

**Deloitte.**

**TELPOSTA PENSION SCHEME**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**30 JUNE 2011**

TELPOST A PENSION SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011

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## TELPOSTA PENSION SCHEME

### CORPORATE INFORMATION

TRUSTEES	Mrs J Karuku (Chair) Mr B Okwaro Mr H Katema Mr S Shah Mr M Ghossein Mr S Mbanya
TRUST SECRETARY	Mr P Rotich
ADMINISTRATORS	TelPosta Pension Scheme Secretariat TelPosta Towers, 13 <sup>th</sup> 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 <sup>th</sup> floor, Landmark Plaza P.O. Box 52439 - 00200 Nairobi
PROPERTY MANAGERS	Lloyd Masika Limited Norfolk Towers . Kijabe Street P.O. Box 45733 - 00100 Nairobi  Regent Management Limited Regent House Upperhill road P.O. Box 79487 - 00200 Nairobi

INDEPENDENT AUDITORS

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

LEGAL ADVISER

Ms Caroline Ndingi  
Telkorn Kenya Limited  
P.O. Box 30301- 00100  
Nairobi

REGISTERED OFFICE

TelPosta Towers, 13<sup>th</sup> floor  
Kenyatta Avenue  
P.O. Box 45610 - 00100  
Nairobi

## TELPOSTA PENSION SCHEME

### REPORT OF THE TRUSTEES

The trustees present their report together with the audited financial statements for the year ended 30 June 2011.

#### ESTABLISHMENT AND ADMINISTRATION

The Scheme was established under a trust deed dated 1 July 1997 (Principal Deed) as a defined benefit scheme to provide retirement benefits for the staff of Telkom Kenya Limited and its subsidiaries under the rules of the Scheme. The Scheme is an exempt approved Scheme under the Income Tax Act and is registered with the Retirement Benefits Authority.

By its letter dated 1 March 2007 the Scheme's Founder, Telkom Kenya Limited, gave the Scheme notice of its intention to discontinue payment of contributions to the Scheme in accordance with the Principal Deed, upon which date the members of the Scheme would cease to accrue any further pension or other benefits under the Scheme in respect of their service with the Founder.

The Scheme is a closed defined benefits Scheme and is administered in-house. Any future deficit in the Scheme arising from actuarial valuations is to be met by the Sponsor through the disbursement of additional funds.

#### PRINCIPAL ACTIVITY

The principal activity of the Scheme 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. Since 1 December 2007 the Scheme has been operating as a closed Retirement Benefit Scheme with no new contributions from members and the Sponsor.

#### REGISTRATION

The Scheme is registered in Kenya under the Kenyan Retirement Benefits Act (RBA). The registration number of the scheme is RBA/SC/INT/000454.

#### MEMBERSHIP

	<b>2011</b>	<b>2010</b>
	No.	No.
a) Total members		
Pensioners	8,021	8,039
Deferred members	2,039	2,866
	---	
	10,060	10,905
b) Pensioners		
- At start of year	8,039	8,000
New members	246	313
Leavers	(264)	(274)
	8,021	8,039
At end of year		-----
c) Deferred members	2,866	3,338
At start of year	(827)	(472)
Leavers during the year		-----
	2,039	2,866
At end of year		

## TELPOST A PENSION SCHEMFE

### REPORT OF THE TRUSTEES (continued)

#### FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 9 shows a decrease in the net assets available for benefits of Sh 23,154,000 (2010: an increase of Sh 1,700,976,000) and the statement of net assets available for benefits on page 10 shows the fund balance of Sh 10,157,012,000 (2010: Sh 10,180,166,000).

#### 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 credit method.

According to the valuation at that date and based on the amended trust deed, the actuarial present value of promised retirement benefits was:

	Shs'OO
Vested benefits in respect of pensioners	0
Non-vested benefits in respect of in-service and deferred members and members with outstanding benefits	7,681,200
Total	3,109,200
	10,790,400

The fair value of the net assets available for benefits, excluding any allowance for outstanding contributions, was Sh 10.6 billion resulting in a deficit of Shs 237 million.

The principal actuarial assumptions used were as follows:

- discount rate	10%
- rate of revaluation of benefits over period of deferment	4%
- future pension increases	3%

The Scheme's policy is to carry out actuarial valuations triennially. The next full actuarial valuation is due on 30 June 2012.

A summary of the results of the actuarial valuation of the Scheme as at 30 June 2009 is presented in note 28 to the financial statements.

