

TELPOSTA PROVIDENT FUND

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS**

30 JUNE 2010

Draft

TELPOSTA PROVIDENT FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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TELPOSTA PROVIDENT FUND

CORPORATE INFORMATION FOR THE YEAR ENDED 30 JUNE 2010

TRUSTEES	Mrs M Nalianya (Chair) - resigned on 22 August 2010 Mrs J Karuku (Chair) - appointed on 24 September 2010 Ms E Rotich - resigned on 1 February 2010 Mr B Okwaro Mr H Katema - reappointed on 10 February 2010 Mr S Shah - appointed on 16 September 2009 Mr M Ghossein - appointed on 16 September 2009 Mr S Mbanya - appointed on 29 April 2010
TRUST SECRETARY	Mr P Rotich
ADMINISTRATORS	TelPosta Pension Scheme Secretariat TelPosta Towers, 13 th floor Kenyatta Avenue P.O. Box 45610 - 00100 Nairobi
FUND MANAGERS	Co-optrust Investment Services Limited Co-operative Bank House Haile Selassie Avenue P. O. Box 48231- 00100 Nairobi Old Mutual Asset Managers (Kenya) Limited Old Mutual Building Upperhill Road P. O. Box 11589 - 00400 Nairobi
CUSTODIANS	Kenya Commercial Bank Limited Piedmont Plaza Ngong Road P.O. Box 30664 - 00100 Nairobi
ACTUARIES	Alexander Forbes Financial Services (E A) Limited 10 th floor, Landmark Plaza P.O. Box 52439 - 00200 Nairobi
INDEPENDENT AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P.O. Box 40092, 00100 Nairobi
LEGAL ADVISERS	Ms Lucy Barno Telkom Kenya Limited P.O. Box 30301 - 00100 Nairobi
REGISTERED OFFICE	TelPosta Towers, 13th Floor Kenyatta Avenue P.O. Box 45610 - 00100 Nairobi

TELPOSTA PROVIDENT FUND

REPORT OF THE TRUSTEES

The Trustees present their report together with the audited financial statements for the year ended 30 June 2010.

ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The Fund was established under a trust deed dated 1 September 2000 (Principal Deed) as a defined contribution plan to provide retirement benefits for the staff of Telkom Kenya Limited and its subsidiaries under the rules of the Fund. The Fund is an exempt approved scheme under the Income Tax Act and is registered with the Retirement Benefits Authority.

The Founder, Telkom Kenya Limited, gave the Fund notice of its intention to discontinue payment of contributions as of 30 November 2007 in accordance with the Principal Deed, upon which date the members of the Fund would cease to accrue any further pension or other benefits under the Fund in respect of their service with the Founder after 30 November 2007. On 20 December 2007, the Founder and the Trustees amended the Principal Deed and existing rules of the Fund and adopted the amended deed with effect from 1 December 2007 (the Deed of Amendment).

All contributing members were invited to take up membership of and transfer their accrued benefits to the Alexander Forbes Retirement Fund, a registered umbrella retirement benefits scheme in which the Founder resolved to participate in with effect from 1 December 2007.

PRINCIPAL ACTIVITY

The principal activity of the Fund is the provision of pensions and other ancillary benefits to members upon their retirement at a specified age and relief to the dependants of deceased members as defined in the Trust Deed and Rules. The Fund currently operates as a closed retirement benefit scheme.

REGISTRATION

The Fund is registered in Kenya under the Kenyan Retirement Benefits Act (RBA). The registration number of the scheme is RBA/SC/INTI/000453.

MEMBERSHIP

	2010 No.	2009 No.
At start of the year	4,176	4,375
Leavers on account of :		
-Death in deferment	(32)	(23)
-Medical grounds	(69)	(34)
-Deferred maturities	(240)	(142)
	<hr/>	<hr/>
At end of the year	3,835	4,176
	<hr/>	<hr/>

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 9 shows an increase in the net assets of the Fund for the year of Sh 187,874,000 (2009 : decrease of Sh 320,837,000) and the statement of net assets available for benefits on page 10 shows the Fund's net assets at Sh 229,248,000 (2009: Sh 41,374,000).

