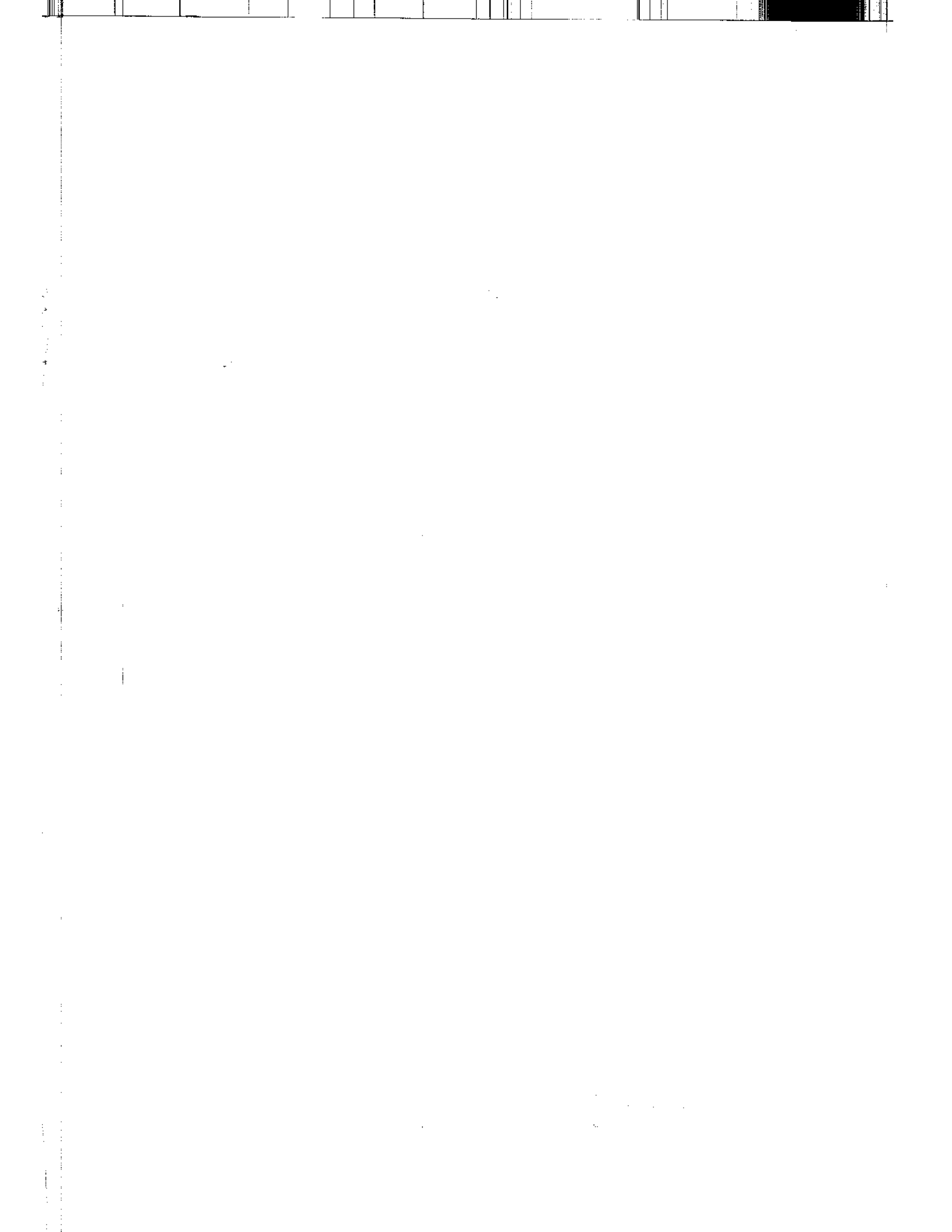




2005 ANNUAL REPORT
AND FINANCIAL STATEMENTS

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Contents / Yaliyomo

Brand Belief

We believe that the development of an informed perspective enables communities to fulfill their true potential. Nation Media Group Limited therefore creates multiple media opportunities to inform, educate and entertain.



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Notice of Annual General Meeting

Notice is hereby given that the Forty Third Annual General Meeting of the Shareholders of Nation Media Group Limited will be held at the Nation Printing Plant Mombasa Road, Nairobi on Thursday 25 May 2006 at 3.00 p.m. for the following purposes:

ORDINARY BUSINESS

- 1 To receive the financial statements for the year ended 31 December 2005 and the chairman's, directors' and auditors' reports thereon.
- 2 To confirm the payment of the interim dividend of 20% and to approve the payment of a final dividend of 100% on the ordinary share capital in respect of the year ended 31 December 2005.
- 3 To authorise the directors to fix the remuneration of the auditors, PricewaterhouseCoopers.
- 4 To elect and re-elect the following directors:

In accordance with Article 96 of the Company's Articles of Association, Mr. A. Mufuruki, a director appointed on 14th December 2005, retires and being eligible, offers himself for election.

In accordance with Article 110 of the Company's Articles of Association, Mr. L. Huebner, Mr. A. Poonawala and Mr. G. Wilkinson retire by rotation and, being eligible, offer themselves for re-election.

By order of the Board
J C Kinyua
Secretary

16 March 2006

Note: A member entitled to attend and vote may appoint a proxy to attend and vote for him on his behalf. Such proxy need not be a member of the Company. To be valid, proxy forms must be deposited at the Company's registered office not less than 48 hours before the appointed time of the meeting.

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Tangazo la Mkutano Mkuu Wa Mwaka

Ilani inatolewa hapa kuwa Mkutano Mkuu wa arobaini na tatu wa kila mwaka kwa wenye hisa wa kampuni ya Nation Media Group utafanywa katika kiwanda cha uchapishaji cha Nation (Nation Printing Plant) kilichoko Mombasa Road, Nairobi, hapo siku ya Alhamisi Mei 25, 2006, saa 9 alisiri kwa madhumuni yafuatayo:

SHUGHULI ZA KAWAIDA

- 1 Kupokea taarifa ya hesabu ya mwaka uliomalizika Desemba 31, 2005, pamoja na taarifa za mwenyekiti, wakurugenzi na wakaguzi wa hesabu.
- 2 Kuthibitisha malipo ya mgawo wa muda wa asilimia 20 na kuidhinisha malipo ya mgawo wa mwisho wa asilimia 100 kwa hisa ya kawaida kwa kuzingatia mwaka uliomalizika Desemba tarehe 31, 2005.
- 3 Kuwaidhinishia wakurugenzi kutoa maamuzi ya malipo ya wakaguzi wa fedha, PricewaterhouseCoopers.
- 4 Kuchagua na kuchagua tena wakurugenzi wafuatao:

Kulingana na Kifungu cha 96 cha Kanuni za Kampuni, Bwana A. Mufuruki, Mkurugenzi aliyeteuliwa tarehe 14 Desemba mwaka wa 2005, anastaafu na kwa kuwa anahitimu, anajitolea kuchaguliwa tena.

Kulingana na Kifungu cha 110 cha Kanuni za Kampuni, Bwana L. Huebner, Bw. A. Poonawala na Bw. G. Wilkinson wanastaafu kwa zamu na, kwa kuwa wanahitimu, wanajitolea kuchaguliwa tena.

Kwa Amri ya Halmashauri
J. C. Kinyua
Katibu

Machi 16, 2006

Maelezo: Mwanachama mwenye haki ya kuhudhuria na kupiga kura katika mkutano mkuu, anaweza kumteua mwakilishi wake kuhudhuria mkutano na kupiga kura kwa niaba yake. Mwakilishi huyo si lazima awe mwanachama wa kampuni. Ili kukubaliwa, formu ya wakala ni lazima iwasilishwe katika afisi iliyosajiliwa ya Kampuni sio chini ya muda wa saa 48 kabla ya saa ya kuanza kwa mkutano iliotangazwa.

Annual Highlights 2005

- ◆ *Group turnover increases by Shs. 730.9 million (15%) to Shs. 5.6 billion*
- ◆ *Profit before tax increases by 14% to Shs. 1.0 billion*
- ◆ *Profit attributable to shareholders increases by 12% to Shs. 716.2 million*
- ◆ *Nation Broadcasting turnover increases by 30%*
- ◆ *Proposed ordinary dividend for the year increases by 33%*

Matukio Muhimu ya 2005

Mapato ya kampuni yaliongezeka kwa Shilingi milioni 730.9 (asilimia 15) hadi Shilingi bilioni 5.6 ◆

Faida ya kibiashara kabla ya ushuru iliongezeka kwa asilimia 14 hadi Shilingi bilioni 1.0 ◆

Faida inayostahili wenye hisa iliongezeka kwa asilimia 12 hadi Shilingi milioni 716.2 ◆

Mapato ya Nation Broadcasting yaliongezeka kwa asilimia 30 ◆

Mgawo wa kawaida wa mwaka uliopendekezwa, uliongezeka kwa asilimia 33 ◆

Corporate Governance

The role of the Board is to determine the company's policy and strategy, to monitor the attainment of business objectives and to ensure that the company meets its obligations to the shareholders. The directors are also responsible for overseeing the group's internal control systems. These controls are designed both to safeguard the group's assets and to ensure the reliability of the financial information used within the business.

Your Board is committed to ensuring that the group adheres to the highest standards of corporate governance and has the following Board Committees:-

1. Nomination Committee, which is responsible for executive and non-executive board appointments.
2. Finance and Audit Committee, whose main duties are to ensure that the systems of internal controls are effectively administered; to define the responsibilities of the internal auditors, to liaise with the external auditors and to review the financial statements and interim results.
3. Strategic Planning Committee, which reviews the group's medium and long term strategic aims and direction.
4. Editorial Committee, which considers and advises on the group's editorial policy, the journalistic code of ethics and legal responsibilities.
5. Remuneration Committee, charged with the responsibility of advising on human resource policies, senior executives remuneration and directors fees.

There is a clearly defined organisational structure within which individual responsibilities are identified in relation to internal financial controls. The structure is complemented by policies and management operates the business in compliance with these policies.

The Group Chief Executive chairs the Executive Committee which comprises the executive directors and other senior executives of the company. The committee deals with operational matters and co-ordinates activities across the group's various subsidiary companies and divisions.

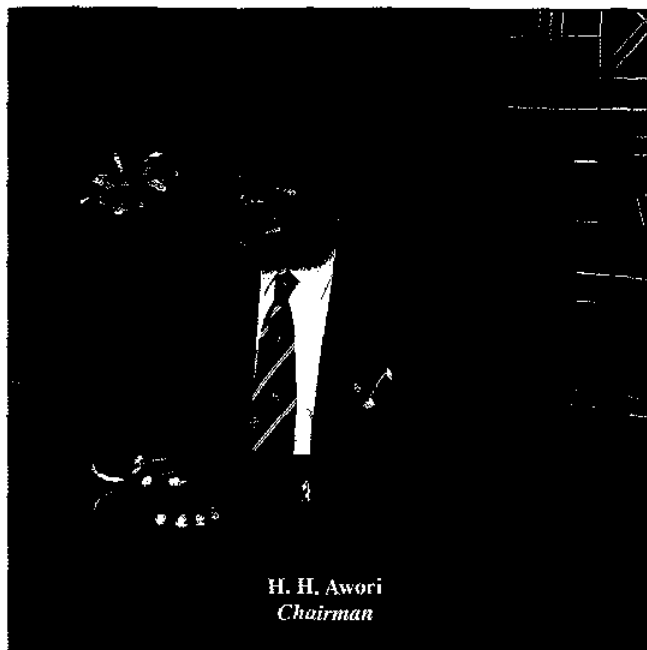
Corporate Social Responsibility

Nation Media Group is committed to being a responsible corporate citizen and continued to be actively engaged in projects and initiatives aimed at improving the lives of the people and the environment within which the company operates.

