TABLE OF CONTENTS

Our Vision, Our Mission, Our Values	2
Notice of the Annual General Meeting	3
Company Information	4 - 9
Report of the Directors	10
Statement of Directors' Responsibilities	11
Chairman's Statement	12 - 14
Management Report	15 - 16
Corporate Governance Statement	17 - 18
Report of the Controller and Auditor General	19
Five-Year Review	20
Financial Highlights	21 - 24
Financial Statements:	
Income Statement	25
Balance Sheet	26
Statement of Changes in Equity	27
Cash Flow Statement	28
Notes to the Financial Statements	29-45
Proxy Form	47

Vision

To be the preferred provider of cement and cement products in Eastern Africa.

Mission

To manufacture and market quality cement and cement products to the satisfaction of our customers.

Values

Teamwork
We promote respect, unity and commonness of purpose amongst staff. We also promote and encourage exchange of ideas and openness.

Integrity
We embrace a culture that promotes honesty, transparency, accountability and professional ethics.

Customer Focus
We are dedicated to meeting customer expectations.

2007/0815

Timeliness
We promote timely delivery of high quality products.

Innovativeness
We encourage creativity; embrace positive change and reward innovation.

Commitment
We ensure peak performance, enthusiasm and excitement for work.

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the 74th Annual General Meeting of The East African Portland Cement Company Limited will be held at the Company's Club House, Athi River, on Thursday, 14th December 2006 at 12:00 for the following purposes:-

ORDINARY BUSINESS

1. To confirm the minutes of the 73rd Annual General Meeting held on 2 December 2005.
2. To receive the Chairman's Report.
3. To receive and consider the Financial Statements for the year ended 30 June 2006 together with the reports of the Directors and Auditors thereon.
4. To confirm an Interim dividend of Kshs 1/30 per share paid during the year and to declare a final dividend of Kshs 1/30 per share in respect of the Financial Year ended 30 June 2006 as recommended by the directors.
5. To elect directors:-

   (i) In accordance with Article 99 of the Company's Articles of Association, the following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election:

   - Mr R A Hadley
   - Mr G C D Groom

   (ii) In accordance with Article 83 of the company's Articles of Association, Mrs Rachel Lumbasyo, retires at this meeting and, being eligible, offers herself for re-election.

6. To note that Messrs Deloitte & Touche, who were appointed by the Controller and Auditor General as authorized auditors, have expressed their willingness to continue in office subject to being re-appointed in accordance with Section 39(1) of the Public Audit Act 2003 and to authorise the directors to fix their remuneration.
7. To transact any other business of the Company of which due notice has been received in accordance with the Company's Articles of Association.

BY ORDER OF THE BOARD

J. L. G. MAONGA
SECRETARY

Date: **26 September 2006**

Note: A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

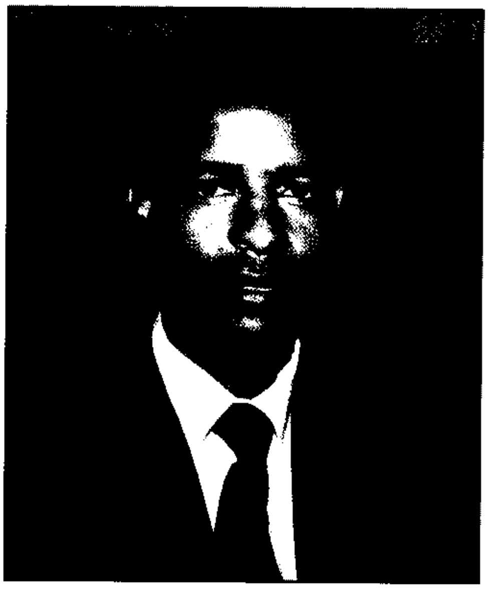
BOARD OF DIRECTORS

Director's Name	Nationality	Occupation and particulars of all other directorships	Age	Date of Appointment	Position
Benson Sande Ndeta	Kenyan	Architect Other Directorships • In-house Architects • Weiss Systems	34	18.06.03	Chairman
Ndegwa Kairo Kagio	Kenyan	Ag. Managing Director – EAPCC Other Directorships Laureate School	54	04.08.06	Ag. Managing Director
R Anthony Hadley	British	Company Executive – Regional President - Africa La farge Cement Division Other Directorships • Bamburi Cement Ltd	47	21.07.99	Director
Hamish Keith(Alternate to Mr R A Hadley)	Kenyan	Advocate Other Directorships 1. AON Minet Insurance Brokers Limited 2. Bora Services Limited 3. De La Rue Currency & Security Print Limited 4. Kenya Titanium Minerals (Epz) Limited 5. Kole Kole Limited 6. Kwazi Limited 7. Longonot Farm Limited 8. Mukenya Ranch Limited 9. Segera Ranch Limited 10. Madeteni Limited 11. Ngalawa Limited 12. Halasa Limited 13. Rumada Limited 14. Pelele Limted 15. Shazia Limited 16. Mliwa Limited 17. Sagai Limited 18. Shalaka Limited 19. Shwari Limited 20. Deraya Limited COMPANY SECRETARY 1. The Jubilee Insurance Company of Kenya Limited 2. De La Rue Currency and Security Print Limited 3. AIG Global Investment Company Limited	58	16.12.02	Alternate Director
Mr David Nalo PS Ministry of Trade and Industry	Kenyan	Civil Servant Other Directorships 1. Kenya Bureau of Standards 2. Kenya Investment Authority 3. Kenya Industrial Research and Development Institute. 4. Kenya Wine Agencies 5. Kenya Industrial Property Institute 6. Industrial & Commercial Development Corporation 7. Kenya Industrial Estates 8. Industrial Development Bank 9. Export Promotion Council 10. Kenya National Trading Corporation 11. Export Processing Zone Authority 12. Industrial Property Tribunal		24.08.05	Director

BOARD OF DIRECTORS

Director's Name	Nationality	Occupation and particulars of all other directorships	Age	Date of Appointment	Position
Mrs Margaret Chepwogen Rotich (Alt to PS Trade and Industry)	Kenyan	Civil Servant Other Directorships • Alt Director – ICDC • Alt Director – ICDCI • Life Ministry (Kenya) • Radiation Direction Board	50	20.08.04	Alternate Director
Mr Joseph K. Kinyua (PS Treasury)	Kenyan	Civil Servant		05.08.04	Director
Mr. Jackson Kinyanjui (Alternate to PS Treasury)	Kenyan	Civil Servant	51	14.01.04	Alternate Director
Mrs Rachel Khavaya Lumbasyo (Managing Trustee – NSSF)	Kenyan	Managing Trustee, National Social Security Fund **Other Directorships** • National Bank of Kenya Ltd • Bamburi Cement Company Ltd • Housing Finance of Kenya • Consolidated Bank of Kenya Ltd	55	31.01.06	Director
Albert Odero (Alternate to the Managing Director – NSSF)	Kenyan	Deputy Managing Trustee, NSSF	42	24.08.05	Alternate Director
Geoffrey Christopher David Groom	British	Company Executive Other Directorships • Kenya Flourspar Co Ltd • Ndoto Holdings Ltd • Hot Pepper Holdings Ltd	60	01.07.97	Director
Sankale ole Kantai	Kenyan	Advocate No other directorships	45	15.07.03	Director
John Lucks Gwaro Maonga	Kenyan	No other directorships	46	09.12.02	Company Secretary

BOARD OF DIRECTORS



Mr Benson Sande Ndeta
Chairman

Mr Ndegwa K. Kagio
Ag. Managing Director

Mr Joseph K. Kinyua
Director

Mr David Nalo
Director

Mr R. Anthony Hadley
Director

Mrs Rachael Lumbasyo
Director

Mr Geoffrey C.D. Groom
Director

Mr Sankale ole Kantai
Director

Mr J.L.G. Maonga
Company Secretary

MANAGEMENT EXECUTIVE TEAM

Standing, left to right: Alex Mutisya (Ag. GM-Works), Rosemary Gituma (Finance Manager), **Ndegwa K. Kagio** (Ag. Managing Director), Caleb Kapten (GM-Commercial), Harris Njuguna (Ag. HR Manager),
Seated, left to right: Charles Kaloki (IT Manager), Ivor Wekesa (Internal Audit Manager), Charles Obock (Production Manager), Peter Korir (Corporate Planning & Performance Manager), Kananga M'Nchebere (Chief Electrical Engineer),
Not in the picture: Salim Daghar (Chief Mechanical Engineer).

DIRECTORS

B.S. Ndeta	Chairman
N. K Kagio	Ag. Managing Director
S. ole Kantai	
G.C.D. Groom	
R.A. Hadley*	(Alternate – K.H. W. Keith)
J.K. Kinyua	(Alternate – J. Kinyanjui)
R. Lumbasyo	(Alternate – A. Odero)
D. Nalo	(Alternate – Mrs M.C. Rotich)

* British

SECRETARY

J.L.G. Maonga
Certified Public Secretary (Kenya)
P O Box 30029-00100
Nairobi

REGISTERED OFFICE

LR 337/113/1
Namanga Road, off Mombasa Road
P O Box 40101-00100, Nairobi

REGISTRARS

Haki Registrars
P.O. Box 40868-00100
Nairobi

BANKERS

Kenya Commercial Bank Ltd.
Standard Chartered Bank Kenya Ltd.
Standard Chartered Bank Uganda Ltd.
The Co-operative Bank of Kenya Ltd.
Barclays Bank of Kenya Ltd.
Stanbic Bank Kenya Ltd.

AUDITORS

The Controller and Auditor General
P.O. Box 30084 - 00100 GPO
Nairobi

Mr Ndegwa K. Kagio, the Ag. Managing Director (centre) and Mr Sankale ole Kantai, a Director, during the signing of a capacity expansion contract with Polysius, a division of ThyssenKrupp Engineering (Pty) of South Africa. On the right is a Polysius representative.

