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VISION AND COMMITMENTS

OUR VISION

Our vision is to be the leading market and end user oriented cement company all across Eastern Africa, with a strong and clear dedication to our communities.

OUR COMMITMENTS

We will achieve this by:
- Being a caring company that is dedicated to health and safety of our employees, community and the environment.
- Achieving a sustainable market leadership in the region.
- Enhancing our understanding of the customers and striving for innovations and market developments.
- Maintaining our profitability so as to add value to our investors.
- Developing our people and attracting the best so that they can give superior perfomance.

OUR VALUES

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

THE LAFARGE WAY

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

MAKING OUR PEOPLE SUCCESSFUL
- Expecting people to give their best
- Leading by example
- Achieving greater results through teamwork

FOCUSING ON PERFORMANCE IMPROVEMENT
- Resulting from actions of all
- Making performance a daily commitment
- Sharing systems and tools

WITH A 'MULTI LOCAL' ORGANISATION
- Building on our local and global strengths
- Making our Business Units successful by leveraging the resources of a decentralised organisation
- Sharing clear processes and a limited number of respected and known rules

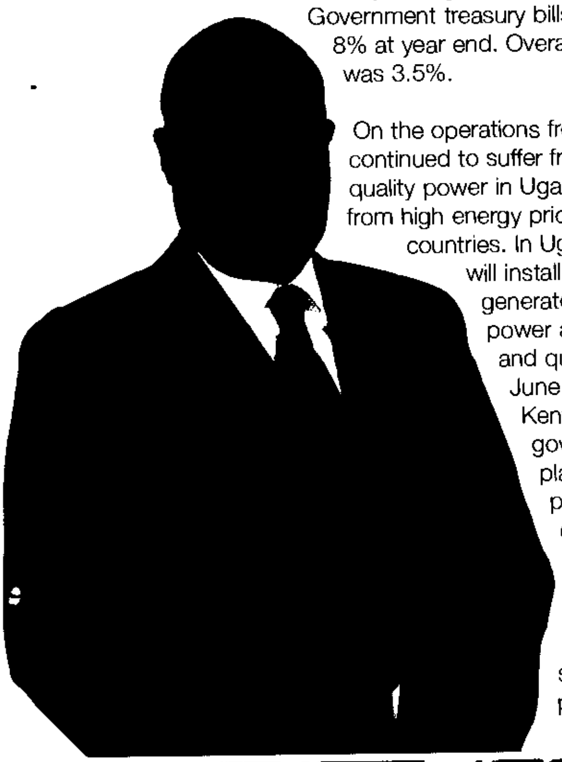
CHAIRMAN'S STATEMENT

I am pleased to report another year of good performance and improved results, in a very challenging business environment. The year ended with the East African region experiencing a severe drought, Kenya being the worst affected.

Despite the prevailing drought, Kenya and Uganda economies both recorded promising growth. Kenya's GDP grew by 5%. Improved performance in key sectors like tourism and commodities spurred resurgence in the economy, which in turn led to growth in the domestic cement market. The drought caused food prices to rise, lifting inflation to 10.3%. However, interest rates remained stable. We believe that the Kenya economy will continue on a steady recovery path, in spite of the drought and some concerns over financial governance in the Government.

In Uganda attention was focussed on the just concluded presidential and parliamentary elections, the first to be held under multiparty system in 26 years. During the political transition process, some concerns were raised about how committed the government was to democratic reform. The elections were held peacefully on 23 February 2006 and the incumbent president was re-elected.

As in Kenya, economic performance in Uganda was partly affected by the drought prevailing in the region, which led to a reduction in agricultural output, and lower GDP growth at 4%. Falling water levels in lake Victoria have reduced hydro-power production and at the start of 2006 the country was faced with power rationing and higher power prices. Interest rates declined steadily during the year, with rates on Government treasury bills averaging 8% at year end. Overall inflation was 3.5%.



On the operations front, we continued to suffer from poor quality power in Uganda and from high energy prices in both countries. In Uganda, we will install a power generator to ensure power availability and quality by June 2006 and in Kenya, the government plans to purchase emergency generating units which we hope will stabilise the supply of power albeit at a much higher cost.

We had to contend with strong pressures on logistics and rising manufacturing costs as a result of poor infrastructure and increasing prices of fuel. We mitigated the impact of increased operating costs by various efficiency and cost control initiatives, and where necessary, through compensatory adjustment of our selling prices.

Inspite of this constraints, the group recorded a profit after tax of Kshs 2 billion, an increase from last year by 16%. This was achieved with increased domestic sales in Kenya and increased export sales to Uganda. We also had significant growth in our exports to inland Africa markets, a direct result of our improved commercial and logistics organisation.

With this strong performance and good cash generation, we were able to pay dividends to shareholders of Kshs 1.9 billion (2004: Kshs 2.2 billion) and still maintained a healthy group cash balance.

Our focus on Corporate Social Responsibility has been in the areas of education, health, safety and the environment. In education our bursary programme has supported students in secondary schools, colleges and at universities. In 2005 we adopted Lafarge best practice for rehabilitation development and initiated a project on rehabilitation master planning. With respect to the Green schools project, 53 tanks were constructed and the total number of seedlings planted increased to 123,566. Haller Park, our environmental showcase, continued to be a key attraction both to international and domestic tourists. The park gained international recognition in the year from the success story of two animal characters Owen & Mzee, whose peculiar behaviour inspired the writing of a book which recently featured on the New York Best Sellers list. And in January 2006 we contributed Kshs 5 million through the Red Cross to the drought relief effort in Kenya.

Safety continues to be one of our main key values. We believe that no one should get injured or lose their life as they add value to our company's stakeholders. In 2005, we improved our accident monitoring systems to not only report and investigate lost time incidences, but to also report and investigate near misses, with the aim of taking appropriate corrective actions to prevent potential accidents. This system covers all our contractors and employees at our plants as well as on the road to the destination of our products.

I am happy to report that Bamburi Cement Limited was fully compliant with the Sarbanes Oxley Act in terms of business processes, business controls and control environment. The challenge now is to maintain this position in 2006 and beyond. During 2006, we intend to confirm compliance to the requirements of the Sarbanes Oxley Act by the other

CHAIRMAN'S STATEMENT

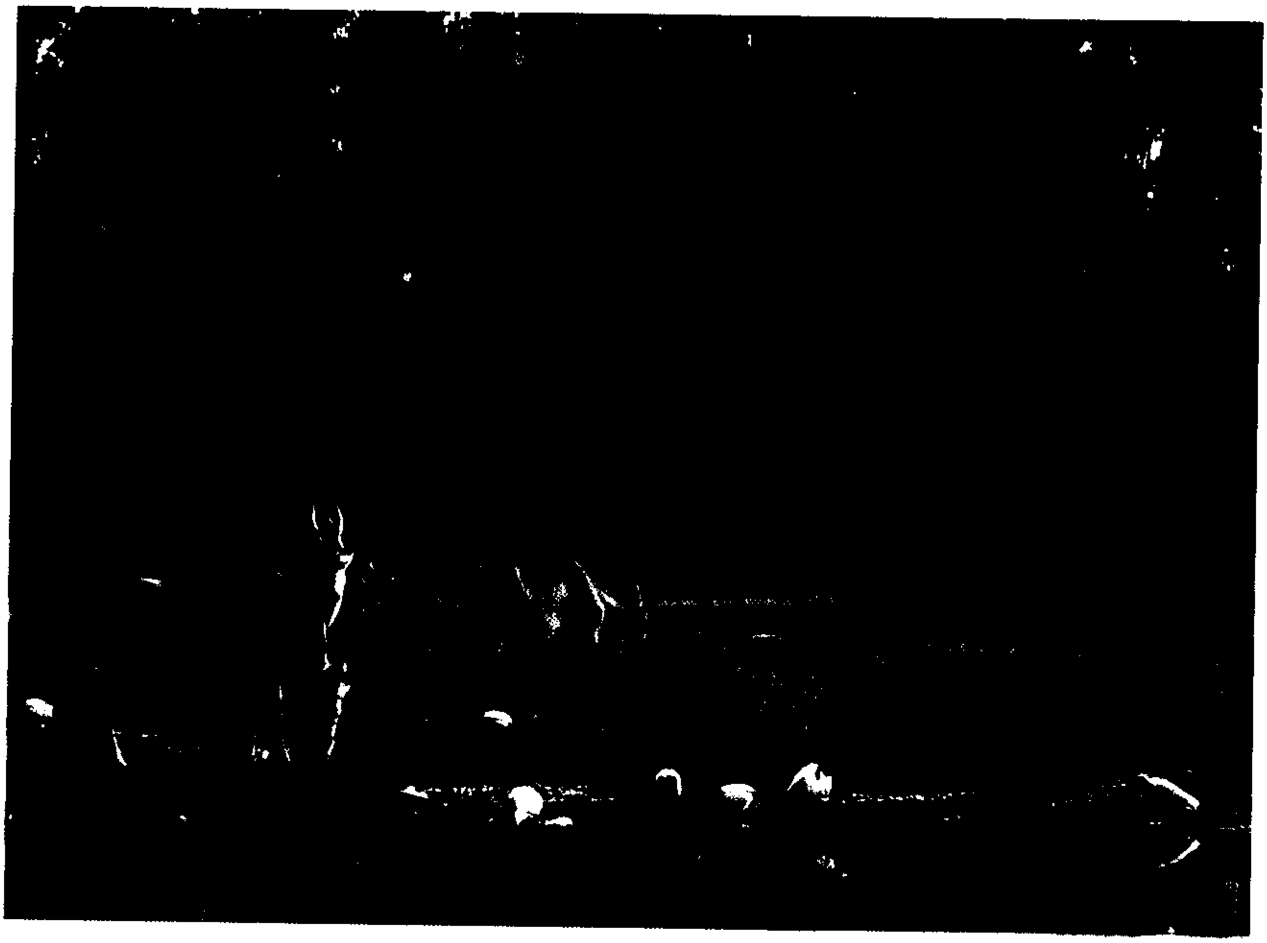
companies within the group. We remain confident of the potential robustness of the East African economies and anticipate sustained growth of the cement market.

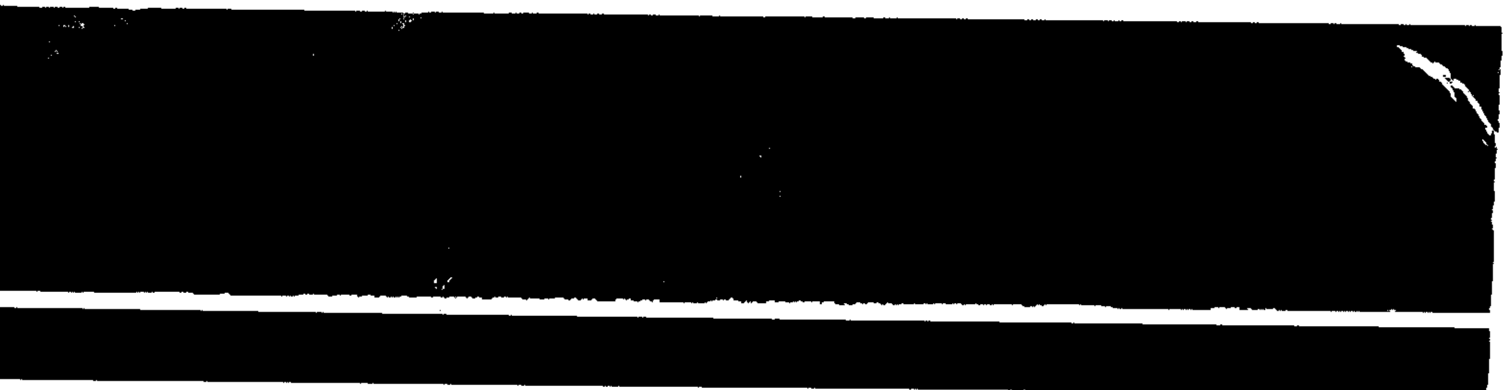
We will continue looking for growth opportunities in the regional markets. By optimising our logistics operations, while at the same time lowering our production costs by raising the standard of efficiencies in all our processes. This will enable us to achieve our vision of being the leading market and end user oriented cement company all across Eastern Africa, with a strong and clear dedication to our communities.

I take this opportunity to thank the management and staff of the group for their commitment, loyalty and dedication that has produced another year of good results. I also wish to thank the board of directors for their unwevering support, encouragement and constructive contributions during our deliberations.

We now look forward to an even better 2006.

RICHARD KEMOLI
CHAIRMAN





BOARD OF DIRECTORS

RICHARD KEMOLI(70) holds a Bachelor of Science degree, Economics from Makerere University, Kampala and a Diploma in Management Studies, Regent Street Polytechnic (now University of Westminster, London).
He is the Chairman of the Bamburi Cement Limited Board of Directors. He has 33 years experience with Commonwealth Development Corporations - East Africa Region and is a director in several companies.

MICHEL PUCHERCOS(48) is a graduate of the Ecole Polytechnique (1976) and the Ecole Nationale du Génie Rural, des Eaux et des Forêts (1981). Michel started his career in the French Ministry of Agriculture in 1982-1989. He has served as Director of Strategy and Supplies in Orsan, a Lafarge subsidiary from 1989-1992. In addition, he has worked in senior executive positions in a number of Agro- Food and Chemical Industries in Europe as follows: from 1992-1994 in Jungbunzlauer SA as Executive President, from 1994-1996 as General Manager of the Cana group and from 1996 -1998 Doux, as Executive Vice President of this leading European group specializing in poultry.

Michel returned to Lafarge in 1998 when he was appointed as Director of Strategy and Information Systems of the Gypsum division of Lafarge. In 2003, he moved to the Cement Division as Director of Cement strategy, until his reassignment to Bamburi Cement as Managing Director in September 2005.

ANTONY HADLEY(47) is the Regional President LAFARGE Africa. He is a Mechanical Engineer who graduated from London's Imperial College in 1980. For 18 years, Tony worked in the oil industry for Schlumberger in many roles, living and working in North and South America, Europe and Africa.
In 1999, he joined Blue Circle Industries in the U.K. with responsibility for Africa. Following the acquisition of Blue Circle by Lafarge in 2001, Tony was appointed as Regional President for Lafarge (Africa Operations). Lafarge has cement manufacturing operations in Nigeria, Benin, Cameroon, Kenya, Uganda, Tanzania, Zimbabwe, Zambia, Malawi and South Africa.

JEAN CLAUDE HILLENMEYER(69) is a graduate engineer from Ecole Centrale des Arts et Manufactures, Paris and holds an MBA from "Institut d'Administration des Enterprises".
He is the acting Chairman of the Audit Committee. He has held several positions in the Lafarge Group both in France and internationally before retiring in August 1999 and is currently an independent consultant. He has 45 years of experience in the cement industry which has been very valuable to Bamburi Cement Limited as it goes through change.

