

Special points of interest:

- Redemption of GoK's 795 million 7.85% (RPS) by issue of 76,622,891 new ordinary shares of KShs. 20/- each to be created for the purpose.
- Split KPLC shares 8:1 with a par value of KShs 2.50
- Float 488,630,245 new ordinary shares of 2.50 in a 20:51 Rights Issue.
- All subject to regulatory and shareholders approval to be implemented before the end of 2010.

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KPLC Capital Restructuring Impact Analysis

Introduction: KPLC Proposed Share Capital Restructuring

Executive Summary

Kenya Power & Lighting Company (KPLC) is the dominant electric power supplier in Kenya responsible for the national power grid and is responsible for over 95% of electricity supply in Kenya. KPLC is listed on the NSE and is ranked 15th in Market capitalization with 79,128,000 issued and fully paid up shares.

The company's capital structure also includes 794,962,500 Redeemable Non-Cumulative Preference Shares (RPS), owned by the Government of Kenya (GoK) which through the P.S. Treasury is also the majority shareholder in KPLC with 40.44% (all inclusive).

Advantages

- 1.The overhang from the non cumulative redeemable preferential shares will be eliminated
- 2.The dilution factor plus reduced price from the proposed share split will reduce the market price and thus increase liquidity
- 3.The company's core capital will increase and thus fund future growth
- 4.KPLC will have ability to get significant additional leverage from the additional core capital
- 5.KPLC's ability to expand their business will be dramatically enhanced
- 6.The restructuring will accelerate expected

growth in turnover and profits in the short,medium and long term

7.KPLC will attain a higher market value.

Dis-advantages

- 1.Reducing the par value and share price may expose KPLC to retail investors and thus create higher stock price fluctuations.
- 2.Success of rights issue may or may not be predicated on underwriting. (it is not yet clear whether KPLC have secured underwriting)
- 3.If rights issue is undersubscribed the GoK stake in KPLC may remain much higher than the proposed 50.10%
- 4.The use of proceeds from rights issue has not been clearly defined

In our estimations we have calculated the post PRS redemption, split par value at 2/50 with a theoretical diluted share price of KShs. 26/80

We further estimate the rights issue price to be between KShs. 25/00 and KShs. 18/50 which implies capital to be raised between KShs. 42.5 Billion and KShs. 32.3 Billion. The shares will trade at a higher forward P/E between 4.0 and 7.0

In our final estimation the theoretical post overhang price is KShs. 25.00 to KShs. 27.00

Shareholding Structure impact

The GoK is the majority shareholder in KPLC with 40.44% and also holds 794,962,500 RPS which implies that the GoK's shareholding will be the most impacted by the proposed share capital restructuring. The redemption will increase the GoK stake in KPLC to 69.74% from the current 40.44%.

Furthermore in view of the current GoK divestment policy it follows that the GoK will most likely renounce its rights in the The GoK's current holdings in KPLC of 40.44% will increase to 69.74% while the NSSF's holdings in KPLC which currently stand at 8.11% will be eroded to 4.12% and the holdings in the hands of the remain-

ing top 20 shareholders will decline from 28.64% to 14.55%. The expectation that the GoK will relinquish their rights will bring the GoK's post rights holdings to 50.10% and availing 340,786,886 shares to be mopped up by the other shareholders of KPLC.

In the event that NSSF would like to retain their 8.11% holdings in KPLC the fund will require to invest in 69,170,671 additional shares in the rights issue which will be worth KShs. 1.6 Billion @ 35%

deep discount price of KShs 24.44 and KShs. 1.3 Billion @ 15% discount price of KShs. 18.69. the other top 20 shareholders will require to invest an additional 244,398,007 shares in the rights issue to retain their current holdings with a further investment of KShs. 6.6Bn @ 35% deep discount and KShs. 4.6 Billion @ 15% discount respectively.

This research note and financial analysis based on facts and figures, market research and business dynamics is designed to assist the Fund in making informed investment decisions.