SHAREHOLDING STRUCTURE

SHAREHOLDER	% HOLDING	NO. OF SHARES HELD
NSSF	27.0	24,300,000
GOK	25.3	22,799,505
CEMENTIA(LAFARGE)	14.6	13,180,442
BCI	14.6	13,144,442
BAMBURI(NOMINESS)	12.5	11,265,068
OTHERS	6.0	5,310,543
TOTAL	**100**	**90,000,000**

SHARE DISTRIBUTION SCHEDULE

Category	No. of Shareholders	Shares Held	Percentage
1-1,000	431	200,209	0.2
1,001-5,000	236	587,526	0.7
5,001-10,000	70	522,249	0.6
10,001-50,000	62	1,289,124	1.4
50,001-100,000	9	612,626	0.7
Over 100,000	12	86,788,266	96.4
	820	**90,000,000**	**100.0**

The board committees as at the date of this report comprise:

Executive Committee

Composition
Seven non –executive and one Executive Director

Main function
Strategic decision making in accordance with powers conferred by the shareholders

Frequency of meetings per annum
Atleast Four times

Chairman
Benson S. Ndeta

Members
J. K. Kinyua
Mr. David Nalo
Sankale ole Kantai
G.C.D Groom
R. A. Hadley
Rachel Lumbasyo
Ndegwa K. Kagio

Tender & Procurement Committee

Composition
Three non-executive Directors, Managing Director, General Manager Works, General Manager Commercial, Finance Manager, Procurement Manager and Production Manager

Main function
Strategic decision making in accordance with powers conferred by the shareholders

Frequency of meetings per annum
Atleast Four times

Chairman
Hamish Keith

Members
Benson S. Ndeta
Rachel Lumbasyo
Ndegwa K. Kagio

Human Resources & Remuneration Committee

Composition
Four non-executive Directors and Managing Director

Main function
Strategic decision making in accordance with powers conferred by the shareholders

Frequency of meetings per annum
Atleast Four times

Chairman
Rachel Lumbasyo

Members
Hamish Keith
Sankale ole Kantai
J. K. Kinyua
Ndegwa K. Kagio

Audit Committee

Composition
Five non-executive directors

Main function
Strategic decision making in accordance with powers conferred by the shareholders

Frequency of meetings per annum
Atleast Four times

Chairman
Sankale ole Kantai

Members
G.C.D. Groom
J. K. Kinyua
Mr. David Nalo
Rachel Lumbasyo

Technical Committee

Composition
Four non-executive directors and Managing Director

Main function
Strategic decision making in accordance with powers conferred by the shareholders

Frequency of meetings per annum
Atleast Four times

Chairman
Mr. David Nalo

Members
Benson S. Ndeta
J. K. Kinyua
G.C.D. Groom
Ndegwa K. Kagio

Note: Inspectorate of State Corporations is in attendance at all Board and Board committee meetings

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2006.

ACTIVITIES

The principal activity of the company is the manufacture and sale of cement.

RESULTS	Sh'000
Profit before taxation	924,364
Taxation charge	(512,571)
Net profit for the year	411,793

DIVIDEND

An interim dividend of Sh 1.30 per share (2005 – Nil) totalling to Sh 117,000,000 (2005 – Nil) was paid during the year. The directors propose the payment of a final dividend of Sh 1.30 per share (2005 – Sh 2.50), totalling Sh 117,000,000 (2005- Sh 225,000,000) in respect of the year ended 30 June 2006.

DIRECTORS

The current board of directors is shown on page 4 to 6. The following changes have taken place since the date of the last annual general meeting.

Mr Naftali Mogere resigned on 31 January 2006 and was replaced by Mrs Rachael Lumbasyo.

Mr Ole Mapelu Zakayo resigned on 4 August 2006 as the Managing Director, Mr Ndegwa K. Kagio was appointed on 4 August 2006 as the acting Managing Director. Mr Sankale ole Kantai was reappointed on 1 September 2006.

Board Chairman, Mr. Benson Sande Ndeta was re-appointed with effect from 16 July, 2006

AUDITORS

Deloitte & Touche, who have been appointed as authorised auditors by the Controller and Auditor General, have expressed their willingness to continue in office in accordance with provisions of section 159(2) of the Companies Act (Cap. 486) and subject to section 29(2)(b) of the Exchequer and Audit (Amendment) Act 1985.

BY ORDER OF THE BOARD
Secretary

Nairobi
September 14, 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 30 JUNE 2006

The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

It also requires the directors to ensure the company keeps proper accounting records which disclose, with reasonable accuracy at any time, 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, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the company's financial affairs and of its operating results.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the 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 will not remain a going concern for at least 12 months from the date of this statement.

Benson S. Ndeta
Chairman

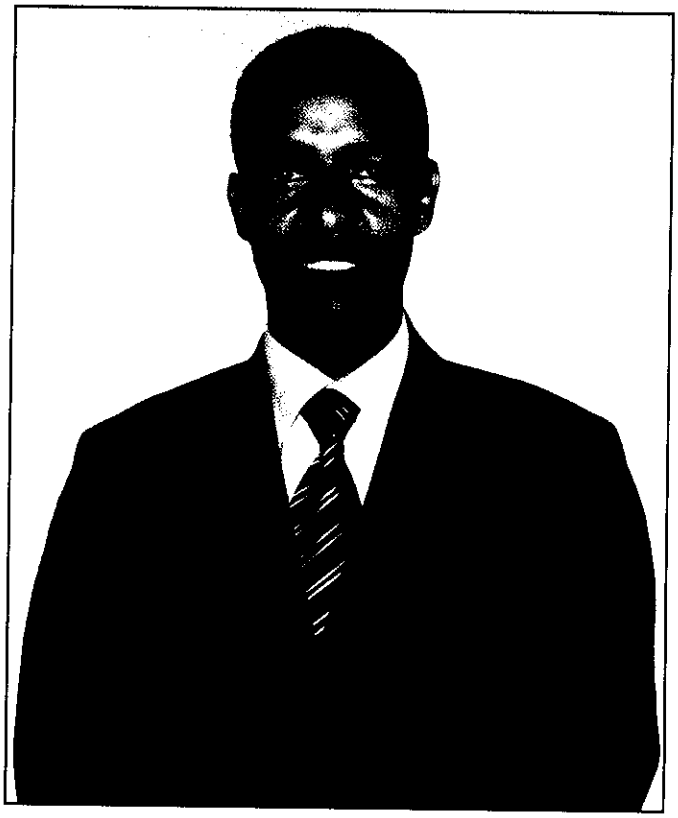
Ndegwa K. Kagio
Ag. Managing Director

September 14, 2006

CHAIRMAN'S STATEMENT

It is my great pleasure to welcome you to this occasion of the 74th Annual General Meeting of the East African Portland Cement Ltd.

I wish to thank you all for your continued interest and express my gratitude to the many new shareholders who decided to invest in our company during the past year. It was a year that saw the Company being recognized for best practices in the Financial Reporting Award of Excellence (FIRE) organized by Capital Markets Authority (CMA), Institute of Certified Public Accountants of Kenya (ICPAK) and Nairobi Stock Exchange (NSE) and received an award as 2nd runners up, listed companies. The Company also won two awards as the best overall in Corporate Planning and Marketing practices during the company of year Award (COYA).



Mr B.S. Ndeta, Chairman

KENYAN ECONOMY

The Kenyan economy saw a further growth with the real GDP recorded at 5.8% in 2005 compared to 4.9% in 2004. This is forecast to grow at 6% in 2006. The sectors which were responsible for growth in GDP namely Agriculture, Tourism, Wholesale & Retail Trade, and Transport & Communications are expected to be the main engines for growth in the current year. Tourism which is an amalgam of activities in the transport, hotels and restaurants industries has, in the last 3 years, experienced tremendous growth and is expected to continue on this same path. The forecast is supported by increased credit to private sector, liberalization in areas of ports, energy, telecommunication and concessioning of the Kenya Railways which is expected to bolster growth in the economy at large.

The construction sector, received a boost from the overall growth in the economy as well as stable interest rates and remittances from abroad and is expected to continue to perform well. However while the manufacturing sector grew at a lower rate owing to the higher costs of electricity and petroleum fuels, poor road infrastructure and low disposable incomes in the population.

> "The construction sector, which has received a boost from the overall growth in the economy as well as stable interest rates and remittances from abroad continues to perform well"
>
> — *B.S. Ndeta*

During the year, the shilling appreciated by 8.3% against the US Dollar, 19.1% against the Euro and 16.9% against the Sterling Pound. Whilst the strong Shilling hurt the exporters especially those of agricultural products, it mitigated the cost increase of key imports such as petroleum, machinery, fertilizer and also capital and intermediate goods. Interest rates remained relatively stable throughout 2005/2006.

OUR BUSINESS ENVIRONMENT

In an increasingly competitive environment, the need to rapidly increase our capacity to meet market demands both locally and in the emerging markets has never been more urgent. To this end the company has commenced work to install a new close circuit milling plant at a cost of KShs. 1.8 billion to double our production capacity by mid 2008. The new mill is part of an ambitious regional growth plan that will see an increase in our current installed capacity to meet the upsurge in demand for our products while reducing our production costs through increased efficiencies.

Energy related cost constituted 45% of our variable cost of production and volatility of international oil price and poor quality of electrical power impacted negatively to performance. The Company is however, exploring alternative operational interventions such as coal conversion for the kiln, power economy and cost management modalities to mitigate against these this risks.

The Company will continue to implement regular strategic measures in its operations in order to reduce operating costs while maintaining high product quality and protecting our margins in the face of lower prices and local competition. We will strive to achieve these objectives while remaining committed to the concepts of enhanced corporate governance, sound business ethics and accountability.

We are constantly auditing our benchmarks to ensure improved quality of reporting and proper management of inputs to create value and maximize returns for our shareholders.

PERFORMANCE

As a result of the growth in the cement industry, the Company recorded a 15% increase in turnover compared to a similar period last year. This was attributed to the resurgence in the building and construction sectors both locally and in the regional markets.

Gross profit increased by 8% over the period under review. The decline in pretax profit by 15% from Kshs 1.086b to 924m was due to the high energy costs which impacted negatively on production and distribution. However, the shillings strengthened against the Japanese Yen which led to an unrealized foreign currency exchange gain of Kshs 308.2m against Kshs 199.5m in the previous year.

DIVIDENDS

Our cash position remains healthy and EAPCC is well positioned to resist the ebb and flow of the business cycle. Notwithstanding the significant capital investment programme and considering that our treasury increased by Kshs 268 million, the board is pleased to recommend a final dividend of Kshs 1.30 per share. This is in addition to an interim dividends of Kshs 1.30 per share already paid out which brings the total dividend to Kshs 2.60 per share.

TAXATION

As a good corporate citizen, EAPCC is committed to paying taxes promptly as required by law. During the year under review, the company was recognised by KRA as a distinguished taxpayer and contributed to the exchequer in excess of Sh1 billion in both direct and indirect taxes to the exchequer.