#### INVESTMENT OF FUNDS.

Under the terms of their appointment, Old Mutual Asset Managers and Co-optrust Investment Service Limited are responsible for the investment of funds. They are not responsible for the investment in properties, which are separately managed by two independent property management companies, LJyod Masika Limited and Regent Management Limited. The overall responsibility for investment and performance however lies with the Trustees. The Scheme's investment managers are guided by an Investment Policy. The make up of the investments as at the year end is summarised below:

	2011	2011	2010	2010	RBA limits
	Sh'OOO	%	Sh'OOO	%	%
Investment properties	5,121,488	49	4,886,850	45	30
Fixed deposits	125,593	1	1,164,972	11	30
Corporate bonds	462,751	4	641,203	6	15
Treasury bonds	2,690,163	26	2,095,506	19	70
Quoted equities	1,951,503	19	1,895,785	17	70
Commercial paper	138,672	1	248,038	2	15
	10,490,170	100	10,932,354	100	
	=====		=====		

TELPOSTA PENSION SCHEME

REPORT OF THE TRUSTEES (continued)

TRUSTEES

The trustees are appointed in accordance with requirements of the Retirement Benefits Act and the Scheme's trust deed and rules. The current trustees of the Scheme are listed on page 2.

AUDITORS

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

SIGNED ON BEHALF OF THE TRUSTEES

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Chair, Board of Trustees

7 December 2011

Nairobi

# TELPOSTA PENSION SCHEME

## 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 Scheme's financial affairs as at the end of the financial year and of the operating results of the Scheme for that year. 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 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 misstatement, 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 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 state of 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 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 respects.

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.

..... J? .....

Trustee (~ ...

..... 1: .....

Trustee

7 December 2011



## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TELPOST A PENSION SCHEME

We have audited the accompanying financial statements of TelPosta Pension Scheme, set out on pages 9 to 27, which comprise the statement of net assets available for benefits as at 30 June 2011, 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

The trustees are responsible for the preparation of financial statements that give a true and fair view 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 misstatement, whether due to fraud or error.

### Auditors' Responsibility

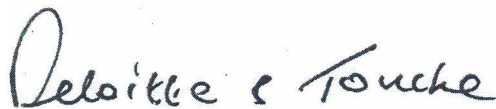
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2011 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 Retirement Benefits Act.



Certified Public Accountants (Kenya)

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Nairobi

2011

TELPOST A PENSION SCHEM

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 Sh'000	2010 Sh'000
<b>BENEFITS</b>			
Pension benefits	3	(919,060)	(789,683)
Transfers	4	(4,249)	
<b>DEFICIT FROM DEALING WITH MEMBERS</b>			
		<u>(923,309)</u>	<u>(789,683)</u>
Funds received from Insurance Company of East Africa	5		99,467
Funds received from TelPosta Provident Fund	6		8,000
			<u>107,467</u>
<b>RETURNS ON INVESTMENTS</b>			
Interest income on local investments	7	476,967	610,298
Dividend income		84,392	64,313
Fair value gains on investment properties	10	321,729	832,408
Gain on disposal of investments in equities		10,114	40,158
Gain on disposal of property held for sale		18,223	93,037
Gain on disposal of fixed assets		600	
Change in fair value of quoted equities	11	123,535	423,101
Change in fair value of treasury bonds	12	(297,991)	205,372
Rental income		276,454	276,337
Other income	15	637	7,108
Investment management expenses	16	(63,787)	(84,767)
		<u>950,873</u>	<u>2,467,365</u>
<b>ADMINISTRATIVE EXPENSES</b>			
	18	(50,718)	(84,173)
<b>(DECREASE)/ INCREASE IN NET ASSETS FOR THE YEAR</b>			
	19	<u><u>(23,154)</u></u>	<u><u>1,700,976</u></u>

TELPOST'A PENSION SCHEME

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS  
AS AT 30 JUNE 2011

	Note	2011 Sh'000	2010 Sh'000
<b>NON-CURRENT ASSETS</b>			
Equipment	8	11,622	2,721
Intangible assets	9	1,029	
		<u>12,651</u>	<u>2,721</u>
<b>INVESTMENTS</b>			
Investment properties	10	5,121,488	4,886,850
Quoted equities	11	1,951,503	1,895,785
Treasury bonds	12	2,690,163	2,095,506
Corporate bonds	13	462,751	641,203
Commercial paper	14	138,672	248,038
Fixed deposits	20	125,593	1,164,972
		<u>10,490,170</u>	<u>10,932,354</u>
<b>CURRENT ASSETS</b>			
Receivables	2	73,671	72,164
Bank balances	1	58,927	103,229
		<u>132,598</u>	<u>175,393</u>
Property held for sale	22	403,012	355,221
		<u>535,610</u>	<u>530,614</u>
<b>CURRENT LIABILITIES</b>			
Unpaid benefits	24	632,464	982,719
Transfers payable	25	72,834	85,304
Other payables	26	176,121	217,500
		<u>881,419</u>	<u>1,285,523</u>
<b>NET CURRENT LIABILITIES</b>		<u>(345,809)</u>	<u>(754,909)</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		<u>10,157,012</u>	<u>10,180,166</u>
<b>REPRESENTED BY:</b>		<u>10,157,012</u>	<u>10,180,166</u>
<b>FUND BALANCE</b>		<u>10,157,012</u>	<u>10,180,166</u>

