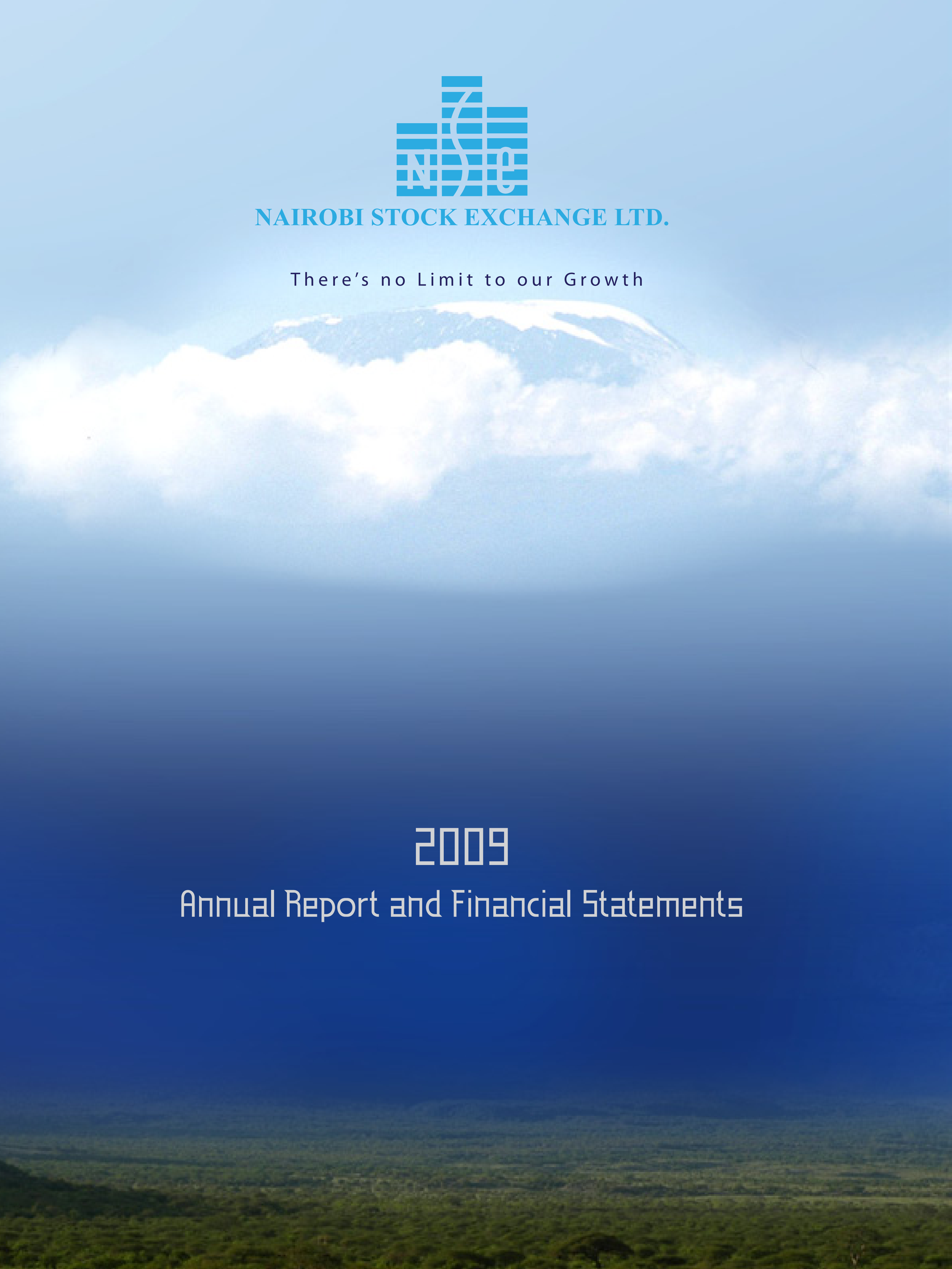


NAIROBI STOCK EXCHANGE LTD.

There's no Limit to our Growth

2009

Annual Report and Financial Statements

Our Vision

To be a leading securities exchange in Africa, with a global reach

Our Mission

To provide a world class securities trading facility

Core Values

Ethics • Integrity • Confidentiality • Excellence • Innovation

NAIROBI STOCK EXCHANGE LTD.

Contents

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 56th Annual General Meeting of Nairobi Stock Exchange Limited shall be held on Wednesday, 28th July, 2010, at the Nairobi Serena Hotel, commencing at 3.00 p.m. to transact the following business:

1. To confirm the minutes of the Annual General Meeting held on April 30, 2009 and the Extraordinary General Meeting held on March 4, 2010;
2. To receive the Chairman's Statement;
3. To receive and consider the audited accounts for the Financial Year ended December 31, 2009, and the reports of the Directors and auditors thereon;
4. To re-appoint Deloitte & Touché as the auditors for the Financial Year 2010 and to authorize the Directors to fix their remuneration;
5. To elect Directors:
   (i) In accordance with Article 44, Mr. Andre De Simone (Stockbroker Director) retires by rotation and being eligible offers himself for re-election;

   (ii) In accordance with Article 44, Mr. George Maina (Stockbroker Director) retires by rotation and being eligible offers himself for re-election;

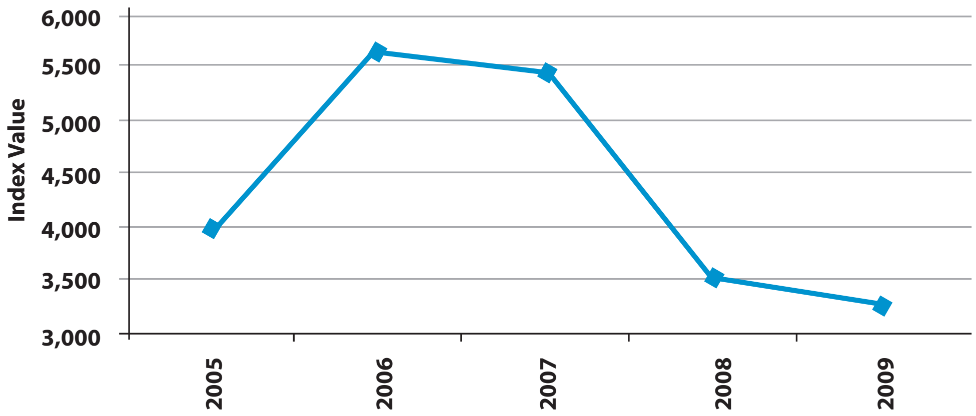
   (iii) In accordance with Article 44, Mr. Lutaf Kassam (Institutional Director) retires by rotation and being eligible offers himself for re-election;

   (iv) In accordance with Article 44, Mr. David Njoroge (Listed Company Director) retires by rotation and being eligible offers himself for re-election;
6. To transact any other business that may legally be transacted at the meeting.