The key CSR activities undertaken in 2005 were: the revival of the Save a Life Fund in response to acute famine arising from adverse weather; an Emergency Relief Appeal to support victims of violence in Northern Kenya and the ongoing Nation Aberdare Forest Project whose objective is to protect the water catchment area serving a population of over 10 million people.

The Group also undertook various other projects in education, health, arts and culture.

Chairman's Statement



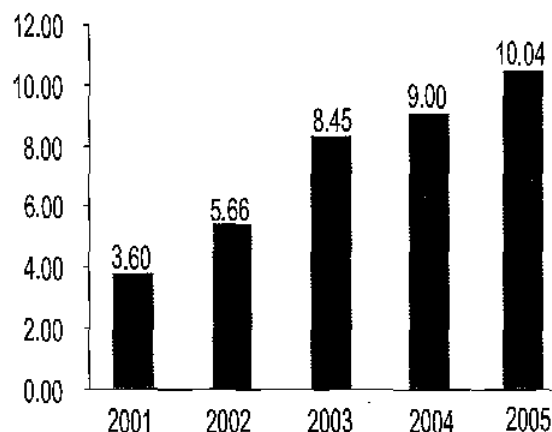
In spite of operating in very challenging political and economic environment across the region in 2005, the Group performed exceptionally well.

All Group subsidiaries realised marked improvement in their performance; positively impacting the overall Group results.

2005 RESULTS

Profit before tax increased by 14% to Kshs.1.0 billion whilst profit attributable to shareholders increased by 12% to Kshs.716.2 million. The group's flagship, the

Earnings per share(shs)



Nation Newspapers Division posted good results inspite of continued increases in material costs without the offsetting revenue of a cover price increase. This was the fourth consecutive year in which cover prices remained at the same level.

The Group's cash balances increased to Kshs.953.7 million in December 2005 from Kshs.818.9 million in December 2004 after investment of Kshs.361.2 million in capital expenditure and payments of Kshs.338.8 million in dividends during the year.

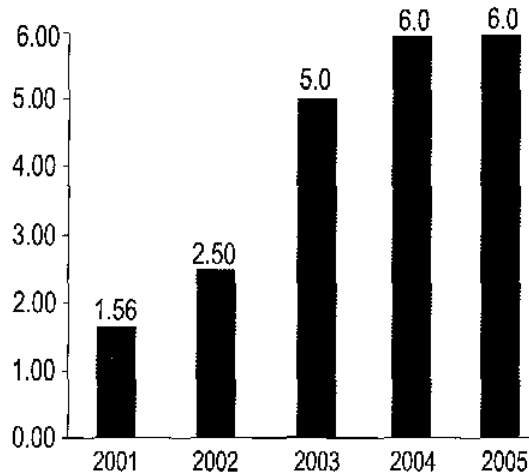
Following the payment of an interim dividend of Kshs.1.00 per share (20%) during the year, your Board of Directors now recommends a final dividend of Kshs.5.00 (100%) per share.



*All heads together
... East African
Heads of State
Yoweri Museveni,
Mwai Kibaki and
Jakaya Kikwete at
the EAC summit in
Arusha.*

Chairman's Statement *continued*

Dividends per share (shs)

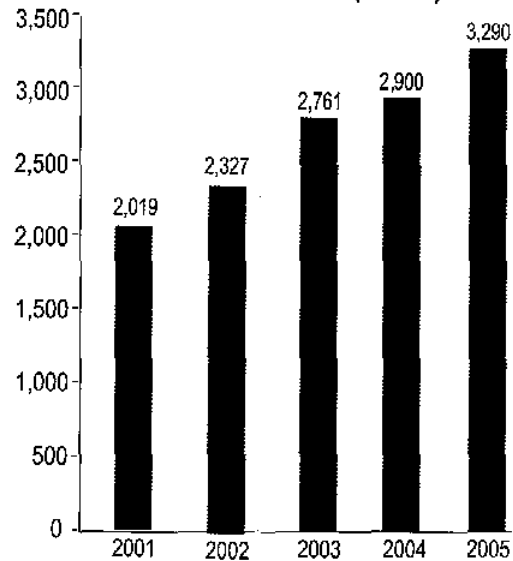


The proposed ordinary dividend for year 2005 at Kshs.6.00 (120%) per share is similar to the previous year's but in overall terms an increase of 33% following the issuance of bonus shares.

STRATEGY

As reported in the last financial report, we plan to continue consolidating our position in the media market in East Africa while exploring the possibility of related new ventures and products in the region to complement our existing portfolio.

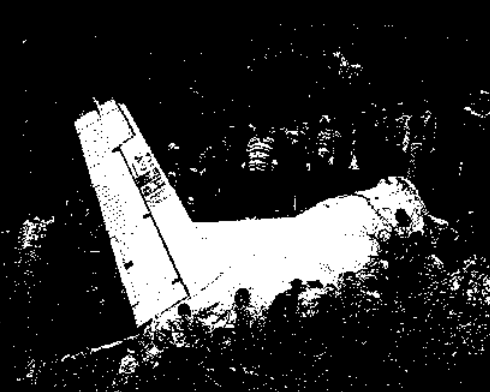
Shareholder's funds (shs m)



THE BOARD

As customary, I would like to extend my sincere appreciation to all the Board members and in particular to our group chief executive Mr. Wilfred Kiboro for their continued efforts during a period which has seen our Group grow from strength to strength.

H. H. Awori
CHAIRMAN

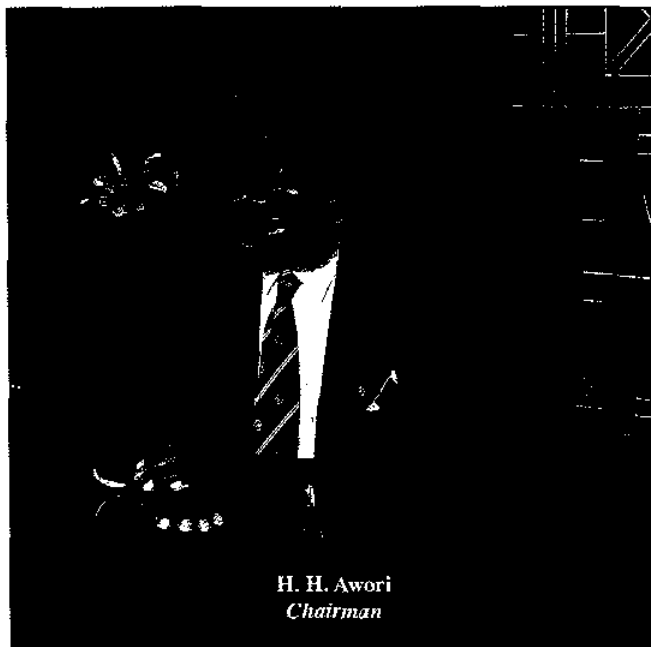


Disaster . . . The scene of the military plane crash in Marsabit which killed 14 people, including six MPs.



Transition . . . The body of Sudan's First Vice President John Garang lies in state in Juba. He died in a helicopter crash on his way from Uganda.

Taarifa ya Mwenyekiti



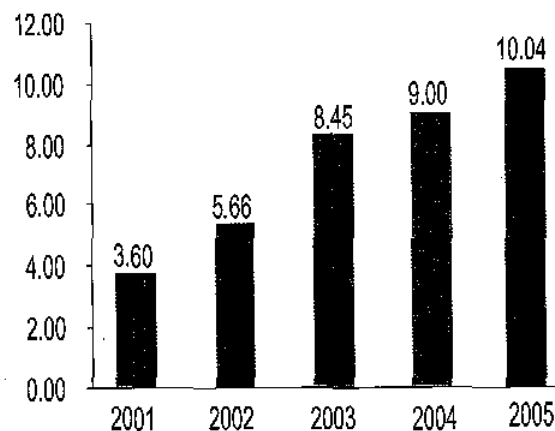
Licha ya kufanya kazi kwenye mazingira yaliyokuwa na changamoto yenye hekaheka za kisiasa na kiuchumi nchini mwaka wa 2005, kampuni ilifanya vyema zaidi.

Kampuni zote tanzu za Nation Media Group Ltd zilionyesha mafanikio mazuri ya utendajikazi wake; na kuifanya kampuni nzima kwa ujumla kuonekana kuwa na matokeo bora yenye uhakika.

MATOKEO YA 2005

Faida kabla ya kutozwa ushuru iliongezeka kwa asilimia 14 hadi shilingi bilioni 1.0 wakati ambapo faida ya wenyehisa iliongezeka kwa asilimia 12 hadi shilingi milioni 716.2. Kitengo cha Kampuni

Mapato kwa kila hisa (shs)



kilicho na uzalishaji madhubuti cha Nation Newspapers kilifanikiwa na kuonyesha matokeo bora licha ya kuendelea kuongezeka kwa gharama za bidhaa bila ya kuongezeka kwa bei ya magazeti kwa mwaka wa nne sasa.

Hifadhi ya pesa taslim za kampuni iliongezeka kwa shilingi milioni 953.7 kufikia Desemba 2005, kuanzia shilingi milioni 818.9 Desemba 2004 baada ya kuwekeza shilingi milioni 361.2 kwenye matumizi ya mtaji na malipo ya shilingi milioni 338.8 kwenye mgao wa mwaka huo.

Kufuatia kulipa mgao wa katikati ya mwaka wa shilingi 1.00 kwa kila hisa (asilimia 20) mwaka huo, Kamati yako Wakurugenzi, sasa inapendekeza mgao wa mwisho wa mwaka wa shilingi 5.00 (asilimia 100) kwa kila hisa.

Mgao wa kawaida uliopendekezwa kwenye mwaka wa 2005



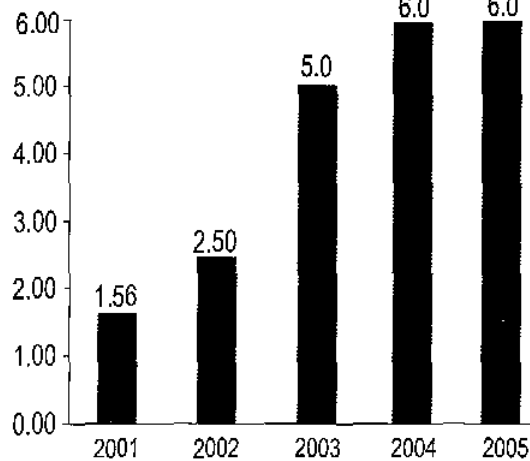
Eyes on the prize . . . Uganda's President Yoweri Museveni and wife Janet on the election campaign trail in February.