EMPLOYEES

We place great emphasis on the role played by our employees and will continue to be involved in offering skills they need to succeed in a continuously evolving business environment. We are fully committed to creating an environment that unlocks the full potential of our staff. We maintain remuneration policies that are market-led but performance driven and additionally continue to develop a wide range of staff incentive schemes. The success of these strategies is demonstrated by the passion, discipline, dedication and teamwork of our employees, which has been fundamental in delivering our objectives.

CORPORATE SOCIAL RESPONSIBILITY STRATEGY

In terms of community investments, the company made far-reaching decisions and aims to make a positive and sustainable impact on communities we operate in. We have made a deliberate effort to support projects that protect and conserve the environment and ones that will improve and positively impact on the lives of the people around us. We will increase our support in areas of the environment, health, education and sports across the country.

HEALTH AND SAFETY

The health and safety of our employees continue to be a high priority. In this regard, therefore, we have put in place strategies to ensure an accident-free environment in our plant. Like the larger society, we have not been insulated against HIV/Aids. We nonetheless have launched campaigns to educate and counsel our employees while maintaining a policy that prohibits any form of discrimination against anyone on the basis of their known or assumed HIV status.

CORPORATE STRATEGIES

The volatility of the foreign currency exchange rate, transport, and power and fuel oil costs poses the biggest threat to the Company's operations in the coming year. The Company will continue to pursue and implement various cost optimization initiatives to offset these escalating costs.

We continue to embrace conventional ICT and corporate innovations to facilitate the achievement of our corporate objectives. Our strategic plan has been realigned to enable us achieve operational efficiency and effectiveness in areas of administration, engineering and asset maintenance, as well as increasing our ability to deliver integrated solutions that offer enhanced value proposition to our customers.

CORPORATE GOVERNANCE

The company has continued to maintain a strong governance structure and defining the roles of the Board, Board Committees, Chairman, Managing Directors and the Management. These are covered in the Corporate Governance report. We are committed to the tenets of good corporate governance and sound business ethics. The board has in place a charter and a code of ethics that will align our corporate behaviour with the expectations of our shareholders and other stakeholders. We will continue to identify with and share best practice across the entire company structure.

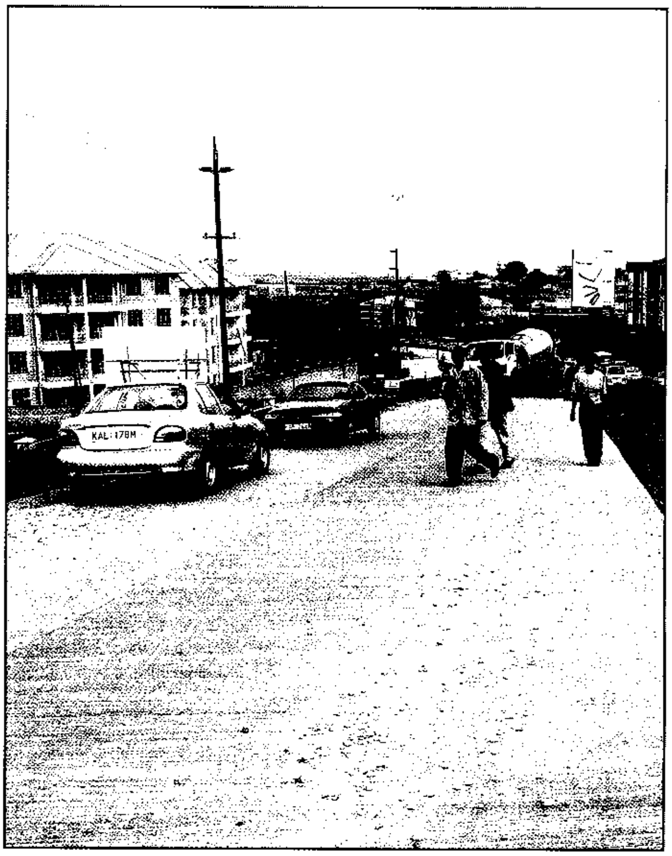
FUTURE DEVELOPMENTS

Going forward, we are relentlessly and continually searching for better ways to improve in order to grow more efficiently and profitably. Our strategy for growth will involve growing existing markets, expanding and deepening the cement share of the construction industry and taking advantage of opportunities across the value chain. Our growth catalyst in the medium term will come from emerging regional markets. However, our primary market in Kenya still offers sustainable, long-term and organic growth potential and will remain our main focus. Our ongoing structural initiatives in procurement, energy and information technology will enable us to control our costs, make better informed decisions and manage our company with greater agility.

We will pursue high discipline investments that create value for our shareholders, customers and employees alike.

ACKNOWLEDGEMENT

I would like to extend my gratitude to all our business partners and customers for their loyalty and unwavering support. On behalf of the Board, I take this opportunity to once again extend my gratitude to them for their valuable support and confidence in our Company.



The Mbagathi Way rehabilitation project, which is a test case for cement-based roads in Kenya. The cement used is donated by Portland, Bamburi and Athi River Mining Company.

I sincerely thank my fellow Board Members for their vision and dedication to the Company and for the support they have accorded to me and the Company.

I also thank the entire management and staff for their dedication and commitment that has successfully positioned us for the challenges and opportunities that lie ahead.

As we continue on our path of profitable growth, I trust you will come along with us.

Benson S. Ndeta
CHAIRMAN

PERFORMANCE REVIEW

As a result of the growth in the cement industry, the company recorded a 15% increase in turnover compared to a similar period last year. This was attributed to the resurgence in the building and construction sectors both locally and in the regional markets. To compensate for rising cost of production and transport due to rising prices of fuel, power and raw materials there was need for price adjustments during the year.

Although our cost of sales increased, we were able to achieve a gross profit increase of 8% compared to prior year. We managed to post a pre-tax profit of Kshs 924.4m against Kshs 1.086b prior year.
We did not realize the gains anticipated from the public sector infrastructure projects that we expected to commence during the year such as concrete roads. We, however, remain optimistic that some of these projects will commence soon.

Corporate Strategies

During the year under review, we grew our production output to optimal levels and tailored our operations and processes so as to put customers at the centre of our business.

At the same time, we faced challenges but our effective marketing strategy saw us maintain our market share and distribution targets locally as well as rationalizing our presence in Uganda and other emerging opportunities in the region.

Despite the increases input prices, maintenance and repair costs there was improved plant efficiency and focus on key operations.

Core Commitments

To our shareholders: we will continue with our commitment and undertake to meet our obligations to create more wealth.

To our Government: we hope to meet our statutory obligations and good corporate citizenry.

To our employees: we will continue to offer a more challenging and positive work environment.

To our suppliers: we promise to meet our business partnership obligations in business.

To our customers: we will continue to provide quality and reliable products at all times.

Future Focus

The volatility of the foreign currency exchange rate, transport, power and fuel oil costs poses the biggest threat to the Company's operations in the coming year. The Company will continue to implement various cost optimization initiatives to offset the escalating costs.
As we forge into the future, we envisage a good opportunity to enlarge the cement share of the construction industry by promoting and demonstrating the advantage of cement over competing materials, particularly in the building of roads.

We will also take advantage of any opportunities across the value chain. We will continue exercising prudent capital allocation to ensure the most productive use of our shareholders investment, while strengthening our financial position and widening access to capital sources.

The Company is also pursuing a marketing and capacity expansion strategy to position itself in the regional market. To meet the growing cement demand locally and in the region, the processes of expanding our grinding capacity is in progress which will take two years to complete.

We aim to continue strengthening our financial position and widening access to capital resources.

There are significant opportunities to improve in the coming year.

Taking the lead in CSR

The East African Portland Cement Company recognises the fact that good corporate citizenship is not only about putting in place sound business strategies, making impressive profits, paying good salaries and making huge tax returns. It is also about creating partnerships with the community and ensuring both parties benefit from the co-operation.

We therefore have put in place a comprehensive Corporate Social Responsibility programme, through which we share our gains with communities that make our operations possible by being good neighbours and customers.

By devoting more than Sh35 million annually to CSR, we powerfully demonstrate our commitment to building a strong partnership with local communities.

Our social agenda is evident in our involvement in projects, such as education, sports, water, famine relief and environmental conservation.

Besides focusing on communities, we also have an internal CSR programme to improve health care among staff. HIV/Aids is high on the list of concerns affecting our employees. Internal CSR activities focus on the sustainable ways of helping our employees lead healthy and responsible lives. We provide medical assistance, facilitate peer counseling, as well as awareness creation on the risk of contracting HIV.

On the other hand, we employ a collaborative approach to facilitate partnership with communities. We conduct surveys to understand their development priorities and then devise solutions.
We have helped hundreds of young girls secure education by committing funds to ensure they remain in school. We have built schools and boarding facilities for children in Kajiado District. One of the schools that benefited topped the Kenya Certificate of Primary Examination in the district in 2005/2006.

In Sultan Hamud, we have built dormitories and supplied sanitary towels to schoolgirls. This has helped keep them in school and saved them from early marriage or truancy. Girls at the Kibini Primary School were the main beneficiaries. At the Elerai Girls High School, we built laboratories and dormitories to accommodate 240 girls.

During drought seasons, we have come to the aid of the hungry in Kajiado, Machakos and Kitui. We engage our staff in relief food distribution and always ensure that the rations reach the most vulnerable or deserving cases – usually women and children.

In the drier regions of Kenya, we have built eight boreholes at a cost of more than Sh1 million each. In these areas, referred to as arid and semi-arid lands (ASALs), water scarcity is a perennial problem that forces women and children to trek long distances in search of the precious commodity. The boreholes have greatly alleviated this problem, which disrupts education for girls.
At the same time, we have a strong policy on environmental conservation. We have participated in tree planting campaigns in the Mau Forest, one of the country's vital catchment areas that are threatened with deforestation.

Our social agenda is evident in our involvement in projects, such as education, sports, water, famine relief and environmental conservation.

East African Portland Cement Company staff on a famine relief walk. The company has a comprehensive Corporate Social Responsibility policy.

Successful corporate governance is achieved through a system that clearly defines authority and responsibility, resulting in a system of internal controls that is regularly tested to ensure effectiveness.

The company confirms its commitment to the principle of openness, integrity and accountability as embodied by the core tenets of corporate governance. Through this process the shareholders and other stakeholders get the assurance that the company is managed according to prudently determined risk parameters in compliance with the law and generally accepted corporate practice.

The Company is committed to meeting the standards of good corporate governance set out in Capital Markets Authority guidelines on Corporate Governance practices and by public listed Company's in Kenya (CMA guidelines) as well as other internationally recognised standards.

