The Kenya power & Lighting Company Limited

Staff Retirement Benefits Scheme

Defined Benefits Scheme

Annual Accounts 2010

Our Vision

To be among the leading Defined Benefits pension schemes in the World

Our Mission

To provide decent pension benefits to members in retirement through prudent funds investment

Our Core Value

In an endeavor to realize its vision and mission, the KPLC Limited Retirement Benefits Scheme-DB upholds the following core values:

- Integrity
- Accountability
- Courtesy
- Efficiency
- Stewardship

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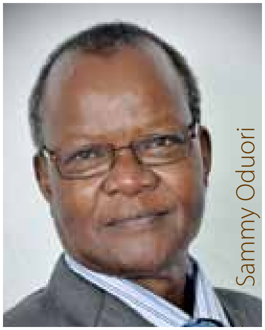
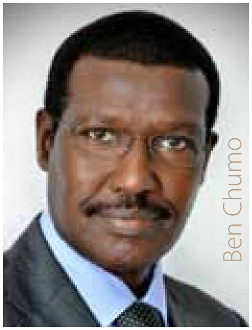
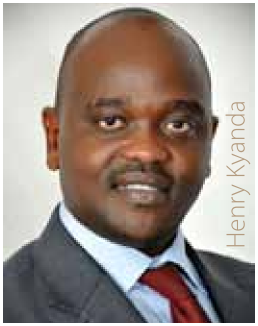




TRUSTEES AND PROFESSIONAL ADVISORS



Trust Secretary

Registered offce
Retirement Benefits Scheme Trustees
Stima Plaza
Kolobot Road, Parklands
P O Box 30099 - 00100, Nairobi

Bankers
Co-operative Bank of Kenya
P O Box 48231, Nairobi

Actuaries
Alexander Forbes Financial Services (E.A.) Limited
P O Box 52439 - 00100, Nairobi

Investment Managers
Co-op Trust Investment Services Limited
P O Box 48231 - 00100
Nairobi

Stanbic Investment Management Services
(E.A) Limited
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Principal Legal Advisors
Kaplan & Stratton Advocates
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Nairobi

Custodians
Standard Chartered Bank Kenya Limited
Standard Chartered Securities Services Kenya
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CFCStanbic Bank Limited
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Auditors
Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki way, Muthangari
P O Box 40092 - 00100, Nairobi

