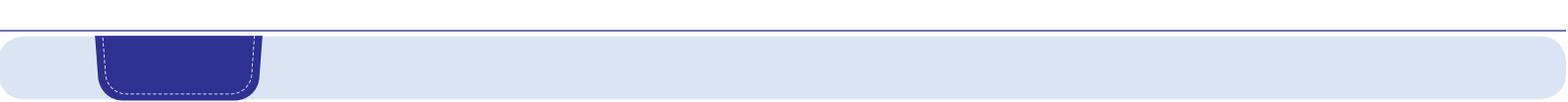


The Kenya Power & Lighting Company Limited
Staff Retirement Benefits Scheme 2006



Defined Contribution Scheme
Annual Accounts **2010**



CONTENTS

Trustees and professional advisors	2	
Scheme Secretariat	4	
Chairman's Statement	5	
Report of the trustees	7	
Statement of Trustees' Responsibilities	9	
	10	Independent Auditors' Report
	11	Statement of Changes In Net Assets
	12	Statement of Net Assets
	13	Statement of Cash Flows
	14-28	Notes to the Financial Statements

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



Lawrence Kipchumba Yego - **Chairman**



Eng. Joseph Njoroge



Laurencia Karimi Njagi



Ben Kipsang Chumo



Ernest Nakenya Nadome



Bernice Mwihaki Wachira



James Nthiooi Ngomeli



Kosgey Chirchir Kolil



David Kipruto Songok



Henry Kyanda
Trust Secretary

Registered office

Retirement Benefits Scheme 2006 Trustees
Stima Plaza
Kolobot Road, Parklands
P O Box 30099 - 00100
Nairobi

Custodians

Kenya Commercial Bank Limited
P O Box 30664 - 00100
Nairobi

Auditors

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

Principal Legal Advisors

Kaplan & Stratton Advocates
P O Box 40111 - 00100
Nairobi

Bankers

Co-operative Bank of Kenya Limited
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
P O Box 72866 - 00100
Nairobi



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



On behalf of the Board of Trustees and on my personal behalf, I welcome you all to this 5th Annual General Meeting of your Scheme. I am sure, by now you have received and reviewed the Chairman's Report, Trustees' Report and the Financial Statements for the year ended 31st December, 2010. I would like to share with you the highlights of the performance and other achievements of the Scheme during the last financial year.

I am pleased to report that the investment markets in the year 2010 were able to make up for concerns and less than impressive performance we had in the previous two years. Enhanced investor confidence and a vibrant equity market created a favourable environment out of which sterling performance was realized. In the face of improved investment markets the scheme made a return of 24% compared to a return of 9.4% achieved in 2009. The Scheme remains committed to delivering superior returns to the members; and this, we once again demonstrate by declaring an interest of 24% on members' accounts up from 7% declared and credited in 2009.

As at the end of the year 2010, the market value of the scheme assets had grown to Kshs. 2.98 billion from a market value of Kshs. 1.85 billion as at the end of 2009. The positive growth of Kshs. 1.13 billion was achieved as a result of the contributions of Kshs. 631 million received from members as well as increased investment income of Kshs. 547 million compared to Kshs. 150.8 million realized in 2009.

Last year, we informed you that the Trustees had finalized the acquisition of real property which would become an important component of our investment portfolio given its potential to provide superior returns. I am happy to inform you that the Trustees are at an advanced stage of planning for construction of a high-end housing estate in Karen which should be completed by the year 2013. We are optimistic that the development will provide the scheme with a source of income during the coming two years as well as provide the required diversification of the investment fund.

Although the investment markets during the year 2010 supported positive performance of the Scheme we project that the years 2011 and 2012 will be vulnerable to volatility as a result of the numerous socio-economic challenges affecting our country coupled by the uncertainties that are usually associated with the general elections that are scheduled for 2012. However, I urge you all to view the Scheme's performance in the context of initiatives that have been put in place by the Board to ensure sustainable growth is realized. The Board adopted a statement of investment principles that has the required in-built flexibility to match any eventualities of volatility in the markets but rigid enough to stand the test of time. In addition, the Board continues to be guided by the Scheme's 5 Year Strategic Plan which gives broad guidelines on investment decision making as well as outlines strategies that would be applied to ensure the Scheme's mission of providing decent benefits for a dignified life in retirement was achieved.

