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REPUBLIC OF KENYA



KENYA NATIONAL ASSEMBLY

TENTH PARLIAMENT - FOURTH SESSION

PUBLIC ACCOUNTS COMMITTEE (PAC)

REPORT ON THE MATTER OF CURRENCY PRINTING CONTRATCS BETWEEN CENTRAL BANK OF KENYA AND DE LA RUE COMPANY

Clerk's Chambers,
National Assembly,
NAIROBI

July, 2012

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REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (PAC) ON THE MATTER OF CURRENCY PRINTING CONTRACTS BETWEEN CENTRAL BANK OF KENYA AND DE LA RUE COMPANY

CHAPTER ONE

1. PREFACE

Mr. Speaker Sir,

The Public Accounts Committee is a select Committee of the House deriving its mandate from Standing Order 187(1) which provides that:-

> ***"There shall be a select committee to be designated the Public Accounts Committee for the examination of the accounts showing the appropriation of the sum voted by the House to meet the public expenditure and of such other accounts laid before the House as the committee may think fit".***

The Committee's main objective is to ensure that public funds are well utilized and that the public realizes value for money in all government expenditure.

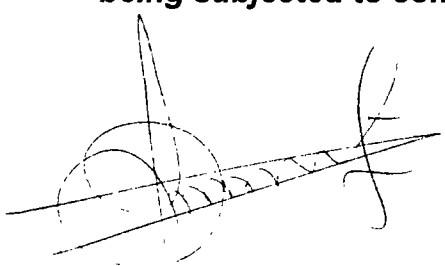
The Committee was constituted during the Third Session of the 10th Parliament in June, 2009 when new Parliamentary Standing Orders came into force and the current Membership comprises the following:-

(i) The Hon. (Dr) Boni Khalwale, M.P. **(Chair)**
(ii) The Hon. (Dr) Julius Kones, M.P. **(Vice Chair)**
(iii) The Hon. Martha Karua, M.P.
(iv) The Hon. Daniel Muoki, M.P.
(v) The Hon. Charles Onyancha, M.P.
(vi) The Hon. Alex M. Mwiru, M.P.
(vii) The Hon. Boaz K. Kaino, M.P.
(viii) The Hon. Francis C. Ganya, M.P.
(ix) The Hon. (Dr) Nuh Nassir Abdi, M.P.
(x) The Hon. David Ngugi, M.P.
(xi) The Hon. Edick Anyanga, M.P.

Mr. Speaker Sir,

On the 2nd of November, 2011, the Ikolomani Member of Parliament, Hon. (Dr) Boni Khalwale asked the Deputy Prime Minister and Minister for Finance the following Question by Private Notice:-

> ***"Can the Minister confirm that De La Rue, a British Company, has been awarded a ten year monopoly for printing Kenyan currency notes without being subjected to competitive international tendering ?. "***



In his response, the Deputy Prime Minister and Minister for Finance, Hon. Uhuru Kenyatta told the House that no new contract had been issued to De La Rue or any other Company for printing of banknotes for the Government of Kenya, neither had a tender been issued for the same notwithstanding the fact that the currency printing contract that was there before between Central Bank of Kenya and De La Rue Company had expired. Negotiations were however ongoing for the acquisition of a stake in De La Rue, Ruaraka, Nairobi plant by the Government of Kenya following approval by the Cabinet.

Arising from his response Members raised various concerns. First it was the Member of Parliament for Gwassi Hon. John Mbadi who questioned why the Government was investing in De La Rue, Ruaraka, Nairobi plant without having carried out a feasibility study to establish its viability and profitability. The Member of Parliament for Eldama Ravine, Hon. Moses K. Lessonet was concerned how the Government was meeting its currency supply needs when it did not have any contract for currency printing in place as at the time of the Question. Gem Member of Parliament Hon. Jakoyo Midiwo was concerned that the De La Rue plant at Ruaraka, Nairobi did not have the capacity to print new generation banknotes for the Government of Kenya owing to its old and outdated machines and had been subcontracting jobs received. Consequently, it was therefore not prudent for the Government to partner with the Company. During debate, Hon. David Mwiraria and Hon. Amos Kimunya, former Ministers for Finance were mentioned in connection with cancellation of currency printing contracts between Central Bank of Kenya and De La Rue. Prof. Njuguna Ndung'u the incumbent Governor of Central Bank of Kenya was also mentioned.

Mr. Speaker Sir,

Against this backdrop, the Deputy Prime Minister and Minister for Finance, then Hon. Uhuru M. Kenyatta, requested that the matter be referred to the Public Accounts Committee for further investigations and reporting to the House and you so directed.

The subject for Committee's investigation according to the Member's concerns was mainly the currency printing contracts between the Central Bank of Kenya on behalf of the Government of Kenya and De La Rue Company from which several other issues arose.

In pursuance of its mandate, the Committee works closely with the Auditor General (AG) whose audit reports either statutory of special form the basis of its investigations. It is only through the audit findings of the Auditor General that the Committee can be able to effectively investigate matters. When you referred this matter to the Committee, the Auditor General had not carried out any audit on the Central Bank of Kenya. Pursuant to Section 56 of the Central Bank of Kenya Act, the Auditor General could only audit the Bank at the discretion of the Minister for Finance. The Committee had taken issue with this provision of the Act even before this matter was referred to it as it contravened the tenets of transparency and accountability and may have been intended to commit financial impropriety in the event the Minister for Finance declined to authorize the

Auditor General to audit the Bank. In addition, it was inconsistent with the spirit of the constitution which provides for unconditional auditing of all government entities by the Auditor General.

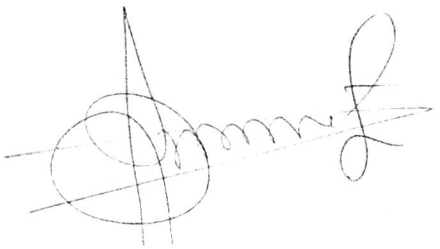
One of the issues the Committee therefore had to deal with when it seized of the matter was to have the Minister for Finance exercise his discretion in favour of the Auditor General and he so did. Consequently, the Auditor General carried out a special audit on the contracts awarded by Central Bank of Kenya to De La Rue Company and his audit findings are annexed to this report as appendix 2. While exercising his discretion in favour of the Auditor General, the then Acting Minister for Finance, Hon. Robinson Githae concurred with the Committee on its concerns on the auditing of the Central Bank of Kenya (CBK) by the Auditor General.

While investigating this matter, the Committee held a total of eleven (11) sittings examining witnesses. The witnesses who appeared before the Committee and testified were Hon. Robinson N. Githae, then Acting Minister for Finance, Hon. Amos Kimunya, former Minister for Finance serving as Minister for Transport, Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance, Prof. Njuguna Ndung'u, Governor of Central Bank of Kenya, Mrs. Jacinta Mwatela former Deputy and Acting Governor of Central Bank of Kenya, Mr John Macharia Gikonyo, former Secretary to the Board of Directors of Central Bank of Kenya and officials from De La Rue Company.

With respect to evidence from De la Rue Company, the Committee toured the Plant at Ruaraka, Nairobi on 28th April, 2012 where a team led by Mr. David Hepple, Financial Controller testified. The Committee also made several observations while at the plant. Another De La Rue team led by Mr. Robert Hutchison, the Group's Director of Communications based in the United Kingdom appeared before the Committee on 3rd May, 2012 and testified.

The Committee had earmarked Dr. Andrew Mulei, former Governor of Central Bank of Kenya to testify before it. Owing to unavoidable circumstances, Dr Mulei was unable to personally appear but nevertheless sent his written evidence through the Office of the Clerk of National Assembly. After careful consideration, the Committee dispensed with his appearance and admitted his written submissions as part of evidence received.

While taking evidence, the Committee was guided by the existing procedures and modalities of operations of the National Assembly derived from the constitution of the Republic of Kenya, Acts of Parliament, Parliamentary Standing Orders, conventions, practices and rulings and directives of the Chair. All evidence was taken on oath. Other than the oral evidence, all witness who appeared also tabled before the Committee their written submissions as well as documentary evidence in support of their arguments except the former Finance Minister for Finance, Hon. Amos Kimunya. Other than a Ministerial Statement he referred to on the matter which was already in possession of the Committee in form of a hansard report, Hon. Kimunya made reference to his i-pad throughout the session while responding to issues.



This report contains all minutes of the Committee's sittings on this matter, an executive summary, the excerpts of the evidence received from all witnesses, issues for determination, observations and conclusions and finally recommendations. The report also contains written submissions received from witnesses as well as other documentary evidence received in support of their submissions which are all annexed in accordance with the list of appendices appearing hereto.

Mr. Speaker Sir,

The Committee wishes to express its sincere gratitude to you for the support the House under your leadership accorded it during the time of investigation and compilation of this report. The Committee also wishes to record its appreciation for the services rendered by officers from the Office of the Clerk of the National Assembly, Auditor General's Office and Treasury. Indeed, their commitment and devotion to duty made the work of the Committee and production of this report successful.

I also wish to express my sincere gratitude to Committee Members for the commitment and dedication to a cause without which, the production of this report would not have been possible.

Mr. Speaker Sir,

On behalf of the Committee, it is my duty and privilege to lay on the Table of the House this report, pursuant to provisions of Standing Order 181(3) of the Parliamentary Standing Orders.

I urge this August House to adopt the report with the recommendations therein.

Hon (Dr) Boni Khalwale, M.P.

Signed ..... **(Chair)**

Date 30.12.12 .....

We Members of the Public Accounts Committee (PAC) do hereby affix our signatures to this report to affirm the correctness of the contents and support thereof-

(i) The Hon. (Dr) Boni Khalwale, M.P. .....

(ii) The Hon. (Dr) Julius Kones, M.P. .....

(iii) The Hon. Martha Karua, M.P. .....

(iv) The Hon. (Dr) Nuh Nassir Abdi, M.P. .....

(v) The Hon. Daniel Muoki, M.P. .....

(vi) The Hon. Charles Onyancha, M.P. .....

(vii) The Hon. Alex M. Mwiru, M.P. .....

(viii) The Hon. Boaz K. Kaino, M.P. .....

(ix) The Hon. Francis C. Ganya, M.P. .....

(x) The Hon. David Ngugi, M.P. .....

(xi) The Hon. Edick Anyanga, M.P. .....

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Appendix 1: Minutes of sittings on proceedings.

Appendix 2: Special audit report by the Auditor General on the contracts for printing of banknotes between Central Bank of Kenya (CBK) and De La Rue.

Appendix 3: Currency printing contract dated 8th October, 1991 between Central Bank of Kenya and Thomas De La Rue Company.

Appendix 4: Currency printing contract dated 5th December, 2002 between Central Bank of Kenya and De La Rue Currency and Security Print Ltd.

Appendix 5: Draft joint venture agreement between the Permanent Secretary to the Treasury and De La Rue Currency and Security Print Ltd and Thomas De La Rue AG.

Appendix 6: Lease Agreement on L.R. No. 7878/4, Nairobi dated 15th June 1992 between Central Bank of Kenya and Thomas De La Rue Kenya Ltd.

Appendix 7: Written evidence by Hon. Robinson N. Githae, Acting Minister for Finance.

Appendix 8: Agreement for the design, manufacture, printing and supply of new generation banknotes dated 4th May, 2006 between Central Bank of Kenya and De La Rue International Ltd.

Appendix 9: Written evidence by Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance.

Appendix 10: Letter Ref CONF.36/02 dated 25th August, 2006 from Hon. Amos Kimunya, Minister for Finance to Mrs. Jacinta Mwatela, Acting Governor, Central Bank of Kenya.

Appendix 11: Hansard report on Hon. Amos Kimunya's Ministerial Statement issued in the House on the De La Rue matter on 26th June, 2012.

Appendix 12: Letter Ref CONF 36/02 dated 14th March, 2003 from Hon, David Mwiraria, Minister for Finance to Dr. Andrew K. Mulei, Governor, Central Bank of Kenya.

Appendix 13: Currency production agreement dated 14th July, 2005 between Central Bank of Kenya. and De La Rue Currency and Security Print Ltd.

Appendix 14: Banknotes production and supply agreement dated 10th January, 2007 between Central Bank of Kenya and De La Rue Currency and Security Print Ltd.

Appendix 15: Letter Ref CONF 36/02 dated 1st November, 2007 from Hon. Amos Kimunya, Minister for Finance to Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya.

Appendix 16: Banknotes production and supply agreement dated 14th December, 2007 between Central Bank of Kenya and De La Rue Currency and Security Print Ltd.

Appendix 17: Banknotes production and supply agreement dated 17th June, 2009 between Central Bank of Kenya and De La Rue Currency and Security Print Ltd.

Appendix 18: A comparative price analysis by Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya on the pricing between the interim orders procured by Central Bank and the cancelled contract for printing 1.71 billion pieces of banknotes.

Appendix 19: Written submissions by Prof. Njuguna Ndung'u, Governor Central Bank of Kenya.

Appendix 20: Written evidence by Mrs. Jacinta Mwatela, former Deputy and Acting Governor of Central Bank of Kenya.

Appendix 21: Print copy of e-mail correspondence exchanged between Mr. John Macharia Gikonyo, former Secretary to the Board of Central Bank of Kenya and Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya.

Appendix 22: Legal opinion by the Central Bank of Kenya's Legal Department on the proposed purchase of shares in De La Rue Currency and Security Print Ltd by the Government of Kenya.

Appendix 23: Written evidence by Mr. John Macharia Gikonyo, former Secretary to the Board of Directors of Central Bank of Kenya.

Appendix 24: Written evidence by De La Rue Company's management.

Appendix 25: Dr Andrew Mulei, former Central Bank of Kenya Governor's written evidence.

Appendix 26: Letter dated 15th November, 2002 marked "secret" from Central Bank of Kenya Governor, Nahashon N. Nyagah to Treasury Permanent Secretary, Mr. Joseph Kinyua.

Appendix 27: Letters Ref OP.CAB.58/4A dated 29th May, 2007 and 13th September, 2011 from Amb. Francis Muthaura, Permanent Secretary, Office of the President, Secretary to the Cabinet and Head of Civil Service to Hon. Amos Wako, Attorney General and Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance.

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (PAC) ON THE MATTER OF CURRENCY PRINTING CONTRACTS BETWEEN CENTRAL BANK OF KENYA AND DE LA RUE COMPANY

CHAPTER 2

1. EXECUTIVE SUMMARY

This report comprises three chapters. Chapter 1 comprises the preface, chapter 2 the executive summary, chapter 3 on evidence received, chapter 4 on issues identified for determination and chapter 5 on recommendations.

The matter under investigation by the Committee is on currency printing contracts between Central Bank of Kenya and De La Rue Company from which a joint venture agreement for acquisition of 40% stake in the Company's Ruaraka, Nairobi plant by the Government of Kenya was conceived. Eight witnesses testified before the Committee.

Since independence, the Government of Kenya had been procuring its banknotes from De La Rue Company which had changed names from time to time. Initially the Company printed the banknotes at its United Kingdom plant until 1994 when it set up a plant at Ruaraka, Nairobi. In December, 2002 following the expiry of a 10 year contract between Central Bank of Kenya and the Company, the Bank entered into another 10 year currency printing contract with the Company without any competitive tendering process. This contract was cancelled in 2003 by the Bank on orders from the then Minister for Finance, Hon David Mwiraria, who called for a competitive procurement process. The Committee was satisfied with Hon. Mwiraria's action.

Through a competitive procurement process, a tender for printing, 1.71 billion pieces of banknotes was awarded to De La Rue Company at a cost of USD.51,195,840.00 or Kshs.3,754,031,319.00 and a contract to that effect was signed on 4th May, 2006. This contract was for printing new generation banknotes, smaller in size and with advanced security features. The contract was however in November, 2007 cancelled by the Bank on a directive from Hon. Amos Kimunya, then Minister for Finance on grounds that the Government intended to enter into a joint venture with De La Rue Company.

Since 2003, Central Bank of Kenya had been procuring banknotes from De La Rue on interim orders without subjecting them to a competitive procurement process, contrary to Government procurement regulations and procedures. Since October, 2006 when the contract for printing 1.71 billion pieces of banknotes was awarded, Central Bank of Kenya had procured from De La Rue Company four (4) interim orders of current generation banknotes totaling 1,487,050,000.00 at a cost 5,584,940,934.72. The cancelled contract of 1.71 billion pieces of banknotes with advanced security features would have cost the taxpayer Kshs.3,754,031,319.00. The Committee is therefore satisfied that the taxpayer lost Kshs.1,830,909,616.00 being the price difference between the interim orders and the cancelled contract, and faults the cancellation of the contract for printing 1.71 billion pieces of banknotes. The Committee is also satisfied that De La

Rue Company was overcharging Central Bank of Kenya on the interim orders since when subjected to a competitive procurement process, it charged less hence the price difference.

The Committee finds the former Minister for Finance Hon. Amos Kimunya and the incumbent Governor of Central Bank of Kenya Prof. Njuguna Ndungu responsible for the loss of Kshs.1,830,909,616.00 on account of cancellation of the contract for printing 1.71 billion pieces of banknotes and they should be held accountable. Hon. Kimunya directed Central Bank to cancel a cheap contract even when his ministry was not party to the contract and all the reasons he gave for the cancellation of the contract were found by the Committee to have been invalid. Prof. Ndung'u on the other hand did not make any effort to resist the directive from Hon Kimunya to cancel the contract. In so doing, he failed to protect the Bank's independence and taxpayers' interest. This was even notwithstanding the fact that since the Procurement and Disposal Act of 2005 came into force, Treasury had no business directing Central Bank of Kenya on procurement issues. In this regard, the Committee finds that the two acted contrary to provisions of Chapter 6 of the Constitution of Kenya, the Public Officer Ethics Act and the Public Procurement and Disposal Act and in that respect and for this reason, they are not fit to hold public office. The Ethics and Anti-Corruption Commission should investigate them with a view to taking appropriate legal action against them and recovering lost funds.

On the joint venture agreement between the Government of Kenya and De La Rue, the Government is to acquire 40% stake in De La Rue, Ruaraka plant at a cost of 5 million Sterling Pounds. The Committee finds that Treasury, which was responsible for the joint venture negotiations did not carry out proper or sufficient due diligence before agreeing on the stake acquisition and this was exposing the taxpayers to a loss it knew or ought to have known. The machines and technology used at the Ruaraka plant are analogue when modern technology is digital. The joint venture commits Central Bank of Kenya to a ten year currency supply contract with De La Rue which is in contravention of the Government procurement regulations and procedures as the Bank will be deprived the benefits of a fair price through a competitive procurement process. The joint venture is yet to be executed and the Committee will only give it the nod if the cited issues and others in the main report are addressed.

No Member of the Committee held a dissenting view on any of the observations, findings and recommendations in this report.



REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (PAC) ON THE MATTER OF CURRENCY PRINTING CONTRACTS BETWEEN CENTRAL BANK OF KENYA AND DE LA RUE COMPANY

CHAPTER 3

3.0. EVIDENCE RECEIVED FROM WITNESSES

3.1. EVIDENCE BY HON. ROBINSON N. GITHAE, ACTING MINISTER FOR FINANCE

The Hon. Robinson Njeru Githae, then Acting Minister for Finance appeared before the Committee on 19th March, 2012 and submitted that:-

1. De La Rue Currency and Security Print Kenya Ltd was established in Kenya in 1992 as a wholly owned subsidiary of the De La Rue International Ltd in United Kingdom (UK). Its core mandate is to operate currency and security print business at its factory in Ruaraka, Nairobi. The Company's initial investment was Kshs.1.54 billion but this has grown over the years to Kshs.3 billion to date.

2. During the period between 1966-1985 Kenya bank notes were printed by Bradbury & Wilkinson, UK which was later acquired by Thomas De La Rue and Co Ltd in 1986. Since then, De La Rue International, UK (renamed after Thomas De La Rue & Co Ltd) has provided currency printing services to the Central Bank of Kenya.

3. In 1991, a ten (10) year agreement which became effective in 1993 was signed between Central Bank of Kenya and De La Rue International, UK under which De La Rue was to supply Central Bank of Kenya (CBK) 1.71 billion bank notes each year. The bank notes were to be produced at the new factory to be built at Ruaraka, Nairobi, Kenya. A Copy of the 1991 ten year contract is annexed hereto as appendix 3.

4. In 1992, De La Rue International UK set up a subsidiary company called De La Rue Currency Printing & Security Print Ltd to operate the currency printing business at Ruaraka, Nairobi. The investment by De La Rue in a Kenyan subsidiary was only justified on the basis that it would print currency for Central Bank of Kenya.

5. In December, 2002 following the expiry of the initial ten (10) year contract, Central Bank of Kenya without competitive tendering process entered into a new ten (10) year contract with De La Rue Currency & Security Print Ltd for currency printing. The contract was in March, 2003 cancelled by the National Rainbow Coalition (NARC) Government to allow for a competitive tendering process. The company was however granted temporary extensions to provide currency printing services to Central Bank of Kenya following delays in finalization for an open tender process. A Copy of the December, 2002 ten year contract is annexed hereto as appendix 4.

6. When Central Bank of Kenya tendered for currency printing services in 2006, De La Rue won a three-year contract under an open tender to print 1.71 billion pieces of banknotes

for the Bank at a cost of US$ 51.2 million. The new currency was to be issued at the beginning of June/July 2007. The Government, however, considered it not prudent to issue new generation currency in an election year and directed Central Bank of Kenya to delay the commencement of the contract until January, 2008.

7. Since currency printing accounted for over 90% of the operations of the Ruaraka factory, the company was no longer financially viable and sustainable under the new contract. Consequently, under the new contract, De La Rue International UK was contemplating closing down the Kenyan factory as there was no guaranteed business to sustain the factory's operations. The consequences of closure would be as follows:-

   (i) The location of the currency printing factory in Kenya has had a beneficial effect on the economy in terms of employment generation for many Kenyans, tax revenue and foreign exchange earnings. The closure of the factory would mean losing direct benefits associated with it.
   (ii) At the time of the contemplated closure, the plant employed 301 specially trained Kenyans and the closure would have caused them loss of jobs when there was already a large army of unemployed Kenyans;
   (iii) The country would lose tax revenues and foreign exchange that the plant generates; The closure of the Ruaraka plant would send wrong signals to potential investors, who most likely would interpret it to mean serious erosion of investor confidence in Kenya.

8. Consistent with making Nairobi the regional financial services hub under Vision 2030, there was need to safeguard the De La Rue Investment in the country as most neighbouring countries print their currencies at the plant. There was also need to safeguard the ownership of the Kenyan currency features by securing a strategic long term relationship with the firm located in the country. This would provide incentives for the firm to invest in new technology and materials to boost the quality of the Kenyan currency features to counteract forgery and adulteration.

9. Many countries consider security printing so strategic that they have established fully Government owned currency and security printing presses and mints. United States of America, Australia, India and Sudan are very good examples. Many others have joint ventures with printing firms to secure sustainable currency printing services. Examples where De La Rue International has joint ventures with other countries in banknote production include:-

Shareholding			
Company/Country	**De La Rue (DLR)**	**Government**	**Other**
DLR Lanka, Sri Lanka	60%	40%	-
Valora, Portugal	25%	75%	-

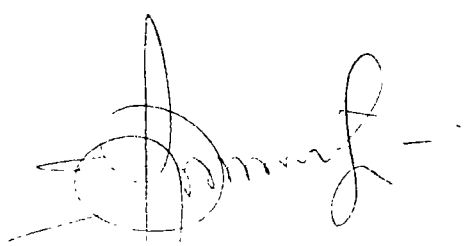
Nigerian Security Printing and Minting PLC	2.9%	77%	20.1%
Orell Fussli, Switzerland	75%	25% (central bank)	-

10. Against the above background, the cabinet at its sitting of 29th May, 2007, approved a joint venture between itself De La Rue Currency and Security Printing (K) Limited, with De La Rue International (UK) retaining 75% ownership and Government of Kenya acquiring 25% shareholding in the existing company based in Kenya. This proposed Investment was subsequently discussed by the Departmental Committee on Finance, Trade and Planning of Parliament; and the Cabinet Committee on Finance, Trade and Planning chaired by the Rt. Hon Prime Minister. Both Committees approved and supported the Joint Venture and held the view that the Government of Kenya ought to have had more shareholding. Consequently, following further negotiations with De La Rue, an agreement was reached for the Government of Kenya to acquire 40% stake.

11. Negotiations for the joint venture were completed and cabinet approval granted on 13th September, 2011. A Copy of the draft joint venture agreement is annexed hereto as appendix 5. The key terms of the joint venture investment were as follows:-

    (i) The Government of Kenya to own 40% stake and De La Rue 60% in a new company to be formed and into which De La Rue would vest all the operating assets of the De La Rue (Kenya) Ltd plus Sterling Pounds.2 million in equity to fund the initial working capital of the new company;
    (ii) The Government of Kenya to pay Sterling Pounds.5 million for the acquisition of the 40% stake and to have 2 directors in the new company while De La Rue would have 3.
    (iii) The Chairmanship of the new company to be vested in the Government of Kenya while the management in De La Rue Company.
    (iv) The Government of Kenya to grant a new Export Processing Operator's license to the new company under the Export Processing Zones Act, provided that the new company qualifies for the license under the Laws of Kenya.
    (v) Central Bank of Kenya shall have entered into a 10 year banknote printing agreement with the new company to come into force only upon completion of the share sale and purchase agreement. Central Bank of Kenya was negotiating this contract separately with De La Rue.

12. The envisaged currency supply contract under the joint venture was between Central Bank of Kenya and De La Rue International Ltd and was not against the procurement law. The ministry expects that Central Bank would negotiate the currency printing agreement with the new joint venture company under section 74 of the Public Procurement and Disposal Act. In the agreement, the Bank would be expected to ensure that the agreement provides for benchmarking with international prices, with a provision for regular review of prices to ensure they are in tandem with international prices.



13. The De La Rue Investment shareholding acquisition by the Government of Kenya was being spearheaded by Treasury which would acquire and hold the shareholding on behalf of the Government of Kenya, pursuant to the Permanent Secretary/Treasury incorporation Act, Cap 101 of the Laws of Kenya. The current negotiated position was:-

    (i) All operating assets of De La Rue Currency Print and Security Ltd would be hived down to a new company called De La Rue EPZ Kenya Ltd under a business transfer agreement between De La Rue Currency and Print Security Ltd and De La Rue EPZ Kenya Ltd. This will be done in accordance with the Transfer of Business Act, Cap 500, Laws of Kenya. All the staff of De La Rue Currency Print and Security Ltd would be transferred to the new company.
    (ii) Treasury would purchase 40% shares in De La Rue EPZ Kenya Ltd under a Share Sale and Purchase Agreement between Thomas De La Rue AG and Permanent Secretary Treasury and De La Rue EPZ Kenya Ltd.
    (iii) Completion of the Business Transfer Agreement was one of the conditions precedent to the purchase of shares by Treasury which means that the hiving down must be completed before Treasury pays for the 40% acquisition.

14. Land Reference No. 78784 comprises the land on which De La Rue Plant is situated in Ruaraka, Nairobi. The land was leased to the company by Central Bank of Kenya through a lease signed between the Bank and Thomas De La Rue Kenya Ltd which was De La Rue's subsidiary company operating in Kenya at that time. On 30th September, 1997 as part of wider reorganization, Thomas De La Rue Kenya Ltd was renamed De La Rue Security and Currency Print Ltd. Since this was simply a renaming of the company, there was no legal requirement to assign the lease and consequently, it still carries the earlier name of the company. A copy of the Lease agreement between De La Rue and Central Bank of Kenya is annexed hereto as appendix 6. Hon. Robinson Githae's written evidence is also annexed hereto as appendix 7.

3.2. EVIDENCE BY MR. JOSEPH KINYUA, PERMANENT SECRETARY, MINISTRY OF FINANCE AND MEMBER, BOARD OF DIRECTORS, CENTRAL BANK OF KENYA

Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance and Member of the Board of Directors of Central Bank of Kenya appeared before the Committee on 3rd and 12th April, 2012 and submitted that:-

15. Treasury does not direct or order the Central Bank of Kenya in its dealings with the Bank. However, under the Banking and Central Bank of Kenya Act, It was very clear that Central Bank of Kenya was still in the context of the law under the direction of the Minister for Finance in terms of the conduct of monetary policy and not operational matters. While dealing with the Bank, Treasury only advises or recommends to the Bank and it is upon the Bank to make the final decision based on the recommendation or advice. While advising the Central Bank to go for a ten instead of six year contract with De La Rue Company, Treasury acted on the basis of advice from its technical department which was then the Directorate of Procurement. At that time, the Directorate was entirely based in Treasury as the Government had not established a procurement authority. A ten year

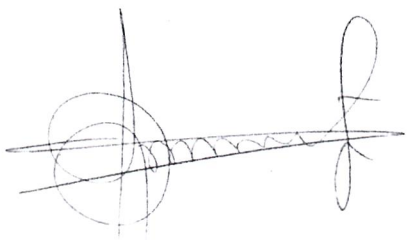
contract would save the Bank the intricacies connected with the procurement of a new service provider every now and then. At the time of cancellation of the 2002 contract signed in the year 2003, he was not at Treasury.

16. Treasury was a member of the Board of Central Bank of Kenya through its Permanent Secretary and is therefore involved the Board's decision making. In the event, the Permanent Secretary is unable to attend a board meeting, he may designate a representative. At one time, Mrs. Esther Koimet attended a Central Bank of Kenya Board meeting on behalf of Mr. Kinyua, the Permanent Secretary. Her attendance was mainly to brief the Board on the status of the joint venture negotiations between Treasury and De La Rue and not to persuade the Board to yield to a joint venture agreement between the Government of Kenya and De La Rue International Ltd that was to ensue from the negotiations.

17. In late 2002, the Permanent Secretary, Treasury, wrote to the Governor, Central Bank of Kenya giving the Bank authority to directly negotiate for a new term contract for ten instead of six years currency printing with De La Rue. This letter was marked secret and was in response to a request by the Central Bank to be allowed to procure directly from De la Rue currency printing services. In the said letter, Treasury only advised or recommended to the Bank to consider a long term contract of ten years instead of six and the final decision on procurement lay squarely with Central Bank. A contract was subsequently entered into between Central Bank and De La Rue but was in March, 2003 cancelled on the advice of Hon. David Mwiraria, then Minister for Finance mainly because it was single sourced contrary to Government procurement regulations and procedures.

18. On 29th May, 2007, the cabinet approved a joint venture arrangement between the Government and De La Rue with the government acquiring 25% stake in the company. That was the initial approval by the Cabinet. The Cabinet also directed the Minister for Finance and the Attorney-General to take necessary action to effect that decision of moving forward with the joint venture. This policy was made for the strategic reason of the Government of Kenya being in control of the printing of its currency. Other economic considerations included; the need to retain the current currency and security printing investment in the country, to enhance Kenya's position as a financial hub and also to secure related jobs. Given that the Government was investing in an existing facility and not a greenfield Investment, it was not necessary to undertake a feasibility study as there was sufficient operational information to make determination of the parameters necessary to inform the investment. However, an asset valuation of De La Rue plant at Ruaraka, Nairobi was done which would suffice. Later Treasury intended to do a feasibility study comprising of a consortium of experts.

19. During negotiations, De La Rue was at first willing to let the Government of Kenya acquire 25% stake in it but later enhanced it to 40% after further negotiations. The Government wanted to acquire more than 40% but De La Rue declined to let go anything more than 40%. De La Rue also undertook to inject USD.5 million towards the upgrading and refurbishment of machines once the joint venture came into force. He could not however confirm or deny whether De La Rue machines at Ruaraka were obsolete.



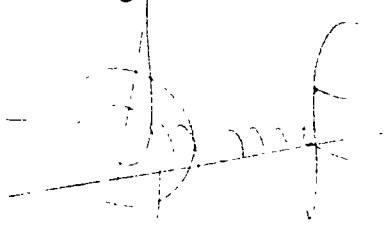
20. Treasury had done a professional job to the best of its ability in implementing the Cabinet directive relating to the joint venture. The job was done with diligence and a sense of responsibility to the taxpayers and Treasury was convinced that this was a good investment for the country. The issue of pricing of the currency printing services was of a separate contract although that contract was a condition precedent to this investment. Pricing is an issue that could adequately be addressed within the currency supply contract between Central Bank of Kenya and De La Rue based on international benchmarks.

21. Because of the delay in getting the Central Bank of Kenya to sign a long term currency printing contract, it was becoming a challenge for the Bank to be in a position to regularly service the requirement of new banknotes to replace the unusable ones. At one time, Treasury was of the view that it was time the Government thought of setting up a money printing company and that Parliament amends the law to allow Central Bank of Kenya establish its own currency plant so that the Government of Kenya would be able to have full control of currency printing. This was in keeping with the practice globally. Other than former colonies, most of the developed countries in the world have their own companies printing currency on behalf of the Government either through the Ministry of Finance or Central Banks. In the case of the United States of America, it is the Treasury in charge of currency printing. On the basis of this reasoning, Treasury advised the Government to enter into a joint venture with De La Rue Company since 100% ownership would have its own challenges.

22. In 2006, Central Bank of Kenya through international bidding awarded De La Rue a contract for printing 1.71 billion pieces of banknotes. A French company Francois Charles Oberthur Fiduciarie tried to put pressure on him to have De La Rue's award of the tender be nullified in its favour. He advised the company on action to take if aggrieved as provided by government procurement regulations and procedures.