The financial statements on pages 9 to 27 were approved and authorised for issue by the trustees on 7 December 2011 and were signed on their half by:

 ) Trustee  
)  
) Trustee

TELPOST A PENS FRO» SCHEME  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2011

	Note	201 I Sh'OOO	2010 Sh'OOO
Cash now from operating activities			
Benefits paid		(1,288,599)	(1,099,275)
Administrative expenses paid		(79,677)	(96,405)
Investment management expenses paid		(21,269)	(25,357)
Transfer of funds to Alexander Forbes Retirement Fund		(16,719)	(272,993)
Cash received from Insurance Company of East Africa	5		99,467
Cash received from TelPosta Provident Fund	6		8,000
			-----
Net cash used in dealings with members		(1,406,264)	(1,386,563)
			-----
Cash now from investing activities			
Investment income received		289,962	769,373
Rent income		247,124	298,468
Purchase of treasury bonds		(2,398,491 )	(922,499)
Purchase of equipment	8	(9,670)	(277)
Purchase of intangible assets		(1,029)	
Purchase of quoted equities		(130,690)	(1,643,930)
Purchase of corporate bonds		(724,795)	(260,974)
Placement of fixed deposits		(4,464,056)	(5,092,938)
Proceeds from redemption of fixed deposits		5,564,555	4,603,505
Proceeds from redemption of treasury bonds		1,805,698	3,159,550
Proceeds from disposal of quoted equities		208,622	957,228
Proceeds' from redemption of corporate bonds		262,371	29,390
Proceeds from disposal of assets held for sale		37,525	232,517
Proceeds from disposal of equipment		600	
			-----
Net cash generated from investing activities		687,726	2,129,413
			-----
Net (decrease)! increase in cash and cash equivalents		(718,538)	742,850
Cash and cash equivalents at beginning of the year		1,045,991	303,141
			-----
Cash and cash equivalents at end of the year	23	327,453	1,045,991
		=====	=====

## TELPOST A PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

#### 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) New standards and amendments to published standards effective for the year ended 30 June 2011*

At the date of authorisation of these financial statements, various revised standards and interpretations were issued and effective. These standards and interpretations did not result in changes in the scheme's accounting policies or result in any material impact on the financial statements of the scheme.

###### *(ii) New and amended interpretations in issue but not yet effective in the year ended 30 June 2011*

At the date of authorisation of these financial statements, various revised standards and interpretations were in issue but not yet effective. The adoption of these standards and interpretations when effective will not result in changes in the scheme's accounting policies or result in any 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 2011.

##### Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and 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 Schemes or leave for other Schemes. The values are based on methods and assumptions determined by actuaries.

##### Benefits payable

Pension and other benefits are recognised 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 Scheme's 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.

##### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

## TELPOST A PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### ACCOUNTING POLICIES (Continued)

##### Investment properties

Investment properties comprising land and buildings held to earn rentals and for capital appreciation are carried at market values based on valuations performed by external independent valuers. Property leases held by the Scheme under operating leases are classified as investment property and the fair value model is applied for financial reporting purposes.

##### Equipment

Equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

##### Depreciation

Depreciation on equipment is calculated on the straight line basis at annual rates estimated to write off the carrying values of the assets over their expected useful lives. The annual depreciation rates in use are:

Computers	33.3%
Motor vehicle	25.0%
Furniture and fittings	12.5%
Office equipment	12.5%
Borehole	8.0%

##### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at rates of exchange ruling as at the end of reporting period. Transactions during the year which are expressed in foreign currencies are translated at rates ruling at the dates of the transactions. The resulting exchange differences are dealt with in the statement of changes in net assets available for benefits.

##### Investments

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

##### Comparatives

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, the trustees have 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:

##### *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 available for benefits whenever the carrying amount of the asset exceeds its recoverable amount. The process involves making assumptions that require trustees to make significant judgments.

