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TELPOST A PROVIDENT FUND

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS**

30 .JUNE 2011

TELPOST A PROVIDENT FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 20 11

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TEL POST A PROVIDENT FUND

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 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 ADVISER	Ms Caroline Ndindi Telkom Kenya Limited P.O. Box 3030 I - 00 100 Nairobi
REGISTERED OFFICE	TelPosta Towers: 13 th Floor Kenyatta Avenue P.O. Box 45610 - 00100 Nairobi

TELPOST A PROVIDENT FUND

REPORT OF THE TRUSTEES

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

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/INT/1000453*.

MEMBERSHIP

	2011 No.	2010 No.
At start of the year	3,835	.
Leavers on account of:		4,176
-Death in deferment	(24)	
-Medical grounds	(48)	(32)
-Deferred maturities	(301)	(69)
		(240)
At end of the year	3,462	
		3,835

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 9 shows a decrease in the net assets of the Fund for the year of Sh 24,570,000 (2010 : increase of Sh 187,874,000) and the statement of net assets available for benefits on page 10 shows the Fund's net assets at Sh 204,678,000 (2010: Sh 229,248,000).

TELPOST A PROVIDENT FUND

REPORT OF THE TRUSTEES (Continued)

FINANCIAL REVIEW BY ACTUARIES

The last financial review of the fund 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 based on an interest declaration of 3% on member balances as at 30 June 2009 showed the following results:

	Sh'OO O
Total accrued (past service) liabilities	1,049,300
Fund assets	982,000
Funding deficit	67,300
Level of funding	93.15%

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.

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 however lies with the Trustees. The Fund's investment managers are guided by an Investment Policy developed and approved by the Trustees.

Any surpluses *Ideficits* generated are credited /charged to individual fund members' accounts on an annual basis.

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

	2011	2011	2010	2010	RBA limits
	Sh'OOO	%	Sh'OOO	%	%
Equities	255,624	33%	435,192	38	70
Government securities	358,295	45%	494,695	42	70
Offshore investments			55,419	5	10
Fixed deposits	93,541	12%	100,826	9	30
Corporate bonds	81,270	10%	72,216	6	15
	788,730	100%	1,158,348	100	
	-----		=====		

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

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REPORT OF THE TRUSTEES (Continued)

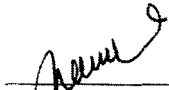
TRUSTEES

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

AUDITORS

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

SIGNED ON BEHALF OF THE TRUSTEES



Chair, Board of T

7 December 2011
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, 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.

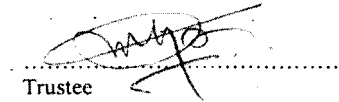
The trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act. The trustees are of the opinion that the financial statements give a true and fair view of the 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
v.)


Trustee

7 December 2011

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TELPOST A PROVIDENT FUND

We have audited the accompanying financial statements of Tel posta Provident Fund, set out on pages 9 to 22, 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 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.

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 unpaid benefits balance in the statement of net assets available for benefits on page 10 includes an estimated accrual of Sh 35 million (2010: Sh 36 million) in respect of benefits payable to 79 members (2010: 87 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 (Continued)

Qualified opinion

In our opinion, except for the effects of any adjustments that might have been determined to be necessary had we been able to satisfy ourselves on the matter referred to in the Basis of Qualified Opinion paragraph, the financial statements give a true and fair view of the Fund's financial transactions for the year ended 30 June 2011 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.