Celebration . . . 2006 Boston Marathon winners-Kenya's Robert Cheruiyot and Rita Jeptoo.

Taarifa ya Mwenyekiti ianaendelea

Mgawo kwa kila hisa (shs)



wa shilingi 6.00 (asilimia 120) kwa kila hisa ni sawa na mgao wa mwaka uliotangulia lakini kwenye viwango vya jumla ya ongezeko la asilimia 33 kufuatia kutolewa kwa gawio la malipo ya ziada kwa wenye hisa.

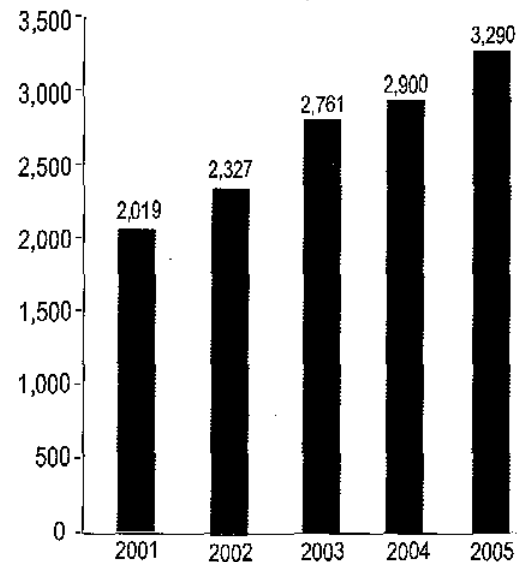
MIKAKATI

Kama ilivyoripotiwa kwenye ripoti ya fedha ya mwaka uliotangulia, tuna mipango ya kuendelea kuimarisha hali yetu ya soko la mawasiliano kwenye kanda ya Afrika Mashariki wakati tunapopanua uwezekano wa miradi mipya yenye uhusiano sawa na bidhaa kwenye sehemu hii ili kukamilisha mipango na mambo yetu yaliyoko.

HALMASHAURI

Kama desturi, ningependa kutoa shukurani zangu za dhati kwa

Hazina ya wenyehisa (shs m)



Wanakamati wote na hasa kwa Afisa Mtendaji wa kampuni yetu, Bw. Wilfred Kiboro, kwa kuendelea kusaidia na kushirikiana kikamilifu ambapo tumeona kampuni yetu ikikua na kuendelea kuimarika kila kukicha.

H. H. Awori
MWENYEKITI

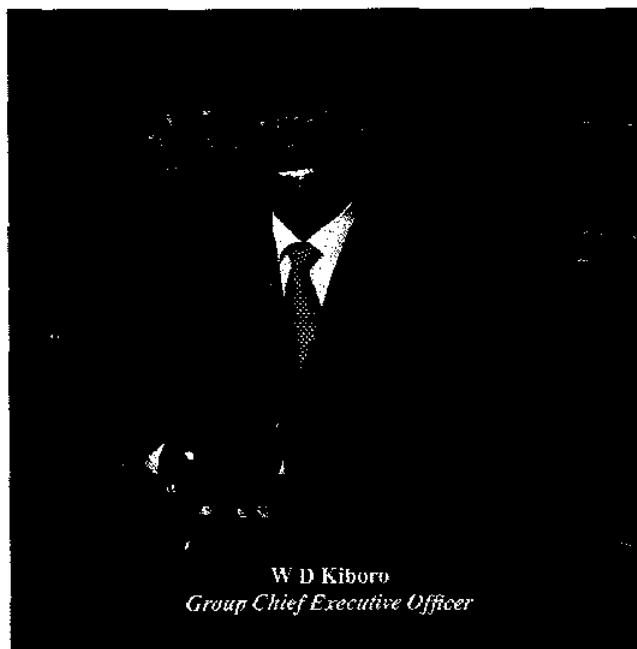


And finally . . . Mr Justice Samuel Bosire, who presided over the lengthy Goldenberg inquiry, presents his report to President Mwai Kibaki.



Campaign trail . . . Mr Jakaya Kikwete, Tanzania's President (centre), during the election campaigns last year.

Group Chief Executive's Report



GROUP SUMMARY

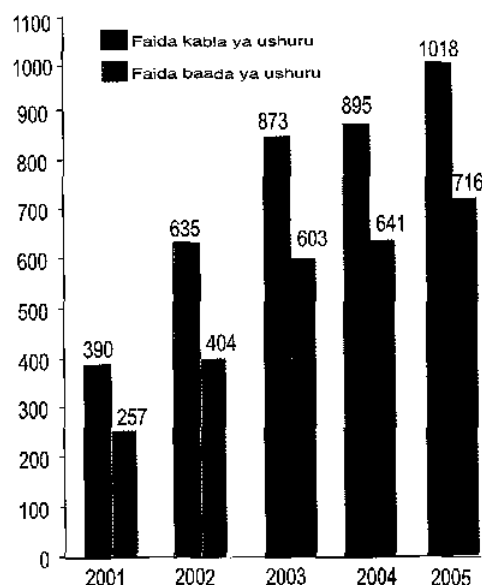
The Group had another successful year and achieved record turnover and profit levels. Group turnover grew by Kshs 730.9 million (15%) to Kshs 5.6 billion while profit before tax increased by Kshs 123.7 million (14%) to Kshs 1.02 billion.

NATION NEWSPAPERS DIVISION (NND)

Nation Newspapers Division's performance was boosted by market share gains in both advertising and circulation as well as exceptional strengthening of the Kenya Shillings against the US dollar which offset the impact of rising newsprint costs.

Introduction of additional high quality premium products, involving new colour and positioning opportunities to advertising clients, resulted in

Profit before & after tax (shs m)



exceptional advertising revenue growth and market share gains. At the same time, circulation revenue was boosted by higher sales volumes arising from sustained product development and marketing activities throughout the year.

Together with ongoing cost optimisation projects, these factors mitigated the adverse impact of deferred increases on cover price of the Group's flagship newspapers Daily Nation and Sunday Nation. The last increases were effected in 2001. A new colour tower for the printing press was commissioned in the year increasing the colour capacity by 25%.

NATION BROADCASTING DIVISION (NBD)

The division realised a first time profit contribution from broadcast operations, the result of a revenue growth of 30% over the prior year. This was largely attributable to a very successful re-launch of its television station which instantly strengthened the station's ratings,



World champion ... Uganda's steeplechase gold medalist Dorcas Inzikuru arrives home.



Golden glory ... Kenya's gold medalist Ezeikel Kemboi Yano leads compatriots Wesley Koech and Reuben Kosgey Seroney to the finishing line of the 3000 steeplechase at the Commonwealth Games in Melbourne.

Group Chief Executive's Report *continued*

catapulting it to the top position in the market.

The division's radio station was also re-branded and re-launched in the latter part of the year. Initial reactions to the new product have been positive and further work is ongoing to attain market leadership.

NATION CARRIERS DIVISION (NCD)

The division performed well as it realised a growth of 14% in courier revenues and an increase of 33% in the operating contribution.

NATION MARKETING & PUBLISHING LIMITED (NMP)

Revenues for the division increased by 8% and the division continued to make a positive contribution to the Group's operating profit.

EAST AFRICAN MAGAZINES LIMITED (EAM)

EAM had its first full year of operations in 2005 following its set up as a joint venture between NMG and Media 24 in September 2004.

True Love has been very successful and has rapidly established itself as the market leader in the top end of ladies magazines in the region. Drum magazine after a slower start was repositioned as a publication offering content serving the whole family unit and is now amongst the top three most read monthly magazines in the market.

The magazine market in general is still at a very nascent stage in its development in East Africa but its potential is exciting and largely untapped. At year end, the overall performance of the EAM division was in line with the business plan.

MWANANCHI COMMUNICATIONS LIMITED (MCL) - TANZANIA

Notwithstanding significant challenges in the environment in which the division operated which arose during the year, MCL more than doubled its revenue over the prior year and exceeded its revenue targets by 15%.

This accomplishment resulted in material reduction in the operating losses compared to the prior year.

MONITOR PUBLICATIONS LIMITED (MPL) - UGANDA

MPL benefited from consolidation of the investments and product development initiatives commissioned in 2004.

In particular, the improvement in the editorial content and redesign of the Daily Monitor and Sunday Monitor resulted in significant gains in the publications market shares.

Both advertising and circulation targets were exceeded and the strong performance of the newspaper operations more than offset a less favourable picture for the radio station – KFM which endured a government imposed ten-day shut down. The radio station however has gone on to become the market leader and is set to attain a positive contribution in 2006.

PROPERTY DEVELOPMENT AND MANAGEMENT LIMITED (PDM)

The Group's associated company had yet another successful year of operations, with nearly full occupancy levels across its properties, and made a positive contribution to the Group's profitability.

APPRECIATION

In conclusion, I would like to express my sincere appreciation to our loyal customers and staff whose untiring support and efforts have sustained our Group's growth and success over the years. I also wish to extend my thanks to the Board of Directors for its guidance. I am confident that I can count on the team to continue its impressive contributions to the success of the Group.

W D Kiboro
GROUP CHIEF EXECUTIVE OFFICER

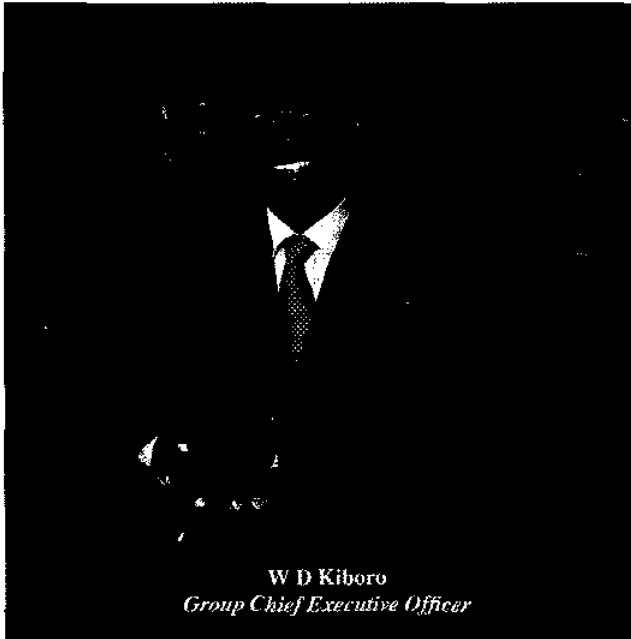


Pope Benedict XVI



My say ... The Referendum vote in Kenya just year.