Market Performance & Projections.

| Performance comparison | | | |
|------------------------|---------|---------|-----------|
| Item | High | Low | % Chg YoY |
| KPLC | 251.00 | 120.00 | 93.44% |
| NASI | 102.27 | 65.62 | 47.55% |
| NSE20 | 4674.31 | 2961.01 | 53.19% |

KPLC Price has outperformed both market indices over the last 1 year period

| KPLC | |
|-----------------|----------|
| Covar(NASI) | 333.2299 |
| Covar(NSE20) | 13957.73 |
| Var (KPLC) | 1012.745 |
| β (NASI) | 0.329036 |
| β (NSE20) | 13.78208 |

KPLC has a positive Beta compared to both indices

The KPLC stock has recorded remarkable performance over the last 1 year period covered in this report having increased in value by 93.44% Year on Year (YoY) as at 30th September 2010. ranking it the 11th best performing stock on the NSE over the 1 year period on the NSE.

KPLC shares were also among the most liquid on the market placed 6th overall with the minimum price at KShs. 120 and the peak at KShs. 251 during the 52 week period.

Trading at a P/E ratio of 4.17 the share is considered to be underpriced and also holds massive potential to top the gainers and movers tables once the proposed share split and

Rights Issue are effected due to a dilution factor of 139% ex All with a projected Ex all share price of between KShs 25.00 and KShs 23.00 which will make the stock affordable to an increased spectrum of investors at the NSE.

KPLC will have a new issued and fully paid up share capital Ex all. Of KShs 4.34 Billion from 1.73 Billion issued and fully paid up share bringing Market capitalization to KShs.39.9 Billion at a price of KShs 23.00 which will elevate KPLC to the 9th position in market capitalization and 6th in terms of issued and fully paid up shares at the NSE.

The GoK stake in KPLC post redemption will increase to

69.74% but the GoK has expressed interest in owning 50% of KPLC.

With the GoK expected to relinquish its entire Rights allocation of 340,786,886 additional shares reducing GoK% of ownership to 50.10% NSSF will have the opportunity to retain the fund's stake in KPLC at the current 8.11% by taking up G69,170,671 GoK rights. (see scenarios on pg 4)

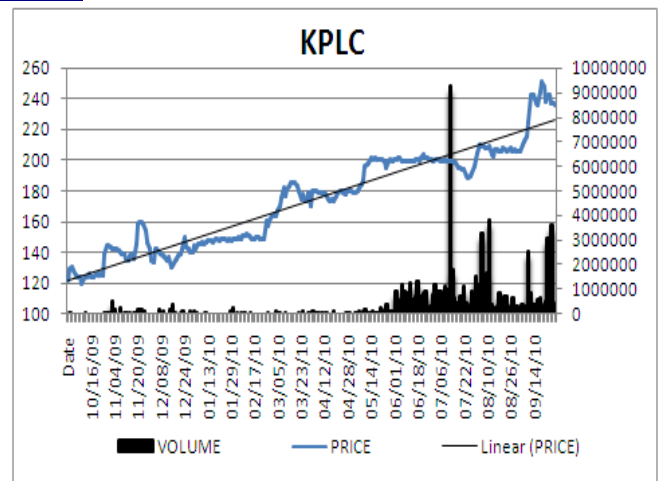
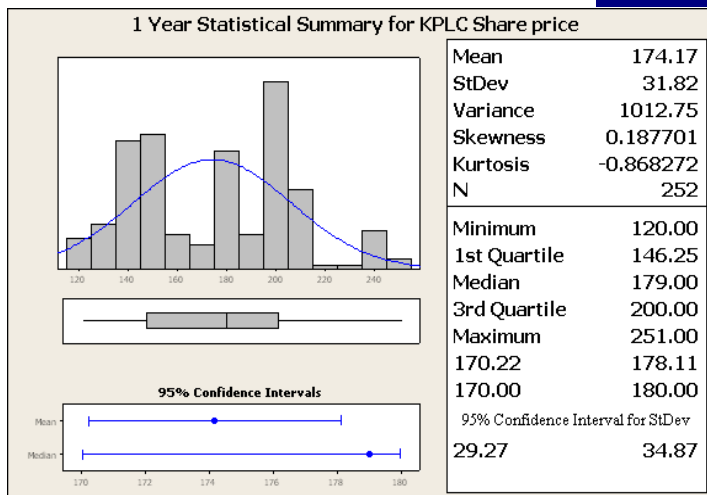
Being a utility and with the energy sector expected to grow in tandem with positive macro-economic projections it would be in our opinion a prudent option to take a Buy position on the KPLC restructuring based on the stock's market performance.

