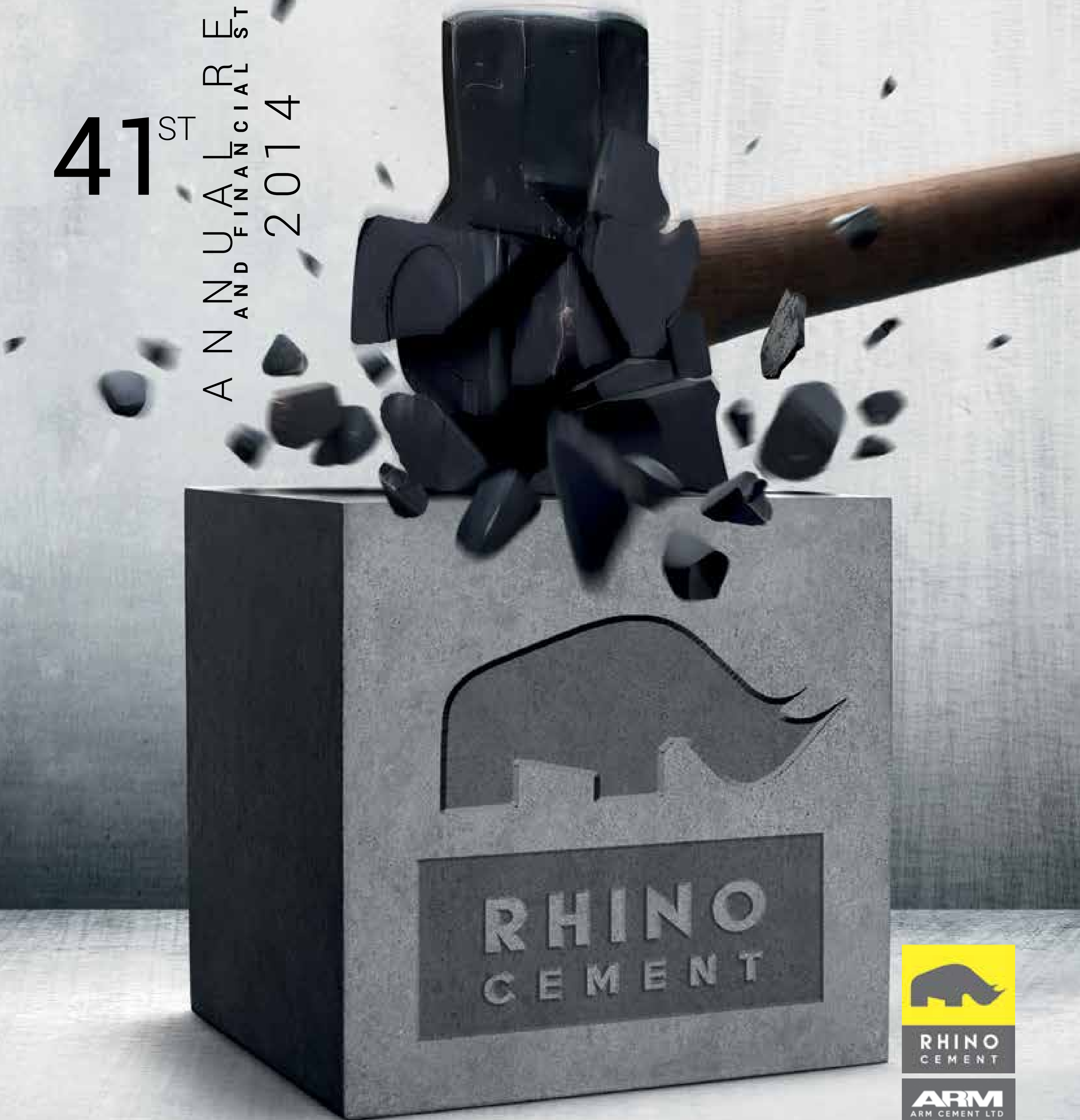
41ST ANNUAL REPORT AND FINANCIAL STATEMENTS 2014



RHINO CEMENT

ARM CEMENT LTD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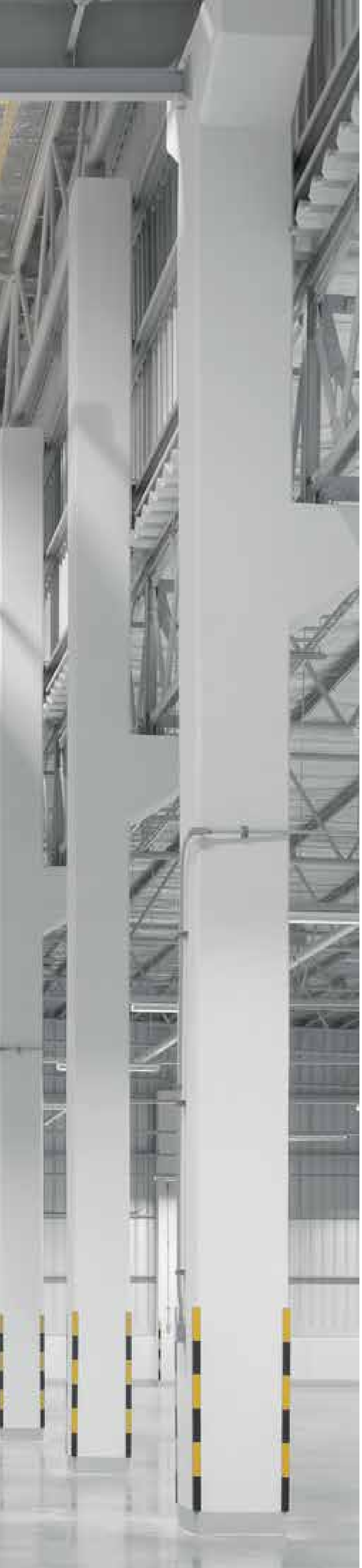

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NOTICE is hereby given that the 2015 Annual General Meeting will be held at Laico Regency Hotel, Nairobi on Thursday, 30th July 2015 at 10.00 a.m.

AGENDA

Ordinary Business

1. To read the Notice convening the meeting.

2. To approve the minutes of the previous Annual General Meeting held on 18th July 2014.

3. To receive the Balance Sheet and Accounts for the year ended 31st December 2014 together with the Reports thereon of the Directors and Auditors.

4. To approve the Directors Remuneration as provided in the accounts for the year ended 31st December 2014.

5. To approve the payment of a first and final dividend of Kshs. 0.60 cents per share in respect of the year ended 31st December 2014.

6. To re-elect Directors:

6.1 Mr. Leonard Clement Mususa having been appointed a Director during the year retires under the provisions of Article 93 of the Articles of Association and offers himself for re-election.

6.2 Mr. Richard Michael Ashley retires from the Board under the provisions of Article 95 of the Articles of Association and being eligible, offers himself for re-election.

6.3 Mr. Michael Alan Turner retires from the Board under the provisions of Article 95 of the Articles of Association and being eligible, offers himself for re-election.

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

By Order of the Board

R.R. Vora

Secretary

Date: 24th March 2015

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

PROXY FORM

I/we ....

Of ....

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

....

of ....

or failing him/her ....

of ....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 30th July 2015 and at any adjournment thereof

Number of Shares held..

Account number of member ....

As witness my/our hand this ....day of 2015

Signature..

Important notes

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

2. In case of a member being a corporation, this form must be completed either under its common seal, or under the the hand of an offer or authorized attorney.

3. To be valid, the proxy form must be completed either under its common seal, or under the hand of an offer or duly authorized attorney.

4. If you wish, you may appoint the Chairman of the meeting as your proxy.

THE SECRETARY
ARM CEMENT LIMITED

P.O. BOX 41908 - 00100
NAIROBI, KENYA

DIRECTORS AND CORPORATE INFORMATION

DIRECTORS

Mr R M Ashley*	Chairman
Mr P H Paunrana	Group Managing Director
Mr S L Bhatia **	Deputy Managing Director
Mr A Mathur**	Finance Director
Mr W Murungi	
Mr D M Ndonye	
Mr M Turner*	
Mr A Alli***	
Mr L Mususa****	(Appointed on 17/07/2014)

* British
** Indian
*** Nigerian

****Tanzanian

AUDIT AND RISK COMMITTEE

Mr D M Ndonye	Chairman
Mr R. M. Ashley	
Mr W Murungi	

STRATEGY AND INVESTMENTS COMMITTEE

Mr R. M. Ashley	Chairman
Mr. P. H. Paunrana	
Mr. S. L. Bhatia	
Mr. A. Mathur	
Mr. M. Turner	
Mr. A. Alli	

NOMINATION, RENUMERATION & HUMAN RESOURCE COMMITTEE

Mr. W. Murungi	Chairman
Mr. M Turner	
Mr. D. M. Ndonye	

SECRETARY

MR. R. Vora
Certified Public Secretary
Unit 4, Ground Floor, Delta Riverside Drive
P O BOX 4805-00100 GPO
Nairobi

REGISTERED OFFICE

Rhino House, Chiromo Road
Westlands
P O Box 41908 - 00100 GPO
Nairobi

AUDITORS

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

BANKS

Barclays Bank of Kenya Limited
Barclays Plaza Branch
P O Box 46661 - 00100 GPO
Nairobi

Bank of Africa Kenya Limited
Taifa Road
P O Box 69562 - 00400
Nairobi

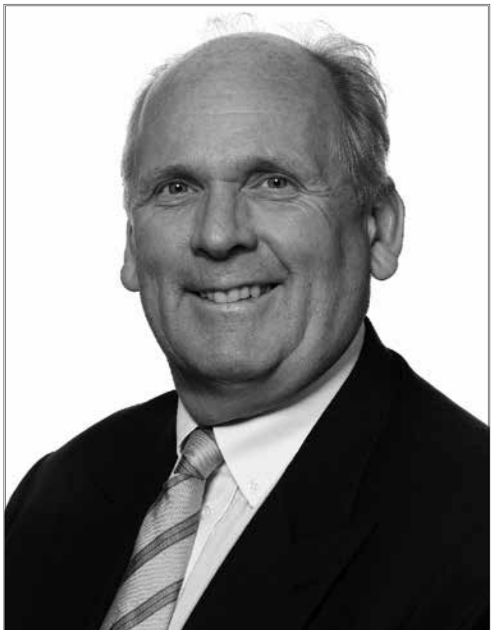
Citi Bank NA
P O Box 30711 - 00100 GPO
Nairobi

CFC Stanbic Bank Limited
Kenyatta Avenue
P O Box 30550 - 00100 GPO
Nairobi

RHINO CEMENT FOUNDATION TRUSTEES

Mr. T Mbathi
Mr. D. Ndonye
Mr R. Vora
Mr. P. H. Paunrana
Mrs. A. Paunrana

RICK ASHLEY



CHAIRMAN

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended 31st December 2014 and my statement thereon.

I will focus particularly on our business strategy, governance and policy achievements in context of the operating environment we faced in 2014.

However, we are already well into 2015, so I will also include an indication of the trading environment and our progress in 2015 in this report.

COMMISSIONING OF THE TANGA CLINKER PLANT

You will recall that in last year's report I gave prominence to the completion of our new capacity in Tanzania. I am delighted to confirm that the commissioning of our 1.2 million tons per annum clinker plant in Tanga commenced at the end of 2014, and was successfully brought into full commercial production during the first quarter of 2015. The plant is the largest single line clinker production unit in the region.

I believe this demonstrates clearly your Company's strength; our ability to conceive, and execute significant capacity additions, particularly in greenfield locations. This bodes well

for our future plans as discussed later in this report.

I sincerely thank the management team and all our staff who worked tirelessly, often literally around the clock, to ensure the successful completion of this project.

2014 REVIEW

CEMENT BUSINESS

Kenya and Tanzania remain our 2 most important territories . Our cement capacity is now 1.0 million and 1.5 million tons per year respectively in these markets.

KENYA

The GDP growth reduced to 5.3% as compared with 5.7% in 2013. Inflation averaged 6.9% up from 6.6% the previous year. Inflation was moderated in the second half of the year as oil prices fell. The Central Bank of Kenya maintained its Benchmark interest rate at 8.5% through 2014 and into 2015, as a result of which interest rates were relatively stable during the period under review. Although most sectors reported lower growth, the building and construction sector registered a growth of 13.1% which was reflected in increased consumption of cement of 5.2 million tons up from 4.6 million tons in 2013. Our market share in Kenya was maintained at 18% despite our capacity not increasing during 2014. This was achieved through improved capacity utilization, focused customer service, superior quality, and better management of logistics and distribution. Your company produces 4 types of cement, 32.5, 42.5, 42.5 special marine grade and the highest strength grade 52.5 specifically manufactured for use in the Standard Gauge Railway (SGR) project. The quality of our cement continues to be acknowledged through independent testing as delivering superior strength and performance, especially in producing high strength concrete. We are proud to be supplying cement to the SGR project, Lamu Port project, amongst other larger infrastructure projects in the region where consistent high quality, and high strength is critical.

CHAIRMAN'S STATEMENT

Regional Commissioner, Tanga Mrs. Chiku Gallawa with Chairman Rick Ashley

DIVISIONS OF ARM

In Kenya, the industrial minerals business remained stable, with projects started to increase capacity in 2015. The silicate division is growing with revival of the silicate market in East Africa. The impact of the devolved county government system and the endorsement by the government of

and Hon. Mwapachu at the commissioning of the Tanga Clinker Plant in 2014

Mavuno fertilizers as the best fertilizer for Kenyan soils has led to an increase in turnover contribution from 3% in 2013 to 4% in 2014 and set to grow significantly in 2015.

Farmer from Bungoma County showing his maize yields which increased by 40% after using soil specific Mavuno fertilizer.

TANZANIA

As noted above, 2014 marked the commissioning of your company's Tanga clinker production plant in November. The delay in start-up was due to establishing a strong stable power supply which has settled down since March 2015 and the plant is now producing 3,000 tons per day and gradually ramping up to full capacity. This is the largest investment in capacity in the region and will be followed by the commissioning of the second 750,000 tons per year cement grinding plant at Tanga by the end of this year. The Tanzanian economy continued its faster growth rate than the other East African countries, recording a GDP growth of 7.2% during the year. This has driven demand for cement with consumption in 2014 increasing by 15% over the previous year, to stand at 4.5 million tons. During 2014, your Company maintained a 10% market share in the Tanzanian market, cement being entirely manufactured with imported, expensive, clinker. Unregulated imports remained a challenge for the industry with an estimated 10% of cement being imported into the country during the year. There was also increased competition from new cement grinding plants, and decrease in pricing led by the new entrants. Your company’s strategy was to, and remains, to create value for customers as well as for shareholders, by producing superior quality cement, maintaining price, and improving market penetration through investment in distribution and logistics. This strategy is beginning to yield results as we increase our market share, and capacity utilisation. The most significant change expected in 2015 is improved operating

2,500 tons per day capacity, Dar es Salaam cement grinding and packing plant

margins as we have now replaced expensive clinker imports with clinker manufactured at our Tanga plant. In addition, we have now begun to supply clinker to our grinding plant in Kenya, as well as selling surplus clinker to several grinding plants in the region. The Tanzanian cement consumption continues to grow at around 14% per year, and your Company expects to grow market share, increase capacity utilisation and improve operational efficiency, and margins, over the next couple of years.