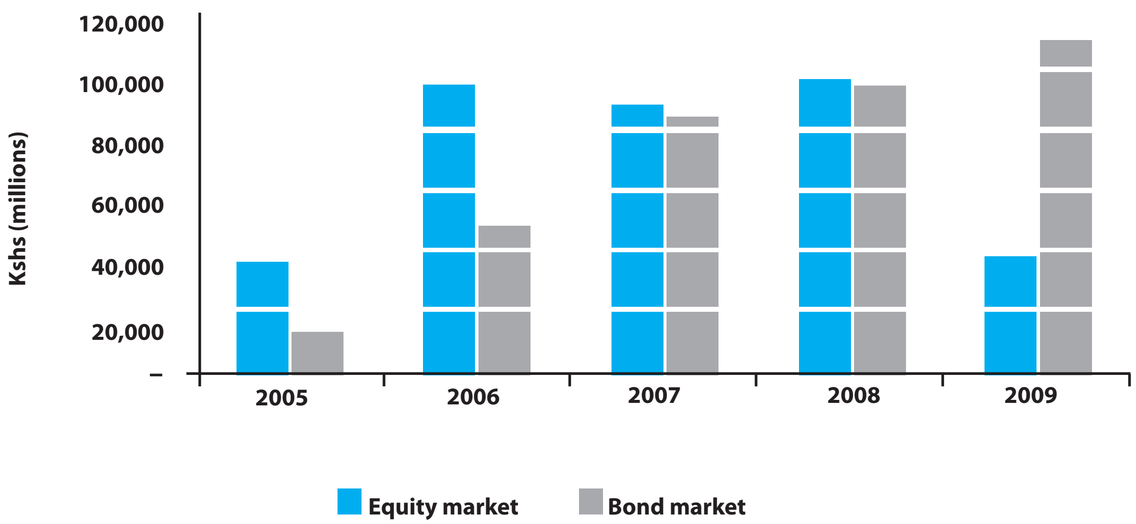
BY ORDER OF THE BOARD

PETER MWANGI
SECRETARY
JULY 5, 2010

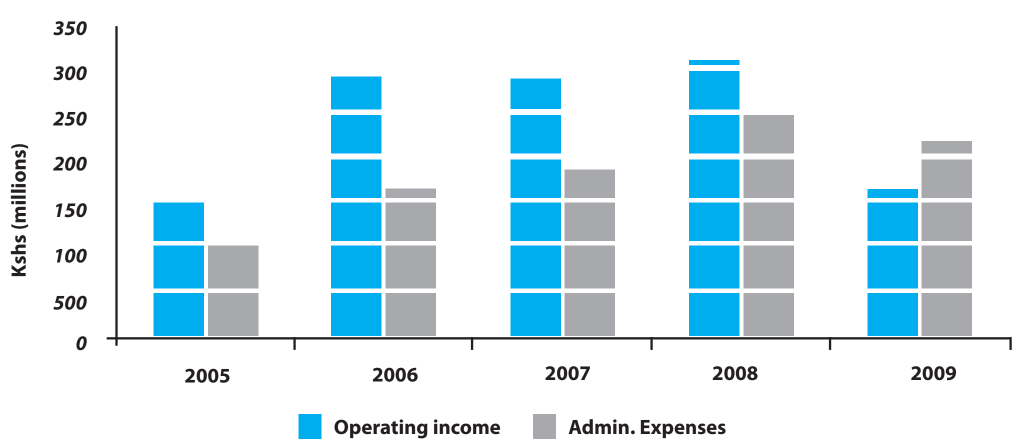
NSE 20 SHARE INDEX



BOND AND EQUITY TURNOVER (KSH. MN)



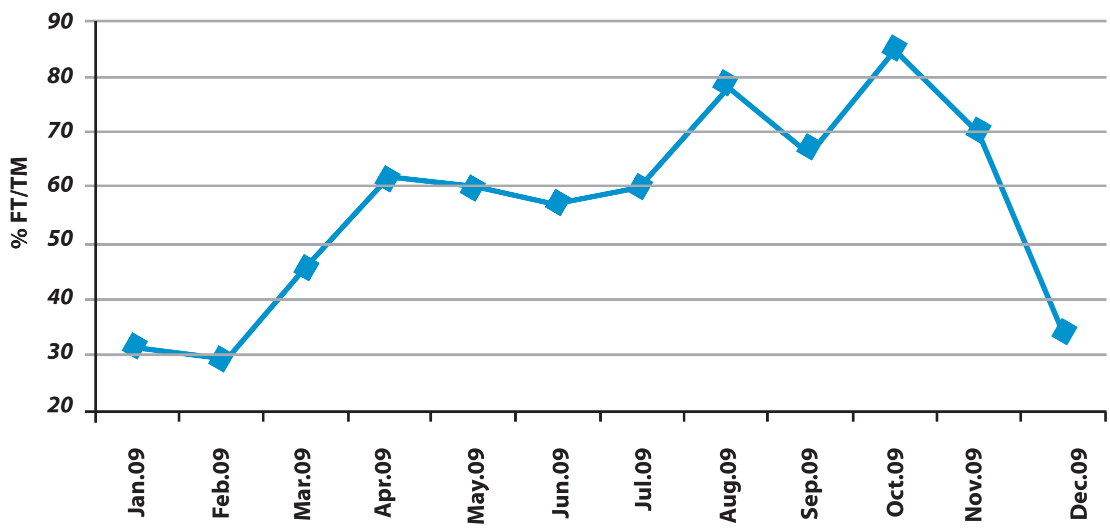
OPERATING INCOME VERSUS EXPENSES



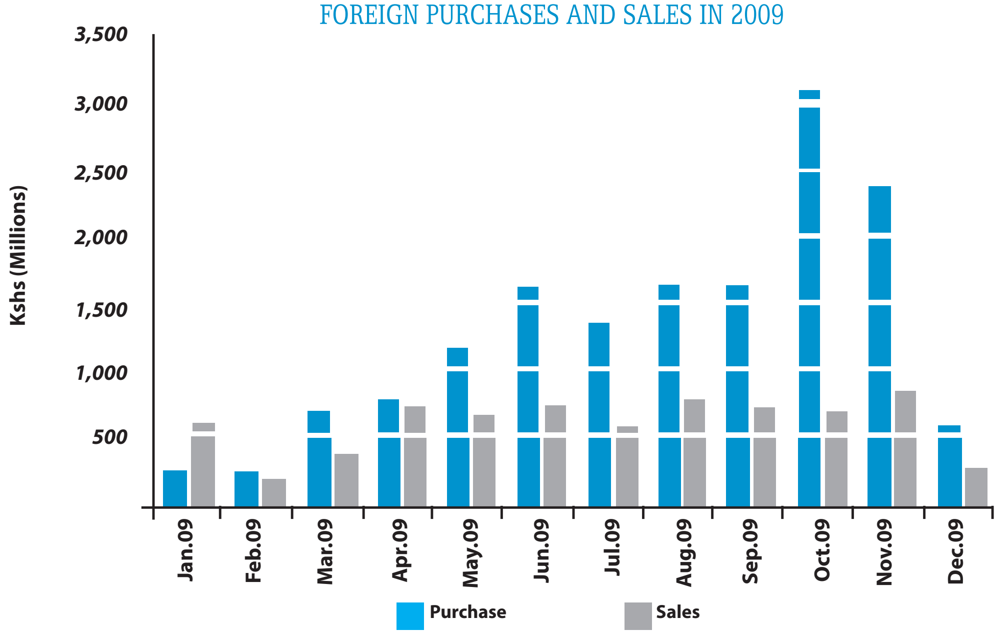
5-YEAR SUMMARY OF MARKET PERFOMANCE

	2009	2008	2007	2006	2005
NSE 20 Share Index	3,247	3,521	5,444	5,646	2,946
Market capitalization (Kshs.billion)	832	854	851	792	463
Number of shares traded (million)	3,160	5,856	1,938	1,455	874
Number of transactions (equity)	402,169	890,542	973,548	598,301	176,483
Equity turnover (Kshs.billion)	38	97	89	95	36
Bond turnover (Kshs.billion)	110	95	85	49	14

PERCENTAGE OF TOTAL FOREIGN TURNOVER(FT) TO TOTAL EQUITY MARKET TURNOVER



FOREIGN PURCHASES AND SALES IN 2009



Edward Njoroge
Chairman

Lutaf Kassam -1st Vice
Chairman

Job Kihumba - 2nd Vice
Chairman

Peter Mwangi
CEO

Catherine Musakali

David Njoroge

George Maina

Winnie Nyamute

Andre DeSimone

Stanley Ngaine

Lucas Otieno

COMPANY SECRETARY
Peter Mwangi
P.O Box 43633 - 00100
Nairobi

REGISTERED OFFICE
Nation Centre, 1st Floor,
Kimathi Street
P.O Box 43633 - 00100
Nairobi

AUDITORS
Deloitte & Touche
Deloitte Place
Wayaki Way, Muthangari
P.O Box 40092 - GPO 00100
Nairobi

BANKERS
Kenya Commercial Bank Limited
P.O Box 30081 - 00100
Nairobi

LAWYERS
Hamilton Harrison and Mathews
P.O Box 3033 - 00100
Nairobi

SENIOR MANAGEMENT TEAM

STANDING L-R: John Mwaniki (Head of Operations and Technology), Andrew Wachira (Head of Compliance and Legal), Chrysantus Macheso (Head of Finance and Strategy)

SEATED L-R: Peter Mwangi (Chief Executive), Donald Ouma (Head of Market and Product Development)

Dear Members

On behalf of the Board of the Nairobi Stock Exchange (NSE), I would like to highlight strategic achievements of the Exchange in what was a challenging year for global and domestic financial markets. In recent times, the country experienced four shocks in short sequence: the post-election violence in early 2008, the oil and food price increases, the global financial crisis and in 2009, the worst drought in a decade. Kenya is one of few countries in the world which grew faster in 2009 compared to 2008. While government's 2009 growth estimate of 2.6 percent is below the Vision 2030 annual growth target of 10.0 percent; against the background of these multiple shocks, Kenya's recovery also demonstrates the resilience of its economy.

2009 Macroeconomic Review

The drivers of Kenya's modest recovery in 2009 were services and construction. The services sector which accounts for 55 percent of the economy, grew an estimated 4.5 percent - led by tourism (+28%) which recovered after experiencing a record decline in 2008 (-36%). 3 percent for industry, which accounts for 17 percent of the economy, owing mostly to the booming construction sector (+13%). 3 percent for manufacturing, which represents the largest share of Kenya's industry, having been heavily affected by energy shortages. These shortages are also reflected in the contraction of utilities (-9%), the worst performing sub-sector in 2009. The fiscal position remains strong, the financial sector is robust, the external sector remains in balance, and inflation has declined below 10 percent.