INVESTOR RATIOS

| | | | | | | |
|-------------------------------|---------|--------|--------|--------|--------|--------|
| Current Ratio | -5.52% | 1.05 | 1.15 | 1.12 | 1.07 | 1.31 |
| Earnings share (Kshs) | 22.62% | 46.97 | 40.78 | 22.3 | 21.72 | 20.78 |
| Net Asset Value/ Share (Kshs) | 23.30% | 777.20 | 669.91 | 521.87 | 372.51 | 336.21 |
| Price-to-Earnings Ratio | -15.36% | 4.17 | 6.13 | 9.55 | 9.62 | 8.13 |
| Pay-out-Ratio | 23.94% | 0.17 | 0.20 | 0.18 | 0.14 | 0.07 |
| Dividend Yield % | 46.44% | 4.08% | 3.20% | 1.88% | 1.44% | 0.89% |
| Price-to-Book Value | -15.84% | 0.25 | 0.37 | 0.41 | 0.56 | 0.50 |
| Current Ratio | -17.86% | 0.60 | 1.09 | 0.94 | 1.07 | 1.31 |
| Return on Assets | -2.08% | 7.02 | 6.77 | 5.86 | 6.04 | 7.64 |
| Return on Capital Employed | 119.00% | 12.93% | 12.01% | 7.72% | 7.39% | 0.56% |
| Debt/Equity | 40.33% | 1.14 | 0.97 | 0.73 | 0.32 | 0.29 |

MARKET INFORMATION

| | | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| Dividends Per Ord. Share (Kshs) | 51.97% | 8 | 8 | 4 | 3 | 1.5 |
| Ord. Share Price as at 30 June | 3.77% | 196 | 250 | 213 | 209 | 169 |
| Number of Ord. Shares in Issue | | 79,128 | 79,128 | 79,128 | 79,128 | 79,128 |
| Market Capitalization (Kshs Mn) | 3.77% | 15,509 | 19,782 | 16,854 | 16,538 | 13,373 |



KPLC FINANCIAL FUNDAMENTALS

KPLC's core business continues to be the transmission, distribution and retail of electricity purchased in bulk from Kenya Electricity Generating Company Ltd. (KenGen), Independent Power Producers (IPPs), Uganda Electricity Transmission Company Ltd (UETCL) and Tanzania Electric Supply Company Ltd (TANESCO).

Over the 5 year period in review KPLC's Non Current Liabilities have grown at a higher rate than all other balance sheet entries at a Compound Average Growth Rate (CAGR) of 52.58 and current liabilities at 11.46% CAGR while the Debt to Equity ratio 'albeit still healthy' has gone up from 0.29 to 1.14 increasing by 40.33% on the back of an

aggressive countrywide electrification program.

Total assets on the other hand have grown at a slower rate by 23.30% CAGR in the same period further underlining the increased need for capital injection.

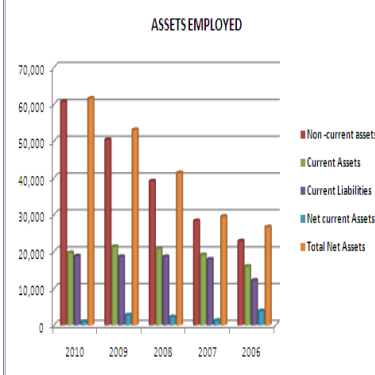
KPLC has continued to pay handsome dividends in the last 4 years with dividend yield having grown from 0.89% to 4.08% over 5 years. The company has also recorded remarkable increase in returns on capital employed from 0.56% to 12.93% over the period translating to a 119% CAGR which indicates better application of capital over the years.

KPLC's liquidity position has also declined by -17.86% CAGR with the current ratio

at 0.60 from 1.31 in 2006 indicating a further need for increased liquidity.