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Certified Public Accountants (Kenya)

7 ~/ 2011

Nairobi

TELPOST A PROVIDENT FUND

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

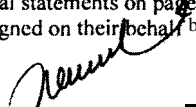
	Notes	2011 Sh'000	2010 Sh'000
PENSION BENEFITS		(64,432)	(8,832)
RETURNS ON INVESTMENTS			
Investment income	3	64,433	57,663
Dividend income		16,188	20,072
Gain on disposal of equity investments		4,820	12,822
Gain on disposal of offshore investments		12,996	
Change in fair value of quoted equities	4	30,307	86,694
Change in fair value of treasury bonds	5	(66,650)	60,318
Change in fair value of offshore investment	7		10,856
Interest payable to deferred provident members' account	8	(14,232)	(34,398)
Funds transferred to TelPosta Pension Scheme	9		(8,000)
Investment management expenses	12	(5,051)	(5,529)
		<hr/>	<hr/>
		42,811	200,498
ADMINISTRATIVE EXPENSES	i3	(2,949)	(3,792)
NET (DECREASE)/ INCREASE IN NET ASSETS FOR THE YEAR	1 5	(24,570)	187,874

TELPOSTA PROVIDENT FUND

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

	Notes	2011 Sh'000	2010 Sh'000
INVESTMENTS			
Equities	4	255,624	435,192
Treasury bonds	5	338,557	480,395
Offshore investments	7		55,419
Corporate bonds	11	81,270	72,216
		<hr/>	
		675,451	1,043,222
		<hr/>	
CURRENT ASSETS			
Treasury bonds	5	9,950	14,300
Treasury bills	6	9,788	
Fixed deposits	10	93,541	100,826
Cash at bank		672	4,801
Dividends receivable		286	1,793
		<hr/>	
		114,237	121,720
		<hr/>	
CURRENT LIABILITIES			
Interest payable to deferred provident members account	8	32,082	34,398
Transfers payable to Alexander Forbes Retirement Fund	16	37,491	41,086
Unpaid benefits		473,669	819,454
Due to members with unknown employment status	17	31,576	33,209
Other payables	18	10,192	7,547
		<hr/>	
		585,010	935,694
		<hr/>	
NET CURRENT LIABILITIES		(470,773)	(813,974)
NET ASSETS AVAILABLE FOR BENEFITS		204,678	229,248
REPRESENTED BY:		=====	=====
FUND BALANCE	15	204,678	229,248
		<hr/>	<hr/>

The financial statements on pages 9 to 22 were approved and authorised for issue by the trustees on 7 December 2011 and were signed on their behalf by:

) Trustee

 _____) Trustee
 (_____) Trustee

TELPOST A PROVIDENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 20 II

	Note	2011 Sh'000	2010 Sh'000
Cash now from operating activities			
Benefits paid		(428,843)	(96,686)
Administrative expenses paid			(903)
Transfer of surplus funds to TelPosta Pension Scheme			(8'()00)
Transfer of funds to Alexander Forbes Retirement Fund		(4,353)	(8,124)
		<hr/>	<hr/>
Net cash used in operating activities		(433,196)	(113,713)
		<hr/>	<hr/>
Cash now from investing activities			
Investment income received		71,615	65,836
Investment managers' expenses paid		(3,866)	(6,152)
Purchase of investments		(66,682)	(191,766)
Proceeds of sale of investments		426,203	284,900
		<hr/>	<hr/>
Net cash generated from investing activities		427,270	152,818
		<hr/>	<hr/>
Net (decrease)! increase in cash and cash equivalents		(5,926)	39,105
		<hr/>	<hr/>
Cash and cash equivalents at beginning of the year		109,927	70,822
		<hr/>	<hr/>
Cash and cash equivalents at end of the year	14	104,001	109,927
		-----	-----

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

ACCOUNTING POLICIES

Statement of compliance

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

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

(t) 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 any changes in the fund's accounting policies or result in any material impact on the financial statements of the fund.

(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 any change in the Fund's accounting policies or result in any material impact on the financial statements of the Fund.

(iii) Early adoption of standards

The Fund 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 financial instruments.

Taxation

The Fund 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 Fund'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.

TELPOST A PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 investments 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.