The board places a high premium on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre for Corporate Governance as its benchmark in developing corporate governance principles. The Board continually reviews compliance with CMA guidelines and International standards and has confirmed that the Company is compliant in most respects

ROLES AND RESPONSIBILITIES

Shareholders

The shareholders' role is to appoint the Board of Directors and external auditors. This role is extended to holding the board accountable and responsible for efficient and effective governance.

The board is responsible for governing the company and conducts the business and operations of the company with integrity and in accordance with generally accepted corporate practices based on transparency, accountability and responsibility.

Executive Committee

The committee is chaired by Mr Benson S. Ndeta (chairman of the board and non-executive director), whose other members are the Managing Director and five non-executive directors.

The board meets whenever issues necessitating a meeting arise, but at any rate not less than four times a year.

BOARD OF DIRECTORS

In line with conventional best practice, the Board is chaired by a non-executive chairman and includes a managing director and six other non-executive directors. All non-executive directors are independent of management. Directors are required to disclose all areas of conflict of interest to the board and are excluded from voting on such areas.

The directors bring a wealth of experience and knowledge to the Board's deliberations, which are enhanced by the provision of relevant information on the company's performance.

The board provides overall strategic direction, reviews performance, takes material policy decisions, ensures that the company meets its responsibilities to its shareholders and ensures that adequate controls exist to protect the company's assets against major risks. The board has delegated the authority for implementing strategy and day-to-day management of the company to the Managing Director. It, however, retains the overall responsibility for financial and operating decisions and monitoring performance of senior management.

The board meets on a regular basis and has a formal schedule of matters reserved for it and also has access to the internal audit of the company, the company secretary and the legal counsel. The board has appointed a number of sub-committees to which it has delegated certain responsibilities with the chairpersons of the sub-committees reporting to the board.

All new directors undergo a formal induction process to ensure they are fully acquainted with the company's business, its policies and organisation structure.

COMMITTEES OF THE BOARD

The board has appointed four sub-committees, which meet regularly under the terms of reference set by the Board.

Audit Committee

The committee is chaired by Mr Sankale ole Kantai, who is an independent and non-executive director. It comprises five non-executive directors and its meetings are attended by the Head of Finance, Internal Audit Manager and representatives of the external auditors. It meets at least once every quarter and also before every board meeting. The functions of the committee include:-

- Evaluation and improvement of management information and internal control systems.
- Review of financial statements of the company, focusing particularly on accounting policies and practices, adjustments arising from and compliance with International Financial Reporting Standards (IFRS) and other legal requirements.
- Meetings with external auditors before audit to review the nature and scope of audit.
- Review of major findings of internal and external audit reports and management's response.
- Discussion of problems and reservations arising from internal and final audits and any other matters the external auditors may wish to discuss.

The committee also reviews bi-annually the authority, resources and scope of internal audit with a view to strengthening the effectiveness of internal and external audit.

Human Resources and Remuneration Committee

The committee is chaired by Mrs. Rachael Lumbasyo. It meets quarterly or as required and it is responsible for monitoring and appraising the performance of senior management, including the Managing Director, reviewing of all human resources policies, determining the remuneration of senior management and making recommendations to the board on the remuneration of non-executive directors.

A training consultant takes East African Portland Cement Company staff through a session during a workshop on performance management. The company puts premium on staff training for continuous enhancement of services.

Technical Committee

The committee meets quarterly or as required. It is chaired by the Mr. David Nalo. Among its responsibilities is to consider and recommend the company's capital expenditure plans. It also reviews proposals for capital developments.

The committee also appraises capital budgets for all hardware and software purchases for recommendation to the board and ensures that the company's IT strategy is in line with the company's overall business objectives.

Tender & Procurement Committee

The committee is chaired by Mr. Hamish Keith. It meets quarterly or as required and its composition and responsibilities are as per the company's procurement policies and the Exchequer and Audit (Public Procurement) regulations, 2001 and Amendment regulations, 2002, legal notices 51 and 161 respectively.
The committee is also responsible for the disposal of the company's significant non-operating assets.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the Financial Year 2006 are disclosed in notes 3 and 33 to the financial statements. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the company is a party, whereby directors might get benefits by means of acquisition of the company's shares.

CORPORATE GOALS

Environment Health & Safety

The company is committed to protecting the health and safety of all individuals affected by its activities, including employees, contractors and the public. We emphasise environmental protection and stewardship and recognise that pollution prevention, biodiversity and resource conservation are key to a sustainable environment. We effectively integrate these concepts into our business decision-making.

Stakeholder Relations

We endeavour to engage stakeholders clearly, honestly and respectfully, and we are committed to timely and meaningful dialogue with all of them.

Employee Relations

We ensure that employees are treated fairly and with dignity so as to enable them to achieve their career goals and aspirations. We apply fair labour practices, while respecting national laws, as well as the customs, believes and interests of the communities within which we operate. We offer equal opportunity in all aspects of employment and will not engage in or tolerate unlawful work place conduct, including discrimination, intimidation, or harassment.

Human Rights

We work with the governments in the countries where we sell our products, as well as non-governmental agencies to advocate respect for human rights. We never tolerate human rights abuses, and do not engage in any activities that would encourage human rights abuse.

The financial statements on pages 25 to 45 for the year ended June 30, 2006, which have been prepared on the basis of the accounting policies set out on pages 29 to 31, have been audited on my behalf by the auditors appointed under Section 39 of the Public Audit Act, 2003.

The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations, which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained. The financial statements are in agreement with the books of account.

Respective Responsibility of the Directors and the Controller and Auditor General

As stated on page 11, the directors are responsible for the preparation of financial statements, which give a true and fair view of the state of the affairs of the company and of its operating results. My responsibility is to express an independent opinion of the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amount 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. I believe the audit provides a reasonable basis for my opinion.

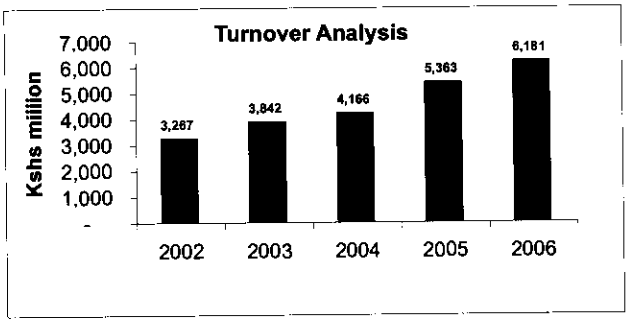
Opinion

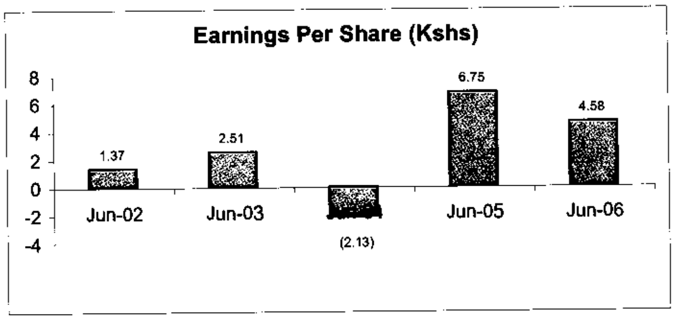
In my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company as at June 30, 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, (Cap 486 of the Laws of Kenya).

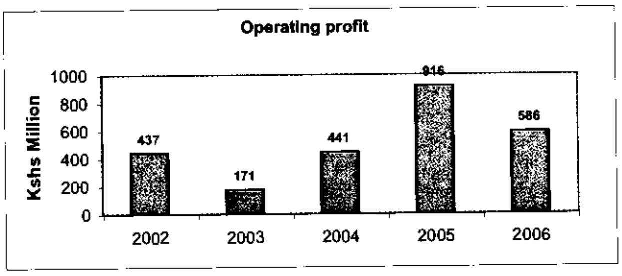
P.N. KOMORA
CONTROLLER AND AUDITOR GENERAL
Nairobi
November 9, 2006

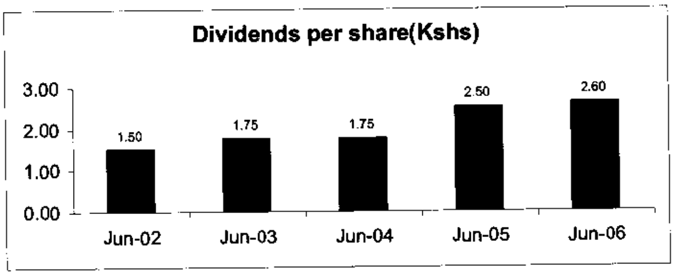
FIVE YEAR FINANCIAL REVIEW

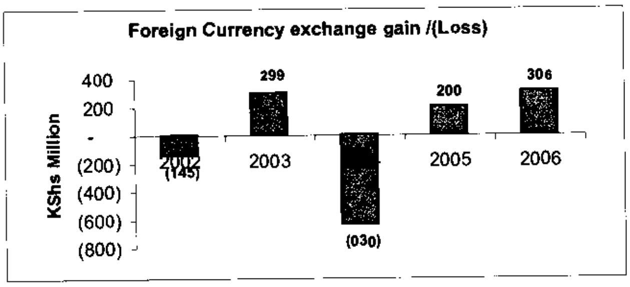
	2002	2003	2004	2005	2006
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Turnover	3,207,060	3,842,138	4,166,289	5,363,196	6,180,715
Operating profit	436,544	170,543	441,076	915,698	586,294
Foreign currency exchange Gain/ (Loss)	(145,492)	298,522	(637,632)	199,549	308,242
Profit / (Loss) before tax	212,934	382,164	(391,594)	1,086,280	924,364
Taxation credit / (Charge)	(89,755)	(156,021)	199,901	(478,408)	(512,571)
Profit /(Loss) Attributable to Members	123,179	226,143	(191,693)	607,872	411,793
Dividends	135,000	157,500	157,500	225,000	234,000
Capital Employed					
Assets					
Non current	5,440,126	5,201,517	5,063,309	4,768,043	5,570,488
Current	1,974,527	2,266,420	2,402,988	2,949,837	3,481,719
Total assets	**7,414,653**	**7,467,937**	**7,470,297**	**7,717,880**	**9,052,207**
Equity & Liabilities					
Capital and reserves	1,897,111	2,151,656	1,802,463	2,252,835	3,076,933
Non current liabilities	4,730,968	4,378,135	4,589,480	4,570,362	4,577,333
Current liabilities	786,574	938,146	1,078,354	894,683	1,397,941
Total Equity & Liabilities	**7,414,653**	**7,467,937**	**7,470,297**	**7,717,880**	**9,052,207**
Profit as % of Turnover					
Operating profit	**14%**	**4%**	**11%**	**17%**	**10%**
Net Profit for the Year	4%	6%	(5%)	11%	7%
Earnings per Share	1.37	2.51	(2.13)	6.75	4.58
Dividends per share (Kshs)					
Interim Paid	-	-	-	-	1.30
Final & proposed	1.50	1.75	1.75	2.50	1.30
Total	***1.50***	***1.75***	***1.75***	***2.50***	***2.60***