The East Africa Community Common Market Protocol

You are aware that, the Government of Kenya has reiterated its commitment to the full implementation of the provisions of the East African Community (EAC) Common Market Protocol from July 1 2010, when it came into effect. All capital market restrictions currently in place (in Burundi, Rwanda and Tanzania) will be removed by 2015. Growth of Kenya's major trading partners in the East Africa region is projected at around 5.7 percent in 2010. I urge our EAC sisters and brothers to remove these barriers sooner. We are encouraged by the EAC Central Banks, who under the EAC Monetary Affairs Committee are progressing the implementation of a pan EAC Real Time Gross Settlement (RTGS) payments system. A regional payments system will be a good foundation for more efficient EAC post trade and IPO solutions and should also find good use in more

Central Bank Governor, Njuguna S. Ndung'u rings the bell to mark automated trading in government bonds efficient cross border registrar operations.

POLICY ENVIRONMENT

Forwards and Futures Markets

Agriculture experienced another year of contraction. In 2008, agriculture declined by 5 percent; in 2009, it contracted by about 2.5 percent. The agriculture sector has not only been hit by domestic and external shocks but it is also the sector with some of the most difficult policy and structural challenges. At the end of 2009, the price of maize, Kenya's main staple, was double the international price and for most of the year it was also substantially higher than in Uganda and Tanzania. The World Bank is of the opinion that in order to address the structural deficiencies in our agricultural sector, medium term priorities should focus on (i) reforming the National Cereals and Produce Board (NCPB); (ii) continuing the major push to upgrade infrastructure; and (iii) investing in agricultural technology generation and dissemination to reduce overdependence on maize. Private storage could be encouraged by turning some NCPB grain silos and go downs into storage leasing operations. These efforts combined with a warehouse receipt system to help farmers and traders get access to formal credit markets would improve the efficiency of the food marketing system. These reforms would open the space for market-based risk management instruments through a commodity exchange with forward and futures markets. The Board believes this would expand business opportunities for market operators such as the NSE in terms of the provision of products, services and infrastructure.

Structural Reforms

The government plans to embark on a new phase of structural reform in 2010-11, including deregulation, privatisation and trade liberalisation (especially within the EAC). The state plans to dispose of full or partial stakes in up to 30 state enterprises, in a range of sectors, either by selling shares to strategic partners or via flotations on the Exchange. The government also aims to speed up the creation of public-private partnerships, especially for infrastructure projects, by streamlining and clarifying the regulatory environment.

CAPITAL MARKETS REVIEW

Performance of key market indicators

The NSE 20 Share Index fell 273.54 points to close 2009 at 3,247.44 points (a drop of 7.77%) from 3,521.18 points at the start of 2009. The NSE All Share Index fell 1.73 points to close 2009 at 71.64 points (a drop of 2.36%) from 73.37 points at the start of 2008. Market capitalization in dollar terms, increased 0.16 percent from USD. 10.985 billion (Kshs. 853.68 billion) on December 31 2008 to USD. 11.002 billion (Kshs. 831.83 billion) on December 31 2009.

Tapping Debt Markets to raise Capital for Infrastructure

We have been at the forefront of efforts to popularize the use of our capital markets to finance infrastructure development and maintenance. Over the last few years, the Government has granted a number of fiscal incentives to issuers who raise capital for infrastructure projects. Since 2006, interest income generated from the cash flows passed to the investors of listed collateralised bonds issued to finance infrastructure development, is exempt from both withholding and income tax. The interest income from all listed bonds with a tenor of at least three years, issued to finance infrastructure and social services, is exempt from withholding and income tax. You are aware that in February and December 2009, the Government of Kenya raised Kshs. 38.62 billion after issuing its first and second infrastructure bonds. Both bonds have a tenor of 12 years; and their coupons are 12.50 percent and 12.00 percent respectively. The Government also issued an additional amount of Kshs. 44.237 billion in bonds with tenors ranging from two to fifteen years and coupons from 8.75 percent to 12.00 percent. On February 23 2010, the Central Bank of Kenya announced that the third infrastructure bond recorded an excellent performance, with 770 bids received amounting to Kshs 35.3 Billion or 243.36 percent subscription.

The Prime Minister of the Republic of Tanzania Rt Hon. Mizengo Peter Pinda rings the bell at the NSE trading floor as Deputy Prime Minister & Minister of Finance, Hon Uhuru Kenyatta looks on.

Besides the Government of Kenya paper, the corporate sector issued medium term notes worth Kshs. 47.03 billion. The Kenya Electricity Generating Company (KENGEN) Public Infrastructure Bond Offer (PIBO) which was issued on November 2 2009, marks a milestone in our market. The Kshs. 25.0 billion that was raised is the largest public debt issue to date; the ten year tenor, makes it the longest tenor corporate bond to date. The issue became the first bond to be immobilized by the Central Depository and Settlement Corporation (CDSC), with over 91 percent of the bondholders opting for immobilization over certification.

Overal in 2009, the issued face value of bonds and bond market capitalisation increased 16.76 percent and 15.27 percent to Kshs. 443.73 billion and Kshs. 439.66 billion respectively. While there were no public capital raising transactions involving equity, debt securities capital raising transactions realised a gross amount of Kshs. 118.87 billion. In 2008, total capital raised was Kshs. 122.31 billion - Kshs. 62.2 billion from the sale of corporate equity, Kshs. 56.11 billion from the listing of new government paper and Kshs. 4.0 billion from corporate debt.

STRATEGIC OBJECTIVES OF THE EXCHANGE

I have spoken about the market's performance, the debt securities market and EAC integration. In order to build on 2009 and position itself to unlock the opportunities I outlined above, the Board of Directors of the Exchange approved the 2010 – 2014 Corporate Plan and Strategy presented by Management. The five (5) strategic objectives for the period 2010 – 2014, to achieve the mission of the NSE have been identified as follows:-

1. To transform from a mutual to corporate (M2C) entity.
2. To grow the existing business.
3. To diversify revenue streams - evolve into a full service securities exchange which provides trading, clearing and settlement of equities, derivatives, interest rate products and other associated instruments.
4. To grow the brand – make the NSE brand the most valuable in the EAC securities industry.
5. To build the capacity of the organization – human capital and systems.

Demutualization

In keeping with this belief, on March 4 2010, at an Extra-Ordinary General Meeting (EGM), you approved demutualization. At the EGM, you unanimously approved:-

a. The Demutualization of the Nairobi Stock Exchange subject to the coming into force of the relevant provisions of law that provide the legal framework to achieve demutualization;
b. The authorised share capital of the shareholders of the new proposed post demutualised to be Kshs. 1 Billion
c. The shareholding in the proposed post demutualised company will be as under:
   i. The current Members – 80%
   ii. Investor Compensation Fund (ICF) – 10%
   iii. The Government of Kenya – 10%

You also approved the proposed post demutualisation Memorandum and Articles of Association of the Nairobi Stock Exchange. Lastly, you authorised the Board of Directors of the Nairobi Stock Exchange (NSE) to deal with any other matters, including statutory requirements, necessary to facilitate the demutualization of the Nairobi Stock Exchange. I wish to appraise you of subsequent developments.

During the Budget Reading by the Minister for Finance on June 10, 2010, the Minister indicated that the Capital Markets Act (Cap. 485A) would be amended to facilitate the demutualization of the Exchange. Sections 42 to 47 of the Finance Bill 2010 contain the amendments to be made to the Act. Once the Finance Bill is passed into an Act of Parliament, the amendments to the Capital Markets Act will come into effect on January 1, 2011. The Minister further mentioned that the planned demutualization would culminate with the listing of the securities exchange in order to allow the public to own a stake. In the interim, the Exchange is working with the Authority to progress its demutualization application. It is your belief and that of the Board, that demutualisation will transform the Exchange and position it to realize its vast potential and attain its vision "To be a leading securities exchange in Africa, with a global reach".

Organizational Restructuring

In anticipation of the new demands required of the Exchange as a demutualized entity, the Exchange concluded an internal organizational restructuring process to streamline its operations. Effective May 1 2010, there are four (4) departments, run by Heads of Department reporting to the Chief Executive – Operations and Technology; Finance and Strategy, Compliance and Legal, and Market and Product Development. The new management team has commenced work on initiatives to grow the existing business and diversify our revenue streams as part of our target to become a full service securities exchange which provides trading, clearing and settlement of equities, derivatives, interest rate products and other associated instruments. We expect business growth through new listings on existing market segements and revenue diversification through broadening our product offering to target Small and Medium Enterprises (SMEs), and the introduction of futures and options will require extensive collaboration with yourselves. Indeed, there is already extensive collaboration on the provision of a Broker Backoffice.