AMB. SOLOMON W KARANJA(69) is a BA graduate of Makerere University and holds an MA from University of London. He has worked as a Deputy to the University of East Africa, Registrar, and was the first Kenyan University of Nairobi, Registrar. Subsequently he held the position of Executive Chairman, East Africa Portland Cement Company for twelve years after which ha was appointed Executive Chairman National Bank of Kenya in 1987.
He has served as Chairman Kenya Golf Union and Muthaiga Golf Club as well as a Director Muthaiga Country Club and Chairman Fidelity Shield Insurance Company.
He has served on a number of Government appointed commissions into the affairs of the university and is currently on the University Inspection Board recently set up by the President to review the operations of the public and private universities in Kenya.

DAVID NJOROGE(35) is a holder of a Bachelor of Commerce degree (Accounting option) and is a Certified Public Accountant. He has attended managerial, financial and leadership related courses both locally and internationally including sessions in INSEAD.
He joined the Company in 1999 as Finance Manager, a position he held until 2002 when he was promoted to Group Finance Director. He oversees the finance, information systems and legal functions in the Group.
He is also a director at the Nairobi Stock Exchange where he chairs the audit committee. He has several years experience in finence and control.

BOARD OF DIRECTORS

ELMOR LEO(62) holds a Bachelor of Commerce degree from the University of Pretoria and a Masters of Business Administration degree from the same university.
He is the Managing Director of Lafarge South East Africa. He has served in various positions within the Group and has experience spanning over 20 years in the cement industry.

CHRIS KISIRE(39) is a holder of a Bachelor of Commerce (Accounting) and a Masters of Business Administration degree from the University of Nairobi. He also holds a Certified Public Accountant of Kenya, CPA (K) qualification. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Mr Kisire was appointed to the Board on 1 October 2004. He is currently the Group Finance and Administration Director of The Standard Group Limited. He has worked for more than ten years in the finance field both locally and internationally (Zimbabwe and United Kingdom).

SHEILA M'MBIJJEWE(48) is a Chartered Accountant (ICAEW) and a CPA Kenya. Sheila's previous jobs have included the Finance Director position at PricewaterhouseCoopers, Stagecoach International, and most recently with Standard Chartered Bank Kenya. She is currently a member of the Bamburi Audit Committee and the Board. She is also a member of the Monetary Policy Advisory Committee of the Central Bank of Kenya.

RACHEL LUMBASYO(55) has a Bachelor of Commerce degree (Accounting option) from the University of Nairobi and has a CPA (K) qualification. Rachel worked in various senior audit positions in the Office of the Controller and Auditor General Kenya from 1975 to 1989 when she left as Assistant Director of Audit. She then joined the National Social Security Fund in March 1989 as the Chief Internal Auditor. She has worked in the Fund as the Internal Audit Manager and Deputy Managing Trustee. In December 2005 she was appointed the Managing Trustee and a member of the NSSF Board. Rachel is also a member of the Rent Tribunal.

ALBERT SIGEI(33) is a Mechanical Engineering graduate from the University of Nairobi and is a Chartered Certified Accountant. He also holds a Higher Diploma in information systems management and qualification in information systems audit. He has attended various training sessions, including an International Leadership Development Programme at INSEAD, one of Europe's leading business schools.
He joined Bamburi Group in 2002 as Group Controller. Before joining Bamburi Cement, Albert worked within the risk management and financial audit service of PricewaterhouseCoopers (PwC) for five and a half years, both in Nairobi and London.

MBUVI NGUNZE(38) is a holder of Bachelor of Commerce degree (Accounting option) and is a Chartered Accountant England and Wales. Mr Ngunze joined Bamburi Group in 1998 as Finance Manager, and was promoted to the position of Finance Director in 1999. In 2002, he took up the position of Managing Director, Hima. He has experience from the field auditing and consulting in his previous job, and has been significantly involved in the strategic evolution of our business.
In 2000, Mr Ngunze attended a month Executive Development Program for International Leadreship at INSEAD, France, one of Europe's leading business schools.
Mr Ngunze resigned on 28 February 2006 following his transfer to Lafarge SA Headquaters.

Management's Discussion and Analysis of Financial Condition and Results of Operations

SAFETY, HEALTH & ENVIRONMENT

We give Health and Safety first priority and aim to operate at world-class levels. No lost time accidents were recorded at any of our sites during the year. The Nairobi Grinding Plant achieved 5 years without a lost time accident in November. Near miss reporting was given increased focus, and the number of incidents reported and investigated at all sites increased tremendously from 579 in 2004 to 3,211 in 2005. The Mombasa plant was awarded the Best Safety improvement initiative award in Lafarge during the group's convention held in Lyon France.
Regrettably, we had six fatalities of contractors and third parties involved in the transportation of our product through road accidents. Road accidents involving our transporters are a big concern and we are committed to working with all our contracted transporters to minimise the risk on the road. This will be one of the top priorities in 2006.

THE ECONOMY

The Kenyan economy performed strongly in 2005 with GDP growth at 5%. The recovery was driven by increased output in agriculture, resurgence of the tourism sector, and increased building and construction activities. Interest rates remained stable at between 11% and 13%. Underlying inflation declined to 7.4% (2004: 10.4%) while overall inflation was 10.3% (2004: 11.6%). The Shilling appreciated against the euro by 4.4%.

In Uganda, the GDP growth in 2005 was estimated at 4%, which was below the government target of 7% (2004: 5.9%). It was affected by a long dry season and reduced agricultural output. Inflation was controlled during the year, with headline inflation restricted to within 4% to 5%. Interest rates decreased in the year ending at 8% on government bills while the shilling strengthened against the Euro by 5% compared to 2004. The power supply situation in the country deteriorated as a result of falling water levels at the main power station, related to the drought affecting the region. The situation is expected to deteriorate further, with significant effect on economic output in 2006.

The situation in the north of the country remained unstable, slowing economic development in that region.

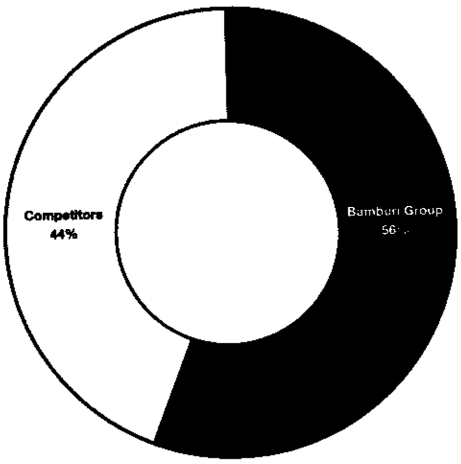
MARKET

In Kenya, domestic market growth was vibrant, recording an 11.3% growth over 2004. This growth was driven by increased demand for residential housing, with lower mortgage interest rates helping to sustain resurgence in the building and construction sector. There was also noted investment by the government through the Community Development Fund (CDF).

The overall estimated market in Uganda grew by 7.1% over 2004. Competition intensified in the western Uganda markets as our main competitor installed additional capacity during the year. We took response actions to protect our market share.

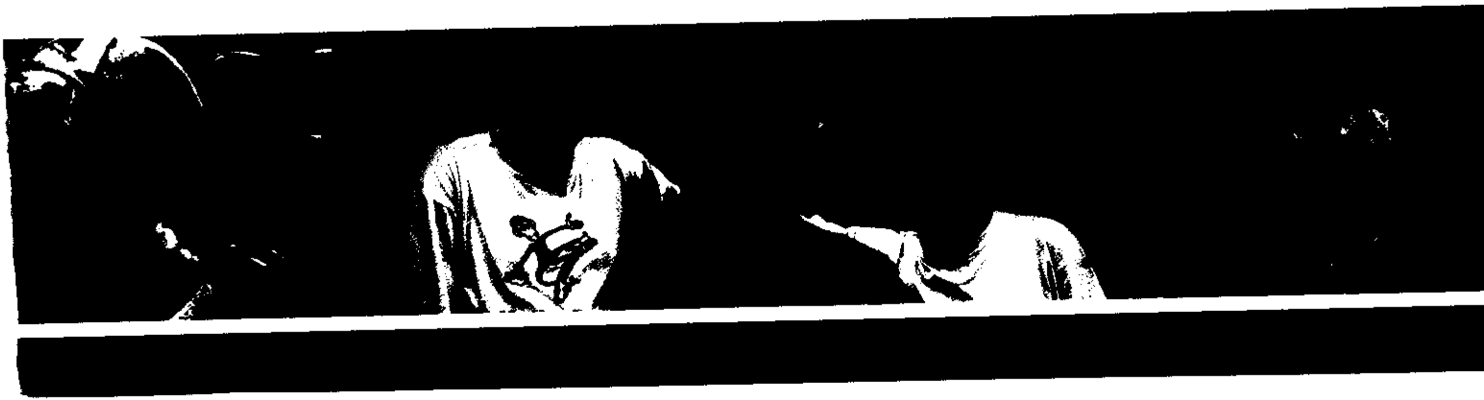
Our performance in the export markets improved in 2005, with greater penetration and support from our expanded logistics capacity. Exports outside East Africa increased by 21% (51Kt) through higher volumes to Rwanda, Burundi, Congo and Somalia. We are focused on these markets and Sudan as potential growth areas and are prepared to maintain our strong position in these markets.

East Africa Market Share Estimate



SALES

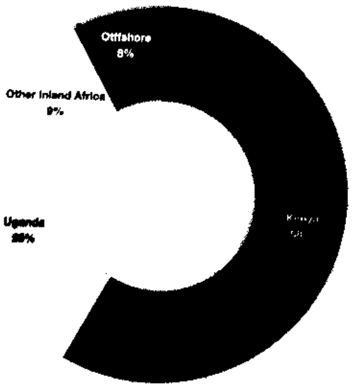
Our turnover in Kenya increased by 23%, lifted by growth in the domestic and export markets, and price adjustments to compensate for rising prices on production inputs. The domestic market was stable through out the year. Export volumes increased by 41% mainly due to increased supplies to Uganda.
Turnover in Uganda increased by 29% resulting from a stronger domestic market, growth in exports and higher prices. The growth in the market was accompanied by increased competitive pressure, due to increased production capacity installed by our competitor. However we improved our market position, leveraging on our logistics capabilities to serve the market from Kenya. Prices were increased in the year to compensate for rising prices of fuel, power and other factors of production.
Our marketing focus has been to strengthen the relationship between our brands - 'Nguvu', 'Multipurpose', 'Powerplus' – and our customers. Through our mason's training program, we have reached over 40,000 masons in Kenya and Uganda.



Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

We launched the first phase of our Building Information campaign, whose aim is to provide our customers with reliable information. We introduced value propositions in the last quarter starting with our Nairobi customers, as part of our drive to improve the overall service package for all our customers.
We did not realise the gains anticipated from public sector infrastructure projects that were expected to commence in the year such as concrete roads. We however remain optimistic that some of these projects will commence in 2006.

Sales by Region (tonnes)



OPERATIONS

Mombasa Plant

Plant operations for 2005 showed marked improvement with clinker production 8% higher than 2004. The plant recorded improved kiln reliability achieving 92.4%, (2004: 87%) and improved utilisation of both kilns. The stable operations in turn contributed to lower fuel and power consumption.

Unit maintenance costs were kept at 2004 levels. The plant was affected by a 12% increase in power prices and by rising fuel costs which pushed the cost of transporting material from the quarries up.

We continue to make investments aimed at efficiency improvement and cost reduction. Our key projects in 2005 were aimed at improving reliability. We have continued to intensify team mobilisation activities in order to enhance empowerment and get the best of our people.

Nairobi Grinding Plant

Cement production at the Nairobi plant increased by 25% to meet the increased demand particularly from exports. We made progress towards optimising our material usage and improved power efficiency by 3%.
Production costs increased in the year with rising clinker transport costs and higher prices for power and cement additives.

Hima Plant

Clinker production was 3% behind 2004 due to frequent power interruptions and a lower reliability. Cement production was 9% lower than in 2004 mainly due to lower clinker stocks and some process difficulties. We have since resolved these problems and expect to realise gains from increased capacity in 2006.

Poor power supply quality continued to affect plant operations. In total, there were 298.9 hours of downtime on kiln operations compared with 301 hours in 2004. In addition to affecting equipment utilization, this situation contributed to high fuel consumption in 2005. We expect to install a power generator to ensure power availability and quality by June 2006. Cement costs were increased in the year by power and fuel price increases, and higher raw material prices for gypsum and pozzolana.

CAPITAL EXPENDITURE PROJECTS

Our major capital projects in the year were at the Hima plant where our focus was to increase the plant's capacity and efficiency. We spent over Kshs 185m on productivity and efficiency improvement works, and a further Kshs 172m on plant sustaining projects. In Kenya the largest project was the new truck yard constructed at the Nairobi plant to enhance customer service and transporter safety. The group spent Kshs 88m at the Mombasa plant much of which was on projects that promise improved efficiency and reliability of equipment. Total capital spending in 2005 was Kshs 512m compared to Kshs 407m in 2004.

OUTLOOK

The prevailing drought in Kenya poses a threat to sustained economic recovery. Rising cost of food could accelerate inflation. The low water levels in the hydroelectric dams will result in increased supply of power from thermal sources which will lead to increased tariffs. The Government revised GDP forecast for 2006 downwards from 6% to 5%, while private sector projections are as low as 3.5%. A slow down in the economy would affect the cement market growth. The government plans to order emergency generating units to cover the deficit in power supply. While these are necessary measures to maintain economic activity, they will lead to increased costs which will slow growth.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The construction industry and the economy in general should benefit from prudent Government policies aimed at maintaining low inflation and stable exchange rates, and from a healthy tourism sector. Lower interest rates and recently introduced mortgage incentives will also provide vital support to the construction sector.

We will remain focussed on expansion in high growth potential Inland Africa markets. Our exports to Uganda from Kenya should grow as production in our subsidiary there is increasingly directed westward. Our logistics achievements in 2005 are notable but we will have to surpass them to deliver even higher volumes expected in 2006 and to further optimise costs. We will also focus on improving our secondary logistics by expanding our capability to deliver directly to domestic customers.

In Uganda, we expect the domestic market demand to continue to grow with government/donor funding for infrastructure projects and individual home-builders. The start of the year though has been slow on account of presidential and general elections. The elections took place peacefully and we expect the market to rebound and post growth rate of up to 10%. We have in place the logistics to serve the market efficiently from Kenya and to achieve our traditional market share. At our Kasese plant we are seeing the benefit of modifications we made to our kiln at end of 2005 to improve output. We will be commissioning key cost reduction projects early in the year. The power supply situation is a major concern. The power generation company has warned of increased power disruptions and higher tariffs. To address the disruption problem, we ordered for 3MW generator which we expect to install in Q2 2006.

Overall, with our strong commercial organisation, efficient logistics and improvements in efficiency and output at the plant, we expect a better performance in 2006 and to keep our leadership position.