In spite of the projected volatility, the Board of Trustees strongly believes that the investment markets and performance of the Scheme will continue to experience growth in a sustainable manner in the long-term. Last year, I stated that the economic environment is by nature vulnerable and this is likely to be manifested in the next two years. However, I wish to assure members that my Board will endeavour to proactively steer the Scheme through the difficult challenges in the immediate future and deliver to members superior returns in the long run.

During the period under review, the composition of the Board remained largely the same with the exception of the departure of Mr. Petros Kalii who was replaced at the Board by Mr. David Songok as the KETAWU nominated representative. It is our hope that Trustee Songok with his youthful enthusiasm and vigour will bring valuable contributions to the Board.

Lastly, I would like to extend my sincere gratitude to all our stakeholders and especially our Sponsor Kenya Power, our auditors, investment managers, and custodians for their outstanding support for our Scheme. I, in the same breath, wish to pay tribute to my colleagues in the Board for their insightful resourcefulness and to the Secretariat for their relentless efforts in implementing Board policies. The culmination of the effort of the above mentioned, is the impressive investment return realized in the year ended 31st December 2010.



Lawrence Yego
Chairman

The Trustees 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 2006 was established by a Trust Deed and started operations on 1 July 2006. The Scheme was formed for the employees of the Kenya Power & Lighting Company Limited (KPLC) as a result of the closure of the Defined Benefit Scheme as per the recommendations of the actuarial report of 31 December 2005. The main purpose of the scheme is the provision of cash benefits 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 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.

MEMBERSHIP

Employees who were members of the Defined Benefits Scheme as at the commencement date became members on 1 July 2006 and any person employed by the Sponsor on or after the commencement date becomes a member of the scheme and such membership is effected by completion and submission to the Trustees of a form prescribed by the Trustees and becomes effective from the entry date coincident with or next following the date upon which he becomes an Eligible Employee.

PENSION BENEFITS

The Scheme is a defined contributions fund, whereby a member who retires on his normal retirement date or before receives a pension for life of such an amount as shall be then purchased by his Fund Credit according to immediate annuity rates applicable at his/her available at the time of purchase from an insurance company (which is also a registered Insurer) selected by the member or where the pension is secured under the scheme with the consent of the Sponsor, then as determined by the Trustees on the advice of the Actuary. A member who is entitled to a pension under the Scheme rules may however be paid, in lieu of the pension, a lump sum in not exceeding one third of such pension.

CONTRIBUTIONS

The contributions rates are expressed as a percentage of the employees' salary as defined by the Trust Deed and rules. Rates in use for the period were:

Employees	5%
Employer	10%

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 1,128,314,959 (2009-648,964,308) and net assets of the scheme as at 31 December 2010 amounted to Sh 2,983,237,273 (2009 – 1,854,922,314).

INVESTMENT

The Scheme's investments are managed by Co-op Trust Investment Services Limited and Stanbic Investment Management Services (E.A) Limited.

TRUSTEES

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. David Kipruto Songok.

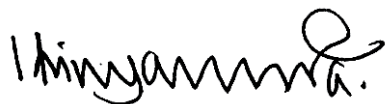
MEMBERSHIP

	2010 No	2009 No
At 1 January	5,551	5,312
Additions	247	355
Deaths in service	(38)	(27)
Withdrawals – completely paid off	(3)	(1)
Retirements	(5)	(88)
At 31 December	5,752	5,551
Active members	5,543	5,376
Deferred members	209	175
At 31 December	5,752	5,551

AUDITORS

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

SIGNED ON BEHALF OF THE TRUSTEES



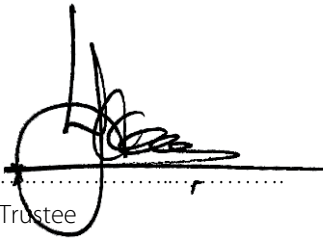
Trust Secretary
28th June 2011

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

28th June 2011

We have audited the accompanying financial statements of Kenya Power and Lighting Company Staff Retirement Benefits Scheme 2006 (Defined Contribution), set out on pages 13 to 30 which comprise the statement of net assets as at 31 December 2010, the statement of changes in net assets and the 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