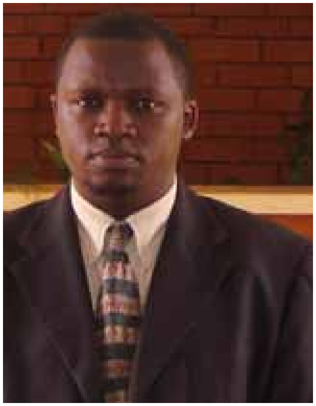
SCHEME SECRETARIAT


Henry Kyanda
General Manager


Douglas Indeje
Snr. Finance & Investment Officer


Steve Mathuka
Snr. Pensions Officer


Martha Simiyu
Administration Officer


Christopher Ngulu
Benefits Officer


Joyce Njuguna
Fund Accountant


Jeremiah Gichiri
System Administrator


Joan Mutende
Accounts Assistant

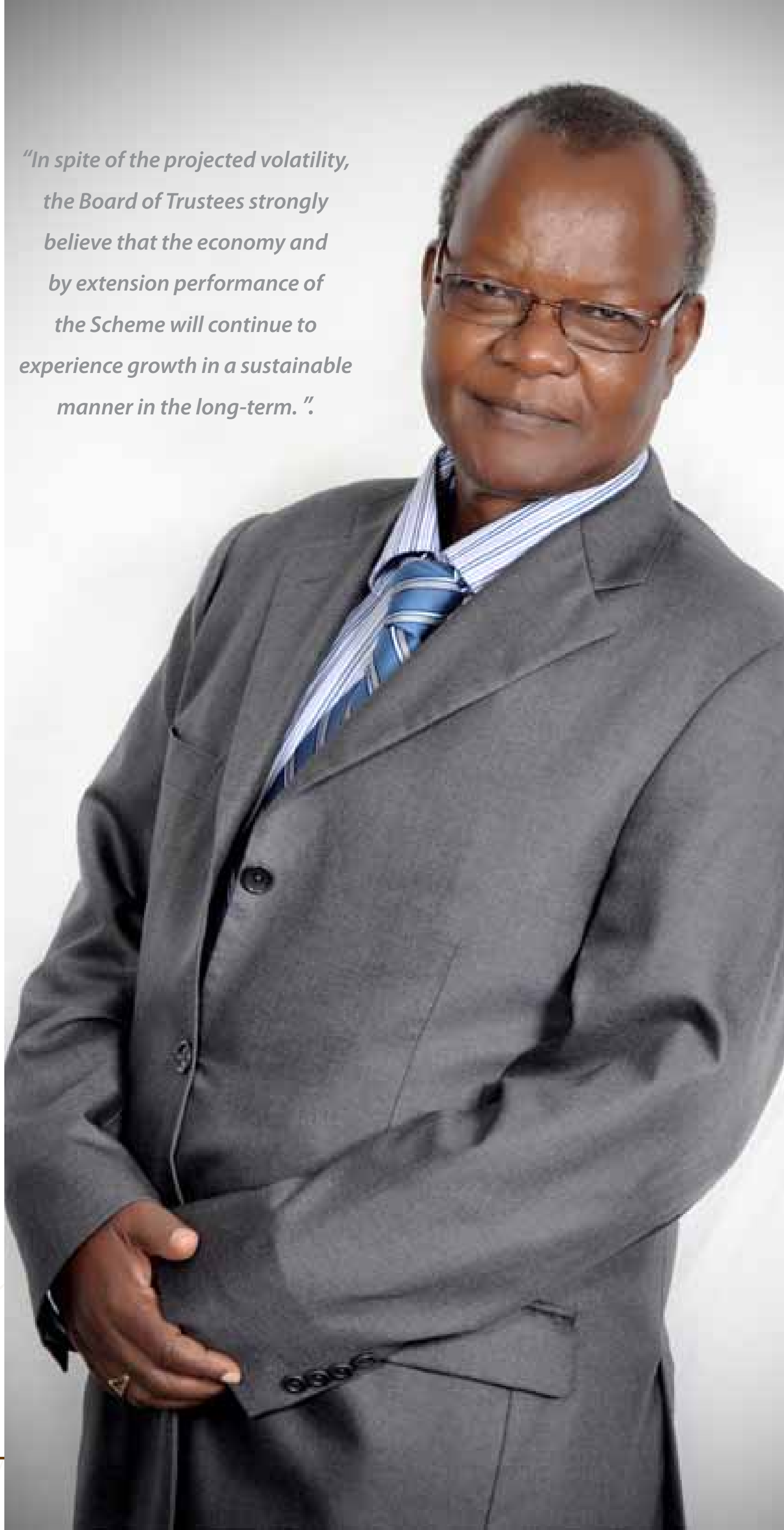
CHAIRMAN'S STATEMENT

I am pleased to present the financial statements for the year ended 31st December 2010 together with the fifth Annual Report of the our Staff Retirement Benefits Scheme.

Following the financial crisis of 2007 – 2009, investment markets recovered strongly during the year 2010 and I am happy to report that the Scheme produced a return of 22.6%, a very good return compared to 9.9% return achieved in 2009. This return outperformed the Scheme's internal benchmark of 4% above the prevailing annual average inflation rate which stood at 3.96% as at the end of 2010. Over a 3-year period the Scheme's annualised return was 13.1% being 3% higher than the average pension funds return of 10.4%, as measured by Alexander Forbes Consulting Actuaries Schemes Survey for 2010.

As at the end of the year 2010, the market value of the scheme assets had grown to Kshs. 11.32 billion from a market value of Kshs. 9.09 billion as at the end of 2009. The positive growth of Kshs. 2.23 billion was achieved mainly as a result of increased return on investments from equity and government bonds assets. In addition, the Sponsor's monthly injection of Kshs. 50.6 million into the Scheme, to cater for the actuarial deficit, supported the Scheme's positive growth.

The number of active members in 2010 declined from 4,263 to 4,201 while the number of members with deferred rights rose from 125 to 167. The number of retirees being paid monthly pension declined from 937 to 935 while the number of dependants rose from 3,517 to 3,641.



The year 2010 marked a key historical event for the Scheme. An actuarial valuation was carried out and for the first time in more than 10 years the fund attained full funded status. This means that as at the valuation date, the assets of the Scheme were sufficient to cover all accrued benefits (liabilities). The positive funding position has been achieved as a result of prudent investment of Scheme funds by the Trustees and payment of special contributions by the Sponsor. On behalf of the Trustees, I want to assure the Sponsor of our commitment to maintain the positive funding level through prudent management of Scheme assets in order to avert the need to seek funding from the Sponsor in future.

As you may recall, in 2007 the Scheme developed and implemented its first ever 5-year Strategic Plan. This was to serve as a framework for making investment decisions, provide a proactive approach to Trustees focusing on the future and explain the aspirations of the Trustees to stakeholders. As a result of the continually changing investment environment, Trustees have recently reviewed and enhanced the Strategic plan. I am pleased to inform you that part of the enhancement involved the adoption of a new vision- "To be among the leading defined benefits scheme in the world." Trustees have also enhanced their resolve on property development. This will ensure achievement of one of our key strategic objective of achieving returns of at least 4% above the 91-day Treasury Bill rate on an annual basis and 4% above the rate of inflation over a five-year period. Towards this end, I can report that the Trustees are at an advanced stage of planning for construction of an office block at Stima Plaza and a housing estate in Loresho.

Though the economic environment during the year 2010 showed marked improvement from the extremely challenging environment experienced previously; we envision the years 2011 and 2012 to be dominated by volatility due to the various socio-economic challenges currently affecting our country as well as the up-coming general elections in 2012.

In spite of the projected volatility, the Board of Trustees strongly believe that the economy and by extension performance of the Scheme will continue to experience growth in a sustainable manner in the long-term. As noted during all our previous AGM's, the economic environment is by nature vulnerable, but I wish to assure you of my Board's resolve to remain focused on long-term performance and sustainability. We are encouraged by the fact that we have engaged competent professional and advisory resources whom, together with the continued sponsor's support, will enable the Scheme achieve its vision of being among the leading defined benefits schemes in the world.

SAMMY ODUORI,

Chairman

The trustees of the KPLC Staff Retirements Benefits Scheme have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2010.

BACKGROUND

The Kenya Power & Lighting Company Limited Staff Retirement Benefits Scheme was established by a Trust Deed dated 1 January 1970. The Scheme was formed for the employees of the then East Africa Power and Lighting Company Limited, which later changed its name to The Kenya Power & Lighting Company Limited (KPLC). The main purpose of the Scheme is the provision of cash benefits and pensions to the members upon attainment of the retirement age of sixty years, and where applicable, benefits for the dependants of deceased members.

The affairs of the Scheme are the responsibility of the Trustees, who are appointed jointly by the Board of Directors of the KPLC and members of the Scheme. The Trustees meet regularly to discuss and decide on the affairs of the Scheme.

PENSION BENEFITS

The Scheme closed to new members and ceased receiving contributions from existing members with effect from June 2006. The closed Scheme continues being a defined benefit registered fund, whereby a member who retires on his normal retirement date receives a pension calculated as 1/400 of his final pensionable emoluments for each complete month of pensionable service to 31 December 1999 and 1/600 of final pensionable emoluments for each month of pensionable service from 1 January 2000 up to closing date. A member who leaves before normal retirement date can elect to transfer the benefits to another pension scheme.