TELPOSTA PROVIDENT FUND

REPORT OF THE TRUSTEES (Continued)

ACTUARIAL VALUATION

The last actuarial valuation was carried out as at 30 June 2009 by Alexander Forbes Financial Services (East Africa) Limited, an independent firm of actuaries and a report issued on 10 July 2010, using the projected unit method at an interest rate of 3% p.a. According to the valuation at that date, the actuarial present value of promised retirement benefits were:

	Sh'000
Actuarial value of accrued (past service) liabilities	1,049,300
Actuarial value of fund assets	982,000
	<hr/>
Actuarial deficit	67,300
	<hr/> <hr/>
Level of funding	93.15%
	<hr/> <hr/>

The fair value of the net assets available for benefits excluding any allowance for outstanding contributions was Sh 982 million resulting in a deficit of Sh 67.3 million. The next full actuarial valuation is due on 30 June 2012 in accordance with the requirements of the Retirement Benefits Act (RBA).

INVESTMENT OF FUNDS

Under the terms of their appointment, Old Mutual Asset Managers (Kenya) Limited and Co-optrust Investment Services Limited are responsible for the investment of funds. The overall responsibility for investment and performance lies with the Trustees. The Fund's investment managers are guided by an Investment Policy.

Any interest generated is credited to individual fund members' accounts on an annual basis.

The make up of the investments as at the year end date is summarised below:

	2010 Sh'000	2010 %	2009 Sh'000	2009 %	RBA limits %
Equities	435,192	38	464,659	46	70
Treasury bonds	494,695	42	395,543	39	70
Offshore investments	55,419	5	44,563	4	10
Fixed deposits	100,826	9	42,401	4	30
Corporate bonds	72,216	6	69,488	7	15
	<hr/>		<hr/>	<hr/>	
	1,158,348	100	1,016,654	100	
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	

All the investments are within the statutory limits set by Retirement Benefits Authority.

TELPOSTA PROVIDENT FUND

REPORT OF THE TRUSTEES (Continued)

TRUSTEES

The trustees are appointed in accordance with Retirement Benefits Act and the Fund's trust deed and rules. The names of the trustees who served during the year and subsequent period to the date of the report are shown on page 2.

AUDITORS

Deloitte & Touche having expressed their willingness continue in office as auditors.

SIGNED ON BEHALF OF THE TRUSTEES

Chairman
Board of Trustees

2010

Nairobi

TELPOSTA PROVIDENT FUND

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Kenyan Retirement Benefits Act requires the trustees to prepare financial statements for each financial year which give a true and fair view of the Fund's financial affairs as at the end of the financial year and of the operating results of the Fund for that year. It also requires the trustees to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

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. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 requirements of the Kenyan Retirement Benefits Act. The trustees are of the opinion that the financial statements give a true and fair view of the financial affairs of the Fund 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 the best of their knowledge and belief the information furnished to the auditors for the purposes of the audit was correct and complete in every respect.

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

.....
Trustee

.....
Trustee

2010

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TELPOSTA PROVIDENT FUND

We have audited the accompanying financial statements of Telposta Provident Fund, set out on pages 9 to 22 which comprise the statement of net assets available for benefits as at 30 June 2010, and the statement of changes in net assets available for benefits 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. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Fund'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 Fund'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 qualified audit opinion.

Basis of qualified opinion

Limitation of scope

The benefits payables balance of Sh 819,454,000 (2009 : Sh 906,343,000) reflected in the statement of net assets available for benefits on page 10 includes an estimated accrual of Sh 36 million (2009 : Sh 38 million) in respect of benefits payable to 87 members (2009 : 101 members). We were unable to ascertain the accuracy of the data used to compute this accrual because of unavailability of the relevant employees' files. There were no other satisfactory procedures that we could adopt for this purpose.

**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF TELPOSTA PROVIDENT FUND (Continued)**

Qualified opinion

In our opinion, except for the effects of any adjustments that might have determined to be necessary had we been able to satisfy ourselves on the matter referred to in the preceding paragraph, the financial statements give a true and fair view of the Fund's financial transactions for the year ended 30 June 2010 and of the disposition at that date of its assets and liabilities, other than liability to pay pensions and benefits falling due after the end of the Fund year in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act.