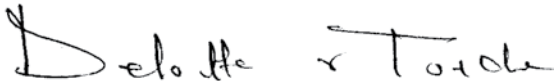
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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



Certified Public Accountants (Kenya)

28th June 2011

Nairobi

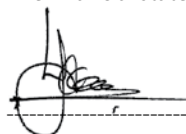
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
CONTRIBUTIONS AND BENEFITS			
Contributions receivable	4	631,514,395	549,198,171
Benefits payable	5	(21,999,307)	(33,380,019)
Net surplus from dealing with members		609,515,088	515,818,152
RETURNS ON INVESTMENTS			
Investment income	6	561,826,945	155,628,458
Investment management expenses	7	(14,660,552)	(4,780,958)
Net returns on investments		547,166,393	150,847,500
ADMINISTRATIVE EXPENSES		(23,007,952)	(13,111,166)
INCREASE IN NET ASSETS FOR THE YEAR BEFORE TAXATION		1,133,673,529	653,554,486
TAXATION CHARGE	9(a)	(5,358,570)	(4,590,178)
INCREASE IN NET ASSETS FOR THE YEAR		1,128,314,959	648,964,308

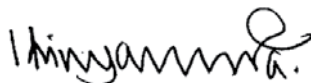
31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
ASSETS			
Investments			
Government securities	10	1,104,057,099	1,100,439,613
Short term deposits	11	215,441,516	30,208,494
Corporate bonds	12	201,515,474	114,633,252
Investment property	13	385,419,468	-
Investment in unquoted equity	14	20,570,000	-
Investment in quoted equity	15	999,302,673	541,155,695
		<u>2,926,306,230</u>	<u>1,786,437,054</u>
Other assets			
Other receivables	20	161,349	102,805
Bank and cash balances		76,652,723	86,049,624
		<u>76,814,072</u>	<u>86,152,429</u>
Total assets		<u>3,003,120,302</u>	<u>1,872,589,483</u>
Liabilities			
Tax payable	9(b)	2,998,442	2,321,190
Benefits payable	16	1,861,086	8,867,649
Other payables and accruals	17	14,898,284	6,070,713
Due to Defined Benefits Scheme	20	125,217	407,617
		<u>19,883,029</u>	<u>17,667,169</u>
NET ASSETS AVAILABLE FOR BENEFITS	19	<u>2,983,237,273</u>	<u>1,854,922,314</u>

The financial statements on pages 13 to 30 were approved by the board of trustees on 28th June 2011 and were signed on its behalf by:



Trustee



Trust Secretary



Trustee

		THE YEAR ENDED 31 DECEMBER 2010	
	Note	2010 Sh	2009 Sh
Cash flows from operating activities			
Contributions received		631,514,395	549,198,171
Benefits paid		(29,005,870)	(39,869,064)
Administrative and management expenses		(28,009,033)	(14,952,606)
Net cash generated from operating activities		574,499,492	494,376,501
Cash flows from investing activities			
Investment income received		255,295,145	179,140,990
Purchase of government securities		(795,007,064)	(620,480,664)
Sale of government securities		741,296,035	123,936,100
Purchase of quoted equity		(239,735,989)	(144,726,843)
Purchase of unquoted equity		(20,570,000)	-
Sale of equity investments		76,999,677	5,072,362
Sale of commercial paper		48,477,000	-
Purchase of corporate bonds		(305,618,094)	(101,790,042)
Sale of corporate bonds		225,780,736	20,330,460
Amount advanced to Defined Benefits Fund		(161,349)	(102,805)
Purchase of investment property		(385,419,468)	-
Net cash used in investing activities		(398,663,371)	(538,620,442)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		175,836,121	(44,243,941)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		116,258,118	160,502,059
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		292,094,239	116,258,118
	18		

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

(a) 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 assets.