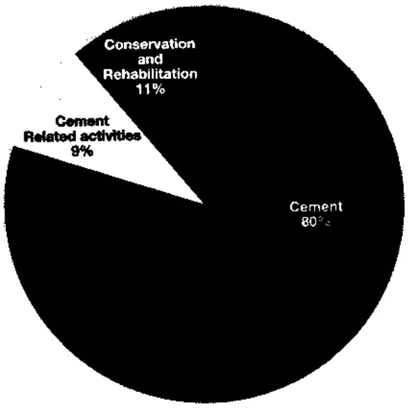
GROUP HUMAN RESOURCES

Courage, integrity, commitment, consideration for others and safe working practices are the pillars of our Human resources policy. We demand and expect exceptional performance from our employees and in return we aim to offer a challenging and motivating work environment.

As part of an international group we have been able to offer our employees opportunity for growth and career development through partnership with sister companies. Our employees' skill level, their application to work and innovative ideas have been recognized by the group. Our aim is to build on the achievements of the last five years to accelerate our employees' performance in the next 5 years.

The Leader for tomorrow program was introduced by the Lafarge group as process to create the right mindset and behaviours to succeed in the group's vision of being the undisputed world leader in building materials. We have made strides towards entrenching this programme into our normal operations: carrying out sessions to communicate the principles to all our employees. In the year we also carried out an employee satisfaction survey in the year as a follow up to a survey done in 2003 to determine whether our employees feel that their concerns are being addressed. Our total number of employees are split as follows:

Employees by Business area



ADVANCE

Advance was introduced by the Lafarge group as an accelerated performance programme in 2003. We have made strides towards entrenching this programme into our normal operations: all functions have appropriated the methods of the programme, defining advance action plans that are tracked regularly.

LAFARGE ECO SYSTEMS

This unique environmental subsidiary has continued the restoration of all exhausted quarries in order to create diverse tropical forests that are also a reservoir of endangered species in the Kenya coast. Development of rehabilitation performance was a major objective of the year. To achieve this the company is developing master plans for quarry rehabilitation in all East African quarries. Towards this end, baseline studies for all East African quarries have been conducted, and detailed baseline maps for Mombasa quarries are complete. The company also protects limestone reserve lands. In 2005 the company coordinated ecological surveys for the environmental impact assessment of the proposed Dura Quarry in Uganda.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

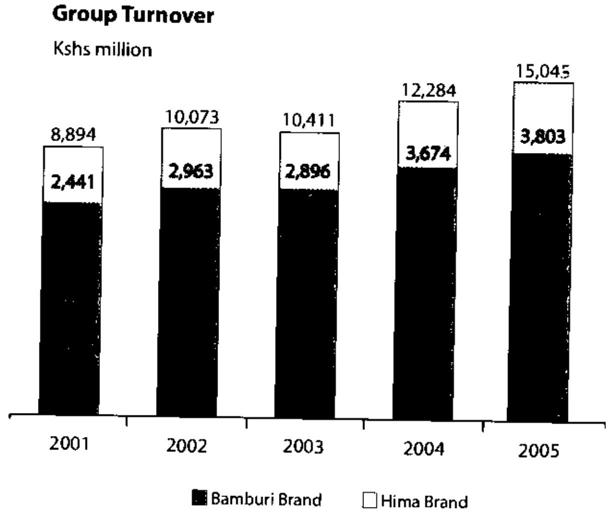
A pleasant surprise in 2005 was international fame attracted by Owen and Mzee. The 1 year old hippo was rescued in the sea near Malindi after the Tsunami separated him from his family. Introduced into our famous restored quarry, Haller Park, the hippo named Owen immediately developed an affectionate friendship with one of the 13 giant tortoises, named Mzee. Enchanting photographs of the pair appeared in newspapers across the world and the company published a top selling children's book "Owen and Mzee" that was launched in New York. The publicity and visitors to the website (>800,000) confirm that public interest in Owen and Mzee are a perfect opportunity to raise awareness about Lafarge's environmental successes in rehabilitation of quarries in East Africa.

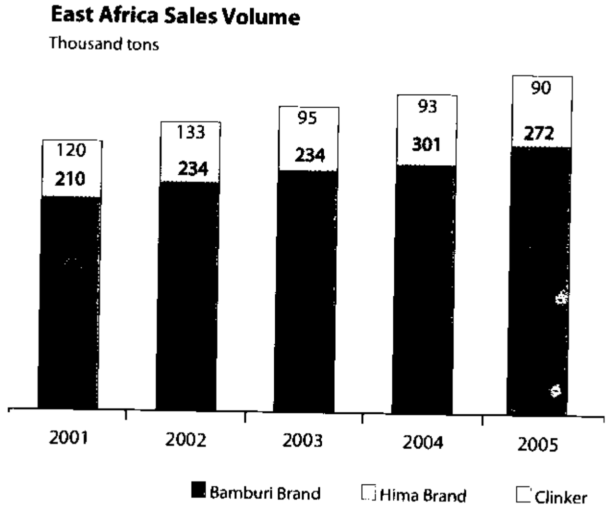
BAMBURI SPECIAL PRODUCTS LTD

This subsidiary, the only company in its industry with ISO 9001:2000 certification and with the Diamond Mark of Quality for its products, manufactures paving blocks under the brand name 'BamburiBlox'. The company recorded a 30% increase in sales and an 85% increase in profit. As part of its strategy, it produces other concrete products, including pre-cast concrete products for affordable housing. As part of its efforts to create new markets, the company has successfully introduced the block paving concept in the Horticulture and Floriculture industries, and continues to pursue new uses of cement with various stakeholders.

GROUP FINANCIAL RESULTS

Group turnover increased by 22% driven by growth in the domestic and regional markets. Export volumes increased 41% and 82% in Kenya and Uganda respectively, reflecting our improved penetration into great lakes markets of Rwanda, Burundi and Congo. Turnover is also higher on account of adjustments to prices that were required to compensate for rising costs of production.

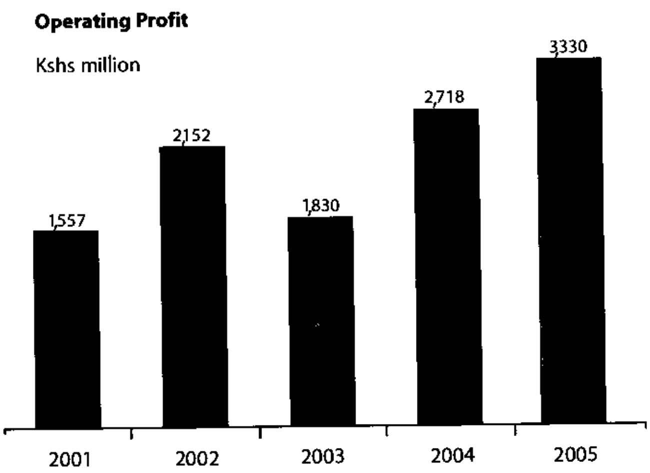




Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

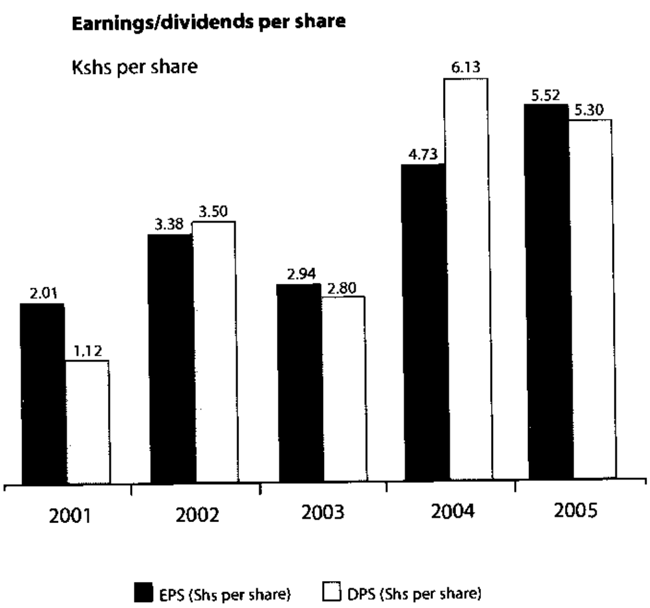
Our production and logistics costs were affected by the steep increase in world oil prices. Higher fuel costs led to increased cost of production and transport. Further increases occurred in power prices and the price of all purchased raw materials. The efficiency gains made in fuel and power consumption could not completely offset the cost increases, but they contributed to the net improvement in operating result.

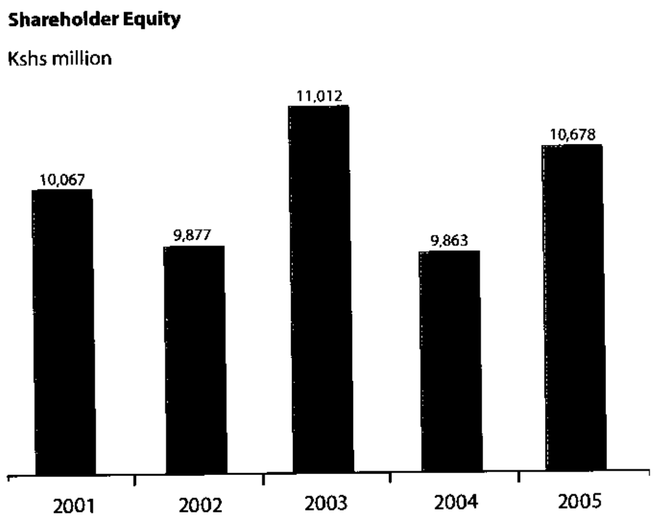
Combined operating profit improved by 34% benefiting from better sales, focus on cost control and improved efficiencies in our production process.



EARNINGS/DIVIDENDS PER SHARE

Group earnings per share rose by 16.5% to KShs 5.52 compared to KShs 4.74 in 2004. In 2004, the group paid a special dividend on account of the 50th Anniversary Celebrations.





Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

FINANCING AND CASHFLOW

The cash generation in the year remained strong, with sustained focus on working capital and treasury management. Compared to last year, cash from operations is 5% lower because of our strategy to increase cement stocks for the Uganda market to ensure adequate supply of our product.

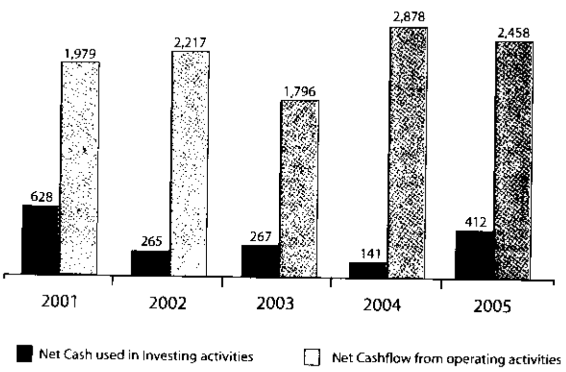
KShs Million	Group 2005	2004	Company 2005	2004
Long term debt	-	-	-	
Short term borrowing – net of cash balances	(503)	(632)	(680)	(638)
Total	(503)	(632)	(680)	(638)

CASH FLOW - CONSOLIDATED

KShs million	2005	2004
Cash at the beginning of the year	632	849
Cash from operations before tax	3,592	3,761
Net interest paid	(18)	(35)
Taxes paid	(1,116)	(847)
Investing activities:		
ARM shares sale/bond purchase	-	56
Purchase of fixed assets	(426)	(205)
Financing:		
Dividend/loans received	-	7
Dividends to Bamburi shareholders	(2,055)	(2,738)
Dividend minority interests in Hima	(83)	(165)
Loan repayments	-	-
Effects of exchange rate changes	(23)	(51)
Cash at the end of the year	503	632

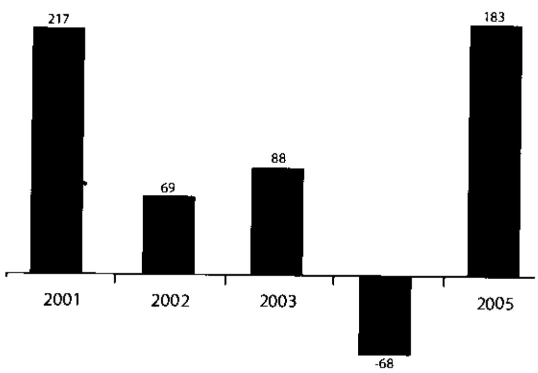
Investments and cashflows from opening activities

Kshs million



Finance Costs

Kshs million



The finance cost of Kshs 183 million includes an amount Kshs 152 million relating to exchange losses arising from appreciation of the shilling versus US dollar.

CORPORATE GOVERNANCE & SOCIAL RESPONSIBILITY

INTRODUCTION

Our Board and Executive committee are committed to managing business at the highest standards of corporate governance. The role of the Board is to assist in determining the Group direction and strategy, monitoring the achievement of business objectives, ensuring the Group meets its responsibilities to its shareholders and that the control environment adequately protects the Group's assets against major risks it faces. The directors are responsible for maintaining the Group's systems of internal control. These controls are designed both to safeguard the Group's assets and ensure the reliability of financial information used within the business and for publication. As with any such systems, controls can only provide reasonable and not absolute assurance against material misstatement or loss. The key features of the governance structure and processes and the internal financial control systems, which operated satisfactorily throughout the period covered by the financial statements, are described below.

CORPORATE GOVERNANCE

Board of Directors

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

The board meets at least once every quarter. It has four standing committees, as discussed below, which also meet at least four times a year.

Audit Committee

The audit committee plays the key role of reinforcing best practice in corporate governance particularly in the areas of internal controls and risk management.

Its main duties are:

- to ensure that the systems of internal control are soundly conceived and effectively administered and seek assurance that effective control systems are in place and regularly monitored;
- to define responsibilities of the internal control function;
- to review financial statements and interim results;
- discussing the mandate and reviewing the findings of internal and external auditors.

Nomination and Remuneration Committee

This committee is responsible for appraising the performance of senior management staff, including the Chief Executive, continuous review and rationalisation of human resources policies, and advising the Board on matters relating to remuneration for senior management and board members. It is also responsible for the appointment of directors to the board.

Asset Disposals Committee

The committee is responsible for the disposal of the Group's significant non-operating assets. It is charged with ensuring that the process of disposal is fair, professional and efficient as instructed by the board.

Executive Committee

The Managing Director chairs an East African Executive management committee, which comprises the executive directors and certain other senior executives. The committee meets at least once a month and its mandate is to deal with operational issues, and to improve communication and co-ordination through the various companies in the group.

Planning and Control

There is a comprehensive management cycle system that includes the long-term strategic plan, medium term performance improvement plan, organisation and human resource review and the budgets. The strategic plan gives the group long-term direction while the performance plan enables management to focus on key actions to achieve our strategy. The budget or annual business plan is approved by the Board in December each year and must be consistent with the strategic and performance plan. At every board meeting, management accounts containing actual versus budgeted results and revised forecasts for the year are reviewed by the Board. These monthly management accounts analyse and explain variances against plan and report on key financial indicators.

There is a clearly defined organisational structure within which individual responsibilities are identified in relation to internal controls. The structure is complemented by

policies, and management operate the business in compliance with these policies. The policies include guidelines for authorisation and approval of revenue and capital expenditure.