Certified Public Accountants (Kenya)

2010

Nairobi

Draft

TELPOSTA PROVIDENT FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 Sh'000	2009 Sh'000
BENEFITS			
Pensions payable		(8,832)	(18,372)
NET DEFICIT FROM DEALING WITH MEMBERS			
		(8,832)	(18,372)
RETURNS ON INVESTMENTS			
Investment income	3	57,663	63,226
Dividend income		20,072	33,325
Gain on disposal of equity investments		12,822	13,799
Change in fair value of quoted equities	4	86,694	(378,151)
Change in fair value of treasury bonds	5	60,318	(16,876)
Change in fair value of offshore investment	6	10,856	(7,967)
Interest payable to deferred provident members' account	7	(34,398)	-
Funds transferred to TelPosta Pension Scheme	8	(8,000)	-
Investment management expenses	11	(5,529)	(6,859)
		200,498	(299,503)
ADMINISTRATIVE EXPENSES			
	12	(3,792)	(2,962)
INCREASE/(DECREASE) IN NET ASSETS FOR THE YEAR			
	14	187,874	(320,837)

TELPOSTA PROVIDENT FUND

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
30 JUNE 2010

	Notes	2010 Sh'000	2009 Sh'000
INVESTMENTS			
Equities	4	435,192	464,659
Treasury bonds	5	494,695	395,543
Offshore investments	6	55,419	44,563
Fixed deposits	9	100,826	42,401
Corporate bonds	10	72,216	69,488
		<hr/>	<hr/>
		1,158,348	1,016,654
		<hr/>	<hr/>
CURRENT ASSETS			
Cash at bank		4,801	15,290
Dividends receivable		1,793	4,802
		<hr/>	<hr/>
		6,594	20,092
		<hr/>	<hr/>
CURRENT LIABILITIES			
Transfers payable to Alexander Forbes Retirement Fund	15	41,086	49,210
Unpaid benefits		819,454	906,344
Due to members with unknown employment status	16	33,209	33,209
Interest payable to deferred provident members account	7	34,398	-
Other payables	17	7,547	6,609
		<hr/>	<hr/>
		935,694	995,372
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(929,100)	(975,280)
		<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS		229,248	41,374
		<hr/>	<hr/>
REPRESENTED BY:		=====	=====
FUND BALANCE	14	229,248	41,374
		<hr/>	<hr/>

The financial statements on pages 9 to 22 were approved by the trustees on
and were signed on their behalf by:

2010

) Trustee

) Trustee

TELPOSTA PROVIDENT FUND

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 Sh'000	2009 Sh'000
Cash flow from operating activities			
Benefits paid		(96,686)	(85,008)
Administrative expenses paid		(903)	(5,029)
Transfer of surplus funds to TelPosta Pension Scheme		(8,000)	-
Transfer of funds to Alexander Forbes Retirement Fund		(8,124)	
		<hr/>	<hr/>
Net cash used in operating activities		(113,713)	(90,037)
		<hr/>	<hr/>
Cash flow from investing activities			
Investment income received		65,837	74,761
Investment managers' expenses paid		(6,152)	(13,806)
Purchase of investments		(191,766)	(301,712)
Proceeds of sale of investments		284,900	302,820
		<hr/>	<hr/>
Net cash generated from investing activities		152,819	62,063
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		39,105	(27,974)
Cash and cash equivalents at beginning of the year		70,822	98,796
		<hr/>	<hr/>
Cash and cash equivalents at end of the year	13	109,927	70,822
		<hr/> <hr/>	<hr/> <hr/>

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1 ACCOUNTING POLICIES

Statement of compliance

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

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) Standards and interpretations effective in the current period

The following revised standard was effective for the current period:

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position of the Fund.

Other new standards and interpretations effective in the period under review have no effect on the Fund'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 are still assessing the new and revised standards and interpretations that are likely to have an impact on the financial statements of the Fund.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of financial instruments.

Taxation

The Scheme is a registered pension scheme and is, therefore, exempt from tax under the Kenyan Income Tax Act.

Transfers

Transfers are recognised in the period in which members join from other Funds or leave for other Funds. The values are based on methods and assumptions determined by Actuaries.

Contributions income

The fund is closed and receives no new contributions.

Benefits payable

Pension and other benefits are recognized in the period in which they fall due.

Interest income

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

Dividend income

Dividend income from investments is recognised when the Funds' rights to receive payment as a shareholder have been established.

Cash and cash equivalents

Cash and cash equivalents comprise balances with maturities of less than 91 days from the date of acquisition and include cash balances held at banks, fixed deposits and government securities.