23. The Board of Central Bank of Kenya attended a meeting a State House to brief the Head of State on the award of the tender to De La Rue. During the meeting, pressure came from a state house official whose name he could not recall to have the French Company awarded the tender instead of De La Rue. It took the Head of State's intervention to put the matter to rest when he advised that whoever won the tender deserved to be left to do the job. The contract was however subsequently cancelled on orders of Hon. Amos Kimunya, then Minister for Finance to give way for a joint venture between De La Rue and Government as had been approved by the cabinet. A copy of the contract document for printing 1.71 billion pieces of banknotes between Central Bank of Kenya and De La Rue Company together with its appendices is annexed hereto as appendix 8

24. In the contract awarded by Central Bank of Kenya to De La Rue for printing 1.71 billion pieces of banknotes, the entire banknotes were to be delivered to the Bank in one consignment and this posed various challenges to the Bank. Among the major challenges were security while transporting the banknotes from the Port of Mombasa to the Bank's strong rooms in Nairobi, Kisumu and Eldoret. Another challenge was inadequate storage



space. In the circumstances, therefore, Treasury advised Central Bank of Kenya to cancel the contract.

25. De La Rue was intending to close down the Ruaraka plant if the Government of Kenya had not shown interest to enter into a joint venture over the same and also guarantee it business for a period of ten years. In advising the cabinet to enter into a joint venture with the company, Treasury had looked at countries like Sri Lanka, Portugal, Nigeria, Switzerland and United Kingdom which had joint ventures with De La Rue. Procurement for De La Rue is done by the mother company in the United Kingdom. The Company procures its jobs through its marketing organ then distributes them to its subsidiaries worldwide including the De La Rue Ruaraka, Nairobi. Treasury would endeavor to ensure that the Nairobi plant is allocated business by the mother company. In signing the joint venture with De La Rue, it is expected that Central Bank of Kenya would sign a 10 year currency printing contract with the company.

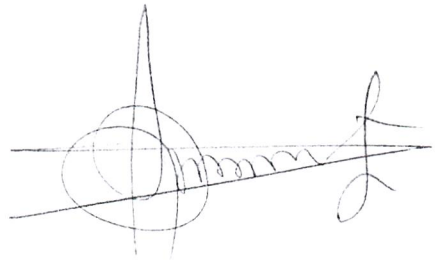
26. The joint venture agreement was not yet finalized. Only a draft agreement was in place awaiting execution mainly because of a court case challenging it. Mr. Joseph Kinyua's written evidence is annexed hereto as appendix 9.

3.3. EVIDENCE BY HON AMOS KIMUNYA, FORMER MINISTER FOR FINANCE SERVING AS MINISTER FOR TRANSPORT

The Hon. Amos Kimunya, former Minister for Finance serving as Minister for Transport appeared before the Committee on 17th April, 2012 and submitted that:-

27. He was appointed Minister for Finance on 14th February, 2006. Upon assumption of office, he was briefed by the then Governor of Central Bank of Kenya, Dr Andrew Mulei accompanied by his Deputy Mrs. Jacinta Mwatela, the Permanent Secretary, Ministry of Finance and two others on what Central Bank of Kenya had been doing and the relationship between Treasury and the Bank. They also mentioned to him a process Central Bank of Kenya had engaged in of changing currency designs and even showed him the new designs. He however told them to brief him substantively on the matter later.

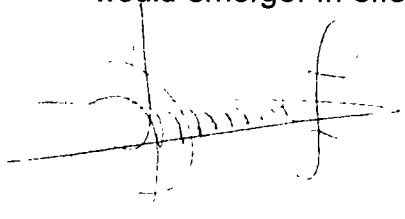
28. In April, 2006, the Central Bank of Kenya's Governor, Dr. Andrew Mulei was charged in court in connection with Charterhouse Bank malpractices and could not continue holding the Office while his court case was ongoing. Mrs. Jacinta Mwatela was appointed Acting Governor and in May, 2006, she briefed him about a contract for printing 1.71 billion pieces of new generation banknotes having been signed between Central Bank of Kenya and De La Rue Company and that the Bank had already made a 50% or USD.25 million down payment. The banknotes were to be delivered the following year. She also briefed him on other procurement events preceding the award of the tender. The Secretary of Central Bank of Kenya's Board of Directors, Mr. James Macharia Gikonyo also attended the briefing.



29. Soon after the briefing, he received a phone call from a senior De La Rue International official in the United Kingdom. He told him that the Company wanted to discuss with him in person its intention to close down the Ruaraka, Nairobi, Kenya plant, and since it was a public company in the United Kingdom, it was required by law to disclose any intended closure of its subsidiaries in its accounts for that financial year. Though De La Rue was willing to come to Nairobi to discuss the issue with the Minister, he opted to meet them in London where he was transiting to Nigeria for a meeting of Ministers for Finance convened by the British Prime Minister, Gordon Brown and the President of the Republic of Nigeria. During the London meeting, De La Rue thanked him for the award of a contract for printing 1.71 billion pieces of banknotes by Central Bank of Kenya and confirmed having received down payment for that purpose. They however told him that they were to close down their Ruaraka, Nairobi plant since the contract was premised on the company printing the banknotes cheaply at its Malta plant and delivering them to the Bank in one consignment in the year 2007.

30. Upon return to Kenya he sought clarification from Central Bank of Kenya on the contract for currency printing in Malta. The Bank told him it was satisfied with the arrangement. Upon further consultations, he was satisfied that the Bank officials who negotiated the contract did not have a clear understanding of monetary issues and that the contract was a disaster and ought to have been discontinued on the following grounds:-

    (i) The concept of new currency had not been comprehensively dissected and addressed by the Central Bank of Kenya. For instance, the fate of the old currency was not determined and it was not clear whether the old currency would be demonetized or if the new currency would be debased;
    (ii) Printing the banknotes in Malta would have posed a serious storage challenge. The new banknotes would have been printed, shipped and delivered to Central Bank in one consignment. The Bank did not have adequate strong rooms and vaults for storage. The Times Tower which was initially earmarked for the Bank's occupation and which had strong rooms and vaults for storage of such banknotes had been allocated to the Kenya Revenue Authority. Transportation of the banknotes from Mombasa to Nairobi also posed serious security challenges;
    (iii) The cost implication of the new currency to commercial banks and to Kenyans in general had not been considered especially as it relates to changes necessary to ensure conformity with the technological requirements of the new currency. There was also need for public education and sensitization which had not been factored in the agreement.
    (iv) Central Bank of Kenya's requirement for bank notes after the three-year agreement for the new currency, which would expire in the year 2009, had not been addressed.
    (v) Under the terms of the agreement, all the security features in the banknotes were the property of the printer and not Central Bank of Kenya's. Since the contract had not seen the need to purchase corporate security features of this new generation currency notes by Central Bank, it meant that every time the supplier is challenged on the basis of cost or price competitiveness, a new currency design would emerge. In effect, the Government would have to be changing the currency



every three years because the contract was to run for three years and then there would be a new competitive bid;

(vi) About 300 Kenyans would have lost their jobs in the event De La Rue decided to shut down its business in Kenya. This was not good for the Government which was supposed to create jobs for its citizens and was also going to send wrong signals to investors.

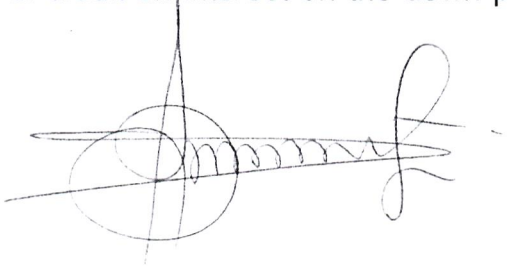
(vii) The banknotes were to be supplied in 2007 which was an election year and there were political risks associated with this.

31. At one time, the execution of the contract stalled for three months owing to issues relating to signatures. Normally, the Permanent Secretary, Treasury and Governor, Central Bank of Kenya would sign the banknotes. However, the substantive Central Bank of Kenya Governor Dr. Andrew Mulei had stepped aside pending the hearing of a court case in which he had been charged. As the Finance Minister, he was opposed to the Deputy and Acting Governor, Mrs. Jacinta Mwatela signing the banknotes on behalf of the substantive Governor pending the outcome of his court case. He could not therefore give De La Rue the go ahead to continue with the printing process and did not find it necessary to seek a legal opinion on the issue, which was however later resolved when a new substantive Governor, was appointed.

32. De La Rue Company was planning to close down the Ruaraka, Nairobi plant unless it was guaranteed long term business by the Government of Kenya. He and the Ministry of Finance's Permanent Secretary, Mr. Joseph Kinyua accompanied by one Mr. Kenny Hussey of De La Rue Company toured the plant and interviewed staff who did not have a clue on the looming closure of the plant. It was him and Mr. Kinyua who came up with the proposal of the Government of Kenya entering into a joint venture with De La Rue over the Ruaraka plant to save it from imminent closure and immediately thereafter generated a cabinet memo for approval.

33. Prior to visiting the De La Rue, Ruaraka plant, he had held a meeting with the President of the Republic of Kenya and among other subjects explained to him the political risks associated with the printing new banknotes in a calendar year especially when there was already talk in the country that illegal money was being injected into the Nairobi Stock Exchange as part of the 2007 general elections campaign strategy. The President concurred with him and the first thing he did was to tell Central Bank of Kenya to defer the introduction of new generation banknotes until January, 2008. During a visit to the Ruaraka plant in 2006, De La Rue confirmed its willingness to change in currency delivery dates without cost implications to Central Bank of Kenya. A copy of a letter to that effect dated 25th August, 2006 from Hon. Amos Kimunya, then Minister for Finance to Mrs. Jacinta Mwatela, Acting Governor, Central Bank of Kenya (CBK) is annexed hereto as appendix 10.

34. During the year 2006, he together with the Acting Governor, Mrs. Jacinta Mwatela met De La Rue International Ltd officials in Singapore on the sidelines of the Annual General Meeting (AGM) of the World Banks and negotiated and agreed on a 25% payment in form of credit on interest on the down payment made on the contract for supply of 1.71 billion



banknotes on the interim or stop gap orders to be procured. This was to happen in the event the contract was cancelled.

35. The joint venture proposal between the Ministry of Finance and De La Rue Company was approved by the cabinet on 24th September, 2007 and on 1st November, 2007 he advised Central Bank of Kenya to cancel the contract with De La Rue for the printing 1.71 billion pieces of banknotes and issue stop gap orders until the joint venture was operationalized. The Bank obliged. As a responsible minister, he would not have allowed De La Rue Company to close its plant in Nairobi and print Kenyan currency in Malta. The joint venture was not being worked on merely in terms of profitability or otherwise. It was meant to ensure that the Government had a sustainable and secure delivery of currency printing in the long term. The services would be extended to the Eastern Africa Community (EAC) states.

36. De La Rue understood very clearly that if the Government of Kenya was going to enter into a joint venture with them, it would not have made sense to have a parallel arrangement where its currency would be printed in Malta. It was also not necessary for the Company to seek legal recourse for damages following the cancellation of the existing contract of 1.71 billion pieces of banknotes. Treasury was not a signatory to the contract cancelled and was not involved in the actual cancellation. Central Bank of Kenya was.

37. The Government did not incur loss due to cancellation of the contract and subsequent award of interim orders to De La Rue Company. In fact it saved in the long run. The contract for printing 1.71 billion pieces of currency outside the country would have cost taxpayers Kshs.4.2 billion for a period of three years. Upon expiry of the contract, Central Bank of Kenya would be required to enter into another contract, thereby spending a similar amount or more. Overall, the Government would have spent not less than Kshs.8 billion in six years as a result of the cancelled contract, but had only spent Sh4.8 billion in five years to print a similar number of currency pieces by way of interim orders. It would have therefore been irresponsible for Central Bank of Kenya to enter into a contract to print currency every three years, changing designs every time a new contract was procured.

38. De La Rue has joint ventures with the Governments of Sri Lanka, Portugal, Nigeria, Switzerland and the United Kingdom. The Government of Kenya was capable of owning its currency printing plant but such a move would have its own negative implications. The Government was even capable of printing its own ballot papers at the Government Printer but had opted to print them in the United Kingdom owing to possible negative consequences. The intended joint venture with De La Rue was therefore a best practice to be followed. It was however important that the Treasury gets cabinet approval for the joint venture before undertaking technical evaluation and feasibility study on the project. Initially, De La Rue was willing to transfer only 25% stake to the Government but enhanced the figure to 40% after further negotiations, though the Government wanted more.

39. While acting as the Governor of Central Bank of Kenya, Mrs. Jacinta Mwatela lobbied to be appointed substantive Governor and even approached President Mwai Kibaki who was not opposed to her appointment. He received a phone call to that effect from Mr. Hislop

Ipu, then State House Comptroller but declined to take any action since the substantive Governor Dr. Andrew Mulei was still on contract but not in office because he was facing prosecution. His removal before knowing the outcome of the court case would have raised serious legal issues. He denied claims that Mrs. Mwatela was shoved out of office, as she was opposed to the manner in which Treasury was handling the procurement of printing of new banknotes especially with De La Rue Company.

A copy of the hansard report on Hon Amos Kimunya's ministerial statement issued in the House on 26th June, 2008 on the De la Rue matter is annexed hereto as appendix 11.

3.4. EVIDENCE BY PROF. NJUGUNA NDUNG'U, GOVERNOR, CENTRAL BANK OF KENYA

Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya appeared before the Committee on 28th and 29th April, 2012 and also on 16th May, 2012 and submitted that:-

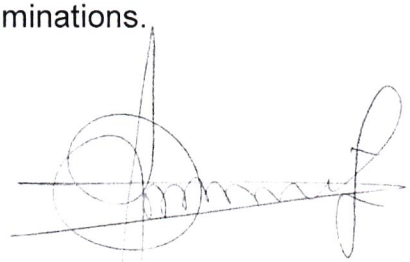
40. Until 1966, printing of currency for the country was handled by The East Africa Currency Board. Between 1966 and 1986 Kenyan banknotes were printed on order by Bradbury & Wilkinson U.K. This company was subsequently acquired by Thomas De La Rue & Company Limited, U.K, who took over and continued the printing role of Kenyan banknotes. In October 1992, Thomas De La Rue & Company Limited having changed its name to De La Rue International Ltd and also having established a plant at Ruaraka, Kenya, signed a ten (10) year contract with the Central Bank of Kenya. The contract was to expire on 31st December, 2002.

41. On 5th December, 2002 Central Bank of Kenya entered into a contract for currency printing with De La Rue International for ten (10) years to expire on the 1st day of January, 2013. This contract was however terminated in the year 2003 on the orders of the then Minister for Finance, Hon. David Mwiraria, who by a letter to the Bank dated 14th March, 2003 cited the following reasons for the cancellation.

(i) The contract was single-sourced instead of being open for competitive bidding;
(ii) The contract period was extended for ten years instead of a lesser period;
(iii) The contract became effective on 1st January, 2003 when the National Rainbow Coalition (NARC) Government was in power and should therefore have been consulted.

A copy of Hon. David Mwiraria's letter Ref No. Conf 36/02 dated 14th March, 2003 directing Central Bank of Kenya (CBK) to cancel the contract is annexed hereto as appendix 12.

42. Following the cancellation of the contract, the Bank initiated an International Open Tendering process in which De La Rue International participated. To ensure sustained supply of banknotes when the tender process was in progress, the Bank entered into a 21 months' contract with De La Rue Company to produce existing generation design banknotes with effect from 1st April, 2003. Total deliveries amounted to 820 million pieces of different denominations.



43. Through a lengthy procurement process, the Bank issued a tender for new generation currency on 6 January, 2005. This was done in order to avail equal opportunity to all tenderers to quote for design, manufacture, printing and supply of 1.71 billion pieces of banknotes. This also gave the Bank an opportunity to review the design specifications of currency in tandem with international best standards and also taking into consideration enhanced security features.

44. Five firms were invited to participate in the tender. The firms were:-

(a) Giesecke & Devrient – Germany
(b) De La Rue Currency - United Kingdom
(c) Orell Fussli – Switzerland
(d) Francois Charles Oberthur Fiduciaire – France
(e) Job Enschede Banknotes – Holland

The firm Job Enschede however withdrew from the process citing new commitments. Proposals were opened first in the presence of the bidders' representatives and the results were summarized below:-

(a)	M/S Giesecke & Devrient GMBH	-	USD.148,635,557.10
(b)	M/S De La Rue Currency	-	USD.139,535,341
(c)	M/S Orell Fussli Security Printing Ltd	-	USD.104,161,532
(d)	M/S Francois-Charles Oberthur	-	USD.98,527,836

45. However, the entire tender was cancelled on 6th June, 2005 due to various anomalies and a fresh start of the project was required. The cancellation and the expected lengthy retendering process necessitated an interim order for additional banknotes to forestall imminent stock out gaps. Consequently, the Bank placed an order for an additional 300 million pieces of existing (current) generation banknotes from De La Rue Currency and Security Print Limited at a price of ST£.8,703,280.00. A copy of the interim order agreement between Central Bank of Kenya and De La Rue is annexed hereto as appendix 13.

46. An international retendering of the new generation banknotes was done in the year 2005 and the following firms were invited for retendering

(i)	De La Rue International	-	United Kingdom
(ii)	Giesecke & Devrient GMBH	-	Germany
(iii)	Francois Charles Oberthur Fiduciaire	-	France
(iv)	Orell Fussli Security Printing Limited	-	Switzerland
(v)	Joh Enschede	-	Holland
(vi)	Canadian Banknote Company	-	Canada

47. The tenders were initially expected to be opened on 18th July, 2005 but rescheduled to 29th August, 2005 to allow prospective tenderers sufficient time to prepare their proposals. Orell

Fussli however withdrew from the process citing earlier intention of partnering with another firm which was not allowed. Of the six firms invited, only three responded namely; De La Rue International, Giesecke & Devrient GMBH, Francois Charles Oberthur Fiduciaire. The bid from Francois Charles Oberthur Fiduciaire was not evaluated because it did not meet the mandatory tender requirements. All the tenders quoted prices for printing the banknotes in Europe.

48. After evaluation of the tender documents, De La Rue International Ltd was eventually declared the winner of the re-tender on technical specifications as well as price. A contract was executed between Central Bank of Kenya and De La Rue International on 4th May, 2006 for printing 1.71 billion pieces of new generation Kenya banknotes at a total cost of USD$ 51,195,840. The only other firm to get to the final stage of the tender was Giesecke & Devrient GMBH which quoted US$.76,331,500 which was higher than De La Rue's.

49. Among the conditions to be fulfilled under the contract was for Central Bank of Kenya to make a down payment of 50% of the contract price amounting to US$ 25,597,920.00. The commencement date for the tender was set for 22nd May, 2006 subject to the Bank submitting to De La Rue International approved designs of the banknotes by that date.

50. Pursuant to the contract, the Central Bank of Kenya made the 50% down payment on 18th May, 2006 but did not submit approved banknotes designs, together with approved signatories, as guidance was being awaited from the Ministry of Finance. Subsequently, approval for the designs was received from Treasury, but approval for signatories continued to be awaited from Treasury as there was no substantive holder of the office of the Governor at the time.

51. In a letter dated 25th August, 2006, the Minister for Finance, then Hon. Amos Kimunya advised the Bank that the launch date of the new generation banknotes should be deferred until after the year 2007 General Elections and advised the Bank to:-

    (i) Liaise with De La Rue International Limited for adjustment of delivery schedule for new generation banknotes to January 2008 as the new launch date should be after the general elections in 2007;

    ii) Initiate necessary procurement process for supply of additional current generation currency to ensure adequate stock is available up to January 2008.

52. On 17th October, 2006, the Bank assessed its currency requirements and placed an order for 164.05 million pieces of current banknotes in 50,100 and 200 shillings denominations with De La Rue Currency and Security Print Limited to abridge another stock-out gap at a cost of ST£.4,316,655.00 after a 2% discount of 88,085.00. This was to be paid from the 50% deposit held by De La Rue International for the production of new generation banknotes. A copy of the contract document for the interim order of 164.05 million pieces of banknotes is annexed hereto as appendix 14.

53. On 16th April, 2007, the approved designs of the new generation banknotes were forwarded to De La Rue International for production. However, by a letter dated 24th September, 2007, the Minister for Finance advised the Bank that:

a) The cabinet had approved a joint venture proposal between the Government of Kenya and De La Rue International;
b) The Bank was expected to provide technical support on the joint venture negotiations taking into account the lessons learnt from the last competitive bid undertaken by the Central Bank of Kenya including pricing.

54. On 1st November, 2007 the then Minister for Finance, Hon. Amos Kimunya notified the Bank that the 1.71 billion pieces of new generation banknotes printing contract between Central Bank of Kenya and De La Rue Company stood cancelled and advised the Bank to liaise with De La Rue International to print current generation banknotes under the terms of the previous interim orders. Arising from the Minister's directive as contained in the letters dated 24th September, 2007 and 1st November, 2007 aforesaid, the Bank had to deal with the following issues:-

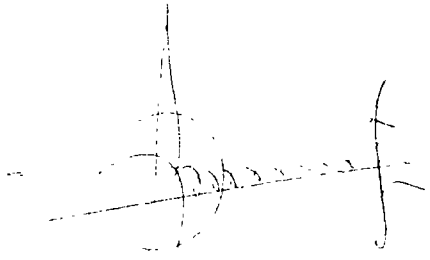
(i) Inevitable gap in stock-out beginning April, 2008 to cover a period of two years in the absence of any procurement arrangements while the joint venture negotiations were proceeding.
(ii) Cancellation of the contract and consequences of doing so in both financial terms and commercial terms.

A copy of Hon. Amos Kimunya's letter Ref No. CONF 36/02 dated 1st November, 2007 directing Central Bank of Kenya to cancel the contract is annexed hereto as appendix 15.

55. To meet demand for currency, the Central Bank placed an order for 390 million pieces of banknotes to cover the currency needs for a period of two years at a cost of ST£.10,521,569.00 after a 3.5% or ST£.409,931.00 discount. From the Bank's projections, the 390 million pieces of banknotes in addition to stocks held as at September 2007 were expected to last up to 1st October, 2009. It was then hoped that the joint venture negotiations would have been finalized. A copy of the interim order agreement between Central Bank of Kenya and De La Rue for printing of the 390 million pieces of banknotes is annexed hereto as appendix 16.

56. The Bank paid De La Rue International Limited a sum of USD. 25,597,920.00 being 50% down payment for the printing and supply of 1,71 billion pieces of banknotes. This amount was paid on 18th May, 2006. As a result of deferment and eventual cancellation of the new generation contract, the Bank utilized the down payment to meet the cost of the interim orders placed with De La Rue as illustrated below:-

		ST £
1	Down payment made on 18th May, 2006 (USD. 25,597,920.00) $ equivalent	12,687,926.30



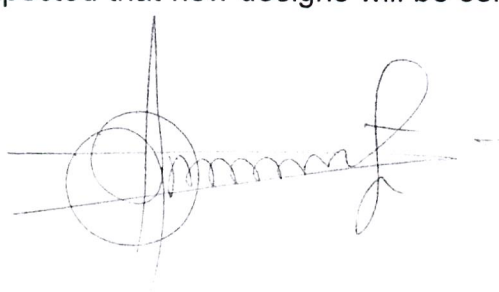
2	Payment for 164.05 milli8on pieces of banknotes less Interest Credit – 18th May, 2006 to 5th September 2006 of ST£ 124,790.10		(4,191,042.30)
3	Interest Credit accrued – 1st October, 2006 to 31st October, 2007	8,496,884.00 344,077.00	
4	Total cost for the 390 million pieces of banknotes after the 2.75% discount	8,840,961.00	(10,521,569.00)
5	Total Cost		**14,712,611.30**
6	Balance financed by direct payments to De La Rue		(1,680,608.00)

57. From the analysis, the down payment was fully utilized by the two stop gap orders and also the interest on credit provided. While the joint venture negotiations were ongoing, the Bank once again placed an order for additional currency of 450 million pieces of banknotes on 17th June, 2009 at a cost of ST£.13,138,360.00 to meet the country's currency needs until September, 2010. A copy of the interim order agreement between Central Bank of Kenya (CBK) and De La Rue for printing the 450 million pieces of banknotes is annexed hereto as appendix 17.

58. In July 2010, the Bank entered into another stop gap agreement with De La Rue Currency and Security Print for 483 million pieces of banknotes at a cost of ST£.14,358,650.00. This order was meant to cushion the country's currency needs up to December, 2011, pending the completion of the joint venture agreement between the Government of Kenya and De La Rue. Since 1991 when De La Rue Currency and Security Print Ltd was contracted by the Central Bank of Kenya (CBK) for currency printing, all printed orders are subjected to audit after completion of expected deliveries. The audits are aimed at ensuring that all orders have been fully completed and reconciliation of paper stocks done.

59. While cancelling the contract for procurement of 1.71 billion pieces of banknotes from De La Rue on a directive from Hon. Amos Kimunya then Minister for Finance, he yielded to the directive since this was a policy issue and he believed the directive had come from the cabinet.

60. Section 231 (4) of the new constitution, provides that *"Notes and Coins issued by the Central Bank of Kenya may bear images that depict or symbolize Kenya or an aspect of Kenya but shall not bear the portrait of any individual."* The Bank has already taken measures to comply with this constitutional provision. An advertisement inviting the public to give proposals was published in the local dailies on 9th and 13th March, 2012. It is expected that new designs will be selected from the proposals submitted by the public and



approved for production.

61. Upon approval of the designs for the new Kenyan currency, the Central Bank of Kenya shall procure the new generation currency in accordance with the public procurement laws. In the meantime, the Bank had no choice but to continue procuring currencies on stop gap orders. The Bank's function is to regulate the country's banking industry and not to enter into economic ventures. It is Treasury through the Investment Secretary which is responsible for the joint venture deal with De La Rue Ltd.

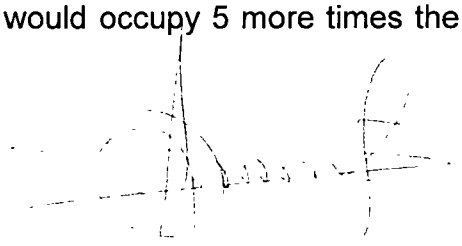
62. Central Bank of Kenya Board members and staff are properly educated with a clear understanding of fiscal issues. The contract signed between the Bank and De La Rue International Ltd on 5th May, 2006 was therefore proper and in fact cheaper than the interim orders. He tabled before the Committee a comparative price analysis between the stop gap orders from the year 2003 to 2011 and the cancelled contract for printing 1.71 billion pieces of banknotes. The analysis document is annexed hereto as appendix 18.

63. Central Bank of Kenya was strongly opposed to Treasury and De La Rue's joint venture agreement under which the Bank would be tied by Treasury to signing a 10 year banknote printing contract with De La Rue International Ltd. This would contravene Government procurement regulations and procedures as the Bank would not be guaranteed a fair market price during the ten years. Secondly, the Bank was not part and parcel of the negotiations for the joint venture since the Central Bank of Kenya Act prohibits it from taking part in investments. In the circumstances therefore, he would not sign a contract tying the Bank to a ten year currency printing contract with De La Rue Company.

64. It was not possible to withdraw old banknotes from the market at once and immediately replace them with new generation banknotes. This would create a very serious financial crisis and it is only Zambia and South Sudan which had done it on very compelling reasons. There were no compelling reasons for Kenya to act in that manner. What would happen and what had always happened in the past was that both the two sets of banknotes would be in circulation concurrently and the old ones would be retired naturally once received by Commercial Banks. The fact that the fate of the old banknotes upon introduction of new ones had not been determined could not therefore have been a valid reason for cancellation of the contract for printing 1.71 billion pieces of banknotes between Central Bank of Kenya and De La Rue International Ltd.

65. There was no major operational issue with commercial banks regarding the introduction of new generation banknotes into the market. All they needed to do was to undertake an adaptation process mainly involving change of trays in the Automated Teller Machines (ATMs) to make them compatible with the new generation banknotes. This was a simple process with negligible financial implications and could not therefore have warranted the cancellation of the contract for printing of 1.71 billion pieces of banknotes.

66. There was however an issue regarding storage of the 1.71 billion pieces of banknotes to be printed. The banknotes were to be delivered in one consignment of containers and would occupy 5 more times the space available at the Central Bank's storage facilities at



Nairobi headquarters, Mombasa, Kisumu and Eldoret and also the Times Tower Building in Nairobi which the Bank would have leased from the Kenya Revenue Authority.

Prof. Njuguna Ndungu;s written evidence is annexed hereto as appendix 19.

3.5. EVIDENCE BY MRS. JACINTA MWATELA, FORMER DEPUTY AND ACTING GOVERNOR OF CENTRAL BANK OF KENYA

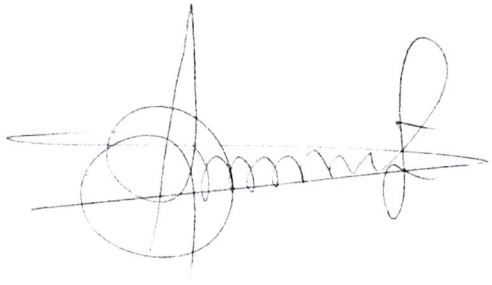
Mrs. Jacinta Mwatela, former Deputy and Acting Governor of Central Bank of Kenya and also Chair of the Bank's Tender Board appeared before the Committee on 12th April, 2012 and submitted that:-

67. She was reluctant to appear before the Committee as she had first appeared before the Departmental Committee on Finance, Planning and Trade on 27th September, 2008 alongside the then Governor of Central Bank of Kenya Dr. Andrew Mulei and gave evidence on this matter but nothing came out of the investigations.

68. In 2002, a ten year currency printing contract was entered into between the Central Bank of Kenya and De La Rue Company. The contract was signed during the Kenya African National Union (KANU) party regime. However, when the National Rainbow Coalition (NARC) came to power in 2003, Hon. David Mwiraria then Minister for Finance instructed Central Bank of Kenya to cancel it since it had been single sourced contrary to Government procurement regulations and procedures. He instructed the Bank to float an international tender for currency printing.

69. The Government of Kenya had been dealing with De La Rue Company alone since independence for its currency needs. Since it was the first time Central Bank was floating international tender for currency printing, it required a lot of due care and diligence. Towards this end, the Bank invited Central Banks of England, Uganda, Tanzania, Zambia among others to provide professional advice in developing the tender document. The Bank developed a tender document which was first floated in the year 2004 but the process was nullified owing to technical issues. De La Rue which had participated in the process had been the Government's printer since time immemorial and had an undue advantage over other bidders. It was therefore important that a level playing field be created for all participants.

70. In the year 2005, a new tender was floated and Giesecke & Devrient Company of Germany, De La Rue International Ltd of the United Kingdom (UK), Orell Fussli Company of Switzerland, Francois Charles Oberthur Fiduciaire Company of France, Job Enschede Banknotes Company of Holland and Canadian Bank Notes Company of Canada tendered. De La Rue International Ltd won the tender. Francois Charles Oberthur Fiduciaire Company of France failed to meet eight mandatory conditions of the tender and the Tender Board did not proceed to open the company's tender documents. Apparently she was pressurized by the Central Bank of Kenya Governor then Dr. Andrew Mulei and Finance Minister then Hon. David Mwiraria to readmit the French Company but declined.



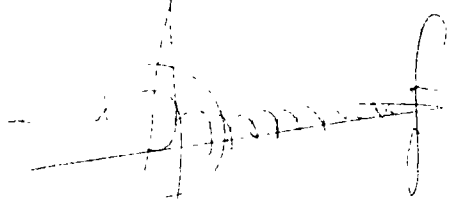
71. Following the successful tender and award of currency printing contract to De La Rue Company, Central Bank's Advocates jointly with their De La Rue counterparts worked closely and finalized the contract document which was acceptable to both parties. To get through this stage, herself, Dr. Andrew Mulei then Governor of Central Bank, the Minister for Finance, Hon. David Mwiraria and his Permanent Secretary, Mr. Joseph Kinyua visited State House and briefed the Head of State who gave the green light for the award of the tender to the winning company that is De La Rue Company. The Head of Public Service and Secretary to the Cabinet, Ambassador Francis Muthaura and Stanley Mirage, Advisor to the President also attended the meeting. During the meeting, Mr. Murage tried to exert pressure on Central Bank to readmit the French Company but he was overruled by the President.

72. A contract for printing, 1.71 billion pieces of banknotes was subsequently signed between De La Rue International Ltd and Central Bank of Kenya on 4th May, 2006 with its effective date being 22nd May, 2006. Each party had obligations to meet to ensure effective implementation of the contract. Central Bank of Kenya made a 50% deposit payment of USD.25,597,920 on 18th May, 2006 in compliance with the terms of the contract. The Bank was also to forward to De La Rue the banknotes' designs duly signed and dated. She signed the designs in her capacity as the Acting Governor of Central Bank of Kenya. The Permanent Secretary, Ministry of Finance who was another signatory to the currency had his signature already with De La Rue Company.

73. De La Rue Currency and Security Print Ltd situated at Ruaraka, Nairobi, Kenya did not bid for the tender for printing 1.71 billion pieces of new generation banknotes for Central Bank of Kenya since it did not have the requisite capacity. It was the mother company, De La Rue International Ltd in the United Kingdom which bid and won the tender with a view to printing the banknotes at its Malta plant.