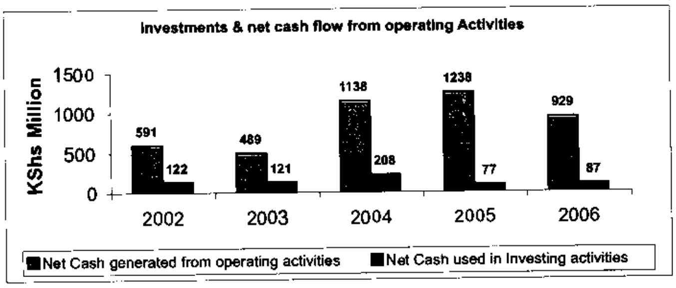

Turnover Analysis
Kshs million
3,267
3,842
4,166
5,363
6,181
2002
2003
2004
2005
2006

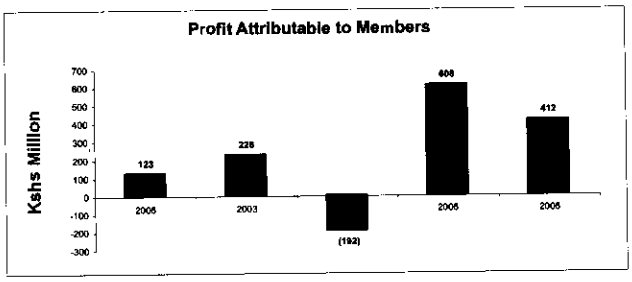

Earnings Per Share (Kshs)
1.37
2.51
(2.13)
6.75
4.58
Jun-02
Jun-03
Jun-05
Jun-06

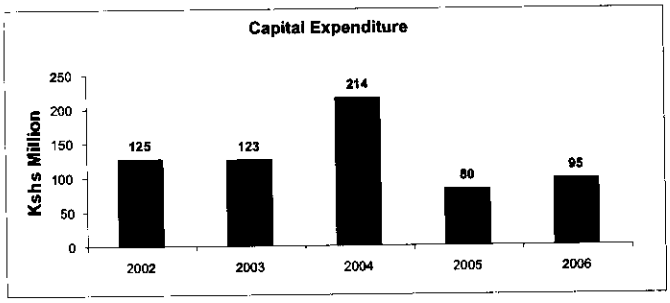

Operating profit
Kshs Million
437
171
441
916
586
2002
2003
2004
2005
2006

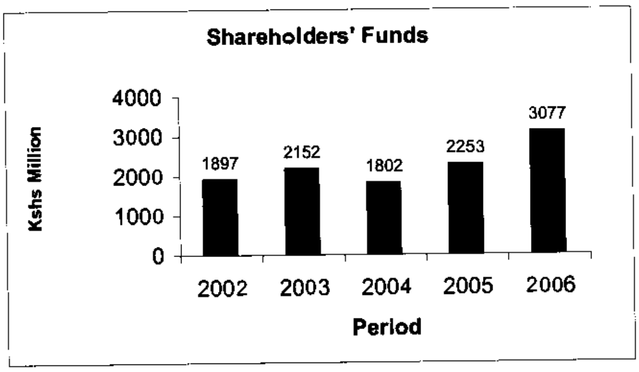

Dividends per share(Kshs)
1.50
1.75
1.75
2.50
2.60
Jun-02
Jun-03
Jun-04
Jun-05
Jun-06

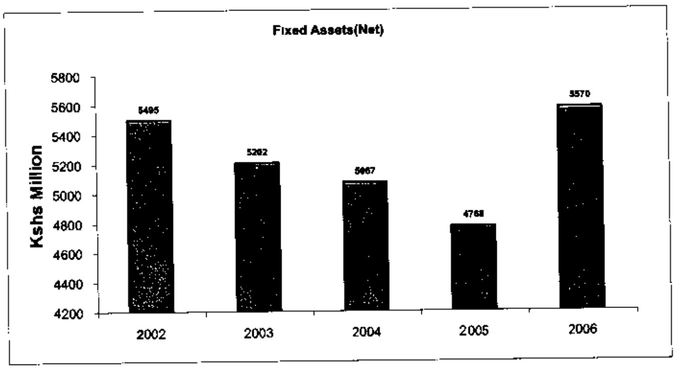

Foreign Currency exchange gain /(Loss)
KShs Million
2002
(145)
299
2003
(630)
200
2005
306
2006


Investments & net cash flow from operating Activities
KShs Million
591
122
489
121
1138
208
1238
77
929
87
2002
2003
2004
2005
2006
Net Cash generated from operating activities
Net Cash used in Investing activities


Profit Attributable to Members
Kshs Million
123
228
(192)
412

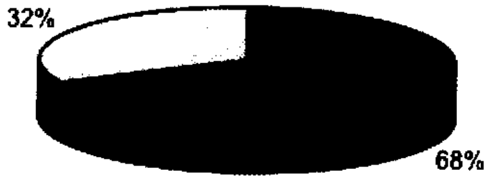

Capital Expenditure
Kshs Million
125
123
214
80
95
2002
2003
2004
2005
2006


Shareholders' Funds
Kshs Million
1897
2152
1802
2253
3077
2002
2003
2004
2005
2006
Period


Fixed Assets(Net)
Kshs Million
2002
2003
2004
2005
2006

DISTRIBUTION OF ASSETS

2005

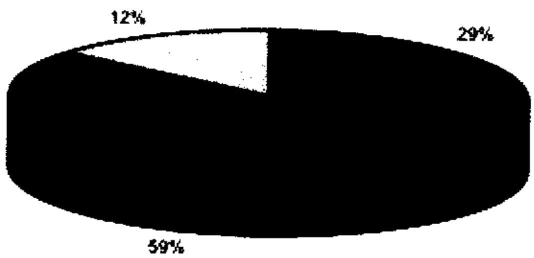


2006

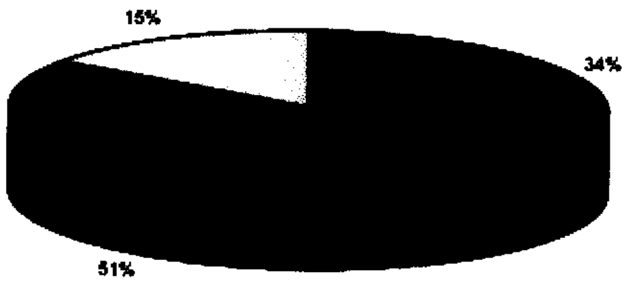
	2005 Kshs m	2006 Kshs m
Non current Assets	4,768	5,570
Current Assets	2,950	3,482
	7,718	9,052

DISTRIBUTION OF EQUITY AND LIABILITIES

2005



2006



	2005 Kshs m	2006 Kshs m
Capital and reserves	2,253	3,077
Non current liabilities	4,570	4,577
Current liabilities	895	1,398
	7,718	9,052

FOR THE YEAR ENDED JUNE 2006

Results	2006 Sh'000	2005 Sh'000
Revenue	**6,180,715**	**5,363,196**
Profit before tax	924,364	1,086,280
Profit attributable to to the shareholders of The East African Portland Cement Company Limited	411,793	607,872
Dividends	**234,000**	**225,000**
Share Capital and Shareholders' funds		
Ordinary Share Capital	450,000	450,000
Shareholders' funds	2,626,933	1,802,835
Earnings and Dividend per share	**Shs**	**Shs**
Earnings per share	4.58	6.75
Dividend Per Share		
Interim Paid	1.3	-
Final proposed	1.3	2.5
Total	**2.60**	**2.50**

Excellence in Financial reporting, Best Practices in Marketing and Corporate Planning and TAX Compliance

Overall winner - COYA Award - Corporate Planning
Overall Winner - COYA Award - Marketing
2nd Runner Up - Listed Companies - FiRe Awards
Facilitation Award - KRA

FiRe Awards are a stamp of excellence and an endorsement of credibility of sound financial and good ccorporate governance, and serve as confirmation that all statutory and other management reports are prepared in accordance with the requirements of INTERNATIONAL FINANCIAL REPORTING STANDARDS.

Corporate Planning Management

- Expansion into new markets
- Modernization through vision
- Capacity building
- Participatory strategic planning

Marketing Management

- A clear and focused marketing strategy
- Market and brand visibility
- Utilization of customer feedback and surveys
- Using artisans (Fundis) to enhance market penetration
- Visibility of product especially in the region

BALANCE SHEET

AS AT 30 JUNE 2006

	Note	2006 Sh'000	2005 Sh'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	5,523,315	4,718,248
Intangible assets	12	16,316	4,876
Prepaid operating lease rentals	13	14,225	14,299
Investment	14	1	1
Biological assets	15	6,758	19,620
Staff receivables	17	9,873	10,999
		5,570,488	4,768,043
Current assets			
Inventories	16	595,127	519,706
Trade and other receivables	17	326,312	128,532
Tax recoverable	18	-	9,512
Short term deposits	19	2,277,558	2,061,513
Bank and cash balances		282,722	230,574
		3,481,719	2,949,837
Total assets		**9,052,207**	**7,717,880**
EQUITY AND LIABILITIES			
Current assets			
Share capital	20	450,000	450,000
Share premium		648,000	648,000
Revaluation reserve		1,201,245	472,239
Revenue reserve		777,688	457,596
Proposed dividend		-	225,000
Shareholders' funds		3,076,933	2,252,835
Non-current liabilities			
Staff gratuity	21	468,322	424,463
Deferred taxation	22	1,046,312	611,962
Borrowings	23	3,062,699	3,533,937
		4,577,333	4,570,362
Current liabilities			
Borrowings	23	347,283	363,656
Trade and other payables	24	842,609	466,703
Retirements benefits liability provision	25	-	18,811
Leave pay provision	26	46,424	45,513
Corporation tax payable	18	161,625	-
		1,397,941	894,683
Total equity and liabilities		**9,052,207**	**7,717,880**