NON CEMENT BUSINESS

In Kenya, the industrial minerals business operated at full capacity during 2014. As the market continues to grow, your Company, commenced projects to increase capacity in 2015 and beyond. This incremental capital expenditure will allow your Company to produce a wider range of high margin products, particularly for the export markets. The silicate division which had remained static over the past couple of years due to industry overcapacity, is now is growing with increased per capita consumption of soaps and detergents in East Africa. The impact of the Devolved County Government structure under the new constitution and the endorsement by the Kenya Government of Mavuno fertilizers formulations, as the recommended fertilizer for Kenyan soils has led to a significant increase in demand for Mavuno fertilizers throughout the country. During 2014, the contribution to Group revenue from Mavuno fertilizer division grew from 3% in 2013 to 4% in 2014. The early part of 2015 has also registered a significant increase in demand and sales have already exceeded the entire volume of 2014. The Mavuno fertilizer formulations are now solidly proven to increase crop yields as well as quality. Your Company has increased manufacturing capacity to 75,000 tons per year, and is poised to become a leading player in the 500,000 tons per year fertilizer market in Kenya.

Mr. Kagai, Crops Officer and Mr. Osanya, County Director of Agriculture Trans-Nzoia County, admiring superior harvest after using Mavuno Fertilizer

FUNDING

Your Board recognizes the strain on resources created by our conscious decisions to invest in capacity particularly during the construction period. We continue to manage these prudently and remain comfortable with our projections that the increased free cash flow generated by our capacity additions will enable your Company to reduce the debt as we move into full utilization of the installed capacity.

Further, the commissioning of this capacity presents an improved risk profile for your Company. Accordingly, your Board has mandated a group of lead arrangers (Barclays Bank of Kenya, CFC Stanbic Bank and Standard Chartered Bank) to assist the Company in raising its medium to long term funding requirements and to refinance its short term borrowing

Deputy Managing Director, Mr. Surendra Bhatia handing out an award at the Long Service Award Ceremony at Tanga, Tanzania in February 2015

CREDIT RATING

Your company has maintained a strong investment grade credit rating in 2015, of A for long term credit and A1 for short term credit with a stable outlook. This is the 12th year, since 2004 that your Company has maintained the same strong credit rating, and confidence amongst the investor community. This year, your Company has also obtained an A1 rating for Commercial Paper borrowings.

STRATEGY

With an average GDP growth rate of 5.8% in East Africa, and a growing population, cement consumption in the East African region is increasing strongly on the back of investments in infrastructure projects, gross capital formation, high demand for housing and sound economic fundamentals.The potential for further growth remains huge in terms of increasing the current per capita consumption. Although this growth has begun to attract new players, and existing cement manufacturers have announced plans to increase capacity, we believe your Company remains best placed to build clinker based capacity economically, and capture a larger share of the growing market. The investment in integrated plants, both in Kenya and Tanzania, is significantly higher than that required for a cement grinding plant. However, the Management and the Board continue to take decisions to ensure that your Company is capturing the whole value chain from mining limestone, to manufacturing clinker, and cement of different grades for a wide range of construction applications. Capturing the full value of the manufacturing process also allows your Company to operate with higher margins than competitors who rely on imported clinker. As a local manufacturer of clinker, we are also protected from the exposure to foreign exchange fluctuations and transport costs that other competitors face. During the year under review, much progress was made in implementing a series of initiatives to improve skills development and talent retention of our staff throughout your Company. The Board recognises that the key to our successful growth and management of our business across is dependent on building a culture of highly trained and motivated employees.

The active participation of our employees in the social investment activities of Rhino Cement Foundation has become part of the Company's culture, and we have seen many mutual benefits for our communities as well as for the employees.

SHAREHOLDER VALUE AND SHARE PERFORMANCE

Your Company's share price was KES 88.5 at the beginning of the year and KES 85.5 by December 2014. This has further declined to KES 75 in the last few weeks. This has largely been attributed to uncertainty around capital gains tax, inflation and the devaluation of the shilling, both in Kenya and Tanzania, inflation of 6.9% in 2014 and increased heightened competition in the industry in both countries.

However, the value of your Company has grown significantly compared to other cement companies in the region and the NSE index. The underlying value of the Company's shares is best captured in terms of cost of building per ton of clinker based capacity, and price to book value of net assets. On both measures, your Company ranks strongly and has one of the highest prospects for growth, especially in the East African region where the long term economic fundamentals remain strong.

ARM Cement Share Performance, June 2015

Investors and customers visit the Tanga Plant in January 2015

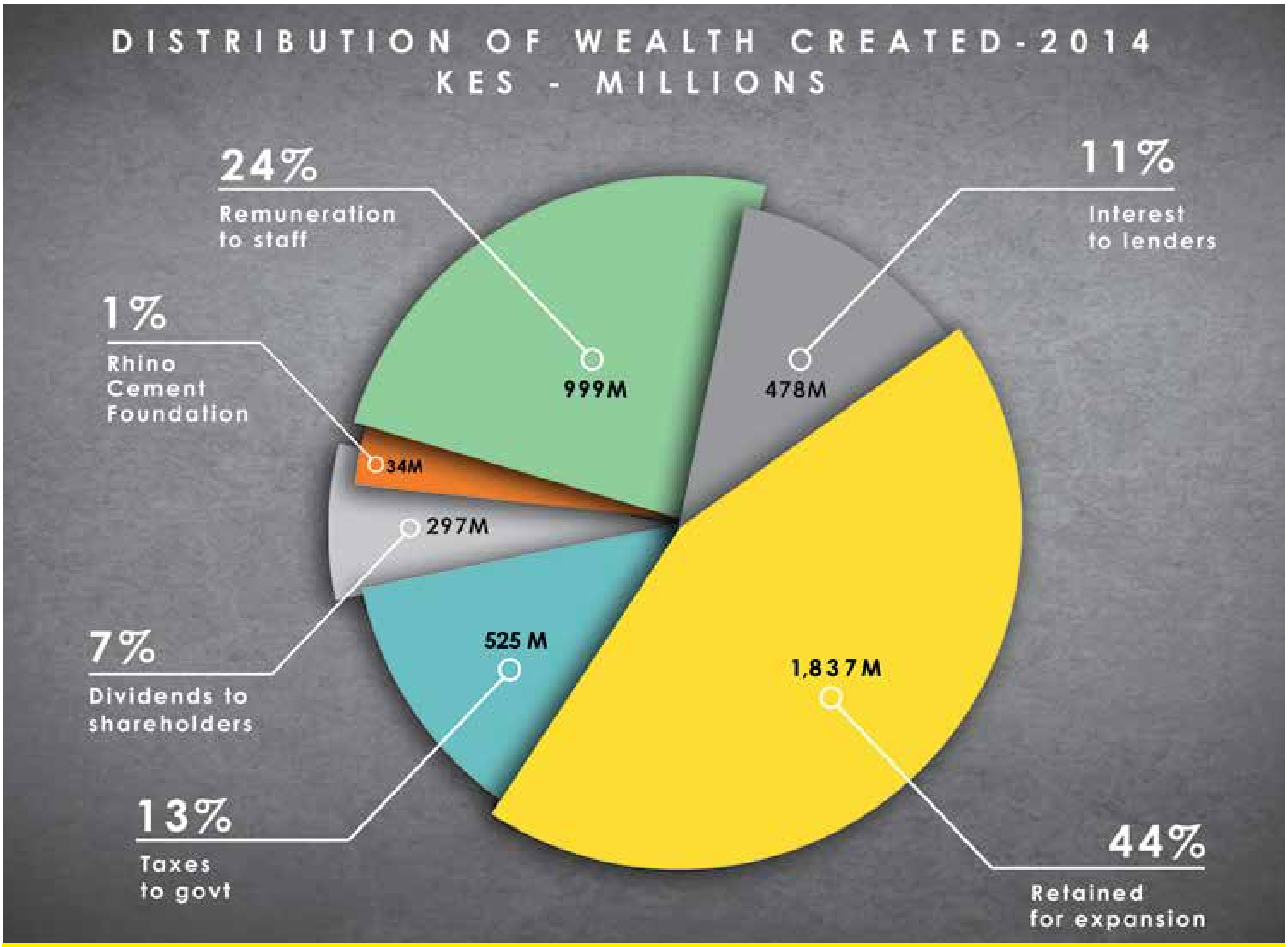
GOVERNANCE AND RISK MANAGEMENT

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

HEALTH, SAFETY AND ENVIRONMENT

Health, safety and environmental management and compliance of the laws and regulations are an integral part of the company's strategy to remain significant to our employees, neighbours and communities. Your Board is confident that your Company is fully compliant with the relevant laws and regulations by National Environment Management Authorities and other government departments in all the three countries we operate in. Last year, the Company installed online emissions and air quality monitoring equipment at the Kaloleni plant.Your Company was the first in the region to install such equipment, and to provide the regulatory authorities with transparent and independent data on compliance. This year, we are planning to install similar monitoring equipment in other plants of the company.

Chairman Rick Ashley with Hon. Wilbur Otichilo, Chairman of the Parliamentary Commitee for Environment



DISTRIBUTION OF WEALTH CREATED

As Chairman of the Board, I take particular pride in presenting the chart showing the distribution of wealth created during the financial year. The total wealth created in 2014 was KES 4.2 billion. 13% of the wealth created during the year was paid to the Government in form of corporate tax, whilst 44% was reinvested in expanding capacity and growing the business. The Company paid 11% to providers of finance, whilst 24% was paid to employees and 7% to shareholders. The balance of the wealth created, of about 1%, was allocated to Rhino Cement Foundation.

CHAIRMAN'S STATEMENT

Commissioning of the 800 ton per hour limestone crusher at the Tanga Plant

OUTLOOK

2015 has started off well, and we look forward with confidence to achieving robust growth during the year, particularly in Tanzania. The commissioning of the clinker plant at Tanga at the end of last year will significantly improve profit margins in our Tanzania operation as we cease to import clinker. We remain convinced of the fundamentals of a strong regional economy and growth in cement demand particularly from private sector housing demand and public infrastructure projects. It is worthwhile to note that whilst all new players are producing cement using imported clinker (an intermediate product of the cement manufacturing process), ARM's strategy remains to manufacture its own clinker. The delivery of shareholder value requires many committed partners. I take this opportunity on behalf of the Board to applaud management and all our employees on another year of strong performance and unwavering commitment to the bold vision of the company.

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

Rick Ashley

MANAGING DIRECTOR'S REPORT

PRADEEP PAUNRANA

MANAGING DIRECTOR

In all respects, 2014 was a satisfactory year for the Company. I thank my management team led by Surendra Bhatia, the Deputy Managing Director, and all the employees at ARM for the performance during the year.

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

The Company maintained its volumes and improved operating margins in spite of increased competition. The 1.2 million ton per year clinker plant at Tanga was commissioned at the end of 2014, this will improve operating margins in 2015 as we will no longer be importing any clinker.

The contribution of the cement division to the Group turnover has been increasing over the past few years with new capacity increases coming on stream, and stood at 86% in 2014. The non-cement business remained stable during the year and made a healthy contribution to the Company, while demand for Mavuno Fertilizer is growing and we expect significant growth in 2015.

TURNOVER

The Company revenue remained stable at KES 13.7 billion, as no new cement capacity was commissioned in 2014, however the clinker plant at Tanga was commissioned at the end of the year. The non-cement divisions contributed 14% of the turnover and operated to full capacity during the year. Demand for Mavuno Fertilizer grew with sales to various Counties following publication of the Government report on Soil Fertility in February 2014 which recommended use of Mavuno fertilizers.

EBITDA

The company earnings before interest, tax and depreciation increased from KES 3.05 billion in 2013 to KES 3.06 billion in 2014. The consolidated gross profit margin improved from 24% in 2013 to 27% in 2014 largely due to reduction in energy costs and increased operational efficiencies.

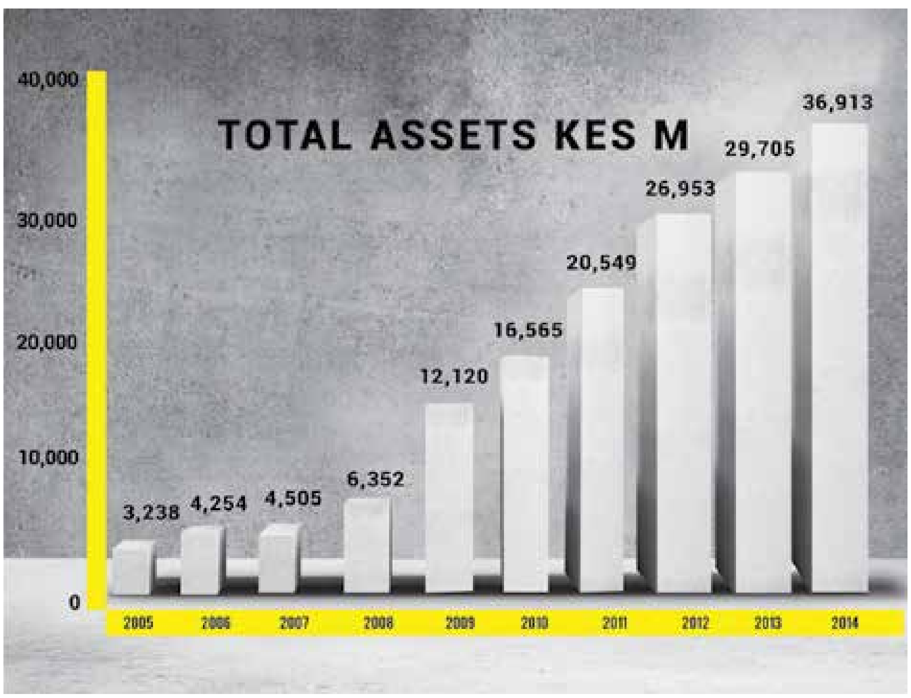
The consolidated Group EBITDA margin for 2014 remained at 22%, as we continued manufacturing cement with imported clinker, both in Kenya and Tanzania, in addition to our own locally manufactured clinker. The EBITDA margin in the cement division with our own locally manufactured clinker was 32%.

MANAGING DIRECTOR'S REPORT

PROFIT AFTER TAX

Profit after tax increased by 11% to KES 1.5 billion over the previous year, and net profit margin improved from 9.5 % in 2013 to 10.9 % in 2014.

TOTAL ASSETS



Total assets grew to KES. 36.9 billion in 2014 from KES 29.7 billion in 2013 as a result of continuing investments in the Tanga plant. This brings the total investment to $150 million in capex and $30 million capitalized interest for two greenfield plants, Dar Es Salaam and Tanga, thus making the per ton cost of installed annual capacity in Tanzania of US$ 120. This is one of the lowest costs per ton of installed capacity of an integrated clinker and cement plant in the Africa.

NET DEBT

The net debt during the year increased to KES. 20.7 billion from KES 14.8 billion. This was due to investments to complete the Tanga clinker plant and increase in raw material stocks and spare parts. The net debt includes KES 4.5 billion of convertible loan notes issued to Africa Finance Corporation (AFC). AFC has the option to convert these notes into equity at any time before September 2018.

EARNINGS AND DIVIDENDS PER SHARE

In 2014 earnings per share stood at KES 3.01 up 10% from KES 2.74 in 2013. As has been the practice over the past we have declared dividends of about 20% of the earnings, with the balance being reinvested in growing the Company.

SKILLS DEVELOPMENT

The Company has continued to invest in building human capital to ensure improved performance, and work satisfaction and long term retention. We are continuing with our graduate recruitment program and skills development programs at all levels within the company. As the Company continues to grow in the region, it is important that the operations are uniform and consistent across the plants. To achieve this, the Company has entrenched a culture of excellence in all our operations through implementation of the Company's core values, continuous learning and skill development programs. We employ 2,317 people in Kenya and 1,184 people in Tanzania of which over 20% are graduates and diploma holders.