The Broker Backoffice

As you are aware, we commenced the selection of a vendor to provide a centralized solution for a broker backoffice, to be operated from the Exchange. The process which employed industry best practise was been rigorous and transparent and involved our members through the Kenya Association of Stockbrokers and Investment Banks (KASIB), the Authority and the Central Depository and Settlement Corporation. We are pleased to have shortlisted a vendor, with whom we shall commence contractual negotiations. All stakeholders are in agreement that a centralized, standardized solution for the broker backoffice provides economies of scale, in terms of systems development, management and maintaneance. It shall also enhance existing market survelliance functions of the Authority and the Exchange – a further assuarnce of investor protections for our market. It also provides opportunities for further development of information products and services. All the interested parties have in principle agreed on the financing of the project; with your support we expect the system to go live in the first quarter of 2011.

Benchmarking in accordance with Global best practise

In line with our objective to the most valuable brand in the EAC securities industry and to position Nairobi as the financial services hub of the Eastern Africa region, we have applied to the World Federation of Exchanges (WFE) to upgrade our status from correspondent to affiliate status. At the end of the current strategy period in 2014, we intend to be full members of the WFE. Currently the Egyptian Exchange, the JSE Ltd., and the Stock Exchange of Mauritius are the only African exchanges that have earned the privilege of being full members of the WFE.

APPRECIATION

In closing, I wish to convey to our members, the appreciation of the Board of Directors of the Exchange, for their unwavering support during what was a challenging year. We reiterate that in 2010, we will need your continuing support and shall seek your approval on matters touching on demutualization, and your consuel on growing our business. The debt securities market initiatives were an active collaboration between the Exchange, the Capital Markets Authority and the Central Bank of Kenya. We wish to thank the Authority and Central Bank of Kenya for their confidence in the Exchange. The Board also thanks the management team for steering the Exchange through a challenging 2009. We are confident that with the cooperation of all market players the Exchange will deliver the 2010 – 2014 Strategic objectives. We anticipate 2010 to be one of great opportunities, and the Exchange is well positioned to create value for all stakeholders – investors, issuers, market intermediaries, regulators and shareholders.

God bless you all.

EDWARD NJOROGE
CHAIRMAN
July 5 2010

> "In 2009, secondary bond market activity surpassed that of 2008 by 16.16 percent to reach Kshs. 110.176 billion; from Kshs. 94.85 billion the previous year."

On behalf of the management and staff of the Nairobi Stock Exchange (NSE), I would like to share highlights on the operational and financial performance of the Exchange for the year under review. As highlighted by the Chairman, 2009 was a challenging year for the domestic financial markets.

TRADING PERFORMANCE

The global financial crisis, the economic downturn, which precipitated a sustained downturn in the market, resulted in a notable shift from equity to the relative safety of fixed income securities. Equity turnover fell 60.87 percent from 2009's record of Kshs. 97.52 billion to Kshs. 38.16 billion. Corresponding deals dropped 54.82 percent to 402,169. Our analysis indicates that domestic investors avoided the equity market. In 2009, the value of transactions by domestic investors was Kshs. 15.04 billion; 39.42 percent of 2009 turnover. Foreign investors also made net purchases of Kshs. 8.33 billion. This contrasts sharply with 2009 figures, when domestic investors accounted for Kshs. 58.37 billion (59.62% of turnover); and foreign investors' contribution resulted in a net outflow of Kshs. 8.13 billion. 2009 showed the potential of our debt securities markets. In 2009, secondary bond market activity surpassed that of 2008 by 16.16 percent to reach Kshs. 110.176 billion; from Kshs. 94.85 billion the previous year. Corresponding bond deals were up 78.98 percent to 3,551 from 1,984 in 2009. Besides the macroeconomic environment, there have been a number of initiatives that have facilitated secondary market liquidity.

Innovations in Debt Securities Secondary Markets

On November 25, 2009, Government of Kenya treasury bonds commenced trading via the automated trading system. The Central Bank of Kenya continues to perform the functions of the Registrar of National Debt. The settlement cycle for both corporate and Government of Kenya treasury bonds is T+3 and on the premise of Delivery versus Payment (DVP). Debt securities are numbered using International Securities Identification Number (ISIN) Codes. Automation has increased liquidity and reduced operational risk. After automation, weekly corporate bond turnover increased 1,836.36 percent to Kshs. 75.76 million from Kshs. 3.91 million. Government of Kenya bond turnover increased 29.51 percent from Kshs. 2.02

Deputy Prime Minister & Minister of finance, Hon Uhuru Kenyatta makes his remarks during the launch of Kengen PIB billion to Kshs. 2.62 billion. These figures indicate the success of the automation of bond trading. Besides increasing liquidity and reducing operational risk, the Exchange sees automation providing value through the more efficient dissemination of bond pricing and yield information from a centralised, credible source – the Exchange ATS. The methodology for the compilation of the bond price list and yield curve was agreed by the Market Leaders' Forum. The Institute of Certified Public Accountants of Kenya has approved the use of the yield curve for "mark to market" valuations. The Exchange made presentations to the Capital Markets Authority to levy transaction fees on bond trading volumes, which will be split between the Trading Participants, the Exchange, the CDSC and the Authority. The fees structure will come into effect once they have been gazetted by the Minister for Finance. On April 22, 2010, to facilitate electronic trading the Board of the Central Depository and Settlement Corporation (CDSC) has approved the immobilization of all listed corporate bonds. We are currently working with the Authority to license Authorised Securities Dealers (ASDs). ASDs are a category of Associate member that is restricted to dealing in debt securities listed on the FISMS. We believe these initiatives will support the optimisation and maintenance of the bond trading platform, deepen liquidity and manage counterparty risk.

FINANCIAL PERFORMANCE

The Exchange made a net loss of Kshs. 35.8 million for the year, compared to a profit of Kshs. 59.04 million in 2008. The Exchange's operating income was Kshs. 164.387 million, a 47.09 percent drop when compared to the previous year's Kshs. 310.701 million. Operating income from annual, application and additional, and initial listing fees fell by 3.97 percent from Kshs. 75.802 million to Kshs. 72.792 million; and contributed 44.28 percent of operating income compared to 24.40 percent in the prior period. Application and additional and initial listing fees was Kshs. 8.332 million, 0.007 percent of the Kshs. 118.87 billion raised from the sale of both corporate debt (Kshs. 47.03 billion) and government paper (Kshs. 71.84 billion). The Exchange charges a transaction levy of 0.12 percent of the value of equity securities traded at the Exchange.

Operating income from the transaction levy fell 61.01 percent to Kshs. 91.595 million; it remains the largest component of our operating income at 55.72 percent; (2008: 75.60 percent). Exchange revenues from the sale of merchandising, information and related services increased 36.56 percent to Kshs. 8.057 million; of this, the component from the sale of real time data increased 26.86 percent to Kshs. 6.684 million (4.9 percent of operating income). Administrative expenses decreased by 26.69 percent to Kshs. 175.229 million. The main components of the decrease were related to the 12.75 percent decrease in human capital expenditures to Kshs. 61.03 million and a 42.35 percent decrease in directors' emoluments. Besides managing in the difficult operating environment of 2009, the cost reductions are part of the Exchange's efforts to prepare for demutualization by being more transparent and reducing possibilities of conflict of interest situations with its members. The Chairman has already highlighted the major initiatives that the Exchange will focus on in 2010 in order to restore investor confidence.

APPRECIATION

On behalf of the Management of the Exchange, I would like to thank the Board of Directors for their guidance, the staff for their hard work, and our clients and service providers for their continued support and loyalty.

PETER MWANGI
CHIEF EXECUTIVE
July 5 2010

COMPOSITION OF THE BOARD

DESIGNATION	NAME
Mr. Edward Njoroge	Chairman
Mr. Lutaf Kassam	1st Vice Chairman
Mr. Job Kihumba	2nd Vice Chairman
Mr. Peter Mwangi	Chief Executive
Mr. David Njoroge	Listed Companies Director
Mr. Stanley Ngaine	Stock Broker Director
Mr. George Maina	Stock Broker Director
Mr. Andre DeSimone	Stock Broker Director
Mr. Lucas Otieno	Stock Broker Director
Ms. Winnie Nyamute	Institutional Director
Ms. Catherine Musakali	Institutional Director

CALENDAR FOR BOARD MEETINGS IN 2009

DATE OF BOARD MEETING	OBJECTIVES
29-Jan-09	Financials for December
19-Mar-09	Financials for January and February
30-Apr-09	Annual General Meeting and Board Meeting
3-Jun-09	Financials March and April
20-Aug-09	Financials May, June and July
14-Nov-09	Board Retreat - 5 Year Strategic Planning (2009-2014)
30-Nov-09	Financials August, September and October

BOARD MEETING ATTENDANCE SCHEDULE

There were 9 meetings held during the 2009 Financial Year. Below are the details of attendance.