The financial statements on pages 25 to 45 were approved by the Board of directors on September 14, 2006 and were signed on its behalf by:

Sankaie oie Kantai - **Director**
Ndegwa K. Kagio - **Ag. Managing Director**

The accounting policies on page 29 to 30 and the notes on pages 31 to 45 form an integal part of the financial statememnts. Report of the Auditors is on page 19

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Sh'000	2005 Sh'000
SALES		6,180,715	5,363,196
COST OF SALES		(4,461,235)	(3,713,301)
GROSS PROFIT		1,719,480	1,649,895
OTHER OPERATING INCOME		56,230	43,183
SELLING EXPENSES	5	(459,574)	(360,794)
ADMINISTRATIVE EXPENSES	6(a)	(442,374)	(367,339)
OTHER OPERATING EXPENSES	6(b)	(273,424)	(52,391)
FARM (LOSS)/ INCOME		(14,044)	3,144
OPERATING PROFIT	3	586,294	915,698
NET INTEREST INCOME/(COSTS)	7(a)	29,828	(28,967)
FOREIGN CURRENCY EXCHANGE GAIN	7(b)	308,242	199,549
PROFIT BEFORE TAXATION		924,364	1,086,280
TAXATION CHARGE	8	(512,571)	(478,408)
NET PROFIT FOR THE YEAR		411,793	607,872
EARNINGS PER SHARE (basic and diluted)	9	Sh 4.58	Sh 6.75
DIVIDENDS PER SHARE	10	Sh 2.60	Sh 2.50
-Paid		Sh1.30	-
-Proposed		Sh 1.30	Sh 2.50

The accounting policies on page 29 to 30 and the notes on pages 31 to 45 form an integal part of the financial statememnts. Report of the Auditors is on page 19

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Sh'000	2005 Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	27(a)	1,116,697	1,278,412
Interest paid		(88,178)	(107,308)
Interest received		118,006	78,341
Taxation paid		(217,809)	(11,752)
Net cash generated from operating activities		928,716	1,237,693
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(77,446)	(75,610)
Purchase of intangible assets		(17,598)	(4,663)
Proceeds from sale of property, plant and equipment		8,171	3,022
Net cash used in investing activities		(86,873)	(77,251)
FINANCING ACTIVITIES			
Dividends paid		(342,000)	(157,500)
Loan repayments	27(b)	(231,650)	(270,258)
Net cash used in financing activities		(573,650)	(427,758)
INCREASE IN CASH AND CASH EQUIVALENTS		268,193	732,684
CASH AND CASH EQUIVALENTS AT JULY 1		2,292,087	1,559,403
CASH AND CASH EQUIVALENTS AT JUNE 30	27(c)	2,560,280	2,292,087

The accounting policies on page 29 to 30 and the notes on pages 31 to 45 form an integal part of the financial statememnts. Report of the Auditors is on page 19

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Revenue reserve Shs'000	Proposed dividend Shs'000	Total Shs'000
At 1 July 2004	450,000	648,000	497,538	49,425	157,500	1,802,463
2004 - dividend declared	-	-	-	-	(157,500)	(157,500)
Transfer of excess depreciation	-	-	(36,141)	36,141	-	-
Deferred tax on excess depreciation	-	-	10,842	(10,842)	-	-
Net profit for the year	-	-	-	607,872	-	607,872
2005 - proposed dividend	-	-	-	(225,000)	225,000	-
At 30 June 2005	450,000	648,000	472,239	457,596	225,000	2,252,835
At 1 July 2005	450,000	648,000	472,239	457,596	225,000	2,252,835
2005 - dividend declared	-	-	-	-	(225,000)	(225,000)
Revaluation surplus	-	-	1,065,030	-	-	1,065,030
Deferred tax on revaluation surplus	-	-	(310,725)	-	-	(310,725)
Transfer of excess depreciation	-	-	(36,141)	36,141	-	-
Deferred tax on excess depreciation	-	-	10,842	(10,842)	-	-
Net profit for the year	-	-	-	411,793	-	411,793
2006 – interim dividend paid	-	-	-	(117,000)	-	(117,000)
At 30 June 2006	450,000	648,000	1,201,245	777,688	-	3,076,933

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

The accounting policies on page 29 to 30 and the notes on pages 31 to 45 form an integal part of the financial statememnts. Report of the Auditors is on page 19

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 and are set out below:

1. 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 company, where relevant to its operations. The adoption of the new and revised standards has no effect on the amounts reported for the current or prior years. These changes in presentation and disclosure are as follows:

- IAS 1 on presentation of financial statements has necessitated the disclosure of critical management judgements and uncertainties.
- IAS 10 has affected the presentation of proposed dividends.
- IAS 16 requires the disclosure of comparative figures for movements in property, plant and equipment.
- IAS 24 requires the disclosure of the compensation of key management personnel.

At the date of authorisation of these financial statements IFRS 6 on Exploration for and Evaluation of Mineral Assets and IFRS 7 on 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 company.

(a) Basis of accounting

The financial statements are prepared under the historical cost convention as modified to include the revaluation of certain property, plant and equipment, and livestock which is stated at fair value.

(b) Revenue recognition

Revenue is recognised upon delivery of goods and when title has passed to customers, net of taxes due to the government.

Interest income is recognised as it accrues, unless its collectibility is in doubt.

(c) 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 income tax 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 income tax.

(d) Property, plant and equipment

Property, plant and equipment is stated at cost or at professionally revalued amounts less accumulated depreciation.

The company's policy is to professionally revalue property, plant and equipment at least once every five years.

(e) Depreciation

No depreciation is provided on freehold land.

Depreciation on other items of property, plant and equipment is calculated to write off the cost or the revalued amounts in equal annual instalments over their expected useful lives. The annual rates used are:

Buildings	2.5% or period of lease whichever is less
Plant and machinery	5 to 12.5%
Motor vehicles	25%
Office equipment, furniture and fittings	5 to 25%
Computers	33.3%

The excess annual depreciation attributable to revaluation surplus on property, plant and equipment is transferred annually from the revaluation surplus to the revenue reserve.

(f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to 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.

(g) Intangible assets

Expenditure on acquired computer software programs is capitalised and amortised on the straight-line basis over their expected useful lives, normally not exceeding three years.

(h) Leasehold land

Payments to acquire interests in leasehold land are treated as prepaid operating lease rentals. They are stated at historical cost and are amortised over the term of the related lease.

(i) Impairment

At each balance sheet date, the company 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 its not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and the overheads incurred in bringing the inventories to their present location and condition. Costs of direct materials are determined on the first-in first-out basis, while those of general consumable stores are determined on the weighted average cost basis. Net realisable value represents the estimated selling price less the estimated cost to completion and costs to be incurred in marketing, selling and distribution.

Work in progress, which comprises raw meal and clinker, is stated at the lower of production cost and net realisable value. Production cost comprises expenditure directly incurred in the manufacturing process and allocation of fixed and normal production overheads attributable to the process.

(k) Biological assets

Livestock is stated at fair value less estimated point of sale costs.

(l) Investments

The unquoted investment is stated at cost less any accumulated impairment losses.

(m) Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off when all reasonable steps to recover them have failed.

Borrowings

Interest bearing loans are recorded at the proceeds received. Finance charges are recognised on the accruals basis and are added to the carrying amount of the related instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade payables are stated at their nominal value.

(n) Currency translations

Assets and liabilities that are denominated in foreign currencies are translated into Kenya shillings at the rates of exchange ruling on the balance sheet date. Transactions during the year, which are expressed in foreign currencies, are translated at the rates ruling on the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

(o) Retirement benefits obligations

The company operates a non-contributory defined benefits pension scheme for senior and supervisory staff, as well as an in house gratuity scheme for unionisable employees. It also makes contributions to the statutory pension fund, the National Social Security Fund.

The company's obligations to all staff retirement benefits schemes are charged to the income statement as they fall due.

(p) Segment reporting

The company sells cement in both the local market, in Kenya, and neighbouring countries. The primary and only basis of segment reporting is limited to revenue by geographic regions. This basis of segment reporting is representative of the internal structure used for management reporting.

(q) Cash flow statement

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial years. 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 critical areas of accounting estimates and judgements in relation to the preparation of these financial statements are as set out below:

Impairment of assets

At each balance sheet date, the company reviews the carrying amount of its assets to determine whether there is any indication that these 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 impairment.

	2006 Sh'000	2005 Sh'000
3 OPERATING PROFIT		
The operating profit is arrived at after charging:		
Directors' emoluments:		
- Fees	1,260	1,260
- Other emoluments	17,688	19,722
Auditors' remuneration	2,233	1,925
Depreciation	333,573	333,865
Amortisation		
- Software	6,158	6,825
- Prepaid operating lease rentals	74	76
Staff costs (Note 4)	888,396	884,248
Tax penalties and interest	219,000	-
And after crediting:		
Profit on sale of property, plant and equipment	4,335	2,435
Bad debts received	44,082	-

	2006 Sh'000	2005 Sh'000
4 STAFF COSTS		
Wages & salaries and other staff costs	873,548	761,346
Provision for staff gratuity	78,925	62,554
Pension contributions - defined benefits scheme	48,128	48,961
Leave pay provision	911	8,699
Social security costs (NSSF)	1,520	2,688
Write back of retirement benefit liability	(18,811)	-
	984,221	884,248

The company had an average of 499 (2005 - 505) permanent employees and 633 (2005 - 634) casuals.

	2006 Sh'000	2005 Sh'000
5. SELLING EXPENSES		
Bad debts expense	1,730	30,030
Cement transport	325,271	233,943
Customs and other export levies	39,213	46,376
Advertising and sales commissions	73,904	46,081
Public relations costs	19,456	4,364
	459,574	360,794

6 (a) ADMINISTRATIVE EXPENSES

Staff costs	298,733	256,458
Depreciation	43,500	23,755
Board expenses	18,948	20,982
Telephone and postage	16,092	16,688
Office rent and rates	18,915	12,835
Office supplies	14,010	12,352
Printing and stationery	8,373	10,523
Computer expenses	4,964	9,233
Fuel and motor vehicle expenses	15,713	2,237
Trade licenses	1,700	1,246
Office equipment and furniture	1,426	1,030
	442,374	367,339

6 (b) OTHER OPERATING EXPENSES

Legal and professional fees	11,198	24,017
Land written off	-	7,191
Bank charges	8,686	6,323
Subscription	8,714	4,752
Donations	13,947	4,505
Back taxes, penalties and interest	219,000	-
Miscellaneous expenses	9,646	2,402
Audit fees	2,233	1,925
Witholding tax write off	-	1,276
	273,424	52,391

	2006 Sh'000	2005 Sh'000
7 (a) NET INTEREST INCOME /(COSTS)		
Interest receivable	118,006	78,341
Interest on bank overdrafts	-	(474)
Interest on loans	(88,178)	(106,834)
	29,828	(28,967)
(b) FOREIGN CURRENCY EXCHANGE GAIN		
Exchange gain on loan	255,961	227,987
Exchange gain/(loss) on other foreign currency transactions and balances	52,281	(28,438)
	308,242	199,549

The exchange gain/loss on the loan arises mainly from the translation of the Japanese Yen denominated loan to Kenya shillings at the year end. The gain resulted from the appreciation of the Kenya Shilling by 6.7% (2005 – appreciation of 5.6%) against the Japanese Yen during the year.