MANAGING DIRECTOR'S REPORT

PLANT OPERATIONS

The company is continuously engaged in the process of improving the way it does its business improving operational efficiencies, reducing costs and delivering greater value to our customers. A time and motion study of every task was undertaken to improve the speed of delivering the activity which lead to higher capacity utilisation at the plant. Processes were documented for clarity and simplified to achieve higher adherence to systems leading to increased productivity, and continuous improvement. In Dar es Salaam, Athi River and Kaloleni the customer delivery systems were also significantly enhanced and improved with specific focus on truck turnaround times, increasing product range to include traditional bagged PPC cement, bulk OPC cement and Marine cement, and stringent quality assurance systems to ensure delivery of consistent high quality cement to our customers. The company feels that improving operational efficiency is the key to remaining competitive in an increasingly competitive industry and also the foundation for continued profitable future growth. The Tanga clinker plant which was commissioned at the end of 2014 is fully automated to ensure precise measurements and homogenisation of raw material to produce a consistent high strength clinker. Commercial production of clinker began in March 2015 and the plant is now producing at 70% of full capacity of very high grade of clinker. The clinker is now transported to our Dar es Salaam plant, and well in our Kenya plant at Athi River. The focus of the plant managers is now to ensure operational efficiencies, and ramping up capacity to 4,000 tons per day.

PROJECT ACTIVITIES

During 2014, the clinker plant in Tanga was completed with over 56,000 m^3 of concrete used in the civil construction and nearly 10,000 tons of steel structures, conveyor galleries, hoppers, silos, chutes and ductings, and other machinery and equipment were also fabricated on site and over 400 kilometers of power and control cables were laid. We are particularly proud of the training and skills transfer program at Tanga, where several hundred employees from the surrounding villages have been trained in heavy construction, steel fabrication and machine shop operations, and equipment alignment, balancing and erection. A great majority of these employees are now being trained in plant operations and maintenance as permanent employees of the Company. We have been building a strong team of many young engineering graduates that have been trained with the purpose of growing a deep bench of professional managers. The Tanga clinker plant is now fully commissioned and has been producing high quality whilst the major project activity at Tanga has been completed, some remedial works are continuing, such as concreting of internal roads, staff housing, and landscaping. Whilst the the second 750,000 tons per year cement grinding and packing plant is also under construction at Tanga, and is expected to be commissioned by middle of 2016.

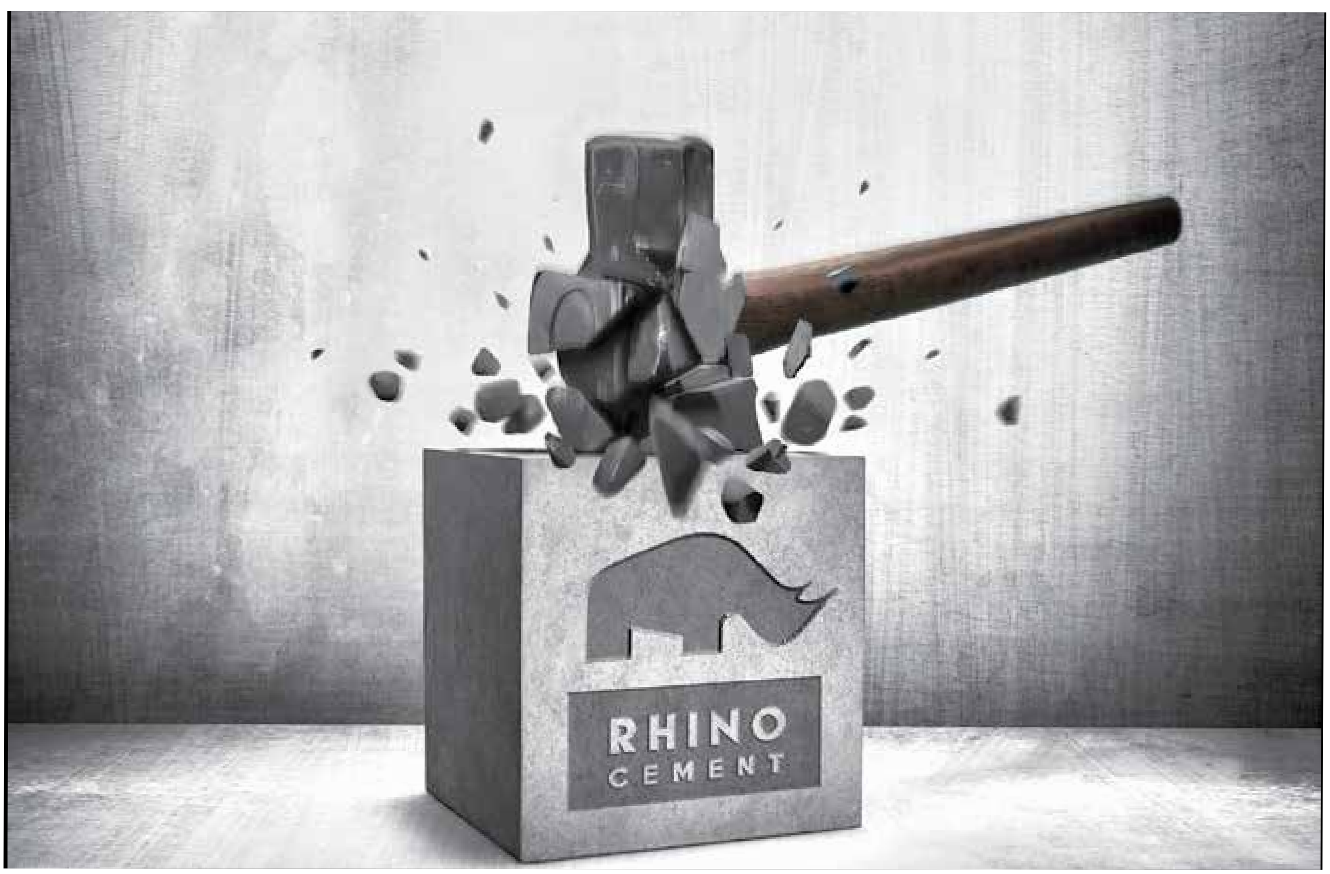
We track all our environmental emissions data in online and I am pleased to confirm that our plants' emission levels are well below the NEMA (National Environment Management Authority) recommended levels. Other ongoing project activities include geological exploration and drilling at various sites in the region which will add to the Company's growth in the years to come. The land acquisitions and mining license activity is continuing at Kitui and the plant will be completed within our current five year plans. As we now direct our attention to the second half of 2015, we look forward to the future because we are confident that the Company will remain focused and responsive to the demands of the market and continue its growth trajectory by investing in new clinker and cement capacity and increasing our efficiencies.

NEW RHINO CEMENT LOGO

As you will have no doubt seen, the Company has introduced a new logo for our flagship product Rhino Cement and for the corporate identity ARM Cement Ltd. As we increase our cement capacity and product range, and focus on meeting the increasingly sophisticated construction industry requirements, we believe it is time to change our communication too.

The new logo represents a powerful rhino firmly standing its ground but poised to confront challenges. The sledge hammer shattering into pieces upon hitting on a concrete cube represents the ultra high strength concrete that is now produced using the high strength Rhino Cement, especially the new 52.5 grade cement and the 42.5 Marine grade cement for extra high durability structures and for aggressive environmental conditions.

For many years now contractors and engineers have preferred Rhino Cement for its consistent higher clinker content, faster strength development, lower cement consumption per cubic meter of concrete and superior durability properties.



MANAGING DIRECTOR'S REPORT

In April 2015, the company held a seminar for architects, engineers, building contractors and property developers. The theme of the seminar was on understanding the properties of various grades of cement and use of high strength concrete to actually reduce the concrete usage in high rise building structures. This not only reduces cost and time of construction, but allows architects to design taller buildings with slimmer columns, longer spans and thinner slabs.

The company has a well known track record of innovation in meeting market needs for consistent high quality, improved product features, and cost effectiveness. Rhino Cement has delivered such innovative solutions and will continue to strengthen the product portfolio and service offerings to the rapidly evolving construction industry in the region.

PRADEEP H PAUNRANA

MANAGING DIRECTOR

RHINO CEMENT hosted a panel of construction industry professionals in April 2015, to discuss modern trends in construction and use of appropriate types of cement for high strength concrete in high rise buildings.

From left to right: Architect Lee Karuri, Chairman of the Fellows of Architects Association of Kenya, Mariam Al-Mawy, Principal Secretary Ministry of Lands and Housing, Dhruv Pandit, real estate professional, Mr Narinder Singh Roopra, Managing Director Motorways Construction Ltd, and Architect Steve Oundo, Chairman of National Construction Authority.

BOARD OF DIRECTORS

RICK ASHLEY

BOARD CHAIRMAN AND ADVISOR TO EXECUTIVE MANAGEMENT

Rick Ashley was former Managing Director of Old Mutual Asset Management. Prior to that, he was the Managing Director at Kestrel Capital. Has also previously worked for Peat Marwick, Arthur Anderson & Co. and Prudential Corporation PLC in London. He serves in the board of various other companies including Apollo Life Assurance Ltd, Apollo Investments Ltd, Apollo Asset Management Ltd and Protectors Ltd. He was the founding chairman of Fund Managers Association of Kenya and previously served as a member of Market Leaders forum and Central bank of Kenya.

PRADEEP PAUNRANA

MANAGING DIRECTOR

Pradeep H Paunrana joined Athi River Mining Ltd in 1984 after graduating with an MBA from New York University Stern School of Business. Pradeep was able to combine his business education with the entrepreneurial passion and energy of his late father in growing the Company. Over the years, Pradeep built a team of professionals with a deep culture of transparency, diligence, and innovation to execute the vision of transforming ARM, a small producer of agricultural lime into a major publicly listed cement company. He is chairman of Kenya Association of Manufacturers, a Trustee of the Tree Biotechnology Trust, Chairman Nairobi Greenline Trust, and member of several charitable organizations.

SURENDRA BHATIA

DEPUTY MANAGING DIRECTOR

Surendra Bhatia holds a degree in electrical engineering and a Masters Degree in Management Studies (MMS) from the prestigious Bombay University. A University rank holder throughout engineering college, he also graduated at the top of his Masters Degree class at Bombay University. He has attended executive education program in Leadership at the Harvard Business School. Surendra Bhatia started his management career with TATA Group, India's largest manufacturing Group, and subsequently developed his professional career with the Bhawan Group in the Middle East and Africa. As Deputy Managing Director, Surendra Bhatia shares a major responsibility with the Managing Director in articulating and delivering the Company's strategic plans, and growing long term shareholder value.

ATUL MATHUR

FINANCE DIRECTOR

Atul Mathur joined ARM as the Chief Financial Officer before being promoted to be the Finance Director. He is a fellow member of the Institute of Chartered Accountants in India with 34 years experience in finance and audit, systems and Controls. He has vast experience with one of the largest flexible packaging companies and a construction company in India prior to joining ARM

DANIEL NDONYE

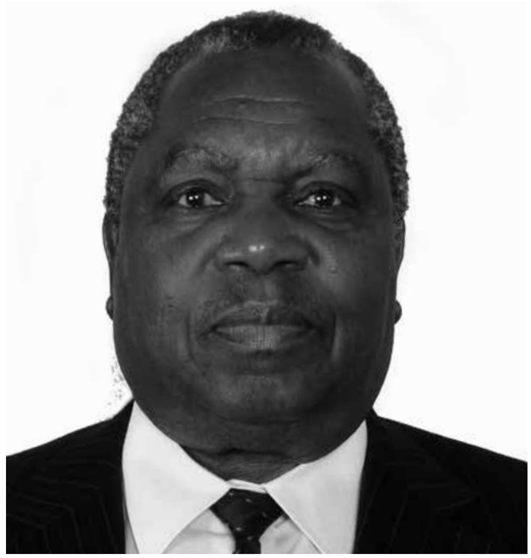
NON EXECUTIVE DIRECTOR

Daniel Ndonye was a Managing Partner at Deloitte & Touche Kenya having been with Deloitte & Touche for over 30 years. He is a fellow of the Institute of Chartered Accountants in England and Wales and a fellow of the Insititue of Certified Public Accountants of Kenya. He is a member of the CMA Appeals Tribunal. A board member of Kenoll/Kobil Ltd, AccessKenya Ltd, Apollo Investments Ltd, APA Insurance Ltd and United States International University.

MICHAEL TURNER

NON EXECUTIVE DIRECTOR

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



WILFRED MURUNGI

NON EXECUTIVE DIRECTOR

Wilfred Murungi is a qualified electrical engineer. In 1985 he started his own company Mastermind Tobacco. Wilfred Murungi serves on the Boards of Athi River Power Company Limited, Greenlands Agro producers Limited, NGM Company Limited, Continental Tobacco Group of Companies in Malawi, Uganda, Tanzania and Sudan, Nanyuki Ranching Limited, Ozzbeco Breweries (K) Ltd, Remu Limited (Microfinance Bank), Mitithiru Limited and Tobacco Commodities) Inc.

ANDREW ALLI

NON EXECUTIVE DIRECTOR

Andrew is responsible for the overall strategy and operations of the Africa Finance Corporation. The Executive Management under Andrew's leadership has undertaken over US$300m in investments across Africa, financing high- impact projects like a West African submarine cable, a wind farm in Cape Verde, a toll road in South Africa, and a green power plant in Ghana. Until his appointment, Andrew was a Partner and Deputy Chief Executive Officer of Travant Capital, a West- Africa focused private equity fund. Prior to that, he was with the International Finance Corporation, the private sector financing arm of the World Bank Group, in Washington.

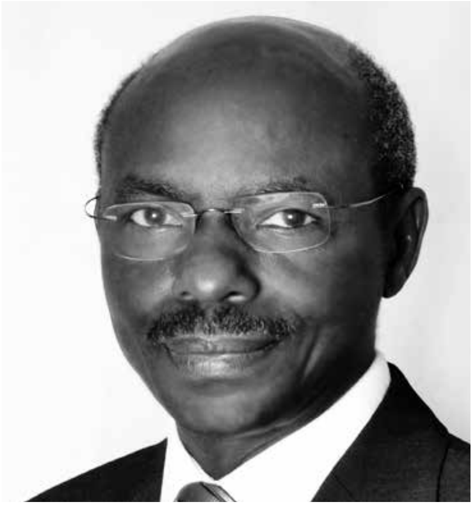
RAMESH VORA

COMPANY SECRETARY

Ramesh Vora is a Member of the Institute of Chartered Secretaries and Administrators of England and a Fellow of the Institute of Certified Public Secretaries of Kenya. He is a Practicing Company Secretary with a client base of over 150 companies ranging from public companies to multinationals and other local companies.

He has been the Company Secretary for ARM since 1994 and a Trustee for Rhino Cement Foundation. Mr.Vora also serves as the Company Secretary for Group Subsidiary Companies ARM (Tanzania) Limited and Maweni Limestone Limited.

LEORNAD MUSUSA



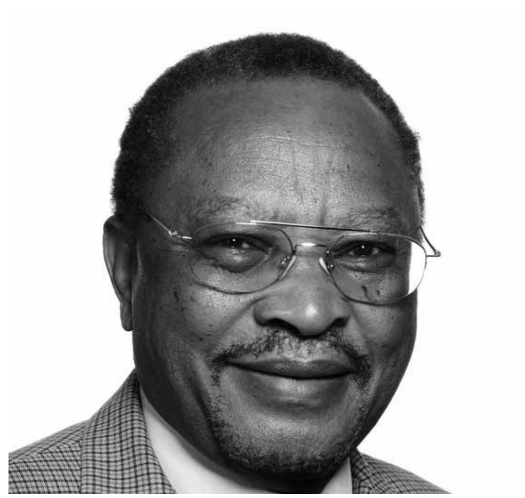
CHAIRMAN, Maweni Limestone Limited
NON EXECUTIVE DIRECTOR, ARM Cement Limited

Mr Leonard Mususa is a Fellow of the Association of Chartered Certified Accountants (UK) and Fellow Certified Public Accountant (Tanzania).He retired from PricewaterhouseCopers (PwC) Tanzania as Country Senior Partner on 30 June 2014, having been with the firm for 36 years. He has also served as Regional Head of risk and quality for the PwC Assurance businesses covering 9 countries and as overall Head of risk, independence and quality in the East Africa Market. He was appointed a non-executive director in July 2014 and is Chairman of the Maweni Limestone Limited and ARM Tanzania Limited. He holds board memberships of Nation Media Group Limited, ARM Cement Limited, Reliance Insurance Company Tanzania Limited, Autoxpress Tanzania Limited and CEO Roundtable (Tanzania). He is also Chairman of Mwananchi Communications Limited, a Tanzanian Subsidiary of Nation Media Group Limited.