##### *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.

## TELPOST A PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES (Continued)

##### *Actuarial valuation*

The liability due under the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 27 on actuarial valuation.

##### *Investment property*

Investment properties are carried at fair values which are determined by experts hired by the Scheme based on various assumptions including the average useful life of the properties and changes in discount and inflation rates.

#### 3 BENEFITS PA YABLE

	201 J Sh'OO O	2010 Sh'OO O
Pension payments to retired members		
Commuted pensions	714,872	686,373
Payment on death	185,535 18,653	87,283 16,027
	919,060	789,683

#### 4 TRANSFERS

Individual transfer out to Alexander Forbes Retirement Fund

4,249

The transfer value represents the amounts payable to the new retirement benefit scheme established by the founder, Telkom Kenya Limited. The new Scheme is administered by Alexander Forbes Financial Services (East Africa) Limited in respect of active members who opted to transfer as at 30 November 2007.

#### 5 FUNDS RECEIVED FROM INSURANCE COMPANY OF EAST AFRICA

The receipt of Sh 99,467,000 in the prior year arose from the completion of liquidation of Kenya External Telecommunications Company Limited Pension Scheme by the appointed liquidator, Simba & Simba advocates. The funds had been vested to the Scheme vide legal notice No 154 of 5 November 1999 by the Ministry of Finance. The receipted funds of Sh 99,467,000 were riet of all the liquidation fees but inclusive of the waived retirement benefit levy of Sh 238,000.

#### 6 FUNDS RECEIVED FROM TELPOSTA PROVIDENT FUND

On creation of the TelPosta Provident Fund on I July 1999, individual membership records, which are required for-the purpose of calculating 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 I 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 Provident 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 Pension Scheme.

TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

				2011 Sh'000	2010 Sh'000		
7	INTEREST INCOME ON LOCAL INVESTMENTS						
	Fixed deposits			33,897	49,564		
	Treasury bonds			371,934	522,753		
	Treasury bills				2,825		
	Corporate bonds			63,521	32,738		
	Commercial paper			7,615	2,418		
				<u>476,967</u>	<u>610,298</u>		
				=====	=====		
8	EQUIPMENT						
		Motor vehicle Sh'000	Office equipment Sh'000	Furniture Sh'000	Computers Sh'000	Borehole Sh'000	Total Sh'000
	COST						
	At 1 July 2009	1,880	370	11,464	6,855		20,569
	Additions				277		277
	Disposal				(69)		(69)
	At 30 June 2010	<u>1,880</u>	<u>370</u>	<u>11,464</u>	<u>7,063</u>		<u>20,777</u>
	At 1 July 2010	1,880	370	11,464	7,063		20,777
	Additions		5,548	474	783	2,865	9,670
	Disposal			(5,027)			(5,027)
	At 30 June 2011	<u>1,880</u>	<u>5,918</u>	<u>6,911</u>	<u>7,846</u>	<u>2,865</u>	<u>25,420</u>
	DEPRECIATION						
	At 1 July 2009	1,880	370	8,929	5,196		16,375
	Charge for the year			1,274	409		1,683
	Eliminated on disposal				(2)		(2)
	At 30 June 2010	<u>1,880</u>	<u>370</u>	<u>10,203</u>	<u>5,603</u>		<u>18,056</u>
	At 1 July 2010	1,880	370	10,203	5,603		18,056
	Charge for the year		10	387	372		769
	Eliminated on disposal			(5,027)			(5,027)
	At 30 June 2011	<u>1,880</u>	<u>380</u>	<u>5,563</u>	<u>5,975</u>		<u>13,798</u>
	NET BOOK VALUE						
	At 30 June 2011		5,538	1,348	1,871	2,865	11,622
	At 30 June 2010			1,261	1,460		2,721



INVESTMENT PROPERTIES

	2011	2010
	Sh'OO	Sh'OO
	O	O
COST		
At 1 July		
Additions	3,040	3,040
	1,029	
At 30 June	4,069	3,040
DEPRECIATION		
At 1 July		
Charge for the year	3,040	3,040
At 30 June	3,040	3,040
NET BOOK VALUE		
At 30 June	1,029	

10 INVESTMENT PROPERTIES

	TelPosta Towers Sh'OO O	Residential properties Sh'OOO	Total Sh'OO O
AT FAIR VALUES			
At 1 July 2010		285,657	3,435,657
Reclassification from assets held for sale (note 22)	3,150,000	618,785	618,785
Fair value adjustments		582,408	832,408
	250,000		
At 30 June 2010	3,400,000	1,486,850	4,886,850
At 1 July 2011			
Reclassification to assets held for sale (note 22)	3,400,000	1,486,850	4,886,850
Fair value adjustments		(87,091)	(87,091)
		)	321,729
At 30 June 2011	3,400,000	321,729	5,121,488
		1,721,488	
		=====	

Investment properties were revalued as at 30 June 2011 by Regent Valuers Limited, independent professional valuers, on the basis of open market value.