3 INVESTMENT INCOME

	2011 Sh'()O)	2()10 Sh'()O)
Corporate bonds.	5,460	27,870
Treasury bonds	56,913	27,686
Fixed deposits	2,060	2,107
	64,433	57,663

TELPOST A PROVIDENT FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 EQUITIES

Company	Market value 31-Jul-09 Sh'000	Cost of additions Sh'000	Cost of disposals Sh'000	Market gain/(loss) Sh'000	Market value 31-Jul-10 Sh'000	Cost of additions Sh'000	Cost of disposals Sh'000	Sales proceeds Sh'000	(Loss)/gain on disposal Sh'000	Price at 30-Jun-10 Sh	Market gain/(loss) Sh'000	Market Value 30-Jun-11 Sh'000
Access Kenya Group Limited	5,050	544		(494)	4,556					7.30	(2,913)	1,643
Athi River Mining Limited	73			33	106					182.00	32	138
Bambun Cement Limited	39,811		18,458	8,099	29,452		16,140	15,684	(456)	179.00	(1,397)	11,915
Barclay Bank Limited	36,255		10,934	2,992	28,313		13,838	14,277	439	17.20	1,719	16,194
BOC Kenya Limited	4,640		544	(640)	3,456					119.00	(410)	3,046
British American Tobacco Limited	16,452		1,238	3,803	19,017		9,675	12,412	2,737	264.00	2,129	11,471
Centum Investment Company Limited	10,296		5,277	1,938	6,957		4,351	4,446	95	22.75	770	3,376
CFC Stanbic Bank Limited	532			60	592					50.50	(188)	404
CFC Insurance Holdings Limited						0				14.70	68	118
CMC Holdings Limited	7,490		808	(103)	6,579		6,071	5,684	(387)	10.80	(76)	432
Deacon Kenya Limited	5,000				5,000					62.50	5,417	10,417
Diamond Trust Bank Limited	1,480			310	1,790					120.00	1,090	2,880
East Africa Breweries Limited	70,805		22,905	9,899	57,799	11,329	43,784	50,243	6,459	195.00	(495)	24,849
East Africa Cables Limited	2,495			(411)	2,084					13.05	(741)	1,343
East Africa Portland Cement Limited	1,379		679	450	1,150					80.00	(350)	800
Equity Bank Limited	22,000		5,800	7,800	24,000		8,760	9,357	597	25.75	1,111	16,351
Kenya Airways Limited	8,763		1,570	6,819	14,012		5,058	4,836	(222)	3800	(1,676)	7,278
Kenya Commercial Bank Limited	63,542		15,532	(8,322)	39,688	14,511	13,801	16,016	2,215	24.00	13,489	53,887
Kenya Electricity Generating Company Limited	7,432		377	2,989	20,044		11,902	11,816	(86)	13.55	(1,690)	6,452
Kenya Oil Company Limited	10,158			(3,050)	7,108					1150	12,362	19,470
Kenya Power and Lighting Company Limited	11,388		920	3,872	14,340	6,886	14,140	15,593	1,453	21.50	678	7,764
Kenya Reinsurance Corporation Limited	2,818		2,817	(1)								
Mumias Sugar Company Limited	8,082		4,390	4,216	7,908					7.15	(3,508)	4,400
Nation Media Group Limited	18,927		5,386	90	13,452		4,116	4,650	534	167.00	3,030	12,366
NIC Bank Limited	13,546			241	13,787		8,074	9,813	1,739	4400	2,524	8,237
Safaricom Limited	57,203		14,462	33,535	76,277		62,522	47,879	(14,643)	3.95	(4,388)	9,367
Scan Group Limited	5			4	9		9	13	4			
Stanbic Bank Uganda Limited	1,312			414	1,706					5.08	519	2,225
Standard Chartered Bank Limited	26,143		4,046	11,968	34,065	1,411	22,045	26,387	4,342	234.00	1,234	14,665
Total Kenya Limited	682			(55)	627					23.50	(110)	517
TPS Eastern Africa Limited	900			418	1,318	224				67.00	334	1,876
Uchurni Supermarket Limited										1.40	1,743	1,743
	464,659	544	116,143	86,694	435,192	34,411	244,286	249,106	4,820		30,307	255,624