74. Upon receipt of the designs, De La Rue declined to proceed with the process on account of signatures unless supported by a confirmation from the Minister for Finance. She sought clarification from the Minister, then Hon. Amos Kimunya who verbally advised that the Acting Governor could not sign the currency designs since it did not look good. By her letter dated 17th May, 2006 she sought the minister's guidance on the Bank's importance of fulfilling its obligations to allow other partiers to the contract also meet theirs as required by the contract agreement. The minister never replied to her letter.

75. On 19th May, 2006, she met the Minister for Finance, then Hon. Amos Kimunya in his office and he promised to reply to her letter dated 17th May, 2006 through the Ministry's Permanent Secretary. At the meeting, the minister indicated orally that he had no issue with her signature and that of Treasury, Permanent Secretary appearing on the currency designs. However, the minister never formally communicated to the Bank by 22nd May, 2006 which was the deadline for the beginning of the currency printing process and she proceeded to confirm her signature and that of Treasury Permanent Secretary to De La Rue for the currency printing. She at the same time called the Treasury Permanent Secretary requesting for a formal confirmation.



76. The Permanent Secretary, Treasury in his letter ref Conf.36/02 dated 22nd May, 2006 confirmed the go ahead for the signatures but with a condition that actual production would have to await the confirmation of signatures. This effectively stagnated the process as De La Rue could not work with designs with unconfirmed signatures. In her letter dated 24th May, 2006, she wrote to the minister advising on the implications of the consequences of this condition. The minister never responded.

77. Following a discussion with Hon. Amos Kimunya, then Minister for Finance in his office, she in a letter dated 14th June, 2006 forwarded to the minister a legal opinion from the Central Bank of Kenya's Legal Department making a case for the Bank's Acting Governor in the absence of the substantive Governor and a member of the CBK board to sign the currency designs. The minister never responded to the letter. She wrote another letter to the minister dated 20th June, 2006 drawing his attention to concerns expressed by De La Rue over the 3 weeks' delay in the currency printing process and its implications. The minister never responded.

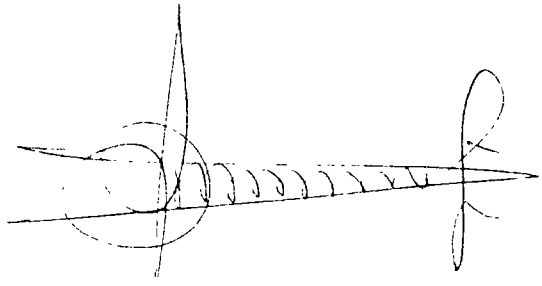
78. By her letter dated 19th July, 2012 to the Minister for Finance, Hon Amos Kimunya, she explained in detail the consequences of the delay in the commencement of the currency printing process. She pointed out in the letter that as a result of the delay:-

(i) The Bank risked termination of the contract and also faced reputational risks in terms of public interest and governance issues;
(ii) Guarantees by De La Rue Company could expire before full deliveries and this would expose the Bank to risk; especially considering that the Bank had already made a USD.25,597,920.00 down payment to De La Rue;
(iii) The risk to supply gaps arising from currency shortages was real as the earlier supply gaps had already expired in June, 2006;

79. The gist of the letter was that it was prudent to implement the contract late rather than allowing it to fail. The minister did not respond to the letter. By another letter dated 21st September, 2006, to the minister, she raised concern over potential and exposure risks of currency stock fall out in the second half of the year 2007. On 22nd August, 2006, the minister (Hon Kimunya) called for a meeting where he informed her that the President had rejected the launch of new currency in an election year and also for the fact that the issue of signatures was still pending. By his letter dated 25th August, 2006, the minister wrote to the Bank advising it to proceed as follows:-

(i) Liaise with De La Rue on adjustment of the delivery schedule so that the new generation currency launch should be planned for the year 2008;
(ii) Commencement dates of the currency printing as per contract be changed without any cost implication to the Bank. This came out of the minister's visit to De La Rue Company, Ruaraka, Nairobi plant where he had held a discussion with Mr. James Hussey of De La Rue;

80. Central Bank of Kenya obliged to the minister's advice. She was however of the view that the Bank needed more time to stock pile the new currencies in various places. Since



delivery could only start in December, 2007, she proposed to the minister April, 2008 as the best launch time of the new currency. She further told the minister that whatever was being agreed on was subject to the implementation of the contract by the Bank supplying the signatures on the designs by 28th February, 2007. Failure to do so would still adversely impact on the delivery programme. At that time, the Tender Committee was a Board Committee and some Board members had since August, 2006 retired and had not been replaced. This impacted negatively on the Committee's performance because of lack of quorum. The replacement of the retired board members by the minister was not forthcoming.

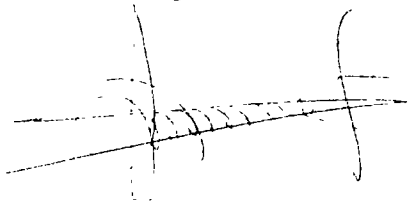
81. On 11th January, 2007, she had the opportunity of meeting the President of the Republic in her capacity as the Acting Governor of Central Bank and raised three issues with him involving the Bank amongst them that of De La Rue. The President however denied having ever told Hon. Kimunya to tell the Bank not to launch new generation banknotes in an election year. In his wording, the President said *"hapana sikusema"*

82. By his letter dated 11th September, 2006 to the Bank, the Minister for Finance, Hon. Amos Kimunya indicated that he had visited De La Rue, Ruaraka, Nairobi plant in July of the same year and noted that there was a threat of divesture by De La Rue Company and that the Company and the Government were hatching a joint venture strategy. He requested Central Bank of Kenya to appoint an officer to work with Treasury's Financial Investment Secretary, Mrs. Esther Koimet but after careful consideration the Bank declined being a party to the Joint Venture as the Central Bank of Kenya Act prohibits the Bank from engaging in investment ventures.

83. Arising from the deferment of the contract on new generation currency, the Currency Department identified a supply gap of 164.05 million pieces in 50, 100 and 200 notes to cover the gap up to April, 2008. This was going at a cost higher than what was provided in the new contract. It exceeded the cost by over Kshs.218 million and was paid from the deposit of USD.25,597,920.00 held by De La Rue reducing it to about USD.17 million. The Bank's Board met and endorsed the need to cover the gap and the Tender Committee approved the procurement after the Bank sought and received clearance from Treasury to proceed in that manner.

84. In March, 2007, Prof Njuguna Ndung'u was appointed Governor of Central Bank of Kenya and was required to activate the contract which had been deferred so that the process of implementation of the contract could start. However, Prof Ndung'u was unwilling to sign the currency designs and it took a lot of convincing from her to sign while pointing an accusing finger at her and other Bank staff over the publicity the procurement had attracted in the media. He particularly stated that the figures quoted in the media were similar to the ones she had quoted in her memo to him. In the Governor's view therefore, the Bank's staff needed to look at issues more objectively and work as a team even when things were wrong.

85. After the Governor had signed the designs, they were forwarded to De La Rue effectively reactivating the contract. There was a 33 days delay which could impact on deliveries.



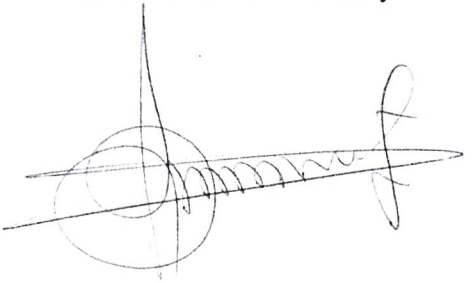
De La Rue however accommodated the delay without any consequences. In April, 2007, the currency printing by De La Rue Company was put on hold at the behest of the Governor to give way for Joint Venture negotiations between the Company and the Government of Kenya. The Governor's actions raised concern as to how De La Rue would meet delivery deadlines in the face of this delay and the creation of another supply gap.

86. On 2nd May, 2007, the Governor convened a meeting attended by herself, the Bank Secretary and Director of Currency, among others. The meeting discussed the joint venture. At the meeting she raised issues to do with the signed contract of 1.71 billion pieces of banknotes and the joint venture and was vilified. She was not invited for meetings on the subject until November, 2007 when she was asked to chair a special Tender Committee to procure services for printing of 390 million pieces of banknotes as a stop gap order to cover for two years. A Committee meeting scheduled for 12th November, 2007 aborted after it became apparent that the Minister for Finance (Hon. Amos Kimunya) had cancelled the contract for procuring 1.71 billion pieces of banknotes through a letter to the Governor dated 1st November, 2007. A Board meeting was held to discuss the situation where she was first accused by the Governor of discussing the issue at hand with the press. She however raised the following matters of concern regarding the situation:-

(i) Cancellation of the contract by the minister when he was not party to the contract was illegal. Only the tender Committee had such powers as provided for by Section 32 (2) of the Public Procurement and Disposal Regulations;
(ii) The 390 million pieces of banknotes did not qualify as an interim order which under the Procurement Act was defined as 10% or less of the initial order. The 390 million contract was being treated the same as the interim order of 164.05 million which was not right;
(iii) Section 74(2) and (3) of the Public Procurement and Disposal Act allows for direct procurement where:-

(a) There is only one person who can supply the goods and services;
(b) There is no reasonable or substitute for the goods;
(c) There is urgent need of the goods and services;
(d) Because of the urgency, other available procurement methods are impracticable;
(e) Circumstances giving rise to the urgency were not foreseeable and were not as a result of dilatory conduct on the part of the procuring entity.

87. It was the view of the Tender Committee that the Bank deliberately failed to implement the contract, there was no emergency as the supply gap was foreseen, other suppliers could also supply the currency, there was dilatory conduct by the Governor when he delayed the implementation of the contract and to cap it all, the contract was frustrated by the Governor and Treasury.



88. In another Board meeting held on 30th July, 2008, the Board was advised of another stop gap order of 450 million pieces of banknotes. There was an attempt to convince the Board that De La Rue Company came to Kenya to specifically meet the needs of Central Bank of Kenya and that the Bank allocated land to the Company to ensure it functioned well. This was false as De La Rue was set up in Kenya as an Export Processing Zone (EPZ) and the land upon which the factory stands is leased from Central Bank of Kenya.

89. The Department of Currency attempted to give a firm proposal on long term procurement policy that complies with the law by proposing the need for the Bank to request for fresh currency designs and later to tender for manufacture and printing of currency. This was deferred to allow for the Department to come up with a clear position on its stock levels for future requirement. On 15th August, 2008, another Special Board meeting was convened to follow up on this issue of currency. The interim stop gap order of 450 million pieces of banknotes took centre stage at the meeting. She was strongly opposed to the procurement which was in breach of the law. The meeting resolved that the Bank seeks the Minister's direction over the procurement and also the Oversight Board overseeing procurement. She did not know the minister and the Oversight Board's response on the matter.

90. She was employed by Central Bank of Kenya on 1st December, 1977. Her appointment as Deputy and Acting Governor of Central Bank of Kenya was in accordance with the Central Bank of Kenya Act. It was on contractual basis for a term of 4 years and there was no provision for transfer to another institution as long as one's contract was still running. Her transfer therefore from the Bank to a Permanent Secretary in a ministry while her contract term had not expired was intended to get rid of her owing to divergent positions she had taken on issues she felt were not right at the Bank and was not therefore justified. She declined to take up the transfer.

Mrs. Jacinta Mwatela's written evidence is annexed hereto as appendix 20.

3.6. EVIDENCE BY MR. JOHN MACHARIA GIKONYO, FORMER SECRETARY, CENTRAL BANK OF KENYA BOARD OF DIRECTORS

Mr. John Macharia Gikonyo a former Chief Legal Officer and Secretary to the Board of Directors, Central Bank of Kenya appeared before the Committee on 22nd May, 2012 and submitted that:-

91. He joined Central Bank of Kenya on 1st November, 1993 as a Chief Legal Officer and retired from the service of the Bank on 1st April, 2008. At the time of retirement, he was the Director, Governors' Office and his duties inter alia included heading the Legal Division of the Bank.

92. Following the conclusion of a successful international tendering process in the year 2006, the Bank awarded the Tender for the design, manufacture and supply of 1.71 billion new generation banknotes for three (3) years to De La Rue International at a cost

of USD.51,195,840.00. The Legal Division of the Bank together with the Currency and Branch Administration Department in conjunction with De La Rue lawyers embarked on preparation of the contract documents. The final contract document acceptable to both the Bank and De La Rue International Ltd was signed on 4th May, 2006.

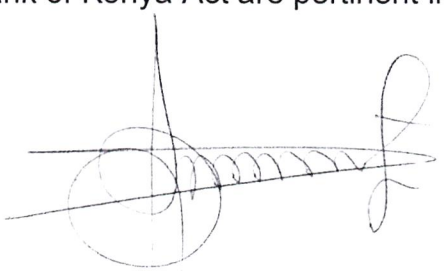
The contract had several schedules annexed relating to:-

i. The banknote technical specifications which were prepared by the Bank with the assistance of an expert from Canada and representatives from Central Banks of Uganda and Tanzania.
ii. Delivery schedule specifying how deliveries of banknotes would be made by De La Rue International. The delivery schedule was mutually agreed upon by the Bank and De La Rue International and was conditional on the strict understanding that the Bank would approve the designs, signatures and dates for the banknotes by 22nd May, 2006.
iii. Breakdown of volumes of banknotes per contract year.
iv. The format of the Performance Bond representing 10% of the total contract sum.
v. The format of the Bankers' Guarantee from a bank acceptable to the Central Bank of Kenya in respect of the down payment to De La Rue International amounting to 50% of the total contract amount.

93. Under the contract, the Bank was required to pay De La Rue International Ltd 50% of the total value of the contract upon execution of the contract. Payment of the balance would be pegged against deliveries and made within thirty (30) days from the date of receipt of the respective invoices by the Bank, which invoices were to be submitted to the Bank at the time of delivery of each consignment of the banknotes.

94. The Bank after receipt of the Performance Bond and the Bank Guarantee from De la Rue International made the 50% deposit payment of USD.25,597,920 on the 18th May, 2006 in compliance with the terms of the contract. The Bank was also required to forward to De La Rue International the approved designs as well as confirm the signatures that would appear on the banknotes. Whereas the Bank was able to forward to De La Rue International the approved designs of the banknotes within the stipulated deadline of 22nd May, 2006 in the contract, the issue of confirmation of the signatures remained outstanding which meant that the Bank was in breach of one of the key milestones in the contract. According to discussions with the then Acting Governor Mrs. Jacinta Mwatela, approval of the signatures was awaited from the Treasury.

95. As time continued to run against the Bank, sometime in June 2006 the Legal Department was requested by the Acting Governor to advise on whether legally the Acting Governor could sign banknotes in the absence of the substantive Governor. A legal opinion was duly prepared confirming that the Acting Governor having been appointed by His Excellency, the President of the Republic of Kenya in accordance with the provisions of the Central Bank of Kenya Act, to act as the Governor of the Central bank of Kenya could legally sign the banknotes. Sections 11(6) and 13(3) of the Central Bank of Kenya Act are pertinent in this regard.



Section 11(6) of the Central Bank of Kenya (Act provides that:-

> ***"Where the Governor, the Deputy Governor or a Director is unable to perform the functions of his office due to any temporary incapacity which is likely to be prolonged, the President may appoint a substitute for that member of the Board to act with the full powers of the member until such time as the president determines that his incapacity has ceased"***

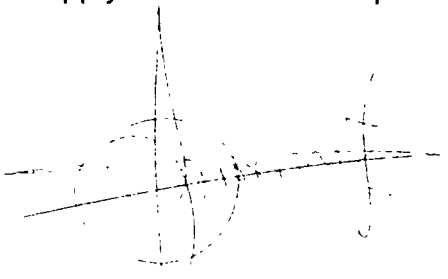
Section 13(3) of the Act provides that:-

> ***"The Deputy Governors shall act for the Governor and shall exercise all the powers and shall perform all of the functions conferred on the Governor under this Act whenever the Governor is temporarily absent, and shall perform such other functions as the Governor may from time to time assign to him"***

96. The issue of confirmation of signatures remained outstanding and from discussions in the Bank's management meetings, it was reported that De La Rue was awaiting for signature confirmation from the Minister for Finance which confirmation was not forthcoming. The Currency and Branch Administration Department also continued to impress upon the Bank that a currency shortage would arise as De La Rue International would no longer be able to supply the new generation banknotes within the stipulated time in the contract.

97. Sometimes in August 2006, the then Minister for Finance Hon. Amos Kimunya wrote to the then Acting Governor of Central Bank of Kenya Mrs. Jacinta Mwatela raising concern on a critical issue on the launch and delivery time of the new generation banknotes. According to Hon. Kimunya, this was not to have been before the 2007 General Elections. Consequently, he instructed the Bank to ensure that the delivery schedule was adjusted from March, 2007 to a later date which would also allow time to sort out the issue of signatures. The letter further instructed the Bank to initiate the necessary procurement process for extra currency required to ensure adequacy of stocks up to January 2008.

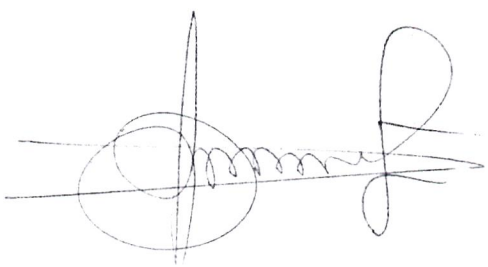
98. In view of the rescheduled launch date of the new generation banknotes as advised by the Minister for Finance and having regard to the currency consumption requirements as advised by the Currency and Branch Administration Department, it became necessary to place an interim order for the existing Kenya currency banknotes so as to avoid a currency shortage. Consequently, the Bank with the approval of the Tender Committee and subsequently by the Treasury vide a letter dated 9th November, 2006 entered into a Variation Agreement with De La Rue International Limited in January, 2007 whereby a sum of £4,191,042.30 was utilized out of the down payment of USD.25, 597, 920.00 made to De La Rue International Limited towards the payment of an interim order for the supply of 164.05 million pieces of the existing generation banknotes.



99. A new Governor Prof. Njuguna Ndung'u was appointed in early March, 2007 and following the appointment he, on 19th April, 2007 approved all designs and signatures for the new generation banknotes and forwarded the same to De La Rue for further action. However, during the same month, Prof. Njuguna Ndung'u advised De La Rue Company to slow down on the implementation of the contract for a period of two (2) months to allow for negotiations between the Government of Kenya and De La Rue International Limited on a proposed joint venture relating to De La Rue's Ruaraka, Nairobi plant.

100. On 03/10/2007, the Bank received a letter dated 28th September, 2007 from Mrs. Esther, Koimet, the Investment Secretary which was marked to him by the Governor to advise on a draft currency printing joint venture agreement between Treasury and De La Rue Currency and Security Print Ltd together with a draft currency production agreement between De La Rue and Central Bank of Kenya. He advised the Bank against the proposed joint venture and the draft currency production agreement on the following grounds:-

i. The joint venture agreement was between the Government of Kenya and De La Rue International Limited. The Bank was not going to be a party to the joint venture agreement once concluded. As a third party, the Bank could not be legally bound by a contract it was not a party to. Moreover, it was not prudent for the Bank as a purchaser of goods and services from De La Rue to be directly involved in the joint venture;
ii. The Bank was prohibited by Section 52 of the Central Bank of Kenya Act from engaging in any commercial undertakings. The proposed joint venture between the Government and De La Rue International Limited was clearly a commercial undertaking and by the force of law, the Bank was barred from engaging in any such undertakings;
iii. The proposed integration of a long term Currency Production Agreement in the joint venture negotiations was blatant breach of the requirements of the Public Procurement and Disposal Act, 2005. The Bank, being a public entity would be procuring goods in contravention of the law because it could not be guaranteed of best pricing;
iv. By binding itself to a long term currency supply contract with one supplier, the Bank would be captive of De La Rue in the production and supply of banknotes and would therefore be deprived off the advantages of international competitive pricing;
v. In the absence of agreed technical banknote specifications and prices, it was not possible for the Bank to review the draft Currency Production Agreement forwarded to Treasury by De La Rue International Limited;
vi. The Agreement for the design, manufacture and supply of new generation currency banknotes between De La Rue International Limited and the Bank dated 4th May, 2006 was still in full force and binding on all parties. Rescission of the agreement by the Bank would render the Bank liable to be sued for damages by De La Rue International Limited since the said company had not failed to meet its obligations under the agreement ; and



vii. There was a price difference of USD.25 million between De La Rue International Limited and the next tender during the international tendering process concluded in December 2005. Accordingly, whereas rescission of the agreement would be in the interest of De La Rue International Limited as that would present an opportunity for them to bid higher in any fresh tenders, the rescission of the agreement would be detrimental to the Bank as it would not have taken full advantage of the low prices offered by De La Rue International Limited as a result of competitive tendering process.

101. The Governor however dismissed his advice citing lack of positive thinking in it. He maintained that Treasury and Central Bank of Kenya should discuss the long term currency contract with De La Rue to see if it is too restrictive and to agree on the way forward. Central Bank of Kenya should not argue against its existence at all. Attached to the effect is a print copy of e-mail correspondence exchanged between Mr. John Macharia Gikonyo and the Governor, Central Bank of Kenya, Prof Njuguna Ndung'u marked as appendix 21. Also attached is a copy of a legal opinion from the Bank's Legal Department to the Governor marked as appendix 22.

102. In late October, 2007, Hon Amos Kimunya wrote to the Bank advising *interalia* that:-

a. The Cabinet had by a decision made on 29th May, 2007 approved a joint venture in the De La Rue Currency and Security Print (K) Limited between De La Rue International UK and the Government of Kenya.
b. One of the critical issues to be considered in consummating the transaction was a long term supply contract between the Bank and De La Rue Currency and Security Print (K) Limited.
c. The Bank should initiate work on the nature of the said contract taking into account some of the ideas, including pricing and lessons learnt from the last competitive bid undertaken by the Bank.

103. By a further letter dated 1st November, 2007 from the Minister for Finance, Hon. Amos Kimunya, he advised the Bank that the contract for 1.71 billion pieces of new generation currency banknotes stood cancelled and the Bank was required to liaise with De La Rue Currency and Security Print Limited to print current generation banknotes to cater for the stock-out and also allow time for negotiations on the proposed joint venture.

104. As issues relating to award, variation and cancellation of contracts fell within the scope of the Tender Committee of the Bank, the Committee under the chairperson of Mrs. Jacinta Mwatela also the Deputy Governor held three (3) meetings in November, 2007 to address the effects of the aforesaid letter and chat the way forward. The Committee having regard to the legal implications arising from the cancellation of the contract for the new generation banknotes and imminent currency supply gap that would arise, resolved that in view of the magnitude of the issues at hand, a Board Meeting be convened to urgently address the following critical issues:

i. The inevitable gap in stock-out beginning April, 2008 which was identified as 390 million pieces of banknotes to cover a period of two years;

ii. The cancellation of the Agreement for the design, manufacture and supply of new generation Kenyan currency; and
iii. The policy guidance to address the issue of currency procurement in the future.

105. In view of the gravity of the issues at hand, the entire Tender Committee participated in preparation of a Board Paper so as to ensure that all the pertinent information was captured in the Paper. The Board meeting was held on 23rd November, 2007 and noted that the Bank urgently required to procure 390 million pieces of banknotes in order to avoid a national crisis when the stocks held ran out in April 2008 as forecasted. The Board authorized the Management to procure 390 million pieces of the current generation banknotes from De La Rue Currency and Security Print Limited. The Board also authorized the Management to terminate the contract entered into on 4th May, 2006 between the Bank and De La Rue International Limited.

106. Upon forwarding the draft minutes of the Board meeting to Prof. Njuguna Ndung'u, the Governor for approval, he made several amendments and remarked that he (Mr. Gikonyo) was putting his own personal biases in the minutes. After effecting the amendments made by the Governor, the Governor again made further amendments before finally approving them. Thereafter, he received a letter from the Governor (Prof. Njuguna Ndung'u) demoting him from the position of Secretary to the Board albeit the fact that he had only three (3) months left to retire.

107. The copyrights of the banknote designs of the 1.71 billion pieces of banknotes that were to be printed for Central Bank of Kenya by De La Rue International Ltd belonged to Central Bank. According to clause 4 of the contract document annexed hereto as appendix 8, the art works designs, films and engraved dies, plates and other origination materials namely the working tools would be the property of Central Bank of Kenya though they would be in the safe custody of the company and used only by the company under the Bank's express authority. All such designs, artworks, films engraved dies, plates and other origination materials shall either:-

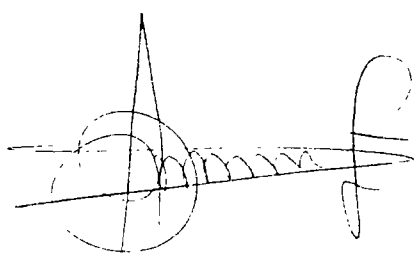
(i) Be returned to the Bank within 14 days if so required by the Bank;
(ii) Shall be destroyed by the company if so requested in writing by the Bank after completion of this agreement.

108. According to the same clause, the company also undertook to ensure the banknotes supplied to the Bank would not infringe on any patent, trademark, registered design copyright or any other right in the nature of intellectual property right or of any third party.

Mr. John Macharia Gikonyo's written evidence is annexed hereto as appendix 23.

3.7. EVIDENCE BY DE LA RUE COMPANY MANAGEMENT

The Committee toured De La Rue, Ruaraka, Nairobi plant on 28th April, 2012 and took evidence from a team led by David Hepple, Director and Financial Controller. Another team led by Robert Hutchison, Group Director of Communications based in the United Kingdom appeared before the Committee on 3rd May, 2012 and gave evidence. The Committee heard



from De La Rue that:-

109. De La Rue International Ltd is located in the United Kingdom and became a public company in 1921 and got listed on the London Stock Exchange in 1947. Members of the London Stock Exchange are regulated by the UK Listing Authority which requires them to follow strict disclosure requirements and maintain the highest standards of corporate governance.

110. The company is the world's largest banknote security printer and has several subsidiaries worldwide some which include:-

(i) De La Rue BV located in Holland;
(ii) Thomas De La Rue AG located in Switzerland;
(iii) De La Rue Currency and Security Print Ltd located in Nairobi, Kenya.

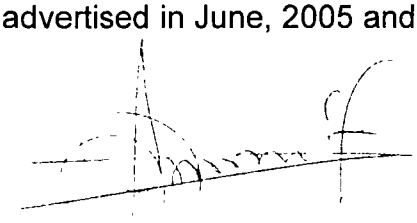
111. De La Rue Currency and Security Print's 99% shareholding is owned by De La Rue International Ltd located in the United Kingdom. The remaining 1% shareholding is held for the company in trust by a Kenyan Advocate acting for the Company as required by the Companies Act of the Laws of Kenya. The company had enjoyed a very successful time being an investor in Kenya and wished to remain in Kenya and develop its business further in partnership with the Government of Kenya.

112. The Company is involved in the design and production of 150 national currencies and a wide range of other security documents including passports, driving licences, authentication labels and cash stamps. The Company also manufactures sophisticated high speed and cash sorting equipment and offers a range of specialist services and software solutions including government identity schemes, product authentication systems and cash management processing solutions.

113. De La Rue's decision to invest in Kenya was as a result of an invitation and an undertaking from the Central Bank of Kenya in 1991 to print all its banknotes with the company. Initial investment in Kenya was a factory located at Ruaraka, Nairobi, built and commissioned in February, 1994. The land on which the factory currently stands is owned by the Central Bank of Kenya (CBK) on a thirty (30) year lease from the Bank expiring in the year 2023;

114. The first banknote printing contract between the company and Central Bank was signed on 18th October, 1991. Under the contract, the banknotes were to be printed in any other De La Rue plant until the Kenyan plant was operational. The agreement was for a term of 10 years which lapsed in January, 2003. On 5th December, 2002, a new 10 year currency printing contract was signed between Central Bank and De La Rue but cancelled in March, 2003 and replaced with a two year contract. In November, 2004, an international tender was floated and De La Rue submitted the lowest bid based on Kenya production. The tender was subsequently cancelled on 15th May, 2005.

115. A new tender for production of 1.71 billion pieces of new generation banknotes was advertised in June, 2005 and subsequently awarded to De La Rue in late 2005 at a cost



of USD.51,195,840.00 based on printing the banknotes in Malta. A contract to the effect was signed on 4th May, 2006. The tender did not take into account security, strategic and cost advantages to Kenya of the local production of banknotes. This put the local production at a disadvantage against companies which based their bids on printing overseas and thus did not have to include local storage and logistics costs currently covered in De La Rue's banknote price. Consequently, the winning tender submitted by De La Rue was based on production at its larger factory in Malta to put the Company's bid price on equal basis with others. Under the contract, all the banknotes would be printed in Malta and delivered at different times in bits. Shipment of the banknotes from Malta to Mombasa and transport to Nairobi were not of significant costs. The key aspect of cost was where the banknotes would be stored once they arrived Kenya. 1.71 billion pieces of banknotes would occupy close to 85, 40 feet containers. The contract price quoted in the tender document included delivery of the banknotes at the Nairobi Container Terminal by the Supplier. Storage once delivery was made in Nairobi lay squarely on the Central Bank of Kenya (CBK). De La Rue did not however believe that the Bank had adequate storage facilities for the 1.71 billion pieces of banknotes since the Bank had for the last 18 year relied on the company's space for storage of lesser deliveries. The company did not have adequate space locally to store for the Bank its banknotes printed in Malta.

116. Central Bank of Kenya subsequently cancelled the contract on 14th December, 2007 and engaged De La Rue to print for it old generation banknotes on interim orders since they were still required for use. The down payment already made to De La Rue was utilized on the printing of interim orders. De La Rue was not happy with the cancellation of the contract but had to yield to it on condition that the Government of Kenya guarantees it future currency supply business.

117. The cost of printing banknotes is based on factors like specifications, security features and the length of production run. The new generation banknotes' printing contract was based on different specifications from the existing ones. It was of smaller sized banknotes compared to the existing ones and was based on a larger volume i.e. 1.71 billion pieces of banknotes which was five times the average size of the interim orders issued between 2001-2010. These two factors were therefore going to have a major impact on the cost of production of the 1.71 billion pieces of banknotes.

118. The price of printing the current Kenyan banknotes averages approximately two thirds of the average prices paid by other central banks in the region. The current average price for printing Kenyan banknotes is around Kshs.3,721.00 per one thousand banknotes while in the United States of America, it was an equivalent of Kshs.7,837.00 per one thousand notes and Switzerland, Kshs.27,000.00 per one thousand notes. They could not disclose clear benchmarks of actual prices for other Central Banks due to client/customer confidentiality.

119. De La Rue operations in Kenya contributed to around Kshs.1 billion per year to the economy and for a period of five years from the year 2007 when the contract for production of the new generation banknotes was cancelled to the year 2011, the

company would have pumped back Kshs.5 billion into the Kenyan economy.

120. Upon cancellation of the contract in 2007, the Ministry of Finance approached De La Rue Company for acquisition of a stake and award of a long term contract in terms of a joint venture. A joint venture agreement was subsequently negotiated, approved by the Attorney General and cabinet and was awaiting execution by parties. One of the main reasons why the Government of Kenya thought it prudent to enter into a joint venture with the Company was to ensure that its banknotes are printed locally so as to save loss of jobs on account of shrinking business and also attract more international business.

121. When the Committee toured the De La Rue plant at Ruaraka, Nairobi, the company told the Committee that even if the Government had not shown interest to enter into a joint venture with De La Rue, the Company would not have exited the country and would have instead continued supplying the country currencies on tenders awarded cheaply from its subsidiaries worldwide, particularly Malta and Sri Lanka where production costs were low compared to Kenya. However when De La Rue Officials appeared before the Committee on 3rd May, 2012 they said they would have exited the country if the Government was unwilling to enter into a joint venture with them and guaranteeing them long term business as the plant's financial viability would have been seriously compromised. That is why they demanded for a ten year currency supply contract with Central Bank of Kenya as one of the major conditions for the joint venture.

122. At inception, the De La Rue, Ruaraka, Nairobi plant produced Central Bank of Kenya banknotes only and had 95 employees with a production capacity of 200,000.00 banknotes per annum. The current workforce is 265 employees out of which 260 are Kenyans and 5 expatriates. The current production volume is 720,000,000.00 per annum with a single banknote line and a packing capacity of 16,000,000.00 notes a week. The Bank also produces cheques, visa and master cards for 42 local banks and vouchers for the local and Republic of Korea markets. The Malta plant had a capacity of 3 billion banknotes per year with three production lines operating 24 hours while the Ruaraka, Nairobi, Kenya plant had a capacity of 600 million banknotes per year operating 12 hours a day with one production line . The Malta plant was De La Rue's largest printing facility and was the best suited to print the 1.71 billion pieces of banknotes for the Government of Kenya. The banknotes were superior in terms of security features and did not require same technology to print as the existing ones.

123. The banknote printing machines at Ruaraka, Nairobi plant were newly installed directly from manufacturers. Printing machines don't have a lifespan provided they are regularly maintained and refurbished. Other than routine maintenance, the machines were refurbished and upgraded in the year, 2009. Apart from one machine with chip and pin ability newly acquired and installed the previous year, the company could not confirm the age of the remaining machines. Materials used in production are imported duty free as the company has an Export Processing Zones Authority (EPZA) license.