SHAKIR MERALI

NON EXECUTIVE DIRECTOR
Maweni Limestone Limited

Managing Director at Abraaj, where he oversees a number of investments in East Africa and also manages the Group's Africa Health Fund, an innovative impact investment initiative aimed at improving the quality of health services for low-income populations across the continent. Prior to this, Shakir was a Director at Geocapital Partners in London, a Strategy consultant at the Monitor Group. Shakir completed his Bachelors in Accounting and Finance at the London School of Economics and Political Science. He completed his Masters in Information Systems from the London School of Economics and Political Science where he graduated with distinction.



BEN MOSHI

NON EXECUTIVE DIRECTOR
Maweni Limestone Limited

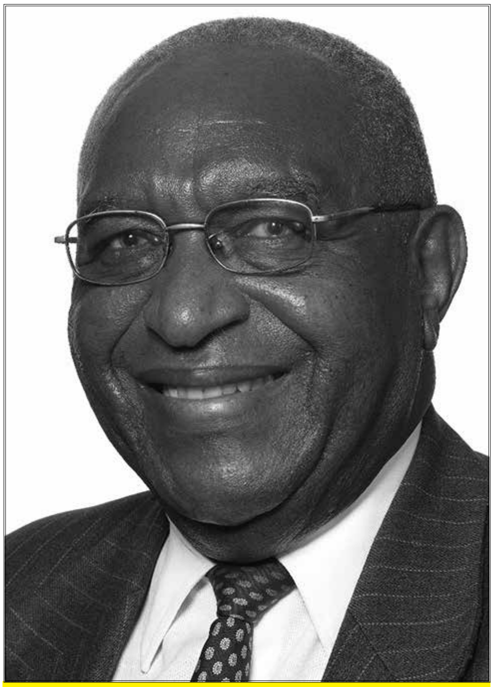
Dr Ben Moshi is an experienced Civil servant, has served for over 25 years in the Government of Tanzania as Permanent Secretary-Ministry of Water Energy and Mineral, Permanent Secretary – Ministry of Tourism Natural Resources and Environment as well as Permanent Secretary – Ministry of Agriculture and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

THE RHINO CEMENT FOUNDATION

RHINO CEMENT FOUNDATION

HEALTH EDUCATION ENVIRONMENT

TITUS MBATHI



CHAIRMAN, RHINO CEMENT FOUNDATION

I am pleased to report on the 2014 achievements of the Rhino Cement Foundation. The Foundation is funded by ARM Cement and supported by the Company's business partners, employees and other well-wishers. Some of our investors also directly support our activities. The Foundation is run by the Company staff volunteering their time and I wish to commend every one for the time and energy they devote to the work of the Foundation in improving the livelihoods of our fellow community members.

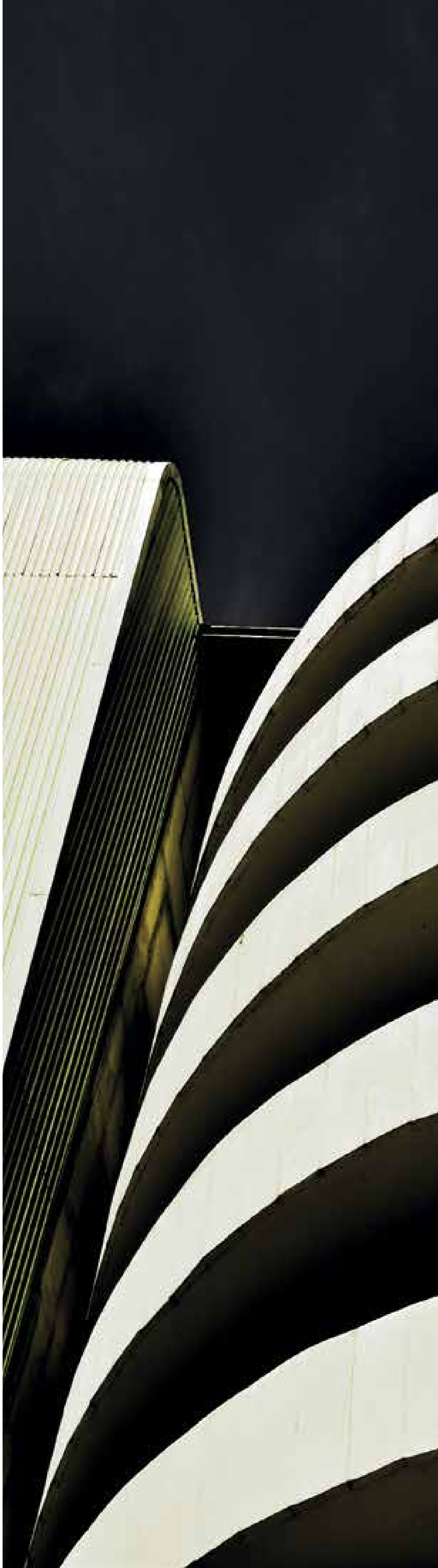
We are proud that our social investments in Health, Education, and Environment have had a sustainable positive impact on the social and economic well-being of the communities in which we operate.

The Foundation was allocated KES 20 million during the year, and made investments of supporting classrooms and other learning facilities for communities coupled with provision of full scholarships to bright students from underprivileged backgrounds, has changed fortunes of many children. The construction and equipping of health facilities has helped promote good health. Our environment and eco system conservation efforts have won us awards and recognition by environmental groups.

EDUCATION

The High School and University Scholarship program continues to take the largest portion of the Foundation's budget. This year 41 new students were enrolled under the High School full scholarship Program and the University Scholarship Program, with additional students joining in the September intake later this year. As with all the other students under the program, the Foundation will cater for tuition expenses, books and other necessities, such as transport, shopping and transport to visit parents during school vacation.

University students under the Foundation are being given first priority under the ARM Internship Program. In addition, the students are undergoing mentorship and receiving career guidance and motivation from members of staff.



STUDENT TESTIMONY:

"Rhino Cement Foundation did not look at my physical disability but believed in my ability. I have cleared High school and scored a good grade, will join university to pursue Law my dream career, Someday soon I will be able to support my family and the community at large"

Kelvin Kimani Nyaga
Rhino Cement Foundation Scholar
Thika School for The Blind

The total number of students under the various scholarship programs stood at 81 at the end of 2014.

Still on education, the Rhino Cement Foundation has continued to grow its partnership Primary schools in the counties in which ARM has operations; we undertake construction and renovation of the school classrooms. The Foundation spent over 50% of its budget ,a total of KES11 million on education in 2014 . Our staff through the Rhino Cement Foundation also participate in the school boards to assist in determining areas of improvement that will benefit the school pupils. The pupils of these schools can now learn under a safe and secure learning environment and the community can look forward to better performance from the pupils. This year we built classrooms at Mbungoni Primary school, Mwadondo Secondary school and Maereni Primary school, Rabai Primary school, Oloibor Soit Secondary school an IT classroom for Athi river Primary, the Foundation has also embarked on a 5 year project to build dormitories for Lukenya girls.

Chairman Titus Mbathi, at the ground breaking ceremony of the dormitory construction at St. Anne's Gichocho Secondary school.

HEALTH

Rhino Cement Foundation continues to increase the availability of Quality healthcare through various projects. The Mzee Paunrana clinic , located in Kaloleni area where the ARM Cement factory is located continued offering residents of the area quality and affordable healthcare. The Rhino Cement Foundation built and equipped medical clinic, offered clinical services to 10,528 residents of the Kaloleni and neighbouring communities in 2014. At a for nominal fee of KES 150 per visit, the clinic caters for Doctor's consultation, lab tests, first line medication, minor surgeries and other treatments.

The clinic, located at the main gate of the ARM Cement Kaloleni factory, has a full time qualified staff of laboratory technician, clinical officer, registered nurse, and nurse helpers. This team is led by our resident doctor, Dr. Andreas Meyerhold. The clinic has a well-stocked pharmacy, a laboratory and facilities to perform minor surgeries.

ENVIRONMENT

Tree nursery in Kaloleni with over 50,000 seedlings that are distributed to schools around the Kaloleni Cement Plant.

GREEN BELT AREAS

With the rapid deforestation that has occurred in Kenya over the past years, the country has experienced many negative effects in its environment. Key among this is climate change, loss of species, soil erosion, and breaking of the water cycle. Rhino Cement Foundation's objective is to improve Kenya's forest cover by teaching young people to reconnect with nature and learn the importance of planting and maintaining trees. To achieve this, the foundation has established 'Green Belt Areas' in many Primary schools within Kaloleni and Athi River area. The Foundation runs a tree nursery where many different species of tree seedlings are grown. Through the Foundation, these seedlings are distributed to schools, and students are taught the importance of trees for the future of the community and the country. After the initial planting, the green belt areas are left in the hands of the schools, so that the students maintain and take responsibility for their trees. In addition to the advantages to the environment, the green areas also beautify the schools, instilling a sense of pride in the students and institutions. Rhino Cement Foundation understands that the youth are the future of the country. The only solution to deforestation is afforestation. Therefore, the culture of tree planting must be established with the younger generation to avert the effects of deforestation that will become worse in the future if solutions are not sought today.

THE RHINO CEMENT

FOUNDATION

Lewa's 72 black rhinos constitute 12% of Kenya's entire population. Over the years, 20 others have been translocated to previously inhabited areas as well as introduce the species to new suitable and secure habitats. Rhino Cement Foundation has now adopted two rhinos; Kilifi and Kitui

LEWA CONSERVANCY

In 2013 the Foundation adopted Lewa's youngest orphan calf, the baby rhino who they named 'Kilifi' in honour of Kilifi County, the location of ARM's first cement plant. Speaking at the naming ceremony, ARM Cement Chief Executive Officer Pradeep Paunrana said the decision to sponsor the calf hinges on the company's corporate environment sustainability efforts which include a commitment to conserve the country's rhinos whose population has drastically declined due to rampant poaching.

Rhino Cement Foundation sponsors security of the park and relocation of rhinos to other safer conservancies in Kenya.

ARM CEMENT LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of ARM Cement Limited ("the company") and its subsidiaries (together, "the Group") for the year ended 31 December 2014 which disclose their state of affairs.

PRINCIPAL ACTIVITIES

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

GROUP FINANCIAL RESULTS

	2014	2013
	Sh'000	Sh'000
Profit before taxation	2,018,133	2,000,060
Taxation expense	(524,740)	(651,257)
Profit for the year transferred to retained earnings	1,493,393	1,348,803
Attributable to		
Owners of the company	1,492,881	1,356,335
Non-controlling interests	512	(7,532)
	1,493,393	1,348,803

DIVIDENDS

The Directors propose the payment of a first and final dividend of Sh 0.6 (2013 – Sh 0.6) per share amounting to Sh 297,165,000 in respect of the year ended 31 December 2014 (2013 – Sh 297,165,000).

DIRECTORS

The present Directors are shown on page 10.

AUDITORS

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

BY ORDER OF THE BOARD

R. R. VORA

Secretary

Nairobi

24th March 2015

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

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

SEPARATION OF RESPONSIBILITIES

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

BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 10.

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

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

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

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

a)Directors' Emoluments

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 6 to the financial statements for the year ended 31 December 2014.

b)Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the company and its Directors or Management except those disclosed in Note 26 to the financial statements for the year ended 31 December 2014.

ROLES AND RESPONSIBILITIES

Chairman of the Board

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

Group Managing Director

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

Company Secretary

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

BOARD TRAINING

To ensure that the Board remains up to date on new legislation, best practice, changing risks together with the ever changing operating and business environment.

BOARD COMMITTEES

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

a) Audit and Risk Committee

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

b) Nomination, Remuneration & HR Committee.

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

c) Strategy & Investments Committee.

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

CONFLICT OF INTEREST

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

•An acknowledgment that should it come to his/her attention that a matter concerning the Group may result in a conflict of interest, the Director is obliged to declare the same and will exclude himself/herself from any discussion over the matter in question.

•An acknowledgement that should the director be appointed to the board or acquire a significant interest in business competing with the Group, the director will be obliged to offer his/her resignation.

•An acknowledgement that the forgoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 26 to the financial statements for the year ended 31 December 2014.

BUSINESS ETHICS

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

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

COMPLIANCE

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

COMMUNICATION

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

2014 BOARD &BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Audit & Risk Committee	Nomination & Remuneration Committee	Strategy & Investment Committee
Mr. R Ashley	**Non-Executive**	**Chairman of the Board & Investment and Stategy Committee**	**Membership**	√	√	n/a	√
			Attendance	3/3	5/5	n/a	3/3
Mr. P H Paunrana	**Executive Director**	**Managing Director**	**Membership**	√	**n/a**	**n/a**	√
			Attendance	3/3	n/a	n/a	3/3
Mr. S L Bhatia	**Executive Director**	**Deputy Managing Director**	**Membership**	√	**n/a**	**n/a**	√
			Attendance	3/3	n/a	n/a	3/3
Mr. A Mathur	**Executive Director**	**Finance Director**	**Membership**	√	**n/a**	**n/a**	√
			Attendance	3/3	n/a	n/a	3/3
Mr. W Murungi	Non-Executive	**Chairman HR Nomination and Remuneration committee**	**Membership**	√	√	√	**n/a**
			Attendance	3/3	5/ 5	2/2	n/a
Mr. D M Ndonye	**Non-Executive**	**Chairman Audit Committee**	**Membership**	√	√	√	**n/a**
			Attendance	3/3	5/5	2/2	n/a
Mr. M Turner	**Non-Executive**	**Director**	**Membership**	√	**n/a**	√	√
			Attendance	3/3	n/a	1/2	3/3
Mr A. Alli	**Non- Executive**	**Director**	**Membership**	√	**n/a**	**n/a**	√
			Attendance	2/3	n/a	n/a	2/3
Mr L. Mususa	**Non- Executive**	**Director (Appointed 17.07.2014)**	**Membership**	√	**n/a**	**n/a**	**n/a**
			Attendance	1/3	n/a	n/a	n/a

√ Member of respective committee

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

SHAREHOLDING PROFILES

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

a) Principal Shareholders

The top 10 major shareholders, based on the company's share register as at 31 December 2014, are as follows:-

Name	No of Shares	%
Amanat Investments Limited	137,481,245	28
Paunrana Pradeep Harjivandas	89,680,000	18
CfC Stanbic Nominees Limited A/C NR01503	32,264,700	7
Athi River Mining employee share ownership plan	20,435,335	4
Standard Chartered Nominees non-resident. a/c 9318	14,727,900	3
Tannel World Limited	5,834,310	1
Standard Chartered Bank a/c Pan African unit linked Fund	4,790,150	1
Standard Chartered Nominees Account KE 17984	4,766,530	1
Standard Chartered Nominees non-resident. a/c 967	4,193,800	1
Anjana Pradeep Paunrama	3,919,900	1
Others	177,181,130	35
Total	**495,275,000**	**100**

b) Distribution Schedule

Category	No. of Shareholders	No. of Shares	%
Less than 500	1,490	427,288	0.09
501-5,000	1,834	4,488,452	0.91
5001-10,000	1,199	8,008,950	1.62
10,0001-100,000	578	16,884,193	3.41
100,001 - 1,000,000	176	64,415,964	13.01
Over 1,000,000	53	401,050,153	80.96
Total	**5,330**	**495,275,000**	**100**

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Rick Ashley
Chairman

Pradeep H. Paurana
Managing Director

March 24th 2015

ARM CEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

RICK ASHLEY
Chairman

PRADEEP H. PAUNRANA
Managing Director

March 24th 2015

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ARM CEMENT LIMITED

Deloitte & Touch
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O Box 40092 - GPO 00100
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+254 (20) 444 1344/05-12
Fax: +254 (20) 444 8966
Dropping Zone No. 92
Email: admin@deloitte.co.ke
www.deloitte.com

Deloitte.