TELPOST A PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 TREASURY BONDS

	2011	2010
	Sh'OOO	Sh'OOO
At fair values:		
Government treasury bonds - at cost	415,157	434,377
Fair value adjustment	(66,650)	60,318
	<hr/>	<hr/>
Government treasury bonds - at market value	348,507	494,695
	<hr/>	<hr/>
The maturity dates for government treasury bonds at fair value are:	=====	=====
Maturing within 1 year	9,950	14,300
Maturing after 1 year but within 5 years	259,596	356,964
Maturing after 5 years	78,961	123,431
	<hr/>	<hr/>
	338,557	480,395
	<hr/>	<hr/>
	348,507	494,695
	=====	-----

The weighted average effective interest rate on treasury bonds during the year was 9.43% p.a. (2010 - 10% p.a.).

6 TREASURY BILLS

	2011	2010
	Sh'OO	Sh'OO
Held to maturity	0	0
Redemption value		
Less: Unearned discount	10,000	
	(212)	
	<hr/>	
	9,788	
The maturity dates were as follows:		
Maturing within 3 months	9,788	

The effective weighted interest rate on the treasury bills during the year was 9.26 % (2010 - Nil).

7 OFF - SHORE INVESTMENTS

At fair values:

	2011	2010
	Sh'OO	Sh'OO
At 1 July	0	0
Unrealised gain during the year	55,419	44,563
Disposals	(55,419)	10,856
	<hr/>	
At 30 June		55,419

TELPOST A PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 INTEREST PAYABLE TO DEFERRED PROVIDENT MEMBERS' ACCOUNT

This amount relates to interest credited to deferred members' accounts at a rate of 4% per annum on their deferred amount as at the end of the year. An interest rate of 4% was also applied to members' accounts that matured in the financial year 2011.

9 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 last performed by the Fund's Actuary as at 30 June 2009 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 2009, the Trustees transferred Sh 8,000,000 to the TelPosta Scheme in 2010.

10 FIXED DEPOSITS

	2011 Sh'OO O	2010 Sh'OO O
At fair values:		
Maturing within 90 days of the balance sheet date		
Accrued interest	92,843 698	99,324 1,502
	93,541	100,826

The weighted average effective interest rate realised on fixed deposits during the year was 7.12% p.a. (2010 - 8.9% p.a.).

II CORPORATE BONDS

Designated fair value through profit and loss: .

	Maturity date	Interest 2011	Interest rate 2010	2011 Sh'OOO	2010 Sh'OOO
Barclays Bank Ltd	191112/2014	5.4%	5.1%	30,200	31,017
Sasini Ltd	03112/2012		11.8%		7,206
PT A Bank Ltd	31110/2014	4.58%	6.0%	14,107	18,017
Housing Finance Corporation of Kenya Ltd	211012/2017	8.5%		20,373	
CFC Stanbic Bank Ltd	14107/2016	12.5%	12.5%	8,803	7,959
Athi River Mining Ltd	20/04/2015	12.0%	12.0%	8,187	8,017
				81,270	72,216
				-----	=====

The weighted average effective interest rate on corporate bonds during the year was 7.39% p.a. (2010 - 7% p.a.).

TELPOSTA PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12	INVESTMENT MANAGEMENT EXPENSES	2011	2010
		Sh'000	Sh'000
	Fund managers' fees	3,371	3,940
	Custodians' fees	1,680	1,589
		5,051	5,529
13	ADMINISTRATIVE EXPENSES		
	Staff salaries & retirement benefit costs	1,283	2,121
	Audit fees including VAT	511	488
	Actuarial fees	138	435
	Bank charges	549	383
	Retirement Benefit Authority levy	468	365
		2,949	3,792

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 are allocated between the Fund and the Scheme on the basis of the net assets of the fund and the scheme.