Ripoti ya Afisa Mkuu Mtendaji wa Kampuni



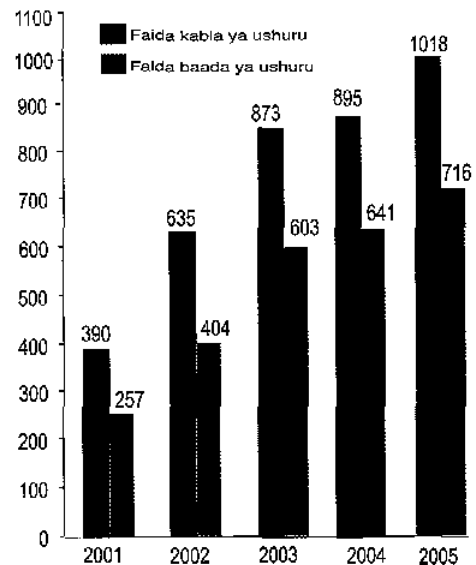
MUKHTASARI WA KAMPUNI (NMG)

Kampuni ya Nation Media Group Limited (NMG), ilishuhudia mwaka mwingine wenye mafanikio na tulifanikisha viwango vya juu zaidi vya mapato na faida. Mapato ya kampuni yaliongezeka kwa shilingi Milioni 730.9 (asilimia 15) hadi shilingi Bilioni 5.6 wakati ambapo faida kabla ya kutozwa ushuru iliongezeka kwa shilingi Milioni 123.7 (asilimia 14) hadi shilingi Bilioni 1.02.

KITENGO CHA MAGAZETI CHA NATION (NND)

Utendajikazi wa kitengo hiki cha Nation Newspapers Division (NND) uliongezwa na kuimarika kwa mapato ya juu ya soko la hisa kwenye vitengo vyote viwili vya Utangazaji na Usambazaji na pia kuimarika kwa shilingi ya Kenya (Kshs) dhidi ya Dola ya Marekani ambayo ilifidia gharama za uchapishaji zinazoendelea kuongezeka.

Faida kabla na baada ya ushuru (shs m)



Uanzishaji wa bidhaa za ziada za hali ya juu, uliohusisha rangi mpya na kuongeza nafasi kwa wateja wapya wa matangazo, ulipelekea kuimarika na kukua kwa mapato ya matangazo na kuwepo kwa ongezeko la faida katika soko. Na wakati huo huo, mapato ya usambazaji yaliongezwa na mauzo ya juu kutokana na maendeleo endelevu ya kila siku ya bidhaa na shughuli za uuzaji kwenye kipindi cha mwaka mzima.

Pamoja na miradi inayoendelea ya kupunguza gharama, vipengele hivi vilipunguza athari za kuongezeka kwa bei ya magazeti hasa katika Kitengo Kikuu cha magazeti cha NND kwenye magazeti yake ya Daily Nation na Sunday Nation. Ongezeko la mwisho lilitekelezwa mwaka wa 2001.

Mnara mpya wa rangi ulioongezewa kwenye mwaka huo na kuimarisha viwango vya rangi kwa asilimia 25.



Grim task... Rescuers work feverishly to reach construction workers buried under a collapsed building in Nairobi's Nyamakima area in which over 16 people were killed



Winning duo... Lucy Kabuu, who won gold, and Everlyne Wambui, silver medalist, at the finish line of the 10,000 metres at the Melbourne Commonwealth Games.

Ripoti ya Afisa Mkuu Mtendaji wa Kampuni *inaendelea*

KITENGO CHA NATION BROADCASTING (NBD)

Kitengo cha Shirika la Utangazaji kilipata mchango mkuu kwa mara ya kwanza kutoka kwa oparesheni iliyotokana na ukuaji wa mapato kwa asilimia 30 wa mwaka uliopita. Hali hii ilisababishwa na mafanikio ya uzinduzi wa mara ya pili wa stesheni yao ya televisheni (NTV), ambayo mara moja uliongeza viwango vya utazamazaji wa stesheni, na kuiweka nambari moja kwenye soko.

Stesheni ya Redio ya kitengo hiki pia ilipewa jina jingine na kuzinduliwa kwa mara ya pili katika sehemu ya mwisho wa mwaka. Matokeo ya kwanza kuhusu stesheni hii mpya ni mazuri na kazi zaidi zinaendelea ili kupata uongozi katika soko hili.

KITENGO CHA NATION CARRIERS (NCD)

Kitengo hiki kilifanya vizuri, kupata ongezeko la asilimia 14 katika mapato ya uchukuzi wa magazeti na kuwepo kwa ongezeko la asilimia 33 kwenye mchango wa shughuli za oparesheni.

KAMPUNI YA NATION MARKETING & PUBLISHING (NMP)

Mapato ya kitengo hiki cha Mauzo na Uchapishaji (NMP) yaliongezeka kwa asilimia 8 na kitengo kikaendelea kufanya mchango mzuri kwa faida ya oparesheni ya kampuni.

KAMPUNI YA EAST AFRICAN MAGAZINES (EAM)

EAM ilikamilisha mwaka mzima wa kwanza wa oparesheni zake za mwaka 2005 kufuatia kuanzishwa kwake kama mradi wa pamoja kati ya NMG na Media 24 hapo Septemba 2004.

True Love ni jarida ambalo limekuwa na mafanikio makubwa na limejikita kama kiongozi katika masuala ya wanawake kwenye kanda hii kwa haraka sana. Jarida la *Drum* ambalo lilianza pole pole, lilibadilishwa kuwa jarida la makala yanayohudumia familia yote na kwa sasa ni mojawapo ya majarida matatu ya kwanza, yanayotolewa kila mwenzi, yanayosomwa zaidi kwenye soko hili.

Kwa jumla, soko la majarida bado liko katika ngazi changa ya maendeleo yake kwenye kanda ya Afrika Mashariki, lakini uwezo wake unapendeza kwani bado haujazingatiwa sana. Kufikia mwisho wa mwaka, utendajikazi wa EAM kwa jumla uliambatana pakubwa na mpango wake wa kibiashara.

KAMPUNI YA MWANANCHI COMMUNICATIONS LIMITED (MCL) - TANZANIA

Licha ya changamoto kubwa kwa mazingira ya ufanyaji kazi wa kitengo hiki, ambayo yalipatikana katika mwaka, MCL ilijibidisha zaidi na kupata maradufu ya mapato yake ukilinganisha na ya mwaka uliotangulia na kupita malengo yao ya mapato kwa kiwango cha asilimia 15.

Hii ilichangia pakubwa katika kupata utumiaji wa chini wa vifaa ikilinganishwa na hasara za oparesheni za mwaka uliopita.

KAMPUNI YA MONITOR PUBLICATIONS LIMITED (MPL) - UGANDA

MPL ilifaidika kutokana na uimarishaji wa uwekezaji na hatua za maendeleo ya bidhaa zilizoanzishwa mwaka 2004.

Hususan, usanifu mpya wa *Daily* na *Sunday Monitor* na uimarishaji wa maandishi yaliyomo kwenye gazeti yaliyosababisha upatikanaji wa faida nzuri katika soko la hisa la machapisho.

Bajeti zote mbili za Utangazaji na Usambazaji zilipitishwa, na uzalishaji bora wa gazeti ulifidia matokeo mabaya ya radio – KFM, ambayo ilistahimili uzimwaji wa kituo hicho wa siku kumi ulioamriwa na serikali. Stesheni hiyo ya Redio kwa sasa ndio kiongozi wa soko lake na inaelekea kupata mchango mzuri mwaka 2006.

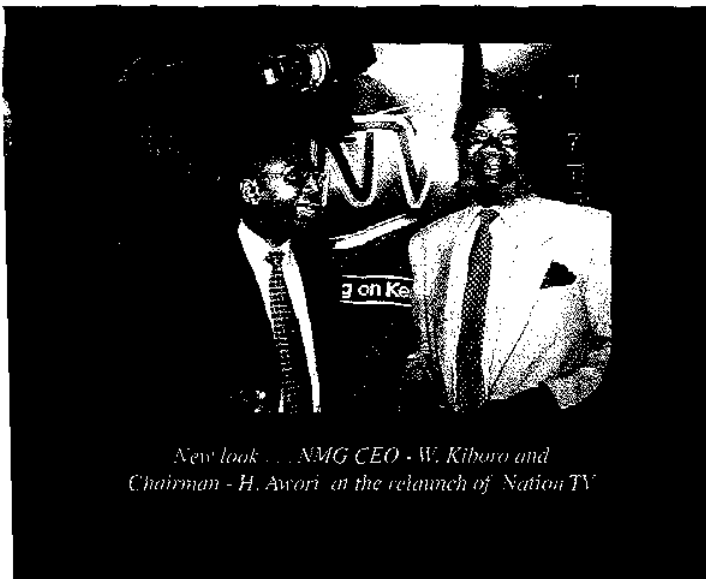
KAMPUNI YA PROPERTY DEVELOPMENT AND MANAGEMENT LTD (PDM)

Kampuni ya (PDM) ambayo ni Kampuni Mshirika kwa NMG, ilikuwa na mwaka mwingine wa ufanisi huku rasilimali zake zikiwa karibu kujaa pomoni kwa wapangaji na kufanya mchango mzuri kwa kuongezea faida ya kampuni.

SHUKRANI

Kwa kutamatisha, ningependa kutoa shukrani zangu za dhati kwa wateja wetu waaminifu na wafanyakazi ambao mchango wao wa miaka mingi umefanya biashara yetu kuendelea kukua mara dufu. Hali kadhalika, ningependa kuishukuru kamati ya Wakurugenzi Wakuu kwa kutoa usaidizi na ushauri nasaha kwa Kampuni. Nina imani kwamba nitategemea ushirikiano wenu ili tuendelee kutoa mchango bora kwa mafanikio ya kampuni.

W D Kiboro
AFISA MKUU MTENDAJI WA KAMPUNI



New look ... NMG CEO - W. Kiboro and
Chairman - H. Awori at the relaunch of Nation TV

BOARD OF DIRECTORS



(Seated l-r) A Bekah G M Wilkinson, A Poonawala, H H O Awori, W D Kiboro, D Aluanga, F O Okello, L Huebner, (Standing l-r) A Mufuruki, M J Alier, J Lee, D d'Acremont,

BOARD OF DIRECTORS

Chairman (Kenyan) H H O Awon

Chief Executive/ Managing (Kenyan) W D Kiboko

Mwasimukuu / Msimamizi (Kenya) M J Aliker

(Ugandan)

A Bekah (Kenya)

(French)

D Aliunga (Kenya)

(American)

L Huebner (Muamkenani)

(British)

J Lee (Mwingereza)

(Tanzanian - Appointed 14.12.2005)

A Mutuniki (Mwanzania)

(Kenyan)

F O Okello (Kenya)

(French)

A Poonawala (Mfaransa)

(Irish)

G M Wilkinson (Mu-Irish)

Secretary

J C Kinyua

Katibu

Registered Office

Nation Centre

Arusi Ilikoandikishwa

Kimathi Street

P.O. Box 49010-00100

Nairobi

Wakil

Kaplan & Swaton

Williams House

4th Floor Avenue

Nairobi

Advocates

Price Waterhouse Coopers

Wakaguzi wa Hesabu

Auditors

Standard Chartered Bank

Bank

Bankers

of Kenya Limited

Sheppard House

Mot Avenue

Nairobi

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the group are the publication, printing and distribution of newspapers and magazines, and radio and television broadcasting.

GROUP RESULTS

The results of the group for the year are set out in the profit and loss account on page 20.