The commercial property, TelPosta Towers, is registered in the name of the TelPosta Pension Scheme, and there has been no significant change in the investment property value since the last valuation.

Included under residential properties are properties valued at Sh 456,710,000 (2010: Sh 431,000,000) whose titles are not in the Scheme's name. These properties were vested to the Scheme under Legal Notice No 154 dated 5 November 1999 but the title documents are yet to be issued to the Scheme. The trustees are pursuing the transfer of titles and the properties are in different stages of transfer,

Rent income from the investment properties in the year amounted to Sh 276,456,000 (2010: Sh 276,337,000). The related property expenses amounted to Sh 39,464,000 (2010: Sh. 61,911,000).

TELPOST A PENSION SCHEME  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 QUOTED EQUITY

Company	Market value I-Jul-09 Sh'000	Cost of additions Sh'000	Cost of disposals Sh'000	Market gain/(loss) Sh'000	Market value I-Jul-10 Sh'000	Cost of additions Sh'000	Cost of Disposals Sh'000	Sales proceeds Sh'000	Gain/(loss) on disposal Sh'000	Price at 30-Jun-11	Market gain/(loss) Sh'000	Market value 30-Jun-11 Sh'000
AccessKenya Group Limited	9,825		9,825									
Athi River Mining Limited	10,128			4,642	14,770					182.00	4,431	19,201
Bamburi Cement Limited	87,478	37,459		35,722	160,659		33,520	34,057	537	179.00	(13,350)	113,789
Barclay Bank Limited	131,523			15,544	147,067		3,690	4,033	343	17.20	17,019	160,396
British American Tobacco Limited	11,902	19,544		4,932	36,378					264.00	8,291	44,669
Centum Investment Company Limited	14,479			5,593	20,072					22.75	2,503	22,575
CFC Insurance Holdings Limited										14.70	18	18
CFe Stanbic Bank Limited	80			9	.89					50.50	(28)	61
CMC Holding Limited	418			(7)	411					10.80	(61)	350
Co-operative Bank of Kenya Limited	487,142		209,000	121,106	399,248					16.35	35,932	435,180
Deacons Kenya Limited	2,500			0	2,500					62.50	2,708	5,208
Diamond Trust Bank Limited	17,101			3,582	20,683					120.00	12,595	33,278
East Africa Breweries Limited	307,982			63,650	371,632		112,763	131,842	19,078	19500	20,023	278,892
East Africa Portland Cement Limited	518		336	117	299					80.00	(91)	208
East Africa Cables Limited	4,753			(784)	3,969					13.05	(1,411)	2,558
Equity Bank Limited	32,743	41,887	38,805	16,166	51,991					25.75	3,791	55,782
Kenya Electricity Generating Company Limited	33,922			5,945	39,867					13.55	(8,276)	31,591
Kenya Airways Limited	14,307			13,562	27,869					38.00	(5,216)	22,653
Kenya Commercial Bank Limited	164,280			(28,475)	135,805	83,649				24.00	73,871	293,325
Kenya Oil Company Limited	37,950	-		19,924	57,874					11.50	14,864	72,738
Kenya Reinsurance Corporation Limited	8,181		8,181							8.60		
Kenya Power and Lighting Company Limited	37,318		161	13,743	50,900	43,508	1,100	1,114	14	21.50	(2,510)	90,798
Mumias Sugar Company Limited	12,633	1,472	5,264	9,239	18,080					7.15	(8,020)	10,060
Nation Media Group Limited	22,435	6,207		2,662	31,304					167.00	6,501	37,805
NIC Bank Limited	18,253			1,825	20,078					44.00	4,524	24,602
Safaricom Limited	210,237	5,669	97,010	90,995	209,891		47,434	37,576	(9,858)	3.95	(51,818)	110,639
ScanGroup Limited	114			-61	175					52.50	102	277
Standard Chartered Bank Limited	35,640	8,994		20,900	65,534	2,713				234.00	4,667	72,914
Stanbic Bank Uganda Limited	2,497			768	3,265					5.08	970	4,235
TPS Eastern Africa Limited	3,695			1,680	5,375	820				67.00	1,506	7,701
	<u>1,120,034</u>	<u>121,232</u>	<u>368,582</u>	<u>423,101</u>	<u>1,895,785</u>	<u>130,690</u>	<u>198,507</u>	<u>208,622</u>	<u>10,114</u>		<u>123,535</u>	<u>1,951,503</u>