Report on the Financial Statements

We have audited the accompanying financial statements of ARM Cement Limited ("the company") and its subsidiaries (together "the Group"), set out on pages 13 to 57 which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the financial affairs of the Group and of the company as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's statement of financial position (balance sheet) is in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is J W Wangai – P/No.1118.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya
30th May, 2015

ARM CEMENT LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
REVENUE		13,743,185	14,179,208
COST OF SALES		(10,018,396)	(10,732,293)
GROSS PROFIT		3,724,789	3,446,915
OTHER OPERATING INCOME		127,130	174,949
NET FOREIGN EXCHANGE (LOSSES)/GAINS		(285,698)	50,164
DISTRIBUTION COSTS		(291,217)	(121,908)
ADMINISTRATIVE EXPENSES		(1,430,216)	(1,200,688)
FINANCE COSTS	4	(191,876)	(439,933)
FINANCE INCOME	5	365,221	90,561
PROFIT BEFORE TAXATION	6	2,018,133	2,000,060
TAXATION CHARGE	8(a)	(524,740)	(651,257)
PROFIT FOR THE YEAR	9	1,493,393	1,348,803
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		847	2,047
Total comprehensive income for the year		1,494,240	1,350,850
Profit is attributable to:			
Owners of the Company		1,492,881	1,356,335
Non-controlling interests		512	(7,532)
		1,493,393	1,348,803
Total comprehensive income is attributable to:			
Owners of the Company		1,591,442	1,357,907
Non-controlling interests		(97,202)	(7,057)
		1,494,240	1,350,850
EARNINGS PER SHARE – Basic and diluted	10	3.01	2.74

ARM CEMENT LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONAS AT 31 DECEMBER 2014

	Note	2014 Sh '000	2013 Sh '000
ASSETS			
Non current assets			
Property, plant and equipment	12(a)	28,257,420	22,442,306
Operating lease prepayments	13	150,391	148,763
Intangible assets	14	227,980	194,611
Goodwill	15	71,012	71,012
		28,706,803	22,856,692
Current assets			
Inventories	17	4,036,141	2,529,995
Trade and other receivables	18	3,745,702	2,784,216
Due from Employee Share Ownership Plan (ESOP)	19	-	20,586
Due from related parties	26(b)	17,178	7,040
Short term deposits	25(d)	278,988	1,344,925
Cash and bank balances	25(d)	127,768	161,800
		8,205,777	6,848,562
Total assets		**36,912,580**	**29,705,254**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	495,275	495,275
Share premium		302,027	302,027
Revaluation surplus		617,627	950,975
Translation reserve		46,419	(52,142)
Retained earnings		7,956,969	6,427,905
Equity attributable to equity holders of the parent		9,418,317	8,124,040
Non - controlling interests	16(b)	2,490	99,692
Total equity		**9,420,807**	**8,223,732**
Non current liabilities			
Borrowings	21(a)	7,655,783	12,000,820
Deferred tax liability	22	2,345,394	2,234,048
Finance leases	23(a)	-	70
		10,001,177	14,234,938
Current liabilities			
Borrowings	21(a)	13,216,336	4,267,066
Finance leases	23(a)	-	114
Trade and other payables	24	3,928,952	2,399,684
Due to related parties	26(d)	50,988	91,441
Dividends payable	11(b)	12,789	3,413
Corporate tax payable	8(c)	272,203	484,866
Due to employee share ownership plan	19	9,328	-
		17,490,596	7,246,584
Total equity and liabilities		**36,912,580**	**29,705,254**

The financial statements on pages 13 to 57 were approved and authorised for issue by the Board of Directors on March 24th 2015 and were signed on its behalf by:

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RICK ASHLEY — Chairman

PRADEEP H. PAUNRANA — Managing Director

ARM CEMENT LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	12(b)	9,741,285	9,550,107
Operating lease prepayments	13	1,671	1,738
Intangible assets	14	871	1,788
Investment in subsidiaries	16 (a)	530,864	452,642
		10,274,691	10,006,275
Current assets			
Inventories	17	2,415,602	1,543,974
Trade and other receivables	18	1,840,246	1,583,961
Due from Employee Share Option Plan (ESOP)	19	-	20,586
Due from related parties	26(c)	14,755,033	8,953,088
Cash and bank balances		297,990	1,406,792
		19,308,871	13,508,401
Total assets		**29,583,562**	**23,514,676**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	495,275	495,275
Share premium		302,027	302,027
Revaluation surplus		617,627	950,975
Retained earnings		7,796,379	6,392,257
Total equity		**9,211,308**	**8,140,534**
Non current liabilities			
Borrowings	21(b)	5,805,694	8,166,329
Deferred tax liability	22	2,160,476	2,128,727
Finance leases	23(b)	-	70
		7,966,170	10,295,126
Current liabilities			
Borrowings	21(b)	10,747,470	3,400,434
Finance leases	23(b)	-	114
Trade and other payables	24	1,320,431	1,047,219
Due to related parties	26(e)	63,651	160,730
Corporatet tax payable	8(c)	252,415	467,106
Dividends payable	11(b)	12,789	3,413
Due to Employee Share Option Plan (ESOP)	19	9,328	-
		12,406,084	5,079,016
Total equity and liabilities		**29,583,562**	**23,514,676**

The financial statements on pages 13 to 57 were approved and authorised for issue by the Board of Directors on March 24th 2015 and were signed on its behalf by:

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RICK ASHLEY
Chairman

PRADEEP H. PAUNRANA
Managing Director

ARM CEMENT LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus* Sh'000	Translation reserve** Sh'000	Retained earnings Sh'000	Attribute to equity holders of the parent Sh'000	Non-controlling interest Sh'000	Total Sh'000
2013								
At 1 January 2013	495,275	302,027	1,324,680	(53,714)	4,945,503	7,013,771	106,749	7,120,520
Profit for the year	-	-	-	-	1,356,335	1,356,335	(7,532)	1,348,803
Other comprehensive loss for the year	-	-	-	1,572	-	1,572	475	2,047
Total comprehensive income for the year	**-**	**-**	**-**	**1,572**	**1,356,335**	**1,357,907**	**(7,057)**	**1,350,850**
Transfer of excess depreciation	-	-	(533,865)	-	533,865	-	-	-
Deferred tax on excess depreciation	-	-	160,160	-	(160,160)	-	-	-
Dividends declared – for year 2012 (note 11(b))	-	-	-	-	(247,638)	(247,638)	-	(247,638)
At 31 December 2013	**495,275**	**302,027**	**950,975**	**(52,142)**	**6,427,905**	**8,124,040**	**99,692**	**8,223,732**
2014								
At 1 January 2014	495,275	302,027	950,975	(52,142)	6,427,905	8,124,040	99,692	8,223,732
Profit for the year	-	-	-	-	1,492,881	1,492,881	512	1,493,393
Other comprehensive loss for the year	-	-	-	98,561	-	98,561	(97,714)	847
Total comprehensive income for the year	-	-	-	98,561	1,492,881	1,591,442	(97,202)	1,494,240
Transfer of excess depreciation	-	-	(476,211)	-	476,211	-	-	-
Deferred tax on excess depreciation	-	-	142,863	-	(142,863)	-	-	-
Dividends declared – for year 2013 (note 11(b))	-	-	-	-	(297,165)	(297,165)	-	(297,165)
At 31 December 2014	**495,275**	**302,027**	**617,627**	**46,419**	**7,956,969**	**9,418,317**	**2,490**	**9,420,807**

* The revaluation surplus represents the cumulative surplus arising from revaluation of property, plant and equipment and is not distributable.

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

ARM CEMENT LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus* Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2013	495,275	302,027	1,324,680	4,983,946	7,105,928
Total comprehensive income for the year	-	-	-	1,282,244	1,282,244
Transfer of excess depreciation	-	-	(533,865)	533,865	-
Deferred tax on excess depreciation	-	-	160,160	(160,160)	-
Dividends declared – year 2012 (note 11(b))	-	-	-	(247,638)	(247,638)
At 31 December 2013	**495,275**	**302,027**	**950,975**	**6,392,257**	**8,140,534**
At 1 January 2014	495,275	302,027	950,975	6,392,257	8,140,534
Total comprehensive income for the year	-	-	-	1,367,939	1,367,939
Transfer of excess depreciation	-	-	(476,211)	476,211	-
Deferred tax on excess depreciation	-	-	142,863	(142,863)	-
Dividends declared – year 2013 (note 11(b))	-	-	-	(297,165)	(297,165)
At 31 December 2014	**495,275**	**302,027**	**617,627**	**7,796,379**	**9,211,308**

* The revaluation surplus represents the cummulative surplus arising from revaluation of property, plant and equipment and is not distributable.

ARM CEMENT LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
Cash flows from operating activities			
Cash generated from operations	25(a)	1,526,548	2,916,815
Interest paid	25(e)	(618,015)	(671,446)
Interest received	5	365,221	90,561
Corporation tax paid	8(c)	(622,956)	(180,805)
Net cash generated from operating activities		650,798	2,155,125
Cash flows from investing activities			
Additions to property, plant and equipment	25(b)	(6,857,263)	(4,323,223)
Additions to intangible assets	14	(34,123)	(88,049)
Addition to operating lease prepayments	13	-	(4,870)
Proceeds of disposal of property, plant and equipment		83	431
Net cash used in investing activities		(6,891,303)	(4,415,711)
Cash flows from financing activities			
Dividends paid	11(b)	(297,165)	(247,704)
Finance lease payments	23(c)	(184)	(139)
Borrowings received	25(c)	5,949,441	469,655
Repayment of amounts borrowed	25(c)	(1,089,000)	(757,826)
Net cash generated from/(used in) financing activities		4,563,092	(536,014)
Net decrease in cash and cash equivalents		(1,677,413)	(2,796,600)

MOVEMENT IN CASH AND CASH EQUIVALENTS

	Note	2014 Sh'000	2013 Sh'000
Cash and cash equivalents 1 January		(1,879,015)	770,227
Net decrease in cash and cash equivalents above		(1,677,413)	(2,796,600)
Effect of translation adjustments		820,796	147,358
Cash and cash equivalents 31 December	25(d)	(2,735,632)	(1,879,015)

1. ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

(b) Adoption 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 2014

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. As the Group does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.
IFRIC 21 Levies	IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.
Annual Improvements 2010-2012 Cycle	The annual improvements 2010-2012 cycle makes amendments to the following standards: •IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' •IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date •IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly •IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure

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

certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
•IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
•IAS 24 — Clarify how payments to entities providing management services are to be disclosed
These IFRS improvements are effective for accounting periods beginning on or after 1 July 2014.

The new terminologies have been adopted in these financial statements. In other respects the application of the amendments does not result in any impact on consolidated profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these consolidated financial statements as the Group does not have any derivatives.

ii)Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014

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

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016

iii)Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

•All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

•With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value

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

through profit or loss is presented in profit or loss.

The directors of the Group do not anticipate that the application of IFRS 9 in the future will have a significant impact on amounts reported in respect of the Groups's financial assets and financial liabilities.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation
Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.
The directors of the Group do not anticipate that the application of the standard will have a significant impact on the Group's consolidated financial statements.

Annual Improvements 2010-2012 Cycle
The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:
The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.
The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

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

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and
(b) the transaction meets the definition of a business combination under IFRS 3

The directors of the Group do not anticipate that the application of these a amendments will have a significant impact on the Group's financial statements.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the company and its subsidiaries. Control is achieved when the company:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The company reassesses 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 listed above.

When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements for subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to the transactions between the members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and the non- controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the

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

consideration paid or received in recognized directly in equity and attributed to owners of the Company.

Revenue recognition

(i) Sale of goods

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

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

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

(ii)Interest income

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

Foreign currencies

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

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

Borrowing costs

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

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

Taxation

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

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

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

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

1 ACCOUNTING POLICIES (Continued)

Property, plant and equipment

The Group's Policy requires a revaluation of property, plant and equipment to be carried out by a professional valuer every 5 years. Under this Policy, a revaluation was due to be carried out in 2014 but the Board considered it prudent to defer the revaluation to 2015 so as to capture the impact of its new plant in Tanzania whose commissioning was in progress at the end of the current financial year and continued into early 2015. As at 31 December 2014, the cost carried in the books in relation to the Tanzania plant constituted 65% of the net book value of the Group's property, plant and equipment.

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

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

Depreciation

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

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

Capital work in progress

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

Leases

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

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

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

Rental payments in respect of operating leases are charged to the statement of profit or loss in the year to which they relate.

Intangible assets-computer software costs

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

Goodwill

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

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

Investment in subsidiaries

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

Inventories

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

Share-based payments

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

Dividends payable

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

Cash and cash equivalents

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

Revaluation reserve

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

Translation reserve

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

Retirement benefit obligations

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

Employee benefits

Employees' entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the statement of financial position date.

Financial instruments

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

Financial assets

Classification

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

i)Financial assets at fair value through profit or loss ("FVTPL")
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management.

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

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

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

Recognition of financial assets

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

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

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

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

Financial liabilities are classified at amortised cost

Other financial liabilities

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

Derecognition of financial liabilities

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

Impairment

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

Provisions

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

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

Segmental reporting

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

Contingent liabilities

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

Comparatives

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

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

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key areas of judgement and sources of estimation uncertainty

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

a) Critical judgements in applying accounting policies.

Deferred income tax

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

b)Key sources of estimation uncertainty

Property, plant and equipment and intangible assets

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

Impairment

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

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

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

Contingent liabilities

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

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

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

3 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance

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

- Cement and lime.
- Other products.

	Cement and Lime		Other products		Total	
	2014	2013	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Sales and other income	12,348,733	12,329,742	1,886,803	2,165,140	14,235,536	14,494,882
Expenditure	10,387,205	10,370,064	1,830,198	2,124,758	12,217,403	12,494,822
Profit before taxation	1,961,528	1,959,678	56,605	40,382	2,018,133	2,000,060
Total assets	34,243,677	27,000,572	2,668,903	2,704,682	36,912,580	29,705,254
Total liabilities	27,205,378	21,163,305	286,395	318,217	27,491,773	21,481,522
Depreciation and amortization	551,137	313,364	89,684	117,955	640,821	431,319
Capital expenditure	**6,965,510**	**4,528,684**	**32,194**	**19,780**	**6,997,704**	**4,548,464**

Revenue reported above represents revenue generated from external customers.