The group has defined procedures and controls, including information systems controls, to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the business remains appropriately structured to ensure adequate segregation of duties.

During the year, the group continued the implementation of the requirements of the Sarbanes Oxley Act, a United States statute and critical project that commenced in 2004. Being part of Lafarge S.A. a company that is quoted on the New York Stock Exchange, we are obliged to implement the requirements of this Act. The key highlights of this project are:

- Documentation and flow-charting of business processes and controls around these processes. This stage deals with the process and design effectiveness

- Testing of the controls internally (by both the EA internal audit as well as Lafarge audit teams) followed by external testing by our external auditors. This stage deals with operating effectiveness

- Overall internal controls assessment

The main benefits to be gained from this project include:

- Improving business processes efficiency through implementation of common internal control standards and sharing best practices.

- Increasing accountability of management with regard to internal controls and improving the internal control culture throughout the Group.

- Enhancing corporate governance principles and the risk assessment and management process.

- Providing a framework for continuous assessment and improvement of the internal controls within the group.

We have also fully adopted International Financial Reporting Standards (IFRS) in line with the requirements of the Institute of Certified Public Accountants of Kenya. This should enhance the readership and understanding of published accounts for shareholders and other users.

CORPORATE SOCIAL RESPONSIBILITY

We are committed to ensuring that our group operates with the highest standards of professionalism - pursuing our strategy for sustainable profitable growth while showing awareness of environmental and stakeholder issues. Our vision on sustainable development is to be seen as a good neighbour and an environmentally and socially responsible corporate entity. This includes ensuring that our business respects the public interest at the local level. Our success in quarry rehabilitation and our partnership on landscape reforestation with WWF in East Africa has been publicly acknowledged. Progress in this area is illustrated elsewhere in this report. Social responsibility is another of our key initiatives, which is not as well known. As an illustration we have dedicated key management resources in each of our units to community, safety and environmental issues.

This means that apart from looking after our staff in terms of paying competitive salaries and wages, as well as giving them every opportunity to contribute and develop their talents in a conducive and challenging work environment, and delivering an equitable return to our shareholders, we make a deliberate effort to contribute towards building a better world for communities around us in education, health and in environmental protection, amongst others.

Safety

Our aim and commitment to Health & Safety is to ensure that everyone who comes to our workplace leaves without an injury. We believe that excellence in Health and Safety (H&S) will contribute to our East Africa vision of being the undisputed leader in cement production and marketing in the region. Our guiding principles that:

- all people working at our sites have a right to expect safe and healthy working conditions
- all people working at our sites have the responsibility to contribute to such conditions with responsible
- behaviour for themselves and others affected by their actions.
- We regard H&S as core business values integrated into the overall business performance
- Every accident or case of ill-health resulting from employment is avoidable. All our operations must continuously improve their H&S performance to achieve sustainable accident-free status
- Our H&S management main tools are near miss analysis, risk assessments and continuous training.
- All our operations must respect the local rules and regulations in their management of all H&S matters.

It is the prime responsibility of every manager and employee at every level to ensure H&S of employees, contractors and visitors under their responsibility.

They must implement H&S policy and applicable procedures.

In 2005, we moved further in realising our goal. Mombasa Plant, one of our plants received two prestigious awards in safety; Lafarge Best Safety Behaviour Improvement Initiative and Africa's Best Overall safety performance. Other plants managed to achieve milestones in safety as follows; Nairobi Grinding Plant Athi River, Bamburi Special Products, and Hima Cement each had five, two and one year records respectively, without any lost time injuries (LTIs) to employees. The overall frequency rate (number of LTIs per 1,000,000 hrs worked) for the group is 1.16. Lafarge targets to achieve less than 3.

During the year, we continued with our road safety campaign with the aim of eliminating fatalities involving vehicles of our transporters and suppliers. It is regretted that 5 people involved in transport operation of raw materials or cement, died on the roads in Kenya and Uganda. This however, is a reduction from the 6 fatalities we had on road transport in 2004. We have developed a road map to be able to focus broadly and effectively on the road safety. Upon implementing measures targeting the transporters in terms of management and trucks maintenance, we shifted to drivers focusing on behaviour change. A number of drivers underwent defensive driving training to reinforce their skills in observation and anticipation in order to avoid road accidents. We will continue to train more drivers this year. Our East Africa Road safety committee has been constituted in order to provide a forum for uniform application of the driving policy.

Analysis of near misses will remain a priority in order to drive safety culture in our sites. We will also increase our effort towards improving safety relating to our transporters.

COMMUNITY AND ENVIRONMENT PROGRAMMES

KENYA

As mentioned above we direct our social and community activities to education, health, environment and safety. We feel that for appropriate impact and efficiency, focus on major projects on a long-term basis is the best route. Our strategy is therefore to provide continuing support to long-term sustainable projects and is guided by the company's performance.

Education

One of our initiatives in the education sector falls under our Bursary Scheme set up in 1998 to assist undergraduate students in our National Universities. The bursary supports students from the areas in which we operate who have been offered places in our National Universities. This programme began with support of two students but has since grown to twenty one. Our focus on education saw us continue to support a number of students in various schools in Kenya by paying their school fees.

In addition, we have an internship program, in which we provide field attachment opportunities within our organisation to better prepare the students for the work environment. In tandem with this we have recently launched an apprenticeship-training scheme in which we will sponsor technical apprentices to the National Polytechnics to enable them enhance their knowledge and skills relevant to the current and future needs of our plant operations and the country. We expect that within the next four years, we will have supported twenty students through this programme. In addition, in 2005, through our subsidiary Lafarge Eco Systems (LES) on site academic programs have been developed with leading National and International Universities. Thirteen Kenyan students enjoyed attachment during 2005. Planning for 2006 concluded the offering of an undergraduate course in rehabilitation to Princeton and Cranfield Universities and the University of Nairobi while Yale University students are expected in 2006. LES also plays a key role in furthering the education of Kenyans; in 2005 two scientists associated with us obtained placement in Harvard and Yale Universities on scholarships for Phd and Masters Degree programmes that will include field research with LES.

Health

Our commitment to the community in the area of health is exemplified by our continued involvement in both HIV/Aids and Malaria control programmes.

In the workplace our initiatives towards enhancing awareness saw a launch of a group of Peer Educators in April 2005. Various activities were planned and executed leading up to the marking of the World Aids Day. These were a week of awareness at our Nairobi Grinding Plant in Athi River, provision of employee access to a Voluntary Counselling and Testing Centre and donation of foodstuffs to a children's home in Nairobi's Korogocho slum area where support is also given to children affected by HIV/AIDS.

Female employees and the female spouses of our employees subsidiary Lafarge in Mombasa attended a HIV and health seminar organized and conducted free of charge at the Haller Park pavilion on the 25th and 26th August 2005.

The Company continues to provide Anti Retroviral Therapy for employees who are HIV positive and who require them.

Environment

a. Quarry rehabilitation

The most significant achievement of our Corporate Social Responsibility (CSR) activities is quarry rehabilitation. We continued our planting of pioneer trees in all the areas of quarry available – a necessary first step towards recreating the soil conditions necessary for tropical forests to become established. In older areas we continued with enrichment planting in order to introduce valuable tree species, species that attract birds and insects as well as other animals, and species that promote the repair of ecosystem functions like pollination and soil development. These forests are located in Haller Park and the Forest Trails and we always encourage staff, shareholders and the general public to get involved in creating forests. During World Environment Day 2005 (June 5th) over 1,000 seedlings were planted by staff and friends.

During the year we adopted the Lafarge Best Practice for rehabilitation development and initiated a project on rehabilitation master planning. Masterplans are the blueprints that describe the rehabilitation of all our quarries in East Africa. These plans will be completed in 2006 and will be a key communication tool for our shareholders and all our visitors as well as government officials. Our baseline studies revealed that restoration at the Kenyan coast has successfully restored biodiversity in most sites.

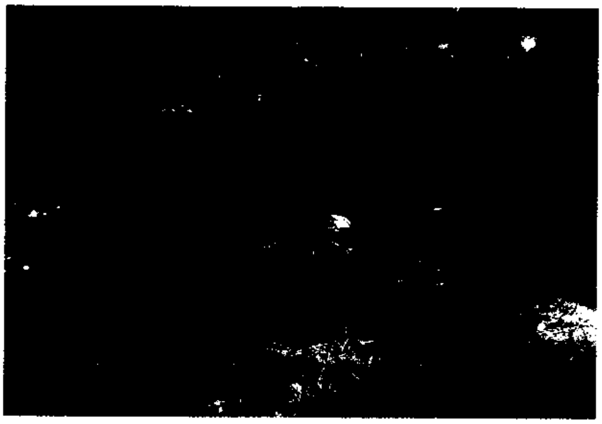
We met the environmental audit targets and assisted as part of the team carrying out the environmental impact assessment in Hima's proposed quarry at Dura. The specific involvement of the team from Lafarge Eco Systems included coordinating the biodiversity surveys, consultations with stakeholders, development of the rehabilitation plan and assisting in the compilation of the final report which has since been submitted to the Ugandan environmental authorities for consideration.

b. Haller Park

Our showcase Haller Park and sister Park Forest Trails remain top visitor attractions in Mombasa. Together they attracted 130,000 visitors in the year, one third of whom were Kenyan school children, the remainder Kenyan and international tourists. The benefit to our neighbours and partners include their use for various important fund raising events for the less privileged. During the year we focussed on improving our customer services by introducing new uniforms, working on the information content of our guided tours, and initiated evening talks, films and occasional night time guided tours. We also re-opened the Whistling Pine Restaurant and introduced wildlife films in the reception area. Major developments were underway during the year with creation of new exhibits to house hippos, dredging of ponds to improve water quality and improvements to visitor facilities in a number of places. Most visible was the introduction of new colourful signage at our entrances. To attract more visitors to our beautiful but less well known Forest Trails, we reconstructed the deck across a stunning pond at Sunset Terrace bar and built an innovative new playground at the site.

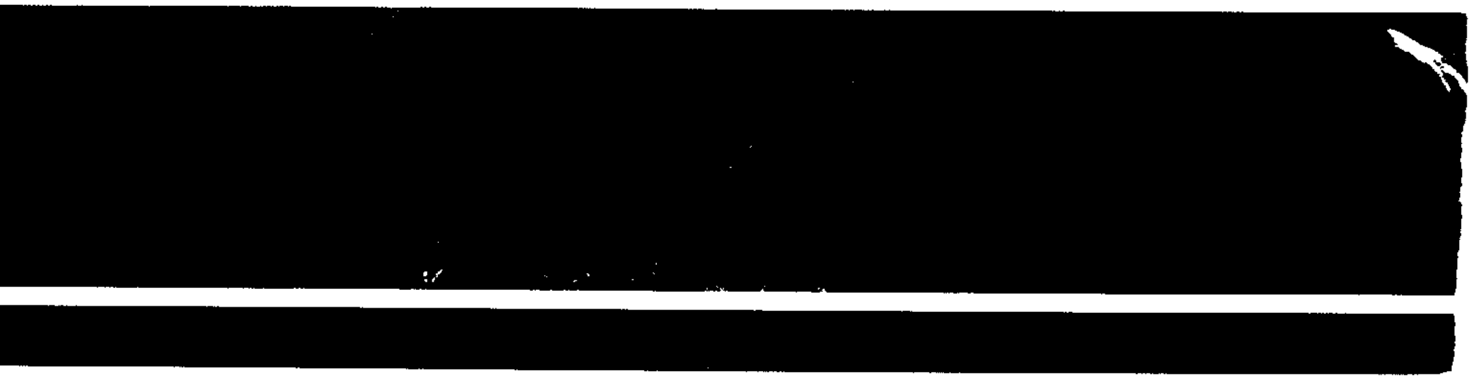
Lafarge Eco systems opened Haller Park to allow free entry for the Mombasa community on the World Environment day. A total of 1587 people visited the park as a result and were happy to view our rehabilitation show case. Two schools from Kwale District which are part of the Green Schools Project were sponsored to come for the occasion.

Haller Park has the unique distinction of being the home of Owen and Mzee a hippo and tortoise respectively, whose behaviour has been made into a best selling book. Funds raised from this book have been used to improve Haller Park's educational facilities and to create a new exhibit for Owen and Mzee that will further celebrate the success in restoration at the Park.



c. The Green Schools Project

The Green Schools project launched in 2003 has continued to make good progress. This project focuses on providing clean water and tree seedlings for planting to schools with the aim of eventually creating a sustainable source of drinking water and firewood. We provide a water tank design concept, and then train people in the local community on how to construct it before we offer them cement for construction. We then provide 5,000 tree seedlings to each school. The goal is to ensure that each "Green School" pupil will plant trees that will foster growth of forests and sustenance of firewood for cooking. The tanks will collect rainwater, which will provide access to clean drinking water. The total numbers of tanks



constructed in 2005 were 53 bringing the total number of tanks built to 107 since the project inception. The tanks were constructed in 27 schools and one institution for orphans. To date we have planted over 123,566 tree seedlings in the selected green schools in Kwale, Kilifi, Mombasa, Machakos, Mwingi, Kajiado, Rarieda and Marakwet. In recognition of the efforts in this respect the company was awarded a special award at the Total Eco Challenge Awards in September 2005.

Lafarge Eco Systems conducted a one day seminar for thirty primary school teachers in Kwale district. Some of these teachers were from the schools already in participating in the Green schools project. This seminar was to help them understand how to start a tree nursery, care for the trees and to raise awareness on the importance of environmental conservation.

The Floringi Project

In 2005, Bamburi Special Products contributed material in the form of concrete paving blocks to a slum upgrading project in the Mombasa area of Floringi. Floringi is situated within the administrative boundary of Island Division, Mombasa District, and measures approximately 0.5 km^2 bordering Bondeni area to the north. It is a cosmopolitan community with a population of 4,000 people; 20% of whom are elderly and 80% of whom are the youth. The village has 150 houses. During rainy seasons however, flooding exacerbated by a poor drainage system, led to a deplorable situation in the area. The project which sought to improve proper sanitation and drainage in this flood prone area was undertaken in collaboration with an NGO known as Citizen's Forum Trust, various private sector donors and the UNEP. The project was successfully launched in February 2005.

Bamburi – WWF/EARPO Partnership

Shimba Hills

Bamburi in Cooperation with Kenya Wildlife Service, Forestry Department, National Museums of Kenya and local Communities are involved in this project that aims at promoting sustainable community livelihood through Forest Landscape Restoration and Public Awareness.
For WWF-EARPO East African Coastal Forests is one of their focal programmes, extending from Kenya to Mozambique. While we were implementing our pilot phase, WWF managed to secure funding from other organizations to continue, expand and upgrade the programme in and around Shimba Hills, as part of the larger E.A.Coastal Forest Programme. This expansion started end 2005; WWF-EARPO have recruited officers at various levels, and implementation is about to take off.

