in a number of these schools, we have started working on the provision of 35 school signboards appropriately branded with company identity. They will be erected in early 2008.

In addition, we enabled the repair of four classes at Mkokoni primary school. The refurbishment works are to meet a need in the school and recognizes the pivotal role of sound infrastructure in enhancing the academic standards of the schools we are involved.