ACTUARIAL VALUATION AND STATEMENT

The Scheme is subjected to an actuarial valuation once every three years as required by the Trust Deed. The last such valuation was carried out as at 31 December 2010. On the basis that increases in members' future salary that will be deemed pensionable will be capped at 5% for each subsequent year after the closure date. The actuarial report showed that the Scheme was over-funded to the tune of Sh 363 million, giving a funding level of 103.3%. The results of actuarial valuations are sensitive to actuarial assumptions made and reflect only one view of likely future events hence there is no guarantee that the assumptions will be borne out. It is however expected that the scheme's actual experience will from time to time be better or worse than assumed.

FINANCIAL REVIEW

The statement of changes in net assets on page 7 shows an increase in the net assets of the scheme for the year of Sh 2,231,841,642 (2009 – Sh 926,032,815). The net assets of the scheme stood at Sh 11,324,386,788 as at 31December 2010 up from Sh 9,092,545,146 at the beginning of the year.

The net increase in net assets during the year was due to increased returns on investments. Also the fund's sponsor injected an additional Sh 607,200,000 (2009 - Sh 607,200,000) into the scheme as contributions to cater for the actuarial deficit.

INVESTMENT

The Scheme's investments during the period under consideration were jointly managed by Stanbic Investment Management Services (E.A) Limited and Co-op Trust Investment Services Limited. The Scheme has complied with all the RBA regulations.

The current members of the board of trustees are as shown on page 2. Mr. Petros Kalii served as a Trustee until 26th February, 2011 when he was replaced by Mr. Kosgey Kolil.

MEMBERSHIP

	2010 No.	2009 No.
At 1 January	4,263	4,395
Deaths in service	(32)	(26)
Withdrawals	(23)	(44)
Retirements	(7)	(62)
At 31 December	**4,201**	**4,263**
Self Pensioners	935	937
Spouses pensioners	1,140	1,100
Children Pensioners	2,501	2,417
Total Pension Beneficiaries	**4,576**	**4,454**

AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to continue in office.

SIGNED ON BEHALF OF THE TRUSTEES

Trust Secretary
2011

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Kenyan Retirement Benefits Act requires the trustees to prepare financial statements for each financial year which show a true and fair view of the financial transactions of the Scheme for the year and of disposition at year end of its assets and liabilities. It also requires the trustees to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme. They are also responsible for safeguarding the assets of the Scheme.

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Kenyan Retirement Benefits Act, and for such internal controls as trustees determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Scheme's rules. The trustees are of the opinion that the financial statements give a true and fair view of the financial affairs of the Scheme and of its operating results. The trustees 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.

The trustees certify that to their best knowledge and belief the information furnished to the auditors for the purpose of the audit was correct and complete in every respect.

Nothing has come to the attention of the trustees to indicate that the Scheme will not be able to meet its obligations for at least the next twelve months from the date of this statement.

…………………………	…………………………	…………………………
Trustee	Trust Secretary	Trustee

21st June 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the accompanying financial statements of Kenya Power and Lighting Company Staff Retirement Benefits Scheme, set out on pages 7 to 27 which comprise the statement of net assets as at 31 December 2010, and the statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Trustees' Responsibility for the Financial Statements

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act and for such internal controls as trustees determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2010 and of the disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act.

Deloitte & Touche

Certified Public Accountants (Kenya)
21st June **2011**

Nairobi

STATEMENT OF NET ASSETS

THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
CONTRIBUTIONS AND BENEFITS			
Contributions receivable	5	607,200,000	607,200,000
Benefits payable	6	(450,415,312)	(491,817,721)
Net surplus from dealing with members		**156,784,688**	**115,382,279**
RETURNS ON INVESTMENTS			
Investment income	7	2,148,720,171	864,615,855
Investment management expenses	8	(35,602,520)	(18,149,221)
Net returns on investments		**2,113,117,651**	**846,466,634**
OTHER INCOME	9	16,905,585	9,456,929
ADMINISTRATIVE EXPENSES	10	(54,966,282)	(45,273,027)
INCREASE IN NET ASSETS FOR THE YEAR		**2,231,841,642**	**926,032,815**
		==========	==========

STATEMENT OF CASH FLOWS

31 DECEMBER 2010

ASSETS	Note	2010 Sh	2009 Sh
Property & equipment			
Equipment	11	165,733	225,250
Intangible assets	12	4,708,570	2,445,357
		4,874,303	2,670,607
Investments			
Investment properties	13(a)	2,771,095,137	2,500,831,827
Investment properties - work in progress	13(b)	630,140,624	239,168,173
Government securities	14	2,795,897,384	2,928,235,703
Short term deposits	15	831,720,964	97,635,717
Investment in Iberafrica Power (EA) Limited	16	197,620,000	197,620,000
Investments in unquoted shares	17	40,205,000	-
Investments in quoted shares	18	3,372,415,142	2,401,260,646
Offshore investments	19	301,386,873	272,882,330
Corporate bonds	20	532,631,111	407,096,453
Commercial paper	21	60,342,704	39,614,356
		11,533,454,939	9,084,345,205
Other assets			
Other receivables	22	2,098,003	1,104,614
Due from related parties	23(a)	50,725,217	51,007,617
Bank and cash balances		4,062,462	6,020,493
		56,885,682	58,132,724
Total assets		11,595,214,924	9,145,148,536
Liabilities			
Benefits payable	24	40,555,417	14,374,025
Other payables and accruals	25	224,975,271	29,573,241
Due to related parties	23(b)	5,297,448	8,656,124
		270,828,136	52,603,390
NET ASSETS AVAILABLE		11,324,386,788	9,092,545,146
REPRESENTED BY MEMBERS FUNDS:			
Trust Fund		11,324,386,788	9,092,545,146

The financial statements on pages 13 to 34 were approved by the board of trustees on 21st June 2011 and were signed on its behalf by:

…………………… Trustee

……………………… Trust Secretary

……………………………… Trustee

THE YEAR ENDED 31 DECEMBER 2010

	Trust fund Sh
At 1 January 2009	8,166,512,331
Net increase in the fund for the year	926,032,815
At 31 December 2009	**9,092,545,146**
At 1 January 2010	9,092,545,146
Net increase in the fund for the year	2,231,841,642
At 31 December 2010	**11,324,386,788**