DIVIDENDS

The directors recommend the payment of a final dividend of 100% on the issued share capital at 31 December 2005, which together with the interim dividend of 20% paid on 8 September 2005 makes a total of 120% in respect of the year ended 31 December 2005.

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 15. Mr. Ali Mufuruki was appointed a director on 14 December 2005. He retires in accordance with Article 96 of the company's Articles of Association and being eligible, offers himself for election.

Mr. L. Huebner, Mr. A. Poonawala and Mr. G. Wilkinson are directors who retire by rotation in accordance with Article 110 of the Company's Articles of Association, and being eligible, offer themselves for re-election.

AUDITORS

The company's auditors PricewaterhouseCoopers have expressed their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act.

By order of the Board

J C Kinyua
Secretary

16 March 2006

Taarifa ya Wakurugenzi

Wakurugenzi wana furaha ya kutangaza taarifa yao pamoja na taarifa za hesabu zilizokaguliwa za mwaka unaomalizikia Desemba 31, 2005.

SHUGHULI KUU

Biashara kuu za kampuni ni pamoja na machapisho, uchapishaji na usambazaji wa magazeti na majarida, na utangazaji wa radio na televisheni.

MATOKEO YA KAMPUNI

Matokeo ya kampuni ya mwaka uliopita yamefafanuliwa katika hesabu za faida na hasara katika ukurasa wa 20.

MGAWO

Wakurugenzi wanapendekeza malipo ya mwisho ya mgawo ya asilimia 100 kutokana na mtaji wa hisa zilizotolewa kufikia Desemba 31, 2005, ambao pamoja na mgawo wa muda wa asilimia 20 uliolipwa Septemba 8, 2005, unafikisha jumla ya asilimia 120 kuhusiana na mwaka uliomalizika Disemba 31, 2005.

WAKURUGENZI

Wakurugenzi waliohudumu mwakani hadi wakati huu wa kuchapishwa kwa taarifa hii ni kama walivyo katika orodha iliyochapishwa katika ukurasa wa 15. Bw. Ali Mufuruki aliteuliwa kama mkurugenzi tarehe 14 Desemba 2005. Anastaaфу kwa mujibu wa Kifungu cha 96 cha Kanuni za Kampuni, na kwa kuwa anastahili, anajitolea kwa uchaguzi.

Kwa mujibu wa Kifungu cha 110 cha Kanuni za Kampuni, Bw. L. Huebner, Bw. A. Poonawala na Bw. G. Wilkinson, ambao ni wakurugenzi, wanastaaфу kwa zamu na, kwa kuwa wanastahili, wanajitolea kwa kuchaguliwa tena.

WAKAGUZI WA HESABU

Wakaguzi wa kampuni PricewaterhouseCoopers baada ya kudhihirisha hiari yao, wataendelea na kazi ya uhasibu kwa mujibu wa kifungu nambani 159(2) cha Sheria za Kampuni.

Kwa amri ya Halmashauri
J. C. Kinyua
Katibu

Machi 16 2006

Statement of Directors' Responsibilities

The Kenyan 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 profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements that 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 Kenyan Companies Act. The directors are of the opinion that the accounts give a true and fair view of the state of the financial affairs of the company and the group and of the group's profit. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

H H O Awori

D Aluanga

16 March 2006

Report of the Independent Auditors to the Shareholders of Nation Media Group Limited

We have audited the financial statements of Nation Media Group Limited (the company) and its subsidiaries (together, the group) for the year ended 31 December 2005 set out on pages 20 to 43 and the accompanying balance sheet of the company standing alone as at 31 December 2005 ("the financial statements").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements as described on page 18. Our responsibility is to express an independent opinion on the 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and we believe our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2005 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act. The balance sheet of the company is in agreement with the books of account.

PRICEWATERHOUSECOOPERS 

Certified Public Accountants
Nairobi

16 March 2006

Group Profit and Loss Account

for the year ended 31 December

	Note	2005 Shs m	2004 Shs m
Sales	5	5,597.1	4,866.2
Cost of sales		(1,338.0)	(1,184.2)
Gross profit		4,259.1	3,682.0
Distribution costs		(193.6)	(177.7)
Administrative expenses		(743.8)	(696.9)
Other operating expenses		(2,375.2)	(1,981.4)
Operating profit	6	946.5	826.0
Finance income	8	44.6	34.0
Share of profit before income tax of associate	17	27.3	34.7
Profit before income tax		1,018.4	894.7
Income tax expense	9	(329.4)	(303.1)
Profit before minority interest		689.0	591.6
Minority interest		27.2	49.8
Profit for the year		716.2	641.4
Basic and diluted earnings per share (Shs)	10	10.0	9.0
Dividends:		2005 Shs m	2004 Shs m
Interim dividend – paid in the year	23	71.3	53.5
Proposed final dividend for the year	23	356.5	267.5
		427.8	321.0

Balance Sheet

as at 31 December

	Note	Group		Company	
		2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
CAPITAL EMPLOYED					
Capital and reserves attributable to the Company's equity holders					
Share capital	11	356.5	267.5	356.5	267.5
Other reserves	12	(9.3)	10.3	13.7	45.5
Retained earnings		2,586.1	2,354.9	2,569.0	2,307.1
Proposed dividends	23	356.5	267.5	356.5	267.5
		3,289.8	2,900.2	3,295.7	2,887.6
Minority interest		(59.1)	(43.4)	-	-
Total equity		3,230.7	2,856.8	3,295.7	2,887.6
Non-current liabilities					
Deferred income tax liabilities	13	37.1	10.6	47.7	10.6
Total equity and non current liabilities		3,267.8	2,867.4	3,343.4	2,898.2
Non-current assets					
Property, plant and equipment	14	1,623.0	1,641.2	1,276.7	1,261.2
Intangible assets	15	44.2	-	20.6	-
Prepaid operating lease rentals	16	98.7	110.8	52.8	53.0
Investment in associates	17	285.1	274.4	94.6	94.6
Investment in subsidiaries	18	-	-	93.6	60.5
		2,051.0	2,026.4	1,538.3	1,469.3
Current assets					
Inventories	19	426.6	408.5	385.8	301.5
Receivables and prepayments	20	862.8	766.9	1,287.5	1,183.2
Cash and cash equivalents	21	953.7	818.9	906.0	806.2
Current income tax		132.6	28.6	113.8	12.7
		2,375.7	2,022.9	2,693.1	2,303.6
Current liabilities					
Payables and accrued expenses	22	1,158.9	1,181.9	888.0	874.7
Net current assets		1,216.8	841.0	1,805.1	1,428.9
		3,267.8	2,867.4	3,343.4	2,898.2

The financials statements on pages 20 to 43 were approved for issue by the board of directors on 16 March 2006 and signed on its behalf by

H H O Awori

D Aluanga

Group Statement of Changes in Equity

for the year ended 31 December

		Attributable to equity holders of the company				Minority interest	Total equity
	Note	Share capital	Other reserves	Retained earnings	Proposed dividends		
		Shs m	Shs m	Shs m	Shs m	Shs m	Shs m
Year ended 31 December 2004							
At start of year:							
- as previously reported		267.5	45.1	1,966.8	481.5	(10.9)	2,750.0
- adoption of IAS 40 (revised)	17	-	-	31.4	-	-	31.4
- transfer of reserves	12	-	(13.8)	13.8	-	-	-
- as restated		267.5	31.3	2,012.0	481.5	(10.9)	2,781.4
Transfer of excess depreciation	12	-	(32.1)	32.1	-	-	-
Deferred tax on transfer	12	-	9.6	(9.6)	-	-	-
Currency translation differences		-	1.5	-	-	(3.7)	(2.2)
Net gains recognised directly in equity		-	(21.0)	22.5	-	(3.7)	(2.2)
Issue of shares		-	-	-	-	21.0	21.0
Profit/(loss) for the year		-	-	641.4	-	(49.8)	591.6
Total recognised in 2004		-	(21.0)	663.9	-	(32.5)	610.4
Dividends:							
- final for 2003 paid		-	-	-	(481.5)	-	(481.5)
- Interim for 2004 paid	23	-	-	(53.5)	-	-	(53.5)
- proposed final for 2004	23	-	-	(267.5)	267.5	-	-
At end of year		267.5	10.3	2,354.9	267.5	(43.4)	2,856.8
Year ended 31 December 2005							
At start of year:		267.5	10.3	2,354.9	267.5	(43.4)	2,856.8
Transfer of excess depreciation	12	-	(45.4)	45.4	-	-	-
Deferred tax on transfer	12	-	13.6	(13.6)	-	-	-
Currency translation differences		-	12.2	-	-	7.6	19.8
Sale of minority interest to the group		-	-	-	-	3.9	3.9
Net gains/(losses) recognised directly in equity		-	(19.6)	31.8	-	11.5	23.7
Profit/(loss) for the year		-	-	716.2	-	(27.2)	689.0
Total recognised in 2005		-	(19.6)	748.0	-	(15.7)	712.7
Dividends:							
- bonus issue of shares	11	89.0	-	(89.0)	-	-	-
- final for 2004 paid		-	-	-	(267.5)	-	(267.5)
- Interim for 2005 paid	23	-	-	(71.3)	-	-	(71.3)
- proposed final for 2005	23	-	-	(356.5)	356.5	-	-
At end of year		356.5	(9.3)	2,586.1	356.5	(59.1)	3,230.7

Company Statement of Changes in Equity

for the year ended 31 December

	Note	Share capital Shs m	Other reserve Shs m	Retained earnings Shs m	Proposed dividends Shs m	Total Shs m
Year ended 31 December 2004						
At start of year		267.5	68.0	1,934.2	481.5	2,751.2
Transfer of excess depreciation	12	-	(32.1)	32.1	-	-
Deferred tax on transfer	12	-	9.6	(9.6)	-	-
Net (losses)/gains recognised directly in equity		-	(22.5)	22.5	-	-
Profit for the year		-	-	671.4	-	671.4
Total recognised in 2004		-	(22.5)	693.9	-	671.4
Dividends						
- final for 2003 paid		-	-	-	(481.5)	(481.5)
- Interim for 2004 paid	23	-	-	(53.5)	-	(53.5)
- proposed final for 2004	23	-	-	(267.5)	267.5	-
At end of year		267.5	45.5	2,307.1	267.5	2,887.6
Year ended 31 December 2005						
At start of year		267.5	45.5	2,307.1	267.5	2,887.6
Transfer of excess depreciation	12	-	(45.4)	45.4	-	-
Deferred tax on transfer	12	-	13.6	(13.6)	-	-
Net gains/(losses) recognised directly in equity		-	(31.8)	31.8	-	-
Profit for the year		-	-	746.9	-	746.9
Total recognised in 2005		-	(31.8)	778.7	-	746.9
Dividends						
- bonus issue of shares	11	89.0	-	(89.0)	-	-
- final for 2004 paid		-	-	-	(267.5)	(267.5)
- Interim for 2005 paid	23	-	-	(71.3)	-	(71.3)
- proposed final for 2005	23	-	-	(356.5)	356.5	-
At end of year		356.5	13.7	2,569	356.5	3,295.7