124. The company's total investment in Kenya is 18,200,000.00 Sterling Pounds and its contribution to the Kenyan economy is 10,000,000.00 Sterling Pounds. From the onset, it

was envisaged that the Company would at one time enter into a Joint Venture arrangement with the Government of Kenya over currency printing services. In 2011, the Kenyan plant printed currencies for 30 countries which was beneficial to the Government of Kenya even before the joint venture deal was finalized. Apart from Kenya Government business, the rest of the business the factory carried out was internationally procured by the Company through its marketing arm of the mother plant in the United Kingdom, which then allocates work procured to its subsidiaries worldwide.

125. Since then 2003 Central Bank of Kenya had been contracting the company to print for it currencies on short term contracts pending the advertisement and award of a long term contract. The price difference between the short term contracts and the envisaged long term contract was nil. De La Rue's written evidence is annexed hereto as appendix 24.

3.8. EVIDENCE BY DR ANDREW MULEI, FORMER GOVERNOR OF CENTRAL BANK OF KENYA

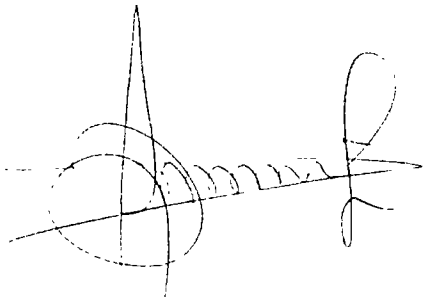
Owing to unavoidable circumstances, Dr. Andrew Mulei, former Governor, Central Bank of Kenya was unable to appear before the Committee but sent his written evidence through the Office of the Clerk of National Assembly. After careful consideration, the Committee admitted his written submissions as part of evidence received. In his evidence, he stated that:-

126. He was appointed the Governor of Central Bank of Kenya on 4th March, 2003. The appointment saw him back to the Bank which he had earlier served for 8 years from 1980 to 1987, holding successive positions of Counselor to Governor, Secretary to the Bank's Board and Director of Research. This was during the tenure of Governor Philip Ndegwa.

127. As Secretary to the Board, he was aware that Bradbury and Wikinson of the United Kingdom had been printing currencies for the Bank for 20 years from 1966 – 1986. Prior to that, the East African Currency Board was the printer for the common currency for inter-alia Kenya, Uganda and Tanzania. In 1986, Thomas De La Rue acquired Bradbury and Wilkinson and took over the printing of Kenya Government banknotes through an exclusive contract with the Central Bank of Kenya which expired in 1992.

128. In 1993, Central Bank of Kenya signed a contract with De La Rue, which gave the company exclusive rights to manufacture and supply Kenya's banknotes for 10 years that was up to December, 2002. On expiry of this term, the Bank renewed the contract with the company for a further 10 years, which was to run up to 2012. This extension of the contract was signed on 5th December 2002.

129. In 2003, the National Rainbow Coalition (NARC) party assumed power. Hon David Mwiraria became the new Minister for Finance and by his letter dated 14th March, 2003, he directed cancellation of the contract signed on 5th December, 2002, citing the following reasons:-



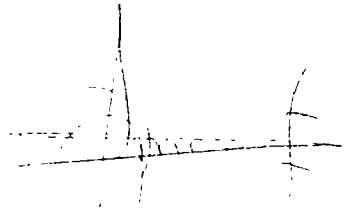
(i) The contract came into force on 1st January, 2003 when the NARC Government had just assumed power, and should therefore have been consulted;
(ii) The contract was single sourced instead of being subjected to competitive bidding as transparency would require;
(iii) The contract period was for 10 years instead of the normal 5 years for no apparent reason.

130. The letter further directed the Bank to initiate an international open tender for printing of Kenya Government banknotes. The directive was implemented strictly in accordance with the provisions of the Public Procurement Law then in force. In order to ensure that there was adequate supply of banknotes between the cancellation of the contract dated 15th December, 2002 and the supply of the new banknotes, the Government authorized Central Bank to enter into an interim arrangement with De La Rue to secure enough banknotes for a period of 21 months. Within that period, the International competitive tendering process was expected to be completed, and the new banknotes ready for supply. While procuring this interim order, the minister instructed the Bank to negotiate a reduction of the terms and conditions of the cancelled contract especially on pricing. As a result, De La Rue agreed to offer the Bank a discount of 2% off the contract price dated 5th December, 2002. This interim contract with De La Rue was necessitated by the fact that the plates and designs used for printing existing banknotes belonged to them.

131. The directive to initiate an international competitive tendering process gave Central Bank of Kenya a unique opportunity to review with a view to upgrading the quality of the existing banknotes as it had been decades since the banknotes were revised. It also became necessary to gather up to date information on what exactly was involved with respect to banknote printing. In this regard, the Bank invited leading experts and international players to provide information and best practices in tandem with international standards and also make presentations to the Board of Directors and senior managers of Central Bank on all aspects of banknote printing including design, origination, manufacture and supply.

132. Central Bank learnt from the experts that there were six key factors apart from cost, which inform decisions about printing of banknotes. These were:-

(i) Importance of reviewing currency every 8-10 years in order to take advantage of technological advancement in currency printing;
(ii) The choice of material on which banknotes are printed;
(iii) The choice of banknotes denomination mix, and the banknote sizes;
(iv) Ownership of copyright or security features which are necessary for safeguarding against counterfeiters;
(v) Banknote themes;
(vi) Inscriptions;
(vii) Portraits; and
(viii) Ownership of copyrights of engraved dies;



(ix) Plates and other origination materials which should be the sole property of the Bank and not the supplier.

133. On 18th March, 2004, he wrote to the Minister for Finance, providing a detailed brief on procedures that the Bank planned to put in place in drawing up specifications for Kenya's new generation banknotes and floatation of an international competitive tender. On 23rd March, 2004, the Minister replied confirming his agreement with the proposed procedures. On 20th July, 2004, he wrote to the Minister again recommending specifications which the Bank was proposing for inclusion in the new generation banknotes. The specifications recommended comprised: -

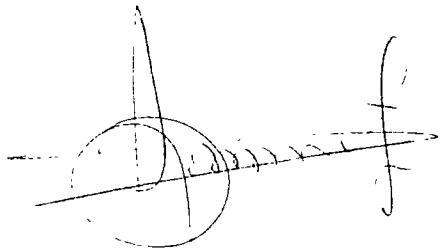
(i) Denomination mix of five banknotes, (50, 100, 200, 500 and 1000);
(ii) Reduced size of banknotes to facilitate easy handling;
(iii) Change of banknote colours to make them more distinctive;
(iv) New advanced security features to protect banknotes against counterfeighting;
(v) Improved identification of the banknotes to facilitate easy recognition by both users and modern sorting machines.

134. The Minister communicated approval by the Government of the above recommendations through a letter to him dated 6th January, 2005. Following the approval of the tender document by the Directorate of Procurement at Treasury, the Board of Central Bank of Kenya, the Bank's Tender Committee floated a tender availing equal opportunities to all invited companies to quote for design, manufacture and supply of 1.71 billion pieces of new generation banknotes.

135. After a lengthy procurement process in the year 2005, De La Rue won the tender for a 3 year contract to design, manufacture and supply 1.71 billion pieces of new generation banknotes at a cost of USD.51,195,840.00. The tender was at one stage cancelled and re-tendered due to a breach of tendering procedures by two bidders during the Tender opening process. The average price per banknotes arising from the international competitive tender came to approximately one half of the average price paid to De La Rue for the existing banknotes.

36. Among the conditions to be fulfilled by the Central Bank in the contract for printing 1.71 billion pieces of banknotes by De La Rue was for the Bank to make a down payment of 50% of the contract price amounting to USD. 25,597,920. The banknotes were to be delivered by De La Rue between August, 2006 and December, 2009. The launch of the banknotes had been planned to take place soon after the 2007 General Elections. In preparation for the scheduled delivery of the banknotes, the Bank put in place the necessary arrangements to secure storage facilities at its various branches, conclude agreement with the Kenya Revenue Authority for use of the strong rooms and vaults in Times Tower, conduct public education and awareness campaigns and ensure banknote processing machines are adapted to the new banknotes.

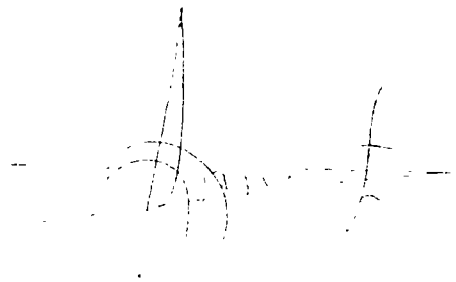
137. Based on the rate of consumption, the existing stocks of the old banknotes plus recoveries were to be exhausted by December, 2007. Any remaining balances were to



circulate side by side with the new generation banknotes. On 23rd March, 2006, he was suspended as Governor. He understood that the contract between the Central Bank and De La Rue for printing of 1.71 billion pieces of banknotes was signed on 4th May 2006, with the commencement date of 22nd May, 2006. He also understood that the submission of the approved banknote designs and signatories to De La Rue was delayed by the Bank for quite some time and that the Cabinet had approved a joint venture between the Government of Kenya and De La Rue for production of banknotes its factory in Ruaraka, Nairobi. According to the joint venture, the Government of Kenya would be acquiring a 25% stake in De La Rue, Ruaraka, Nairobi plant at a cost of Kshs.600 million.

138. De La Rue factory at Ruaraka, Nairobi did not have the technology necessary to produce the new generation banknotes earmarked by the government. To do so, it would require upgrading of the machinery, thus necessitating the injection of new capital. It would not be right for the joint venture to cause Kenyans to lose out on the benefits of competitive pricing of the new generation banknotes at half the cost of existing banknotes, or the superior designs that have been approved by the Government for the new notes and the security features which are capable of countering the ingenuity of Banknote counterfeighting.

139. Multiple sourcing of banknotes has the benefit of enhancing transparency in the procurement process. It is a risk management tool in case of a disaster affecting a country's banknote printer. Multiple sourcing also introduces competition which brings better quality and lower prices while providing continuous quality comparison and benchmarking. There are three aspects of multiple sourcing which can be considered namely, design, origination, paper supply and the actual printing of the Banknotes. Hitherto, Central Bank had traditionally sourced all its denominations with all the three components from De La Rue. Information provided by experts during the presentations made to the Central Bank Board indicated that it was a generalized practice to source for different denominations and components from different suppliers with substantial cost savings. Dr. Andrew Mulei's written evidence is annexed hereto as appendix 25.



CHAPTER 4

4.0. ISSUES FOR DETERMINATION

Arising from the evidence received, the committee identified the following issues as key in enabling it arrive at its recommendations.

(i) Whether Central Bank of Kenya is an independent institution that should function without interference from Treasury or any other institution or person ?.

(ii) Whether De La Rue Company would have closed its Ruaraka, Nairobi plant, if the Government of Kenya had not entered into a joint venture with it and guaranteed it long term business with Central Bank of Kenya ?.

(iii) Did Treasury carry out proper or sufficient due diligence before agreeing on acquisition of 40% stake in De La Rue Currency and Security Print Ltd plant situated at, Ruaraka, Nairobi ?.

(iv) Was the then Minister for Finance, Hon. Amos Kimunya justified in declining to authorize the signing of banknote designs by Mrs. Jacinta Mwatela then Acting Governor, Central Bank of Kenya in the absence of the substantive Governor, Dr Andrew Mulei thereby delaying the implementation of the contract for printing of 1.71 billion pieces of banknotes by De La Rue ?.

(v) Was Treasury justified in advising and or directing Central Bank of Kenya to on two occasions cancel contracts for printing of banknotes with De La Rue Company and subsequently issue stop gap or interim orders;

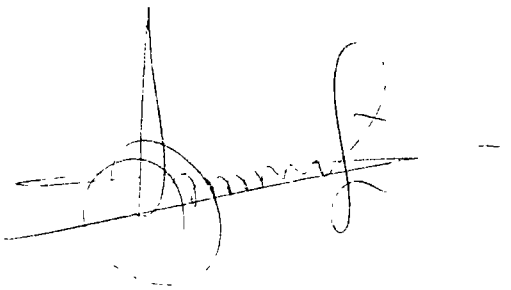
(vi) Whether the interim orders issued by Central Bank of Kenya to De La Rue were in accordance with Government Procurement Regulations and Procedures;

(vii) Whether the machines used by De La Rue at Ruaraka, Nairobi plant were obsolete and or outdated ?.

(viii) Did the Government get value for money in the interim orders for printing old generation banknotes when compared to the cost of printing 1.71 billion pieces of new generation banknotes under the cancelled contract ?.

(ix) If the Government lost as in (viii) above, who should take responsibility ?.

(x) Should the Government of Kenya enter into a joint venture with De La Rue as envisaged or should it set up its own currency plant ?.



CHAPTER 5

5.0. ANALYSIS OF EVIDENCE, OBSERVATIONS AND CONCLUSIONS

140. On the basis of issues for determination, the Committee analyzed the evidence received and made observations, findings and conclusions as follows:-

(i) Whether Central Bank of Kenya is an independent institution that should function without interference from Treasury or any other institution or person ?.

141. The Committee observed that Central Bank of Kenya is supposed to be an independent institution that should function without interference whatsoever from any person or institution owing to the nature of its functions. However, the old constitution never provided for the independence of the Bank and this exposed the Bank to interference and micromanaging particularly by Treasury.

142. Evidence received clearly indicates that Treasury interfered, directed or ordered Central Bank of Kenya and the Bank had no choice but to oblige with the directives. For example:-

(a) Hon. Amos Kimunya, then Minister for Finance in his letter Ref. CONF 36/02 dated 1st November, 2007 to the Governor, Central Bank of Kenya annexed hereto as appendix 15 directed Central Bank of Kenya to cancel a contract for printing new generation banknotes as it had been overtaken by events. Evidence received and by way if his own admission, the Minister admitted having contributed to its being overtaken by events when he declined to authorize the signing of the banknote designs by the then Acting Governor of Central Bank of Kenya, Mrs. Jacinta Mwatela in the absence of the substantive Governor to enable De La Rue print the banknotes. Furthermore, since the Procurement and Disposal Act was enacted in 2005, Treasury from then onwards had no business directing or instructing Central Bank of Kenya on procurement issues. Prior to the Act, any direct procurement had to be authorized by Treasury. In addition, Treasury was not a party to the contract and had no authority to direct the Bank to cancel a contract it was not party to.

(b) In the same letter dated 1st November, 2007, Hon. Kimunya further directed Central Bank of Kenya to print current generation banknotes under existing arrangements with De La Rue. The existing arrangements here implied direct procurement and this was contrary to government procurement regulations and procedures;

(c) By way of his own admission by letter Ref CONF. 36/02 dated 25th August, 2006 to the Governor, Central Bank of Kenya annexed hereto as appendix 10, Hon. Kimunya confirmed having toured De La Rue, Ruaraka, Nairobi plant and on behalf of Central Bank of Kenya negotiated with De La Rue for the adjustment of delivery dates for the 1.71 billion pieces of banknotes to be

procured by the Bank from the Company. The Bank was not involved in the negotiations.

143. The Committee was satisfied that the independence of Central Bank of Kenya would never be guaranteed particularly when considered that the Minister for Finance has a significant role to play in the appointment of the Governor and the Bank's Board of Directors, The Committee was however happy to note that the new constitution took note of the interference with the functioning of the Bank and guarantees the Bank its independence.

Section 231(3) of the new constitution of Kenya clearly states that:-

> ***"the Central Bank of Kenya shall not be under the direction or control of any person or authority in the exercise of its powers or in the performance of its functions"***

It is now incumbent on Treasury to initiate necessary legislation to guarantee the Bank its independence in the context of this article of the new constitution.

(ii) Whether De La Rue Company would have closed its Ruaraka, Nairobi plant if the Government of Kenya had not entered into a joint venture with it and guaranteed it long term business with Central Bank of Kenya?.

144. The Committee heard from Hon. Robinson Githae, then Acting Minister for Finance, Hon. Amos Kimunya, former Minister for Finance serving as Minister for Transport and Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance that De La Rue Company would have closed its Ruaraka, Nairobi plant due to high production costs and lack of adequate business to sustain its operations unless the Government of Kenya acquired a stake in it and guaranteed it business. While resolving that the Government enters into a joint venture with De La Rue, the cabinet considered that the closure of the plant:-

(a) Would cost the government the loss of benefits such as rent, tax revenue and foreign exchange earnings;
(b) Would cost the government loss of jobs to 301 Kenyans employed by the company at the Ruaraka plant;
(c) Would scare away potential investors which was not good for the country's economic development.

145. When the Committee toured De La Rue plant at Ruaraka, Nairobi on 28th April, 2012, De La Rue officials told the Committee that the Company did not intend to close down the Ruaraka, Nairobi plant whether the Government of Kenya invested in it or not or whether the Government of Kenya did not guarantee it long term business. However, when they appeared before the Committee on 3rd May, 2012, they submitted that the Company would have closed down the Ruaraka, Nairobi plant if the Government had declined to enter into a joint venture with it and guaranteed it long term business.

146. De La Rue told the Committee that in the current year, the mother company in the United Kingdom had 150 clients worldwide sourced by its marketing arm and allocated to its plants worldwide. In the year 2011, the company printed currencies for 30 countries at the Kenyan plant and in the current year, the plant already had 18 currency printing contracts to be undertaken. The Committee also heard from De La Rue that apart from currency printing, the Ruaraka, Nairobi plant also manufactures visa and master cards and vouchers for both local and international markets.

147. Whereas the Committee agreed with Hon. Robinson N. Githae and Hon. Amos Kimunya that loss of jobs as a result of closure of De La Rue, Ruaraka, Nairobi plant was unacceptable, it observed that the two Ministers exaggerated the number of Kenyans that would have lost their jobs if the plant was shut down. While Hon. Githae stated 301, Hon. Kimunya stated 300 contrary to evidence given by De La Rue itself being the employer that the plant employed 265 staff out of which 260 were Kenyans and 5 expatriates.

148. When challenged to produce documentary evidence on De La Rue's intention to close its Ruaraka, Nairobi plant if the government of Kenya was not going to invest in it, Hon. Kimunya who admitted having initiated the joint venture could not. He only cited conversations between him and De La Rue officials in London and Singapore to the effect. This came as a surprise to the Committee as there are clear guidelines in the government circles for dealing with confidential matters by way of secret correspondence.

149. The Committee further received evidence by way of letter marked *"secret"* dated 15th November, 2002 written by a former Central Bank of Kenya Governor, Mr. Nahashon N. Nyagah to Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance indicating that De La Rue was at one time willing to inject British Pounds Sterling. 4 million to expand the Ruaraka, Nairobi plant if Central Bank of Kenya was to re-engage its services. The letter marked *"secret"* dated 15th November, 2002 is annexed hereto as appendix 26.

150. In the light of the foregoing and having toured the Company's Ruaraka plant, where the Committee saw various local and international jobs being done at the plant, all of which were sourced by the company itself, the Committee was satisfied that the plant could still thrive with or without Government of Kenya business. Consequently, the Committee dismissed as an afterthought evidence given by the Company on 3rd April, 2012 that it would have exited the country if the Government had not invested in it, thereby contradicting its earlier position.

(iii) Did Treasury carry out proper or sufficient due diligence before agreeing on acquisition of 40% stake in De La Rue Currency and Security Print Ltd plant situated at, Ruaraka, Nairobi ?.

151. Evidence received from Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya, Hon. Robinson N. Githae, then Acting Minister for Finance and Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance confirmed that the Joint venture agreement had been

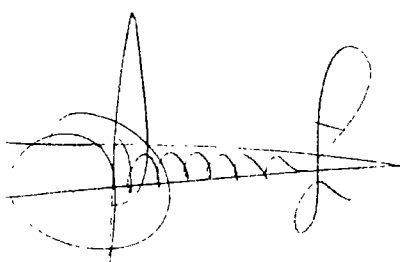
negotiated and only awaiting signatures by parties. The Committee received from Treasury an unsigned copy of the draft joint venture agreement finalized in the year 2011. Treasury which was on behalf of the Government of Kenya in charge of negotiations for the joint venture admitted that no cost benefit analysis or feasibility study was done but an assets valuation was done to determine assets that would be hived down to the new company, De La Rue Kenya EPZ to be formed under the joint venture agreement. According to Treasury, an assets valuation report would suffice at that juncture. The Committee was convinced that valuation of assets of De La Rue only could not constitute sufficient or proper due diligence.

152. Though Mr. Joseph Kinyua, the Permanent Secretary, Treasury told the Committee that Treasury intended to do a feasibility study comprising of a consortium of experts, the Committee dismissed his evidence as an afterthought since the joint venture agreement had already been negotiated and only awaiting signing by parties. In the event the results of the feasibility studies were negative after the joint venture had been executed, the Government would in the circumstances be forced to rescind the contract and this could have legal and or financial implications on the taxpayer which was not acceptable.

153. The Committee also heard from De La Rue Company that all the currency printing works are procured by the mother company in the United Kingdom which is highly reputable worldwide in the business. The mother company then allocates jobs to its subsidiaries including the Ruaraka, Nairobi, Kenya plant depending on so many factors. The Committee observed that the sustainability of the Ruaraka plant largely depended on De La Rue Company itself and factors would at times be unfavourable for allocation of lucrative contracts to the Ruaraka, Nairobi plant. This is even evidenced by the fact that the Company preferred to print 1.71 billion pieces of Kenyan banknotes at its Malta plant instead of, Ruaraka, Nairobi. Treasury did not confirm to the Committee, the guarantee as to the volume of jobs that would stream from the De La Rue International Ltd in the United Kingdom (UK) to the Ruaraka, Nairobi plant upon the operationalization of the joint venture agreement. This in essence would mean that the Government's investment in the Ruaraka plant would be in jeopardy.

154. The Committee dismissed Mr. Joseph Kinyua's evidence that the main reason why the Government of Kenya wanted to invest in De La Rue was to ensure that it (Government) controls currency printing business in the country. According to the draft joint venture agreement annexed hereto as appendix 5, the Government of Kenya was to own 40% of the new Company to be incorporated under the joint venture agreement while De La Rue would own 60%. It is therefore evident that De La Rue would still control currency printing business in the country by virtue of its majority shareholding in the new Company to be incorporated and not the Government of Kenya.

155. Though Mr. Joseph Kinyua told the Committee that at one time, Treasury was of the view that Parliament should amend the law to allow Central Bank of Kenya set up its own currency printing plant so that the Government was able to control its own currency printing, the Committee was not convinced by his evidence since he did not produce any documentary evidence to the effect. The Committee observed that Parliament would



have supported the idea if sufficiently convinced by Treasury.

156. Following admission by Hon. Amos Kimunya, former Minister for Finance that Treasury did not do any due diligence i.e. cost benefit analysis and or feasibility study before obtaining cabinet's approval for the joint venture which were crucial in investments particularly of such magnitude, the Committee was satisfied that without such information being availed to the cabinet, the minister had misled the cabinet into approving the joint venture. The Committee further observed that even as at the time of compiling this report, no feasibility study or cost benefit analysis had been done yet the joint venture was only awaiting signatures.

157. On account of the foregoing, the Committee concluded that Treasury did not undertake proper and or sufficient due diligence before agreeing on acquisition of 40% stake in De La Rue Company. This was indeed exposing taxpayers to a risk Treasury knew or ought to have known.

(iv) Was the then Minister for Finance, Hon. Amos Kimunya justified in declining to authorize the signing of banknote designs by Mrs. Jacinta Mwatela then Acting Governor, Central Bank of Kenya in the absence of the substantive Governor, Dr Andrew Mulei thereby delaying the implementation of the contract for printing of 1.71 billion pieces of banknotes by De La Rue ?.

158. The Committee heard evidence from the former Deputy and Acting Governor of Central Bank of Kenya Mrs. Jacinta Mwatela and former Secretary of Central Bank of Kenya Board of Directors, Mr. John Macharia Gikonyo that after the contract for printing of 1.71 billion pieces of banknotes had been signed between Central Bank of Kenya and De La Rue Company on 4th May, 2006, its implementation at one time stalled. This was because De La Rue was awaiting for instructions from the then Minister for Finance, Hon. Amos Kimunya as to whose signatures were to appear. Normally the signatures of the Governor and Permanent Secretary, Ministry of Finance would appear on the banknotes. At that time, the substantive Governor of Central Bank of Kenya Dr. Andrew Mulei had stepped aside in accordance with the law as he was facing prosecution in a court of law and his Deputy, Mrs. Jacinta Mwatela was the Acting Governor. The Bank risked being sued for damages for delaying the implementation of the contract on account of delayed submission of signatures.

Section 13(3) of the Central Bank of Kenya Act Cap 491 states that:-

> ***"The Deputy Governor shall act for the Governor and shall exercise all the powers and shall perform all of the functions conferred on the Governor under this Act whenever the Governor is temporarily absent, and shall perform such other functions as the Governor may from time to time assign to him"***



159. Notwithstanding this provision and the overriding consequences, Hon Amos Kimunya declined to authorize the signing of the designs by Mrs. Jacinta Mwatela the Acting Governor in the absence of Dr. Andrew Mulei, the substantive Governor. He told the Committee that he could not authorize since it did not look good and further that Dr. Mulei still had a valid contract with Central Bank of Kenya. He further told the Committee that he did not need to seek legal advice on this issue. However evidence received from Mr. John Macharia Gikonyo, a former secretary to the Central Bank of Kenya Board of Directors indicated that a legal opinion was forwarded to him but he ignored it.

160. As a result of the foregoing, the Committee drew the following conclusions:-

(a) The former Minister for Finance, Hon. Amos Kimunya had no legal basis for declining to sanction Mrs. Jacinta Mwatela to sign banknote designs in the absence of Dr. Andrew Mulei in the light of a clear provision of the law;

(b) This was another case of infringement on the independence of the Central Bank of Kenya by Treasury. The banknote printing contract was between Central Bank of Kenya and De La Rue Company and De La Rue ought to have obtained instructions on signatures from its client, Central Bank of Kenya and not the Minister for Finance.

(v) Was Treasury justified in advising and or directing Central Bank of Kenya to on two occasions cancel contracts for printing of banknotes with De La Rue Company and subsequently issue stop gap or interim orders ?.

161. The Committee heard from Hon. Robinson Githae, then Acting Minister for Finance, Hon. Amos Kimunya former Minister for Finance, Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance and Mrs. Jacinta Mwatela former Deputy and Acting Governor of Central Bank of Kenya that the first contract was signed on 5th December, 2002 and was terminated by the Bank in 2003 on a directive by the then Minister for Finance Hon. David Mwiraria. He cited single sourcing, illegal extension of the contract term to 10 years instead of a lesser period and further that the National Alliance Rainbow Coalition (NARC) Government had just come into power and had not been consulted. The Committee was satisfied with the reasons advanced by Hon. Mwiraria for the cancellation of the contract.

162. A second tender for printing of 1.71 billion pieces of new generation banknotes was floated on 6th January, 2005 and bids opened but it was cancelled on 6th June, 2005 due to various anomalies. The cancellation was done by the procurement entity itself that is Central Bank of Kenya without any orders or influence from third parties. Considering that anomalies were noted in the tendering process, it was prudent for the Bank to cancel the whole process to safeguard itself against legal consequences arising from a flawed process. The Committee was satisfied with the Bank's action.

163. A third tender was issued again for 1.71 billion pieces of banknotes and won by De La Rue Company which signed a contract to the effect with the Central Bank of Kenya on

4th May, 2006. The then Minister for Finance, Hon. Amos Kimunya termed the contract as disastrous and directed the Bank to cancel it. During his appearance before the Committee, he cited several reasons why the contract was disastrous and ought to have been cancelled and the Committee's observations and conclusions on the cancellation are as follows:-

(a) The Committee heard from Prof. Njuguna Ndung'u, Governor Central Bank of Kenya and Dr. Andrew Mulei, former Governor of the Bank that it was a practice that once new currency is introduced into the market, it operates concurrently with the old one. The old one is naturally retired from circulation once it reaches the hands of commercial banks. It could not have been prudent to withdraw all the old currency in the market at once and immediately replace it with the new one as such an action would occasion a major financial crisis. The Committee was persuaded by Prof. Njuguna Ndung'u and Dr. Andrew Mulei's evidence and dismissed the issue of the undetermined fate of the old currency as claimed by Hon. Amos Kimunya as a basis for cancellation of the contract.

(b) The Committee took great exception to Hon. Kimunya's evidence that Central Bank of Kenya officials did not have a clear understanding of monetary issues meaning that they were incompetent and not up to the task while negoatiating and signing with De La Rue the contract for printing 1.71 billion pieces of banknotes. He termed the contract as disastrous. From the Committee's deliberations and assessment, Hon. Amos Kimunya was not competent to make such a judgment against Central Bank of Kenya (CBK) employees and that his remarks were not made in good faith. The Committee was satisfied that the Bank's staff were competitively recruited, were well versed with monetary issues and could not have signed a disastrous contract as asserted by Hon. Kimunya.

The Committee observed that the Central Bank of Kenya's Board of Directors exercised due diligence in the procurement and award of the contract to De La Rue by bringing on board experts from Central Banks of United Kingdom, Uganda, Tanzania and Zambia to provide professional advice. This was because it was the first time the Bank was undertaking such an exercise. The Bank also involved a team of legal experts in contract negotiations and drafting of the contract document.

The Committee was satisfied that the Board of Directors of Central Bank of Kenya could not have entered into a contract for procurement of 1.71 billion pieces of banknotes to be printed in Malta and shipped to Kenya without addressing the issue of transport and storage contrary to evidence given by Hon. Amos Kimunya and Mr. Joseph Kinyua. It heard evidence which it admitted as credible from the Former Deputy Governor of Central Bank of Kenya Mrs. Jacinta Mwatela and a former Central Bank of Kenya Board of Directors' Secretary Mr. John Macharia Gikonyo who were involved in the

contract negotiations that the Bank had adequate storage facilities to keep the banknotes at its Nairobi headquarters, Mombasa, Kisumu and Eldoret Branches and would also make use of the Times Towers Building in Nairobi which was earmarked for Central Bank but assigned to Kenya Revenue Authority after the Bank found it too spacious to occupy.

The Committee observed that there was a delivery schedule on the signed contract which staggered deliveries between March, 2007 and December, 2009 and that all the banknotes manufactured by De La Rue in Malta would not be shipped in one consignment as testified by Hon. Amos Kimunya. The delivery schedule is part and parcel of the contract document annexed to this report as appendix 8. The Committee further observed that since delivery of the banknotes was staggered, it was reasonably expected that when new deliveries are made, earlier deliveries would have already found their way into the market to replace the undesirable ones thereby giving space for storage.

The Committee made a finding that printing of the 1.71 billion pieces of banknotes in Malta would have taken more than a year and it would not have been prudent for De La Rue to pile up ready banknotes for a very long time before shipping them in one consignment. The Committee also established from the contract document that the responsibility of shipping and delivery of the banknotes to Central Bank of Kenya in Nairobi, Kenya lay with De La Rue Company and not Central Bank of Kenya and dismissed evidence to the contrary by Hon. Amos Kimunya and Mr. Joseph Kinyua. The Committee also observed that prior to 1994, all Kenyan banknotes were printed by De La Rue in the United Kingdom and shipped to Kenya and security and storage were never issues of concern.

The Committee noted that whereas, Hon. Amos Kimunya submitted that the delivery of the 1.71 billion pieces of banknotes to Central Bank of Kenya would be in one consignment, in his letter Ref No. CONF 36/02, dated 25th August, 2006 to the Acting Governor, Central Bank of Kenya annexed hereto as appendix 10, he told the Bank to liaise with De La Rue on the adjustment of the delivery schedule with the new generation currency launch planned for January, 2008. In this regard, he admitted that there was a delivery schedule contrary to his earlier submission of one consignment delivery.

(c) The Committee heard from Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya and his team of experts that the cost implication of the new generation banknotes to commercial banks was negligible. All that commercial banks were to do was to carry out an adaptation process which would mainly involve changing certain trays in the Automated Teller Machines (ATM's) to make them compatible with the new banknotes. The Committee was persuaded by the evidence of Prof. Njuguna Ndung'u and his team, being experts on monetary issues and dismissed Hon. Kimunya's evidence to the effect as forming the basis of the cancellation of the contract.

(d) The Committee made a finding that copyrights of the banknote designs were not the property of De La Rue in the contract for printing of 1.71 billion banknotes as claimed by Hon. Amos Kimunya. According to Clause 4 on copyright and control of working tools of the contract document annexed hereto as appendix 8:-.

Clause 4.2 states that:-

> ***"the design, art works, films, engraved dies, plates and other origination materials namely the working tools are the property of the Customer and shall during the term of this agreement be held in the safe custody by the Company and used only by the Company under the Customer's express authority. All such designs, artworks, films, engraved dies, plates and other origination materials shall either be:-***
>
> - ***returned to the Customer within fourteen (14) days if the customer so requests in writing;***
> - ***destroyed by the Company if so requested in writing by the Customer after completion of this Agreement."***

According to the same clause, the Company was also to ensure that the banknotes to be supplied to the Bank would not infringe on any patent, trademark, registered design, copyright or any other right in the nature of intellectual property right or of any third party.