STATEMENT OF CASH FLOWS

31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
Cash flow from operating activities			
Contributions received		607,200,000	555,495,386
Benefits paid		(424,233,920)	(509,989,878)
Administrative and management expenses		104,994,577	(59,992,804)
Net cash generated from/(used in) operating activities		**287,960,657**	**(14,487,296)**
Investing activities			
Investment income received		945,320,988	648,556,143
Purchase of quoted investments		(424,108,244)	(203,242,350)
Purchase of unquoted investments		(40,205,000)	-
Sale of quoted investments		467,474,556	249,000,732
Purchase of Government securities		(1,793,534,086)	(1,895,171,341)
Sale of Government securities		1,900,873,399	1,619,068,730
Purchase of corporate bonds		(654,758,102)	(244,556,980)
Sale of corporate bonds		538,976,336	7,198,474
Additions to equipment		(331,467)	(450,500)
Additions to investment property (WIP)		(391,782,233)	(234,975,450)
Additions to Intangible assets		(6,971,783)	-
Purchase of commercial paper		(356,899,390)	(87,860,600)
Sale of commercial paper		280,839,933	83,260,433
Net cash generated from/(used in) investing activities		**464,894,907**	**(59,172,709)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		752,855,564	(73,660,005)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		143,270,566	216,930,571
CASH AND CASH EQUIVALENTS 31 DECEMBER	26	**896,126,130**	**143,270,566**

THE YEAR ENDED 31 DECEMBER 2010

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are as set out below:

Adoption of new and revised International Financial Reporting Standards

(i) Standards and interpretations effective in the current period

Various standards interpretations and amendments were effective in the period under review but had no effect on the scheme's financial statements.

(ii) New and revised standards and interpretations in issue but not yet effective

At the date of authorization of these financial statements, various revised standards and interpretations were in issue but not yet effective. The trustees anticipate that the adoption of these standards, interpretations and amendments when effective, will have no material impact on the financial statements of the scheme.

iii) Early adoption of standards

The Scheme did not early-adopt any new or amended standards in 2010

Basis of preparation

The Scheme prepares its financial statements on the historical cost basis of accounting modified to include the revaluation of certain investments.

Equipment

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is calculated to write off the cost of equipment over two years in equal installments.

Intangible assets

Intangible assets represent computer software which is stated at cost less accumulated amortisation. Amortisation is calculated to write off the cost of computer software over two years in equal installments.

Investment properties

Property held for the purposes of earning rental income and capital appreciation is treated as investment property. Investment properties are carried at fair value less impairment losses. This is defined by International Accounting Standard No 40 as the most probable price reasonably obtainable in the market at the end of the reporting period. Surpluses or deficits arising from revaluation are dealt with through the statement of changes in net assets.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Commercial paper
Commercial papers are held to maturity and are stated at amortised cost.

Offshore investments
The off-shore investments represent pooled investments by HSBC Investments, in world stock markets and are stated at market value.

Financial liabilities
Financial liabilities are recognised initially at cost, and subsequently measured at amortised cost.

Foreign currency translation
Assets and liabilities expressed in foreign currencies are translated to Kenya shillings at the rates of exchange ruling at the end of each reporting period while transactions during the year in foreign currencies are translated at the rates of exchange ruling on the dates of the transactions. Exchange gains or losses arising from foreign currency transactions are dealt with in the statement of changes in net assets.

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES
In the process of applying the scheme's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Held -to-maturity investments
The scheme follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the scheme evaluates its intention and ability to hold such investments to maturity. If the scheme fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Impairment losses on financial assets
At the end of each reporting period, the scheme reviews the carrying amounts of its financial 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 and an impairment loss is recognised in the statement of changes in net assets whenever the carrying amount of the asset exceeds its recoverable amount.

3 FINANCIAL RISK MANAGEMENT

The scheme generates revenues for the members by investing in various income generating activities which involve trading in the stock exchange, trading in government and other securities and offshore investments.

These activities expose the fund 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 scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Trustees together with the investment managers under policies approved by the Trustees. The investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks. The Trustees provide guidelines for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity. The scheme also follows guidelines issued by the Retirements Benefits authority in respect of maximum investment in different types of investments.

A Market risk

(i) Foreign exchange risk

The scheme is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The scheme invests internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Uganda shilling. Foreign exchange risk arises from investment in offshore investments and quoted shares on the Uganda Securities Exchange (USE).

The scheme currency risk is evaluated as low because the foreign investments are long term and any currency losses are expected to be recouped through interest income earned and which comprises the value of the fund. The Scheme manages foreign exchange risk by limiting offshore investments to strategic range of 5% of total portfolio as required by the RBA regulations. The quoted investments in the USE are low risk and form an insignificant part of the total portfolio.

At 31 December 2010, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the increase or decrease respectively in net returns on offshore investments would have the following effect (approximately):

3. Financial instruments (Continued)

A Market risk (Continued)

		2010 Sh	2009 Sh
Effect on returns from Investment	5% Appreciation	(15,069,344)	(13,644,117)
	5% Depreciation	15,069,344	13,644,117
Effect on Scheme balance	5% Appreciation	(15,069,344)	(13,644,117)
	5% Depreciation	15,069,344	13,644,117

At 31 December 2010, if the Shilling had weakened/strengthened by 5% against the Uganda Shilling with all other variables held constant, the increase or decrease respectively in net returns on investments would amount to approximately Sh 2,457,790 (2009: Sh 2,457,790).

(ii) Price risk

The scheme is exposed to equity securities price risk because of investments in quoted shares classified at fair value through profit and loss. The scheme is also exposed to the risk that the value of debt securities will fluctuate due to changes in market value. To manage its price risk arising from investments in equity and debt securities, the scheme diversifies its portfolio invested in bonds of varying maturities. Diversification of the portfolio is done in accordance with statement of investment

For equities, the scheme has invested in companies in different sectors of the economy, while for debt securities, the scheme has policy which is reviewed after every three years. All quoted shares held by the scheme are traded on the Nairobi Stock Exchange (NSE) and Uganda Securities Exchange (USE).