Group Cash Flow Statement

for the year ended 31 December

	Note	2005 Shs m	2004 Shs m
Operating activities			
Cash generated from operations	25	1,102.6	898.4
Interest received	8	47.0	31.1
Interest paid	8	(2.4)	(2.9)
Tax paid		(399.1)	(329.7)
Net cash from operating activities		748.1	596.9
Investing activities			
Purchase of property, plant and equipment	14	(349.7)	(552.7)
Purchase of intangible asset	15	(11.5)	-
Prepayment of operating lease rentals	16	-	(53.2)
Proceeds from the sale of property, plant and equipment		7.4	11.7
Acquisition of minority interest share	15	(19.1)	-
Dividends received	17	8.8	15.9
Net cash used in investing activities		(364.1)	(578.3)
Financing activities			
Dividend paid		(338.8)	(535.0)
Increase/(decrease) in cash and cash equivalents		45.2	(516.4)
Movement in cash and cash equivalents			
At start of year		818.9	1,315.7
Increase/(decrease)		45.2	(516.4)
Translation of net investment in foreign subsidiaries		89.6	19.6
At end of year	21	953.7	818.9

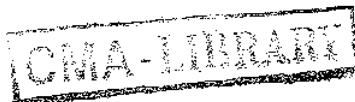
Notes to the Accounts

for the year ended 31 December, 2005

1 General information

Nation Media Group Limited is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

Nation Media Group Limited
Nation Centre
Kimathi Street
P O Box 49010 00100
Nairobi



The company's shares are listed on the Nairobi Stock Exchange.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest million, and prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Adoption of new and revised standards

In 2005 new and revised IFRS became effective for the first time and have been adopted by the Group where relevant to its operations. The comparative figures have been restated as required, in accordance with the relevant requirements.

IAS 1 (revised 2003) has affected the presentation of minority interests and other disclosures.

The adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy on goodwill. Until 31 December 2004 goodwill was amortised over a maximum period of 10 years and assessed for an indication of impairment at each balance sheet date. In accordance with IFRS 3 from the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures.

IAS 16 (revised 2003) has required the disclosure of comparative figures for movement in property, plant and equipment.

(b) Consolidation

Subsidiary undertakings, which are those companies in which the Group, 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, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured

Notes to the Accounts

continued

2 Summary of significant accounting policies (continued)

initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests.

(c) Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

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

Freehold land is not depreciated.

Depreciation on other assets is calculated on the straight line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful life. The annual rates used for this purpose are as follows:

Buildings	2.5%
Plant and equipment	2.5 – 50%

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Notes to the Accounts

continued

2 Summary of significant accounting policies (continued)

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(f) Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts and eliminating sales within the group.

Revenue is recognised as follows:

(i) Sales of goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. Goods in transit are stated at cost. Provision is made for obsolete, slow moving and defective inventories.

(h) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(i) Leases

Leases of assets under which significant risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(j) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Notes to the Accounts

continued

2 Summary of significant accounting policies (continued)

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(k) Intangible assets

i) Goodwill

Goodwill represents the excess of the cost of an acquisition over fair value of the Group's share of the net identifiable assets of the acquired subsidiary associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investment in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for purposes of impairment testing. Each of those cash generating units represents the Group's investment in each country of operation by each reporting segment.

ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programmes are recognised as an expense incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond any year, are recognised as intangible assets. Direct costs include the software development, employee costs and an appropriate position of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

(l) Employee benefits

(i) Retirement benefits obligation

The group operates a defined contribution retirement benefit scheme for its employees. A defined contribution scheme is one under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in current and prior periods. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and employees.

The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The company's contributions to both the defined contribution schemes are charged to the profit and loss account in the year to which they relate. The company has no further obligation once the contributions have been paid.

(ii) Other entitlements

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

(m) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic

Notes to the Accounts

continued

2 Summary of significant accounting policies (continued)

environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the group's functional and presentation currency.

(ii) Transactions and balances in foreign entities

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 that date. The resulting differences from conversion of and translation are dealt within the profit and loss account in the year in which they relate.

(iii) Consolidation of group entities

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(n) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(o) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(p) Comparatives

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

3 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 adverse effects on its financial performance within the options available in East Africa to hedge against such risks.

Notes to the Accounts

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Risk management is carried out by the Finance function under policies approved by the Board of Directors. The Finance function identifies, evaluates and hedges against financial risks. The Board provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

The Group makes significant purchases of raw materials principally newsprint, inks and plates used in the production of newspaper, and TV programming used in broadcasting in foreign currency. This exposes the group to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investment in foreign operations.

The group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities by forward contracts, but has not designated any derivative instruments as hedging instruments.

(b) Credit Risk

The group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(i) Critical judgement accounting estimates and assumptions

Income taxes

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

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates are set out in Note 2 (d).

(ii) Critical judgements in applying the entity's accounting policies

Management exercises significant judgement in making provisions for contingent liabilities.

Notes to the Accounts

continued

5 Segmental reporting

	Newspapers & Magazines		Broadcasting		Group	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
Sales	5,117.6	4,505.9	479.5	360.3	5,597.1	4,866.2
Allocated costs	(3,997.9)	(3,411.8)	(425.6)	(337.9)	(4,423.5)	(3,749.7)
Segment results	1,119.7	1,094.1	53.9	22.4	1,173.6	1,116.5
Unallocated costs					(227.1)	(290.5)
Operating profit					946.5	826.0
Finance income					44.6	34.0
Share of results of associate					27.3	34.7
Profit before income tax					1,018.4	894.7
Income tax expense					(329.4)	(303.1)
Minority interest					27.2	49.8
Profit for the year					716.2	641.4
Segment assets	3,622.1	3,260.7	519.5	514.2	4,141.6	3,774.9
Investment in associates					285.1	274.4
					4,426.7	4,049.3
Segment liabilities	1,114.6	1,124.6	44.3	57.3	1,158.9	1,181.9
Capital expenditure	305.4	402.3	55.8	150.4	361.2	552.7
Depreciation	221.5	218.2	62.7	74.3	284.2	292.5
Amortisation	7.1	0.8	0.2	-	7.3	0.8

The directors consider the East African countries in which the group operates as one geographical segment because of similarities in the risks and returns in the three countries.

Notes to the Accounts

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6 Operating profit

The following items have been charged/ (credited) in arriving at operating profit

	2005 Shs m	2004 Shs m
Depreciation of property, plant and equipment (Note 14)	284.2	292.5
Repairs and maintenance expenditure on property, plant and equipment	51.5	23.1
Amortisation of intangible assets (Note 15)	5.9	-
Loss/(profit) on disposal of property, plant and equipment	1.6	(1.2)
Operating lease rentals - office buildings	75.2	75.4
- leasehold land (Note 16)	1.4	0.8
Trade receivables - impairment charge for bad and doubtful debts	58.7	28.7
Employee benefits expense (Note 7)	1,581.7	1,291.8
Inventories expensed	1,255.8	1,077.5
Auditors' remuneration	6.1	5.5

7 Employee benefits expense

Salaries and wages	1,490.2	1,227.8
National Social Security Fund	26.8	17.1
Leave pay provision	6.8	-
Retirement benefit costs - defined contribution scheme	57.9	46.9
	1,581.7	1,291.8

The number of persons employed by the group at the year end was:	2005 Number	2004 Number
Full time	1,052	1,044
Part time	242	207
	1,294	1,251

8 Finance income/(costs)

	2005 Shs m	2004 Shs m
Interest income	47.0	31.1
Net foreign exchange gain	-	5.8
Interest expense	(2.4)	(2.9)
	44.6	34.0

9 Income tax

Current income tax	295.1	353.5
Deferred income tax (Note 13)	24.3	(40.2)
Share of tax on the results of associate (Note 17)	7.8	7.1
Over provision of current income tax in prior year	-	(22.2)
Under provision of deferred income tax in prior year	2.2	4.9
	329.4	303.1

Notes to the Accounts

continued

The tax on the group's profit before income tax differs from the theoretical amount that would arise using the tax rate of the home country as follows:

	2005	2004
	Shs m	Shs m
Profit before income tax	1,018.4	894.7
Tax calculated at the statutory income tax rates of 30%	305.5	268.4
Tax effect of:		
- Income not subject to tax	(2.8)	(4.8)
- Expenses not deductible for tax purposes	24.5	56.8
Over provision of current income tax in prior year	-	(22.2)
Under provision of deferred income tax in prior year	2.2	4.9
Income tax expense	329.4	303.1

Further information about deferred income tax is presented in Note 13.

10 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2005	2004 (Restated)
Net profit attributable to shareholders (Shs million)	716.2	641.4
Weighted average number of ordinary shares in issue (million)	71.3	71.3
Basic earnings per share (Shs)	10.0	9.0

There were no potentially dilutive ordinary shares outstanding as at 31 December 2005 or 2004. Diluted earnings per share is therefore the same as basic earnings per share. The weighted average number of shares as at 1 January 2004, has been adjusted for the effect of bonus issue of shares during the year (Note 11). Accordingly basic and diluted earnings per share for 2004 have been adjusted to reflect this change.

11 Share capital

	Number of shares (million)	Ordinary shares Shs m
Authorised	120	600
Issued and fully paid		
As at 1 January 2005	53.5	267.5
Bonus issue	17.8	89.0
Balance as at 31 December 2005	71.3	356.5

The total authorised number of ordinary shares is 120 million with a par value Shs.5.00 per share. On 26 May 2005 a bonus issue of one ordinary share for every three held was made by capitalising Shs.89.0 million from retained earnings. A total of 17.8 million ordinary shares were issued.

Notes to the Accounts

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12 Other reserves

The movement in revaluation reserves is as follows:

	Land and buildings Shs m	Associate company Shs m	Currency translation Shs m	Total Shs m
Group				
As at 1 January 2004				
- as previously stated	54.3	13.8	(23.0)	45.1
- prior year adjustment	-	(13.8)	-	(13.8)
- as restated	54.3	-	(23.0)	31.3
Transfer of excess depreciation	(32.1)	-	-	(32.1)
Deferred tax on transfer	9.6	-	-	9.6
Currency translation differences	-	-	1.5	1.5
Balance as at 31 December 2004	31.8	-	(21.5)	10.3
As at 1 January 2005	31.8	-	(21.5)	10.3
Transfer of excess depreciation	(45.4)	-	-	(45.4)
Deferred tax on transfer	13.6	-	-	13.6
Currency translation differences	-	-	12.2	12.2
Balance as at 31 December 2005	-	-	(9.3)	(9.3)

The prior year adjustment relates to transfer of fair value gains on marketable securities in the associate to retained earnings in accordance with the requirements of IAS 39, Financial Instruments: Recognition and Measurement.

Company

The company's other reserves relate to surpluses, net of deferred tax, arising from the revaluation of land and buildings as shown in the company's statement of changes in equity. Revaluation reserves are non-distributable.