3 Operating segments (Continued)

Geographical information

	Kenya Sh'000	Tanzania Sh'000	South Africa Sh'000	Rwanda Sh'000	Eliminated on consolidation Sh'000	Total Sh'000
31 December 2014						
Sales and other income	9,800,096	4,450,454	3,202	238,751	(255,273)	14,237,230
Cost of sales and other expenditure	(7,988,627)	(4,201,682)	(1,840)	(282,221)	255,273	(12,219,097)
Profit before taxation	1,811,469	248,772	1,362	(43,470)	-	2,018,133
Assets	23,121,779	13,083,101	237,031	470,669	-	36,912,580
Liabilities	14,976,104	11,845,006	340,620	330,043	-	27,491,773
Depreciation and amortisation	413,560	220,920	-	6,341	-	640,821
Capital expenditure	**586,104**	**6,220,047**	**-**	**191,553**	**-**	**6,997,704**
31 December 2013						
Sales and other income	9,910,391	4,319,345	112,419	330,680	(177,953)	14,494,882
Cost of sales and other expenditure	(8,056,173)	(4,053,766)	(149,008)	(354,400)	118,525	(12,494,822)
Profit before taxation	1,854,218	265,579	(36,589)	(23,720)	(59,428)	2,000,060
Assets	23,520,329	14,845,279	237,031	470,669	(9,368,054)	29,705,254
Liabilities	15,374,142	14,457,700	340,620	330,043	(9,020,983)	21,481,522
Depreciation and amortisation	420,981	216,382	3,779	7,373	-	648,515
Capital expenditure	**465,952**	**4,042,604**	**-**	**39,908**	**-**	**4,548,464**

		GROUP	
		2014	2013
		Sh'000	Sh'000
4	**Finance costs**		
	Interest payable on:		
	- Loans	479,378	502,058
	- Bank overdrafts	138,637	169,248
	- Finance leases	-	140
	Total borrowing costs	618,015	671,446
	Less: Amounts included in the cost of qualifying assets (note 21(a))	(140,441)	(225,241)
		477,574	446,205
	Net foreign exchange loss on borrowings	(285,698)	(6,272)
		191,876	439,933
5	**Finance income**		
	Interest receivable	365,221	90,561
6	**Profit before taxation**		
	The profit before taxation is arrived at after charging:		
	Depreciation on property, plant and equipment (note 12(a))	639,218	641,000
	Depreciation on strategic spares (note 17)	17,074	23,471
	Amortisation of operating lease prepayments (note 13)	367	1,956
	Amortisation of intangible assets (note 14)	1,236	5,559
	Operating lease rentals - motor vehicles	-	4,056
	Directors' emoluments: - fees (non-executive)	8,055	8,400
	- other emoluments (executive)	154,340	133,950
	Staff costs (note 7)	998,594	754,502
	Auditors' remuneration - company	4,285	4,285
	- subsidiaries	5,604	6,356
	(Gain)/ loss on disposal of property, plant and equipment	(20)	229
7	**Staff costs**		
	Wages and salaries	933,484	722,716
	Social security cost (NSSF)	21,516	6,333
	Leave pay	4,729	20,888
	Other staff costs	38,865	4,565
		998,594	754,502
	Executive Directors' emoluments	154,340	133,950
		1,152,934	888,452

8. Taxation

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
8 a) Taxation charge				
Current taxation charge based on taxable income:	412,001	656,280	412,001	656,280
	412,001	656,280	412,001	656,280
Deferred tax:				
- Charge (credit) (note 22)	114,817	(5,023)	33,826	(84,306)
- Prior year under/ (over) provision (note 22)	(2,078)	-	(2,078)	-
	112,739	(5,023)	31,748	(84,306)
	524,740	651,257	443,749	571,974

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

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	COMPANY 2014 Sh'000	COMPANY 2013 Sh'000
Profit before taxation	2,018,133	2,000,060	1,811,688	1,854,218
Tax calculated at a tax rate of 30%	605,440	600,018	543,506	556,265
Tax effect of:				
- Expenses not deductible for tax purposes	63,915	51,239	44,880	15,709
Deferred tax on revaluation	(57,658)	-	(57,658)	-
Tax effect of excess investment deduction	(84,901)	-	(84,901)	-
Exchange difference	22	-	-	-
Prior year deferred taxation under/(over) provision	(2,078)	-	(2,078)	-
Taxation charge	524,740	651,257	443,749	571,974

c) Corporate tax payable

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	COMPANY 2014 Sh'000	COMPANY 2013 Sh'000
At 1 January	484,866	6,232	467,106	(12,867)
Taxation charge	412,001	656,280	412,001	656,280
Taxation paid	(622,956)	(180,805)	(626,692)	(176,307)
Exchange difference	(1,708)	3,159	-	-
At 31 December	272,203	484,866	252,415	467,106
Comprising				
Income tax payable	272,203	484,866	252,415	467,106

Tax payable balance has not been offset in the statement of financial position as the Group does not have a legal right of offset.

9 Profit for the year

The profit attributable to shareholders dealt with in the company separate financial statements is Sh 1,367,939,000 (2013 – Sh 1,282,244,000)

10 Earnings per share

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

	2014	2013
Profit attributable to ordinary shareholders (Sh'000)	1,492,881	1,356,335
Weighted average number of ordinary shares in issue (note 20)	495,275,000	495,275,000
Basic and diluted earnings per ordinary share (Sh)	**3.01**	**2.74**

11 Dividends

(a) Dividends per share

The Directors propose the payment of a final dividend of Sh 0.6 (2013 – Sh 0.6) per share totalling Sh 297,165,000 in respect of the year ended 31 December 2014 (2013 –Sh 297,165,000). This dividend is subject to approval by shareholders at the Annual General Meeting to be held later in 2015 and has not been included as a liability in these financial statements.

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

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

	GROUP & COMPANY	
	2014 Sh'000	2013 Sh'000
At 1 January	3,413	3,479
Final dividends declared	297,165	247,638
Dividends paid	(297,165)	(247,704)
Unclaimed dividends in the year	9,376	-
At 31 December	**12,789**	**3,413**

12(a) Property, plant and equipment-Group

	Freehold land Sh'000	Buildings on leasehold land Sh'000	Heavy commercial vehicles and Quarrying Equipment Sh'000	Computer hardware, plant, machinery, motor vehicles, furniture and Fittings Sh'000	Capital work in Progress Sh'000	Total Sh'000
At 1 January 2013	285,867	5,162,505	378,053	7,870,450	6,261,161	19,958,036
Additions	19,527	3,251	49,089	39,936	4,436,661	4,548,464
Transfers	-	-	-	9,179	(9,179)	-
Disposals	-	-	-	(920)	-	(920)
Translation difference	(7,303)	5,456	17,446	37,311	(117,849)	(64,939)
At 31 December 2013	**298,091**	**5,171,212**	**444,588**	**7,955,956**	**10,570,794**	**24,440,641**
At 1 January 2014	298,091	5,171,212	444,588	7,955,956	10,570,794	24,440,641
Additions	3,386	93	6,904	235,035	6,752,286	6,997,704
Transfers	-	-	-	1,231,630	(1,231,630)	-
Disposals	-	-	-	(98)	-	(98)
Translation difference	0	(61,015)	(175,921)	(95,541)	(226,369)	(558,846)
At 31 December 2014	**301,477**	**5,110,290**	**275,571**	**9,326,982**	**15,865,081**	**30,879,401**
Comprising						
At cost	51,862	4,520,357	134,572	4,413,165	15,865,081	24,985,037
At valuation 2009	249,615	589,933	140,999	4,913,817	-	5,894,364
	301,477	5,110,290	275,571	9,326,982	15,865,081	30,879,401
Depreciation						
At 1 January 2013	-	183,419	45,858	1,106,081	-	1,335,358
Charge for the year	-	130,253	43,139	467,608	-	641,000
Eliminated on disposal	-	-	-	(718)	-	(718)
Translation difference	-	(382)	48,768	(25,691)	-	22,695
At 31 December 2013	**-**	**313,290**	**137,765**	**1,547,280**	**-**	**1,998,335**
At 1 January 2014	-	313,290	137,765	1,547,280	-	1,998,335
Charge for the year	-	129,338	32,152	477,728	-	639,218
Eliminated on disposal	-	-	-	(5)	-	(5)
Translation difference	-	(2,355)	(41,045)	27,833	-	(15,567)
At 31 December 2014	-	440,273	128,872	2,052,836	-	2,621,981
NET BOOK VALUE (REVALUATION BASIS)						
At 31 December 2014	301,477	4,670,017	146,699	7,274,146	15,865,081	28,257,420
At 31 December 2013	298,091	4,857,922	306,823	6,408,676	10,570,794	22,442,306
NET BOOK VALUE (COST BASIS)						
At 31 December 2014	208,616	4,900,574	342,453	6,180,206	15,865,081	27,496,930
At 31 December 2013	208,616	2,580,949	177,256	3,688,455	14,675,895	21,331,171

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

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

Freehold land and buildings with a net book value of Sh 1,465,878,347 (2013 – Sh 1,465,878,347) have been charged to secure banking facilities granted to the company as disclosed in note 21.

Included above are assets with a total cost of Sh 44,257,347 (2013 – Shs 53,950,423) which were fully depreciated as at 31 December 2014. The normal depreciation charge would have been Shs 9,547,474 (2013 – Sh 11,238,521).

The Group's Policy requires a revaluation of property, plant and equipment to be carried out by a professional valuer every 5 years. Under this Policy, a revaluation was due to be carried out in 2014 but the Board considered it prudent to defer the revaluation to 2015 so as to capture the impact of its new plant in Tanzania whose commissioning was in progress at the end of the current financial year and continued into early 2015. As at 31 December 2014, the cost carried in the books in relation to the Tanzania plant constituted 65% of the net book value of the Group's property, plant and equipment.

12 (b) Property, plant and equipment - Company

	Freehold land	Buildings on leasehold land	Heavy commercial vehicles and Quarrying Equipment	computer hardware, plant, machinery, motor vehicles, furniture and fittings	Capital work in progress	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Cost or valuation						
At 1 January 2013	283,432	2,933,408	225,180	5,642,639	1,455,046	10,539,705
Additions	14,657	3,251	9,665	36,255	411,303	475,131
Transfers	-	-	-	9,179	(9,179)	-
Disposals	-	-	-	(920)	-	(920)
At 31 December 2013	**298,089**	**2,936,659**	**234,845**	**5,687,153**	**1,857,170**	**11,013,916**
At 1 January 2014	298,089	2,936,659	234,845	5,687,153	1,857,170	11,013,916
Additions	3,388	91	5,303	22,266	555,056	586,104
Transfers	-	-	-	1,231,630	(1,231,630)	-
At 31 December 2014	**301,477**	**2,936,750**	**240,148**	**6,941,049**	**1,180,596**	**11,600,020**
Comprising						
At cost	51,862	2,419,577	99,149	2,027,224	1,180,596	5,778,408
At valuation 2009	249,615	517,173	140,999	4,913,825	-	5,821,612
	301,477	2,936,750	240,148	6,941,049	1,180,596	11,600,020

12(b) Property, plant and equipment – Group and company (Continued)

	Freehold land Sh'000	Buildings on leasehold land Sh'000	Heavy commercial vehicles and Quarrying Equipment Sh'000	computer hardware, plant, machinery , motor vehicles, furniture and fittings Sh'000	Capital work in progress Sh'000	Total Sh'000
Depreciation						
At 1 January 2013	-	151,644	51,891	868,641	-	1,072,176
Charge for the year	-	73,336	22,760	296,255	-	392,351
Eliminated on disposal	-	-	-	(718)	-	(718)
At 31 December 2013	**-**	**224,980**	**74,651**	**1,164,178**	**-**	**1,463,809**
At 1 January 2014	-	224,980	74,651	1,164,178	-	1,463,809
Charge for the year	-	73,416	29,162	292,348	-	394,926
At 31 December 2014	**-**	**298,396**	**103,813**	**1,456,526**	**-**	**1,858,735**
NET BOOK VALUE (REVALUATION BASIS)						
At 31 December 2014	**301,477**	**2,638,354**	**136,335**	**5,484,523**	**1,180,596**	**9,741,285**
At 31 December 2013	**298,089**	**2,711,679**	**160,194**	**4,522,975**	**1,857,170**	**9,550,107**
NET BOOK VALUE (COST BASIS)						
At 31 December 2014	**207,134**	**2,342,538**	**118,329**	**5,123,019**	**1,189,775**	**8,9 80,795**
At 31 December 2013	**203,746**	**2,591,765**	**157,769**	**3,086,867**	**2,398,826**	**8,438,973**

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

Freehold land and buildings with a net book value of Sh 1,465,878,347 (2013 – Sh 1,465,878,347) have been charged to secure banking facilities granted to the company as disclosed in note 21.

Included above are assets with a total cost of Sh 44,257,347 (2013 – Sh 50,862,992) which were fully depreciated as at 31 December 2014. The normal depreciation charge would have been Sh 9,547,474 (2013 – Sh 11,184,353).

The Group's Policy requires a revaluation of property, plant and equipment to be carried out by a professional valuer every 5 years. Under this Policy, a revaluation was due to be carried out in 2014 but the Board considered it prudent to defer the revaluation to 2015 so as to capture the impact of its new plant in Tanzania whose commissioning was in progress at the end of the current financial year and continued into early 2015. As at 31 December 2014, the cost carried in the books in relation to

12(b) Property, plant and equipment – Group and company (Continued)

the Tanzania plant constituted 65% of the net book value of the Group's property, plant and equipment.

Details of the fair value hierarchy for both group's property plant and equipments carried at fair value as at 31 December 2014 are as follows:

	Level 1	Level 2	Level 3	Total
	Sh'000	Sh'000	Sh'000	Sh'000
31 December 2014				
Freehold land	-	301,377	-	301,377
Buildings on leasehold land	-	2,638,354	-	2,638,354
Heavy commercial vehicles and Quarrying equipment	-	136,336		136,336
Plant and machinery	-	5,475,344	-	5,475,344
	=====	=======	=====	=======
31 December 2013	**-**	**8,551,411**	**-**	**8,551,411**
	=====	=======	======	=======

13 Operating lease prepayments

	Group Sh'000	Company Sh'000
COST		
At 1 January 2013	179,208	2,707
Addition	4,870	-
Translation difference	(34,414)	-
At 31 December 2013	149,664	2,707
At 1 January 2014	149,664	2,707
Translation difference	1,982	-
At 31 December 2014	151,646	2,707
AMORTISATION		
At 1 January 2013	1,326	901
Charge for the year	1,956	68
Translation difference	(2,381)	-
At 31 December 2013	901	969
At 1 January 2014	901	969
Charge for the year	367	67
Translation difference	(13)	-
At 31 December 2014	1,255	1,036
NET BOOK VALUE		
At 31 December 2014	150,391	1,671
	=======	=======
At 31 December 2013	148,763	1,738
	=======	=======

The translation differences arise from translation of prior year balances for consolidated subsidiaries from the subsidiaries' reporting currency to the parent company's reporting currency.

14 Intangible assets

	Group	Company
	Sh'000	Sh'000
COST		
At 1 January 2013	168,967	23,156
Additions	88,049	1,095
Translation difference	(37,377)	-
At 31 December 2013	219,639	24,251
At 1 January 2014	219,639	24,251
Additions	34,123	277
Translation difference	431	-
At 31 December 2014	254,193	24,528
AMORTISATION		
At 1 January 2013	23,849	16,952
Charge for the year	5,559	5,511
Translation difference	(4,380)	-
At 31 December 2013	25,028	22,463
At 1 January 2014	25,028	22,463
Charge for the year	1,236	1,194
Translation difference	(51)	
At 31 December 2014	26,213	23,657
NET BOOK VALUE		
At 31 December 2014	**227,980**	**871**
At 31 December 2013	**194,611**	**1,788**

The translation differences arise from translation of prior year balances for consolidated subsidiaries from the subsidiaries' reporting currency to the parent company's reporting currency.