	2006 Sh'000	2005 Sh'000
8 TAXATION		
(a) Tax charge		
Current taxation based on the adjusted profit for the year at 30%	312,594	2,240
Prior year under provision	76,352	-
Total current tax charge (note 18)	388,946	2,240
Deferred tax charge - current year	60,922	331,903
- prior year under provision	62,703	144,265
Total deferred tax charge (Note 22)	123,625	476,168
	512,571	478,408
(b) Reconciliation of expected tax based on accounting profit to the tax charge		
Accounting profit before taxation	924,364	1,086,280
Tax at the applicable rate of 30%	277,309	325,884
Tax effect of expenses not deductible for tax purposes	96,207	14,979
Taxation on farming income treated as a separate source	-	2,240
Prior year under provision – current tax	76,352	-
Prior year under provision – deferred tax	62,703	144,265
	512,571	478,408

9 EARNINGS PER SHARE

IThe earnings per share has been calculated on the profit after taxation of Sh 411,793,000 (2005 – profit of Sh 607,872,000) and the 90,000,000 (2005 – 90,000,000) shares in issue during the year.

There were no potentially dilutive ordinary shares outstanding at 30 June 2006 or 30 June 2005. The diluted earnings per share is therefore the same as the basic earnings per share.

10 DIVIDENDS

During the year an interim dividend of Sh 1.30 (2005 - nil) amounting to a total of Sh 117,000,000 (2005- nil) was paid.

At the annual general meeting scheduled for Thursday December 14, 2006 a final dividend in respect of 2006 of Sh 1.30 per share (2005 - Sh 2.50 per share) amounting to a total of Sh 117,000,000
(2004 - Sh 225,000,000) is to be proposed. The total dividend for the year is therefore, Sh 2.60 per share (2005 - Sh 2.50 per share) amounting to a total of Sh 234,000,000
(2005 - Sh 225,000,000).

11 PROPERTY, PLANT AND EQUIPMENT

COST OR VALUATION	Freehold land Shs'000	Buildings Shs'000	Plant & machinery Shs'000	Motor vehicles Shs'000	Computers office equipment furniture & fittings Shs'000	Capital work in progress Shs'000	Total Shs'000
At 1 July 2004	45,715	1,120,274	4,583,185	675,544	203,958	46,544	6,675,220
Additions	-	2,488	37,404	13,303	13,485	8,930	75,610
Capitalisation of work in progress	-	39,486	-	-	-	(39,486)	-
Disposals	-	-	-	(6,428)	-	-	(6,428)
Write off	(395)	-	-	-	-	-	(395)
Reclassification	-	-	(1,570)	-	1,570	-	-
At 30 June 2005	45,320	1,162,248	4,619,019	682,419	219,013	15,988	6,744,007
COMPRISING:							
Valuation - 2000	28,300	1,007,917	4,390,916	357,814	-	-	5,784,947
- 2002	12,500	-	-	-	-	-	12,500
Cost	4,520	154,331	228,103	324,605	219,013	15,988	946,560
	45,320	1,162,248	4,619,019	682,419	219,013	15,988	6,744,007
DEPRECIATION							
At 1 July 2004	-	103,466	1,061,252	396,063	136,954	-	1,697,735
Charge for the year	-	28,069	238,204	51,648	15,944	-	333,865
Disposals	-	-	-	(5,841)	-	-	(5,841)
At 30 June 2005	-	131,535	1,299,456	441,870	152,898	-	2,025,759
NET BOOK VALUE							
At 30 June 2005	45,320	1,030,713	3,319,563	240,549	66,115	15,988	4,718,248
At 30 June 2004	45,715	1,016,808	3,521,933	279,481	67,004	46,544	4,977,485

At 30 June 2005, plant and machinery, vehicles and equipment with cost/valuation amounting to Sh 502,997,058 (2004 – Sh 473,474,407) were fully depreciated. The notional depreciation charge on these assets would have been Sh 116,019,338 (2004 – Sh 108,067,511).

Capital work in progress relates to amounts incurred towards construction of a clinker shed.

FOR THE YEAR ENDED 30 JUNE 2006

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

COST OR VALUATION	Freehold land Shs'000	Buildings Shs'000	Plant & machinery Shs'000	Motor vehicles Shs'000	Computers office equipment furniture & fittings Shs'000	Capital work in progress Shs'000	Total Shs'000
At 1 July 2005	45,320	1,162,248	4,619,019	682,419	219,013	15,988	6,744,007
Additions	-	495	23,694	25,006	16,936	11,315	77,446
Disposals	-	(792)	-	(21,925)	-	-	(22,717)
Revaluation	29,280	30,714	-	-	-	-	59,994
At 30 June 2006	74,600	1,192,665	4,642,713	685,500	235,949	27,303	6,858,730
COMPRISING:							
Valuation - 2006	74,600	1,192,665	4,642,713	685,500	-	-	6,595,478
Cost	-	-	-	-	235,949	27,303	263,252
	74,600	1,192,665	4,642,713	685,500	235,949	27,303	6,858,730
DEPRECIATION							
At 1 July 2005	-	131,535	1,299,456	441,870	152,898	-	2,025,759
Charge for the year	-	29,047	237,253	47,614	19,659	-	333,573
Eliminated on disposal-	-	-	-	(18,881)	-	-	(18,881)
Revaluation adjustment	-	(160,582)	(680,780)	(163,674)	-	-	(1,005,036)
At 30 June 2006	-	-	855,929	306,929	172,557	-	1,335,415
NET BOOK VALUE							
At 30 June 2006	74,600	1,192,665	3,786,784	378,571	63,392	27,303	5,523,315
At 30 June 2005	45,320	1,030,713	3,319,563	240,549	66,115	15,988	4,718,248

At 30 June 2006, plant and machinery, vehicles and equipment with cost/valuation amounting to Sh 92,204,152 (2005 – Sh 502,997,058) were fully depreciated. The notional depreciation charge on these assets would have been Sh 11,525,519 (2005 – Sh 116,019,338).

Capital work in progress relates to amounts incurred on sewerage works.

The assets were revalued by Lloyd Masika Limited, registered valuers, as at 30 June 2006. The land was valued on an Open Market Value basis while the other assets were valued on Net Current Replacement Cost basis. The company's policy is to revalue property, plant and equipment at least once every five years.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in plant and machinery is idle equipment with a cost amounting to Sh 130,671,981 (2005 - Sh 130,671,981) which is fully depreciated, in respect of the old plant which was rendered idle when the new plant was commissioned.

If property, plant and equipment and motor vehicles were carried in the financial statements at historical cost, the balances at year end would have been as follows:

	2006 Sh'000	2005 Sh'000
Cost	7,071,413	7,016,069
Accumulated depreciation	(3,233,351)	(2,954,185)
Net book value	3,838,062	4,061,884

12 INTANGIBLE ASSETS – Computer software

	2006 Sh'000	2005 Sh'000
COST		
At 1 July	25,776	21,113
Additions	17,598	4,663
At 30 June	43,374	25,776
AMORTISATION		
At 1 July	20,900	14,075
Charge for the year	6,158	6,825
At 30 June	27,058	20,900
NET BOOK VALUE		
At 30 June	16,316	4,876

13 PREPAID OPERATING LEASE RENTALS

	2006 Sh'000	2005 Sh'000
COST		
At 1 July	14,597	16,597
Write off	-	(2,000)
At 30 June	14,597	14,597
AMORTISATION		
At 1 July	298	231
Charge for the year	74	76
Eliminated on write off	-	(9)
At 30 June	372	298
NET BOOK VALUE		
At 30 June	14,225	14,299

Included in prepaid operating lease rentals is land carried in the financial statements at a cost of Sh 4,408,330 for which the title deeds are missing and are being followed up with the Kenya Government Lands Registrar.

Included in prepaid operating leases is land with an original cost of Sh 629,420 which has been earmarked for sale.

14 INVESTMENT

	2006 Sh'000	2005 Sh'000
Unquoted investment in an associated company at cost	1	1

The associated company, Portland Mines Company Limited, remains dormant. The company's interest in the associated company is 50%.

15 BIOLOGICAL ASSETS

Biological assets represent the value of livestock which is stated at market value less estimated transport and point of sale costs.

		2006 Sh'000	2005 Sh'000
16	**INVENTORIES**		
	ThConsumables	391,260	211,824
	Raw materials	127,949	220,488
	Work in progress	31,426	22,165
	Finished products	31,731	46,216
	Goods in transit	12,761	19,013
		595,127	519,706
17	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables	212,429	71,558
	Staff receivables	16,009	34,417
	Deposits, prepayments and other receivables	107,747	33,556
		336,185	139,531
	Less: Staff receivables not recoverable within 12 months	(9,873)	(10,999)
		326,312	128,532
18	**TAX (PAYABLE)/RECOVERABLE**		
	Balance at 1 July	9,512	-
	Charge for the year (note 8(a))	(388,946)	(2,240)
	Paid in the year	212,809	11,752
		(161,625)	9,512
19	**CASH AND CASH EQUIVALENTS**		
	Short term deposits		
	The Cooperative Bank of Kenya Limited	965,562	662,648
	Kenya Commercial Bank Limited	500,681	499,874
	Standard Chartered Bank Kenya Limited	811,315	898,991
		2,277,558	2,061,513

The short term deposits mature by September 2006 and the weighted average interest rate earned on the deposits during the year was 5.0 % (2005 – 4.6 %).

The company has a bank overdraft facility of Sh 219,600,000 with Kenya Commercial Bank Limited and the amounts drawn against this facility attract interest at market rates. The facility is secured by a legal charge over certain properties owned by the company, Land Reference numbers 337/639, 8649, 9767, 8785 and 8786, and a debenture over the company assets for Sh 219,600,000 respectively. No amounts were drawn against this facility as at 30 June 2006.