(e) The Committee observed that Central Bank of Kenya is mandated by law to carry out currency assessment needs, procure currencies and supply them. There is no law stating as to what particular time of the year new banknotes should be supplied and the Bank can therefore supply banknotes at any time of the year whenever deemed necessary, unless Treasury which controlled the Bank wanted to hijack the process for unlawful gain. It will be recalled in the year 1992 when the Executive allegedly commandeered Central Bank to illegally print money for its campaigns, thereby messing up the country's economy. The Committee therefore dismissed Hon. Kimunya's argument that it was not prudent for Central Bank of Kenya to issue new banknotes in an election year owing to political risks involved.

While still at that, the Committee was satisfied that Hon Kimunya's action raised serious issues on the independence of the functioning of Central Bank of Kenya.

(f) The Committee was not persuaded by Hon. Kimunya's evidence that the contract for printing 1.71 billion pieces of banknotes between Central Bank of Kenya and De La Rue was cancelled following a cabinet decision as he did not produce any documentary evidence to the effect. The Committee received from Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance

letters from the Permanent Secretary, Office of the President, Secretary to the Cabinet and Head of Civil Service Amb. Francis K. Muthaura Ref OP.CAB.58/4A dated 29th May, 2007 and 13th September, 2011 communicating a cabinet directive to the Attorney General and Treasury to initiate the joint venture process between the Government of Kenya and De La Rue Company and also approving the same. The letters are annexed hereto as appendix 27. The letters never talked of the cancellation of the contract for printing 1.71 billion pieces of banknotes between Central Bank of Kenya and De La Rue and the Committee was convinced that Hon. Amos Kimunya kept the cabinet in the dark over the contract.

(g) In his evidence, Hon. Amos Kimunya stated that, he could not allow De La Rue to close down its, Ruaraka, Nairobi plant and that he is the one who came up with the proposal for the joint venture and had it approved by the cabinet. With a joint venture in place, it meant the collapse of the contract for printing of 1.71 billion pieces of banknotes and the Committee was satisfied that Hon. Amos Kimunya had taken responsibility for the cancellation of the contract.

(h) The Committee noted that Hon Amos Kimunya misled it when he said that since the contract had not factored in the purchase of corporate security features of this new generation currency notes by Central Bank of Kenya, it meant that every time the supplier is challenged on the basis of cost or price competitiveness, a new currency design would emerge. In effect, the Government would have to be changing the currency every three years because the contract was to run for three years and then there is a new competitive bid. The Committee observed that Central Bank of Kenya (CBK) is mandated by the law and does an assessment of banknotes requirements and determines when to procure and issue new ones and not necessarily after every 3 years as asserted by Hon Amos Kimunya.

(i) The Committee observed that the Public Procurement and Disposal Act, was enacted in the year 2005 and Treasury from then onwards had no business directing or instructing Central Bank of Kenya on procurement issues. All actions of the Bank on procurement were to be guided by the Act unlike prior to 2005 when Government institutions had to seek Treasury authority for direct procurement.

(j) The Committee noted that Treasury was not a party to the contract for the supply of 1.71 billion pieces of banknotes by De La Rue to Central Bank of Kenya and therefore had no authority to direct the Bank to cancel the contract. Furthermore, while directing the Bank to cancel the contract, Hon. Amos Kimunya never advised the Bank to negotiate for a lower price in view of the fact that the interim orders pricing was higher than the cancelled contract.

(k) The Committee observed that in his letter Ref CONF.36/02 dated 1st November, 2007 annexed hereto as appendix 14, Hon Kimunya while directing

Central Bank of Kenya to cancel the contract for procurement of 1.71 billion pieces of banknotes with De La Rue also directed the Bank to single source for an interim order from the same company contrary to Government procurement regulations and procedures.

164. On account of the foregoing, the Committee made a finding that the contract for printing 1.71 billion pieces of banknotes between Central Bank of Kenya and De La Rue was properly negotiated and executed by both the parties and Hon. Amos Kimunya did not have any valid reason for directing cancellation of the same.

(vi) Whether the Interim orders issued by Central Bank of Kenya to De La Rue Company were in accordance with Government Procurement Regulations and Procedures ?.

165. All the interim orders issued to De La Rue Company by Central Bank of Kenya from the year 2003 to 2010 were through direct procurement. The Public Procurement and Disposal Act was enacted in the year 2005. Prior to that Treasury had much control over Government entities in procurement whereby it had to authorize all direct procurement by the entities.

Section 74(2) and (3) of the Public Procurement and Disposal Act of 2005 allows for direct procurement where:-

(a) There is only one person who can supply the goods and services;
(b) There is no reasonable or substitute for the goods;
(c) There is urgent need of the goods and services;
(d) Because of the urgency, other available procurement methods are impracticable;
(e) Circumstances giving rise to the urgency were not foreseeable and were not as a result of dilatory conduct on the part of the procuring entity.

166. The Committee was satisfied that the procurement of all the five interim stop gap orders issued to De La Rue by the Central Bank of Kenya from the year 2005 to 2010 did not meet any of the five conditions for direct procurement and that the procurement therefore breached government procurement regulations and procedures. This was well known to Hon. Amos Kimunya and Prof. Njuguna Ndung'u.

(vii) Whether the machines used by De La Rue Company at Ruaraka, Nairobi plant were obsolete and or outdated ?.

167. When put to task to state the age of machines in use at the Ruaraka, Nairobi plant, De La Rue Officials were evasive and or not categorical. They told the Committee that the machines were newly installed directly from their manufacturers and that they were routinely serviced and maintained. Other than the routine servicing and maintenance, the machines were refurbished and upgraded in the year 2009. Apart from one machine with chip and pin ability newly acquired and installed the previous year, De La Rue could not

confirm the age of the rest of the machines which was quite unexpected. They argued that as long as printing machines were regularly serviced and maintained, age was not an issue to impact on their performance. Despite being given ample time to produce documentary evidence relating to age of the machines, they failed to do so.

168. The Permanent Secretary, Treasury, Mr. Joseph Kinyua who had negotiated for the joint venture on behalf of the government could not confirm the age, suitability or efficiency of the machines of De La Rue at Ruaraka plant. He only relied on the valuation report done on De La Rue assets which according to the Committee was totally inadequate to determine the performance of machines at the plant.

169. The Committee observed that printing like any other technology was very dynamic and that it was reasonably expected that new technology and machines had been developed since De La Rue set up its plant at Ruaraka, Nairobi in 1994 and installed the machines currently in use. When the Committee toured the Ruaraka plant on 28th April, 2012, it observed that most of the machines in use were analogue while modern technology had shifted to digital.

170. In its evidence before the Committee on 3rd May, 2012, De La Rue even confirmed that the 1.71 billion pieces of banknotes with advanced security features it had been contracted to print for the Central Bank of Kenya would have been printed more efficiently and cheaply in Malta and not Ruaraka, Nairobi Kenya and that is why the Company preferred printing the banknotes in Malta.

171. Without credible evidence particularly documents indicating when the machines were acquired and their lifespan, the Committee was convinced that the machines in use by De La Rue at Ruaraka, Nairobi plant were inefficient and obsolete.

(viii) Did the Government get value for money in the interim orders for printing old generation banknotes when compared to the cost of printing 1.71 billion pieces of new generation banknotes under the cancelled contract ?.

172. The Committee observed that printing of banknotes for the Central Bank of Kenya had been monopolized by one company in the name of De La Rue, changing names from time to time and that the public had been denied the benefit of getting a fair market price through a competitive procurement process since independence. It was Hon. David Mwiraria when Minister for Finance in 2003 who noted this irregularity and ordered Central Bank of Kenya to cancel a contract awarded to the Company in 2002 while calling for a competitive procurement process.

173. While Hon. Amos Kimunya argued that Central Bank of Kenya saved close to Kshs.3.8 billion in the interim orders when compared to the cancelled contract for 1,71 billion pieces of banknotes, De La Rue argued that the price difference in the interim orders and the cancelled contract was nil. Dr. Andrew Mulei told the Committee that the price of the interim orders was one and a half times more than the cancelled contract. Prof

Njuguna Ndung'u, the Governor of Central Bank of Kenya told the Committee that the cancelled contract was cheaper than the interim orders. His comparative price analysis is annexed hereto as appendix 18.

174. Evidence received from the Governor, Central Bank of Kenya shows that upon cancellation of the contract for printing 1.71 billion pieces of banknotes with De La Rue, 4 interim orders of 164.05 million pieces of banknotes, 390 million, 450 million and 483 million were issued to the same company through direct procurement. The Auditor General's special audit report indicates that these interim orders cost the taxpayer Kshs.5,584,940,935.00. These orders were of current generation banknotes. The cancelled contract for 1.71 billion pieces of banknotes was for new generation banknotes with advanced security features and would have cost the taxpayer Kshs.3,754,031,319.00.

175. On the strength of the special audit report by the Auditor General, the Committee was satisfied that the taxpayer lost Kshs.1,830,909,616.00 being the price difference between the cost of the interim orders and the cancelled contract and that the government did not therefore get value for money in the interim orders.

(ix) If the Government lost as in (viii) above who should take responsibility?.

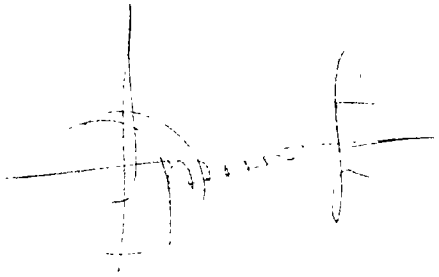
176. Article 226(1)(5) of the new constitution stipulates that:-

> ***"If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not".***

As per the analysis of evidence, observations and conclusions under Chapter 5 of this report, the Committee was satisfied that the former Minister for Finance, Hon. Amos Kimunya and the incumbent Governor of Central Bank of Kenya, Professor Njuguna Ndung'u were responsible for the loss of Kshs.1,830,909,616.00 because:-

(a) Hon. Kimunya directed Central Bank of Kenya to cancel a cheaper contract with De La Rue even when his Ministry was not party to the contract and all the reasons he gave for the cancellation of the contract were invalid.
(b) Prof. Ndung'u did not make any effort to resist the orders from Hon Kimunya to cancel the contract. In so doing, he failed to protect the Bank and taxpayers' interest.

Consequently, Hon. Kimunya and Prof. Ndung'u should be held accountable for the loss in accordance with Article 226(1)(5) of the constitution.



(x) Should the Government of Kenya enter into a joint venture with De La Rue Currency and Security Print Ltd and Thomas De La Rue AG incorporated in Switzerland as envisaged in the draft joint venture agreement or should it set up its own currency printing plant ?.

177. Evidence received by way of own admission indicates that Hon. Amos Kimunya, then Minister for Finance was the architect of the joint venture deal between the Government of Kenya and De La Rue. He told the Committee that the joint venture was not being worked on merely in terms of profitability or otherwise but to ensure that the Government had a sustainable and secure delivery of currency printing in the long term.

178. The Committee also heard evidence and observed that:-

(i) Many countries consider security printing so strategic that they had established fully government owned currency and security printing presses and mints. United States of America, Australia, India, Sudan were very good examples of such countries. Other countries had opted for joint ventures with printing firms to secure sustainable currency printing services. Examples where De La Rue International had joint ventures with other countries in banknote production included Sri Lanka, Portugal, Nigeria and Switzerland;

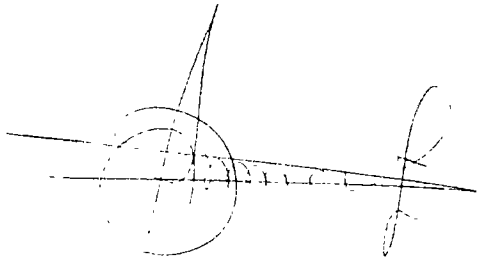
(ii) The Government of Kenya was capable of establishing its own currency printing plant but such a move would have its own negative consequences;

(iii) The joint venture agreement between Treasury and De La Rue International Ltd ties Central Bank of Kenya to a 10 year currency printing contract with the company. The Bank was not involved in negotiations of the contract since the Act establishing it prohibits it from engaging in investment ventures. This provision in the contract further contravenes government procurement regulations and procedures as it would deny the Bank the benefits of a fair market price through a competitive procurement process;

(iv) Prof Njuguna Ndung'u, Governor of Central Bank of Kenya told the Committee that he would not sign any contract tying the Bank to a 10 year currency printing with De La Rue arising from the joint venture as this contravenes government procurement regulations and procedures;

(v) Kenya's economy was growing while currency printing was based on economic growth. All the interim orders were made when the country's national budget was less than one trillion Kenya Shillings. The current national budget is over one trillion Kenya Shillings. While bidding for the tender to print 1.71 billion pieces of banknotes, for Central Bank, De La Rue preferred printing the banknotes in Malta and this was a clear indication that the current capacity of the Ruaraka plant cannot keep pace with the country's currency needs in view of the growing economy, unless upgraded and expanded.

179. The Committee held the view that the decision as to whether the Government of Kenya should opt for a joint venture or establish its own currency printing plant lies squarely with the executive and the responsibility of the Committee as part of the legislature is merely oversight over such investments. The Committee's main function in the



circumstances is to ensure that the Government carries out due diligence while investing to safeguard public funds from loss. In the envisaged joint venture, the Committee was satisfied that proper and or sufficient due diligence were not carried out and therefore the contract should not proceed unless the issues pointed out by the Committee in its recommendations are addressed.



CHAPTER 6

RECOMMENDATIONS

The Committee recommends as follows:-

(i) **The Ethics and Anti-Corruption Commission should investigate the former Minister for Finance, Hon. Amos Kimunya over his conduct in the loss of Kshs.1,830,909,616.00 with a view to taking appropriate legal action against him and recovering lost funds;**

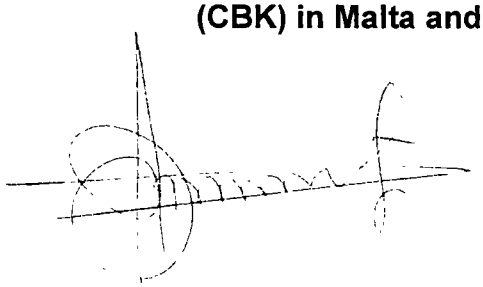
(ii) **The Ethics and Anti-Corruption Commission should investigate the incumbent Central Bank of Kenya Governor, Prof Njuguna Ndung'u over his conduct in the loss of Kshs.1,830,909,616.00 with a view to taking appropriate legal action against him and recovering lost funds;**

(iii) **Hon. Amos Kimunya and Prof. Njuguna Ndung'u having been responsible for the loss of Kshs.1,830,909,616.00 acted contrary to provisions of Chapter 6 of the Constitution of Kenya, the Public Officer Ethics Act and the Public Procurement and Disposal Act and in that respect and for this reason, they are not fit to hold public office;**

(iv) **The appointment of Prof. Njuguna Ndung'u as Governor of Central Bank of Kenya should be terminated and towards this end, the President should appoint a tribunal pursuant to provisions of Section 14 (2)(f) and 14(3) of the Central Bank of Kenya Act, Cap 491. In the meantime, Prof. Njuguna Ndung'u must step aside from the Office with immediate effect;**

(v) **The Committee concurs with the cabinet's decision for the Government of Kenya to enter into a joint venture with De La Rue Company with respect to the Ruaraka, Nairobi plant but notes several anomalies relating to the draft joint venture agreement. For this reason, the joint venture should only proceed upon fulfillment of the following conditions:-**

   (a) **It must not tie Central Bank of Kenya to signing a 10 year currency printing contract with De La Rue Company. This contravenes Government procurement regulations and procedures since the Bank cannot be guaranteed a fair market price for currency printing unless there is a competitive procurement process;**
   (b) **It must address the issue of capacity of the plant. The machines and technology in use at the Ruaraka, Nairobi plant lack capacity to effectively and efficiently print huge volumes of banknotes with enhanced security features and this is why De La Rue preferred printing 1.71 billion pieces of banknotes for Central Bank of Kenya (CBK) in Malta and not Ruaraka, Nairobi;**



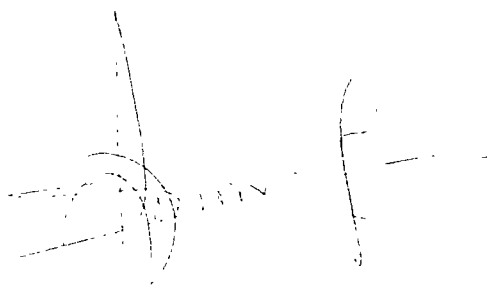
(c) It must address the complex structure of De La Rue. There is a web of companies claimed to be subsidiaries of De La Rue International Ltd with the Ruaraka, Nairobi one changing names from time to time. The Committee fears that the multiple change of name by the Ruaraka plant may have been intended by the Company to camouflage itself against liabilities and in future, its creditors could lay claim against the assets of the company to be born out of the joint venture, thereby putting the Government of Kenya investment at risk;

(d) The Government should negotiate and enter into a joint venture with De La Rue International Ltd in the United Kingdom (UK) with respect to the Ruaraka, Nairobi plant and not its subsidiaries;

(e) The Government must do a proper and or sufficient due diligence particularly feasibility study and cost benefit analysis to ascertain the profitability and viability of the Ruaraka plant before investing in it.

(vi) Treasury must take necessary steps and at the same time fast track the bringing in Parliament for enactment legislation guaranteeing Central Bank of Kenya (CBK) independence in the context of Article 231(3) of the new constitution.

(vii) In the light of Article 231(3) of the new constitution, Central Bank of Kenya (CBK) should competitively procure banknotes as and when required without any direction or control by any person or body. The situation can clearly be foreseen and the delay in finalization of the joint venture should not be a reason for direct procurement of banknotes from De La Rue at a price which is not competitive.



- END-

Appendix 1

MINUTES OF THE TWO HUNDRED AND NINETY SECOND SITTING OF THE PUBLIC ACCOUNTS COMMITTTEE HELD ON THURSDAY, 26TH JULY, 2012 AT 11.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING.

PRESENT:-

Hon. Dr. Boni Khalwale, MP - Chair
Hon. David Ngugi, MP
Hon. Alex M. Mwiru, MP
Hon. Daniel Muoki, MP
Hon. Dr. Nuh Nassir Abdi, MP
Hon. Boaz Kaino, MP

ABSENT WITH APOLGIES:-

Hon. Francis C. Ganya, MP
Hon. Charles Onyancha, MP
Hon. Edick O. Anyanga, MP

ABSENT:-

Hon. Martha Karua, MP
Hon. Dr. Julius Kones, MP

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant
Kevin Auma	-	Parliamentary Intern

MIN No. 713/2012: CONFIRMATION OF MINUTES

The Committee confirmed minutes of the 243rd to 291st sittings held between March and July, 2012.

MIN No. 714/2012:- CONSIDERATION AND ADOPTION OF REPORT ON THE MATTER OF CURRENCY PRINTING CONTRACTS BETWEEN CENTRAL BANK OF KENYA AND DE LA RUE COMPANY

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance on the floor of the House on 2nd November, 2011.

The Committee considered and adopted its report on the matter for tabling and debate in the House. The recommendations agreed on were as follows:-

(i) The Ethics and Anti-Corruption Commission should investigate the former Minister for Finance, Hon. Amos Kimunya over his conduct in the loss of Kshs.1,830,909,616.00 with a view to taking appropriate legal action against him and recovering lost funds;

(ii) The Ethics and Anti-Corruption Commission should investigate the incumbent Central Bank of Kenya Governor, Prof Njuguna Ndung'u over his conduct in the loss of Kshs.1,830,909,616.00 with a view to taking appropriate legal action against him and recovering lost funds;

(iii) Hon. Amos Kimunya and Prof. Njuguna Ndung'u having been responsible for the loss of Kshs.1,830,909,616.00 acted contrary to provisions of Chapter 6 of the Constitution of Kenya, the Public Officer Ethics Act and the Public Procurement and Disposal Act and in that respect and for this reason, they are not fit to hold public office;

(iv) The appointment of Prof. Njuguna Ndung'u as Governor of Central Bank of Kenya should be terminated and towards this end, the President should appoint a tribunal pursuant to provisions of Section 14 (2)(f) and 14(3) of the Central Bank of Kenya Act, Cap 491. In the meantime, Prof. Njuguna Ndung'u must step aside from the Office with immediate effect;

(v) The Committee concurs with the cabinet's decision for the Government of Kenya to enter into a joint venture with De La Rue Company with respect to the Ruaraka, Nairobi plant but notes several anomalies relating to the draft joint venture agreement. For this reason, the joint venture should only proceed upon fulfillment of the following conditions:-

(a) It must not tie Central Bank of Kenya to signing a 10 year currency printing contract with De La Rue Company. This contravenes Government procurement regulations and procedures since the Bank cannot be guaranteed a fair market price for currency printing unless there is a competitive procurement process;

(b) It must address the issue of capacity of the plant. The machines and technology in use at the Ruaraka, Nairobi plant lack capacity to effectively and efficiently print huge volumes of banknotes with enhanced security features and this is why De La Rue preferred printing 1.71 billion pieces of banknotes for Central Bank of Kenya (CBK) in Malta and not Ruaraka, Nairobi;

(c) It must address the complex structure of De La Rue. There is a web of companies claimed to be subsidiaries of De La Rue International Ltd with the Ruaraka, Nairobi one changing names from time to time. The Committee fears that the multiple change of name by the Ruaraka plant

may have been intended by the Company to camouflage itself against liabilities and in future, its creditors could lay claim against the assets of the company to be born out of the joint venture, thereby putting the Government of Kenya investment at risk;

(d) The Government should negotiate and enter into a joint venture with De La Rue International Ltd in the United Kingdom (UK) with respect to the Ruaraka, Nairobi plant and not its subsidiaries;

(e) The Government must do a proper and or sufficient due diligence particularly feasibility study and cost benefit analysis to ascertain the profitability and viability of the Ruaraka plant before investing in it.

(vi) Treasury must take necessary steps and at the same time fast track the bringing in Parliament for enactment legislation guaranteeing Central Bank of Kenya (CBK) independence in the context of Article 231(3) of the new constitution.

(vii) In the light of Article 231(3) of the new constitution, Central Bank of Kenya (CBK) should competitively procure banknotes as and when required without any direction or control by any person or body. The situation can clearly be foreseen and the delay in finalization of the joint venture should not be a reason for direct procurement of banknotes from De La Rue at a price which is not competitive.

There was no dissenting voice.

MIN No. 715/2012:- ADJOURNMENT

There being no other business to transact, the sitting ended at thirty two minutes past noon.

Signed .....
(Chair)

Date 26.07.12.

MINUTES OF THE TWO HUNDRED AND THIRTY SEVENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON MONDAY, 19TH MARCH, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Julius Kones, M.P.		
Hon. Daniel Muoki, M.P.		
Hon. Boaz Kaino, M.P.		
Hon. Edick O. Anyanga, M.P.		
Hon. David Ngugi, M.P.		

ABSENT:-

Hon. Martha Karua, M.P.
Hon. Francis C. Ganya, M.P.
Hon. Alex M. Mwiru, M.P.
Hon. Dr. Nuh Nassir Abdi, M.P.
Hon. Charles Onyancha, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom K. Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

Edward R. O. Ouko	-	Auditor General
Agnes C. Mita	-	Director of Audit
Joash O. Manasseh	-	Principal Auditor

MIN No. 592/2012:- EVIDENCE: MINISTRY OF FINANCE

Award of currency printing contracts by Central Bank of Kenya to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance.

Hon. Robinson N. Githae, MP, Minister for Finance accompanied by:-

(i)	Joseph Kinyua	-	Permanent Secretary
(ii)	Esther Koimet	-	Investment Secretary
(iii)	C.A. Otunga	-	Director of Public Procurement

appeared before the Committee and:-

(i) Gave a brief historical background of currency printing arrangements between Central Bank of Kenya and De La Rue International (UK) Ltd;

(ii) He told the Committee that the cabinet at its sitting of 13th September, 2011 approved a joint venture between the Government of Kenya and De La Rue Currency and Security Printing (K) Ltd with De Rue International (UK) retaining 60% and the Government of Kenya 40%. Other key conditions of the agreement were:-

- The purchase price of the 40% stake by the Government of Kenya would be five (5) million Sterling Pounds;
- A new company De La Rue EPZ Kenya Ltd would be formed into which De La Rue International (UK) would vest all operating assets of De La Rue (Kenya) Ltd plus two (2) million Sterling Pounds in equity to fund the initial working capital of the new company;
- The Government of Kenya would have two (2) Directors in the new company while De La Rue would have three (3);
- De La Rue would be in charge of management of the new company;
- The Government of Kenya would provide a new export operator's license to the new company under the Export Processing Zones Act of the Laws of Kenya;
- The Central Bank of Kenya shall have entered into a ten (10) year bank note printing agreement with the new company to come into force only upon completion of the share and purchase agreement. Central Bank was separately negotiating for this contract.

The agreement was in the final stages of being operationalized.

(iii) He concurred with the Committee that Central Bank of Kenya was a public entity and should be unconditionally audited by the Auditor General, contrary to provisions of the Central Bank of Kenya Act. It was agreed between the Committee and the minister that the Auditor General goes ahead to audit Central Bank of Kenya with respect to De La Rue contracts;

(iv) The Committee was suspicious that De La Rue's technology, plant and machinery at Ruaraka were obsolete thus not commercially viable at the time the government was acquiring 40% stake in it and would be carrying out investigations to establish the true position;

(v) The Committee resolved to carry out an inspection tour of De La Rue plant at Ruaraka to take the company management's evidence and also meet the Central Bank of Kenya's Governor over its currency printing contracts with the company;

(vi) The Committee directed the Minister to:-

- Provide names of Directors of De La Rue International (UK) Ltd and all its subsidiary companies;
- Provide for audit copies of all contracts signed with De La Rue since the Government started dealing with the company;
- Avail for audit a copy of the contract cancellation agreement with De La Rue in respect of the contract cancelled in March, 2003;
- Provide a comparative analysis on currency printing prices with resoect to contracts awarded to De La Rue Company;
- Avail for audit documentary evidence accounting for USD.25 million paid by Central Bank to De La Rue in respect of the contract that was cancelled;
- Avail for audit minutes of the Cabinet indicating that the Government would only be issuing short term currency printing tenders until further notice;
- To report to the Committee at the next sitting the correct position as to whether the Government of the United Kingdom prints its own currency or floats tenders for service providers;
- Produce for audit a copy of the feasibility study and valuation reports of De La Rue Plant and machinery at Ruaraka, Nairobi before the Government entered into negotiations for the purchase a 40% stake in the company.

MIN No. 593/2004:- **ANY OTHER BUSINESS (AOB)**

The Committee resolved to meet the Permanent Secretary, Ministry of Finance on the first week of April, 2012 to take his evidence on refunds made to donors by the Ministries of Special Programmes, Education, Development of Northern Kenya & Other Arid Lands and Planning, National Development & Vision 2030 as a result of ineligible expenditures arising from donor funding pursuant to donor financing agreements.

MIN No. 594/2012:- **ADJOURNMENT**

The sitting ended at twenty five minutes past one in the afternoon

Signed .....

(Chair)

Date 26.07.12.

MINUTES OF THE TWO HUNDRED AND FORTY THIRD SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON WEDNESDAY, 28TH MARCH, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Julius Kones, M.P.		
Hon. Charles Onyancha, M.P.		
Hon. Daniel Muoki, M.P.		
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. Edick O. Anyanga, M.P.		
Hon. Boaz Kaino, M.P.		

FRIEND OF THE COMMITTEE

Hon. Martin Ogindo, M.P.	-	Budget Committee

ABSENT WITH APOLOGY:-

Hon. Francis C. Ganya, M.P.

ABSENT:-

Hon. Martha Karua, M.P.
Hon. Alex M. Mwiru, M.P.
Hon. David Ngugi, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

Edward R.O. Ouko	-	Auditor General
John K. Kagondu	-	Deputy Auditor General
Joash O. Manasseh	-	Principal Auditor

MIN No. 605/2012:- **EVIDENCE: GOVERNOR, CENTRAL BANK OF KENYA (CBK)**

Award of currency printing contract by Central Bank of Kenya to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following a Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance.

Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya accompanied by Messrs:-

(i)	Haron Sirma	-	Deputy Governor
(ii)	James T. Lopoyetum	-	Director of Currency Operations and Branch Administration
(iii)	Kennedy Abuga	-	Director, Governor's Office

appeared before the Committee and:-

(i) Gave a brief history of currency printing contracts between Central Bank of Kenya and De La Rue Company;

(ii) Told the Committee that after the cancellation of a ten (10) year contract between the Central Bank of Kenya and De La Rue on 14th March, 2003, the Bank kept on procuring currencies for the country's use from De La Rue through Interim Stop Gap Orders. This was done mainly because the retendering process after cancellation would be lengthy yet the country required new currencies from time to time to replace mutilated ones. Otherwise, there would be a banknote crisis in the country;

(iii) Told the Committee that on 16th April, 2007, the approved designs of the new generation banknotes were presented to De La Rue for production but the process could not continue because the Government had approved a joint venture for production of bank notes between the Ministry of Finance and De La Rue, the process of which was in its final stages. In the meantime, Central Bank continued to procure banknotes from De La Rue through interim stop gap orders.

PENDING ISSUES

The Committee directed the Governor that before the next meeting, he should :-

(i) Produce a letter by Central Bank of Kenya Governor responding to Hon. Mwiraria's (then Minister for Finance) letter dated 17th March, 2003;

(ii) Provide information on cost of currency printing between the years 2002-2010;

(iii) Provide copies of currency printing contracts with De La Rue and Minutes of the Tender Committee approving the contracts;

(iv) Indicate how much it cost the government after the cancellation of currency printing contracts with De La Rue and provide a cost comparative analysis between the six (6) interim stop gap orders and the cancelled contract.

(v) Produce copies of contract cancellation agreement with De La Rue;
(vi) Produce a valuation report of De La Rue assets in Kenya before the Government entered into negotiations for acquisition of 40% stake in the company;
(vii) Produce a technical evaluation report of bids of five (5) firms which participated in the tender of 6th January, 2005;
(viii) Produce a technical evaluation report of bids that were opened on 29th August, 2005;
(ix) Produce documentary evidence indicating the withdrawal of Orel Fussli from the tendering process with respect to bids that were opened on 29th August, 2005;
(x) Avail documentary evidence of all currency printing orders after completion of deliveries for audit.

MIN No. 606/2012:- **ADJOURNMENT**

The sitting was adjourned at twelve minutes to one in the afternoon till Thursday, 29th March, 2012 at half past nine in the morning.

Signed .....
(Chair)

Date 26.04.12 .....

MINUTES OF THE TWO HUNDRED AND FORTY FOURTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON THURSDAY, 29TH MARCH, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Julius Kones, M.P.		
Hon. Daniel Muoki, M.P.		
Hon. Charles Onyancha, M.P.		
Hon. Boaz Kaino, M.P.		
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. David Ngugi, M.P.		

FRIEND OF THE COMMITTEE

Hon. Martin Ogindo, M.P.	-	Budget Committee

ABSENT WITH APOLOGY:-

Hon. Francis C. Ganya, M.P.

ABSENT:-

Hon. Martha Karua, M.P.
Hon. Alex M. Mwiru, M.P.
Hon. Edick O. Anyanga, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

Edward R.O. Ouko	-	Auditor General
John K. Kagondu	-	Deputy Auditor General
Joash O. Manasseh	-	Principal Auditor

MIN No. 607/2012:- EVIDENCE: GOVERNOR, CENTRAL BANK OF KENYA
Award of currency printing contract by Central Bank of Kenya to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance on 2nd November, 2011.

Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya accompanied by Messrs:

(i)	Haron Sirma	-	Deputy Governor
(ii)	James T. Lopoyetum	-	Director of Currency Operations and Branch Administration
(iii)	Kennedy Abuga	-	Director, Governor's Office

reappeared before the Committee and submitted that:-

(i) The contract which was to be awarded to De La Rue for Printing of bank notes but cancelled in 2006 would have seen Central Bank save money as opposed to procurement of banknotes from the same company by way of interim stop gap orders. Under the cancelled contract, the company would have printed the banknotes at its Malta plant and not Nairobi;

(ii) The Government opted for printing of the banknotes at De La Rue, Nairobi plant at higher cost since printing in Malta would have posed to the Central Bank of Kenya a major storage challenge as all the notes printed would be delivered in one consignment. The printing of the banknotes in Malta was also likely to cause job losses for about 260 Kenyans employed by De La Rue, Nairobi as there was a possibility of the company closing shop in Kenya as a result of shrinking business;

(iii) Central Bank of Kenya could not discontinue the interim stop gap orders of banknotes from De La Rue until the joint venture deal between the Ministry of Finance and De La Rue over currency printing was finalized. The Bank was prohibited by law from engaging in investment ventures. The Ministry of Finance's Investments Department was the Government's authorized office on investment matters.

PAPERS LAID

The Governor tabled before the Committee the following papers in response to issues arising from the previous and current sittings:-

(i) Lease document L.R. No. 7878/4 dated 25th June, 1992 from Central Bank of Kenya to De La Rue Kenya Ltd;

(ii) Letter (unreferenced) dated 26th October, 2006 from the Acting Governor, Central Bank of Kenya to the Permanent Secretary, Ministry of Finance;

(iii) Letter Ref. No. CONF. 36/02/F dated 24th September, 2007 from the Minister of Finance to the Governor of the Central Bank of Kenya.