Name	Jan 20th	Feb 4th	Feb 20th	March 19th	Apr 30th	Jun 3rd	Aug 20th	Nov 14th - Strategic Board Retreat 2010-2014	Nov 30th
Edward Njoroge	√		√		√	√	√	√	√
Lutaf Kassam			√	√	√		√	√	√
Job Kihumba*					√	√	√	√	√
Peter Mwangi	√	√	√	√	√	√	√	√	√
David Njoroge	√	√		√	√		√	√	
Stanley Ngaine	√	√	√	√	√	√	√	√	√
George Maina	√	√	√	√	√	√	√	√	√
Andre DeSimone	√	√	√		√	√	√	√	√
Lucas Otieno*					√	√	√	√	√
Winnie Nyamute**							√	√	√
Catherine Musakali**							√	√	√

* Appointed on April 30, 2009

** Appointed on June 3, 2009

BOARD COMMITTEES

DISCIPLINARY AND COMPLIANCE COMMITTEE
Mr. Lutaf Kassam (Chairman)
Mr. Andre DeSimone
Mr. David Njoroge
Ms. Catherine Musakali
Mr. Karim Anjarwalla
Mr. Andrew Wachira (Secretary)

AUDIT, RISK & CORPORATE GOVERNANCE COMMITTEE
Ms. Winnie Nyamute (Chairperson)
Mr. Lutaf Kassam
Mr. Lucas Otieno
Mr. Robert Mugo
Mr. Chrysantus Macheso (Secretary)

FINANCE & MANPOWER COMMITTEE
Mr. David Njoroge (Chairman)
Mr. George Maina
Mr. Andre DeSimone
Mr. Stanley Ngaine
Mr. Peter Mwangi (Chief Executive)
Mr. Chrysantus Macheso
Mr. Andrew Wachira (Secretary)

LISTING COMMITTEE (COMMITTEE OF THE FULL BOARD)
Mr. Edward Njoroge (Chairman)
Mr. Lutaf Kassam
Mr. Job Kihumba
Mr. Peter Mwangi (Chief Executive)
Mr. David Njoroge
Mr. Stanley Ngaine
Mr. George Maina
Mr. Andre
Mr. Lucas Otieno
Ms. Winnie Nyamute
Ms. Catherine Musakali
Mr. Andrew Wachira (Secretary)

DEMUTUALIZATION COMMITTEE
Mr. Edward Njoroge (Chairman)
Mr. Stanley Ngaine
Mr. George Maina
Mr. Jimnah Mbaru
Mr. James Wangunyu
Mr Peter Mwangi (Chief Executive)
Mr. Andrew Wachira (Secretary)

TRADING & SURVEILLANCE COMMITTEE
Mr. Job Kihumba (Chairman)
Mr. John Odhiambo
Mrs. Rose Mambo
Mr. Andrew Njenga
Mr. Dennis Waweru
Mr. Lucas Otieno
Mr. Peter Mwangi (Chief Executive)
Mr. John Mwaniki (Head of Operations & Technology)
Mr Andrew Wachira (Head of Compliance & Legal)
Mr. David Wainaina (Secretary)

BUSINESS DEVELOPMENT & PUBLIC EDUCATION COMMITTEE
Mr. George Maina (Chairman)
Mr. Lucas Otieno
Mr. Job Kihumba
Mr. Peter Mwangi (Chief Executive)
Mr. Donald Ouma (Secretary)

As the sole stock market in Kenya, the Nairobi Stock Exchange (NSE) plays a key role in sustainable economic development. Our main aim is to facilitate ease of access to both equity and debt capital by various entities including the Government, Corporates and Small to Medium Enterprises (SMEs).

Development of a culture of saving amongst the country's citizens is a key benefit, by availing effective, efficient and competitive platforms for savings to earn a return. The NSE has continually rededicated itself to the tenets of the Triple bottom line principle.

Community engagement

For a nation to prosper, its citizens must access their basic needs so that the business of nation building can continue sustainably. During the year we partnered with various humanitarian organisations in order to respond to communities in need.

The NSE, including our board and management contributed in cash and with food stuff towards the famine relief drive by the Kenya Red Cross. Through our staff member participation in food distribution exercises in Doldol in Rift Valley Province, we were also able to spend some time with the community to get a firsthand experience of the issues on the ground.

Cognisant of the stop gap measures required when responding to a national disaster, the NSE staff also participated in the blood donation drive by blood link.

NSE staff donate food stuff to the members of Dol Dol community

Environmental consciousness

The issue of global warming must be dealt with at the local day to day level for any positive impact to be felt at a larger scale. Though a service based industry, the NSE continues to focus on automation of a number of its paper based processes. The first was automation of the intensely paper based manual bond trading, which not only increased efficiency in the market but reduced the requisite paper trail often accumulated. Our printing paper is purchased from suppliers with access to paper produced from renewable forests. The conscious utilisation of energy is also a key concern for us. We utilise energy saving bulbs in the entire premise and encourage the switching off of air conditioning and light switches when not in use. Water as a resource is effectively managed through the installation and continous use of stop press taps which avoid water loss through dripping taps.

Complaints Handling Unit

The stock market culture should be a positive experience that encourages and rewards a culture of savings. The Complaints

2nd Vice Chairman of NSE, Job Kihumb toasts with Chief Executive Peter Mwangi during the launch of the Complaints Handling Unit 8485 SMS service

Handling Unit of CHU as it is referred to was established to centralise a feedback channel from our clients, whether based locally or abroad. Ease of access via a free web based platform www.nsecomplaints.co.ke and a nominally charged 8485 SMS system, we are able to receive and address investor issues from wherever they may be situated. This way we are able to conduct our business in a market sensitive manner and ensure our investors are well catered to.

Market capacity building

The members of the fourth estate are a powerful tool that is able to reach to the furthest corners of the republic. It is therefore important that they are able to grasp the issues and communicate this objectively in order to facilitate the proper savings culture. The quarterly media briefings are dedicated to the media and held every quarter, where we take them through detailed analysis of what is happening in the market. They also get to interact directly with the Chief Executive.

The issue of capacity building is one that continues to dog the developing markets, which have limited access to practical financial training as most of what is available is dedicated to foreign developed markets. Through the Securities Training Industry Institute (SITI) the NSE together with the regional stock markets in East Africa have established a programme dedicated to improving the technical capacity of professionals in the region. The SITI Nairobi campus which is run by the NSE has carried out a number of trainings, especially for member firm staff, in a bid to improving the professional capability of market participants. These courses are also open to interested members of the public and the media.

Youth initiatives

Aware of our responsibility in ensuring that the market is demystified from a very early age in order to inculcate the strive towards financial independence, we have a number of initiatives targeted towards the youth.

NSE Wednesday Forums – Every week, the NSE hosts various youth from, primary schools high schools and universities for a free presentation on how the market works. With a dedicated department geared towards this public education, we see an average of 10,000 visitors on an annual basis.

NSE Investment Challenge – This is an online simulation of the stock market that mimics the real events on the ground. An edutainment initiative, it is geared towards university students and for thier first time in 2010 those in polytechnics and colleges. Participants are grouped into teams of up to four and given virtual money to invest based on real time prices. Evaluation which is done on portfolio value and reasoning behind the investment decisions ensures that participants are focused more on learning as opposed to trying their luck. The competition runs for 3 months and winners receive real cash prizes with which to invest with and paid internships to give them real work experience.

NSE staff during a blood drive initiative

Facebook and Twitter – The NSEKenya facebook page and Twitter page has enabled us to reach the youth through an interactive platform. Fans are able to take control of the discussions and share on their thought on the market. We continue to encourage use of the platform to instil a culture of delayed gratification which would enhance savings amongst the youth.

Our staff

To say our greatest resource is our people is not just a platitude for NSE but a principle that rings true. Ours is a specialised industry which thrives on practical experience and continous improvement as the industry is very versatile. Staff are encouraged and facilitated for various training opportunities both locally and internationally, to countries such as India, Ghana and United States of America.

Conscious about providing a safe work environment as mandated by the various legal statutes, we have staff committees that are tasked with ensuring compliance with the required safety features, including environmental soundness of the work environment.

As a small team, we take advantage of this to host forums for staff to engage in as often as practically possible and also gain their feedback. We have monthly staff meetings where we discuss various aspects, celebrate birthdays and achievements and get specialists to talk to us on a variety of topics including health and financial prudency.

We continuously strive to uphold integrity of staff by following the mandates of our Staff Code of Conduct. Our industry is founded on a strong base of ethics and we must start by adhering to them in our own organisation. We must be and be seen to be an organisation that upholds high standards of transparency and accountability.

The directors have pleasure in presenting the audited financial statements for the year ended 31 December 2009 which show the state of the company's affairs.

PRINCIPAL ACTIVITIES

The company is the sole stock exchange, licensed by the Capital Markets Authority to provide a facility for the issue, purchase and sale of securities in Kenya. Nairobi Stock Exchange as a self-regulatory organization is involved in the development and operation of an efficient securities market.