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at rates of exchange ruling at the balance sheet date. Transactions during the year which are expressed in foreign currencies are translated at rates ruling on the dates of the transactions. The resulting exchange differences are dealt with in the statement of changes in net assets available for benefits.

Comparatives

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

Investment

Investments are carried at fair value. The fair value of marketable securities is the market value. Securities that have fixed redemption value are carried at those amounts assuming constant rates of return to maturity.

Fair value

For financial instruments traded in an organised financial market, fair value is determined by reference to quoted market prices. For unquoted equity investments fair value is determined by reference to the market value of similar investment in the market where applicable.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE FUND'S ACCOUNTING POLICIES

In the process of applying the Fund's accounting policies, the trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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:

Impairment losses on financial assets

At the end of each reporting period, the Fund 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 available for benefits whenever the carrying amount of the asset exceeds its recoverable amount.

Depreciation

Critical estimates are made by the trustees in determining depreciation rates for equipment. Depreciation is computed on the straight line basis over the estimated useful lives of the assets.

3 INVESTMENT INCOME

	2010 Sh'000	2009 Sh'000
Corporate bonds	27,870	35,191
Treasury bonds	27,686	27,134
Fixed deposits	2,107	901
	<hr/>	<hr/>
	57,663	63,226
	=====	=====

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 EQUITIES

Company	Market value 1-Jul-08 Sh'000	Cost of additions Sh'000	Cost of disposals Sh'000	Market gain/(loss) Sh'000	Market value 1-Jul-09 Sh'000	Cost of additions Sh'000	Cost of Disposals Sh'000	Sales proceeds Sh'000	Gain on Disposal Sh'000	Price at 30-Jun-10	Market gain/(loss) Sh'000	Market Value 30-Jun-10 Sh'000
Access Kenya Limited	-	4,602	-	448	5,050	544	-	-	-	20.25	(494)	4,556
Athi River Mining Limited	78	-	-	(5)	73	-	-	-	-	140.00	33	106
Bamburi Cement Limited	62,314	-	7,170	(15,333)	39,811	-	18,458	20,819	2,361	200.00	8,099	29,452
Barclay Bank Limited	76,082	-	3,719	(36,108)	36,255	-	10,934	10,416	(518)	61.50	2,992	28,313
BOC Kenya Limited	4,640	-	-	-	4,640	-	544	501	(43)	135.00	(640)	3,456
British American Tobacco Limited	21,869	-	5,400	(17)	16,452	-	1,238	1,291	53	215.00	3,803	19,017
Centum Investment Company Limited	-	-	2,637	12,933	10,296	-	5,277	4,384	(893)	22.25	1,938	6,957
CFC Stanbic Bank Limited	2,340	-	989	(819)	532	-	-	-	-	74.00	60	592
CMC Holdings Limited	12,770	-	744	(4,536)	7,490	-	808	723	(85)	12.70	(103)	6,579
Deacon Kenya Limited	5,000	-	-	-	5,000	-	-	-	-	30.00	-	5,000
Diamond Trust Bank Limited	5,730	-	2,805	(1,445)	1,480	-	-	-	-	89.50	310	1,790
East Africa Breweries Limited	177,116	-	19,273	(87,038)	70,805	-	22,905	23,713	808	181.00	9,899	57,799
East Africa Cables Limited	8,217	-	2,780	(2,942)	2,495	-	-	-	-	20.25	(411)	2,084
East Africa Portland Cement Limited	4,025	-	1,494	(1,152)	1,379	-	679	767	88	115.00	450	1,150
Equity Bank Limited	41,875	-	1,218	(18,657)	22,000	-	5,800	6,289	489	24.00	7,800	24,000
Eveready East Africa LtdS	70	-	115	45	-	-	-	-	-	-	-	-
Industrial Commercial and Development Co.	20,789	-	40	(20,749)	-	-	-	-	-	-	-	-
Kenya Airways Limited	36,298	-	11,523	(16,012)	8,763	-	1,570	3,269	1,699	46.75	6,819	14,012
Kenya Commercial Bank Limited	131,885	6,583	28,468	(46,458)	63,542	-	15,532	15,426	(106)	18.60	(8,322)	39,688
Kenya Electricity Generating Company Limited	39,153	-	6,850	(14,871)	17,432	-	377	402	25	17.10	2,989	20,044
Kenya Oil Company Limited	23,968	-	6,600	(7,210)	10,158	-	-	-	-	9.15	(3,050)	7,108
Kenya Power and Lighting Company Limited	30,672	-	10,312	(8,972)	11,388	-	920	1,244	324	200.00	3,872	14,340
Kenya Reinsurance Corporation Limited	10,137	-	4,569	(2,750)	2,818	-	2,817	2,783	(34)	22.25	(1)	-
Mumias Sugar Company Limited	43,676	-	10,668	(24,926)	8,082	-	4,390	7,834	3,444	12.85	4,216	7,908
Nation Media Group Limited	40,327	-	6,336	(15,064)	18,927	-	5,386	4,740	(646)	140.00	-90	13,452
NIC Bank Limited	27,150	-	4,273	(9,331)	13,546	-	-	-	-	39.50	241	13,787
Safaricom Limited	167,249	6,187	85,092	(31,141)	57,203	-	14,462	19,757	5,295	5.80	33,535	76,277
Scan Group Limited	2,384	-	1,395	(984)	5	-	-	-	-	39.75	4	9
Stanbic Bank Uganda Limited	2,172	-	-	(860)	1,312	-	-	-	-	7.88	414	1,706
Standard Chartered Bank Limited	53,454	-	3,899	(23,413)	26,143	-	4,046	4,607	561	222.00	11,968	34,065
Total Kenya	1,547	-	874	9	682	-	-	-	-	28.50	(55)	627
TPS Eastern Africa Limited	8,265	-	6,407	(958)	900	-	-	-	-	56.50	418	1,318
Unilever Kenya Ltd	523	-	1,168	645	-	-	-	-	-	-	-	-
Williamson Tea Kenya Ltd	480	-	-	(480)	-	-	-	-	-	-	-	-
	1,062,255	17,372	236,818	(378,151)	464,659	544	116,143	128,965	12,822		86,694	435,192