If the price of securities were to appreciate/depreciate by 5% it would have the following effect (approximately):

		2010 Sh	2009 Sh
Effect on returns from Investment	5% Appreciation	168,620,757	120,063,032
	5% Depreciation	(168,620,757)	(120,063,032)
Effect on Scheme balance	5% Appreciation	168,620,757	120,063,032
	5% Depreciation	(168,620,757)	(120,063,032)

iii) Interest rate risk

The Fund's interest bearing assets are investments in treasury bonds, corporate bonds, treasury bills, commercial paper and fixed deposits. All of these instruments are at fixed interest rates.

The nature of financial instruments held, that is, fixed interest instruments mitigates risk exposure of the scheme. Fluctuations in interest rates will not have a significant effect on the scheme.

3. Financial instruments (Continued)

B Credit risk

Credit risk arises from cash and cash equivalents, fixed deposits, interest bearing investments, deposits with banks, and receivables. As part of the credit risk management system, the Investment Manager and the Trustees monitor and review information on significant investment. The Trustees have approved a larger portfolio investment with the Government of Kenya debt securities which have a low credit risk and no default record.

The amount that best represents the scheme's maximum exposure to credit risk at 31 December 2010 and 31 December 2009 is made up as follows:

	2010 Sh	2009 Sh
Government securities	2,795,897,384	2,928,235,703
Short term deposits	831,720,964	97,635,717
Corporate bonds	532,631,111	407,096,453
Commercial paper	60,342,704	39,614,356
Other receivables	2,098,003	415,800
Bank and cash balances	4,062,463	6,020,493
Due from KPLC	50,725,217	51,704,614
	4,277,477,846	**3,530,723,136**

None of the above financial assets are past due or impaired.
The fund has diversified its investments hence is not exposed to concentration risk.

C Liquidity risk

The scheme is required to make periodic payment in respect of pension payments when members retire from the scheme, and is therefore exposed to the risk of difficulty in raising funds to make such payments. It therefore invests a portion of its assets in investments that are readily convertible to cash. The investment managers monitor the scheme's liquidity on a regular basis and the Trustees review it on a quarterly basis.

The table below analyses the organization's financial liabilities as at the end of the reporting period that will be settled on a net basis. The amounts disclosed in the table below are the undiscounted cash flows. Balances due equal their carrying balances, as the impact of discounting is not significant.

Liabilities	2010 Sh	2009 Sh
Benefits payable	40,555,417	14,374,025
Due to KPLC	5,297,448	8,553,319
Other payables and accruals	224,975,271	29,573,241
	270,828,136	**52,500,585**

The scheme's liabilities are all payable within a year.

3. Financial instruments (Continued)

D Fair value of financial assets and liabilities

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. as derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data.

	Level 1 Sh	Level 2 Sh	Level 3 Sh	Total sh
31 December 2010				
Investment in quoted shares-at fair value	3,372,415,142	-	-	3,372,415,142
Offshore investments-at fair value	301,386,873	-	-	301,386,873
Treasury bonds -available for sale	2,795,897,384	-	-	2,795,897,384
	6,469,699,399	-	-	**6,469,699,399**

	Level 1 Sh	Level 2 Sh	Level 3 Sh	Total Sh
31 December 2009				
Investment in quoted shares-at fair value	2,401,260,646	-	-	2,401,260,646
Offshore investments-at fair value	272,882,330	-	-	272,882,330
Treasury bonds -available for sale	2,918,736,426	-	-	2,918,736,426
	5,592,879,402	-	-	**5,592,879,402**

4 ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2010 by Alexander Forbes Financial Services (EA) Limited. The report confirmed that the scheme's assets were sufficient to meet members' entitlements in full as at 31 December 2010.

Purpose of the actuarial valuation

The purpose of the valuation was to assess the financial position of the scheme as at 31 December 2010 and to assess the adequacy of the employer's contributions to the scheme.

Actuarial valuation results

On the basis that increases in members' future salary that will be deemed pensionable will be capped at 5% for each subsequent year after the closure date, the results of the valuation as at 31 December 2010 and 31 December 2008 were as follows:

	2010 Sh	2008 Sh
Scheme surplus/(deficit)	**363,000,000** ===========	**(2,748,100,000)** ===========
Funding Level	**103.30%** ===========	**74.80%** ===========

In carrying out the valuations, quoted assets have been taken at their market value as at 31 December 2010 and 31 December 2008.

5 CONTRIBUTIONS RECEIVABLE

		2010 **Sh**	**200** **Sh**
Employer	- Normal	-	-
	- Actuarial deficit	607,200,000	607,200,000
		607,200,000 =========	**607,200,000** ==========

6 BENEFITS PAYABLE

Withdrawals	67,502,966	110,508,499
Pensions	382,912,346	356,399,916
Tax on pensions and withdrawals	-	24,909,306
	450,415,312 ==========	**491,817,721** ==========

7 INVESTMENT INCOME

Interest on deposits	37,750,291	34,182,920
Interest on treasury bonds – available for sale	119,378,738	406,759,559
Net market gain on treasury bonds	85,559,945	-
Gain on disposal of bonds	322,816,146	-
Rental income	84,084,895	80,582,350
Dividends receivable – quoted shares	108,195,776	91,067,662
Net market gain/(loss) on quoted investments (note 17)	1,025,325,669	(173,101,593)
(Loss)/gain on sale of quoted shares	(10,804,860)	11,048,361
Interest on corporate bonds – Available for sale	64,169,559	22,483,500
Discount on commercial paper – held to maturity	13,476,159	1,627,156
Net market gain on offshore investments (note 18)	28,504,543	29,134,113
Gain on fair value of investment property (note 13)	270,263,310	360,831,827
	2,148,720,171	**864,615,855**