15 Goodwill

On 24 January 2009, ARM Cement Limited acquired all the shares held by the minority shareholders in ARM Tanzania Limited. On 1 December 2013, ARM Cement Limited acquired 35% equity interest in and also effectively acquired control of Kigali Cement Company Limited whose principal activity is to buy raw materials and to produce finished cement for the Rwanda market. Goodwill arising from the above transactions is shown below:

	2014	2013
	Sh'000	Sh'000
Balance at the beginning and end of the year	71,012	71,012
	=======	=======
Allocation of goodwill to the acquired subsidiaries		
ARM Tanzania Limited	50,908	50,908
Kigali Cement Company Limited	20,104	20,104
	______	______
	71,012	71,012
	=======	=======

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

16 (a) Investment in subsidiaries

	2014	2013
	Sh'000	Sh'000
ARM (Tanzania) Limited	252,317	252,317
ARM SA (Pty) Limited	33,014	33,014
Mavuno Fertilizer Limited	7,259	7,259
Maweni Limestone Limited	52	52
Mafeking Cement (Pty) Limited	75,000	75,000
Kigali Cement Company Limited	163,222	85,000
	______	______
	530,864	452,642
	=======	=======

Details of the subsidiary companies are as follows:

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

In 2014, ARM Cement Limited acquired 100% equity interest in Kigali Cement Company Limited, whose principal activity is to buy raw materials and to produce finished cement for the Rwanda market and export.

16 (a) Investment in subsidiaries (Continued)

ARM Cement Limited also holds 100% of the equity interest in other companies which are all dormant. These are ARM Zambia Limited, ARM Energy Limited, ARM Mineral and Chemical Limited, Sukam Development Company Limited . These companies, together with ARM Africa Cement (Mau) Limited, ARM Rhino Cement Limited as shown above, have not yet commenced operations and have not been consolidated in view of the insignificance of the amounts involved.

16 (b) Non controlling interests

The total non-controlling interest for the period is Shs 12,429,000, which is attributable to Mafeking Cement (Pty) Limited which is not material for the group.

	2014	2013
	Sh'000	Sh'000
Balance at the beginning of the year	99,692	106,749
Share of the (loss)/income for the year	512	(7,532)
Share of other comprehensive (loss)/income for the year	(97,714)	475
	2,490	99,692

Summarised financial information on subsidiaries with material non- controlling interests

Set out below is the summarised finanical information for Kigali Cement Company Limited for which the non-controlling interest is material to the group. During the period Kigali, Cement company shareholding of 65% previously held by third parties was fully acquired by ARM Cement Limited.

	2014	2013
NCI percentage	-	65%
Current Assets	-	101,659
Current Liabilities	-	(180,053)
	-	(78,394)
Non-current Assets	-	287,650
Non-current Liabilities	-	(45,694)
	-	241,956
Net assets	-	163,562

16 (b) Non controlling interests (Continued)

Summarised financial information on subsidiaries with material non- controlling interests (Continued)

	2014 Shs'000	2013 Shs'000
Summarised income statement		
Revenue	-	310,777
Net loss/(profit)	-	(11,904)
	========	========
Profit allocated to NCI		(8,002)
	========	========

Summarised cash flows:

	2014	2013
Cashflow from operating activities	-	60,442
Cashflow from investing activities	-	(39,908)
Cashflow from financing activities	-	2,571
	========	========

17 Inventories

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Raw materials	2,076,117	1,029,250	1,305,835	645,147
Finished goods	362,942	236,266	256,244	189,018
Packaging materials	125,875	71,996	85,979	55,389
Stores, spares, laboratory inventories and Fuel	1,544,499	867,473	840,836	681,068
Work in progress	1,035	1,085	1,035	1,085
Goods in transit	-	381,178	-	29,520
Impairment provision on spare parts	(74,327)	(57,253)	(74,327)	(57,253)
	4,036,141	2,529,995	2,415,602	1,543,974
	=========	=========	=========	=========

Depreciation amounting to Sh 17,073,407 (2013: 23,471,000) has been recognised in respect of strategic spares during the year

18 Trade and other receivables

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Trade receivables	1,968,679	1,660,999	1,731,929	1,531,062
Other receivables and prepayments	1,777,023	1,123,217	108,317	52,899
	3,745,702	2,784,216	1,840,246	1,583,961

19 Due from Employee Share Option Plan (ESOP) - Loan and receivables

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

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

	GROUP & COMPANY	
	2014	2013
	Sh'000	Sh'000
Amount due (to)/from ESOP		
At 1 January	20,586	31,697
Repayments	(29,914)	(11,111)
At 31 December	(9,328)	20,586

20 Share capital

	2014	2013
Authorised:		
	Sh'000	Sh'000
675,000,000 ordinary shares of Sh 1 each	675,000	675,000
	=======	========
Issued and fully paid:		
495,275,000 fully paid ordinary shares of Sh 1 each	495,275	495,275
	=======	========

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

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

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

21 a) Borrowings – Group

	2014	2013
	Sh'000	Sh'000
Bank loans	14,319,731	9,556,146
Aureos income note	1,810,000	1,726,000
Equity linked notes*	1,600,000	1,600,000
Bank overdrafts	3,142,388	3,385,740
Total	20,872,119	16,267,886
The borrowings are repayable as follows;		
On demand or within one year	13,216,334	4,267,066
In the second year	789,800	1,001,987
After 2 years but within 5 years	5,861,032	2,456,852
After 5 years	1,004,953	8,541,981
Total	20,872,119	16,267,886
Less: amount due for settlement within one year	(13,216,336)	(4,267,066)
Amount due for settlement after one year	7,655,783	12,000,820
	=========	========

Analysis of borrowings by currency

	Borrowings in US$'000	Kshs Equivalent Sh'000	Borrowings in local currency Sh'000	Total borrowings Sh'000
2014				
Bank loans	115,504	10,453,115	3,866,616	14,319,731
Bank overdrafts	16,751	1,515,974	1,626,414	3,142,388
Aureos income note	20,000	1,810,000	-	1,810,000
Equity linked notes*	-	-	1,600,000	1,600,000
At 31 December 2014	152,255	13,779,089	7,093,030	20,872,119
2013				
Bank loans	64,321	5,454,377	4,101,769	9,556,146
Bank overdrafts	15,118	1,304,719	2,081,021	3,385,740
Aureos income note	20,000	1,726,000	-	1,726,000
Equity linked notes*	-	-	1,600,000	1,600,000
At 31 December 2013	99,439	8,485,096	7,782,790	16,267,886

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

The borrowing costs capitalized in relation to construction and installation of qualifying assets during the year amount to Sh 140,441,000 (2013 – Sh 225,241,000).

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

	2014 %	2013 %
Bank overdrafts (Sh)	13.50	15.50
Bank overdrafts (US $)	4.50	4.50
Bank loans (Sh) 13.00	13.00	13.00
Bank loans (US $)	6.50	5.50
Equity linked notes (Sh)	12.00	12.00

ARM CEMENT LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 b) Borrowings – Company

	2014	2013
	Sh'000	Sh'000
Bank loans	11,335,198	6,518,684
Bank overdrafts	1,810,000	1,722,079
Aureos income note	1,600,000	1,726,000
Equity linked notes	1,807,966	1,600,000
Total	16,553,164	11,566,763

The borrowings are repayable as follows:

	2014	2013
On demand or within one year	10,747,470	3,400,434
In the second year	107,608	242,622
After 2 years and within 5 years	4,793,086	141,092
After 5 years	905,000	7,782,615
Total	16,553,164	11,566,763
Less: amount due for settlement within one year	(10,747,470)	(3,400,434)
Amount due for settlement after one year	**5,805,694**	**8,166,329**

Analysis of borrowings by currency

	borrowing in US$ 000	Kshs equivalent Sh'000	Borrowings in local currency Sh'000	Total borrowings Sh'000
2014				
Bank loans	85,403	7,728,998	3,606,200	11,335,198
Bank overdrafts	16,751	1,515,974	291,992	1,807,966
Aureos income note	20,000	1,810,000	-	1,810,000
Equity linked notes	-	-	1,600,000	1,600,000
At 31 December 2014	122,154	11,054,972	5,498,192	16,553,164
2013				
Bank loans	64,321	5,454,377	1,064,307	6,518,684
Bank overdrafts	15,118	1,304,719	417,360	1,722,079
Aureos income note	20,000	1,726,000	-	1,726,000
Equity linked notes	-	-	1,600,000	1,600,000
At 31 December 2013	99,439	8,485,096	3,081,667	11,566,763

21 (b) Borrowings – Company (Continued)

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

	2014	2013
	%	%
Bank overdrafts (Sh)	13.50	15.50
Bank loans (Sh)	13.00	13.00
Bank loans (US$)	6.50	5.50
Equity linked notes (Sh)	12.00	12.00
	=====	=====

21 (c) Borrowings analysed by lending institutions

	2014	2013
	Sh'000	Sh'000
(i) ARM Cement Limited Loans		
Eastern and Southern African Trade and Development Bank (PTA Bank)	-	66,839
Stanbic Bank Kenya Limited	1,128,774	423,288
Citibank NA	106,471	507,647
African Finance Corporation (AFC) *	4,793,086	4,456,604
GTA Bank Kenya Limited	348,875	-
Bank of Africa Kenya Limited	178,780	-
I&M Bank Kenya Limited	905,000	-
Chase Bank Kenya Limited	368,011	-
Bank overdrafts		
Barclays Bank of Kenya Ltd	184,472	142,104
Stanbic Bank Kenya Limited	709,503	671,011
Fina Bank Limited	225,487	217,053
Citibank NA	440,420	478,499
Bank of Africa Limited	248,085	213,411
Other borrowings		
Commercial paper	3,506,200	1,064,307
Equity linked note	1,600,000	1,600,000
AUREOS – Convertible Note	1,810,000	1,726,000
	16,553,164	11,566,763
	========	========
(ii)Maweni Limestone Limited Loans		
Eastern and Southern African Trade and Development Bank (PTA Bank)	926,307	1,126,817
Development Bank of South Africa Limited	1,506,023	1,797,837
Stanbic Bank Mauritius	452,253	-
Bank overdraft	1,334,419	1,663,660
	4,219,002	4,588,314
	========	========

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

	2014	2013
	Sh'000	Sh'000
(iii) ARM (Rwanda) Limited		
Bank Commercial Du Rwanda Ltd - loan	53,711	67,116
(iv) Kigali Cement Company Limited - loans		
Bizimungu Jean Berchmans	46,242	45,694
	99,953	112,810

As at 31 December 2014, the company had outstanding letters of credit amounting to Sh 488,205,673 (2013 – Sh 214,931,253).

*** African Finance Corporation (AFC) facility**

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

In 2012, the Company issued to Africa Finance Corporation 50 convertible notes of USD 1,000,000 each for a tenure of 6 years at an annual interest of 5% payable quarterly plus 2.5% interest accrued every quarter and payable on maturity.

The notes are redeemable at a premium of 10% on maturity or the holder may convert the notes into new ordinary shares at a fixed rate of $0.64 per share any time during the six year tenor.

During the year ended 31 December 14, the company capitalised interest amounting to USD 1,311,834 being total interest charged in the year which brought the total amount owed to the African Finance Corporation to USD 52,962,274 (Sh 4,793,085,797).

To support its continued expansion, ARM has appointed a group of mandated lead arrangers (Barclays Bank of Kenya, CFC Stanbic Bank and Standard Chartered Bank) to assist the Company in raising medium to long term funding requirements and to refinance its short term borrowings.

21 (d) Details of securities

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

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

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

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

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

The Equity linked notes are unsecured and mature in 2015.

The Aureos income note is unsecured and matures in 2015.

22. Deferred taxation

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

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
The net deferred taxation liability is attributable to the following items:				
Liabilities:				
Accelerated capital allowances	1,937,362	1,695,455	1,746,153	1,600,172
Revaluation surplus on property plant and equipment	480,935	538,593	480,935	538,593
Unrealised exchange gains	-	30,501	-	20,463
	2,418,297	2,264,549	2,227,088	2,159,228

22 Deferred taxation (continued)

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
Assets:				
Leave pay provision	(3,124)	(3,125)	(3,124)	(3,125)
Unrealised exchange losses	(34,426)	-	(27,990)	-
Inventory impairment provision	(22,298)	(17,176)	(22,298)	(17,176)
General bad debt provision	(13,200)	(10,200)	(13,200)	(10,200)
Exchange difference	145	-	-	-
	(72,903)	(30,501)	(66,612)	(30,501)
Net deferred tax liability	**2,345,394**	**2,234,048**	**2,160,476**	**2,128,727**

	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
The movement on the deferred taxation account is as follows:				
At 1 January	2,234,048	2,255,369	2,128,727	2,213,033
Income statement (credit)/charge (note 8(a))				
- current year charge/(credit)	114,817	(5,023)	33,827	(84,306)
- prior year over provision	(2,078)	-	(2,078)	-
Exchange adjustment	(1,393)	(16,298)		-
At 31 December	2,345,394	2,234,048	2,160,476	2,128,727

23(a) Finance leases - Group

	Minimum lease payments (including finance charges)		Present value of minimum lease payment (excluding finance charges)	
	2014	**2013**	**2014**	**2013**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
Amounts payable under finance leases:				
Within one year	-	168	-	186
In the second to fifth years inclusive	-	88	-	70
	-	256	-	256
Less: Future finance charges	-	(72)	-	(72)
Present value of lease obligations	-	184	-	184
Less: Amount due for settlement within 12 months			-	(114)
Amounts due for settlement after 12 months			-	70

23 (b) Finance leases – Company

	Minimum lease payments (including finance charges)		Present value of minimum lease payment (excluding finance charges)	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Amounts payable under finance leases;				
Within one year	-	186	-	114
In the second to fifth years inclusive	-	88	-	70
	______	______	______	______
		256	-	184
Less: Future finance charges	-	(72)	-	-
	______	______	______	______
Present value of lease obligations	-	184	-	184
	======	=======	======	======
Less: Amount due for settlement within 12 months			-	(114)
			______	______
Amounts due for settlement after 12 months			-	70
			======	=======

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
At 1 January	184	323	184	323
New financing received		-	-	-
Repayments	(184)	(139)	(184)	(139)
Exchange adjustment	-	-	-	-
	______	______	______	______
At 31 December	-	184	-	184
	======	======	======	======

It is the Group's policy to acquire some of its motor vehicles through finance leases. The average lease term is 4 years. The weighted average rate of interest accruing on the obligations under finance lease agreements during the year was Nil (2013: 13.50 %). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The company did not have motor vehicles under lease obligations as at 31 December 2014. The motor vehicles under lease obligations as at 31 December 2013 was Sh 184,000.