Shimba Hills National Reserve is a 250 km^2 national park situated approximately 40 km south of Mombasa, with ecosystems of moist coastal forests, high plant diversity and a high rate of endemism. It is part of WWF's Eastern Africa Coastal Forest Eco region, one of the world's 25 biodiversity hotspots. For Bamburi, Shimba Hills is the main biodiversity reservoir for its ecological quarry rehabilitation.

The project aims to contribute to the conservation of the Shimba Hills ecosystem through involvement of the local communities. We assist reserve-adjacent communities to establish tree plantations on their land along the reserve boundary to create a buffer zone between the reserve and agricultural land; 43,000 seedlings have been planted since 2005. The buffer-zone plantations are established to reduce crop raiding by wildlife from the reserve, mainly elephants, as well as to create revenue that is realisable at a later date from the sale of poles and timber.

At the same time the project supports sustainable livelihood initiatives for the reserve-adjacent communities in order to reduce pressure onto the ecosystem from the poor communities around the reserve. The project organises training for the various activities and assists with establishing markets for the products. We have continued

supporting the start up of income generating activities like butterfly farming projects, community tree nurseries, and traditional handicraft. Bee keeping and fruit trees are also being considered, but those projects have not yet reached implementation stage. During the year the tree nurseries received a boost in terms of purchases from our Green Schools Project.

Stakeholder workshops are carried out once a year to bring together all the organisations involved in conservation-related activities around the Shimba Hills National Reserve. The one-day workshops encourage exchange of information and coordination of activities between government departments, NGOs, and community-based organisations.

Together with WWF personnel Lafarge Eco Systems planted trees in the Kaya Muhaka Forest in south coast on the 10th of August 2005 which is a community managed forest. A contribution of 500 Seedlings was made to this event alongside employee involvement in the exercise.

WWF Eastern Africa Corporate Club

The WWF Eastern Africa Corporate Club was officially launched in January 2004, starting off with 13 member companies. Bamburi was one of the first members. It is a membership programme developed under the umbrella of WWF East Africa Programme Office (WWF/EARPO) to provide a platform for leading companies in East Africa to promote sustainable development, exchange experiences and contribute to regional conservation efforts.

The goal is to support national, regional and international efforts in the promotion of sustainable development, poverty alleviation and the maintenance of environmental integrity.

The Corporate Club has embarked on a common project of all member companies, implemented under WWF/EARPO's leadership: 'Eastern Africa Forest Catchments Ecosystems - Partnership for Restoration and Management', focusing initially on Mau Forest as a model site for other water catchments forests in the country and the region.

The Mau Forest is one of the five main water catchments as well as an important biodiversity area in Kenya. Currently Mau Forest covers approx. 390,000 ha, but is severely threatened by population pressure (the forest land is very productive, and crop cultivation has encroached deeply into former forest areas), and over exploitation (mostly timber and wood fuel).

The goal of the Corporate Club's Mau Forest Project is to protect Mau Forest, conserve it's valuable natural resources and sustain the environmental goods and services it provides for the benefit of present and future generations.

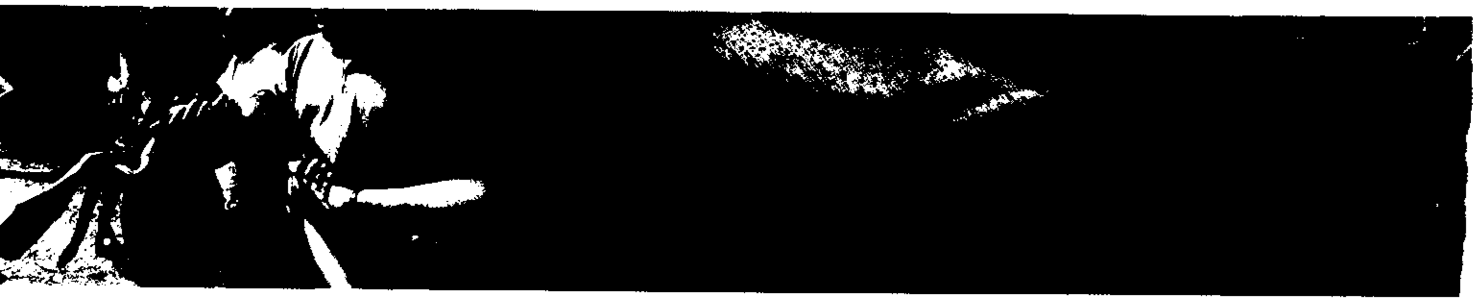
The project is implemented through partnerships with relevant organisations, institutions and local communities in order to stop further destruction of the Mau Forest and protect what remains of it. Destroyed and degraded areas are rehabilitated to restore indigenous forests or to establish tree plantations. The programme includes promoting environmental awareness, and building capacity in local communities and institutions. Forest-based, non-destructive income-generating activities are facilitated for the local communities, as well as on-farm tree planting.

Other Community Activities

We continued with our post retrenchment programme which aims at providing training, counselling, and financial support through a revolving fund to enable the staff start income generating activities. We are currently carrying out a study to enable us make the fund self sustaining and hopefully enhance support and service to the businesses. To date we have directly and indirectly supported the start-up of 140 new businesses, which have created 562 jobs. We have provided micro financing to 50 business start-ups for ex-employees, a number of whom are sub-contractors with companies within the Group.

Our staff feel privileged by virtue of the fact that they are employed in a country where 50% of their fellow countrymen live on an average of one dollar a day. Consequently they have felt obliged to play a part in supporting those who are less privileged through charity. In this connection for every shilling contributed by a staff member, the company matches with a similar amount. Out of 2005 contributions, we elected to pay school fees for eight deserving students and support them till completion of secondary school. The balance will go towards supporting charities to be proposed by staff.

In response to the obvious need in various parts of Kenya affected by famine, the company donated five million shillings to the Famine Relief Fund through the Red Cross in January of 2006 towards the alleviation of famine in the country. This donation was directed to both short term initiatives: the purchasing of food, medicine, provision of clean water and as a long term solution part of the donation would be used to construct a borehole. We will continue to be involved in community matters in the area within which



we operate and work even harder to support sustainable projects to complement the fight against poverty.

The Boabab Trust run by Rene Haller is supported by Bamburi and Lafarge Eco Systems. The Boabab Trust manages a demonstration farm for local farmers providing training on sustainable farming techniques for the local conditions. The Trust projects include marine and turtle conservation and community water and foresting projects. It also manages the Nguuni Nature Sanctuary on behalf of Bamburi.

UGANDA

In Uganda, we continue to be actively involved in a number of social initiatives. The main focus of Hima Cement Limited has been in the areas of education, health and sanitation, shelter, and environment.

Education

Literacy and Education remain at the forefront of our passions and therefore focus in terms of programs for support. We have continued the scholarship program for the bright students and in 2005 have made it even bigger, with more staff dependants eligible in order to encourage our own children to excel. In 2005 we shall sponsor 7 new students in addition to the existing ones. The Hima Donations committee is in charge of monitoring these students performance, with continuously poor performers being dropped off the scheme.

We also chair the management committee for the Hima Primary School and challenge and set performance standards for the school management. This year the primary school produced students eligible for the Hima scholarship after many years of forfeiture because of poor performance in the past. We also continue to provide support through cost of living allowances for teachers and stationery as well as accommodation for the teachers.

We have also introduced youth talks for the youth around Hima. These are championed by the community relations office. Topics that the youth feel are pertinent to them are forwarded and then discussions held during the school holidays. Such issues include health matters and sexuality. One of the interesting ones was a career guidance talk with Hima employees from various disciplines sharing experiences. Other speakers included the police and the church in Hima.

Health

Our commitment to the community in the area of health is exemplified by our continued involvement in both HIV/Aids and Malaria control programs.
We launched our HIV/AIDS policy in 2004. The key issues addressed being free Voluntary Counseling and Testing (VCT) for the community around Hima and free Anti Retroviral Therapy (ART) for staff and dependants.

We had in total 695 people from around Hima attending the VCT in the year 2005. In 2005 we took it a step further and entered into partnership with the Government of Uganda, our medical service providers IAA and USAID to extend free ART to the community around Hima as well. Administration of the drugs commences in March 2006.

Our VCT is a government accredited facility, and this was the basis on which we secured the partnership. Our responsibility in the partnership is to administer the ART through our medical service provider, as well as monitor the patients by carrying out CD4 counts. In addition to this we provide the logistics for the community outreach. IAA provides the medication for opportunistic infections whereas the GoU provides the ARV drugs, financed by the Global Fund. USAID through an agent finances the personnel cost for community outreach.

Hima is the first company in Uganda to embark on provision of ART for the community.

To enhance our HIV/AIDS initiatives we conducted a KAP (Knowledge, Attitudes and Practices) survey amongst our staff, to give us an indication of where we are in these three areas. The health committee headed by an Executive committee is taking charge of mapping the way forward on HIV/AIDS initiatives.

In recognition of the challenges Hima and her surroundings have in terms of health, with the region particularly being prone to cholera and malaria, we have continued the community days which focus on sensitizing the population on good health practices and also awareness of the hazards around us. We had 4 such days, 1 per quarter in the year. The main topics being on malaria, cholera, HIV/AIDS and general hygiene and sanitation.

Sanitation

Based on a survey conducted by UNICEF in Kasese district, sanitation remains a big issue with the ratio of students per latrine being unacceptably high. Since 2003 we adopted this as one of our key focus points. In 2005 we constructed 2 latrines in 2 schools in Kasese with 5 cubicles each, reducing the ratio of toilet per child from an average of 1:40 to 1:10.

Environment

On the environmental front, we started a tree nursery four years ago. We continue to be actively involved in planting trees around our plant, and providing trees to our neighbouring communities. In 2003, we embarked on an ambitious plan to plant 250,000 trees over two main rainy seasons in our quarry, particularly the utilised portions, as well as those unlikely to be used. To date we have planted 80,000 trees.

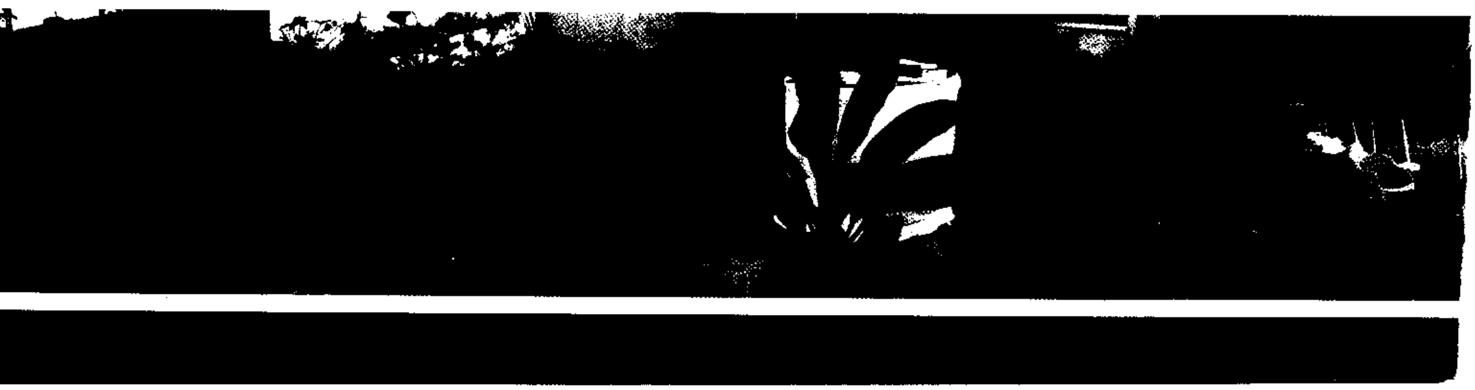
We continue to provide cement donations to needy causes such as schools, churches, mosques, hospitals, children's homes and other causes.

We also continue to prepare the staff nearing retirement age by imparting business skills and counselling. This exercise starts from 50 years of age as the retirement age is 55 years.

M Puchercos
Director

D Njoroge
Director

28 February 2006



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 55th Annual General Meeting of the Shareholders of Bamburi Cement Limited will be held in Mombasa at Nyali Beach Hotel, on Wednesday 16th May 2006 at 3.00 p.m. for the following purposes:

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

2. To read the notice convening the meeting.

3. To receive the Chairman's statement, the Report of the Directors, and the Audited Accounts for the year ended 31 December 2005.

4. To ratify the payment of the first and second interim dividends of 36% and 70% per ordinary share paid in April and September 2005.

5. To approve Directors' fees for 2006.

6. To elect directors:

   a) In accordance with the Company's Articles of Association Messrs. J-C Hillenmeyer and D. Njoroge retire by rotation and being eligible, offer themselves for re-election.

   b) In accordance with Article 101 of the Company's Articles of Association, Mrs. S. M'Mbijjewe who was appointed an additional Director on 8th June 2005, retires from office, and being eligible, offers herself for re-election.

   c) In accordance with Article 101 of the Company's Articles of Association, Mr M Puchercos who was appointed as Managing Director on 1st September 2005, retires from office, and being eligible, offers himself for re-election.

   d) In accordance with Article 101 of the Company's Articles of Association, Mrs R K Lumbasyo who was appointed as a Director on 28th February 2006, retires from office, and being eligible, offers herself for re-election.

   e) In accordance with Article 101 of the Company's Articles of Association, Mr A Sigei who was appointed as a Director on 1st March 2006, retires from office, and being eligible, offers himself for re-election.

   f) Special notice having been given pursuant to Sections 142 and 186(5) of the Companies Act (Cap 486), to propose the following resolution as an Ordinary Resolution:

   "That Mr Richard Kemoli, who attained the age of 70 years on 3 December 2005, be re-elected a director of the Company."

7. To note that Deloitte and Touche continue in office as Auditors in accordance with Section 159 (2) of the Companies Act and to authorize the Directors to fix their remuneration for 2006.

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

By order of the Board

Ms.M W Nderitu
Secretary
7th April 2006

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

DIRECTORS AND PROFESSIONAL ADVISERS

EXECUTIVE DIRECTORS

M Puchercos	- Managing Director, Bamburi Cement Limited	- French
M Ngunze	- Managing Director, Hima Cement Limited	- Kenyan
D Njoroge	- Group Finance Director	- Kenyan
D Tressarrieu	- Resigned 31 August 2005	- French

NON EXECUTIVE DIRECTORS

R Kemoli	- Chairman	- Kenyan
J C Hillenmeyer		- French
S W Karanja		- Kenyan
A Hadley		- British
R Lumbasyo		- Kenyan
E Leo		- South African
C C Kisire		- Kenyan
S M'Mbijjewe		- Kenyan

SECRETARY

Ms M W Nderitu
Kenya-Re Towers, Upper Hill
P O Box 10921, 00100
Nairobi

REGISTERED OFFICE

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

REGISTRARS

Chunga Associates
P O box 41963, 00100
Nairobi

AUDITORS

Deloitte & Touche
"Kirungii", Ring Road
Westlands
P.O. Box 40092, 00100
Nairobi

PRINCIPAL BANKERS

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

Citibank N A
Nyerere Avenue
P O Box 83615
Mombasa

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

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

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

RESULTS	Shs'million
Group profit before tax	3,147
Tax	(992)
Group profit after tax	2,155
Minority interest	(151)
Net profit for the year transferred to revenue reserve	2,004

DIVIDENDS

During the year interim dividends of Shs 1,923 million (2004 – Shs 2,223 million) were declared. The directors do not recommend a final dividend and the interim dividends will be ratified at the next Annual General Meeting to be held on 16 May 2006.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance within the options available in Kenya and Uganda to hedge against such risks.