Impairment

At the end of each reporting period, the Scheme reviews the carrying amounts of its financial assets, 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 asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Revenue recognition

Contributions are accounted for in the period in which they fall due.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

Benefits payable

Benefits payable are accounted for in the period in which they fall due.

Taxation

Income generated from segregated funds (contributions above the statutory defined limits) is taxed at applicable tax rates. Income generated from non segregated funds (contributions below statutory defined limits) is exempt from tax.

Financial instruments

Financial assets

Financial assets are recognised initially at cost using settlements date accounting. Held to maturity investments are subsequently measured at amortised cost while financial assets held for trading and available for sale are measured at fair value.

Government securities

Government securities comprise treasury bills and treasury bonds, which are debt securities issued by the Government of Kenya. Treasury bills are stated at face value less unearned interest. Treasury bonds are held for trading and are disclosed at cost plus earned interest.

Quoted investments

Investments in quoted stocks and shares are stated at market value and any surplus arising therefrom is transferred to the investment revaluation reserve in accordance with rule 18(b) of the Trust Deed. Investments in foreign currencies are translated at the rates of exchange ruling at the end of each reporting period and any surpluses/deficits arising from the transactions are credited/debited to statement of changes in net assets.

Unquoted investments

Unquoted investments are measured at cost less any impairment as the fair value cannot be reliably determined.

Corporate bonds

Corporate bonds are held for trading and are stated at their fair value at the end of the reporting period.

Commercial paper

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

Financial liabilities

Financial liabilities are recognized 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.

Comparatives

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

2. 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 written principles for overall risk management, as well as written 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 has no foreign currency investments or balances denominated in foreign currency. Hence this risk does not apply to the scheme.

(ii) Price risk

The scheme is exposed to equity securities price risk because of investments in quoted shares classified as held for trading. 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. For equities, the scheme has invested in companies in different sectors of the economy, while for debt securities, the scheme has invested in bonds of varying maturities. Diversification of the portfolio is done in accordance with investment policies approved by the trustees. All quoted shares held by the scheme are traded on the Nairobi Stock Exchange (NSE).

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	49,965,134	27,057,785
	5% Depreciation	(49,965,134)	(27,057,785)
Effect on Scheme balance	5% Appreciation	49,965,134	27,057,785
	5% Depreciation	(49,965,134)	(27,057,785)

2. FINANCIAL RISK MANAGEMENT (Continued)**(iii) Interest rate risk**

The Scheme's interest bearing assets are investments in treasury bonds, corporate bonds, 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.

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	1,104,057,099	1,100,439,613
Short term deposits	215,441,516	30,208,494
Corporate bonds	201,515,474	114,633,252
Cash and bank balances	76,652,723	86,049,624
Due from Defined Benefits Scheme	161,349	102,805
	<hr/>	<hr/>
	1,597,828,161	1,331,433,788

None of the above financial assets are past due or impaired.

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 that will be settled on a net basis as at the end of the reporting period. 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.

2. FINANCIAL RISK MANAGEMENT (Continued)

Liabilities	2010 Sh	2009 Sh
Benefits payable	1,861,086	8,867,649
Other payables	14,898,284	6,070,713
	<hr/>	<hr/>
	16,759,370	14,938,362

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

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'000
31 December 2010				
Investment in quoted shares-at fair value through profit or loss	999,302,673	-	-	999,302,673
Treasury bonds –available for sale	1,104,057,099	-	-	1,104,057,099
	2,103,359,772			2,103,359,772
31 December 2009				
Investment in quoted shares-at fair value through profit or loss	541,155,695	-	-	541,155,695
Treasury bonds –available for sale	1,100,439,613	-	-	1,100,439,613
	1,641,595,308	-	-	1,641,595,308

3. 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 bank 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 income statement whenever the carrying amount of the asset exceeds its recoverable amount.