13 Deferred tax

	Group		Company	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
At start of year	10.6	45.9	10.6	45.9
Charge/(credit) to the profit and loss account (Note 9)	24.3	(40.2)	34.9	(40.2)
Under provision in prior years (Note 9)	2.2	4.9	2.2	4.9
At end of year	37.1	10.6	47.7	10.6

Notes to the Accounts

continued

13 Deferred tax (continued)

Deferred tax assets and liabilities are attributable to the following items:

	As at 1.1.05 Shs m	Charged/ (Credited) P&L Shs m	As at 31.12.05 Shs m
Group			
Deferred tax liabilities			
Property, plant and equipment	86.7	37.9	124.6
Deferred tax assets			
Provisions	(97.2)	9.7	(87.5)
Tax losses carried forward	(16.5)	16.5	-
	(113.7)	26.2	(87.5)
Net deferred tax liability/(asset)	(27.0)	64.1	37.1
Deferred tax asset not recognized	37.6	(37.6)	-
Net deferred tax liability	10.6	26.5	37.1
Company			
Deferred tax liabilities			
Property, plant and equipment	81.2	20.2	101.4
Deferred tax assets			
Provisions	(70.6)	16.9	(53.7)
Net deferred tax liability	10.6	37.1	47.7

Notes to the Accounts

continued

14 Property, plant and equipment	Freehold land Shs m	Buildings Shs m	Plant and equipment Shs m	Total Shs m
Group				
As at 1 January 2004				
Cost or valuation	15.8	234.1	2,539.4	2,789.3
Accumulated depreciation	(0.9)	(37.1)	(1,379.4)	(1,417.4)
Net book value	14.9	197.0	1,160.0	1,371.9
Year ended 31 December 2004				
Opening net book value	14.9	197.0	1,160.0	1,371.9
Reclassification	(3.0)	73.9	(70.9)	-
Additions	-	44.4	508.3	552.7
Disposals	(5.9)	-	(4.6)	(10.5)
Depreciation charge	-	(10.8)	(281.7)	(292.5)
Exchange differences	0.4	(4.8)	24.0	19.6
Closing net book value	6.4	299.7	1,335.1	1,641.2
As at 31 December 2004				
Cost or valuation	6.4	348.8	2,960.0	3,315.2
Accumulated depreciation	-	(49.1)	(1,624.9)	(1,674.0)
Net book amount	6.4	299.7	1,335.1	1,641.2
As at 1 January 2005				
Cost or valuation	6.4	348.8	2,960.0	3,315.2
Accumulated depreciation	-	(49.1)	(1,624.9)	(1,674.0)
Net book value	6.4	299.7	1,335.1	1,641.2
Year ended 31 December 2005				
Opening net book amount	6.4	299.7	1,335.1	1,641.2
Transfer to intangible assets	-	-	(15.6)	(15.6)
Reclassification	-	3.3	(3.3)	-
Additions	-	23.1	326.6	349.7
Disposals	-	-	(9.0)	(9.0)
Depreciation charge	-	(10.8)	(273.4)	(284.2)
Exchange differences	-	(21.9)	(37.2)	(59.1)
Closing net book value	6.4	293.4	1,323.2	1,623.0
At 31 December 2005				
Cost or valuation	6.4	352.5	3,101.7	3,460.6
Accumulated depreciation	-	(59.1)	(1,778.5)	(1,837.6)
Net book value	6.4	293.4	1,323.2	1,623.0

Notes to the Accounts

continued

14 Property, plant and equipment (continued)	Freehold land Shs m	Buildings Shs m	Plant and equipment Shs m	Total Shs m
Company				
As at 1 January 2004				
Cost or valuation	9.9	195.0	2,365.3	2,570.2
Accumulated depreciation	(1.0)	(36.4)	(1,292.9)	(1,330.3)
Net book value	8.9	158.6	1,072.4	1,239.9
Year ended 31 December 2004				
Opening net book value	8.9	158.6	1,072.4	1,239.9
Reclassification	(2.5)	17.9	(15.4)	-
Additions	-	1.7	347.4	349.1
Disposals	-	-	(66.6)	(66.6)
Depreciation charge	-	(7.6)	(253.6)	(261.2)
Exchange differences	-	-	-	-
Closing net book value	6.4	170.6	1,084.2	1,261.2
As at 31 December 2004				
Cost or valuation	6.4	215.0	2,611.6	2,833.0
Accumulated depreciation	-	(44.4)	(1,527.4)	(1,571.8)
Net book amount	6.4	170.6	1,084.2	1,261.2
As at 1 January 2005				
Cost or valuation	6.4	215.0	2,611.6	2,833.0
Accumulated depreciation	-	(44.4)	(1,527.4)	(1,571.8)
Net book value	6.4	170.6	1,084.2	1,261.2
Year ended 31 December 2005				
Opening net book amount	6.4	170.6	1,084.2	1,261.2
Transfer to intangible assets	-	-	(15.0)	(15.0)
Reclassification	-	(5.9)	5.9	-
Additions	-	-	269.6	269.6
Disposals	-	-	(8.9)	(8.9)
Depreciation charge	-	(5.0)	(225.2)	(230.2)
Closing net book value	6.4	159.7	1,110.6	1,276.7
As at 31 December 2005				
Cost or valuation	6.4	209.3	2,756.1	2,971.8
Accumulated depreciation	-	(49.6)	(1,645.5)	(1,695.1)
Net book value	6.4	159.7	1,110.6	1,276.7

Notes to the Accounts

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14 Property, plant and equipment (continued)

The group's buildings on leasehold land were revalued at 31 December 2000 by independent professional valuers. The basis for the valuation was open market value. The book values of the properties were adjusted to the revalued amounts and the resulting surplus, net of deferred tax, was credited to the revaluation reserve in shareholders' equity.

If the buildings were stated on the historical cost basis, the amounts would be as follows:

	Group		Company	
	2005	2004	2005	2004
	Shs m	Shs m	Shs m	Shs m
Cost	310.7	284.3	165.6	171.5
Accumulated depreciation	(22.5)	(33.5)	(25.5)	(29.8)
Net book amount	288.2	250.8	140.1	141.7

15 Intangible assets

	Goodwill	Computer software	Total
	Shs m	Shs m	Shs m
Group			
Year ended 31 December 2005			
Opening net book amount	-	-	-
Transfer from property, plant and equipment	-	15.6	15.6
Additions	23.0	11.5	34.5
Amortisation	-	(5.9)	(5.9)
Closing net book value	23.0	21.2	44.2
As at 31 December 2005			
Cost	23.0	91.6	114.6
Accumulated amortisation	-	(70.4)	(70.4)
Net book value	23.0	21.2	44.2
Company			
Year ended 31 December 2005			
Opening net book value	-	-	-
Transfer from property, plant and equipment	-	15.0	15.0
Additions	-	11.3	11.3
Amortisation	-	(5.7)	(5.7)
Closing net book value	-	20.6	20.6
As at 31 December 2005			
Cost	-	90.7	90.7
Accumulated amortisation	-	(70.1)	(70.1)
Net book value	-	20.6	20.6

Notes to the Accounts

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15 Intangible assets (continued)

Goodwill recognised in the year arose from the acquisition of an additional 16.7% of the net liabilities of Monitor Publications Limited on 7 July 2005, in which the group already owned 60%.

Details of the net liabilities acquired and goodwill are as follows:

	Shs m
Purchase consideration	
- cash paid	19.1
- direct costs relating to the acquisition	0.3
Total purchase consideration	19.4
Fair value of net liabilities acquired (see below)	(3.6)
Goodwill	23.0

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount Shs m
Cash and cash equivalents	5.0
Property, plant and equipment	219.7
Inventories	46.3
Receivables	68.7
Payables	(365.1)
Net deferred tax asset	21.8
Net liabilities acquired	(3.6)

The additional acquisition which increased the share holding to 76.7%, will enable the group have greater control over the financial and operating decisions of Monitor Publications Limited. This will enable restructuring of the company which is expected to result in improved financial performance. This was the basis for the goodwill on acquisition.

16 Prepaid operating lease rentals

	Group		Company	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
At start of year	110.8	58.4	53.0	53.8
Additions	-	53.2	-	-
Amortisation charge for the year	(1.4)	(0.8)	(0.2)	(0.8)
Currency translation differences	(10.7)	-	-	-
At end of year	98.7	110.8	52.8	53.0

Notes to the Accounts

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17 Investment in associates	Group	
	2005 Shs m	2004 Shs m
At start of year		
- as previously stated	274.4	229.5
- adoption of IAS 40 (revised)	-	31.4
- as restated	274.4	260.9
Share of profit before income tax	27.3	34.7
Share of income tax expense	(7.8)	(7.1)
	19.5	27.6
Dividends received	(8.8)	(15.9)
Currency translation differences	-	1.8
	285.1	274.4

The prior year adjustment relates to the adoption of IAS 40 Investment Property (revised 2003) by an associate, which resulted in leasehold land held as investment property to be carried at fair value. Investment in associates is carried in the company's balance at amounts that reflect the group's share of the net assets of the associates and includes goodwill on acquisition. The principal associates both of which are unlisted are:

	Country of incorporation	% interest held
Property Development and Management Limited	Kenya	20%
Radio Uhuru Limited	Tanzania	49%

There were no changes in the interest held in the associates during the year. Radio Uhuru Limited is non-trading and a full provision for impairment was made against the investment in prior years.

18 Investment in subsidiaries (at cost)

The Group's interest in its subsidiaries, all of which are unlisted and all of which have the same year end as the company, were as follows:

	Company Country of incorporation	Holding %	2005 Shs m	2004 Shs m
Trading subsidiaries:				
Nation Marketing & Publishing Limited	Kenya	100.0	0.5	0.5
Monitor Publications Limited	Uganda	76.7	19.1	-
Mwananchi Communications Limited	Tanzania	60.0	44.8	30.8
Nation Holdings Tanzania Limited	Tanzania	100.0	7.7	7.7
Nation Carriers Uganda Limited	Uganda	100.0	-	-
East African Magazines Limited	Kenya	51.0	-	-
			72.1	39.0
Non Trading subsidiaries:				
East Africa Television Network Limited	Kenya	100.0	17.0	17.0
Nation Carriers Limited	Kenya	100.0	3.0	3.0
Nation Infotech Limited	Kenya	100.0	1.5	1.5
Africa Broadcasting Limited	Kenya	100.0	-	-
Nation Newspapers Limited	Kenya	100.0	-	-
Nation Carriers Tanzania Limited	Tanzania	100.0	-	-
Africa Broadcasting Uganda Limited	Uganda	100.0	-	-
Africa Broadcasting Tanzania Limited	Tanzania	100.0	-	-
			93.6	60.5

Notes to the Accounts

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19 Inventories

	Group		Company	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
Raw materials at cost	343.2	307.9	313.4	227.5
Engineering spares at cost	73.7	48.0	64.9	46.6
Other stock at cost	9.7	52.6	7.5	27.4
Net book amount	426.6	408.5	385.8	301.5

20 Receivables and prepayments

	Group		Company	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
Trade receivables	1,038.3	870.2	688.8	644.9
Less: provision for impairment	(398.3)	(256.7)	(222.7)	(195.7)
	640.0	613.5	466.1	449.2
Amounts due from related parties (Note 27)	-	7.3	618.4	625.1
Other receivables and prepayments	222.8	146.1	203.0	108.9
	862.8	766.9	1,287.5	1,183.2

21 Cash and cash equivalents

For the purposes of cashflow statements, cash and cash equivalents comprise cash in hand, term deposits held with banks and investments in money market instruments. The year end cash and cash equivalent comprise the following:

	Group		Company	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
Cash and bank balances	155.0	102.0	209.2	89.3
Short term bank deposits	798.7	716.9	696.8	716.9
	953.7	818.9	906.0	806.2

The weighted average effective interest rate on the bank deposits at the year-end was 8.4% (2004: 3.2%)

22 Payables and accrued expenses

	Group		Company	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
Trade payables	323.0	347.7	261.8	234.6
Amounts due to related parties (Note 25)	-	-	-	7.7
Accrued expenses	603.3	646.4	589.1	598.4
Other payables	232.6	187.8	37.1	34.0
	1,158.9	1,181.9	888.0	874.7

Accrued expenses include provisions subject to accounting estimates and assumptions as disclosed in Note 4.