The Group has effective policies in place to ensure that sales are made to customers with an appropriate credit history.

DIRECTORS

The present board of directors is shown on pages 6 and 7. The following changes took place during the year:

Mr D Tresarrieu resigned as Managing Director on 31 August 2005 and Mr M Puchercos was appointed in his place on 1 September 2005. Mr Mogere retired on 28 February 2006 and R Lumbasyo was appointed in his place on the same date. Mrs. S M'Mbijjewe was appointed as a non executive director on 8 June 2005.

AUDITORS

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

BY ORDER OF THE BOARD

Secretary

Nairobi

28 February 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the group's profit or loss for that period. It requires the directors to ensure that the group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the group. They are also responsible for safeguarding the group's assets.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the 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 the group's profit. The directors further accept responsibility for the maintenance of accounting records that 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 group companies will not remain going concerns for at least the next twelve months from the date of this statement.

M Puchercos
Director

D Njoroge
Director

28 February 2006

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BAMBURI CEMENT LIMITED

We have audited the financial statements on pages 27 to 54 for the year ended 31 December 2005 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors
As described on page 25, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion:

(a) proper books of account have been kept by the company and the company's balance sheet is in agreement therewith;

(b) the financial statements give a true and fair view of the state of affairs of the company and of the group at 31 December 2005 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

Deloitte & Touche

28 February 2006

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 Shs'million	2004 Shs'million
Sales		15,045	12,284
Other operating income	4	97	143
		15,142	12,427
Change in inventory of finished goods		374	(24)
Raw materials and consumables used	5	(8,250)	(6,238)
Staff costs	6	(1,463)	(1,241)
Depreciation and amortisation		(697)	(770)
Restructuring costs		(7)	(31)
Other operating costs	7	(1,769)	(1,405)
Operating profit	3	3,330	2,718
Finance (costs)/income - net	8	(183)	68
Profit before tax		3,147	2,786
Tax	9	(992)	(885)
Net profit for the year		2,155	1,901
Attributable to:			
Equity holders of Bamburi Cement Limited		2,004	1,718
Minority interest		151	183
		2,155	1,901
Earnings per share – basic and diluted	10	Shs 5.52	Shs 4.73
Dividends:			
First interim dividend - paid in the year	11	653	408
Second interim dividend - paid in the year	11	1,270	1,815
		1,923	2,223

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	2005 Shs'million	2004 Shs'million
ASSETS			
Non current assets			
Property, plant and equipment	12	9,080	9,876
Operating lease rentals	13	9	11
Intangible assets	14	72	49
Capital work in progress	15	350	347
Investments in subsidiaries	16	1	1
Other equity investments	17	1,803	734
Goodwill	18	217	217
		11,532	11,235
Current assets			
Inventories	19	2,027	1,879
Trade and other receivables	20	853	856
Cash and cash equivalents	21	920	841
		3,800	3,576
TOTAL ASSETS		15,332	14,811
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	1,815	1,815
Capital redemption reserve		2	2
Revaluation reserve	23	2,821	3,107
Fair value reserve		1,457	388
Retained earnings		4,922	4,368
Translation reserve		(338)	183
Shareholders' funds		10,679	9,863
Minority interest		602	622
Total equity		11,281	10,485
Non-current liabilities			
Deferred tax	24	1,932	2,134
Provision for liabilities and charges	25	298	214
		2,230	2,348
Current liabilities			
Trade and other payables	26	1,232	1,428
Tax payable		108	161
Borrowings	27	417	209
Provision for liabilities and charges	25	44	28
Unclaimed dividends		20	152
		1,821	1,978
		15,332	14,811

The financial statements on pages 27 to 54 were approved by the board of directors on 28 February 2006 and were signed on its behalf by:

M Puchercos
Director

D Njoroge
Director

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	2005 Shs'million	2004 Shs'million
ASSETS			
Non current assets			
Property, plant and equipment	12	6,721	7,195
Operating lease rentals	13	1	1
Intangible assets	14	63	29
Capital work in progress	15	182	254
Investments in subsidiaries	16	968	968
Other equity investments	17	1,803	734
		9,738	9,181
Current assets			
Inventories	19	1,403	1,467
Trade and other receivables	20	1,037	923
Cash and cash equivalents	21	680	638
		3,120	3,028
TOTAL ASSETS		12,858	12,209
EQUITY AND RESERVES			
Capital and reserves			
Share capital	22	1,815	1,815
Capital redemption reserve		2	2
Revaluation reserve	23	2,417	2,685
Fair value reserve		1,457	388
Retained earnings		4,307	4,176
Shareholders' funds		9,998	9,066
Non-current liabilities			
Deferred tax	24	1,402	1,545
Provision for liabilities and charges	25	296	212
		1,698	1,757
Current liabilities			
Trade and other payables	26	1,006	1,073
Tax payable		94	133
Provision for liabilities and charges	25	42	28
Unclaimed dividends		20	152
		1,162	1,386
		12,858	12,209

The financial statements on pages 27 to 54 were approved by the board of directors on 28 February 2006 and were signed on its behalf by:

M Puchercos
Director

D Njoroge
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital Shs'million	Capital Redemption reserve Shs'million	Revaluation reserve Shs'million	Fair value reserve Shs'million	Retained earnings Shs'million	Proposed Dividends Shs'million	Translation reserve Shs'million	**Attributable to equity holders of Bamburi Shs'million**	Attributable to minority interest Shs'million	**Total Shs'million**
At 1 January 2004	1,815	2	3,394	638	4,658	653	(148)	**11,012**	515	**11,527**
Transfer of excess depreciation	-	-	(254)	-	254	-	-	-	-	-
Deferred tax on excess depreciation	-	-	76	-	(76)	-	-	-	-	-
Revaluation surplus realised on disposal of property	-	-	(122)	-	122	-	-	-	-	-
Deferred tax on revaluation surplus realised on disposal of property	-	-	13	-	(13)	-	-	-	-	-
Translation loss/gain	-	-	-	-	(72)	-	331	**259**	89	**348**
Fair value loss on equity investments	-	-	-	(250)	-	-	-	**(250)**	-	**(250)**
Net profit for the year	-	-	-	-	1,718	-	-	**1,718**	183	**1,901**
Dividends:										
- final for 2003 declared	-	-	-	-	-	(653)	-	**(653)**	-	**(653)**
- interim for 2004 declared	-	-	-	-	(2,223)	-	-	**(2,223)**	(165)	**(2,388)**
At 31 December 2004	1,815	2	3,107	388	4,368	--	183	**9,863**	622	**10,485**
At 1 January 2005	1,815	2	3,107	388	4,368	-	183	**9,863**	622	**10,485**
Transfer of excess depreciation	-	-	(267)		267	-	-	-	-	-
Deferred tax on excess depreciation	-	-	60		(60)	-	-	-	-	-
Revaluation surplus realised on disposal of property	-	-	(120)	-	-	-	-	**(120)**	-	**(120)**
Deferred tax on impaired assets	-	-	35	-	-	-	-	**35**	-	**35**
Deferred tax on revaluation surplus realised on disposal of property	-	-	6	-	(6)	-	-	-	-	-
Fair value gain on equity investments	-	-	-	1,069			-	**1,069**	-	**1,069**
Net profit for the year	-	-	-	-	2,004	-	-	**2,004**	151	**2,155**
Translation gain/(loss)	-	-	-	-	272		(521)	**(249)**	(88)	**(337)**
Dividends:										
- interim for 2005 declared	-	-	-	-	(1,923)	-	-	**(1,923)**	(83)	**(2,006)**
At 31 December 2005	1,815	2	2,821	1,457	4,922	-	(338)	**10,679**	602	**11,281**

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

- The capital redemption reserve represents funds set aside for redemption of preference shares.
- The revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment. The revaluation surpluses are non-distributable.
- The fair value reserve represents the cumulative surpluses or deficits arising from restatement of investments in equity shares from cost to fair value based on the market values of the equities at the balance sheet date.
- Retained earnings represent accumulated profits retained by the group after payment of dividends to the shareholders.
- The translation reserve represents the cumulative position on translation gains and losses arising from conversion of the net assets of the foreign subsidiary company to the reporting currency.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital Shs'million	Capital Redemption reserve Shs'million	Revaluation reserve Shs'million	Fair Value reserve Shs'million	Retained earnings Shs'million	Total Shs'million
At 1 January 2004	1,815	2	2,940	638	5,080	10,475
Transfer of excess depreciation	-	-	(208)	-	208	
Deferred tax on excess depreciation	-	-	62	-	(62)	
Revaluation surplus realised on disposal of property	-		(122)	-	122	-
Deferred tax on revaluation surplus realised on disposal of property	-	-	13	-	(13)	-
Fair value loss on equity investments	-	-	-	(250)	-	(250)
Net profit for the year	-	-	-	-	1,717	1,717
Dividends:						
- final for 2004 declared	-	-	-	-	(653)	(653)
- interim for 2004 declared	-	-	-	-	(2,223)	(2,223)
At 31 December 2004	1,815	2	2,685	388	4,176	9,066
At 1 January 2005	1,815	2	2,685	388	4,176	9,066
Transfer of excess depreciation	-	-	(226)	-	226	-
Deferred tax on excess depreciation	-	-	37	-	(37)	
Revaluation surplus realised on disposal of property	-	-	(120)	-	-	(120)
Deferred tax on impaired assets	-	-	35	-	-	35
Deferred tax on revaluation surplus realised on disposal of property	-	-	6	-	(6)	-
Fair value gain on equity investments		-	-	-	1,069	1,069
Net profit for the year	-	-	-	-	1,871	1,871
Dividends:						
- interim for 2005 declared	-	-	-	-	(1,923)	(1,923)
At 31 December 2005	1,815	2	2,417	1,457	4,307	9,998

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

- The capital redemption reserve represents funds set aside for redemption of preference shares.
- The revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment. The revaluation reserve is non-distributable.
- The fair value reserve represents the cumulative surpluses or deficits arising from restatement of investments in equity shares from cost to fair value based on the market values of the equities at the balance sheet date.
- Retained earnings represent accumulated profits retained by the company after payment of dividends to the shareholders.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 Shs'million	2004 Shs'million
OPERATING ACTIVITIES			
Cash generated from operations	30	3,592	3,761
Interest received		16	18
Interest paid		(35)	(53)
Taxation paid		(1,116)	(848)
Net cash generated from operating activities		2,457	2,878
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and expenditure on capital work in progress		(459)	(397)
Purchase of intangible assets		(53)	(10)
Proceeds from disposal of equity investments		-	56
Proceeds from disposals of property, plant and equipment		86	203
Dividends received		-	7
Net cash used in investing activities		(426)	(141)
FINANCING ACTIVITIES			
Dividends paid to group shareholders		(2,055)	(2,738)
Dividends paid to minority interest		(83)	(165)
Net cash used in financing activities		(2,138)	(2,903)
DECREASE IN CASH AND CASH EQUIVALENTS		(107)	(166)
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Balance at start of year		632	849
Decrease in the year		(107)	(166)
Exchange adjustment		(22)	(51)
Balance at end of year	21	503	632

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years except as stated below:

Adoption of new and revised international financial reporting standards

In 2005 several new and revised standards became effective for the first time and have been adopted by the group where relevant to its operations. The adoption of these new and revised standards had no effect on the amounts reported for the current or prior years. This only resulted in changes in presentation and disclosure in the following areas:

- IAS 10 which has affected the presentation of proposed dividends
- IAS 16 which requires the disclosure of comparative figures for movements in property and equipment
- IAS 24 which requires the disclosure of the compensation for key management personnel
- IFRS 3 which requires the discontinuation of amortisation of goodwill, elimination of the carrying amount of the related accumulated amortisation with a corresponding decrease in goodwill and subsequently testing the goodwill for impairment in accordance with IAS 36.

At the date of approval of these financial statements IFRS 6 (Exploration for and Evaluation of Mineral Assets) and IFRS 7 (Financial Instruments Disclosures) were in issue but not yet effective. The adoption of these Standards, when effective, will have no material impact on the financial statements of the Group.

Basis of preparation

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

Consolidation

Subsidiary undertakings, which are those companies in which the parent company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and consolidation ceases from the date of disposal. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to achieve consistency with the policies adopted by the parent company.

The income statements of subsidiaries are translated at average exchange rates for the year and the balance sheets at the year end rates. The resulting differences arising from translation are dealt with in the translation reserve in the consolidated statement of changes in equity.

A listing of the subsidiaries in the group is provided in Note 16.

Revenue recognition

Sales are recognised upon delivery of products to customers and performance of services, and are stated net of VAT and discounts, and after eliminating sales within the Group.

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

1 ACCOUNTING POLICIES (CONTINUED)

Translation of foreign currencies
Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the balance sheet date. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise.

Investments
The company has classified its investments into available-for-sale investments and originated loans. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designations on a regular basis as follows:

(i) Investments intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital.

(ii) Non-equity investments purchased in the primary market (i.e. directly from the issuers) are classified as originated loans.

All purchases and sales of investments are initially recognised at cost on the trade date, which is the date a company within the group commits to purchase or sell the asset. Cost of purchase includes transaction costs.

Available-for-sale investments are subsequently carried at fair value, whilst originated loans are carried at amortised cost using the effective yield method.

Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are dealt with in a separate reserve in the statement of changes in equity. On disposal, the entire realised gain or loss is recognised in the income statement.

Property, plant and equipment
All property, plant and equipment are initially recorded at cost. Freehold land, buildings, plant and machinery are subsequently restated to revalued amounts, based on valuations by independent external valuers, less subsequent depreciation. The valuations are carried out approximately once every five years. All other property, plant and equipment are stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the related revaluation reserve; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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

Buildings, plant and machinery	19 - 20 years
Equipment and mobile plant	3 - 10 years

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

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

1 ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Upon disposal of revalued assets, amounts carried in the revaluation reserve in relation to those assets are transferred to retained earnings.

Offsetting

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

Leases

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

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

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.

Inventories

Inventories of consumables and spare parts are stated at cost less provision for obsolete and slow moving items. All other inventories are stated at the lower of cost and net realisable value. Cost includes direct cost and appropriate overheads and is determined on the fist-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade receivables

Trade receivables are carried at amortised invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified as irrecoverable.

Employee entitlements

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

The estimated monetary liability for employees' accrued leave entitlements at the balance sheet date is recognised as an expense accrual.