8 INVESTMENT MANAGEMENT EXPENSES

Investment managers fees	25,938,444	8,728,921
Custodial fees	9,617,925	9,096,315
Brokerage fees	46,151	323,985
	35,602,520	**18,149,221**

9 OTHER INCOME

	2010 Sh	2009 Sh
Foreign exchange gains	259,967	-
Commission income	8,785,614	7,244,745
Rebates and other income	7,860,004	2,212,184
	16,905,585	**9,456,929**

10 ADMINISTRATIVE EXPENSES

Administration expenses	857,849	726,528
Staff salaries	17,698,702	16,980,531
Trustees' sitting allowances	1,880,500	2,125,357
Audit fees		
External auditors-including VAT	920,000	900,000
Internal auditors	652,558	1,237,741
RBA levy - current year	5,000,000	5,000,000
Bank charges	288,316	209,313
Depreciation and amortization	5,099,554	225,250
Printing and stationery	645,652	538,086
Legal and professional fees	2,774,470	4,533,240
Repairs and maintenance	5,214,309	2,706,590
Insurance expenses	3,377,963	3,378,121
Land rates	230,319	315,783
Members' education	4,141,187	-
Trustees Training	1,538,095	2,176,249
Staff training	1,419,930	2,455,595
AGM expenses	1,431,046	1,016,100
Leave pay provision	1,872,632	748,543
	54,966,282	**45,273,027**

11 EQUIPMENT

COST		
At 1 January	13,185,364	12,734,864
Additions	331,467	450,500
At 31 December	**13,516,831**	**13,185,364**
DEPRECIATION		
At 1 January	12,960,114	12,734,864
Charge for the year	390,984	225,250
At 31 December	**13,351,098**	**12,960,114**
NET BOOK VALUE		
At 31 December	**165,733**	**225,250**

12 INTANGIBLE ASSET

	2010 Sh	2009 Sh
Computer Software:		
COST		
At 1 January	11,760,059	11,760,059
Additions	6,971,783	-
At 31 December	**18,731,842**	**11,760,059**
AMORTISATION		
At 1 January	9,314,702	9,314,702
Charge for the year	4,708,570	-
	14,023,272	9,314,702
NET BOOK VALUE 31 DECEMBER	**4,708,570**	**2,445,357**

13(a) INVESTMENT PROPERTIES – AT FAIR VALUE

	Stima Plaza Sh	Karen Plot Sh	Runda Plot Sh	Loresho Plot Sh	Dagoretti Plot Sh	Total Sh
At 1 January 2009	800,000,000	650,000,000	320,000,000	160,000,000	210,000,000	2,140,000,000
Fair value gain	30,000,000	160,000,000	80,831,827	70,000,000	20,000,000	360,831,827
And 31 December 2009	**830,000,000**	**810,000,000**	**400,831,827**	**230,000,000**	**230,000,000**	**2,500,831,827**
At 1 January 2010	830,000,000	810,000,000	400,831,827	230,000,000	230,000,000	2,500,831,827
Fair value gain	20,000,000	115,000,000	105,263,310	20,000,000	10,000,000	270,263,310
And 31 December 2010	**850,000,000**	**925,000,000**	**506,095,137**	**250,000,000**	**240,000,000**	**2,771,095,137**

The last valuation of investment properties was conducted by Kiragu & Mwangi Registered Valuers and based on the open market value applicable as at 31 December 2010.

	2010 Sh	2009 Sh
(b) INVESTMENT PROPERTIES - WORK IN PROGRESS		
Work in progress	630,140,624	239,168,173
	=========	===========

These are costs that were incurred on development of housing units for sale on investment property (land in Runda and Loresho).

	2010 Sh	2009 Sh
14 GOVERNMENT SECURITIES		
TREASURY BILLS –at amortised cost	-	9,499,277
TREASURY BONDS -Available for sale	2,795,897,384	2,918,736,426
	2,795,897,384	2,928,235,703
	===========	===========

The weighted average interest rate realised on the investment in treasury bonds during the year was 12 % (2009: 11.4%).

15 SHORT TERM DEPOSITS

	Maturity date	Interest rate	2010 Sh	2009 Sh
Fixed Deposits				
Kenya Commercial Bank	14.01.10	8%	-	71,014,589
Housing Finance Company of Kenya	31.03.10	10%	-	2,000,000
Trust Bank Ltd*	Nil		6,900,000	6,900,000
East African Building Society Ltd	Nil		-	11,121,128
Commercial Bank of Africa		3.5%	230,000,000	-
Commercial Bank of Africa		1.5%	-	60,000,000
Call Deposits				
Kenya Commercial Bank		1.8%	16,400,000	-
CSBC		1.5%	600,000	-
Diamond Trust Bank		1.25%	7,800,000	-
Equity Bank Limited		2%	700,000	-
Equity Bank Limited		1%	54,500,000	-
NIC Bank Ltd		1.5%	3,000,000	-
Standard Chartered		1.75%	47,000.000	-
Commercial Bank of Africa		1.5%	90,000,000	-
I & M Bank		2.0%	296,000,000	-
Housing Finance Company of Kenya		9%	-	11,000,000
Bank of Africa Ltd		9%	-	2,500,000
Co-operative Bank Limited			24,994,309	-
Add: Accrued interest			726,655	-
Less: Provision for irrecoverable investments*			(6,900,000)	(6,900,000)
			831,720,964	**97,635,717**
			========	========

* The provision for irrecoverable investment is in respect of a fixed deposit with Trust Bank Limited which is in liquidation.

16 INVESTMENT IN IBERAFRICA POWER (EA) LIMITED

The Scheme holds a 20% interest in the equity shares of Iberafrica Power (EA) Ltd, an independent power producer who supplies power to the scheme's sponsor, The Kenya Power & Lighting Company Limited.

	2010 Sh	2009 Sh
Equity shares in Iberafrica (unquoted) at cost	197,620,000 ==========	197,620,000 ==========

In the trustees' opinion, the book value of unquoted investments 31 December 2010 is not materially different from its fair value.