TELPOSTA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011 Sh'OO O	2010 Sh'OO O
12	TREASURY BONDS	
	At fair values:	
	Government treasury bonds - at cost	
	Fair value adjustment	1,890,134
	2,988,154 (297,991)	205,372
	Government treasury bonds - at market value	
	2,690,163	2,095,506
	The maturity dates for government treasury bonds at fair value are:	
	- maturing within 1 year	
	- maturing after 1 year but within 5 years	
	107,209	1,011,963
	- maturing after 5 years	
	906,183	682,868
	1,676,771	400,675
	2,690,163	2,095,506

The weighted average effective interest rate realized on treasury bonds during the year was 9.37 % p.a. (2010 11.4% p.a.).

13 CORPORATE BONDS

At fair values:

	Maturity date	Interest rate 2011	Interest rate 2010	2011 Sh'OOO	2010 Sh'OOO
Sasini Limited	3/12/2012		11.8%		6,255
Shelter Afrique	31/8/2012	11.00%	11.0%	15,570	14,430
Mabati Rolling Mills Limited	31/10/2016	13.00%	13.0%	5,109	4,891
Mabati Rolling Mills Limited	31/10/2016	5.33%	6.7%	5,045	4,944
PT A Bank Limited	31/10/2014	4.58%	6.0%	13,190	16,663
Barclays Bank of Kenya Limited	14/11/2014	5.40%	5.1%	10,067	9,939
Barclays Bank of Kenya Limited	14/17/2015	11.50%	8.1%	24,028	11,689
Barclays Bank of Kenya Limited	14/17/2015	3.68%	11.5%	12,359	22,263
Barclays Bank of Kenya Limited	19/11/2014	5.40%	5.1%	5,033	4,969
Barclays Bank of Kenya Limited	14/17/2015	11.50%	11.5%	40,153	37,202
Safaricom Limited	3/11/2014	12.25%	12.3%	142,772	137,275
Kenya Electricity Generating Company Limited	31/10/2019		12.5%		258,023
Athi River Mining Limited	20/4/2015	12.00%	12.0%	91,107	86,923
TPS Serena Limited	25/5/2015	10.00%	10.0%	11,108	10,892
CFC Stanbic Bank Limited	6/17/2016	12.50%	12.5%	16,807	14,845
CFC Stanbic Bank Limited	22/12/2014	7.25%		50,030	
Housing Finance Limited	10/2/2017	8.50%		20,373	
				462,751	641,203

The weighted average effective interest rate realized on corporate bonds during the year was 10.20% p.a. (2010 11.9% p.a.).

TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 COMMERCIAL PAPER

At fair values:

	Maturity date	2011 Sh'OO	2010 Sh'OO
Kenya Oil Limited	27/12/2011	0	0
Kenya Electricity Generating Company Limited	3 1/10/2019		248,038
		138,672	
		138,672	248,038

The weighted average effective interest rate realized on commercial paper during the year was 12.5% p.a. (2010 - 6.3% p.a.).

	2011 Sh'OOO	2010 Sh'OOO
15 OTHER INCOME		
Staff loan interest	31	30
Other interest income	606	7,078
	637	7,108
	=====	=====
16 INVESTMENT MANAGEMENT EXPENSES		
Fund managers' fees	16,718	15,392
Custodian fees	7,605	7,464
Property. expenses (note .17)	39,464	61,911
	63,787	84,767
	=====	=====

TELPOSTA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011	2010
	Sh'000	Sh'000
17	PROPERTY EXPENSES	
	26,503	47,325
	3,818	4,422
	840	2,189
	4,198	2,182
	962	2,152
		1,983
	60	999
	176	572
	130	49
	299	38
	2,478	
		-----
	39,464	61,911
	=====	=====
18	ADMINISTRATIVE EXPENSES	
	18,377	21,150
		19,236
		5,814
	4,149	5,207
	2,130	4,708
	5,000	4,127
	3,207	4,073
	3,794	3,937
	2,177	3-,292
	1,810	1,845
	1,177	1,829
	1,771	1,759
	769	1,683
	1,860	1,218
	1,557	1,138
	179	1,096
	759	887
	791	586
	412	467
		66
	799	55
	50,718	84,173
	=====	=====

TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011 Sh'OO O	2010 Sh'OO O
19	FUND BALANCE	
	At start of year	
	(Decrease)↑ increase in net assets for the year	
	10,180,166	8,479,190
	(23,154)	1,700,976
	10,157,012	10,180,166
20	FIXED DEPOSITS	
	At fair values;	
	Maturing within 90 days of the balance sheet date	
	Accrued interest	
	125,336	1,155,467
	257	9,505
	125,593	1,164,972
	The weighted average effective interest rate realized on fixed deposits during the year was 7.3% p.a. (2010 - 10.9% p.a.).	
21	RECEIVABLES	
	2011 Sh'OO O	2010 Sh'OO O
	Value added tax recoverable	
	less: provision for doubtful debts	
	5,144	19,236
	(5,144)	(19,236)
	Rent receivable	
	less: provision for doubtful debts	
	162,608	146,307
	( 116,226)	(89,722)
	---	---
	46,382	56,585
	Dividend receivable	
	Other receivables	
	13,077	1,289
	14,212	14,290
	73,671	72,164
	=====	=====
22	PROPERTY HELD FOR SALE:	
	355,221	1,134,004
	At 1 July	
	Reclassified <i>from</i> / (to) investment property (note 10)	
	Disposal in year	
	87,091	(618,785)
	(39,300)	( 159,998)
	403,012	355,221
	=====	=====

TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011 Sh'OO O	2010 Sh'OO O
21	CASH AND CASH EQUIVALENTS	
	Cash and cash equivalent balances as at year end comprise:	
	Treasury bonds maturing within 90 days	33,261
	Fixed deposits maturing within 90 days	96,593
	Commercial paper	138,672
	Bank and cash balances	58,927
	327,453	1,045,991
	=====	=====
24	UNPAID BENEFITS	
	Balance at beginning of year	982,719
	Withdrawals during the year	
	3,327	3,006
	986,046	1,289,546
	Less: Paid during the year	
	(353,582)	(306,827)
	Balance at end of year	982,719
	632,464	982,719
	=====	=====
25	TRANSFERS PAYABLE	
	Balance at beginning of year	85,304
	Additions (note 4)	358,297
	Less: Transfers during the year	4,249
	(16,719)	(272,993)
	72,8~4	85,304
	=====	=====
26	OTHER PAYABLES	
	Deposit on disposal of properties	
	Service charge accrual	28,032
	Rent received in advance	53,688
	Agency fee	20,775
	Rent deposits	36,062
	Management fees	11,743
	Legal fee	11,345
	Retirement Benefit Authority levy	640
	Actuarial fees	5,000
	Valuation fees	522
	Investment properties accrued expense	
	Audit fees	5,941
	Withholding tax payable	1,307
	Land rent and rates	286
	Surveyors' fees	
	Agency commission	
	Other	261
	519	1,438
	176,121	217,500
	=====	=====

TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 FINANCIAL RISK MANAGEMENT

The Scheme generates income for the members by investing in various income generating activities which include trading in the stock exchange, trading in government and other securities and offshore investments. These activities expose the Scheme 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 with the help of the Scheme's investment managers who follow 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 Scheme also follows guidelines issued by the Retirements Benefits Authority in respect of maximum allowed investment in different types of investments.

Market risk

*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 in relation to equity investments. The scheme invests internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to quoted shares on the Uganda Securities Exchange (USE).

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

*Price risk*

The Scheme is exposed to equity securities price risk because of investments in quoted shares that are carried at fair values. The Scheme is also exposed to the risk that the value of debt securities will fluctuate due to changes in market values. 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 entities operating in different sectors of the economy, while for debt securities, the Scheme has invested in bonds with varying maturities. Diversification of the portfolio is done in accordance with resolutions passed on investments during quarterly Trustees' meetings. All quoted shares held by the Scheme 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):

		2011 Sh'000	2010 Sh'000
Effect on returns from investment	5% Appreciation	97,575	94,788
	5% Depreciation	(97,575)	(94,788)
Effect on Scheme's balance	5% Appreciation	97,575	94,788
	5% Depreciation	(97,575)	(94,788)



TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk

The Scheme'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 hence no interest rate exposure.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Scheme. The Scheme 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. 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 is made up as follows:

At 30 June 2011	Fully performing Sh'OOO	Past due Sh'OO O	Impaired Sh'OO O
Receivables	22,977		
Quoted equity	1,951,503	23,405	116,226
Treasury bonds	2,690,163		
Corporate bonds	462,751		
Commercial paper	138,672		
Fixed deposits	125,593		
Bank balance	58,927		
	5,450,586.	23,405	116,226
At 30 June 2010			
Receivables	39,610		
Quoted equity	1,895,785	16,(>7 5	89,722
Treasury bonds	2,095,506		
Corporate bonds	641,203		
Commercial paper	248,038		
Fixed deposits	1,164,972		
Bank balance	103,129		
	6,188,343	16,975	89,722

The receivables that are past due are not impaired and continue to be paid. The Scheme's management is actively pursuing these debts.