1 ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

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

Deferred 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 tax 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.

Retirement benefits obligations

The group operates a defined contribution pension scheme for eligible non-unionisable employees. The scheme is administered by an independent investment management company and is funded by contributions from both the company and employees. The Group also makes contribution to the statutory defined contribution schemes in the two countries where operations are based.

Unionisable staff who retire on attaining the age of 55 years or are declared redundant are eligible for a service gratuity based on each employee's length of service with the group, as provided for in the trade union agreement.

The group's obligations to the staff retirement benefits schemes are charged to the income statement as they fall due or in the case of service gratuity as they accrue to each employee.

Restructuring provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the company are not provided for in advance.

Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends receivable are recognised to income upon notification of declaration of the dividends of investee companies.

1 ACCOUNTING POLICIES (CONTINUED)

Critical judgements in applying the entity's accounting policies

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the group's accounting policy are dealt with below:

Impairment losses

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

Comparatives

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

2 SEGMENT INFORMATION

The group is organised on a regional basis into two main geographical segments:

- Kenya
- Uganda

Both geographical segments are mainly involved in cement manufacturing and selling. Hence the primary reporting format below is the only one presented.

Year ended 31 December 2005
All figures in million of Kenya Shillings

	Kenya	Uganda	Group
Revenues	9,436	5,609	15,045
Operating profit	2,596	734	3,330
Segment assets	11,700	3,415	15,115
Non-segment assets			217
Total assets			15,332
Segment liabilities	2,864	1,167	4,031
Non-segment liabilities			20
Total liabilities			4,051

2 SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2004
All figures in millions of Kenya Shillings

	Kenya	Uganda	Group
Revenues	7,772	4,512	12,284
Operating profit	1,807	911	2,718
Segment assets	11,193	3,401	14,594
Non-segment assets			217
Total assets			14,811
Segment liabilities	3,169	1,005	4,174
Non-segment liabilities			152
Total liabilities			4,326

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as dividends payable and certain corporate borrowings.

Sales revenue is based on the country in which the production facility is located. Total assets are shown by the geographical area in which the assets are located.

	GROUP	
	2005 Shs'million	**2004 Shs'million**

3 OPERATING PROFIT

	2005 Shs'million	2004 Shs'million
The operating profit is arrived at after charging :		
Staff costs (Note 6)	1,463	1,241
Depreciation and amortisation	697	770
Directors' emoluments:		
- Fees	6	6
- Other emoluments	88	74
Auditors' remuneration	8	7

4 OTHER OPERATING INCOME

	2005 Shs'million	2004 Shs'million
Profit on disposal of Property, Plant and Equipment	27	66
Profit on Sale of equity Investments	-	27
Other miscellanous income	70	50
	97	143

5 COST OF RAW MATERIALS AND CONSUMABLES

	2005 Shs'million	2004 Shs'million
Raw materials and packaging	5,074	3,601
Fuel costs	1,431	1,317
Repairs and maintenance	816	559
Electricity	929	761
	8,250	6,238

6 STAFF COSTS

	GROUP 2005 Shs'million	GROUP 2004 Shs'million
The following items are included within staff costs:		
Salaries and wages	1,000	875
Staff welfare costs	331	264
Retirement benefits costs	132	102
	1,463	1,241

7 OTHER OPERATING COSTS

	GROUP 2005 Shs'million	GROUP 2004 Shs'million
Administrative costs	729	574
Distribution costs	612	453
Professional fees	308	277
Other costs	120	101
	1,769	1,405

8 FINANCE (COSTS)/INCOME - net

	GROUP 2005 Shs'million	GROUP 2004 Shs'million
Interest income	16	18
Dividend income	28	46
Bank charges	(40)	(30)
Net foreign exchange (losses)/gains	(152)	87
Interest expense	(35)	(53)
	(183)	68

9 TAX

	GROUP 2005 Shs'million	GROUP 2004 Shs'million
Current tax	1,034	970
Overseas tax charged on dividends	29	58
Net tax charge	1,063	1,028
Deferred tax credit	(73)	(136)
Underprovision/(overprovision) of deferred tax in prior years	2	(7)
Net deferred tax credit	(71)	(143)
Tax charge	992	885

9 TAX (CONTINUED)

The tax on the group profit before tax differs from the theoretical amount that would arise using the basic tax rate as shown in the reconciliation below:

	GROUP	
	2005 Shs'million	2004 Shs'million
Profit before tax	3,147	2,786
Tax calculated at the domestic rates applicable of 30%	944	836
Tax effect of:		
Income not subject to tax	(15)	(34)
Expenses not deductible for tax purposes	32	32
Underprovision/ (overprovision) of deferred tax in prior years	2	(7)
Overseas tax charged on dividends	29	58
Actual tax charge	992	885

10 EARNINGS PER SHARE

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

	2005 Shs'million	2004 Shs'million
Net profit attributable to equity holders (Shs million)	2,004	1,718
Weighted average number of ordinary shares (million)	363	363
Basic earnings per share (Shs)	5.52	4.73

There were no potentially dilutive shares outstanding at 31 December 2005 and 31 December 2004.

11 DIVIDENDS

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. During the year, two interim dividends amounting to Shs 1,923 million were paid as follows:

- Shs 1.80 per share (2004: Shs 1.12) amounting to Shs 653 million paid on 11 April 2005 (2004: Shs 408 million)
- Shs 3.50 per share (2004: Shs 5) amounting to Shs 1,270 million paid on 19 September 2005 (2004: Shs 1,815 million)

Payment of dividends is subject to withholding tax at a rate of 10% for non-resident shareholders and 5% for resident shareholders.

12 PROPERTY, PLANT AND EQUIPMENT

a) GROUP

	Land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile plant Shs'million	**Total Shs'million**
Cost or valuation					
At 1 January 2004	1,423	10,072	528	984	13,007
Exchange adjustment*	77	375	19	27	498
Additions	2	88	41	5	136
Disposals	(132)	(10)	(26)	(78)	(246)
Impairment	(25)	-	-	-	(25)
At 31 December 2004	1,345	10,525	562	938	13,370
At 1 January 2005	1,345	10,525	562	938	13,370
Exchange adjustment*	(76)	(395)	(24)	(25)	(520)
Additions	0	364	68	10	442
Disposals	(48)	(12)	(224)	(268)	(552)
Impairment	-	(187)	-	-	(187)
At 31 December 2005	1,221	10,295	382	655	12,553
Depreciation					
1 January 2004	135	1,502	406	789	2,832
Exchange adjustment*	19	51	13	16	99
Charge for the year	35	535	52	58	680
On disposals	(5)	(14)	(41)	(49)	(109)
On impairment	(8)	-	-	-	(8)
At 31 December 2004	176	2,074	430	814	3,494
1 January 2005	176	2,074	430	814	3,494
Exchange adjustment*	(22)	(71)	(16)	(20)	(129)
Charge for the year	31	541	50	46	668
On disposals	(11)	(4)	(214)	(264)	(493)
On impairment	-	(67)	-	-	(67)
At 31 December 2005	174	2,473	250	576	3,473
Net book value					
At 31 December 2005	1,047	7,822	132	79	9,080
At 31 December 2004	1,169	8,451	132	124	9,876

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

*The exchange adjustment arises from the translation of the values relating to assets held by a subsidiary, Himcem Holdings Limited.
Land and residential buildings include freehold land worth Shs 527 million (2004: Shs 540 million) located in Mombasa, Kenya and limestone deposits worth Shs 121 million (2004: Shs 140 million) in Kasese, Uganda.
Plant and machinery, Office equipment and mobile plant with a cost Shs 662 million (2004: Shs 1,036 million) were fully depreciated as at 31 December 2005. The normal annual depreciation charge on these assets would have been Shs 148 million (2004: Shs 204 million).
The Group's land, buildings, plant, and machinery were revalued on 1 January 2001. Land and buildings were valued by independent valuers. The valuation of plant and machinery was carried out by engineers and consultants of a related company.
Land and buildings were revalued on the basis of depreciated reinstatement values. Plant and machinery were revalued on a depreciated replacement cost basis.

b) COMPANY

	Land and residential buildings Shs'million	Plant and machinery Shs'million	Office equipment and tools Shs'million	Mobile plant Shs'million	Total Shs'million
Cost or valuation					
At 1 January 2004	939	7,878	416	831	10,064
Additions	-	59	7	-	66
Disposals	(132)	-	(19)	(74)	(225)
At 31 December 2004	807	7,937	404	757	9,905
At 1 January 2005	807	7,937	404	757	9,905
Additions	-	125	42	-	167
Disposals	(32)	(4)	(209)	(255)	(500)
Impairment	-	(187)	-	-	(187)
At 31 December 2005	775	7,871	237	502	9,385
Depreciation					
At 1 January 2004	26	1,230	324	723	2,303
Charge for the year	9	421	31	35	496
On disposals	(5)	-	(19)	(65)	(89)
At 31 December 2004	30	1,651	336	693	2,710
At 1 January 2005	30	1,651	336	693	2,710
Charge for the year	8	422	26	28	484
On disposals	(3)	(1)	(208)	(251)	(463)
On impairment	-	(67)	-	-	(67)
At 31 December 2005	35	2,005	154	470	2,664
Net book value					
At 31 December 2005	740	5,866	83	32	6,721
At 31 December 2004	777	6,286	68	64	7,195

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Plant and machinery, Office equipment and mobile plant with a cost of Shs 578 million (2004: Shs 972 million) were fully depreciated as at 31 December 2005. The normal annual depreciation charge on these assets would have been Shs 123 million (2004: Shs 190 million).

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

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Cost	8,194	8,460	5,850	5,984
Accumulated depreciation	(3,170)	(3,075)	(2,528)	(2,549)
Net book value	5,024	5,385	3,322	3,435

13 OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Net carrying amount at 1 January	11	10	1	1
Exchange adjustment	(2)	1	-	-
Balance as at 31 December	9	11	1	1

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

14 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP Shs'million	COMPANY Shs'million
COST		
At 1 January 2004	298	230
Additions	10	5
Disposal	(1)	-
Exchange adjustment	12	-
At 31 December 2004	319	235
At 1 January 2005	319	235
Additions	53	52
Disposal	(3)	(2)
Exchange adjustment	(13)	-
At 31 December 2005	356	285
AMORTISATION		
At 1 January 2004	221	184
Charge for the year	40	22
Disposal	(1)	-
Exchange adjustment	10	-
At 31 December 2004	270	206
At 1 January 2005	270	206
Charge for the year	29	19
Disposal	(2)	(3)
Exchange adjustment	(13)	-
At 31 December 2005	284	222
NET BOOK VALUE		
At 31 December 2005	72	63
At 31 December 2004	49	29

15 CAPITAL WORK IN PROGRESS

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
At 1 January	347	83	254	69
Additions	512	397	146	261
Transfers to plant and equipment	(495)	(135)	(218)	(76)
Exchange adjustment	(14)	2	-	-
At 31 December	350	347	182	254

Capital work in progress relates primarily to plant modifications in progress at year end. No depreciation has been charged on these assets.

16 INVESTMENTS IN SUBSIDIARIES

Details of the subsidiaries in the group are provided below:

	Holding	GROUP		COMPANY	
	%	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Simbarite Limited	100	-	-	53	53
Less: impairment provision		-	-	(22)	(22)
		-	-	31	31
Bamburi Special Products Ltd	100	-	-	20	20
Bamburi Cement Ltd, Uganda	100	-	-	-	-
Himcem Holdings Ltd, Channel Islands	100	-	-	911	911
Lafarge Eco Systems	100	-	-	5	5
Diani Estate Ltd	100	1	1	1	1
Whistling Pines Ltd	100	-	-	-	-
Kenya Cement Marketing Ltd	50	-	-	-	-
Portland Mines Ltd	50	-	-	-	-
		1	1	968	968

Except where indicated above, the subsidiaries are incorporated in Kenya.

Himcem Holdings Limited has a 70% holding in its subsidiary, Hima Cement Limited, a company incorporated in Uganda.

17 OTHER EQUITY INVESTMENTS

These represent Available-For-Sale investments, which are restated to fair value annually at the close of business on 31 December. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices. For other investments, fair value is determined by reference to the current market for similar instruments or by reference to the discounted cash flows of the underlying net assets.

The market value of the quoted equity shares at 31 December 2005 was Shs 1,803 million (2004: Shs 734 million).

The movement in available-for-sale investments is as follows:

	GROUP AND COMPANY	
	2005 Shs'million	**2004 Shs'million**
At 1 January	734	1,013
Fair value gain/(loss)	1,069	(250)
Disposal	-	(29)
At 31 December	1,803	734

The fair value gains and losses on Available-For-Sale investments are dealt with in a separate fair value reserve in the statement of changes in equity.

18 GOODWILL

	GROUP	
	2005 Shs'million	**2004 Shs'million**
Cost		
On acquisition of subsidiary	503	503
Elimination of accumulated amortisation	(286)	-
	217	503
Amortisation		
At 1 January	286	236
Charge for the year	-	50
Elimination of accumulated amortisation	(286)	-
At 31 December	-	286
Impairment		
Impairment recognised in the year	-	-
Net carrying value	217	217

The goodwill arose from the acquisition of a subsidiary, Hima Cement Limited, in 1999. Previously the goodwill was amortised over a period of 10 years. Following the adoption of IFRS 3, the group discontinued amortisation of the goodwill and tests the goodwill annually for impairment.

19 INVENTORIES

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Raw materials	198	285	186	260
Consumables and spare parts	1,107	1,068	815	762
Finished goods	487	141	257	118
Fuel and packaging materials	233	384	144	327
Other	2	1	1	-
	2,027	1,879	1,403	1,467

20 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Trade receivables	542	453	316	293
Prepayments and deposits	42	62	24	43
Other receivables	153	141	104	107
Receivables from related companies (note 31)	116	200	593	480
	853	856	1,037	923

21 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	556	531	316	328
Short term bank deposits	364	310	364	310
	920	841	680	638

The weighted average effective interest rate earned on short-term bank deposits during the year was 2.5% (2004-2.5%). The short-term deposits mature within three months.
For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings, under current liabilities. The year end cash and cash equivalents comprise the following:

	GROUP	
	2005 Shs'million	2004 Shs'million
Deposits, bank balances and cash (as above)	920	841
Bank overdrafts (note 27)	(417)	(93)
Short term borrowing (note 27)	-	(116)
	503	632

22 SHARE CAPITAL

	GROUP AND COMPANY	
	2005	2004
	Shs'million	Shs'million
Authorised 366,600,000 ordinary shares of Sh 5 each	1,833	1,833
100,000 7% cumulative redeemable preference shares of Sh 20 each	2	2
	1,835	1,835
Issued and fully paid 362,959,275 ordinary shares of Sh 5 each	1,815	1,815

23 REVALUATION RESERVE

The revaluation reserve represents surpluses arising from revaluations of property, plant and equipment and it is non-distributable.