(iv) Letter Ref. No. CONF.36/02 TY dated 22nd September, 2007 from the Minister for Finance to the Governor of the Central Bank.

(v) Letter Ref. No. Conf 36/02 dated 17th March, 2003 from the Minister for Finance to the Central Bank of Kenya Governor;

(vi) Letter Ref. No. Conf 36/02 dated 14th March, 2003 from the Minister for Finance to the Governor of Central Bank of Kenya.

(vii) De La Rue International Ltd's Destruction Certificates of banknotes No. B 10136 - 10140 dated 5th August, 2011;

(viii) De La Rue International Ltd's Destruction Certificates of banknotes No. B 9892 - 9896 dated 23rd February, 2011;

(ix) De La Rue International Ltd Paper Balance Certificates No. B.9152-9153;

(x) De La Rue International Ltd Paper Balance Sheets No. B.9152-9153;

(xi) Banknotes production and supply agreement between the Central Bank of Kenya and De La Rue Currency and Security Print Ltd dated 17th June, 2009;

(xii) Banknotes production and supply agreement between the Central Bank of Kenya and De La Rue Currency and Security Print Ltd dated 10th January, 2007;

(xiii) Banknotes production and supply agreement between the Central Bank of Kenya and De La Rue Currency and Security Print Ltd dated 14th December, 2007;

(xiv) Banknotes production and supply agreement dated 16th July, 2010 between the Central Bank of Kenya and De La Rue Currency and Security Print Ltd;

(xv) Undated delivery schedule of banknotes

(xvi) Variation agreement dated 10th January, 2007 between the Central Bank of Kenya and De La Rue International Ltd;

(xvii) Unsigned Executive brief on International Tender for the design, manufacture, printing and supply of new generation Kenya banknotes dated 30th November, 2005;

(xviii) Agreement for the design, manufacture, printing and supply of new generation banknotes between Central Bank of Kenya and De La Rue International Ltd dated 4th May, 2006;

(xix) Currency production agreement between Central Bank of Kenya and De La Rue Currency and Security Print Ltd dated 5th December, 2002;

(xx) Currency production agreement between Central Bank of Kenya and De La Rue Currency and Security Print Ltd dated 14th July, 2005;

(xxi) Agreement dated 8th October, 1991 between Central Bank of Kenya and Thomas De La Rue and Company Ltd, Basingstoke, Hampshire;

(xxii) Agreement for the cancellation and termination of an agreement for the design, manufacture, printing and supply of new generation banknotes between Central Bank of Kenya and De La Rue International Ltd dated 4th May, 2006;

(xxiii) Breakdown of volumes of banknotes for the denomination per contract year;

(xxiv) Letter Ref PPD.2/30/2 VOL.I/(56) dated 9th November, 2006 from the Permanent Secretary, Ministry of Finance to the Acting Governor of Central Bank of Kenya;

(xxv) Schedules for comparative price analysis of printing costs of Kenya currency banknotes and printing costs of Kenya currency banknotes between 2003-2011;

The Committee acceded to the Governor's request to note that some of the documents tabled were confidential and that they should be treated with the confidentiality they deserve.

PENDING ISSUES

The Governor undertook to:-

(i) Avail minutes of Central Bank's Tender Committee relating to De La Rue tenders. He however requested the Committee to treat them as confidential upon receipt.

(ii) Liaise with the Ministry of Finance to get and avail for audit the valuation report of assets and liabilities of De La Rue, Ruaraka Company before the Government engaged it in negotiations for the acquisition of a stake.

MIN No. 608/2012:- **ADJOURNMENT**

The sitting ended at twenty five minutes past one in the afternoon.

Signed .....

(Chair)

Date 26.07.12

MINUTES OF THE TWO HUNDRED AND FORTY FIFTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON TUESDAY, 3RD APRIL, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. David Ngugi, M.P.		
Hon. Martha Karua, M.P.		

FRIEND OF THE COMMITTEE

Hon. John Mbadi, M.P.	-	Finance Committee

ABSENT WITH APOLOGY:-

Hon. Alex M. Mwiru, M.P.
Hon. Edick O. Anyanga, M.P.
Hon. Dr. Julius Kones, M.P.
Hon. Francis C. Ganya, M.P.
Hon. Daniel Muoki, M.P.

ABSENT:-

Hon. Boaz Kaino, M.P.
Hon. Charles Onyancha, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

Lameck B. Achika	-	Deputy Director of Audit
Anthony Waiganjo	-	Assistant Director of Audit
B.W. Maina	-	Principal Auditor
Fred M. Abugha	-	Principal Auditor
Joash O. Manasseh	-	Principal Auditor

MIN No. 609/2012:- **EVIDENCE: PERMANENT SECRETARY, MINISTRY OF FINANCE**

Award of currency printing contracts by Central Bank of Kenya to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance on 2nd November, 2011.

Mr. Joseph Kinyua, CBS, Permanent Secretary, Ministry of Finance accompanied by Messrs:

(i)	Jackson Kinyanjui	-	Director, External Resources Management
(ii)	Philip Ndung'u	-	Internal Auditor General

appeared before the Committee and submitted that:-

(i) Central Bank of Kenya is an independent institution and not subject to Treasury's directives in it its operations. Treasury did not direct the Bank to enter into a ten, instead of six years currency printing agreement with De La Rue International Ltd. It only advised;

(ii) Owing to its independence, only the Central Bank of Kenya could negotiate for itself the currency printing price with De La Rue and not Treasury;

(iii) There was no need for a feasibility study on the De La Rue business in Kenya before the Government could commit itself to acquiring 40% stake in the company. This was because the Government was investing in an existing facility which had sufficient operational information to make a determination of the parameters necessary to inform the investment. An asset valuation was however done which would suffice in the circumstances;

(iv) The joint venture agreement between the Government of Kenya and De La Rue had not yet been signed. Only a draft document was in place awaiting the signing.

Not very long into the proceedings, the Committee felt that it was not well prepared for the meeting in view of new documents in the possession of the Chair and several other documents which had earlier been tabled by the Central Bank of Kenya Governor and the Minister for Finance which Members had not yet perused. Members found it necessary to adjourn the sitting to a later date to enable the Auditor General verify and analyse all documents tabled and advise them.

PAPERS LAID

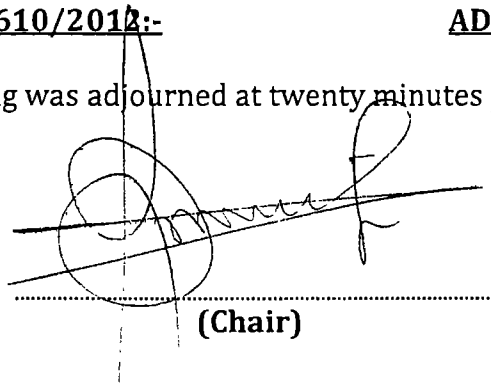
The Permanent Secretary tabled before the Committee the following paper in response to issues arising from the previous sittings:-

(i) Report and valuation for assets of De La Rue Currency and Security Print Ltd, Nairobi, Kenya dated 8th July, 2011;

He also undertook to avail to the Committee the draft joint venture agreement between the Government of Kenya and De La Rue over the Ruaraka plant at the very earliest opportunity:-

MIN No. 610/2012:- **ADJOURNMENT**

The sitting was adjourned at twenty minutes past eleven in the morning.



Signed .....

(Chair)

Date 26.07.12 .....

MINUTES OF THE TWO HUNDRED AND FORTY SEVENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON WEDNESDAY, 11TH APRIL, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Julius Kones, M.P.		
Hon. Charles Onyancha, M.P.		
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. Daniel Muoki, M.P.		
Hon. Alex M. Mwiru, M.P.		
Hon. Edick O. Anyanga, M.P.		
Hon. Boaz Kaino, M.P.		

ABSENT:-

Hon. David Ngugi, M.P.
Hon. Martha Karua, M.P.
Hon. Francis C. Ganya, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

Edward Ouko	-	Auditor General
John K. Kagondu	-	Deputy Auditor General
Joash O. Manasseh	-	Principal Auditor

MIN No. 614/2012:- **EVIDENCE: PERMANENT SECRETARY, MINISTRY OF FINANCE**

Award of currency printing contracts by Central Bank of Kenya (CBK) to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance on 2nd November, 2011.

Mr. Joseph Kinyua, CBS, Permanent Secretary, Ministry of Finance did not appear before the Committee as scheduled owing to other official engagements. His letter requesting for postponement of the meeting was however received minutes into the meeting. In the letter he requested for more time to prepare for the meeting and proposed 13th April, 2012 as a convenient date for the meeting.

The Committee dismissed the Permanent Secretary's request for more time to prepare for the meeting on grounds that he was very conversant with the issues to be discussed and had committed himself to reappearing within a week's time from the date of last appearance on 3rd April, 2012. After cell phone consultations between the Chair, the Treasury, Parliamentary Liaison Officer and the Permanent Secretary, it was agreed that the Permanent Secretary reappears on 12th April, 2012 at 2.30p.m.

The Permanent Secretary would be expected to shed light on the following:-

(i) Why he attended a sitting of the Committee at De La Rue Company, Ruaraka on 28th March, 2012 and the subsequent tour of the company factory when he had not been invited by the Committee;
(ii) Why he directed Central Bank of Kenya (CBK) to sign a 10 instead of a 6 year contract with De La Rue company for currency printing as evidenced by some of his correspondence to the bank in the possession of the Committee;
(iii) Why he thought the currency printing contract between CBK and De La Rue should be cancelled in 2003 having served as a Permanent Secretary in 2002 during the KANU government regime and in 2003 during the NARC Government regime.

The Committee accepted the Auditor General's request to be represented at the 12th April, 2012 sitting by one of his Deputies as he would be engaged in another crucial official function on the same day.

MINUTE No. 615/2012:- ANY OTHER BUSINESS (AOB)

The Committee:-

(i) Was not prepared to tour the Western Kenya Community Driven & Flood Mitigation Project (WKCDD&FMP) project in Budalangi, Western Kenya on the second week of April, 2012. An invitation by the Permanent Secretary, Ministry of State for Special Programme had been received to the effect pursuant to an agreement between him and the Committee when he appeared to give evidence on the Auditor General's report in March, 2012. The Committee would decide when to tour the project;

(ii) Expressed its wish to investigate the Kenya National Assurance's disposal of assets upon liquidation but was informed by the secretariat that the matter was being investigated by the Public Investments Committee (PIC).

MIN No. 616/2012:- **ADJOURNMENT**

The sitting was adjourned at thirty six minutes past ten in the morning.

Signed .....
(Chair)

Date 26. 07-12 .....

MINUTES OF THE TWO HUNDRED AND FORTY EIGHTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON THURSDAY, 12TH APRIL, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Julius Kones, M.P.		
Hon. David Ngugi, M.P.		
Hon. Daniel Muoki, M.P.		
Hon. Charles Onyancha, M.P.		
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. Francis C. Ganya, M.P.		
Hon. Edick O. Anyanga, M.P.		
Hon. Boaz Kaino, M.P.		

ABSENT:-

Hon. Martha Karua, M.P.
Hon. Alex M. Mwiru, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

John K. Kagondu	-	Deputy Auditor General
Joash O. Manasseh	-	Principal Auditor
Rose Nandwa	-	Auditor I

MIN No. 617/2012:- EVIDENCE: MRS. JACINTA MWATELA, FORMER DEPUTY AND ACTING GOVERNOR OF CENTRAL BANK OF KENYA (CBK)

Award of currency printing contracts by Central Bank of Kenya (CBK) to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance on 2nd November, 2011.

Mrs. Jacinta Mwatela, former Deputy and Acting Governor of Central Bank of Kenya appeared before the Committee and gave evidence. She requested to be allowed to testify in camera as she feared for her life considering the nature of evidence she was going to give having unceremoniously exited the bank. The Committee considered and granted her request to testify in camera.

In her evidence, she told the Committee that:-

(i) As a Deputy Governor, she chaired Bank's Tender Committee. The De La Rue matter made her leave Central Bank of Kenya when she was the Acting Governor after she persistently questioned the wrong manner in which the Bank was tendering for currency printing services since the year 2003. Prior to 2003, there was no level playing field for service providers as the Bank's currency printing contract gave De La Rue an undue monopoly.

(ii) In a tender advertised in 2006, three companies namely; De La Rue International Ltd (United Kingdom), Giesecke & Devriant GMBH (German) and Francois Charles Oberthur Fiduciaire (French) responded out of six companies invited. The tender was awarded to De La Rue which was also the lowest bidder. Francois Charles Oberthur Fiduciaire bid was not evaluated because it did not meet the mandatory tender requirements.

(iii) The then Finance Minister Hon David Mwiraria sought an explanation from Central Bank why the French company was disqualified. She provided the explanation. Subsequently, the Head of State was briefed on the tender award in a meeting at State House. The meeting was attended by, Hon. David Mwiraria, Finance Minister, Dr. Andrew Mulei, Central Bank of Kenya Governor, Mr Joseph Kinyua, Permanent Secretary, Ministry of Finance, Mr. Islop Ipu, State House Comptroller and Mr. Stanley Murage, Private Secretary to the President. At the meeting, Mr Murage put pressure on the Bank to admit the disqualified French Company. The Head of State however intervened and ruled that whoever had won the tender fairly deserved to be let to carry on.

(iv) After the tender had been awarded to De La Rue, issues of signatures to appear on the banknotes arose. Hon. Amos Kimunya, then Minister for Finance declined to authorize the Acting Governor to sign the currency contrary to a legal opinion of the Bank's Legal Department. The tender was subsequently cancelled by the Finance Minister on grounds that the Cabinet had resolved that the Government should enter into a joint venture with the company;

(v) In the tender awarded to De La Rue, the Company had quoted a price based on printing at its Malta plant because the Ruaraka, Nairobi plant did not have the capacity to print the Kenyan currency in accordance with the advertised specifications and standards;

(vi) The Finance Minister did not have powers under the law to cancel a contract awarded by Central Bank, neither did he have a locus standi to get involved in procurement process involving the Bank;

(vii) Central Bank of Kenya was aware of the joint venture negotiations between Treasury and De La Rue and that the Bank was to be involved in striking the joint venture deal. Meetings were held to the effect under the Chairmanship of Prof. Njuguna Ndung'u, the Governor. At one point, Treasury co-opted its Financial Investment Secretary, Mrs. Esther Koimet to convince the Bank to support the joint venture. The Bank however observed that the Central Bank of Kenya Act prohibited it from taking part in investment ventures and opted out.

(viii) It was not prudent for the Government of Kenya to enter into a joint venture agreement with De La Rue Currency and Security Print Ltd based at Ruaraka, Nairobi, Kenya a subsidiary of De La Rue International Ltd.

MIN No. 618/2012:- ANY OTHER BUSINESS (AOB)

The Committee took issue with the quality of hansard reports and appealed to the Hansard Department to make corrections to previous reports and avoid errors in future.

MIN No. 619/2012:- ADJOURNMENT

The sitting was adjourned at five minutes past one in the afternoon.

Signed .....

(Chair)

Date 26/07/12.

MINUTES OF THE TWO HUNDRED AND FORTY NINTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON THURSDAY, 12TH APRIL, 2012 AT 3.00 P.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Julius Kones, M.P.		
Hon. Charles Onyancha, M.P.		
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. Daniel Muoki, M.P.		
Hon. Francis C. Ganya, M.P.		
Hon. Boaz Kaino, M.P.		

FRIEND OF THE COMMITTEE

Hon. Ahmed Shakeel Shabir	-	Departmental Committee on Finance, Planning and Trade

ABSENT:-

Hon. Martha Karua, M.P.
Hon. Alex M. Mwiru, M.P.
Hon. David Ngugi, M.P.
Hon. Edick O. Anyanga, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

John K. Kagondu	-	Deputy Auditor General
Joash O. Manasseh	-	Principal Auditor
Rose Nandwa	-	Auditor I

MIN No. 620/2012:- **EVIDENCE: PERMANENT SECRETARY, MINISTRY OF FINANCE**

Award of currency printing contracts by Central Bank of Kenya (CBK) to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance on 2nd November, 2011.

Mr. Joseph Kinyua, CBS, Permanent Secretary, Ministry of Finance accompanied by:-

(i)	Esther Koimet	-	Investment Secretary
(ii)	C.A. Otunga	-	Director of Public Procurement Directorate
(iii)	Henry Rotich	-	Deputy Director of Economic Affairs
(iv)	Joseph M. Kanuke	-	Principal Economist, Department of Government Investments and Public Enterprises (DGIPE)

reppeared before the Committee and submitted that:-

(i) His presence during the Committee's tour of De La Rue Currency and Security Print Ltd at Ruaraka, Nairobi on 28th March, 2012 was prompted by the letter from the Clerk of National Assembly requesting him to make arrangements for the Committee's tour. Had he known that his presence was not required, he would have kept away;

(ii) His recommendation to the Central Bank of Kenya to enter into a 10 instead of 6 years currency printing agreement with De La Rue as envisaged by the Bank was based on the advice of a Ministerial Technical Committee. The final decision as to the term of the contract rested squarely with Central Bank;

(iii) Treasury's intended investment in De La Rue Currency and Security Ltd was as result of cabinet policy decision on 29th May, 2007. The intended investment was on an existing facility and not a greenfield investment and it was therefore not necessary to carry out a feasibility study. However an asset valuation was undertaken to determine the value of assets that would be hived down to the new company, De La Rue Kenya EPZ Ltd;

(iv) In as much as it was cheaper to print Kenyan currency in Malta, De La Rue wanted to print and supply the entire order in one consignment and this would have caused Central Bank a serious storage challenge. This was one of the reasons why the tender awarded to De La Rue in 2006 was cancelled;

(v) Mrs. Esther Koimet, Treasury Investment Secretary once represented the Treasury, Permanent Secretary at a Central Bank of Kenya Board of Directors' meeting on De La Rue with respect to the joint venture;

(vi) In a tender awarded to De La Rue in the year 2006, he had been pressurized by one of the tenderers (name not disclosed) who had been disqualified for failing to meet mandatory procurement requirements to admit him and attended a meeting at State House to brief the Head of State on the tender award. Also

attending the meeting were Central Bank of Kenya's Board of Directors. At the meeting, one of the participants (name not disclosed) pressed him to admit the disqualified company. The meeting resolved that De La Rue having won the tender be allowed to execute the contract thereof. The tender was however subsequently cancelled by the Bank on the advice of the Minister for Finance;

(vii) It was the government's own decision to invest in De La Rue and not pressure from the Company.

The Committee directed the Treasury Permanent Secretary to:-

(i) Avail to it minutes of the meeting of the Ministerial Technical Committee which was the basis for his advise to the Central Bank of Kenya to enter into 10 instead of 6 years currency printing contract with De La Rue Company;

(ii) Produce to it by 16th April, 2012 the draft joint venture agreement between De La Rue and Central Bank of Kenya (CBK);

(iii) Liaise with the Kenya Revenue Authority (KRA) and avail to it documentary evidence indicating particulars of all taxes paid up to date to the Government of Kenya by De La Rue Company while operating on the Kenyan soil;

(iv) Liaise with the Central Bank of Kenya (CBK) and produce to the Committee documentary evidence indicating the cost of the all the cancelled contracts;

MIN No. 621/2012:- ADJOURNMENT

The sitting ended at twelve minutes past six in the afternoon.

Signed .....

(Chair)

Date 26.07.12.

MINUTES OF THE TWO HUNDRED AND FIFTIETH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON TUESDAY, 17TH APRIL, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Dr. Julius Kones, M.P.		
Hon. Daniel Muoki, M.P.		
Hon. Francis C. Ganya, M.P.		
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. Edick O. Anyanga, M.P.		
Hon. Boaz Kaino, M.P.		
Hon. David Ngugi, M.P.		
Hon. Alex M. Mwiru, M.P.		

FRIEND OF THE COMMITTEE

Hon. Martin Ogindo	-	Budget Committee

ABSENT WITH APOLOGY:-

Hon. Charles Onyancha, M.P.

ABSENT:-

Hon. Martha Karua, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

TREASURY

Tom Khakame	-	Deputy Accountant General

OFFICE OF THE AUDITOR GENERAL

John K. Kagondu	-	Deputy Auditor General
Joash O. Manasseh	-	Principal Auditor
Rose Nandwa	-	Auditor I

MIN No. 622/2012:- **EVIDENCE: MINISTER FOR TRANSPORT AND FORMER FINANCE MINISTER, HON AMOS KIMUNYA**

Award of currency printing contracts by Central Bank of Kenya (CBK) to De La Rue Company Ltd

The matter had been referred to the Committee for investigation by the House following Hon. (Dr) Boni Khalwale's Question by Private Notice to the Minister for Finance on 2nd November, 2011.

Hon. Amos Kimunya, EGH, Minster for Transport and former Minister for Finance appeared before the Committee and submitted that:-

(i) He joined the Ministry of Finance on 14th February, 2006. Sometimes after being appointed minister, the Central Bank of Kenya Governor Dr. Andrew Mulei stepped aside as he was facing prosecution. Mrs. Jacinta Mwatela was appointed the Bank's Acting Governor and De La Rue Company had won the Bank's tender for printing of new generation currency notes. He was strongly opposed to the Acting Governor signing the new currency to be printed and could not therefore authorize De La Rue to take her signature;

(ii) In the same year (2006), he went to London enroute to Nigeria on official duty where he met senior De La Rue officials. They thanked him for the tender award by Central Bank of Kenya but told him that the company would print the currency at its Malta plant where it would be cheap, then deliver it to the Bank in one consignment;

(iii) Central Bank of Kenya was comfortable with the printing of the currency in Malta and receiving it one consignment in the year 2007. He was not however satisfied with this arrangement on account of security and strorage concerns. He was further not satisfied with the printing of new currency in an election year because of negative political implications. He further took issue with the Central Bank of Kenya for awarding the tender without consulting other interested parties, particularly banks.

(iv) He instructed Central Bank of Kenya to change the designs for currency to be printed in order to provide a level playing field for those bidding for the tender This was since De La Rue Company was already in possession of the current design and would have undue advantage over the other bidders.

(v) De La Rue Company intended to close down the Ruaraka, Nairobi plant unless it was guaranteed currency printing business by the Government of Kenya. He in the company of Mr. Joseph Kinyua, Permanent Secretary, Treasury toured the plant and interviewed staff who did not have a clue on the looming closure of the plant. It is him and Mr. Kinyua who came up with the proposal of the Government of Kenya entering into a joint venture with De La Rue Company over the Ruaraka plant to save it from imminent closure and immediately generated a cabinet memorandum for approval;

(vi) The Joint Venture intention by the Ministry of Finance with De La Rue Company was approved by the cabinet on 24th September, 2007 and on 1st November,

2007 he advised Central Bank of Kenya to cancel the De La Rue contract awarded in 2006 and issue stop gap orders until the joint venture was operationalized. Central Bank obliged. He would not have allowed De La Rue Company to close its plant at Ruaraka, Nairobi and print Kenyan currency in Malta. The closure of the plant would cause loss of jobs and would also send wrong signals to potential and prospective investors.

(vii) Central Bank of Kenya consultative meetings are not minuted but if a decision is reached requiring further action, then a memo is generated to the effect;

(viii) The Government of Kenya was capable of owning its currency printing plant but such a move would have its own negative consequences. The Government was even capable of printing its own ballot papers at the Government Printer but had always printed them in the United Kingdom to avoid possible negative consequences. The intended joint venture with De La Rue was therefore a best practice to be followed. It was important that Treasury gets cabinet approval for the joint venture before undertaking a feasibility study on the plant.

(ix) While acting as the Governor of Central Bank, Mrs. Jacinta Mwatela lobbied to be appointed substantive Governor and even approached President Mwai Kibaki who was not opposed to her appointment. He received a phone call to the effect from Mr. Hislop Ipu, then State House Comptroller but declined to take any action since the substantive Governor Mr. Andrew Mulei was still on contract but not in office because he was facing prosecution. His removal therefore before knowing the outcome of the court case would have raised serious legal issues.

(x) De La Rue had set up the Ruaraka plant at the invitation of the Government of Kenya but it is the Government which approached De La Rue for a joint venture arrangement over the plant.

MIN No. 623/2012:- ADJOURNMENT

The sitting ended at seven minutes past two in the afternoon.

Signed .....

(Chair)

Date 26/07/12.

MINUTES OF THE TWO HUNDRED AND FIFTY FOURTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON THURSDAY, 3RD MAY, 2012 AT 10.00 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, M.P.	-	Chair
Hon. Francis C. Ganya, M.P.		
Hon. Charles Onyancha, M.P.		
Hon. David Ngugi, M.P.		
Hon. Dr. Nuh Nassir Abdi, M.P.		
Hon. Alex M. Mwiru, M.P.		
Hon. Boaz Kaino, M.P.		

FRIEND OF THE COMMITTEE

Hon. Martin Ogindo	-	Budget Committee

ABSENT:-

Hon. Dr. Julius Kones, M.P.
Hon. Daniel Muoki, M.P.
Hon. Edick O. Anyanga, M.P.
Hon. Martha Karua, M.P.

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

OFFICE OF THE AUDITOR GENERAL

Joash O. Manasseh	-	Principal Auditor
Ndumbi Murugi	-	Senior Auditor
Rose Nandwa	-	Auditor I

TREASURY

Tom Khakame	-	Deputy Accountant General

MIN No. 632/2012:- **EVIDENCE TAKING: DE LA RUE COMPANY LTD**

Award and cancellation of currency printing contracts by Central Bank of Kenya (CBK) to De La Rue Company Ltd

Officials of De La Rue Company namely:-

(i)	Robert Hutchison	-	Group Director, Communications
(ii)	Douglas Denham	-	Group Commercial Legal Director
(iii)	Mark Crickett	-	Commercial Lead, Kenya Project
(iv)	Stephen Prior	-	Area Sales Director, Africa

appeared before the Committee and submitted that:-

(i) The Company had been printing all Kenya Government banknotes at the Ruaraka, Nairobi plant since the plant was opened in 1994. The equipment at the plant was newly purchased and was well maintained. Age of printing equipment was not an issue provided the equipment was well maintained and refurbished.

(ii) A contract was entered into in the year 2006 between the Government of Kenya and De La Rue Company for printing of 1,710 million pieces of banknotes at a cost of USD.51,195,840. The contract was however cancelled at the behest of the Government of Kenya which signed other contracts with De la Rue for printing of banknotes on interim orders. The contract cancellation letter was written by the Central Bank of Kenya (CBK).

(iii) In 2007, the Government of Kenya approached De La Rue for a joint venture over the De la Rue Ruaraka plant and De La Rue obliged. Negotiations were carried on smoothly by all parties and an agreement reached. The draft agreement was awaiting execution.

(iv) De La Rue was not happy with the cancellation of the contract and was not aware of meetings between the Company's Managing Director and the Kenya Government's Minister for Finance. Under the cancelled contract, the 1,710 million pieces of banknotes were to be delivered to Central Bank of Kenya at difference times. The company did not have adequate space to store the banknotes for the Government at its Ruaraka, Nairobi plant. The Malta plant had a printing capacity of 3 billion banknotes in a year while Ruaraka 600,000.00. The Malta plant also operated 24 hours unlike the Kenya plant.

(v) The company had received 50% of the USD.25million which was supposed to be down payment for banknote printing in the cancelled contract and the amount was fully utilised for supplying interim orders.

(vi) In the contract that was cancelled, De La Rue could not proceed to print the banknotes without confirmation from the Minister as to whose signatures were to appear on the designs. The company did not find it prudent to sue Central Bank of Kenya for the contract cancellation because it had not suffered any loss;

(vii) The financial viability of the Ruaraka plant would have been undermined if the Joint venture did not provide for 10 year banknote printing contract between

Central bank of Kenya and De La Rue. Without this provision, De La Rue would have closed shop at Ruaraka.

(viii) The De La Rue Ruaraka plant was injecting 1 billion Kenya shillings annually into the Kenyan economy.

They also tabled the company's audited accounts which they requested that be treated as confidential but declined to furnish the committee with prices of currency printing for other countries for a comparative study on reasons of confidentiality.

PENDING ISSUES

The Committee:-

(i) Directed De La Rue to avail to it the letter cancelling the contract for printing of 1,710 pieces of banknotes within 7 days from the date of the sitting;

(ii) Directed De La Rue to avail to it the agreement cancelling the contract for printing the 1,710 million pices of banknotes;

(iii) Directed De La Rue to avail to it documentary evidence indicating that it was contributing Kshs. 1 billion annually towards the Kenyan economy throgh the Ruaraka plant. The timeline given was 7 days from the date of the sitting.

MIN No. 633/2012:- ANY OTHER BUSINESS (AOB)

The Committee was upset by former Governor, Central Bank of Kenya Dr. Andrew Mulei's failure to appear before it and give evidence on the De La Rue matter having twice ignored its letters inviting him. It was resolved that summons be issued for his appearance on 10th May, 2012.

The Committee also resolved that summons be issued for the appearance of John Macharia Gikonyo, a former Central Bank of Kenya Board of Directors' secretary to appear on 10th May, 2012 and give evidence on the De La Rue matter. Mr Macharia had retired from the Bank.

MIN No. 634/2012:- ADJOURNMENT

There being no other business to transact, the sitting ended sixteen minutes past two in the afternoon.

Signed .....

(Chair)

Date 26.07.12.

MINUTES OF THE TWO HUNDRED AND FIFTY SEVENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON WEDNESDAY, 16TH MAY, 2012 AT 10.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, MP	Chair
Hon. Charles Onyancha, MP	
Hon. Dr. Nuh Nassir Abdi, MP	
Hon Daniel Muoki, MP	
Hon. Francis C. Ganya, MP	
Hon. David Ngugi, MP	
Hon. Boaz Kaino, MP	

FRIEND OF THE COMMITTEE

Hon, Martin Ogindo, MP

ABSENT WITH APOLOGY:-

Hon. Alex M. Mwiru, MP

ABSENT:-

Hon. Edick O. Anyanga, MP
Hon. Martha Karua, MP
Hon. Dr. Julius Kones, MP

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

AUDITOR GENERAL'S OFFICE (KENAO)

Joash Ogutu Manasseh	-	Principal Auditor
Ndumbi Njoroge Murigi	-	Senior Auditor
Rose A. Nandwa	-	Auditor I

TREASURY

Tom Khakame	-	Deputy Accountant General

MIN No. 640/ 2012:- **EVIDENCE: PROF. NJUGUNA NDUNG'U GOVERNOR, CENTRAL BANK OF KENYA (CBK)**

Award and cancellation of currency printing contracts between the Central Bank of Kenya and De La Rue Ltd

Prof. Njuguna Ndungu, Governor, Central Bank of Kenya (CBK) accompanied by Messrs:-

(i)	Harun Sirma	-	Deputy Governor
(ii)	James Teko Lopoyetum	-	Director, Currency Department
(iii)	Kennedy K. Abuga	-	Bank Secretary

appeared before the committee and gave evidence that:-

(i) Kenya had printed all its banknotes with De La Rue Company since 1967 when Central Bank of Kenya was established. The Bank entered into a 10 year contract to print new currency on 5th December 2002. The contract was to run until 31st December 2012. It was however cancelled on 14th March, 2003 to allow for a competitive open tendering process which the Bank initiated:.

(ii) The process of design, printing and distribution of the new design was expected to take 21 months. In the meantime, there was imminent danger of a stock-out of notes, hence the need for a stop gap measure to cover 21 months before design printing and delivery of new notes. The process, up to the invitation to tender for new designs and printing of new Generation Currency took 20 months. This was finalized on 6th January 2005;

(iii) The tender process had anomalies and was cancelled on 6th June, 2005. Meanwhile, the stock of notes ordered to last 21 months were getting depleted and needed replenishment to avert a stock-out. This led to another interim stop gap order on 14th July 2005. The process of the re-tender for the new Generation notes to evaluation and selection of the winner took 12 months up to 4th May 2006. The notes were to be produced by De La Rue in Malta;

(iv) On 25th August 2006, 4 months after the selection of the winner, the Minister for Finance advised the Bank that the launch of new generation should be deferred until the general elections of 2007. The delay in concluding the contract and the upcoming general elections therefore led to a further interim order on 17th October 2006, after the Bank assessed its currency requirements for the period;

(v) In the 13 months after the Bank was advised to defer the launch of the new currency, the Minister for Finance by a letter dated 24th September, 2007 advised the Bank that the cabinet had approved a joint venture proposal between the Government of Kenya and De La Rue International. This was followed by a notification on 1st November 2007 to the effect that the contract for the new generation banknote printing stood cancelled;

(vi) Arising from the Minister's directive as contained in the letters dated 24th September, 2007 and 1st November, 2007 aforesaid, the Bank had to deal with an inevitable currency stock-out beginning April, 2008. This led to the subsequent stop gap orders to date, while the joint venture negotiations were ongoing;

(vii) In August, 2010 Kenya ratified a New Constitution which was promulgated on 27th August, 2010. Section 231 (4) of the New Constitution, states that *"Notes and Coins issued by the Central Bank of Kenya may bear images that depict or symbolize Kenya or an aspect of Kenya but shall not bear the portrait of any individual".*

(viii) However, Section 262 item 34 on transitional and consequential provisions states that this change does not affect the validity of notes and coins issued before the effective date of the New Constitution. The current series of currency shall continue to be used and will run concurrently with the new design currency and would be phased out gradually and naturally. In this regard, the Bank had already taken measures to comply with the provisions of the constitution by embarking on the process of new designs for Kenyan currency;

(ix) Section 231(2) confers Central Bank of Kenya the responsibility of issuing currency. Pursuant to this constitutional provision, the Bank will execute this responsibility and procure currency competitively. The Bank has already embarked on a process to design and procure new currency which meets the constitutional requirements as specified under section 231(4). A road map toward the design, printing, delivery and distribution has already been drawn.