The receivables that are impaired have been fully provided for.

TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 FINANCIAL RISK MANAGEMENT (Continued)

**Liquidity risk**

Liquidity risk is the risk that the Scheme will encounter difficulty in meeting its maturing obligations attributable to the 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 Scheme's short, medium and long-term funding and liquidity management requirements. The Scheme manages liquidity risk through continuous monitoring of forecast and actual cash flows.

The Scheme is required to make periodic payment in respect of pensions 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 Scheme's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows, Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 30 June 2011

	Less than 1 year	Between 1 - 2 years	Over 3 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Financial liabilities				
Other payables	176,121			176,121
Less: non financial liabilities				
Retirement Benefit Authority levy	(5,000)			(5,000)
Deposit on disposal of properties	(28,032)			(28,032)
Rent received in advance	(20,775)			(20,775)
Rent deposits	(11,743)			(11,743)
Withholding tax	(286)			(286)
Contractual maturity	110,285			110,285

As at 30 June 2010

Financial liabilities				
Other payables	217,500			217,500
Less: non financial liabilities				
Retirement Benefit Authority levy	(5,000)			(5,000)
Deposit on disposal of properties	(50,584)			(50,584)
Rent received in advance	(43,709)			(43,709)
Rent deposits	(10,484)			(10,484)
Withholding tax	(472)			(472)
Contractual maturity	107,251			107,251

TELPOSTA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 ACTUARIAL VALUATION

An actuarial review was last carried out as at 30 June 2009 by Alexander Forbes Financial Services (East Africa) Limited and a report issued on 10 July 2010.

The purpose of the review was:

- To indicate the financial (solvency) of the Scheme as at 30 June 2009;
- To outline the various options that have been considered in the formulation of an amended Scheme and their relative merits and financial implications; and
- To outline the key tenets of the amended Scheme selected by the Sponsor's Board of Directors and estimate the amount of immediate financing to be provided by the Government of Kenya as at 30 June 2009 if the actuarial deficit on this basis is covered in full.

Below is a summary of the results of the review:

Actuarial review results

Below is a summary of the results of the review: Sh'000

Outstanding benefits payments	
Value of:	
Vested benefits	
Future benefits to current pensioners	7,681,200
Non - vested benefits	
Estimated liability in respect of Kenya College of Communication and Technology (KCCT) staff	129,700
Estimated liability in respect of members whose status is unknown	412,900
Estimated liability in respect of members with entitlement to preserved benefits	2,566,600
	3,109,200
Accrued past service liabilities	
Value placed on existing Scheme's assets	10,790,400
	(10,553,400)
Actuarial deficit	
	237,000
Funding level	
	97.8%

The principal actuarial assumptions used were as follows:

discount rate	10%
rate of revaluation of benefits over period of deferment	4%
future pension increases	3%

29 TAXATION

The Scheme is registered under the Income Tax Act and its income is exempt from tax.

TELPOST A PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 FUTURE LEASE RENTAL RECEIVABLES

	2011	2010
	Sh'OO	Sh'OO
Due within one year	0	0
Between 2 and 5 years	192,289	176,808
	460,592	478,600
	652,881	655,408

31 RELATED PARTIES

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

Transactions with related parties during the period and balances due from related parties are disclosed below:

	2011	2010
	Sh'OOO	Sh'OOO
(a) Amount due from related parties:		
Telkom Kenya Limited	187	5,476
TelPosta Provident Fund	5,988	4,567
	<u>6,175</u>	<u>10,043</u>
	=====	=====
(b) Transactions with related parties:		
Rent income from Telkom Kenya Limited	10,196	20,199
Expenses paid on behalf of TelPosta Provident Fund	1,421	2,557
Funds received from TelPosta Provident Fund		8,000
	<u>11,617</u>	<u>30,756</u>
	=====	=====
(c) Key management compensation:		
Salaries and other benefits	11,826	11,826
	=====	-----
Trustee's remuneration	759	887
	-----	-----

32 CONTINGENT LIABILITIES

At the end of the reporting period, the Scheme had several pending litigations in court whose liability could not be reliably estimated until the determination of the suits. (2010: nil).

33 COMMENCEMENT DATE

The Scheme was established on 1 July 1997.

34 CURRENCY

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