RESULTS FOR THE YEAR

The net loss for the year was Sh 35,804,000 (2008: profit Sh 59,041,000).

DIRECTORS

The present board of directors is as shown on page 2. The movement in the board of directors is as shown below:

Retirements	Date retired
Mr. James Wangunyu	30.04.09
Mrs. Esther Koimett	30.04.09
Mr Bob Karina	30.04.09
Mr Edward Odundo	30.04.09

Appointments	Date appointed
Mr. Job Kihumba	30.04.09
Mr. Lucas Otieno	30.04.09
Mrs. Winnie Nyamute	30.06.09
Mrs. Catherine Musakali	30.06.09

AUDITORS

Deloitte & Touche, who were appointed as auditors during the year, have expressed their willingness to continue in office in accordance with section 159 (2) of the Kenyan Companies Act.

BY ORDER OF THE BOARD

PETER K. MWANGI
SECRETARY
Nairobi
April 12, 2010

Financial Statements

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

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

The directors 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 in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors 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.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

EDWARD NJOOGE
Director

LUTAF KASSAM
Director

April 12, 2010

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF NAIROBI STOCK EXCHANGE LIMITED

FOR THE YEAR ENDED 31ST DECEMBER 2009

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Nairobi Stock Exchange Limited, set out on pages 21 to 41 which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company'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 company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2009 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi

April 12, 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2009

	Note	2009 Sh'000	2008 Sh'000
Operating income	3	164,387	310,706
Interest income	6	9,802	11,845
Other income	7	10,340	5,900
		184,529	328,451
Administrative expenses		(175,299)	(239,114)
Provisions for doutful debts	12	(42,623)	(14,099)
Share of profit of associate company	11	1,639	9,127
(Loss)/ profit before tax	4	(31,754)	84,365
Taxation	8 (a)	(4,050)	(25,324)
(Loss)/ profit for the year		(35,804)	59,041
Other comprehensive income		-	-
Total comprehensive income for the year		(35,804)	59,041

STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2009

	Note	2009	2008
ASSETS		**Sh'000**	**Sh'000**
Non current assets			
Equipment	9	32,911	41,887
Intangible assets	10	41,549	37,509
Investment in associate company	11	30,006	28,367
		104,466	107,763
Current assets			
Trade and other receivables	12	36,292	87,497
Tax recoverable	8(c)	16,593	20,918
Government securities	13	34,554	105,000
Term deposits	14	69,064-	
Bank and cash balances	14	42,002	18,698
		198,505	232,113
TOTAL ASSETS		302,971	339,876
MEMBERS' FUNDS AND LIABILITIES			
Members' funds and reserves			
Members' fund		22,240	22,240
Retained earnings		242,667	278,471
		264,907	300,711
Non current liabilities			
Deferred taxation	16	732	2,462
Current liabilities			
Trade and other payables	17	35,328	32,955
Provisions	18	2,004	3,748
		37,332	36,703
TOTAL MEMBERS' FUNDS AND LIABILITIES		302,971	339,876

The financial statements on pages 21 to 41 were approved by the board of directors on April 12, 2010 and were signed on its behalf by:

....) Directors
....) Secretary
....)

	Members' fund Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2008	22,240	219,430	241,670
Total comprehensive income	-	59,041	59,041
At 31 December 2008	22,240	278,471	300,071
At 1 January 2009	22,240	278,471	300,711
Total comprehensive income	-	(35,804)	(35,804)
At 31 December 2009	22,240	242,667	264,907

Members' fund relates to a pool of membership fees paid by members of the Nairobi Stock Exchange when joining the Exchange.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2009

	Note	2009	2008
		Sh'000	Sh'000
Cash flows from operating activities			
Cash generated from operations	20	33,408	49,591
Tax paid	8(c)	(1,455)	(39,155)
Net cash generated from operating activities		31,953	10,436
Cash flows from investing activities			
Purchase of equipment	9	(7,921)	(4,778)
Purchase of computer software	10	(14,712)	(16,927)
Proceeds from disposal of equipment		2,800	-
Net proceeds from maturing government securities		60,000	-
Interest received		9,802	11,845
Net cash generated from/(used in) investing activities		49,969	(9,860)
Cash used in financing activities			
Net movement in market stabilization fund	15	-	(85,052)
Increase/ (decrease) in cash and cash equivalents		81,922	(84,476)
Cash and cash equivalents at the beginning of the year		63,698	148,174
Cash and cash equivalents at the end of the year	14	145,620	63,698

1 ACCOUNTING POLICIES

a) Statement of compliance

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

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

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

(i) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised standards and interpretations have been adopted in the current period and have affected the amounts and disclosures reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section b(ii) below;

- ***IAS 1 (revised) 'Presentation of financial statements' – effective 1 January 2009***

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. The adoption does not have any impact on retained earnings.

The company also elected to use the titles per revised IAS 1 of 'statement of financial position' and 'statement of cash flow' to describe the 'statement of financial position' and cash flows statement respectively.

(ii) Standards and interpretations effective in 2009, but with no effect on company's financial statements:

The following new and revised standards and interpretations are effective in the current financial year and have also been adopted where applicable in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements;

- IFRS 1: First-Time Adoption of International Financial Reporting Standards - Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 2 Share-based payment – Amendments relating to vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009);
- IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about fair value and liquidity risk (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009;
- IAS 23:Borrowing costs – Comprehensive revision to prohibit immediate expensing (effective for accounting periods beginning on or after 1 January 2009);
- IAS 27: Consolidated and Separate Financial Statements –Amendments relating to cost of an investment on first time adoption (effective for annual periods beginning on or after 1 January 2009);

11 ACCOUNTING POLICIES continued

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

(ii) Standards and interpretations effective in 2009, but with no effect on company's financial statements (Continued)

- IAS 31: Interest in Joint Ventures - Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 January 2009);
- IAS 32: Financial Instruments - Presentation amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009);
- IAS 39: Financial Instruments: Recognition and Measurement – Amendments for embedded derivatives when reclassifying financial instruments (effective for annual periods ending on or after 30 June 2009);
- IFRIC 15: Agreement for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009).

(iii) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are effective for accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the company;

- IFRS 3: Business combinations – Comprehensive revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 9: Financial instruments (effective for accounting periods beginning on or after 1 January 2013;
- IAS 27: Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- IAS 39: Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 17: Distribution of non-cash assets to owners (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 18 Transfers of assets from customers (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 19: Extinguishing financial liabilities with equity instruments (effective for accounting periods beginning on or after 1 July 2010).

Improvements to IFRS

'Improvements to IFRS' were issued in May 2008 and April 2009. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted.

The directors anticipate that the adoption of amendments to various IFRS resulting from the International Accounting Standards Board (IASB)'s annual improvements projects, when effective, will have no material impact on the financial statements of the company.

(iv) Early adoption of standards

The company did not early-adopt new or amended standards in 2009.

1. ACCOUNTING POLICIES (continued)

Basis of preparation

The financial statements are prepared under the historical cost basis of accounting. The principal accounting policies are set out below.

Revenue recognition

Initial listing income is recognized in the year in which the company makes the flotation.

Additional listing income is recognized during the year in which the issuing company makes announcement of the bonus/rights issues.

Transaction levy income is based on the percentage of the value of shares traded and is recognised on the dates of the transactions.

Annual listing fee is computed on the basis of the daily weighted average capitalisation value of the listed securities for 11 months period of between 1 January – 30 November.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the date of reporting that are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

Equipment

All equipment is stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Motor vehicles	4 years
Furniture, fittings and partitions	8 years
Office equipment	4 years
Computer equipment	4 years

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and taken into account in determining operating profit.

Intangible assets

Intangible assets represent computer software which is stated at cost less amortisation. Amortisation is calculated to write-off software on a straight-line basis over the estimated useful life of 4 – 5 years.

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

1. ACCOUNTING POLICIES (continued)

Financial instruments

The company classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held to maturity investments and available for sale assets. Management determines appropriate classification for its investments at initial recognition.

Trade receivables

Receivables are recognised initially at fair value and subsequently at amortized cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of income.

Trade payables

Trade payables are stated at their nominal values.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Financial assets classified as available for sale are recognised at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss.

Where the investment is disposed of or it is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Investments in associate

An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the company's interest in that associate are recognised only to the extent that the company has incurred legal or constructive obligations or made payments on behalf of the associate.

Employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of reporting.

1. ACCOUNTING POLICIES (continued)

Market stabilization fund

The market stabilization fund has been set up for the purposes of investor protection in the event of a member defaulting in equities trades in certain circumstances. The fund is used for refunding investors in cases where the members are not able to meet the obligations. The market stabilization fund is applied at the discretion of the Exchange and only in deserving circumstances approved by the members of the Exchange.

Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the date of reporting are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Retirement benefit obligations

The company operates a defined contribution provident scheme for all its employees. The scheme is administered by British American Insurance Company (Kenya) Limited and is funded from contributions from both the company and employees.