	2010 Sh	2009 Sh
4. CONTRIBUTIONS RECEIVABLE		
Employer	421,009,597	366,132,114
Employees	210,504,798	183,066,05
	631,514,395	549,198,171
5. BENEFITS EXPENSE		
Withdrawals	21,999,307	33,380,019
6. INVESTMENT INCOME		
Interest on short term deposits	7,334,934	7,210,233
Interest on treasury bonds – held for trading	186,830,433	140,666,476
Commercial paper discount – held for trading	-	-
Interest on corporate bonds – held for trading	42,201,497	17,388,078
Commission on treasury bonds	40,109	407,233
Gain/(loss) on fair value of quoted equity (note 15)	268,108,713	(27,563,066)
Gain on sale of quoted equity (note 15)	27,301,953	1,074,862
Dividends	30,009,306	16,444,642
	561,826,945	155,628,458
7. INVESTMENT MANAGEMENT EXPENSES		
Investment managers fees	11,623,352	3,031,652
Custodial fees	3,037,200	1,749,306
	14,660,552	4,780,958

	2010 Sh	2009 Sh
8. ADMINISTRATIVE EXPENSES		
Administrative charges	9,590,167	4,289,600
Trustees' sitting allowances	1,683,676	1,365,735
Audit fees	300,000	233,508
Professional fees	1,690,073	1,353,400
Stationery	181,250	301,600
Bank charges	35,093	114,168
AGM expenses	1,279,380	939,610
Members education	2,430,662	510,460
Training expenses	2,029,168	1,056,085
RBA Levy	3,788,483	2,950,000
	23,007,952	13,111,166

9. TAXATION**(a) Taxation charge**

Net investment income on unregistered portion of the fund	11,688,156	5,381,691
Tax at 30%	3,506,447	1,614,507
Prior years over provision	(508,005)	-
Add: withholding tax paid on investments	2,360,128	2,975,671
	5,358,570	4,590,178

Contributions received by the Scheme up to a limit of Sh 20,000 per employee per month are invested in a registered fund, which is exempt from taxation. The remainder of the contributions is invested in an unregistered fund whose investment income is taxed at the corporate tax rate of 30%.

	2010 Sh	2009 Sh
(b) Movement in Taxation		
At 1 January	2,321,190	706,683
Charge for the year (Note 9(a))	5,358,570	4,590,178
Tax paid	(4,681,318)	(2,975,671)
	2,998,442	2,321,190

10. GOVERNMENT SECURITIES

Treasury Bonds-Available for sale	1,104,057,099	1,090,865,228
Treasury Bills –Held to maturity	-	9,574,385
	1,104,057,099	1,100,439,613

The weighted average interest rate realised on the investment in treasury bonds during the year was 16.9% (2010 – 11.40%)

11. SHORT TERM DEPOSITS

	Maturity date	Interest rate	2010 Sh	2009 Sh
Housing Finance Company of Kenya Ltd	1 April 2011	10.30%	-	9,000,000
Housing Finance Company of Kenya Ltd	On call	9.25%	-	15,114,575
National Industrial Credit Bank Ltd	On call	7.00%	-	6,000,000
Co-operative Bank of Kenya Ltd	On Call	8.25%	-	-
National Industrial Credit Bank Ltd	13 Jan 2010	10.00%	-	-
National Industrial Credit Bank Ltd	13 Jan 2010	10.50%	-	-
Commercial Bank of Africa Ltd	On call	1.5%	20,000,000	-
Commercial Bank of Africa Ltd	31-Jan-2011	2.0%	55,000,000	-
Commercial Bank of Africa Ltd	20-Jan-2011	3.5%	70,000,000	-
Co-operative Bank Ltd	19-Jan-2011	1.75%	11,000,000	-
Co-operative Bank Ltd	On call	1.5%	1,000,000	-
Diamond Trust Bank Ltd	On all	1.5%	10,000,000	-
Diamond Trust Bank Ltd	On call	2.0%	4,800,000	-
Equity Bank Bank Ltd	On call	1.0%	8,100,000	-
National Industrial Credit Bank Ltd	On cal	1.5%	4,000,000	-
National Industrial Credit Bank Ltd	On all	3.5%	2,025,857	-
Housing Finance Company of Kenya Ltd	1-March-11	5.0%	29,180,219	-
Add: Accrued Interest		335,440	93,919	
			215,441,516	30,208,494