With profits before tax having grown from KShs. 2.5 Billion to KShs. 5.6 Billion 23% CAGR over the last 5 years KPLC holds an impressive position as one of the most profitable tax paying entities listed on the NSE.

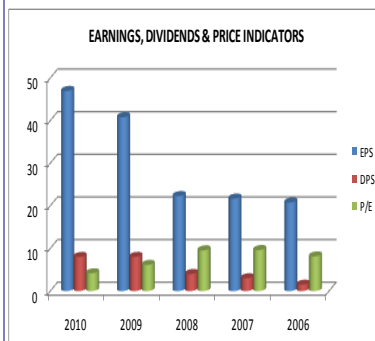
The injection of capital coupled with the relief from interest burden brought on by the interest bearing preferential capital component on KPLC's balance sheet is therefore in our opinion an ingredient for further expansion and also debt relief which will increase the efficiency and competitiveness of KPLC in the future.



Assets have grown by CAGR of 23.30% from 2006 to 2010

"KPLC holds an impressive position as one of the most profitable tax paying entities listed on the NSE"

| Financial and market Summary for 5 Year period 2006-2010 (Kshs'000') | | | | | | |
|--|---------|--------|--------|--------|--------|--------|
| ASSETS EMPLOYED | CAGR | 2010 | 2009 | 2008 | 2007 | 2006 |
| Non-current assets | 27.70% | 60,603 | 50,307 | 39,057 | 28,283 | 22,787 |
| Current Assets | 5.31% | 19,610 | 21,257 | 20,755 | 19,039 | 15,942 |
| Current Liabilities | 11.46% | 18,715 | 18,555 | 18,518 | 17,846 | 12,125 |
| Net current Assets | -30.41% | 895 | 2,702 | 2,237 | 1,193 | 3,817 |
| Total Net Assets | 23.30% | 61,498 | 53,009 | 41,294 | 29,476 | 26,604 |
| FINANCED BY | | | | | | |
| Share Capital | 0.00% | 1,583 | 1,583 | 1,583 | 1,583 | 1,583 |
| Preference Shares | 0.00% | 15,899 | 15,899 | 15,899 | 15,899 | 15,899 |
| Shareholders' Funds | 8.73% | 28,741 | 26,848 | 23,645 | 22,059 | 20,560 |
| Proposed dividends | 49.38% | 633 | 633 | 237 | 190 | 0 |
| Non-current Liabilities | 52.58% | 32,757 | 26,161 | 17,412 | 7,226 | 6,044 |
| TURNOVER - | | | | | | |
| Profit/(Loss) Before Taxation | 22.54% | 5,633 | 4,782 | 2,738 | 2,649 | 2,498 |
| Taxation credit/ (charge) | 22.41% | -1,917 | -1,557 | -973 | -930 | -854 |
| Profit/(Loss) After Taxation | 22.61% | 3,716 | 3,225 | 1,765 | 1,718 | 1,644 |
| Preference Dividend | | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 22.61% | 3,716 | 3,225 | 1,765 | 1,718 | 1,644 |