14 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.

		2011	2010
		Sh'000	Sh'000
	Cash at bank	672	4,801
	Kenya Government securities	9,788	4,300
	Fixed deposits	93,541	100,826
	At end of year	104,001	109,927
		=====	=====
15	FUND BALANCE		
	At start of year	229,248	41,374
	(Decrease) increase in net assets for the year	(24,570)	187,874
		204,678	229,248
		=====	=====

TELPOST A PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 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.

	2011 Sh'OO O	2010 Sh'OO O
Individual transfers payable	37,491	41,086

17' DUE TO MEMBERS WITH UNKNOWN EMPLOYMENT STATUS

The balance of Shs 31,576,000 (2010: 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.

18 OTHER PAYABLES

	2011 Sh'OOO	2010 Sh'OOO
Due to TelPosta Pension Scheme	5,988	4,567
Accrued investment expenses	3,282	2,097
Audit fees payable	488	459
Retirement Benefits Authority levy payable	366	356
Pension benefits due but unclaimed	68	68
	10,192	7,547
	=====	=====

19 . FINANCIAL RISK MANAGEMENT

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

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

TEL POST A PROVIDENT FUND
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 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):

		2011	2010
		Sh'000	Sh'000
Effect on returns from investment	5% Appreciation	12,781	21,761
		=====	=====
	5% Depreciation	(12,781)	(21,761)
		=====	=====
Effect on Fund balance	5% Appreciation	12,781	21,761
		=====	=====
	5% Depreciation	(12,781)	(21,761)
		-----	=====

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 hence no 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 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.

TELPOST A PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

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

At 30 June 2011	Fully performing Sh'OOO	Past due Sh'OOO	Impaired Sh'OOO
Equities	255,624		
Treasury bonds	348,507		
Treasury bills	9,788		
Corporate bonds	81,270		
Fixed deposits	93,541		
Bank balance	672		
	789,402		
	=====		
At 30 June 2010			
Equities	435,192		
Treasury bonds	494,695		
Corporate bonds	72,126		
Offshore investments	55,419		
Fixed deposits	100,826		
Bank balance	4,801		
	1,163,059		
	=====	-----	

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its maturing 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 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.

TELPOST A PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

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 end of the reporting period 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.

As at 30 June 2011

	Less than 1 month Shs'OO O	Between 1 - 3 months Shs'OOO	Between 3-12 months Shs'OOO	Over 12 months Shs'OOO	Total Shs'OO O
Financial liabilities					
Due to TelPosta Pension Scheme					
Accrued investment expenses	5,988				5,988
Audit fees payable	3,282				3,282
	488				488
Contractual Maturity					
	9,758				9,758

As at 30 June 2010

Financial liabilities					
Due to TelPosta Pension Scheme					
Accrued investment expenses	4,567				4,567
Audit fees payable	2,098				2,098
	459				459
Contractual Maturity					
	7,124				7,124

20 RELATED PARTIES

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

Amounts due to related parties as at end of the reporting period and transactions with related parties during the year are disclosed below.

	2011 Sh'OO O	2010. Sh'OOO
(a) Amount due to related parties:		
TelPosta Pension Scheme		4,567
	5,988	
(b) Transactions with related parties:		
Expenses paid on behalf of Fund by TelPosta Pension Scheme		2,557
Funds paid to TelPosta Pension Scheme	1,421	8,000
	1,421	10,557

TELPOST A PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 SELF INVESTMENT

The fund does not hold any investment in its participating companies or any other company or persons connected with those companies (2010: nil).

22 CONTINGENT LIABILITIES

There were no contingent liabilities of the Fund at year end (2010: nil).

23 TAXATION

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

24 COMMENCEMENT DATE

The fund was established on 1 July 1999.

25 CURRENCY

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