17 INVESTMENT IN UNQUOTED SHARES

	2010 Sh	2009 Sh
COST		
At 1 January	-	-
Additions	40,250,000	-
At 31 December	40,250,000 =========	- ========

Investment in unquoted shares relate to investment in I &M Bank Limited shares purchased during the year where 43,000 shares were purchased at a unit cost of Sh 935 giving a total value of Sh 40,250,000

18 INVESTMENTS IN QUOTED SHARES-at fair value

As at 01.01.2010	Additions	Disposals	As at 01.01.2010	Company	As at 01.01.2010 Sh	Additions Sh	Disposals Sh	Gain/(Loss) Sh	Gain/(Loss) on revaluation Sh	As at 31.12.2010 Sh
1,050,014	-	-	1,050,014	Access Kenya	21,262,783	-	-	-	(7,087,595)	14,175,188
619,646	-	-	619,646	Athi River Mining	68,780,706				44,614,512	113,395,218
674,200	500,000	(120,000)	1,054,200	Bamburi Cement	105,175,200	95,165,600.00	(23,228,352)	-	20,022,952	197,135,400
4,372,475		-	4,372,475	Barclays Bank of Kenya	196,761,555	-	-	-	76,518,383	273,279,938
96,902	-	-	96,902	BOC Gases Kenya	14,535,300	-	-	-	(1,744,236)	12,791,064
379,434	70,000	-	449,434	British American Tobacco	67,539,252	13,684,242.00	-		40,123,686	121,347,180
416,533	-	-	416,533	CFC	18,743,985	-	-	-	12,704,257	31,448,242
1,300,000	-	-	1,300,000	CMC Holdings	14,755,000	-	-	-	1,170,000	15,925,000
28,936,100	59,900	(16,306,200)	12,689,800	Co-operative	258,978,095	606,432.00	(240,288,048)	(35,598,807)	257,408,528	241,106,200
300,000	-	-	300,000	DFCU	7,421,400	-	-	-	1,215,600	8,637,000
907,995	40,000	-	947,995	Diamond Trust Bank Limited	63,559,650	3,116,688.00	-	-	61,302,987	127,979,325
2,534,801	-	-	2,534,801	East African Breweries Ltd	367,545,855	-	-	-	141,949,146	509,495,001
928,270	-	-	928,270	East African Cables	18,797,468	-	-	-	(3,713,080)	15,084,388
2,862,800	3,302,200	(2,592,800)	3,572,200	Equity Bank of kenya	41,081,180	62,835,927.00	(43,867,530)	6,660,850	28,845,923	95,556,350
9,000	-	-	9,000	Eveready (K) Ltd	26,100	-	-	-	900	27,000
17,532	-	(17,500)	32	George Williamson	2,612,268	-	(3,026,001)	-	419,653	5,920
100,000	-	-	100,000	Housing Finance Company of Kenya	1,800,000	-	-	-	850,000	2,650,000
2,454,200	245,420	-	2,699,620	ICDC*	27,609,750	-	-	-	34,481,510	62,091,260
153,655	-	(64,000)	89,655	Kakuzi	4,878,546	-	(5,187,265)	-	7,615,601	7,306,882
5,220,463	-	-	5,220,463	KENGEN	67,343,973	-	-	-	21,403,898	88,747,871
1,935,274	-	-	1,935,274	Kenya Airways	69,186,046	-	-	-	19,836,559	89,022,605
12,380,699	6,952,279	-	19,332,978	Kenya Commercial Bank	253,804,329	118,051,364.00	-	-	48,636,578	420,492,272
955,222	9,596,998	(3,469,000)	7,083,220	Kenya Oil Company	47,761,100	10,782,060.00	(34,263,760)	-	46,552,800	70,832,200
1,118,257	8,999,831	(54,057)	10,064,031	Kenya Power & Lighting Co. Ltd.	156,555,980	60,293,803.00	(13,292,776)	5,724,796	35,988,471	245,270,274
2,542,327	-	(1,982,321)	560,006	Kenya RE	29,745,226	-	(25,454,493)	2,261,338	(364,004)	6,188,067
3,445,830	-	(1,626,423)	1,819,407	Mumias Sugar Company Limited	23,603,936	-	(16,656,003)	4,256,466	6,443,849	17,648,248
672,462	67,246	-	739,708	Nation Media Group*	79,350,516	-	-	-	44,180,553	123,531,069
564,730	56,473	(121,000)	500,203	National Industrial Credit Bank*	17,647,813	-	(5,765,848)	-	11,127,373	23,009,338
53	-	-	53	Pan African Insurance Company Ltd	2,385	-	-	-	1,087	3,472
45,065,700	7,004,900	(4,000,000)	48,070,600	Safaricom Limited	205,048,935	37,586,338.00	(23,109,838)	4,909,838	1,496,546	225,931,819
152,540	-	(152,540)	-	Sasini Tea and Coffee	1,098,288	-	(2,078,945)	980,659	-	-
207,900	-	(103,950)	103,950	Scangroup Limited	5,301,450	-	(7,186,269)	-	8,277,742	6,392,923
209,500	-	-	209,500	StanBic	1,421,038	-	-	-	546,167	1,967,205
514,770	81,375	-	596,145	Standard Chartered Bank Kenya Ltd	82,877,970	16,585,184.00	-	-	54,342,256	153,805,410
14,000	-	(14,000)	-	Total Kenya	416,500	-	(414,790)	-	(1,710)	-
379,200	175,724	(354,489)	200,435	TPS Eastern African	17,064,000	5,400,606.00	(23,654,638)	-	14,919,829	13,729,797
20,207,272	-	-	20,207,272	Uganda clay	40,313,364	-	-	-	(4,950,764)	35,362,600
94,856	-	-	94,856	Unga Group	853,704	-	-	-	189,712	1,043,416
					2,401,260,646	424,108,244	(467,474,556)	(10,804,860)	1,025,325,669	3,372,415,142

* Increase in number of shares without a corres ponding cost is as a result of share splits/bonus during the year.