(x) Central Bank of Kenya has technically and professionally qualified staff that are well conversant with currency issues and could therefore not enter into a disastrous contract with De La Rue. The contract for printing 1.71 billion pieces of banknotes was perfect;

(xi) The storage of the currency was not an issue since there was a delivery schedule for the 1.71 billion pieces of bank notes and the bank had also made adequate preparations for their arrival. Compatibility of the new banknotes with Automated Teller Machines (ATMs) was not a big issue. An adaptation process which involves change of trays would have been easily undertaken.

(xii) Was strongly opposed to the joint venture between Treasury and De La rue which ties the Central bank of Kenya to a 10 year currency printing contract with De La Rue. This was not in the interest of government procurement regulations and procedures and would not sign any contrasct with De La Rue to that effect.

(xiii) The procurement process would determine whether Central Bank of Kenya would go for paper, cotton or plastic new generation banknotes.

MIN No. 641/2012: ADJOURNMENT

There being no other business to transact, the sitting ended at five minutes past one in the afternoon.

Signed .....

(Chair)

Date 26.07.12.

MINUTES OF THE TWO HUNDRED AND SIXTIETH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON TUESDAY, 22ND MAY, 2012 AT 9.30 A.M. IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING

PRESENT:-

Hon. Dr. Boni Khalwale, MP	Chair
Hon. Dr. Julius Kones, MP	
Hon. Dr. Nuh Nassir Abdi, MP	
Hon. Francis C. Ganya, MP	
Hon. Charles Onyancha, MP	
Hon. Alex M. Mwiru, MP	

ABSENT:-

Hon. Edick O. Anyanga, MP
Hon. Martha Karua, MP
Hon Daniel Muoki, MP
Hon. David Ngugi, MP
Hon. Boaz Kaino, MP

IN ATTENDANCE:-

NATIONAL ASSEMBLY

Anita Thuranira	-	Principal Clerk Assistant
George Gazemba	-	Clerk Assistant II
Kevin Auma	-	Parliamentary Intern

AUDITOR GENERAL'S OFFICE (KENAO)

Joash Ogutu Manasseh	-	Principal Auditor
Ndumbi Njoroge Murigi	-	Senior Auditor
Rose A. Nandwa	-	Auditor I

TREASURY

Tom Khakame	-	Deputy Accountant General

MIN No. 646/ 2012:- EVIDENCE: JOHN MACHARIA GIKONYO, FORMER SECRETARY, CENTRAL BANK OF KENYA BOARD OF DIRECTORS

Award and cancellation of currency printing contracts between the Central Bank of Kenya (CBK) and De La Rue Ltd

Mr. John Macharia Gikonyo, former Secretary of the Board of Directors of the Central Bank of Kenya, appeared before the Committee alone and gave evidence that:-

(i) He joined the Central Bank of Kenya (CBK) on 1st November, 1993 as a Chief Legal Officer and retired from the service of the Bank on 1st April, 2008. At the time of retirement, he was the Director, Governors' Office and his functions inter alia, included heading the Legal Division of the Bank;

(ii) The contract for the supply of 1,719 million banknotes between Central Bank of Kenya and De La Rue had several schedules annexed including the delivery schedule. Under the contract, the Bank was required to pay De La Rue International Ltd 50% of the total contract sum upon execution of the contract. Payment of the balance would be pegged against deliveries and made within thirty (30) days from the date of receipt of the respective invoices by the Bank. The invoices were to be submitted to the Bank at the time of delivery of each consignment of the banknotes;

(iii) The process of printing of the banknotes at one time stalled owing to an issue to do with confirmation of signatures to appear on the notes. The substantive Governor, Dr. Andrew Mulei had stepped aside as he was facing prosecution and his Deputy, Mrs. Jacinta Mwatela was Acting Governor having been duly appointed by the President. The Acting Governor was allowed to sign banknotes in the circumstances pursuant to provisions of Sections 11(6) and 13(3) of the Central Bank of Kenya Act. Hon Kimunya, then Minister for Finance was however against the Acting Governor signing the banknotes.

(iv) Sometimes in August, 2006, Hon. Amos Kimunya wrote to the then Acting Governor, Central Bank of Kenya, Mrs. Jacinta Mwatela raising concern over a critical issue on the launch and delivery time of the new generation banknotes. According to Hon. Kimunya, this was not to have been before the 2007 General Elections. Consequently, he instructed the Bank to ensure that the delivery schedule was adjusted from March 2007 to a later date which would also give the Bank more time to sort out the issue of signatures. The letter further instructed the Bank to initiate the necessary procurement process for extra currency required to ensure adequacy of stocks up to January 2008;

(v) A new Governor Prof. Njuguna Ndung'u was appointed in early March, 2007. On 19th April, 2007 the Bank approved all designs and signatures for the new generation banknotes and forwarded the same to De La Rue for further action. However, during the same month Prof. Njuguna Ndung'u advised De La Rue International Limited to slow down on the implementation of the contract for a period of two (2) months to allow for negotiations between the Government of Kenya and De La Rue Company on a proposed joint venture relating to De La Rue's Nairobi plant;

(vi) On 03/10/2007, the Bank received a letter dated 28th September, 2007 from Mrs. Esther, Koimet, the Investment Secretary which was marked to him by the Governor to advise on a draft currency printing joint venture agreement between Treasury and De La Rue together with a draft currency production agreement between De La Rue and Central Bank of Kenya. Mr Gikonyo advised the Bank against the joint venture, primarily because the venture was between

Treasury and De La Rue and that the Bank was merely a third party to it. The Bank could therefore not be bound by a contract out of it. The Bank was further prohibited by Section 52 of the Central Bank of Kenya Act from engaging in any commercial undertakings. The Governor however dismissed his advice citing lack of positive thinking in it;

(vii) In late October, 2007, the then Minister for Finance, Hon Amos Kimunya wrote to the Bank advising *interalia* that the Cabinet had by a decision made on 29th May, 2007 approved a joint venture in the De La Rue Currency and Security Print (K) Limited and the Government of Kenya and that one of the critical issues to be considered in consummating the transaction was a long term supply contract between the Bank and the Company;

(viii) By a further letter dated 1st November, 2007, Hon. Amos Kimunya, advised the Bank that the contract for printing 1.71 billion pieces of new generation banknotes stood cancelled and the Bank was required to liaise with De La Rue to print current generation banknotes to cater for the stock-out and also allow time for negotiations on the proposed joint venture;

(ix) As issues relating to award, variation and cancellation of contracts fell within the scope of the Tender Committee of the Bank, the Tender Committee under the chairperson Jacinta Mwatela, the Deputy Governor, held three (3) meetings in November, 2007 to address the effects of the aforesaid letter and the way forward. The Board authorised the Management to procure 390 million pieces of the current generation banknotes from De La Rue. The Board also authorised the management to terminate the contract entered into on 4th May, 2006 between the Bank and De La Rue Company;

(x) The copyrights of the banknote designs of the 1.71 billion pieces of banknotes that were to be printed for Central Bank of Kenya by De La Rue International Ltd belonged to Central Bank as provided for by clause 4 of the contract document.

MIN No. 647/2012:- **ADJOURNMENT**

There being no other business to transact, the sitting ended at five minutes past one in the afternoon.

Signed .....
(Chair)

Date 26.07.12

Appendix 2

Office of the Auditor General



Special Audit Report

On Currency Printing Contracts between Central Bank of Kenya and De La Rue Currency and security print Ltd.

4 July 2012

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1. Executive Summary

1.1. Introduction

We have conducted a special audit on currency supply contracts between the Central Bank of Kenya (CBK) and De La Rue Company. The audit was carried out on the recommendation and request of Public Accounts Committee (PAC) through a letter reference NA/PAC/CORR/2012/14 of 22 March 2012 from the Clerk of the National Assembly. It was agreed that the audit be carried out on the contract notwithstanding the contents of section 56 of the Central Bank Act, which both the Committee and the Minister agreed was inconsistent with the Constitution. The audit was carried out over 3-week period from the last PAC sitting of 22 May 2012. The report sets out the work done, key findings from the audit, and is aimed at assisting the Public Accounts Committee in their review thereon

Our findings must be considered in light of the various constraints and limitations we have faced in conducting the audit. The challenges we faced however did not prevent or deter us from carrying out our work.

This summary of findings should be read in conjunction with the full report.

1.2 Summary of our findings and conclusions

We have established that:

- Upon cancellation of the 5th December 2002 contract between CBK and De La Rue Currency and Security Print Ltd in 2003, six (6) interim stop gap orders totalling 2,607.05 Million pieces of banknotes costing £75,319,776.00 (KShs10, 211,423,094.00) were issued to De La Rue Company between the years 2003 and 2010 through direct procurement and without competitive bidding in violation of the Public Procurement and Disposal Act, 2005. The CBK has continued to enter into and awarding of irregular contracts to De La Rue Currency and Security Print Ltd on direct procurement basis without due regard to the Public Procurement and Disposals Act 2005 and Regulations as analyzed below:

Currency Ordered before 1710 million competitive tender	**Amount paid Kshs.**	**Amount paid £**
40 Million pieces	146,446,300.00	1,100,000.00
186 Million pieces	724,941,116.79	5,269,519.99
244 Million pieces	1,070,043,397.18	7,330,580.06
350 Million pieces	1,541,210,328.66	10,756,460.00
820 million	**3,482,641,142.63**	**24,456,560.05**

Currency Ordered during 1710 million competitive tender Process		
300 Million pieces	**1,143,841,016.18**	**8,529,214.40**

Continuing currency Orders after cancellation of1710 million contract		
164.05 Million pieces	619,265,456.75	4,315,832.40
390 Million pieces	1,483,425,498.91	10,521,569.00
450 Million pieces	1,618,840,453.60	13,137,950.00
483 Million pieces	1,863,409,525.46	14,358,650.00
1487.05 Million pieces	**10,211,423,093.52**	**75,319,775.85**

- Contract between CBK and De La Rue International Ltd dated 4 May 2006 was irregularly cancelled by CBK board disregarding the provisions in the Public Procurement and Disposals Act 2005 and Regulations and Clause 8 of the Contract document which states that termination can only be because the company fails to deliver any of the banknotes within the period specified, is engaged in corrupt or fraudulent practices in executing the contract or is declared bankrupt. The CBK board betrayed duty of care to the institution.

- The above contract awarded to De La Rue International Ltd on 4 May 2006 was never implemented despite the 50% (US$ 25,597,920), down payment by CBK.

- The Government did not get value for money in the interim stop gap orders for printing old generation banknotes when compared to the cost of the cancelled contract on new generation banknotes. Competitive tendering for the printing of

currencies would not have necessitated change of design. The plate that would have created an obstacle in changing the printer was owned by CBK and could only have been used to bargain with potential printers for enhancement at no additional cost

- The cancelled 4 May 2006 contract prices were on average much lower than subsequent four (4) interim stop gap orders. In essence assuming the maintenance of competitive bidding in the period 2007 to 2010 and that banknotes designs needed not to be changed except for enhancement of security features, the Government would have saved amount totaling Kshs 1,830,909,616.00 had the contract to print 1710 million banknotes from De La Rue's International Ltd's Malta plant been maintained and possibly renewed once in the period 2007 to 2010. Further, CBK ordered 1487.05 million pieces on banknotes only 222.95 million pieces short of the 1710 million banknotes during the intervening period. The extra 222.95 million banknotes would have been within the storage capacity of the bank.

- Central Bank received interest on down payment deposit amounting to £468,867.00 which was utilized through payment of £124,790 for 164.05 million banknotes and £344,077 for 390 million banknotes.

- The Central Bank of Kenya received directives or orders from the Minister of Finance and Treasury in regard to procurement of currencies, which it had no choice but to oblige with. This greatly interfered with CBK independence, which is protected by Section 231(3) of the new Constitution of Kenya. CBK should function without interference from Treasury or any other institution or person. A former Minister of Finance interfered with the implementation of the Contract between CBK and De La Rue International Ltd in a letter dated 4 May 2006 when he directed that the Contract to print 1710 Million pieces of banknotes stood cancelled, we were informed as a result of the approval by the Cabinet of a proposed joint venture between the GOK and De La Rue International Ltd.

- The proposed Joint Venture between GOK and De La Rue Currency and Security Print Ltd would commit CBK, an independent institution, to an engagement that would be contrary to what is stipulated in section 231(3) of the new Constitution that CBK shall not be under the direction or control of any person or authority and possibly sections 52 (2a) and 52 (2b) of the Banking Act Cap 491 which requires that the Bank shall not acquire or purchase immovable property for commercial purposes or as an investment.

1.3. Responsibility and culpability

We have established that the following individuals, Government agencies and departments may have been compromised/or participated in irregular activities which may have led to loss of public funds.

- CBK Board of Directors in office on 17 October 2006 for contravening Public Procurement and Disposals Act, 2005 Section 47(b) which requires that any contract variations is effective only if it is based on the prescribed price or quantity variations

- CBK Board of Directors in office on 23 November 2007 for contravening Public Procurement and Disposals Regulations , 2006 Section 32 which requires that a contract can only be terminated with the approval of the tender committee which authorized the original contract

- CBK Tender Committee for contravening Public Procurement and Disposals Act, 2005 section 74 (2) that requires that a Procuring Entity may use direct procurement if the following are satisfied:-

i. There is an urgent need for the goods, works or services being procured;

ii. Because of the urgency the other available methods of procurement are impractical; and

iii. The circumstances that gave rise to the urgency were not foreseeable and were not the result of dilatory conduct on the part of the procuring entity.

- The then Minister of Finance for directing cancellation of the cheaper contract of printing 1710 million banknotes in Malta hence necessitating engagement of expensive interim stop gap contracts.

Edward R.O. Ouko
AUDITOR-GENERAL

4 July 2012

2 .Introduction

Until 1966, printing of currency for the country was handled by the East African Currency Board. During the period between 1966-1985, Kenya banknotes were printed on order by Bradbury & Wilkinson, UK, which was later acquired by Thomas De La Rue and Co Ltd in 1986. Since then, De La Rue International, UK (renamed after Thomas De La Rue & Co Ltd) has provided currency-printing services to the Central Bank of Kenya (CBK).

The investment by De La Rue in a Kenyan subsidiary was only justified on the basis that it would print currency for Central Bank of Kenya (CBK) and since then, De La Rue and Security Print Ltd has been the sole printer of Kenyan banknotes.

2.1. Scope and key objective of the audit

The objective of this engagement was to conduct an audit on currency printing contracts arising from cancellation of the contract executed between CBK and De La Rue International Ltd on 4 May 2006 to print 1710 Million pieces of new generation Kenya banknotes to be printed in its Malta plant at a total cost of $ 51,195,840.

The purpose and focus of the audit was to determine reality and costs implications of the stop gap orders expenditures booked against the cancelled contract, legality of the interim stop gap orders in relation to procurement laws and losses incurred if any. The office undertook desk reviews, third party verification and fieldwork to confirm whether or not the related amounts were fabricated, inflated or not valid.

The audit was required to establish (inter alia):

- Cost incurred by CBK in printing currency between 2002 and 2011.
- Whether there was any loss of funds as a result of the cancellation of the contract dated 4 May 2006.
- Why the Contract to supply Kenyan currency between CBK and De La Rue International Ltd dated 4 May 2006 was cancelled.
- Whether the Interim stop gap order contracts later awarded contravened Public Procurement and Disposals Act, 2005 and Regulations & Procedures.
- Culpability of responsible persons

2.2. Work done and source of information

In order to carry out the audit, we obtained information from various sources, which included:

Conducting interviews with individuals

- Analysis of documentation
- Authentication of documentation

We obtained documentation from the following sources:

- CBK, De la RUE, PAC
- Signed contracts documents between the Central Bank of Kenya and De La Rue Currency and security print Ltd
- Board of Directors meeting minutes approving the contracts
- Tender Committee minutes approving the contracts
- Payment vouchers and money transfers from Central Bank of Kenya to De La Rue Currency and security print Ltd and De La Rue Currency International Ltd
- Hansards report of the evidence taken before PAC of the National Assembly
- Explanations given by the Directors of Central Bank of Kenya in Currency Operations and Branch Administration department, Procurement department and Legal services department

2.3 Challenges and limitations

We received cooperation and assistance from staff of CBK. We however experienced various difficulties, which was brought to the attention of the CBK Legal Director. We set out some difficulties we faced:

- Payment vouchers confirming payments made by CBK to De La Rue Currency and Security Print Ltd for 40 million pieces, 186 million pieces and 244 million pieces of banknotes procured in 2003 and 2004 were not availed.
- Documents supporting interest earned of £468,867 on US$ 25,597,920 paid to CBK by De La Rue International Ltd (UK) on 50% deposit for 1710 Million pieces of banknotes were not availed.
- Minutes of the two Cabinet meetings held on 29 May 2007 and 13 September 2011 approving the proposed Joint Venture business between GOK and De La Rue International Ltd were not availed.

3. Observations of the Audit

3.1. Currency Printing Contracts

3.1.1. Currency printing contracts in the years 1992 to2002

In 1991, a ten (10) year agreement signed on 8 October 1991, which became effective in 1993, was signed between Central Bank of Kenya (CBK) and De La Rue International Ltd, UK in October 1992 under which, De La Rue was to supply Central Bank of Kenya (CBK) 170 million bank notes each year. The banknotes were to be produced at the new factory to be built at Ruaraka, Nairobi, Kenya. This agreement was to expire on 31 December 2002.

3.1.2. Currency printing contracts in the years 2002 to 2012

On the impending expiry of the first contract, CBK on 5 December 2002 without competitive tendering process entered into a new ten (10) year currency-printing contract with De La Rue Currency and Security Print Ltd that was to expire on 31 December 2012. Currency was to be procured at the following contract prices subject to a minimum order volume of 25 million notes per denomination.

Printing Costs of Kenya Currencies

Denomination	1991-2002 unit prices **S£**	2002 tender unit prices **S£**	% Decrease in Unit prices
50	43.83	25.17	43.26%
100	37.36	27.03	36.64%
200	41.67	29.83	40.95%
500	51.46	34.99	50.78%
1000	48.79	34.69	48.08%

The new ten-year contract was relatively cheaper than year 1991-2002 contract prices

3.2. Cancellation of the 5 December 2002 10 year Contract

The contract was terminated in March 2003 by the National Rainbow Coalition (NARC) Government to allow for a competitive tendering process. The then Minister for Finance

Hon. David Mwiraria, who by a letter Ref No. Conf 36/02 to the Bank dated 14 March 2003 cited the following reasons for the cancellation:-

- The contract was single-sourced instead of being open for competitive bidding.
- The contract period was extended to ten years instead of the normal five years for no apparent reason
- The contract became effective on 1 January 2003 when the National Rainbow Coalition (NARC) Government was in power and should therefore have been consulted.

The company was however granted temporary extensions to provide currency-printing services to Central Bank of Kenya (CBK) following delays in finalization for an open tender process. On 17 March, 2003 vide letter ref. CON/ 36/02 dated 17 March 2003, Mr. David Mwiraria instructed CBK to arrange to negotiate a two (2) year contract with De La Rue in order to ensure that there was adequate supply of currency up to December 2004 and to initiate open tendering process for issues after 31 December 2004.

3.3. Contract for the supply of 820 Million bank notes

The Bank initiated an International Open Tendering process in which De La Rue International Ltd participated. To ensure sustained supply of banknotes when the tender process was in progress, the Bank entered into a 21 months' contract with De La Rue Company to produce existing (current) generation design banknotes with effect from 1st April 2003. Total deliveries amounted to 820 million pieces of different denominations for period between September 1993 to June 2004 as shown below.

Summary Printing Cost; 820 Million Pieces of banknotes

Million Pieces	Paid Amount in £'s	Actual Equivalent in Kshs.	Denomination	Unit Price £
40	1,100,000.00	146,446,300.00	50	25.17
186	5,269,519.99	724,941,116.79	100	27.03
244	7,330,580.06	1,070,043,397.18	200	29.83
350	10,756,460.00	1,541,210,328.66	500	34.99
820	**24,456,560.05**	**3,482,641,142.63**	1000	34.69

3.4 International tender for supply of 1,710 pieces new generation currency banknotes

3.4.1. The Bank thereafter on 6 January 2005 issued a tender for new generation currency in order to avail equal opportunity to all tenderers to quote for design, manufacture, printing and supply of 1710 million pieces of banknotes. This gave the Bank an opportunity to review the design specifications of currency in tandem with international best standards and also taking into consideration enhanced security features.

Five firms were invited to participate in the tender. The firms were:

i. Giesecke & Devrient – Germany
ii. De La Rue Currency - United Kingdom
iii. Orell Fussli - Switzerland
iv. Francois Charles Oberthur Fiduciaire - France
v. John Enschelle - Holland

3.4.2. The firm John Enschelle however withdrew from the process citing new commitments. Proposals were opened first in the presence of the bidders' representatives and the results were summarized below:-

i.	*MIS* Giesecke & Devrient GMBH	USD.148,635,557.10
ii.	*MIS* De La Rue Currency	USD.139,535,341
iii.	*MIS* Orell Fussli Security Printing Ltd	USD.104, 161,532
iv.	*MIS* Francois-Charles Oberthur	USD.98,527,836

3.4.3. It is worth noting that De La Rue Currency and Security Print Ltd situated at Ruaraka, Nairobi, Kenya did not bid for the tender for printing 1,710 million pieces of new generation banknotes for the Central Bank of Kenya (CBK) since it did not have the requisite capacity. The capacity of De La Rue Currency and Security Print Ltd is 600 million pieces per year. Since it is licensed under the Export Processing zones, 25% of its production must be for export. This was confirmed by Mr. Douglas Denham, the Director Commercial and Legal Affairs during appearance before PAC on 3rd May 2012. It was the mother company, De La Rue International Ltd of Basington, Hampshire, United Kingdom (UK) that bid and won the tender with a view to printing it at its Malta plant.

3.5. Cancellation of tendering process for the supply of 1,710 pieces banknotes

3.5.1. Order of 300 million pieces of existing banknotes

The CBK Tender Committee cancelled the tendering process on 6 June 2005 because only two firms, Giesecke & Devrient GMBH of Germany and De La Rue International Ltd (UK) were responsive and the Tender Committee decided there was no competition in the process. The cancellation and the expected lengthy retendering process necessitated an order for additional banknotes to forestall imminent stock out gaps.

3.5.2. Consequently, the Bank placed an order for an additional 300 Million pieces of existing (current) generation banknotes from De La Rue Currency and Security Print Limited at a price of ST£.8, 703,280.00 as detailed below:

Order Date	Denomi-Nation	Delivered Pieces	Price per 1000 Pcs	Total price £'s
14/07/2005	50	69	25.17	1,736,730.00
	100	110	27.03	2,973,300.00
	200	44	29.83	1,312,520.00
	500	32	34.99	1,119,680.00
	1000	45	34.69	1,561,050.00
		300		8,703,280.00

This stopgap order utilized the 5th December 2002 cancelled contract prices

3.6. Re-tendering of 1710 million pieces banknotes

3.6.1. An international re-tendering of the new generation banknotes was done in the year 2005 and the following firms were invited for retendering:

- De La Rue International - United Kingdom

- Giesecke & Devrient GMBH - Germany
- Francois Charles Oberthur Fiduciaire - France
- Orell Fussli Security Printing Limited - Switzerland
- John Enschelle - Holland
- Canadian Banknote Company - Canada

The Tenders were initially expected to be opened on 18 July 2005 but rescheduled to 29 August 2005 to allow prospective Tenderers sufficient time to prepare their proposals.

Orell Fussli however withdrew from the process citing earlier intention of partnering with another firm, which was not allowed.

3.6.2 Of the six firms invited, only three responded namely; De La Rue International Ltd , Giesecke & Devrient GMBH, Francois Charles Oberthur Fiduciaire. The bid from Francois Charles Oberthur Fiduciaire was not evaluated because it did not meet the mandatory tender requirements. All the tenders quoted prices for printing the banknotes in Europe.

3.7. Evaluation & award of the 1710 million pieces tender

3.7.1. After evaluation, De La Rue International Ltd, UK was eventually declared the winner of the re- tender on technical specifications as well as price and a contract was thus executed between CBK and De La Rue International Ltd on 4th May, 2006 to print **1710 Million pieces** of new generation Kenya banknotes to be printed in its **Malta plant** at a total cost of **$ 51,195,840** as detailed in the table below. Thus, the only other firm to get to the final stage of the tender was Giesecke & Devrient GMBH, which quoted a price of US$.76, 331,500.00

Order	Denom	Delivered	Price per	UK S£ Equiv. -	Exch Rate	Total price
Date	Nation	Pieces	1000 Pcs			UD$
4/05/2006	1000	486	38.59	20.84	1.85	18,754,740.00
	500	216	38.94	21.03	1.85	8,411,040.00
	200	245	26.21	14.15	1.85	6,421,450.00
	100	461	23.09	12.47	1.85	10,644,490.00
	50	302	23.06	12.45	1.85	6,964,120.00
		1,710				51,195,840.00

The prices quoted were CIP Nairobi (as defined in Incoterms 2000) and were to remain fixed for the duration of the contract.

3.7.2. Among the conditions to be fulfilled by the Bank under the contract was for the Central Bank of Kenya to make a down payment of 50% on the contract price amounting to US$ 25,597,920.00. The commencement date for the contract was set for 22 May 2006 subject to the Bank submitting to De La Rue International Ltd approved designs of the banknotes by that date.

3.7.3. Pursuant to the contract, the Central Bank of Kenya paid the 50% down payment on 18 May 2006 but did not submit approved banknotes designs, together with approved signatories, as guidance was being awaited from the Ministry of Finance. Subsequently, approval for the designs was received from Treasury, but approval for signatories continued to be awaited from Treasury, as there was no substantive holder of the office of the Governor at the time.

3.7.4. The quantities were to be printed and delivered under a three year Agreement as follows:

Breakdown of Volumes per Contract year

	2007	2008	2009	Total
50	175,000,000	158,000,000	153,000,000	486,000,000
100	78,000,000	70,000,000	68,000,000	216,000,000
200	88,000,000	80,000,000	77,000,000	245,000,000
500	166,000,000	150,000,000	145,000,000	461,000,000
1000	109,000,000	98,000,000	95,000,000	302,000,000
	616,000,000	556,000,000	538,000,000	1,710,000,000

The Central Bank of Kenya has enough capacity to store the bank notes if they were to be delivered as per the above yearly schedule

3.7.5 According to clause 4.4 of the contract, the designs, engraved dies, art works, plates, films, all origination materials and copy rights developed by the company shall be the property of the customer and the customer shall have the rights to demand in writing for the return of the same from the company and the company shall comply within 14 days.

3.7.6 In a letter dated 26 August, 2006 the Minister for Finance advised the Bank that the launch date of the new generation banknotes should be deferred until after the year 2007 General elections and advised the Bank to:-

- Liaise with De La Rue International Limited for adjustment of delivery schedule for new generation banknotes to January 2008, as the new launch date should be after the general elections in 2007
- Initiate necessary procurement process for supply of additional current generation currency to ensure adequate stock is available up to January 2008.

3.7.7 In view of the rescheduled launch date on the new generation banknotes as advised by the Minister of Finance and having regard to the currency consumption requirements, it became necessary to place an interim order for the existing Kenya currency banknotes so as to avoid a currency shortage.

3.8. Variation of contract and deferment of currency launch

3.8.1. Consequently, the bank with the approval of the Tender Committee and subsequently by the Treasury vide a letter dated 9 November 2006 entered into Variation Agreement with De La Rue International Ltd in January 2007 whereby a sum of 4,191,042.30 sterling pound was utilized out of the down payment of USD.25, 597,920.00 made to De La Rue International Ltd towards payment of an interim order to supply of 164.05 million pieces of the existing generation banknotes. The Special Board Meeting held on 17 October 2006 instructed the Bank management to proceed as per the Minister's instructions and variation of the above Contract was done on 10 January 2007.

3.8.2. Down payment was reduced from 50% to 34.521% (US $ 17,673,518.50) so as to utilize the down payment used in paying for the Interim order for 164.05 Million banknotes. According to the Variation Agreement Contract period of three years was to commence on the date of variation (i.e. 10 January 2007) with expiry being 31 December 2010. Delivery schedule for the 1710 million banknotes was to be as detailed below:

Year	Quantity in millions
2007	75
2008	691
2009	556
2010	388
Total	**1710**

The approved signatures were not forwarded to De La Rue Currency and Security Print Ltd even after the new Governor of CBK, Prof. Njuguna Ndung'u was appointed in March 2007. The designs were forwarded to De La Rue Currency and Security Print Ltd on 16 April 2007, Eleven (11) months after signing the main Contract.

3.9. Central Bank of Kenya currency replenishment policy

3.9.1 The Central Bank of Kenya has a currency replenishment policy in place. The re-order level is equivalent to 6 months of buffer stock an estimate of 400 million banknotes; however the International Standard is 2 years of buffer stock. The buffer stock also includes all the money in circulation.

The currency is only replaced with new if it has been declared dirty and therefore withdrawn and destroyed

3.9.2 Central Bank of Kenya has adopted the 6 months of buffer stock because of the mutual relationship that it has cultivated between them and the supplier such that Central Bank of Kenya is given priority in the production line as and when they place an order.

3.9.3 If the supplier was based in overseas, then they would maintain 2 years buffer stocks because of the logistical plans that would be involved.

3.9.4 Central Bank of Kenya was procuring the 1710 million pieces because it was for new generation bank notes and the uptake by the market would have been extra ordinarily high compared to the existing currency.

Also the old currency notes were to be phased out gradually within the 1 year that is why the delivery for the year 2007 was higher than the other years.

The factors that determine the demand of currency are;

- The currency demand cycle. This is determined by a 3 year historical demand data which is averaged and then extrapolated to project the future demand.
- The level of economic activities in the country
- Adhoc activities

3.9.5 Analysis of the stop gap contracts against the stock policy

Year	Total	2007	2008	2009	2010	2011
Malta	1,710,000,000	616,000,000	556,000,000	538,000,000	0	0
Stop Gap	1,487,050,000	164,050,000	390,000,000	132,000,000	408,000,000	393,000,000
Policy on stocking	2,000,000,000	400,000,000	400,000,000	400,000,000	400,000,000	400,000,000

3.10 Stop-gap order of 164.05 million pieces of existing banknotes

3.10.1. Due to the delay in effecting the contract for supply of 1710 Million banknotes and as a result of foreseen shortage in currency, CBK entered into a one year contract with De La Rue Currency and Security Print Ltd for the supply of 164.05 million

banknotes on 10 January 2007 at a cost of £4,404,750.00 (Kshs. 619,265,457.00) to cover the gap envisaged in April 2007. The cost was to be met from the deposit of US $ 25,597,920 initially paid for 1710 Million banknotes. This contract was to run to 31 December 2007.

3.10.2. The stopgap prices were as per the 5th December 2002 cancelled Contract and not as per the May 2006 cancelled Contract which were on average, quite expensive.

3.10.3. On 17 October 2006, the Bank assessed its currency requirements and placed an order for 164.05 million pieces of current banknotes in 50,100 and 200 shillings denominations with De La Rue Currency and Security Print Limited to abridge another stock-out gap at a cost of ST£.4, 316,6SS.00 after a 2% discount of 88,08S.00 as shown below. This was to be paid from the SO% deposit held by De La Rue International Ltd for the production of new generation banknotes. Quantities and prices were as follows:-

Order Date	**Denomi-nation**	**Delivered Pieces**	**Price per 1000 Pcs**	**Total price £'s**
10/01/2007	50	58.70	25.17	1,477,479.00
	100	76.90	27.03	2,078,607.00
	200	28.45	29.83	848,663.50
		164.05		4,404,749.50
		Discount 2%		-88,095.00
		Interest accrued		-124,790.00
				4,191,865.00

On 16 April 2007, the approved designs of the New Generation banknotes were forwarded to De La Rue International Ltd for production.

3.11. Cancellation of tender to print million 1710 pieces of banknotes

3.11.1. However, by a letter dated 24 September 2007, the Minister for Finance advised the Bank that:

- The Cabinet had approved a joint venture proposal between the Government of Kenya and De La Rue International Ltd.
- The Bank was expected to provide technical support on the joint venture negotiations taking into account the lessons learnt from the last competitive bid undertaken by the CBK including pricing.

This followed correspondence from the then Minister for Finance, Hon. Amos Kimunya, ref. CONF 36/02 dated 1 November 2007 to the Governor, CBK informing him that the Cabinet at its meeting held on 29 May 2007 approved the proposal for Joint Venture between GOK and De La Rue currency and Security Print Ltd and that implementation of the Contract for new generation banknotes signed on 4 May 2006 had been taken by events and stood cancelled.