The company also contributes to a statutory contribution pension scheme, the National Social Security Fund (NSSF). The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Sh 200 per month per employee. The company's contributions to these schemes are charged to the statement of income in the year in which they relate.

Comparatives

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

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and 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.

The key areas of judgment in applying the entities accounting policies are dealt with below:

(a) Critical judgements in applying accounting policies

There are no critical judgements, apart from those involving estimations (see b below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(b) Key sources of estimation uncertainty

Impairment losses

At each date of reporting, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Equipment

Critical estimates are made by the directors in determining depreciation rates for equipment.

	2009 Sh'000	2008 Sh'000
3 OPERATING INCOME		
Transactions levy	91,595	234,904
Annual listing fees	64,460	63,764
Initial listing fees	7,832	10,105
Application and additional listing fees	500	1,933
	164,387	310,706
4 (LOSS)/ PROFIT BEFORE TAXATION		
The (loss)/ profit before taxation is arrived at after charging:		
Provision for doubtful debt	42,623	14,099
AKS levy	-	11,745
Depreciation on equipment	16,380	17,707
Amortisation of intangible assets	10,672	9,977
Staff costs (note 5)	61,027	69,943
Exchange loss	-	350
Auditors' remuneration	950	900
Directors' emoluments:		
- Executive	9,000	11,568
- Non - executive	7,607	17,240
Operating lease rentals	17,234	15,548
5 STAFF COSTS		
Salaries and wages	53,665	52,128
Bonus provision	-	8,595
Leave pay expense	1,118	1,679
Gratuity payable	-	2,054
Social security costs (NSSF)	97	100
Provident fund contribution	6,147	5,387
	61,027	69,943
6 INTEREST INCOME		
Held to maturity investments - interest on treasury bills	7,310	11,500
- interest on term deposits	2,292	285
Interest on staff loans and advances	200	60
	9,802	11,845

7 OTHER INCOME

	2009 Sh'000	2008 Sh'000
Advertisement fee on NSE journal	614	472
Data Vending	6,684	5,269
Sale of publications and merchandising items	345	58
Gain on sale of equipment	2.283	-
Sale of magazine	414	101
	10,340	5,900

8 TAXATION

(a) **Taxation charge**

	2009 Sh'000	2008 Sh'000
Current tax	5,780	26,551
Deferred tax credit (note 15)	(2,238)	(6,857)
Prior year under provision – deferred tax	508	5,630
	4,050	25,324

The tax on the company's loss/profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2009 Sh'000	2008 Sh'000
(b) Reconciliation of taxation charge to the expected tax based		
on accounting (loss)/ profit		
(Loss)/ profit before tax	(31,754)	84,365
Tax calculated at a tax rate of 30%	(9,526)	25,310
Tax effects on expenses not deductible for tax	14,118	4,802
Tax effects on incomes not subject to tax	(1,050)	(10,418)
Prior year under provision - deferred tax	508	5,630
Tax charge	4,050	25,324
c) Tax recoverable		
Balance brought forward	(20,918)	(8,314)
Tax charge for the year	5,780	26,551
Tax paid	(1,455)	(39,155)
Balance carried forward	(16,593)	(20,918)

9. EQUIPMENT

	Motor vehicles Sh'000	Furniture & fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	Work-in progress Sh'000	Total Sh'000
COST						
At 1 January 2008	7,740	13,674	11,574	67,432	751	101,171
Additions	-	1,178	1,032	1,963	605	4,778
Reclassification	-	1,356	-	-	(1,356)	-
At 31 December 2008	7,740	16,208	12,606	69,395	-	105,949
At 1 January 2009	7,740	16,208	12,606	69,395	-	105,949
Additions	6,868	469	164	420	-	7,921
Disposals	(5,737)	-	(60)	(308)	-	(6,105)
At 31 December 2009	8,871	16,677	12,710	69,507	-	107,765
DEPRECIATION						
At 1 January 2008	5,947	4,862	8,490	27,056	-	46,355
Charge for the year	1,434	1,543	1,617	13,113	-	17,707
At 31 December 2008	7,381	6,405	10,107	40,169	-	64,062
At 1 January 2009	7,381	6,405	10,107	40,169	-	64,062
Charge for the year	1,559	1,534	1,320	11,967	-	16,380
Eliminated on disposal	(5,379)	-	(30)	(179)	-	(5,588)
At 31 December 2009	3,561	7,939	11,397	51,957	-	74,854
NET BOOK VALUE						
At 31 December 2009	5,310	8,738	1,313	17,550	-	32,911
At 31 December 2008	359	9,803	2,499	29,226	-	41,887

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated equipment with a cost of Sh 69.6 million (2008 - Sh 51.3 million) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Sh 12.2 million (2008 – Sh 9.7 million).

10 INTANGIBLE ASSETS

	Automated trading system Software Sh'000	Other software Sh'000	software development costs Sh '000	Total Sh'000
COST				
At 1 January 2008	38,932	6,985	-	45,917
Additions	9,681	1,739	5,507	16,927
At 31 December 2008	48,613	8,724	5,507	62,844
At 1 January 2009	48,613	8,724	5,507	62,844
Additions	11,089	3,623	-	14,712
Reclassified to other software	-	5,507	(5,507)	-
At 31 December 2009	59,702	17,854	-	77,556
AMORTISATION				
At 1 January 2008	10,039	5,319	-	15,358
Amortisation for the year	8,916	1,061	-	9,977
At 31 December 2008	18,955	6,380	-	25,335
At 1 January 2009	18,955	6,380	-	25,335
Amortisation for the year	9,398	1,274	-	10,672
At 31 December 2009	28,353	7,654	-	36,007
NET BOOK VALUE				
At 31 December 2009	31,349	10,200	-	41,549
At 31 December 2008	29,658	2,344	5,507	37,509

11 INVESTMENT IN ASSOCIATE COMPANY

	2009 Sh'000	2008 Sh'000
At 1 January	28,367	19,240
Share of profit for the year	1,639	9,127
At 31 December	30,006	28,367

Details of investment	Country of incorporation Sh'000	Assets Sh'000	Liabilities Sh'000	Revenue Sh'000	Profit Sh'000	% of interest held
Central Depository and Settlement Corporation (CDSC) Limited	Kenya	172,719	22,691	125,448	8,192	20%

The Nairobi Stock Exchange (NSE) holds 20% shares in the Central Depository and Settlement Corporation Limited (CDSC) called up shares. CDSC was incorporated in 1999 and has the responsibility for carrying out clearance and settlement, depository and registry of shares and other security instruments.

There are no contingent liabilities relating to the company's interest in the associate company and no contingent liabilities of the associate itself.

12 (a) TRADE AND OTHER RECEIVABLES

	2009 Sh'000	2008 Sh'000
Trade receivables	23,283	27,798
Prepayments and deposit	14,180	14,633
Other receivables	11,428	15,042
Receivable from Dar-es Salaam Stock Exchange	2,500	2,500
Transferred from market stabilization fund (note 14)	-	41,623
Receivable from members of the Exchange	41,623	-
	93,014	101,596
Provision for doubtful debts (note 12b)	(56,722)	(14,099)
	36,292	87,497

Receivable from Dar-es-Salaam Stock Exchange represents amount paid by the company on behalf of Dar-es-Salaam Stock Exchange for their proportionate called up shareholding in CDSC

(b) PROVISION FOR DOUBTFUL DEBTS

	2009	2008
Movements in the provisions bad debts were as follows:		
At 1 January	14,099	616
Charge to profit or loss	42,623	13,483
At 31 December (note 12a)	56,722	14,099

The provision to profit or loss in 2009 relates to funds advanced to two members who have been placed under statutory management.

13 GOVERNMENT SECURITIES

	2009 Sh'000	2008 Sh'000
Held to maturity		
Treasury bills maturing within 91 days: at face value	35,000	45,000
Less: Unearned discount	(446)	-
	34,554	45,000
Treasury bills maturing within 182 days: at face value	-	60,000
Less: Unearned discount	-	-
	-	60,000
	34,554	105,000

The treasury bills mature within 91 and 182 days after the date of acquisition. The weighted average interest rate of the treasury bills is 7.84% (2008:7.62%).

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:-

	2009 Sh'000	2008 Sh'000
Bank and cash balances	42,002	18,698
Term deposits	69,064	-
Treasury bills maturing within 91 days (note 12)	34,554	45,000
	145,620	63,698
Term deposits are held to maturity and measured at amortised cost.		
The term deposits are held at the following institutions:		
CfC Stanbic Bank Limited	41,525	-
National Bank of Kenya Limited	15,300	-
Kenya Commercial Bank Limited	12,239	-
	69,064	-

The effective weighted interest rate of the term deposits was 7.58% (2008: nil).