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 TREASURY BONDS

	2010 Sh'000	2009 Sh'000
At fair values:		
Government treasury bonds - at cost	434,377	412,419
Fair value adjustment	60,318	(16,876)
	<u>494,695</u>	<u>395,543</u>
Government treasury bonds – at market value	=====	=====
The maturity dates for government treasury bonds at fair value are:		
Maturing within 1 year	14,300	94,605
Maturing after 1 year but within 5 years	356,964	261,610
Maturing after 5 years	123,431	39,328
	<u>494,695</u>	<u>395,543</u>
	=====	=====

The weighted average effective interest rate on treasury bonds during the year was 11.2% p.a. (2009 – 10% p.a.).

6 OFF - SHORE INVESTMENTS

	2010 Sh'000	2009 Sh'000
At fair values:		
At 1 July	44,563	52,530
Unrealised gain/(loss) during the year	10,856	(7,967)
	<u>55,419</u>	<u>44,563</u>
At 30 June	=====	=====

7 INTEREST PAYABLE TO DEFERRED PROVIDENT MEMBERS' ACCOUNT

This amount relates to interest credited to deferred members' accounts at a rate of 5% per annum on their deferred amount as at the end of the year. An interest rate of 7.5% was also applied to members' accounts that matured in the financial year 2010.

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 FUNDS TRANSFERRED TO TELPOSTA PENSION SCHEME

On creation of the TelPosta Provident Fund on 1 July 1999, individual membership records, which are required to calculate the benefits due to each member on secession, were not available since adequate records had not been maintained by the predecessor provident fund prior to 1 July 1999. It was not possible to determine the balances attributable to individual members hence the Fund's Actuary prepared estimates of the accumulated member contributions to 30 June 1999. Assets were later transferred from the TelPosta Pension Scheme to the Fund based on the estimate reported in the Actuarial report since no assets had been vested in the Fund at inception.

An actuarial valuation of the Fund was performed by the Fund's Actuary as at 30 June 2007 and it was established that surplus funds had been transferred to the Fund from TelPosta Pension Scheme at the point of establishing the Fund. Based on the Fund Actuary's estimation as at 30 June 2007, the Trustees transferred Sh 8,000,000 to the TelPosta Scheme.

9 FIXED DEPOSITS

At fair values:

Maturing within 90 days of the balance sheet date	99,324	42,000
Accrued interest	1,502	401
	100,826	42,401
	100,826	42,401

The weighted average effective interest rate realized on fixed deposits during the year was 8.9% p.a. (2009 – 7% p.a.).