Notes to the Accounts

continued

23 Dividends

At the annual general meeting to be held on 25 May 2006, a final dividend in respect of the year ended 31 December 2005 of Shs.5.0 per share amounting to Shs.356.5 million will be proposed. During the year, an interim dividend of Shs.1.0 per share, amounting to Shs.71.3 million was paid. The total dividend for the year is, therefore, Shs.6.0 per share (2004: Shs.6.00), amounting to Shs.427.8 million (2004: Shs.321.0 million).

The payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-residents tax payers.

24 Commitments – Group

Capital expenditure

Commitments for capital expenditure at the balance sheet date are as follows:

	2005 Shs m	2004 Shs m
Contracted for at balance sheet date but not provided for	39.8	104.6

Operating leases

The future minimum lease payments under non-cancellable operating leases as follows:

	2005 Shs m	2004 Shs m
Not later than 1 year	79.7	77.6
Later than 1 year and not later than 5 years	351.3	337.5
	431.0	415.1

25 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations

Profit before income tax	1,018.4	894.7
Adjustments for:		
Depreciation of property, plant and equipment (Note 14)	284.2	292.5
Amortisation of intangible assets (Note 15)	5.9	-
Amortisation of prepaid operating lease rentals (Note 16)	1.4	0.8
Loss/(profit) on sale of property, plant and equipment	1.6	(1.2)
Interest income (Note 8)	(47.0)	(31.1)
Interest expense (Note 8)	2.4	2.9
Share of result before tax of associate (Note 17)	(27.3)	(34.7)
Changes in working capital:		
- inventories	(18.1)	(133.7)
- receivables and prepayments	(95.9)	(151.9)
- payables and accrued expenses	(23.0)	60.1
Cash generated from operations	1,102.6	898.4

26 Contingent liabilities

The directors have after taking appropriate legal advice, made provisions for contingent liabilities where there is a possible loss to the group.

Notes to the Accounts

continued

27 Related parties

There are a number of companies that are related to Nation Media Group through common shareholding or common directorships. Transactions with related parties are carried out at normal commercial terms and conditions.

	2005 Shs m	2004 Shs m
i) The following transactions were carried out with related parties		
Other related parties	78.8	75.3

ii) Outstanding balances from transactions with related parties

Amounts due from related parties	Group		Company	
	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
Nation Marketing and Publishing Limited	-	-	27.6	34.1
East African Magazines Limited	-	-	32.9	29.9
Monitor Publications Limited	-	-	179.7	241.7
East African Television Network	-	-	7.8	8.0
Mwananchi Communications Limited	-	-	233.6	131.0
Radio Uhuru Limited	-	3.7	-	3.7
Nation Carriers Uganda Limited	-	-	5.7	9.4
Nation Holdings Tanzania Limited	-	-	130.2	162.8
Nation Infotech Limited	-	-	0.9	0.9
Nation Carriers Tanzania Limited	-	3.6	-	3.6
	-	7.3	618.4	625.1

Amounts due to related parties	2005 Shs m	2004 Shs m	2005 Shs m	2004 Shs m
Nation Holdings Tanzania Limited	-	-	7.7	7.7

iii) Loans to executive directors

At start of year	4.3	12.1	4.3	12.1
Loans advanced during the year	1.8	3.0	1.8	3.0
Loans repaid during the year	(3.8)	(10.8)	(3.8)	(10.8)
At end of year	2.3	4.3	2.3	4.3

Loans to executive directors are on terms similar to those applicable to other employees and are included in other receivables.

iv) Directors' remuneration	2005 Shs m	2004 Shs m
Fees for services as director	10.5	7.1
Other emoluments	39.9	33.7
	50.4	40.8

Five Year Financial Summary

	2005	2004	2003	2002	2001
	Shs m	Shs m	Shs m	Shs m	Shs m
Results					
Turnover	5,597.1	4,866.2	4,469.1	4,103.4	3,538.8
Profit before tax	1,018.4	894.7	872.6	635.2	390.2
Profit attributable to shareholders	716.2	641.4	602.8	403.8	256.7
Net assets					
Non-current assets	2,051.0	2,026.4	1,691.2	1,516.3	1,631.9
Net current assets	1,216.8	841.0	1,136.1	875.6	519.0
Non-current liabilities	(37.1)	(10.6)	(45.9)	(60.3)	(111.5)
Minority interests	59.1	43.4	10.9	(4.7)	(20.9)
Shareholders' funds	3,289.8	2,900.2	2,792.3	2,326.9	2,018.5
Profit before tax					
as a percentage of turnover(%)	18.20	18.39	19.53	15.48	11.03
Earnings per share (Shs)*	10.04	9.00	8.45	5.66	3.60
Dividends per share (Shs)*	6.00	6.00	5.00	2.50	1.56
Dividend cover (times)*	1.67	1.50	1.69	2.27	2.31

*Adjusted for bonus issues and special dividend

Taarifa Fupi Ya Kifedha Ya Miaka Mitano

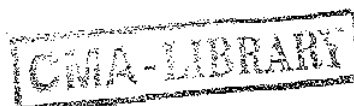
Matokeo					
Jumla ya mapato	5,597.1	4,866.2	4,469.1	4,103.4	3,538.8
Faida kabla ya kodi	1,018.4	894.7	872.6	635.2	390.2
Faida kwa wenyehisa	716.2	641.4	602.8	403.8	256.7
Mali halisi					
Mali thabiti	2,048.7	2,026.4	1,691.2	1,516.3	1,631.9
Mali halisi za sasa	1,219.1	841.0	1,136.1	875.6	519.0
Madeni ya muda mrefu	(37.1)	(10.6)	(45.9)	(60.3)	(111.5)
Wenyehisa wachache	59.1	43.4	10.9	(4.7)	(20.9)
Malipo ya wenyehisa	3,289.8	2,900.2	2,792.3	2,326.9	2,018.5
Faida kabla ya kodi					
Kama asilimia ya mapato	18.20	18.39	19.53	15.48	11.03
Mapato kwa kila hisa (Shilingi)*	10.04	9.00	8.45	5.66	3.60
Migawo kwa kila hisa (Shilingi)*	6.00	6.00	5.00	2.50	1.56
Malipo ya hisa (mara)*	1.67	1.50	1.69	2.27	2.31

*Badiliko kuhusu hisa za bonsai na mgawo maalum

Principal Shareholders and their respective Shareholding

at 31 December 2005

No.	Name of shareholder	No. of shares held	%
1.	The Aga Khan Fund for Economic Development (AKFED)	31,893,312	44.73
2.	Mr. Amin Nanji Juma	5,823,365	8.17
3.	National Social Security Fund	2,020,757	2.83
4.	Nima Investments Limited	1,306,716	1.83
5.	Kenya Commercial Bank Nominees Limited A/C 744	735,115	1.03
6.	Old Mutual Life Assurance Co. Limited	688,026	0.97
7.	Barclays (K) Nominees Limited A/C 1256	499,999	0.70
8.	Barclays (K) Nominees Limited A/C 9230	496,666	0.70
9.	Barclays (K) Nominees Limited A/C 9098AP	493,333	0.69
10.	Barclays (K) Nominees Limited A/C 9098AC	373,382	0.52

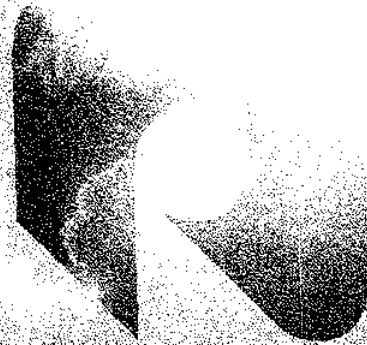


Distribution of Shareholding

at 31 December 2005

No. of shares	No. of shareholders	No. of shares held	% of shareholding
1- 500	1,966	420,237	0.59
501 – 5,000	5,246	7,994,824	11.21
5,001 – 10,000	595	4,219,332	5.92
10,001 – 100,000	398	9,298,787	13.04
100,001 – 1,000,000	35	8,070,598	11.32
Over 1,000,000	4	41,301,482	57.92
TOTAL	8,244	71,305,260	100.00

Our Slogan



Nation Media Group



Open

Your

World



Nation Media Group

Proxy Form

I / We _____

_____ being a member/members of Nation Media

Group Limited, hereby appoint _____

of _____

and failing him _____ and failing
him, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual
General Meeting of the company to be held on 25 May 2006 and at any adjournment thereof.

As witness my hand this _____

Signature _____

Important notes:

1. If you are unable to attend this meeting personally this form of proxy should be completed and returned to the Secretary, Nation Media Group Limited, P.O. Box 49010 - 00100 Nairobi, to reach him not later than 48 hours before the time appointed for holding the meeting.
2. A person appointed to act as a proxy need not be a member of the company.
3. If the appointer is a corporation, this form of proxy must be under seal or under the hand of an officer or attorney duly authorised in writing.

Fomu ya Uwakilishi

Mimi / sisi _____

_____ kama mwanachama/wanachama

wa Nation Media Group Limited, nateua/tunateua _____

wa _____

na akikosa yeye _____

na akikosa yeye, mwenyekiti wa mkutano kama mwakilishi/wawakilishi wangu / wetu kunipigia kura / kutupigia kura nakwa niaba yangu/yetu kwenye mkutano wa kila mwaka wa kampuni utakaofanywa mnamo Mei 25, 2006, saa tisa alasiri na wakati wa ahirisho lo lote litakalotokea baadaye.

Kama shahidi siku hii _____

Sahihi _____

Maelezo Muhimu:

1. Iwapo hutaweza kuhudhuria mkutano huu wewe mwenyewe binafsi, fomu hii ya kura ya uwakilishi (proxy) lazima ijazwe kwa ukamilifu na kurudishwa kwa Katibu, Nation Media Group Limited, S.L.P. 49010 - 00100 Nairobi, imfikie kabla ya masaa 48 kabla ya muda wa kufanya mkutano kuwadia.
2. Mtu anayeteuliwa kuwa mwakilishi si lazima awe mwanachama wa kampuni.
3. Ikiwa mteuaji ni shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri (seal) au ipitie mikononi mwa afisa au wakili mwenye kibali cha maandishi.