12. CORPORATE BONDS

Held for trading:

At fair value:

Athi River Mining			Maturity date	Interest rate
	20-April-15	12.00%	21,491,538	-
Barclays Bank of Kenya Ltd	13-Jul-15	11.50%	8,013,741	4,007,784
Barclays Bank of Kenya Ltd	19-Nov-14	8.55%	5,045,053	-
Sasini Tea and Coffee Ltd	3-Dec-12	11.75%	-	10,163,034
PTA Bank	31-Oct-14	8.91%	-	-
Mabati Rolling Mills Ltd	27-Oct-16	13.00%	5,117,693	-
Mabati Rolling Mills Ltd	27-Oct-16	10.19%	5,077,751	-
Barclays Bank of Kenya Ltd	19-Nov-14	7.89%	-	2,523,781
Barclays Bank of Kenya Ltd	14-Jul-15	11.50%	-	3,895,781
Barclays Bank of Kenya Ltd	19-Nov-14	8.55%	-	2,524,584
Kenya Electricity Generating Company Ltd	31-Oct-19	12.50%	-	60,614,675
Mabati Rolling Mills Ltd	27-Oct-16	10.19%	-	2,546,065
Mabati Rolling Mills Ltd	27-Oct-16	13.00%	-	5,116,802
Mabati Rolling Mills Ltd	27-Oct-16	10.22%	-	2,545,478
PTA Bank	31-Oct-14	9.47%	4,057,940	2,537,391
PTA Bank	31-Oct-14	9.47%	-	2,539,545
Standard Chartered Bank Ltd	27-Oct-14	12.25%	-	4,079,206
Shelter Afrique Ltd	31-Aug-12	11.00%	11,533,792	11,539,126
Safaricom Fxd	3-Nov-11	12.25%	26,769,027	-
Safaricom Fxd1	14-Dec-15	7.75%	15,035,034	-
Housing Finance	2-Oct-17	8.5%	30,565,890	-
Kengen Infrastructure Bond	31-Oct-1		68,808,014	-
			201,515,474	114,633,252

13 INVESTMENT PROPERTY

	2010 Sh	2009 Sh
1 January	-	-
Additions	385,419,468	-
31 December	385,419,468	-

Investment properties comprise leasehold land LR 124311 at Karen acquired during the year.

The property is carried at cost plus acquisition related costs which is deemed the market value as the directors believe that there is no significant change in market value as at 31 December 2010 from the purchase date.

14 INVESTMENT IN UNQUOTED EQUITY

-At Cost		
1 January	-	-
Additions	20,570,000	-
	20,570,000	-

Investment in unquoted equity relates to the purchase of 22 shares in Investment in I&M Bank Limited at Sh 935 per unit.

INVESTMENTS IN QUOTED EQUITY - at fair value.