10 CORPORATE BONDS

Designated fair value through profit and loss:

	Maturity date	Interest rate 2010	Interest rate 2009	2010 Sh'000	2009 Sh'000
Barclays Bank Ltd	19/11/2014	5.1%	8.1%	31,017	30,288
Faulu Kenya Ltd	29/03/2010	-	9.0%	-	2,500
Sasini Ltd	03/12/2012	11.8%	11.8%	7,206	8,203
PTA Bank Ltd	31/10/2014	6.0%	8.3%	18,017	20,278
Barclays Bank Ltd	19/11/2014	-	8.0%	-	3,040
PTA Bank Ltd	31/10/2014	-	8.8%	-	3,044
Mabati Rolling Mills Ltd	03/12/2012	-	11.8%	-	2,135
CFC Stanbic Bank Ltd	14/07/2016	12.5%	-	7,959	-
Athi River Mining Ltd	20/04/2015	12.0%	-	8,017	-
				72,216	69,488
				72,216	69,488

The weighted average effective interest rate on corporate bonds during the year was 7.6% p.a. (2009 – 8% p.a.).

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 INVESTMENT MANAGEMENT EXPENSES

	2010 Sh'000	2009 Sh'000
Fund managers' fees	3,940	4,330
Custodians' fees	1,589	2,033
Other fees	-	496
	<u>5,529</u>	<u>6,859</u>

12 ADMINISTRATIVE EXPENSES

Staff salaries & retirement benefit costs	2,121	1,896
Audit fees	488	408
Actuarial fees	435	180
Bank charges	383	405
Retirement Benefit Authority levy	365	73
	<u>3,792</u>	<u>2,962</u>

The costs of administration and management of the Fund are borne by the Fund in accordance with the Deed of amendment dated 20 December 2007. Previously, the costs were borne by the participating companies.

The Fund does not have employees and it relies on the staff employed by TelPosta Pension Scheme to manage its administrative tasks. The staff costs chargeable to the Fund and the Scheme are apportioned from TelPosta Pension Scheme on the basis of the net assets of the two retirement benefits scheme.

13 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and investments in Treasury bills and bonds maturing within 3 months from the date of acquisition.

	2010 Sh'000	2009 Sh'000
Cash at bank	4,801	15,290
Kenya Government securities	4,300	13,131
Fixed deposits	100,826	42,401
	<u>109,927</u>	<u>70,822</u>

14 FUND BALANCE

At start of year	41,374	362,211
Increase/(decrease) in net assets for the year	187,874	(320,837)
	<u>229,248</u>	<u>41,374</u>

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 TRANSFERS TO ALEXANDER FORBES RETIREMENT FUND

Transfer values represent the amounts payable to the Alexander Forbes Retirement Fund, the new umbrella Fund in which the Founder resolved to participate in with effect from 1 December 2007 in respect of the members who elected to transfer as at 30 November 2007.

	2010 Sh'000	2009 Sh'000
Individual transfers payable	41,086	49,210

16 DUE TO MEMBERS WITH UNKNOWN EMPLOYMENT STATUS

The balances of Shs 33,209,000 (2009: Shs 33,209,000) represents amounts due to members whose names were not in the sponsor's payroll records at year end and who could not be considered to have withdrawn from the Fund as no formal communication to this effect had been received from the Sponsor, Telkom Kenya Limited.

17 OTHER PAYABLES

	2010 Sh'000	2009 Sh'000
Due to TelPosta Pension Scheme	4,567	2,009
Accrued investment expenses	2,097	3,086
Audit fees payable	459	408
Retirement Benefits Authority levy payable	356	74
Pension benefits due but unclaimed	68	1,032
	7,547	6,609

18 FINANCIAL RISK MANAGEMENT

The Fund generates income 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 Fund'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 with the help of the investment managers who operate 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 non-derivative financial instruments and investing excess liquidity. The Fund also follows guidelines issued by the Retirement Benefits Authority in respect of maximum allowed investment in different types of investments.

Market risk

Foreign exchange risk

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

The Fund's currency risk is assessed as low because the Fund has few foreign investments.