24 DEFERRED TAX

Deferred taxes are calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2004: 30%). The make up of the deferred tax liabilities at the year end and the movement on the deferred tax account during the year are presented below:

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Accelerated capital allowances on Property, plant and equipment	940	909	556	558
Exchange differences	(13)	(2)	(12)	(5)
Provisions	(176)	(136)	(114)	(83)
Revaluation surpluses	1,269	1,384	972	1,075
Other temporary differences	(88)	(21)	-	-
	1,932	2,134	1,402	1,545

24 DEFERRED TAX (Continued)

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
The movement on the deferred tax account during the year is as follows:				
At 1 January	2,134	2,185	1,545	1,675
Income statement credit for the year	(71)	(143)	(143)	(130)
Impairment of assets	(35)	-	-	-
Exchange differences	(96)	92	-	-
At 31 December	1,932	2,134	1,402	1,545

In addition, deferred tax amounting to Shs 101 million in respect of the group (2004: Shs 89 million) and Shs 78 million in respect of the company (2004: Shs 75 million) has been transferred within shareholders' equity from retained earnings to revaluation reserves. This represents deferred tax on the difference between the actual depreciation charge on the property, plant and equipment and the equivalent depreciation charge based on the historical cost of the property, plant and equipment and deferred tax realised on disposal of property, plant and equipment.

25 PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

	Restructuring site restoration & litigation Shs'million	Service gratuity Shs'million	Long service awards Shs'million	Total Shs'million
At start of year	28	201	13	242
Additional provisions	31	56	39	126
Utilised during the year	(15)	(5)	(6)	(26)
At end of year	44	252	46	342
Less: current portion	(44)	-	-	(44)
Non current portion	-	252	46	298

COMPANY

	Restructuring site restoration & litigation Shs'million	Service gratuity Shs'million	Long service awards Shs'million	Total Shs'million
At start of year	28	199	13	240
Additional provisions	29	56	39	124
Utilised during the year	(15)	(5)	(6)	(26)
At end of year	42	250	46	338
Less: Current portion	(42)	-	-	(42)
Non-current portion	-	250	46	296

26 TRADE AND OTHER PAYABLES

	GROUP 2005 Shs'million	GROUP 2004 Shs'million	COMPANY 2005 Shs'million	COMPANY 2004 Shs'million
Trade payables	537	585	435	501
Accrued expenses	557	639	470	458
Other payables	138	137	65	47
Amounts due to related companies (Note 31)	-	67	36	67
	1,232	1,428	1,006	1,073

27 BORROWINGS

The borrowings are made up as follows:

	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Bank overdraft	417	93	-	-
Short term bank loan	-	116	-	-
	417	209	-	-

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

	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
- bank overdrafts – local currencies	16%	16%	12.75%	-
- bank loans – local currencies	8.5%	11%	8.5%	-

In the opinion of directors the carrying amounts of the loans approximate to fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rates that directors expect would be available to the group at the balance sheet date.

Borrowing facilities

The group had the following undrawn committed borrowing facilities as at 31 December:

	GROUP 2005 Shs'million	GROUP 2004 Shs'million	COMPANY 2005 Shs'million	COMPANY 2004 Shs'million
Floating rate				
- expiring within one year	746	1,194	617	705
- expiring beyond one year	-	41	-	41
	746	1,235	617	746

These represent annual facilities that are subject to review at various dates during the year 2005. They consist of overdrafts, letters of credit and guarantees. Of the amounts shown above Sh 482 million (2004: Sh 337 million) relates to guarantees given on behalf of the company by its bankers to third parties in the normal course of business.

28 CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Guarantees to group's bankers to secure staff borrowings	89	94	89	94
Bonds issued by group's bankers in favour of Kenya Revenue Authority	482	337	482	337
Bonds issued by group's banker in favour of suppliers	91	82	91	82
Tax demanded by Uganda Revenue Authority	106	295	-	-

Through a demand notice dated 13 January 2005, The Uganda Revenue Authority (URA) is demanding from Hima Cement Limited, a total of Ushs 6,258,065,124 (Kshs 295M) representing custom duties outstanding on import of Bamburi cement brand from Kenya to Uganda, covering the period 2001-2003. The URA alleges that Hima Cement Limited's purchase of cement from a sister Lafarge company were not at arms length. The normal process for tax customs and exercise calculations is that these taxes are levied at point of entry using General Agreement on Tariffs and Trade (GATT) rules. The company's position is that it has paid all taxes, as assessed on this basis, in this period. Upon protest from the company, the URA has since revised this estimate to Ushs 2,700,000,000(Kshs 106M). However Hima Cement Limited still maintains that there is no liability due from them and are awaiting the outcome of another revised assessment from the URA. The directors are of the view that there is a very remote possibility of this amount being paid.

28 CAPITAL COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	GROUP	
	2005 Shs'million	2004 Shs'million
Property, plant and equipment	35	8

Capital expenditure authorised but not contracted for at the balance sheet date:

	GROUP	
	2005 Shs'million	2004 Shs'million
Property, plant and equipment	5,288	668

30 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	GROUP 2005 Shs'million	GROUP 2004 Shs'million
Profit before tax	3,147	2,786
Adjustments for:		
Depreciation (note 12)	668	680
Amortisation of intangible assets (note 14)	29	40
Gain on sale of property, plant and equipment	(27)	(66)
Loss on disposal of intangible assets	(1)	-
Impaired assets written down	-	17
Profit on sale of equity investments	-	(27)
Interest income (note 8)	(16)	(18)
Dividend income (note 8)	(28)	(46)
Interest expense (note 8)	35	53
Amortisation of goodwill (note 18)	-	50
	3,807	3,469
Changes in working capital balances		
- trade and other receivables	8	25
- inventories	(131)	(88)
- Trade and other payables	(189)	294
- provisions for liabilities and charges	97	61
	3,592	3,761

The exchange movements attributable to movement of working capital are as follows:

	2005	2004
Inventories	(17)	(103)
Trade and other receivables	(5)	(28)
Trade and other payables	(7)	(56)
Provisions for liabilities and charges	3	-
	(26)	(187)

31 RELATED PARTIES

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

In the normal course of business the group sells cement to an associate of its ultimate shareholder. These sales represented approximately 13% of the group's sales volume during the year (2004: 12%).

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

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

	GROUP	
	2005 Shs'million	2004 Shs'million
Sales of goods and services	417	525
Purchases of goods and services	153	238

Sales and purchases to/from related parties were made on terms and conditions similar to those offered to major customers or available from major suppliers.

Outstanding balances arising from sale and purchase of goods/services at the year end.

	GROUP		COMPANY	
	2005 Shs'million	2004 Shs'million	2005 Shs'million	2004 Shs'million
Receivables from related parties	116	200	114	200
Receivables from subsidiaries	-	-	479	280
	116	200	593	480
Payables to related parties	-	67	36	67
Short term cash deposits	289	222	289	181

Short term cash deposits are held with the principal shareholder's central treasury department at terms similar to those offered by other financial institutions.

Key management compensation

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

	GROUP	
	2005 Shs' million	2004 Shs' million
Salaries and other short-term employment benefits	84	70
Post-employment benefits	4	4
	88	74
Directors' remuneration		
Fees for services as a director	6	6
Other emoluments	88	74
	94	80

32 OPERATING LEASE COMMITMENTS

	GROUP	
	2005 Shs' million	2004 Shs' million
Lease payments committed under operating leases:		
Not later than 1 year	55	8
Later than 1 year but not later than 5 years	35	51
	90	59

33 FINANCIAL INSTRUMENTS

At the year end the company had a number of off balance sheet financial instruments. These are:

- Forward exchange contracts entered into with financial institutions to purchase forward United States dollars against the Uganda shillings. At 31 December 2005, the company had six forward contracts totaling US$ 6.4 m (United States dollars six million and four hundred thousand) with maturities ranging between 30 days and 105 days and at rates UGX/US$ (Uganda Shilling to the United States dollar) of between UGX1812/1 US$ to 1829/1US$. The forward contracts were entered into as hedges against Hima Cement Limited's future payments denominated in United States Dollars from January 2006 to April 2006

- The company had entered into a fuel SWAP contract with financial institutions, through the treasury department of its ultimate shareholder, to fix the fuel Platt price at US$ 300 per mt for 556 MT per month from January 2006 to June 2006. The fuel SWAP contract was entered into as a hedge against adverse fuel prices for the group's fuel oil purchases used in the cement manufacture process in all plants i.e. Hima, Nairobi and Mombasa plants.

34 COUNTRY OF INCORPORATION

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

35 CURRENCY

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

THE TOP TEN SHAREHOLDERS

	Shareholder	Number of shares	% of shares
1	Fincem Holdings	106,360,798	29.3
2	Kencem holdings Limited	106,360,797	29.3
3	Board of Trustees NSSF	58,896,522	16.5
4	Bamcem Holdings	50,000,000	13.78
5	Baloobhai Chhotabhai Patel	4,410,790	1.22
6	Barclays (Kenya) Nominees Ltd (A/c 1256)	2,130,650	0.59
7	Old Mutual Life Assurance Company Limited	1,472,740	0.41
8	Barclays (Kenya) Nominees Ltd (A/c 1853)	1,395,378	0.38
9	Barclays (Kenya) Nominees Ltd (A/c 9230)	1,178,179	0.32
10	Kenya Reinsurance Corporation Limited	1,071,543	0.30
	Total of 10 above	333,277,397	92.10
	2503 other shareholders	29,681,878	7.90
	Total shareholding	**362,959,275**	**100**

LAFARGE GROUP OF COMPANIES

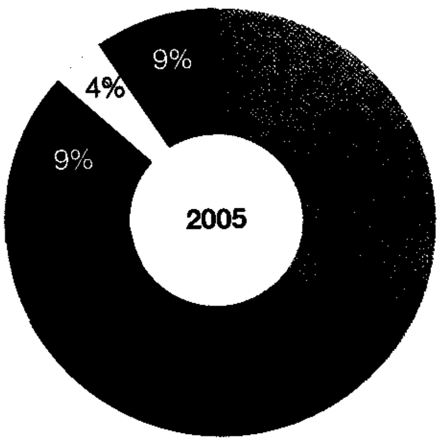
LAFARGE IN BRIEF

Bamburi Cement Limited is a subsidiary of Lafarge. Lafarge, the world leader in building materials, holds top ranking positions in all four of its businesses: Cement, Roofing, Aggregates & Concrete and Gypsum.
In 2005, the Lafarge Group is present in 75 countries with 80,000 employees. Its sales for 2005 amounted to 16 billion Euros and current operating profit was 2.4 billion Euros.

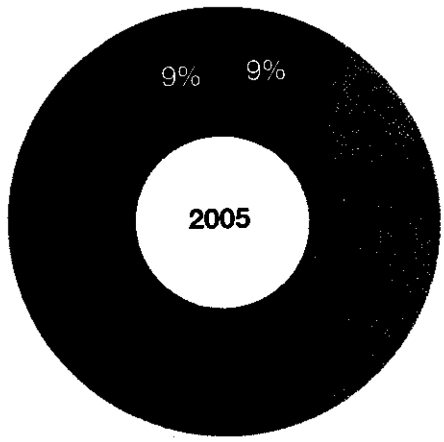
Lafarge places the customer at the heart of its business. It offers the construction industry and general public innovative solutions that bring greater safety, comfort and quality to their everyday surroundings. Lafarge offers all construction industry sectors; from architect to tradesman, from distributor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

2005 KEY FIGURES

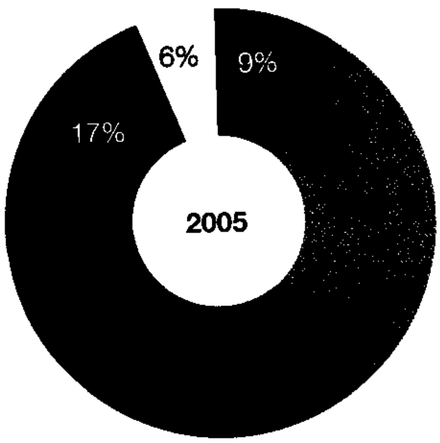
Sales by region



Sales by business

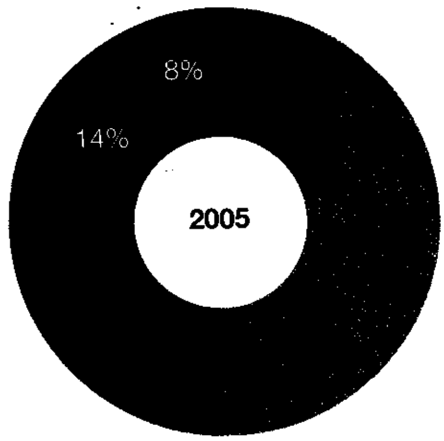


Employees by region



- Western Europe
- North America
- Central and Eastern Europe
- Asia-Pacific
- Latin America
- Mediterranean Basin
- Sub-Saharan Africa and Indian Ocean

Employees by business



- Cement
- Aggregates and Concrete
- Roofing
- Gypsum
- Others

LAFARGE GROUP OF COMPANIES

CEMENT DIVISION

The Cement Division benefits from a thriving international presence. Cement division companies operate in 43 countries, selling lines of cement, hydraulic binders and lime for construction, renovation and public projects. Lafarge has over 140 industrial sites throughout the world.

SALES 2005
7,595 million Euros

WORKFORCE 2005
40,067 employees

LAFARGE WORLDWIDE PRESENCE

LAFARGE GROUP OF COMPANIES

LAFARGE PRINCIPLES OF ACTION

The Lafarge group wants to be recognised as a true leader creating sustainable value for our customers, employees and other stakeholders.

SAFETY

Our ambition is to be among the safest industrial groups in the world.

- We work continuously with our employees and contractors to achieve the best results in safety.
- We are committed to protecting life throughout our organisation.

CUSTOMER ORIENTATION

We want to be the business partner of choice to our customers by supplying an innovative range of products and services recognised as superior by our customers.

- Carrying out proactive research and product development which anticipates the evolution of relevant building materials and focus on the future needs of end-users.
- Lead the market in product consistency, ease of use, usage qualities and positioning our brands for maximum effectiveness.
- Earn additional recognition from superior customer service through leveraging on logistics opportunities.

INDUSTRIAL EXCELLENCE

Our goal is to assert our industrial leadership and drive the industry towards world class performance.

- Resolve daily operational challenges with sustainable solutions.
- Work with our global network to reduce our CO2 emissions by 20% by 2010.
- Confirm our leadership by active benchmarking and reacting faster than competitors to the industrial challenges of tomorrow.
- Drive the development and application of new technologies in our industry.
- Improve asset utilisation effectiveness by increasing investment yields and reducing working capital.

PEOPLE MOBILISATION

We want to attract, develop and retain the best people to achieve a major step change in our results.

- Build a competitive advantage from the size and diversity of our Group, while developing an increasing sense of belonging.
- Develop the expertise and leaders to meet the organisation's future needs through employee learning and development, innovation and knowledge management.
- Drive management process towards the empowerment of individuals and teams while maintaining accountability for rewarding results.

NOTES