As at 01.01.2010	Additions	Disposals	As at 31.12.2010	Company	As at 01.01.2010 Sh	Additions Sh	Disposals Sh	Gain/ (loss) on disposal Sh	Net gain/(loss) on revaluation Sh	As at 31.12.2010 Sh
275,100	-	(275,100)	-	Acces KenyaLtd	5,570,775	-	(4,508,817)	(1,061,958)	-	-
-	37,900	-	37,900	Athi river MiningLtd	-	4,739,868	-	-	2,195,832	6,935,700
151,900	304,700	(40,000)	418,300	Bamburi Cement Ltd	23,696,400	58,694,806	(7,742,784)	1,502,784	2,070,894	78,222,100
895,000	-	-	895,000	Barclays Bank of Kenya Ltd	40,275,000	-	-	-	15,662,500	55,937,500
90,700	80,000	-	170,700	British American Tobacco Ltd	16,144,600	15,578,526	-	-	14,365,874	46,089,000
450,000	-	-	495,000	Centum Investments Ltd	5,062,500	-	-	-	6,322,500	11,385,000
160,000	-	-	160,000	CMC Motors Ltd	1,816,000	-	-	-	144,000	1,960,000
12,054,200	-	(2,000,000)	10,054,200	Co-operativeBank of Kenya Ltd	107,885,090	-	(19,557,407)	1,657,407	101,044,710	191,029,800
90,000	-	-	90,000	Diamond Trust Bank Ltd	6,300,000	-	-	-	5,850,000	12,150,000
765,900	66,600	-	832,500	East African Breweries Ltd	111,055,500	10,788,149	-	-	45,488,851	167,332,500
60,000	-	-	60,000	East African cables Ltd	1,215,000	-	-	-	(240,000)	975,000
5,000	-	-	5,000	East African Portland Ltd	400,000	-	-	-	-	400,000
999,000	1,500,000	(799,500)	1,699,500	Equity Bank Ltd	14,335,650	28,802,782	(13,541,521)	2,068,696	13,796,018	45,461,625
100,000	-	(50,000)	50,000	Kenya Airways Ltd	3,575,000	-	(3,209,700)	1,422,200	512,500	2,300,000
3,039,444	3,792,588	-	6,870,320	Kenya Commercial Bank Ltd	62,308,602	69,530,430	-	-	17,590,428	149,429,460
506,500	-	-	506,500	Kenya Electricity Generating Company Ltd	6,533,850	-	-	-	2,076,650	8,610,500
214,800	80,000	-	2,948,000	Kenya Oil Company Ltd	10,740,000	8,099,200	-	-	10,640,800	29,480,000
164,800	447,800	(40,800)	4,135,582	Kenya Power & Lighting CompanyLtd	23,072,000	16,704,744	(27,326,060)	21,614,060	(5,098,228)	28,966,516
114,846	-	(86,720)	28,127	Kenya Reinsurance CorporationLtd	1,343,698	-	(1,113,388)	98,764	(18,270)	310,804
240,000	-	-	264,000	National Industrial Credit BankLtd	7,500,000	-	-	-	4,644,000	12,144,000
176,100	17,610*	-	193,710	Nation Media Group Ltd	20,779,800	-	-	-	11,569,770	32,349,570
9,850,600	2,000,000	-	11,850,600	Safaricom Ltd	44,820,230	10,731,440	-	-	146,150	55,697,820
-	4,700	-	4,700	Scangroup Ltd	-	135,614	-	-	153,436	289,050
166,000	73,716	-	239,716	Standard Chartered Bank of Kenya Ltd	26,726,000	15,930,430	-	-	19,190,298	61,846,728
					541,155,695	239,735,989	-76,999,677	27,301,953	268,108,713	999,302,673

* During the year, the fund received bonus shares from Nation Media Group at 1 share for each 10 shares held.

	2010 Sh	2009 Sh
16 BENEFITS PAYABLE		
Withdrawals payable	1,861,086	2,439,747
Death claims payable	-	6,427,902
	1,861,086	8,867,649
17 OTHER PAYABLES AND ACCRUALS		
Audit fees	300,000	233,508
Administrative Charges	736,267	1,334,790
Custodial fees	268,191	171,311
RBA levy	3,780,300	2,950,000
Management fees	7,730,923	1,381,104
Other payables	2,082,603	-
	14,898,284	6,070,713
18 CASH AND CASH EQUIVALENTS		
Bank balances	76,652,723	86,049,624
Short term deposits	215,441,516	30,208,494
	292,094,239	116,258,118

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.

19 SCHEME BALANCE

	Registered scheme Sh	Unregistered scheme Sh	Total Sh
At 1 January 2009	1,171,998,307	33,959,699	1,205,958,006
Net increase in net assets for the year	626,281,920	22,682,388	648,964,308
At 31 December 2009	1,798,280,227	56,642,087	1,854,922,314
At 1 January 2010	1,798,280,227	56,642,087	1,854,922,314
Net increase in net assets for the year	1,079,009,670	49,305,289	1,128,314,959
At 31 December 2010	2,877,289,897	105,947,376	2,983,237,273

20 RELATED PARTIES

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

	2010 Sh	2009 Sh
Due from Defined Benefits Scheme	161,349	102,805
Due to Defined Benefits Fund	125,217	407,617

21 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.

22 CONTINGENT LIABILITY

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

23 REGISTRATION

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

24 CURRENCY

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

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