	2006 Sh'000	2005 Sh'000
20 SHARE CAPITAL		
Authorised:		
126,000,000 shares of Sh 5 each	630,000	630,000
Authorised, issued and fully paid:		
90,000,000 shares of Sh 5 each	450,000	450,000

21 STAFF GRATUITY

This represents outstanding obligations in respect of staff gratuity payable under the Collective Bargaining Agreement for unionisable staff. The movement during the year was as follows:

	2006 Sh'000	2005 Sh'000
Balance at 1 July	424,463	417,721
Paid during the year	(35,066)	(55,812)
Provision for the year	78,925	62,554
Balance at 30 June	468,322	424,463

22 DEFERRED TAX

	2006 Sh'000	2005 Sh'000
The net deferred tax liability is attributable to the following items:		
Accelerated capital allowances on property, plant and equipment	758,832	744,653
Unrealised exchange loss	(37,984)	(122,649)
Revaluation surpluses on property, plant and equipment	484,008	184,125
Tax losses available for future tax relief	-	(51,345)
Provision for staff gratuity	(140,497)	(127,339)
Provision for staff leave pay	(13,925)	(13,654)
General bad debts provision	-	(1,758)
Provision for stocks	-	(71)
Provision for salary increments	(4,122)	-
	1,046,312	611,962
The movement on the deferred tax account is as follows:		
At 30 June	611,962	135,794
Income statement charge for the year (Note 8(a))	123,625	476,168
Debited directly to equity	310,725	-
At 30 June 2006	1,046,312	611,962

		2006 Sh'000	2005 Sh'000
23	**LOANS (UNSECURED)**		
	The Overseas Economic Co-operation Fund of Japan (OECF) loan guaranteed by Kenya Government is denominated in Japanese Yen and repayable in 41 half yearly instalments by 20 March 2020 with interest at 2.5% per annum - Japanese Yen 5,479,800,000 (2005 - Japanese Yen 5,845,120,000)	3,296,793	3,786,361
	Loan from Kenya Government (6th Danish loan) repayable in 50 equal half yearly instalments by 31 December 2020 with interest at 15% per annum	24,048	24,048
	Accrued interest	89,141	87,184
		3,409,982	3,897,593
	Less: repayable within one year	(347,283)	(363,656)
		3,062,699	3,533,937

Due to the fact that the loan from the OECF is guaranteed by the Kenya Government, it was included in the Paris Club rescheduling arrangements of the Kenya Government loans in 2004. The company has therefore been remitting the loan repayments to the Kenya Government in two annual instalments of Yen 182,660,000 but these payments have not been transmitted to the OECF, the ultimate lender, due to the rescheduling arrangement. The balance outstanding in the records of OECF is Japanese Yen 6,027,780,000.

		2006 Sh'000	2005 Sh'000
24	**TRADE AND OTHER PAYABLES**		
	Trade payables	501,270	330,673
	Other payables and accruals	261,433	64,938
	Unclaimed dividends	36,340	36,329
	Advance receipts from customers	43,566	34,763
		842,609	466,703
25	**RETIREMENT BENEFITS LIABILITY**		
	Balance at 1 July	18,811	111,390
	Paid in the year	-	(92,579)
	Write back of over provision in prior years	(18,811)	-
	Balance at 30 June	-	18,811

26 LEAVE PAY PROVISION

This represents outstanding obligations in respect of leave days accrued as at year end. The movement during the year was as follows:
The farming activity is carried out locally and is insignificant with respect to the financial statements.

	2006 Sh'000	2005 Sh'000
Balance at 1 July	45,513	36,814
Net additional provision	911	8,699
Balance at 30 June	46,424	45,513

27 CASH FLOW STATEMENT

	2006 Sh'000	2005 Sh'000
(a) Reconciliation of operating profit to cash generated from operations		
Operating profit	586,294	915,698
Adjustments for:		
Depreciation and amortisation	339,805	340,766
Profit on sale of property, plant and equipment	(4,335)	(2,435)
Exchange gains/ (loss)realised	52,281	(28,438)
Staff gratuity provision	78,925	62,554
Leave pay provision	911	8,699
Withholding tax write-off	-	1,276
Land written off	-	2,386
Retirement benefits provision	(18,811)	-
Movement in biological assets	12,862	-
Operating profit before working capital changes	1,047,932	1,300,506
(Increase)/decrease in inventories	(75,421)	166,419
(Decrease)/increase in trade and other receivables	(196,654)	63,452
Increase/(decrease) in trade and other payables	375,906	(103,574)
Staff gratuity paid	(35,066)	(55,812)
Retirement benefits liability paid	-	(92,579)
Cash generated from operations	1,116,697	1,278,412
(b) Movement in loans		
Balance at 1 July	3,897,593	4,395,838
Foreign currency exchange gain	(255,961)	(227,987)
Repayments during the year	(231,650)	(270,258)
Balance at 30 June	3,409,982	3,897,593
(c) Analysis of cash and cash equivalents		
Short term deposits	2,277,558	2,061,513
Bank and cash balances	282,722	230,574
	2,560,280	2,292,087

28 RETIREMENT BENEFITS OBLIGATIONS

The company, with effect from 1 July 2006, operates a defined contribution pension scheme for senior and supervisory staff. The scheme was previously a non contributory defined benefits pension scheme. The scheme is administered independently by Alexander Forbes Financial Services, while its investments are managed by Stanbic Investments Services Limited and Old Mutual Asset Management Limited.

The scheme is subjected to triennial valuations by independent Actuaries to fulfill the statutory requirements under the Income Tax (Retirement Benefits) rules 1994 and the Retirement Benefits Rules 2000. An actuarial valuation was carried out as at 30 April 2004 by Alexander Forbes Financial Services (EA) Limited, Consultants and Actuaries.

The key actuarial assumptions applied in the valuation were:

• Investment returns	10% per annum
• Rate of salary escalation	8% per annum
• Rate of pension increases	3% per annum

This actuarial valuation revealed that the market value of the assets of the scheme was Sh 120,386,000 and the total accrued liabilities was Sh 212,965,000, indicating a past service deficit of Sh 92,579,000 and representing a funding level of 56.53%. This is below the 80% minimum funding level allowed by the Retirement Benefit Authority and, accordingly, an accrual for the deficit of Sh 111,390,000 was reflected in the financial statements for 2005. The company paid to the scheme Sh 92,579,000 in the year ended 30 June 2005.

Contributions to this scheme during the year amounted to Sh 48,128,000 (2005 - Sh 48,961,000).

Another actuarial valuation was carried out at 30 June 2006. Preliminary results of the valuation indicates that no actuarial deficit will arise and therefore no additional provision is required.

The company also operates an in-house gratuity scheme for unionisable employees. Contributions to this gratuity scheme are governed by a collective bargaining agreement that is reviewed triennially and was last reviewed on 21 December 2005. These contributions are not invested or managed as a separate fund, but are self funded and are fully provided for in the company's financial statements.

The company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the statutory scheme are determined by local statute and are currently limited to Sh 200 per employee per month. The company's contributions are charged to the income statement in the year to which they relate. Contributions to this scheme during the year amounted to Sh 1,520,710 (2005 – Sh 2,688,000).

	2006 Sh'000	2005 Sh'000
29 SEGMENT REPORTING - GEOGRAPHICAL		
Segment revenue attributable to cement sales in:		
Local market - Kenya	5,784,858	4,777,535
Regional market (East and Central Africa)	395,857	585,661
	6,180,715	5,363,196

The farming activity is carried out locally and is insignificant with respect to the financial statements.

Sales to the regional market are done through depots whose net assets constitute less than 5% of the company's total net assets. Segment reporting with respect to net assets is, therefore, not considered of any real value.

30 FINANCIAL RISKS

The nature of activities and policies with respect to financial risks are:

Exchange Risk

The company's operations are predominantly in Kenya, where the currency has remained relatively stable against major convertible currencies.

The major portion of the company's loans are denominated in foreign currencies, principally the Japanese Yen which is subject to exchange rate fluctuations. The company has not hedged its foreign currency risk on this borrowing. The company is currently looking at various options available for the management of this loan.

Credit risk

The credit risk is managed through management's constant monitoring of the status of the credit worthiness of its customers. The company also obtains guarantees from its customers for purposes of risk management.

	2006 Sh'000	2005 Sh'000
31 CONTINGENT LIABILITIES		
Pending law suits	119,362	1,147,043
Tax assessment (interest charge)	-	135,493
	119,362	1,282,536

Pending law suits relate to legal proceedings involving the company for breach of contract and also for loss of business as a result of trucks repossessed. However, in the opinion of the directors, no liability is likely to crystallise.

32 CAPITAL COMMITMENTS

	2006	2005
Authorised by the directors but not contracted for	900,000	479,915
Authorised by the directors and contracted for	210,000	746,177

33 RELATED PARTY TRANSACTIONS

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

	2006 Sh'000	2005 Sh'000
Directors' remuneration:		
Fees for services as a director	1,260	1,260
Other emoluments	17,688	19,722
	18,948	20,982
Key management compensation:		
Salaries and other benefits	17,890	14,509
Sales to related parties:		
Sales of clinker to Bamburi Cement Limited	-	7,065
Purchases from related parties		
Purchase of clinker from Bamburi Cement Limited	34,560	-

These balances were fully paid by year end. Bamburi Cement Limited owns 12.5% of the shareholding in East African Portland Cement Company Limited. All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

34 OPERATING LEASE RENTALS

	2006 Sh'000	2005 Sh'000
Outstanding commitments under operating leases due:		
Not later than 1 year	2,163	2,163
Later than 1 year but not later than 2 years	2,163	2,163
	4,326	4,326

35 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act and is listed on the Nairobi Stock Exchange.

36 CURRENCY

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

NOTES

I/WE ____

OF ____

Being a member(s) of the above Company, hereby appoint: ______________________________

OF ____

Whom failing ____

OF ____

or failing him, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the 74th Annual General Meeting of The East African Portland Cement Company Limited to be held on 14th December 2006 and at any adjournment thereof.

As witness my/our hand this day of 2006

Signed ____

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a limited Company this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
3. This proxies must be deposited at the Registered Office of the Company, Namanga Road, Athi River, off Mombasa Road, P O Box 40101, 00100 Nairobi not less than 48 hours before the time of holding the meeting.

Cut here