	2009 Sh'000	2008 Sh'000
15 MARKET STABILIZATION FUND		
At 1 January	-	85,052
Payment to Francis Thuo & Partners investors	-	6,863
Interest earned on investment in term deposit	-	163
Advance to Nyaga Stockbrokers Limited	-	(102,501)
Advance to Discount Securities Limited	-	(31,200)
Transferred to trade and other receivables (note 11(a))	-	41,623
At 31 December	-	-

The market stabilization fund is ring fenced for the purposes of investor protection in the event of a member defaulting inequities trades in certain circumstances. In 2008, the entire balance of the amount including funds from the company's other sources were advanced to Nyaga Stockbrokers Limited and Discount Securities Limited to enable them meet their financial obligations to The fund is applied only in deserving circumstances approved by the members of the Exchange.

16 DEFERRED TAX

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

	2009 Sh'000	2008 Sh'000
The net deferred tax liability is attributable to the following items:		
Deferred tax liability:		
Excess capital allowances over depreciation	1,333	3,587
Deferred tax asset:		
Leave provisions	(601)	(1,125)
Net deferred tax liability	732	2,462
The movement in the deferred tax asset is as follows:		
At 1 January	2,462	3,689
Charged to profit or loss (note 7(a))	(2,238)	(6,857)
Prior year under provision (note 7(b))	508	5,630
At 31 December	732	2,462

	2009 Sh'000	2008 Sh'000
17 TRADE AND OTHER PAYABLES		
Trade payables	12,383	14,395
Capital Markets Authority	2,653	935
Annual listing fees received in advance	12,314	11,750
Accrued expenses	2,242	1,252
Data vendors deposit	1,158	345
Other payables	4,578	4,278
	35,328	32,955
18 PROVISIONS		
Leave provision	2,004	1,758
Gratuity provision	-	1,990
	2,004	3,748
19 OPERATING LEASE COMMITMENTS		
Falling within 1 year	7,526	17,125
Falling after 1 year but within 5 years	34,063	64,149
Falling after 5 years	-	15,799
	41,589	97,073

Operating lease commitments relate to the lease rentals payable for the offices where the Exchange is situated.

20 CASH GENERATED FROM OPERATIONS

Reconciliation of loss/ profit before tax to cash generated from operations:

	2009 Sh'000	2008 Sh'000
(Loss)/ profit before tax	(31,754)	84,365
Adjustments for:		
Depreciation (note 8)	16,380	17,707
Amortisation (note 9)	10,672	9,977
Gain on disposal of equipment	(2,283)	-
Gain in investment in associate (note 10)	(1,639)	(9,127)
Interest income (note 6)	(9,802)	(11,845)
Operating loss/ (profit) before working capital changes	(18,426)	91,077
Decrease in trade and other receivables	51,205	(35,730)
Increase/(decrease) in trade and other payables	629	(5,756)
Cash generated from operations	33,408	49,591

21 RELATED PARTY TRANSACTIONS

As at 31 December 2009, the company had 10 (2008:10) member stockbrokers and 12 (2008:12) licensed investment banks.

The following transactions were carried out with related parties:

	2009 Sh'000	2008 Sh'000
(a) Directors' emoluments		
Non- executive	7,607	17,240
As executives	9,000	11,568
(b) Key management compensation		
Salaries and other short-term employment benefits	31,577	34,754
Post employment benefits	-	2,054

(c) Transactions with brokers

The company charges investors, through the brokers, a transactions levy of 0.12% (2008: 0.12%), of the value of securities traded at the Exchange (turnover). During the year, the total turnover was Sh 76,329 million (2008: Sh 195,752 million) resulting in a transaction levy of Sh 91.6 million (2008: Sh 234.9 million).

22 CONTINGENT LIABILITIES

At 31 December 2009, the company had no contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business.

The company has lodged an appeal to the CMA Appeals tribunal with regard to a penalty of Sh 4,250,000 imposed by the CMA. The directors are of the opinion that, based on the information available; the claim is unlikely be awarded by the tribunal.

23 RISK MANAGEMENT OBJECTIVES AND POLICIES

The main business risks faced by the company in respect of its principal non-derivative financial instruments are liquidity risk, interest rate risk and foreign currency risk. The directors review and agree policies for managing these risks.

The company maintains a conservative policy regarding currency and interest rate risks and does not engage in speculation in the markets. In addition, the company does not speculate or trade in derivative financial instruments.

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

23 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The following table sets out the carrying amount, by maturity, of the company's financial instruments that are exposed to interest rate risk:

	1 month	1-3 months	3-6 months	Total
	Sh '000	Sh '000	Sh '000	Sh '000
31 December 2009				
Government securities	-	35,000	-	35,000
Term deposits	-	27,092	41,577	68,669
31 December 2008				
Government securities	-	45,000	60,000	105,000

The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets.

A 5% increase/decrease in interest yields would result in additional profit/loss for the period of Shs 490,000 (2008: Shs 592,000).

Foreign currency exchange risk

The company undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are however minimal as these only relate to income from data vendors which is marginal

Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. Credit risk arises from deposits with banks, as well as trade receivables. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority.

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2008 and 2009 is made up as follows:

	Fully performing	**Past due**	**Impaired**	**Total**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
31 December				
Treasury bills	34,553	-	-	34,553
Term deposits	69,064	-	-	69,064
Bank balances	41,793	-	-	41,793
Trade and other receivables	9,944	25,082	(14,182)	20,844
	155,354	25,082	(14,182)	166,254

23 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31 December 2008	Fully performing Shs	Past due Shs	Impaired Shs	
Treasury bills	105,000	-	-	105,000
Term deposits	-	-	-	-
Bank balances	18,601	-	-	18,601
Trade and other receivables	11,081	27,821	(14,099)	24,803
	134,682	27,821	(14,099)	148,404

Bank balances, treasury bills and term deposits are fully performing. Trade receivables under the fully performing category are expected to be recovered in full as the debtors are paying their debts as they continue trading. Trade and other receivables in the past due category are partly impaired.

Fair Values of Financial Assets

In the opinion of the directors, the fair values of the financial assets approximate their carrying amounts due to the generally short periods to contractual repricing or maturity dates.

Weighted average effective interest rates at 31 December 2009 were as follows:

	2009 %	**2008** %
Treasury bills	7.84	7.62
Short term deposit	7.58	-

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The Company manages this risk by maintaining adequate cash balances in the bank, banking facilities and by continuously monitoring forecast and actual cash flows.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at 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.

	Up to 1month Sh'000	**1-3 months Sh'000**	**3-12 months Sh'000**	**1-5 years Sh'000**	**Over 5 years Sh'000**	**Total Sh'000**
At 30 September 2009						
Trade payables	12,383	-	-	-	-	12,383
At 30 September 2008						
Trade payables	14,395	-	-	-	-	14,395

24 CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the equity balance.

The capital structure of the Company consists of member's funds and accumulated profit.

The Company is not subject to any externally imposed capital requirements.

25 EVENTS SUBSEQUENT TO YEAR END

The company is in the process of demutualization subject to the coming into force of provisions of the law that provide the legal framework to achieve demutualization. Demutualization involves conversion from a company limited by guarantee to a company limited by shares. Upon demutualization, the authorized share capital shall be Sh 1 billion divided into 50 million shares of Sh 20 each. The shares shall be allotted to the existing members and new shareholders.

26 COUNTRY OF INCORPORATION

The company is limited by guarantee and incorporated in Kenya under the Kenyan Companies Act

27 CURRENCY

These financial statements are presented in Kenya Shillings (Sh) and are rounded to the nearest Sh 1,000.

PROXY FORM

The Secretary
Nairobi Stock Exchange (NSE)
Po. Box 43633 - 00100
Nairobi

I/We____of P.O Box_______________________

Being member/members of Nairobi Stock Exchange Limited hereby appoint ___________________________

____

of ____

Or failing him/her, the chairman of the meeting as my/our proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the company to be held on the 28th of July 2010 at the Nairobi Serena Hotel, or at any adjournment thereof.

As witness my/our hand this______________________________day of _______________________2010

________________________________ (signature)

NOTES

1. If a member is unable to attend this meeting personally, this Form of Proxy should be completed and returned to reach the company's registered office not later than 4 p.m on the 26th July 2010
2. A person appointed to act as a proxy need not be a member of the company
3. The instrument appointing the proxy should be in writing by the hand of the appointer or of his attorney duly authorized in writing. If the appointer is a corporation, this form of proxy must be under its common seal or under the hand of the officer or attorney duly authorised in that behalf

NOTES


The EXchange
Marché Commun de
L'Est Africaine
L'Opportunité
Exploration de l'industrie minière du Rwanda
The EXchange
The Battle for Supremacy
Kenya hits bumps on the path to quick recovery
French Version Inside
The EXchange
EAST AFRICAN
COMMON MARKET
The Opportunity
Clash of the Titans; RVR unmasked
Exploring Rwanda's mining industry
Black gold: Tullow oil in Uganda

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