Earnings and Dividends have increased

KPLC CAPITAL RESTRUCTURING SCENARIOS SUMMARY

Stage 1: Redemption of preferential non cumulative shares

| Item | Total Shares | GOK Shares | Percentage | NSSF Shares | Percentage | Other top 20 shareholders | Percentage |
|--|------------------|----------------|------------|---------------|------------|---------------------------|------------|
| Redeemable Preference shares | 794,962,500 | 794,962,500 | 100% | - | 0 | | |
| Par Value | 20 | 20 | | 20 | | | |
| Value | 15,899,250,000 | 15,899,250,000 | | - | | | |
| No of shares in new issue | 76,622,891 | 76,622,891 | 100% | - | 0 | | |
| Share price at redemption | 207.50 | 208 | | - | | | |
| share price (15th Oct 2010) | 230 | 230 | | - | | | |
| Discount on current value (15th Oct 2010) | 10.84% | 10.84% | | - | | | |
| Nominal Value of redeemed shares | 1,532,457,820 | 1,532,457,820 | | - | | | |
| Issued & fully paid Shares (pre redemption) | 79,128,000 | 32,002,929 | 40.44% | 6,413,801 | 8.11% | 22,660,796 | 28.64% |
| issued & fully paid up capital (pre redemption) | 1,582,560,000 | 640,058,580 | | 128,276,020 | | 453,215,920 | |
| No of issued shares (post Redemption) | 155,750,891 | 108,625,820 | 69.74% | 6,413,801 | 4.12% | 22,660,796 | 14.55% |
| issued and fully paid share capital (new) | 3,115,017,820 | 2,172,516,400 | 69.74% | 128,276,020 | | 453,215,920 | |
| Stage 2: 8:1 Share split | | | | | | | |
| No of shares after Share Split 8:1 | 1,246,007,128.00 | 869,006,560 | 69.74% | 51,310,408 | 4.12% | 181,286,368 | |
| Share price post split | 28.75 | 28.75 | | 28.75 | | 28.75 | |
| Par Value (post split) | 2.50 | 2.50 | | 2.50 | | 2.50 | |
| Rights issue 20:51 | | | | | | | |
| No of Rights | 488,630,246 | 340,786,886 | | 20,121,729 | 4.12% | 71,092,693 | |
| Nominal Value of Rights | 1,221,575,616 | 851,967,216 | | 50,304,322 | | 177,731,733 | |
| For NSSF to retain current shareholding | | | | | | | |
| No of shares post Rights | 1,734,637,374 | 1,209,793,446 | 69.74% | 71,432,137 | 4.12% | 252,379,061 | 14.55% |
| No of Shares if GoK relinquishes rights | 1,734,637,374 | 869,006,560 | 50.10% | 71,432,137 | 4.12% | 252,379,061 | 14.55% |
| No of additional shares for top 20 to avoid dilution | 1,734,637,374 | 869,006,560 | 50.10% | 69,170,671 | 3.99% | 244,389,007 | 14.09% |
| No of NSSF shares with 8.11% | 1,734,637,374 | | | 140,602,807 | 8.11% | 496,768,068 | 28.64% |
| Value of additional shares at 35% | 32,416,035,932 | 16,239,560,090 | 50.10% | 1,292,626,906 | 3.99% | 4,567,019,559 | 14.09% |
| Scenario 1: @15% (discount)(GOK Relinquish Rights NSSF retains 8.11 and other top 20 retain current holdings) | | | | | | | |
| Rights issue price 15% discount | 24.44 | 24.44 | - | 24.44 | | 24.44 | |
| Total value of rights allocation | 11,940,901,643 | 8,327,979,533 | | 491,724,743 | | 1,737,327,693 | |
| share premium from rights issue | 10,719,326,028 | 7,476,012,318 | | 441,420,422 | | 1,559,595,960 | |
| No of issued shares post rights | 1,734,637,374 | 869,006,560 | 50.10% | 71,432,137 | 4.12% | 252,379,061 | 14.55% |
| Value of additional shares at 15% discount | 42,390,200,834 | 21,236,347,810 | 50.10% | 1,690,358,261 | 3.99% | 6,637,621,272 | 15.66% |
| Total value of holdings post rights | 42,390,200,834 | 21,236,347,810 | 50.10% | 3,435,981,100 | 8.11% | 12,139,769,658 | 28.64% |
| Scenario 2: @35% (deep discount) (GOK Relinquish Rights) | | | | | | | |
| Rights issue price | 18.69 | 18.69 | - | 18.69 | | 18.69 | |
| Total value of rights allocation | 9,131,277,727 | 6,368,454,937 | - | 376,024,804 | | 1,328,544,707 | |
| share premium from rights issue | 7,909,702,112 | 5,516,487,722 | | 325,720,482 | | 1,150,812,973 | |
| No of issued shares post rights | 1,734,637,374 | 869,006,560 | 50.10% | 71,432,137 | 4.12% | 252,379,061 | 14.55% |
| Value of additional shares at 15% discount | 32,416,035,932 | 16,239,560,090 | 50.10% | 1,292,626,906 | 3.99% | 4,567,019,559 | 14.09% |
| Total value of holdings post rights | 32,416,035,932 | 869,006,560 | | 2,627,514,959 | 8.11% | 9,283,353,268 | 28.64% |