19 OFFSHORE INVESTMENTS – At Fair Value

	2010 Sh	2009 Sh
At 1 January	272,882,330	243,748,217
Additions		-
Disposals		-
Net valuation gain	28,504,543	29,134,113
At 31 December	**301,386,873**	**272,882,330**

20 CORPORATE BONDS – Available for sale

	Maturity date	2010 Sh	2009 Sh
Athi River Mining Ltd	31-Oct-10	-	2,443,342
Athi River mining Ltd FXD@12%	20-April-15	65,498,022	
Barclays Bank of Kenya Ltd FXR	14-Jul-15	-	24,133,777
Barclays Bank of Kenya Ltd MTN FR @ TB+0.6%	19-Nov-14	10,094,528	10,098,338
Barclays Bank of Kenya Ltd MTN FXD @ 11.5%	13-Jul-15	40,172,242	16,031,250
CFC Stanbic Bank Ltd	30-Oct-12	7,071,342	7,115,811
CFC Stanbic Bank Ltd FLR BOND (06-07-2010) 001	6-Jul-16	11,869,500	39,564,999
CFC Stanbic Bank Fxd 12.5%	7-July-16	27,695,500	-
Faulu Kenya Ltd	4-Apr-10	-	1,000,584
Housing Finance 8.5% FXD	2-Oct-17	-	20,377,260
I&M Bank Ltd Tier II Note 001	18-Jun-15	30,027,090	30,000,000
Kenya Electricity Generating Co. Ltd Infrastructure Bond	30-Oct-19	59,517,911	39,113,249
Kenya Electricity Generating Co. Ltd IPBO	31-Oct-19	-	40,039,227
Mabati Rolling Mills Ltd Floating Rate Note 001	27-Oct-16	25,353,747	20,369,383
Mabati Rolling Mills Ltd 8YR Bond	27-Oct-16	5,116,071	10,207,027
PTA Bank	4-Oct-12	-	3,058,913
PTA Bank	31-Oct-14	5,699,887	7,110,728
PTA Bank FRN 9.58%	25-June-12	2,031,510	-
Sasini Limited Fixed Rate Bond 001	3-Dec-12	-	60,891,634
Safaricom Limited (02 NOV 2010) 001	27-Oct-14	-	67,306,890
Shelter Afrique Ltd	31-Aug-12	20,777,534	28,611,301
Safaricom	3-Nov-14	135,376,354	-
Safaricom FD 11% FDI	31-Aug-12	7,793,836	-
Safaricom 7.75 FXD1	14-Dec-15	48,112,110	-
TPS Serena 5 yr FRN	15-Dec-14	10,046,667	-
		532,631,111	**407,096,453**

The weighted average interest rate realised on the corporate bonds during the year was 12 % (2010 – 10%). These are classified as available for sale since several were sold in the year.

21 COMMERCIAL PAPER – AMORTISED COST

Held to maturity:

	Maturity date	Face value Sh	Unearned discount Sh	2010 Sh	2009 Sh
Maturing within 90 days					
Athi River Mining CP	10.03.2011	61,000,000	657,296	**60,342,704**	**39,614,356**
Kenya Hotel CP 001				=========	=========

The effective weighted average interest rate on commercial paper during the year was 6.7 % (2009 –5.0%).

	2010 Sh	2009 Sh
22 OTHER RECEIVABLES		
Rent due from Gimco	**2,098,003**	**1,104,614**
	==========	==========

23 RELATED PARTIES

The Scheme transacts with its sponsor, KPLC. Amounts due from KPLC as at end of the reporting period represent contributions not remitted at year end and are disclosed on the face of the balance sheet. Amounts due to KPLC represent pensions paid on behalf of the scheme by KPLC and recoverable from the scheme.

	2010 Sh	2009 Sh
a) Due from related parties:		
Contributions due from KPLC	50,600,000	50,600,000
Due from Defined Contributions Fund	125,217	407,617
	50,725,217	**51,007,617**
	=========	==========
b) Due to related parties		
Due to KPLC	5,136,099	8,553,319
Due to Defined Contributions Scheme	161,349	102,805
	5,297,448	**8,656,124**
	==========	==========

Contributions due from KPLC were received on 3 January 2011 (2009: 4 January 2010)

	2010 Sh	2009 Sh
23 RELATED PARTIES (Continued)		
c) During the year the following transactions were entered into with KPLC.		
Rental income earned from KPLC	65,154,610	71,664,869

	2010 Sh	2009 Sh
24 BENEFITS PAYABLE		
Withdrawals payable	10,063,654	13,446,737
Death claims payable	30,491,763	927,288
	40,555,417	14,374,025

	2010 Sh	2009 Sh
25 OTHER PAYABLES AND ACCRUALS		
RBA levy payable	5,000,000	5,000,000
Rent deposits (refundable to tenants)	5,347,786	4,603,473
Property sales deposits*	174,222,250	-
Other accruals and provisions	40,405,235	19,969,768
	224,975,271	29,573,241

*Property sales deposits relate to customer deposits held by the scheme relating to the sale of property in Runda.

	2010 Sh	2009 Sh
26 CASH AND CASH EQUIVALENTS		
Bank balances	4,062,462	6,020,493
Short term deposits	831,720,964	97,635,717
Commercial paper – maturing within 90 days	60,342,704	39,614,356
	896,126,130	143,270,566

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 the date of the advance.

27 CAPITAL COMMITMENTS

As at the end of the reporting period the scheme had committed the following funds to the development of investment property in Runda.

	2010 Sh	2009 Sh
Authorized and contracted for	183,876,980 ========	165,024,550 ==========

28 TAX STATUS

The scheme is a registered pension scheme and is therefore tax exempt. However, income generated from contributions in excess of the Sh 20,000 per month per member statutory limit is subject to tax.

29 CONTINGENT LIABILITY

There were no contingent liabilities as at the end of the reporting period.

30 REGISTRATION

The Scheme is registered in Kenya under the Retirement Benefits Act.

31 CURRENCY

The financial statements are presented in Kenya Shillings (Sh).

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