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Price risk

The Fund is exposed to equity securities price risk because of investments in quoted shares that are carried at fair values. The Fund 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 Fund diversifies its portfolio. For equities, the Fund has invested in entities operating in different sectors of the economy, while for debt securities the Fund has invested in bonds with varying maturities. Diversification of the portfolio is done in accordance with resolutions passed on investments during Trustees meetings. All quoted shares held by the Fund are traded on the Nairobi Stock Exchange (NSE) and the Uganda Securities Exchange (USE).

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

		2010	2009
		Sh'000	Sh'000
Effect on returns from Investment	5% Appreciation	21,761	23,233
	5% Depreciation	(21,761)	(23,233)
Effect on Fund balance	5% Appreciation	21,761	23,233
	5% Depreciation	(21,761)	(23,233)

Interest rate risk

The Fund's interest bearing assets include investments in treasury bonds, corporate bonds, treasury bills, commercial papers 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 Fund. Fluctuations in interest rates will have an insignificant effect on the Fund's financial performance.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The Fund has adopted a policy of only dealing with credit worthy counterparties.

The credit risk exposures are classified in three categories:

- Fully performing
- Past due
- Impaired

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 managers and the trustees monitor and review information on significant investments.

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

The amount that best represents the fund's maximum exposure to credit risk as at 30 June 2010 is made up as follows:

At 30 June 2010	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000
Equities	435,192	-	-
Treasury bonds	494,695	-	-
Corporate bonds	72,126	-	-
Offshore investments	55,419	-	-
Fixed deposits	100,826	-	-
Bank balance	4,801	-	-
	<u>1,163,149</u>	<u>-</u>	<u>-</u>
	=====	=====	=====
At 30 June 2009			
Equities	464,659	-	-
Treasury bonds	395,543	-	-
Corporate bonds	69,488	-	-
Offshore investments	44,563	-	-
Fixed deposits	42,401	-	-
Bank balance	15,290	-	-
	<u>1,031,944</u>	<u>-</u>	<u>-</u>
	=====	=====	=====

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations from financial liabilities. The ultimate responsibility for the liquidity risk management rests with the Board of Trustees, which has established an appropriate liquidity risk management framework for the management of the Fund's short, medium and long-term funding and liquidity management requirements. The Fund manages liquidity risk by maintaining adequate banking facilities, through continuous monitoring of forecast and actual cash flows.

The Fund is required to make periodic payment in respect of pensions when members retire from the Fund, 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 Fund's liquidity on a regular basis and the Trustees review it on a quarterly basis.

The table below analyses the Fund's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

As at 30 June 2010

	Less than 1 month Shs'000	Between 1 – 3 months Shs'000	Between 3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
Financial liabilities					
Accrued investment expenses	2,098	-	-	-	2,098
Audit fees payable	459	-	-	-	459
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Contractual Maturity	2,557	-	-	-	2,557
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As at 30 June 2009

	Less than 1 month Shs'000	Between 1 – 3 months Shs'000	Between 3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
Financial liabilities					
Accrued investment expenses	3,086	-	-	-	3,086
Audit fees payable	408	-	-	-	408
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Contractual Maturity	3,494	-	-	-	3,494
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19 RELATED PARTIES

Entities related to the TelPosta Pension Fund include those parties who have the ability to exercise control or influence over its financial and operating decisions.

Amounts due to related parties as at 30 June 2009 and transactions with related parties during the year are disclosed below.

	2010 Sh'000	2009 Sh'000
(a) Amount due to related parties:		
TelPosta Pension Scheme	4,567	2,009
	<u> </u>	<u> </u>
(b) Transactions with related parties:		
Expenses paid on behalf of Fund by TelPosta Pension Scheme	2,557	2,076
Funds paid to TelPosta Pension Scheme	8,000	-
	<u> </u>	<u> </u>
	10,557	2,076
	<u> </u>	<u> </u>

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 SELF INVESTMENT

The fund does not hold any investment in its participating companies or any other company or persons connected with those companies (2009: nil).

21 CONTINGENT LIABILITIES

Other than the liability to pay future pensions and any other benefits, there are no significant contingent liabilities of the Fund at year end (2009: nil).

22 TAXATION

The Fund is registered under the Income Tax Act Cap 470 of the Kenyan Laws and its income is exempt from tax.

23 COMMENCEMENT DATE

The fund was established on 1 July 1999.

24 CURRENCY

The financial statements are presented in Kenya Shilling thousands (Sh '000).