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

24 Trade and other payables

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Trade payables	3,312,951	1,726,879	1,058,721	870,217
Other payables and accruals	605,585	662,389	251,294	166,586
Leave pay provision	10,416	10,416	10,416	10,416
	3,928,952	2,399,684	1,320,431	1,047,219

25 Notes to the consolidated statement of cash flows

	2014	2013
	Sh'000	Sh'000
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before taxation	2,018,133	2,000,060
Adjustments:		
Depreciation	639,218	641,000
Amortisation of operating lease prepayments	367	1,956
Amortisation of intangible assets	1,236	5,559
Finance cost recognised in profit before taxation	477,574	446,205
Finance income recognised in profit before taxation	(365,221)	(90,561)
Net unrealised foreign exchange gain	(285,698)	(6,272)
Profit/(loss) on disposal of property, plant and equipment	(20)	229
Working capital changes:		
(Increase)/decrease in inventories	(1,506,146)	785,628
Increase in trade and other receivables	(961,486)	(804,897)
Movement in related party balances	(50,591)	83,545
Increase/(decrease) in trade and other payables	1,529,268	(156,748)
Decrease in due from ESOP	29,914	11,111
Cash generated from operations	1,526,548	2,916,815

(b) Analysis of additions to property, plant and equipment

Additions in the year (note 12(a)) Less:	6,997,704	4,548,464
Interest capitalised (note 4)	(140,441)	(225,241)
Acquisition in cash	6,857,263	4,323,223

(c) Analysis of cash flow by borrowings

	2014	2013
	Sh'000	Sh'000
At 1 January	12,882,146	13,170,345
Received	5,949,441	469,655
Repayment	(1,089,000)	(757,826)
Exchange adjustment	(12,855)	(28)
	_______	_______
At 31 December	17,729,733	12,882,146
	=======	=======

(d) Analysis of cash and cash equivalents

Cash and bank balances	127,768	161,800
Bank overdrafts (note 21(a))	(3,142,388)	(3,385,740)
Short-term deposits (US dollar denominated)	278,988	1,344,925
	_______	_______
	(2,735,632)	(1,879,015)
	========	========

The effective interest rate on the deposits as at 31 December 2014 was 3.5 % (2013 – 0.29 %).

	2014	2013
	Sh'000	Sh'000
(e) Analysis of cash interest paid Interest included in the cost of qualifying Assets (note 4)	140,441	225,241
Interest charged to profit or loss (note 4)	477,574	446,205
	_______	_______
	618,015	671,446
	========	========

26. Related party transactions and balances

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

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

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

(a) Transactions

	2014 Sh'000	2013 Sh'000
Sales:		
ARM (Tanzania) Limited	-	-
ARMSA (Pty) Limited	-	5,552
Maweni Limestone Limited	49,467	218
Kigali Cement Company Limited	205,806	164,503
	255,273	170,273

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

(b) Due from related parties – Group

	2014 Sh'000	2013 Sh'000
ARM Rhino Cement Limited	6,486	3,365
ARM Africa Cement (MAU) Limited	5,279	3,496
Rhino Special Products Limited	3,618	179
Royal Ceiling Limited	1,795	-
	17,178	7,040

(c)Due from related parties – company

Maweni Limestone Limited	13,598,048	7,881,644
ARM (Tanzania) Limited	502,814	465,922
ARMSA (Pty) Limited	73,765	149,700
Mafeking Cement Company Limited	303,412	272,368
ARM Africa Cement (MAU) Limited	5,279	3,496
ARM Rhino Cement Limited	6,486	3,365
Kigali Cement Company Limited	260,046	176,593
Maweni Limestone Limited		
Rhino Special Products Limited	3,388	-
Royal Ceiling Limited	1,795	-
	14,755,033	8,953,088

26 Related party transactions and balances (Continued

d) Due to related parties – Group

	2014 Sh'000	2013 Sh'000
Rhino Special Products Limited	3,637	3,746
Due to Directors	47,351	87,695
	50,988	91,441

(e) Due to related parties – company

Due to Directors	43,020	83,234
Due to ARM (Rwanda) Limited	20,631	47,976
Due to ARM (SA) Limited	-	29,520
	63,651	160,730

(f) Key management compensation

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

Salaries and other benefits	236,442	218,650

(g) Directors' remuneration

Fees for services as Directors (non executive)	8,055	8,400
Other emoluments (included in key management compensation)	154,340	133,950
	162,395	142,350

27 Operating lease commitments

The company as a lessee:

Rental payments during the year amounted to Sh 43,726,009 (2013 – Sh 37,657,215). At the balance sheet date, the company had contracted for the following future lease payables:

	2014 Sh'000	2013 Sh'000
Within one year	82,229	52,933
In the second to fifth year inclusive	287,436	93,220
After five years	-	-
	369,665	146,153

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

	GROUP		COMPANY	
28 Capital commitments				
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Authorised and contracted for	905,050	1,344,925	905,050	426,440
Authorised but not contracted for	935,299	516,000	649,850	516,000
29 Contingent liabilities				
Guarantees	20,000	23,000	20,000	23,000

30 Financial risk management

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

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

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

Market risk

(i) Foreign currency exchange risk

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

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

At 31 December 2014, if the Kenya Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the pre tax profit for the year would have been Sh 3,745,000 (2013: Sh 2,508,000) higher/lower, mainly as a result of translation of US dollar payables and bank balances.

(ii) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds both at fixed and floating interest rates. The risk is managed by the Group through a close management monitoring control. During the year, an increase/decrease of 5 percentage points on average borrowing rates would have resulted in an increase/decrease in pre tax profit by Sh 23,567,000 (2013 - Sh 17,496,000).

Credit risk

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

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

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

30 Financial risk management

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

	Fully Performing	Past due	Impaired	Total
	Sh'000	Sh'000	Sh'000	Sh'000
At 31 December 2014				
Trade receivables	1,941,335	27,344	51,138	2,019,817
Provision for impairment	-	-	(51,138)	51,138)
	_______	______	______	_______
Net trade receivables	1,941,335	27,344	-	1,968,679
Due from related parties	17,178	-	-	17,178
Investments in short term deposits	278,988	-	-	278,988
Bank balances	122,512	-	-	122,512
	_______	______	______	_______
	2,360,013	27,344	-	2,387,357
	=======	=======	======	=======

The amount that best represents the Group's maximum exposure to credit risk as at 31 December 2013 is made up as follows:

	Fully performing	Past Due	Impaired	Total
	Sh'000	Sh'000	Sh'000	Sh'000
At 31 December 2013				
Trade receivables	1,632,111	28,888	43,473	1,704,472
Provision for impairment	-	-	(43,473)	(43,473)
	_______	______	______	_______
Net trade receivables	1,632,111	28,888	-	1,660,999
Due from related parties	7,040	-	-	7,040
Investments in short term deposits	1,344,925	-	-	1,344,925
Bank balances	156,409	-	-	156,409
	_______	______	______	_______
	3,140,485	28,888	-	3,169,373
	=======	======	======	=======

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

The debt that is overdue is not impaired and continues to be paid.

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

30 Financial risk management (Continued)

Liquidity risk

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

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

	less than one month Sh'000	Betweeen 1-3 months Sh'000	Over 3 months Sh'000	Over 12 months Sh'000	Total Sh'000
At 31 December 2014					
Borrowings	46,230	1,123,171	12,046,933	7,655,783	20,872,119
Trade payables	714,055	2,950,217	816,569	-	4,480,841
Due to related parties	-	-	3,637	-	3,637
	760,285	4,073,388	12,867,139	7,655,783	25,356,597

At 31 December 2013

Total	less than one month Sh'000	Between 1-3 months Sh'000	Over 3 months Sh'000	Over 12 Months Sh'000	Total Sh'000
Borrowings	28,122	911,440	2,398,114	12,930,210	16,267,886
Finance lease obligations	-	184	-	-	184
Trade payables	275,191	1,136,989	314,699	-	1,726,879
Due to related parties	-	-	3,726	-	3,726
	303,313	2,048,613	2,716,539	12,930,210	17,998,675

31 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

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

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Share capital	495,275	495,275	495,275	495,275
Share premium	302,027	302,027	302,027	302,027
Revaluation surplus	617,627	950,975	617,627	950,975
Retained earnings	7,956,969	6,427,905	7,796,379	6,392,257
Translation reserve	46,419	(52,142)	-	-
Equity	9,418,317	8,124,040	9,211,308	8,140,534
Total borrowings including finance lease	20,872,121	16,268,070	16,553,164	11,566,763
Less: cash and cash equivalents	(406,756)	(1,506,725)	(297,990)	(1,406,792)
Net debt	20,465,365	14,761,345	16,255,174	10,159,971
Total capital	29,883,682	22,885,385	25,466,482	18,300,505
Gearing	68%	64%	64%	56%

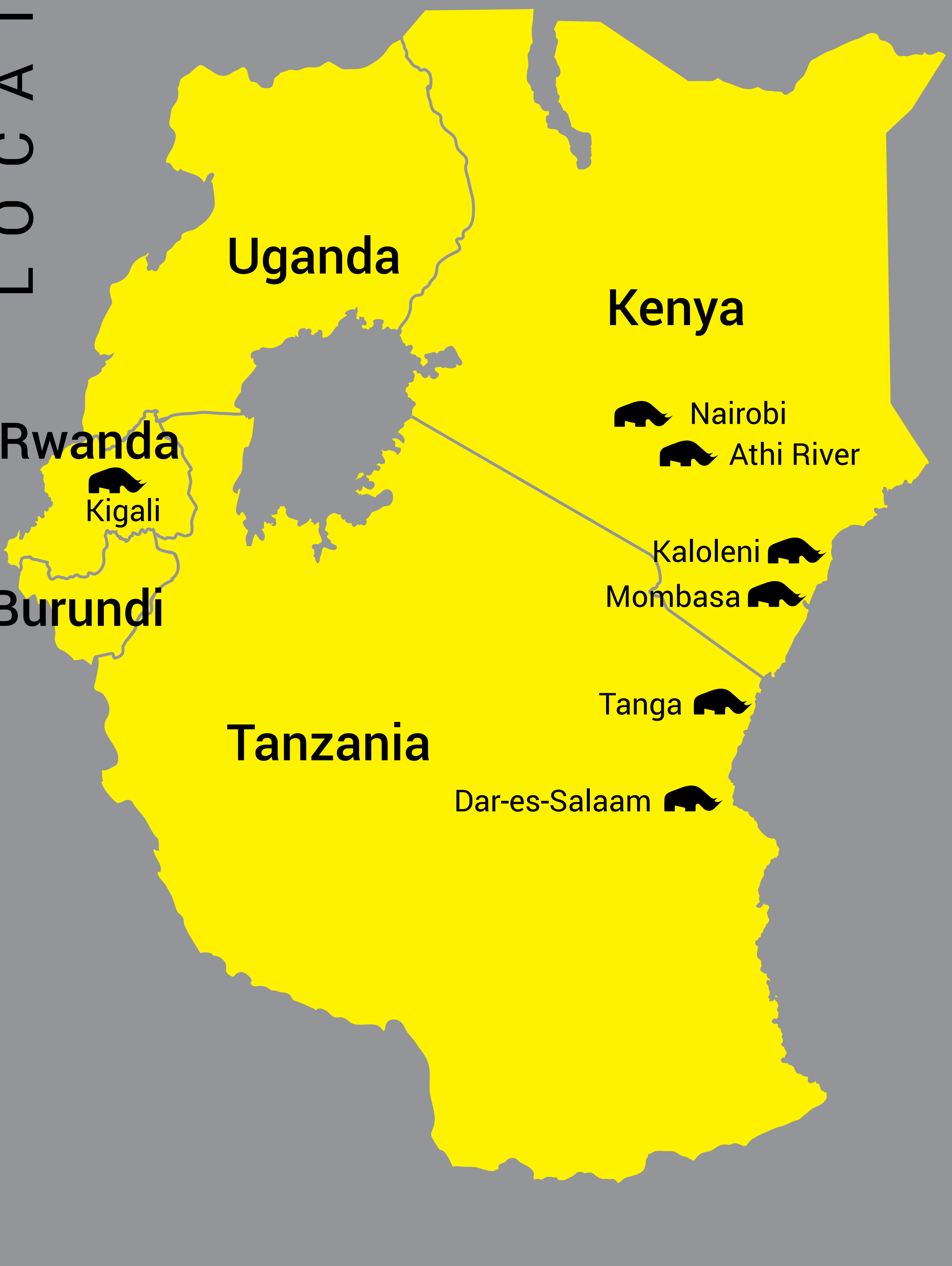
32 Incorporation

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

33 Currency

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

ARM CEMENT LOCATIONS



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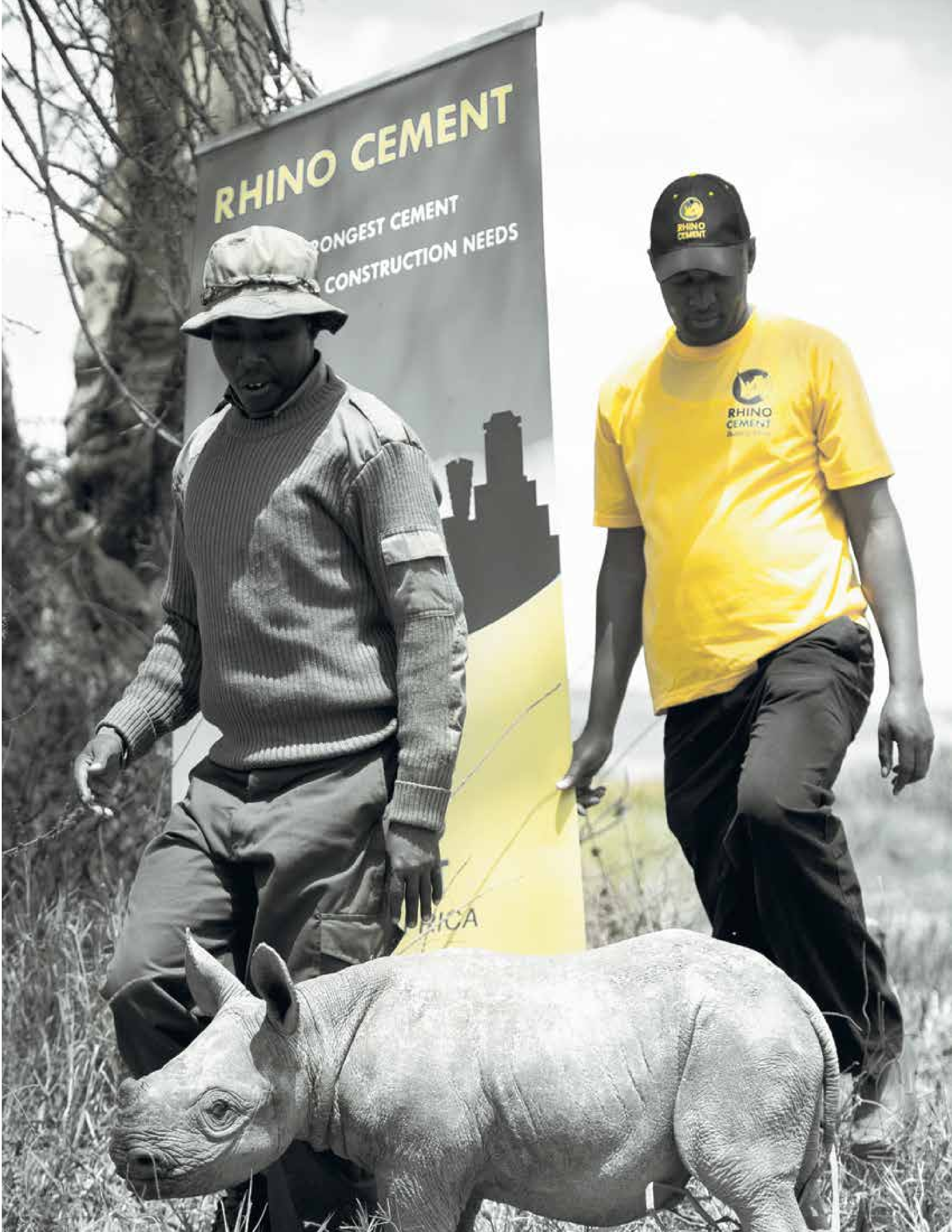
RHINO CEMENT
CONSTRUCTION NEEDS
RHINO CEMENT
RHINO CEMENT

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DAR ES SALAAM AND TANGA

TANZANIA
ARM (TANZANIA) LIMITED
TANGA, TANZANIA

KIGALI CEMENT COMPANY,
KIGALI RWANDA

ARM SA (PTY) LIMITED
JOHANNESBURG
SOUTH AFRICA