3.11.2. We observed the following irregularities:

Cancellation of the Contract by the minister when he was not party to the contract was not legal. Only the tender committee had such powers as provided for by Section 32 (2) of the Public Procurement Disposal Act, 2005.

3.11.3. The Minister also asked the Governor of CBK to print current generation notes under the terms of previous Interim stop gap orders and that subsequent payments were to be made after exhausting the deposit paid for new generation banknotes.

Arising from the Minister's directive as contained in the letters dated 24 September,2007 and 1 November 2007 aforesaid, the Bank had to deal with the following issues:-

- Inevitable gap in stock-out beginning April 2008 to cover a period of two years in the absence of any procurement arrangements while the joint venture negotiations were proceeding.
- Cancellation of the contract and consequences of doing so in both financial terms and commercial terms.

The Special Board of Directors meeting held on 23 November 2007 approved cancellation of the Contract and instructed the management to terminate the Agreement between CBK and De La Rue International Ltd.

Cancellation and Termination of the above Agreement was mutually and irrevocably agreed on between CBK and De La Rue International Ltd UK on 14 December 2007.

3.11.4. As per the Cancellation and Termination Agreement, De La Rue was to remit the balance of £ 8,840,961 advance payment together with interest accrued to De La Rue Currency and Security Print Ltd as part payment for Interim stopgap order for supply of 164.05 million pieces.

3.12. Stop gap order of 390 million pieces of existing banknotes

3.12.1. Central Bank of Kenya Special Board of Directors meeting held on 23 November 2007 approved the procurement of 390 Million pieces of banknotes in order to avoid a crisis when stocks held ran out until April 2008 as forecasted.

3.12.2. The Contract was entered into between CBK and De La Rue Currency and Security Print Ltd on 14 December 2007 for the supply of 390 Million quantities of banknotes. From the Bank's projections, the 390 million pieces of banknotes in addition to stocks held as at September 2007 was expected to last up to 1 October 2009. The contract was to run from 14 December 2007 to 31 March 2009 and it was then hoped that the joint venture negotiations would have been finalized.

3.12.3. To meet demand for currency, an order for 390 Million pieces of banknotes to cover the currency needs for a period of two years at a cost of 10,521,569 00 after a 3 5% or 409,931.00 discount. As tabulated below.

Order Date	Denomination	Pieces delivered	Price.1000 Pcs	Total £'s
14/12/2007	50	120.00	25.17	3,020,400.00
	100	140.00	27.03	3,784,200.00
	200	80.00	29.83	2,386,400.00
	500	20.00	34.99	699,800.00
	1000	30.00	34.69	1,040,700.00
		390.00		10,931,500.00
		Discount 3.75%		-409,931.25
				10,521,568.75

3.12.4. Information available indicates the 390 Million pieces of banknotes, which was treated as an interim order of the previous 164.05 million order, did not qualify as an interim order, which under the Procurement Act was defined as 10% or less of the initial order.

3.13. Interim stopgap order of 450 million pieces of banknotes

3.13.1. Central Bank of Kenya Tender Committee at its 63rd meeting held on 13 May 2009 approved the procurement of 450 million banknotes at a cost of £13,138,360 (Kshs. 1,618,840,454).

3.13.2. CBK and De La Rue Currency and Security Print Ltd entered into a one-year contract on 17 June 2009, for the supply of banknotes as detailed below:

The bank placed an order for additional currency of 450 Million pieces on 17 June 2009 to meet the country's needs to September 2010

Order Date	Denomination	Delivered Pieces	Price per 1000 Pcs	Total price £'s
17/06/2009	50	109.00	25.17	2,743,530.00
	100	142.00	27.03	3,838,260.00
	200	74.00	29.83	2,207,420.00
	500	43.00	34.99	1,504,570.00
	1000	82.00	34.69	2,844,580.00
		450.00		**13,138,360.00**

Terms of payment were 50% deposit on execution of contract, with the amount being wired to De La Rue International Ltd UK's bank account, the balance was to be paid against invoices on delivery of banknotes.

3.14. Interim stopgap order of 483 million pieces of banknotes

3.14.1. CBK and De La Rue Currency and Security Print Ltd entered into a one-year contract on 16 July 2010 for the supply of for the supply of 483 Million pieces of banknotes to cushion the country's currency needs to December 2011 pending completion of the Joint Venture agreement as tabulated below:

Procurement of 483 Million banknotes at a cost of £14,358,650 (Kshs. 1,863,409,525) was approved by the Central Bank of Kenya Tender Committee during its meeting of 7 July 2010 banknotes as detailed below:

Order Date	Denomination	Delivered Pieces	Price per 1000 Pcs	Total price £'s
17/07/2010	50	77.00	25.17	1,938,090.00
	100	137.00	27.03	3,703,110.00
	200	131.00	29.83	3,907,730.00
	500	75.00	34.99	2,624,250.00
	1000	63.00	34.69	2,185,470.00
		483.00		**14,358,650.00**

4. *Findings of the Audit*

4.1. Irregular cancellation of the 1,710 Million pieces of banknotes

The then Minister of Finance Hon. Amos Kimunya through his letter ref: CONF 36/02 dated 1st November 2007 instructed the Governor to cancel the 4 May 2006 Contract for supply of 1710 Million pieces of banknotes since the Contract had been overtaken by events following approval of the joint venture between GOK and De La Rue Currency and Security Print Ltd and therefore, stood cancelled. The CBK Board of Directors went ahead and cancelled the Contract in their Special Meeting held on 23 November 2007.

In the Contract document, Clause 12 (General) clearly states that a person who is not a party to this Agreement shall have no right to enforce any of the terms of this Agreement or otherwise. Further, Clause 8 gives the conditions under which the contract may be terminated namely due to failure by the company to deliver banknotes as agreed in the contract or meet any of its obligations, or is involved in fraudulent or corrupt practices or declared bankrupt.

4.2. Loss as a result of cancellation of the 1,710 Million pieces of banknotes- Kshs. 1,830,909,616

The cost of procuring 1, 487.05 million pieces of various denominations from De La Rue International Ltd for the period 2007 to 2010 under the 4th May 2006 cancelled contract prices would have been US $ 40,202,808.00 (Kshs. 3,754,031,319)

The actual amount paid by CBK for the procurement of 1,487.05 million pieces of bank notes under the interim stopgap order prices for the same period was £42,334,001 (Kshs. 5,584,940,935).

THE ACTUAL EXPENDITURE AS PER STOP GAP ORDERS

	£	Kshs
164.05 million notes	4,315,832.00	619,265,457.00
390 million notes	10,521,569.00	1,483,425,499.00
450 million notes	13,137,950.00	1,618,840,454.00
483 million	14,358,650.00	1,863,409,525.00
	42,334,001.00	5,584,940,935.00

EXPECTED COST OF CANCELLED CONTRACT	3,754,031,319.00
VARIANCE BEING LOSS TO CBK	(1,830,909,616.00)

The exchange rate used to calculate the actual cost of interim orders is the ruling rate at the time of payment while for the cancelled contract is the average mean rate for the respective years of scheduled delivery.

4.3. Interference by the Ministry of Finance

The then Minister for Finance, Mr. Amos Kimunya through his letter ref: CONF.36/02 dated 25 August 2006 instructed the Ag. Governor Mrs. Mwatela to liaise with De La Rue on adjustment of the delivery schedule, with new generation currency launch planned for January 2008, stating that in their discussions with James Hussey of De La Rue during the visit to the Ruaraka plant in July, they (De La Rue) were agreeable to change in dates without cost implications to CBK.

Further through a letter Ref: CONF 36/02 dated 1st November 2007 he instructed the Governor of CBK to cancel a competitively awarded contract which he was not a party to.

4.4. Variation of Contract for 1,710 Million pieces of banknotes

Section 31 (b) of the Public Procurement and Disposals Regulations 2006 states that any variation of a Contract shall be effective only if the quantity variation for goods and services does not exceed ten per cent of the original contract quantity.

However, the 4th Special Tender Committee held on 17 October 2006 approved variation of the 1,710 million tender to utilize part of the deposit to pay for the supply of an Interim order of 164.05 million pieces despite the fact that no delivery had been made for the main Contract.

Although the prices per denomination were not varied, the prices used in procuring 164.05 million banknotes were not as per the main Contract dated 4 May 2006 but were from the cancelled Ten year contract dated 5 December 2002

4.5. Direct procurement of banknotes through Interim stopgap orders

Section 74 (3) Public Procurement and Disposals Act 2005 states that a Procuring Entity may use direct procurement if the following are satisfied:-

There is an urgent need for the goods, works or services being procured

Because of the urgency the other available methods of procurement are impractical; and

The circumstances that gave rise to the urgency were not foreseeable and were not the result of dilatory conduct on the part of the procuring entity.

The CBK Tender Committee and Board of Directors through various Minutes approved the procurement of banknotes totaling 1,487.05 million pieces between January 2007 and July 2010 on diverse dates using the direct method without meeting the above conditions as stipulated in the Public Procurement and Disposals Act 2005.

4.6. Paper reconciliation

An audit of the paper reconciliation certificates was carried out to ascertain total quantities of paper purchased, used, banknotes printed, unused and unserviceable/ destroyed[23].

The paper reconciliation certificates for the interim order of 390 Million pieces of banknotes ordered on 14 December 2007[17] were not availed for audit verification.

4.7. Loss arising due to cancellation for supply of new generation currency banknotes

4.7.1. CBK procured a total of 2,607.05 Million banknotes from De La Rue Currency and Security Print Ltd between March 2003 and December 2011 at a total cost of £75,319,776 (Kshs.10, 211,423,094) as analyzed below:

SUMMARY OF CURRENCY PRINTING COSTS

			Amount paid	
	Payment Dates	**Currency Order**	**Kshs.**	**£'s**
	Sep 03-Jun 04	40 Million pieces	146,446,300	1,100,000
		186 Million pieces	724,941,117	5,269,520
		244 Million pieces	1,070,043,397	7,330,580
		350 Million pieces	1,541,210,329	10,756,460
1		820 Million pieces	3,482,641,143	24,456,560
2		300 Million pieces	1,143,841,016	8,529,214
3		164.05 Million pieces	619,265,457	4,315,832
3		390 Million pieces	1,483,425,499	10,521,569
			2,102,690,956	14,837,401
4		450 Million pieces		

		1,618,840,454	13,137,950
5	483 Million pieces	1,863,409,525	14,358,650
	Total	**10,211,423,094**	**75,319,776**

No taxes were paid on the above currency procured as banknotes are exempted from paying VAT as per the VAT Act Cap 476 schedule 2 Tariff No. 4907.00.90.

4.7.2. As a result of deferment and eventual cancellation of contract to print million 1710 pieces of banknotes in December 2007, the Bank utilized the USD 25,597,920 down payment paid on 18 May 2006 to meet the cost of subsequent interim stop gap orders placed with De La Rue. These interim orders were procured at 2002 tender prices, which were substantially higher than the 2006 cancelled contract as illustrate below:

Printing Costs of Kenya Currencies

Denomination	2002 tender unit prices **S£**	2006 tender unit prices **S£**	**Stop Gap** unit prices **S£**	% increase On 2006 Prices
50	25.17	12.45	25.17	102.17%
100	27.03	12.47	27.03	116.76%
200	29.83	14.15	29.83	110.81%
500	34.99	21.03	34.99	66.38%
1000	34.69	20.84	34.69	66.46%

The loss arising in terms of higher prices paid on interim stop gap orders as a result of cancellation of International tender for supply of 1,710 pieces new generation currency banknotes is estimated at **KShs. 1,830,909,616.00** as detailed in Appendix 1.

APPENDIX I

COMPARISON OF COSTS OF PRINTING INTERIM STOP GAP ORDERS

1.(a) EXPECTED OUTPUT AND EXPENDITURE UNDER THE CANCELLED CONTRACT

Denomination	price	Quantity	Quantity	Quantity		
	$ per 1000 pieces	2007	2008	2009	Total	Total cost
1000	38.59	175,000,000	158,000,000	153,000,000	486,000,000	18,754,740
500	38.94	78,000,000	70,000,000	68,000,000	216,000,000	8,411,040
200	26.21	88,000,000	80,000,000	77,000,000	245,000,000	6,421,450
100	23.09	166,000,000	150,000,000	145,000,000	461,000,000	10,644,490
50	23.06	109,000,000	98,000,000	95,000,000	302,000,000	6,964,120
		616,000,000	**556,000,000**	**538,000,000**	**1,710,000,000**	**51,195,840**

Notes

Under the cancelled contract, the delivery of printed notes were to be made over a 3 year period as shown in the table above Thus, the 50% down payment covered the 616 million notes due in 2007 plus 239 million notes in 2008. therefore deliveries for 2008 and 2009 comprised 18.5% and 31.5% of the total contract output respectively as shown below;

YEAR	Notes payment Schedule	Expected Annual proportion of Output	
2007	855,000,000	50% downpayment	50%
2008	316,000,000	556-(855-616)	18.50%
2009	538,000,000	538/1710*100	31.50%
	1,710,000,000		

1.(b) EXPECTED EXPENDITURE UNDER THE CANCELLED CONTRACT

Description	Expected expenditure due in US $	Exchange rate on due date of payment	KSHS
downpayment of 50%	25,597,920	72.3156	1,851,128,944
18.5% of 51,195,840	9,471,230	69.0822	654,293,433
31.5% 0f 51,195,840	16,126,690	77.425	1,248,608,942
	51,195,840		**3,754,031,319**

Notes

The 2007 expenditure was incurred by CBK when it made a downpayment for the contract to De La Rue International Ltd
The expenditure has been converted from US dollars into Kenya shillings at the rate prevailing on the date of payment

The expenditures for 2008 and 2009 are hypothetical - what the CBK would have incurred had the contract not been cancelled. We have converted the expenditures from US dollars to Kenya Shillings at the annual average rate of exchange for the two currencies derived from the CBK's mean daily rates

2. OUTPUT AND EXPENDITURE AS PER STOP GAP ORDERS

	£	Kshs
164.05 million notes	**4,315,832.00**	**619,265,457.00**
390 million notes	**10,521,569.00**	**1,483,425,499.00**
450 million notes	**13,137,950.00**	**1,618,840,454.00**
483 million	**14,358,650.00**	**1,863,409,525.00**
	42,334,001.00	**5,584,940,935.00**

3. DIFFERENCE IN TOTAL COSTS BEING LOSS TO THE CBK ARISING FROM THE CANCELLATION OF THE CONTRACT

	Kshs
EXPECTED COST OF CANCELLED CONTRACT	**3,754,031,319.00**
LESS: ACTUAL PAYMENT UNDER STOP GAP	**5,584,940,935.00**
VARIANCE BEING LOSS TO CBK	**1,830,909,616.00**

APPENDIX 3

AN AGREEMENT MADE the 8th day of October 1991

Between

The Central Bank of Kenya statutory corporation established under the Central Bank of Kenya Act (Chapter 491 of the Laws of Kenya) hereinafter referred to as the "Bank") of the one part AND

Thomas De La Rue and Company Limited, Basingstoke, Hampshire, England whose registered office is at 3-5 Burlington Gardens, London WIA 1DZ, England (hereinafter referred to as the "Company") of the other part.

WHEREBY IT IS AGREED as follows:-

1. Object of the Agreement

The Bank wishes to purchase, and the Company undertakes to supply, banknotes in accordance with the provisions of this Agreement. It is agreed that such banknotes shall be produced in a plant in Kenya (hereinafter referred to as "the Plant") which will be established as a member of the De La Rue Group of Companies. Until the plant is fully operational the supply of banknotes agreed herein shall be supplied from one of the other facilities of the De La Rue Group of Companies. Should the Company not establish a Plant in Kenya within a reasonable time-scale then this Agreement shall terminate.

2. Banknote Production, Delivery and Prices

(1) The Company undertakes to print banknotes for the Bank in Kenya in accordance with the banknote specifications

as contained in Schedule 1 attached hereto in the denominations and at the prices set out in Schedule 2 hereto which shall be subject to the provisions of sub-clauses (2) and (3) below, on acceptance of orders from the Bank during the term of this Agreement.

(2) The prices (made up of a paper and print element) in Schedule 2 are applicable on the first order placed by the Bank under this agreement and thereafter the Company shall be entitled to adjust the prices agreed in Clause 2(1) hereof as hereinafter provided.

Until such time as the Plant completes its first supply of banknotes to acceptable standards such price adjustments will be made in accordance with and corresponding to the variation in the Index of average earnings for the paper Products, Printing and Publishing Industry published in the United Kingdom by the Department of Employment in the Department of Employment Gazette. The variations will be applied annually on the Effective Date of the Agreement as defined in Clause 6 hereof. From the date on which the plant completes its first supply of banknotes to acceptable standards under the terms of this Agreement price adjustments shall be made in the case of the paper element referred to in Schedule 2 in accordance with and corresponding to the variations in the index of average earnings for the Paper Products Printing

and Publishing Industry published in the United Kingdom by the Department of Employment in the Department of Employment Gazette on the anniversary of the Effective Date of this Agreement. With regard to the Print element referred in Schedule 2 of this Agreement price adjustments shall be made in accordance with and corresponding to the variations in the Middle Income Nairobi Price Index published by the Central Bureau of Statistics in Kenya at each yearly anniversary of the Effective Date of this Agreement.

In the event that the Middle Income Nairobi Price Index ceases, price adjustments will be made in accordance with and corresponding to the variation in the index of actual wage rates paid to employees in the Plant. The variations shall continue to be measured and applied on a yearly basis thereafter.

For the avoidance of doubt if an order is placed by the Bank for a period of supply longer than one year then the price variations contained herein shall apply at yearly intervals in accordance with this clause.

(3) The prices contained within Schedule 2 hereto relate to the specifications and designs referred to in Schedule 1 hereto. Should the Bank choose to change the size and/or specifications of the current banknotes, and this results in a change in the cost to the Company, new prices based on the new sizes and/or specifications will be negotiated to reflect this change in cost.

Should the Bank decide to introduce new banknote denominations then the specification and prices will be agreed by both parties.

The Bank shall place orders for the printing of a minimum of 170 million banknotes each year commencing on the Effective Date of the Agreement as defined in Clause 6 hereof. Such orders shall be accompanied by a delivery schedule to be agreed between the parties. The first order shall be placed on or before 1st January 1993. Each subsequent order shall be placed at least twelve (12) months prior to the beginning of a production Year (the first such year to be measured from the date which the Company gives in its acceptance of the first order placed by the Bank as that on which it will be commencing production). Both parties agree to act in the utmost good faith in agreeing on the delivery schedules and which shall be within the Company's normal delivery time-scales.

) Once the Plant is operational if for any reason production capacity in Kenya is not able to meet the Company's delivery commitments, the Company shall obtain the Bank's consent (which shall not be unreasonably withheld) to meet any shortfall through production at one of the other facilities of the De La Rue Group of Companies. In such event the price charged for banknotes will be the same as for those produced in Kenya.

) The Bank shall take delivery of printed banknotes as soon as they are ready for delivery in accordance with the agreed

delivery schedule. Delivery shall take place ex-works (Incoterms 1990)

(8) The Company reserves the right to utilise any capacity with the plant not required to fulfil the requirements of the Bank for the production of banknotes for other Central Banks and issuing authorities and other security printed documents for appropriate institutions.

(9) The Company shall be the sole and exclusive supplier of banknotes from the date at which a local plant has been established in the Republic of Kenya and the printing of banknotes to the Bank's specifications referred to in Schedule 1 has begun or from the Effective Date referred to in the Article 6 of this Agreement, and whichever shall occur earlier shall be the Effective Date for the purposes of this Agreement.

Procurement of Raw Materials

The Company shall make all arrangements for the procurement of the necessary raw materials from appropriate suppliers.

4. Terms of Payment

(1) The Bank undertakes to pay to the Company a down payment amounting to 30% of the total value of the order at the time details of the said order are confirmed. The Company will make available to the Bank a bankers guarantee against the down payment which shall reduce progressive by the value of deliveries made and shall be returned to the Company upon completion of the order. Payment of the balance of each consignment shall be made against documents presented by the Company at the time of delivery and payment therefor

shall be made by the Bank within thirty (30) days of such submission.

(2) All payments made under this agreement shall be in Pounds Sterling.

Liability

In the event that banknotes, the subject of this Agreement, are destroyed, lost or stolen whilst in the Plant, or in the event of production overseas under the provisions of Clause 2(6) hereof, whilst in the premises of a member of the De La Rue Group of Companies, then the Company shall print and supply at its cost replacement banknotes therefor.

In the event of a theft or the entry of forged banknotes into circulation as a result of unlawful use of origination materials by unauthorised parties whilst the said origination materials are in the custody of the Company, the Company shall repay to the Bank the face value of any such lost, stolen or forged notes where such losses are proved, up to a maximum of one million sterling pounds.

Further, in the event that forged banknotes enter circulation as a result of wrongful use of the origination materials by unauthorised parties whilst the origination materials are in the custody of the Company, the Company shall reprint, at its own cost, the contracted quantity of notes, the design of which shall be determined by the Bank at the time.

The obligation undertaken by the Company in this Clause shall be the full measure of its liability for any loss sustained by the Bank arising out of the aforesaid loss or theft of banknotes and/or origination materials, howsoever caused.

6. Term and Termination

This Agreement shall continue until a term of ten (10) years has elapsed from the date the Company accepts the first order from the Bank (which shall be placed not later than 1st January 1993 hereunder ("the Effective Date") and shall apply to all production undertaken pursuant to orders placed during such term. Prior to the end of the ninth year of the Agreement the parties may extend this Agreement on terms and conditions to be agreed.

7. Secrecy, Security and Control of Materials

(1) The Company and the Bank shall keep complete secrecy concerning all confidential operations, processes or dealings relating to the production of banknotes for the Bank, and all other confidential information entrusted by one party to the other. This restriction shall continue to apply after the termination of this Agreement without limit in point of time.

(2) The Company shall take all necessary measures and precautions to prevent paper, plates, and any other materials in its possession for the manufacture of the banknotes from being used in any unauthorised manner.

(3) The Bank shall be entitled to send authorised officials to inspect the paper stocks and security procedures of the plant at any time provided that adequate notice is given to the Company to ensure that the authorised officials can be vetted or cleared by security personnel.

(4) The engraved dies, plates, and other original materials, which are the sole property of the Bank shall always remain in the custody of the Company in secure lock-up. They will only be used by the Company for the purpose of carrying out orders placed by the Bank. All such dies, plates and other original materials shall be destroyed by the Company if so requested in writing by the Bank at any time. In the event such request is made during the execution of orders placed under this agreement, the Company shall be given reasonable time to complete any outstanding order. The Bank undertakes not to make the said materials available for use by third parties.

(5) Immediately the Company discovers any loss of the said materials or banknotes it shall report such loss to the Bank in writing.

8. Assignment

It is understood by the Bank that, following incorporation of an associated company of the Company in Kenya or the establishment of a trading entity in Kenya, this Agreement may be assigned at the option of the Company to such associated company or entity. Such assignment shall be effected by notice in writing from the Company to the Bank.

Save as expressly provided herein, this Agreement and rights benefits or obligations hereunder shall not be assigned to any third party without the prior written consent of the other party.

The Company shall ensure during the term of this Agreement that the Kenyan incorporated company shall at all times be wholly owned by a wholly owned member or members of the De La Rue Group of Companies.

9. Liquidated Damages for Late Delivery

(1) Failure to deliver the banknotes within the time or times specified in the delivery schedule agreed pursuant to Clause 2(5) shall, in addition to any other remedies of the Bank against the Company under this Agreement render the Company liable to a deduction from the Contract price, as damages on a sum to be calculated at the rate of one half of one percent per week on the value of such portion of the delayed consignment for each week or part of a week between the date or dates of delivery specified in the delivery schedule. The maximum amount of damage is ten percent of the value of any delivery or part delivery PROVIDED THAT:

(a) The Company shall have the right to present to the Bank or its agent within three months of the notification of such deduction the reason for the delay and the Bank may at its discretion opt not to demand any damages.

(b) No damages shall be payable if:

i) the delay had arisen from causes which were unavoidable and could not have been foreseen or overcome by the Company, or

ii) the delay had arisen as a result of failure or delay in the supply of materials to the Company due to causes which were unavoidable and could not have been foreseen or overcome by the manufacturers or vendors of such materials, or

iii) the delay had been caused by actions on behalf of the Bank.

(c) The Company shall be relieved of any liability under this Clause in respect of any Ex-works deliveries for any period during which the bannotes are not collected by the Bank.

10. Reconciliation of Paper

The paper purchased, the paper used and the notes printed; the unserviceable paper and the unused paper shall, within three months after the printing of each Order is completed, be reconciled by the Company and the reconciliation approved by the Bank and or its authorised agent before any storage or destruction of such material is effected.

The destruction of any misprints and or unserviceable papers shall be effected under the joint supervision of the Company and the Bank and or its authorised agent and a reconciliation certificate issued by the parties specifying and detailing the quantities reconciled and destroyed.

It shall be Company's responsibility to acquire and keep in safe custody the paper required to fulfill the terms of this Agreement.

11. Transfer of Assets, Insolvency or Dissolution

In the event where the Company is acquired by persons who are not acceptable to the Bank or the Company becomes insolvent or enters into any arrangement with its creditors or proceedings are commenced by any person for the winding-up or dissolution of the Company (excluding any such proceedings which are frivolous or vexatious in nature) then the Bank shall be entitled:

(1) To terminate this agreement whereupon the Bank shall be at liberty to procure the supply of banknotes from any other organisation or entity.

(2) To require that all origination material held by the Company under Clause 7, paragraph 4 be released to the Bank or any other person duly authorised to receive the said material on behalf of the Bank.

(3) To require that all stocks of banknotes be released to the Bank on payment of the sum due which amount shall be pro-rata to the actual printing completed.

12. Governing Law and Arbitration

(1) This Agreement shall be subject in all respects to the laws of Kenya.

(2) All disputes, differences or questions between the parties hereto with respect to any matter or thing arising out of the Agreement or relating to these presents which cannot be settled amicably between the parties shall be referred to a panel of three arbitrators: one appointed by the Bank; one appointed by the Company. The two arbitrators shall acting jointly appoint a third arbitrator who shall be the umpire of all sittings, sessions or proceedings of the arbitration. The arbitration proceedings shall be conducted in accordance with the provisions of the Arbitration Act (Chapter 49 of the Laws of Kenya). The award rendered by theArbitrators shall be binding and final.

13. Force Majeure

The Company shall be relieved of their obligation to perform the contract within the time or times stated to the extent that such performance is prevented by reason of war (whether war be declared or not) riot, civil commotion, strike, industrial

action, involving the Company or a supplier or transporter, damage caused by fire or other accident or any other cause beyond the control of the Company. In the event of such circumstances arising the Company shall forthwith notify the Bank who may at their absolute discretion allow completion of the contract to be adjusted for such a period as the circumstances shall prevail. The Bank may call at any time for production by the Company of documentary evidence of the circumstances preventing performance and the Company shall provide such documentary evidence as may be reasonably requested by the Bank.

14. General Provisions

(1) This Agreement embodies the entire agreement and understanding between the parties hereto relating to the subject matter contained herein save for the existing supply contract dated the 25th day of January 1991 which remains in effect. It supersedes and cancels all prior agreements, statements and representation, if any, made by or between the parties hereto.

(2) All notices given under this Agreement shall bein writing and shall be effective upon personal delivery or fourteen (14) business days after deposit in the mail, registered mail, postage fully prepaid to be addressed to the respective parties:

(3) This Agreement may be varied by the written agreement of both parties.

To the Bank:

Governor
Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
NAIROBI.

To the Company:

Thomas De La Rue and Company Limited
3-5 Burlington Gardens
London W1A 1D2
ENGLAND.

Either party may change its address from the indication above by sending written notice of such change to the other in the manner set forth above.

IN WITNESS WHEREOF the parties have executed this agreement at Nairobi in the Republic of Kenya on the date mentioned hereinbefore.

Signed on behalf of the CENTRAL BANK OF KENYA BY:

E.C. KOTUT

GOVERNOR

Signed for and on behalf of THOMAS DE LA RUE AND COMPANY LIMITED by its duly authorised attorney:

DAVID ASHTON

Association Director of Sales

SCHEDULE 1

BANKNOTE SPECIFICATIONS

Denomination		Specification
10/-, 20/-	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 2 colours
50/- 100/-	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours
200/-	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	2 Lithographic printings 1 Intaglio printing in 3 colours
500/-	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	2 Lithographic printings 1 Intaglio printing in 4 colours including Optically variable Ink

Banknotes Sizes

10/-	140mm x 73mm
20/-	146mm x 76mm
50/-	152mm x 79mm
100/-	158mm x 82mm
200/-	161mm x 84mm
500/-	164mm x 86mm

SCHEDULE 2

PRICE SCHEDULE

Schedule of base prices as at January 1993, based on the specifications set out in Schedule 1, expressed in pounds sterling per 1000 banknotes ex-works. The total price is the total of the paper and print elements detailed herein.

Paper Element

Quantity (Millions of Notes)	10/-	20/-	50/-	100/-	200/-	500/-
5			7.72			8.91
10			7.58			8.70
15						8.65
20						8.60
25					8.58	
30					8.58	
35	6.24	6.88		8.21	8.58	
40	6.24	6.88		8.21	8.58	
45	6.24	6.88		8.21		
50	6.24	6.88		8.21		
60	6.24	6.88		8.21		
70	6.24	6.88		8.21		
80	6.24	6.88		8.21		
100	6.24	6.88		8.21		

Print element

Quantity (Millions of Notes)	10/-	20/-	50/-	100/-	200/-	500/-
5			44.58			52.39
10			43.12			51.27
15						50.81
20						50.53
25					41.72	
30					41.67	
35	29.70	32.36		37.53	41.64	
40	29.67	32.33		37.50	41.61	
45	29.64	32.30		37.47		
50	29.61	32.27		37.44		
60	29.56	32.22		37.39		
70	29.51	32.17		37.34		
80	29.46	32.12		37.29		
90	29.41	32.07		37.24		
100	29.36	32.02		37.19		

These prices are based on the assumption that the Bank will order at least 170 million banknotes per year.

10/-	110.00	35.56
	120.00	35.53
	130.00	35.50
	140.00	35.47
	150.00	35.45
20/-	110.00	38.86
	120.00	38.83
	130.00	38.80
	140.00	38.77
	150.00	38.75
100/-	110.00	45.36
	120.00	45.33
	130.00	45.30
	140.00	45.27
	150.00	45.25
200/-	45.00	50.17
	50.00	50.15
	55.00	50.13
	60.00	50.12
	65.00	50.11
500/-	25.00	58.93
	30.00	58.80
	35.00	58.71
	40.00	58.64
	45.00	58.58
	50.00	58.54

APPENDIX 4

DE LA RUE
CURRENCY AND SECURITY PRINT

CURRENCY PRODUCTION

AGREEMENT

BETWEEN

CENTRAL BANK OF KENYA

AND

DE LA RUE CURRENCY AND SECURITY PRINT LIMITED

AGREEMENT FOR PRODUCTION OF BANKNOTES

AN AGREEMENT MADE the 5th day of December, 2002 BETWEEN The Central Bank of Kenya a body Corporate established under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya, (hereinafter referred to as the "Bank") of the one part AND De La Rue Currency and Security Print Limited (hereinafter referred to as the "Company") whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya of the other part.

WHEREBY IT IS AGREED as follows: -

1. OBJECT OF THE AGREEMENT

For the benefits of security, reliability of supply and access to technological developments in banknote security from a reputable company which is a subsidiary of one of the world's leading commercial banknotes producers, the Bank wishes to purchase, and the Company undertakes to produce and supply to the Bank banknotes in accordance with the provisions of this Agreement.

2. TERM AND CONDITIONS OF SALE

2.1 This Agreement shall continue until a term of ten (10) years has elapsed from the 1st day of January 2003 and it shall terminate on the 1st day of January 2013 unless otherwise terminated prior to the said date under the provisions of this Agreement.

2.2 The parties may extend this Agreement prior to the expiry of the ten year contract period aforementioned on terms and conditions to be agreed.

2.3 If the Bank chooses not to extend the Agreement it shall be at liberty after the end of the ten year contract period to source banknotes from any other suppliers.

3. BANKNOTE PRODUCTION, DELIVERY AND PRICES

3.1 The Company undertakes to print banknotes for the Bank in Kenya in accordance with the banknote specifications as contained in Schedule 1 hereto attached in the denominations and at the prices set out in Schedule 2 hereto which shall be subject to the provisions of sub-clauses (2) and (3) below, on acceptance of orders from the Bank during the term of this Agreement.

3.2 The Company hereby undertakes that the banknotes specified in Schedule 1 shall be produced at the Company's plant in Kenya (hereinafter referred to as "the Plant") and that the Company is a member of the De La Rue Group of Companies.

3.3 The Company shall make all arrangements for the procurement of the necessary raw materials from appropriate suppliers to ensure that it fulfils without delay any orders made by the Bank.

3.4 If for any reason the production capacity at the Plant is not able to meet the Company's delivery commitments to the Bank, the Company shall forthwith obtain the Bank's consent, (which consent shall not be unreasonably withheld) to meet any shortfall through production at any of the other facilities owned or operated by the De La Rue Group of Companies. In such event, the price charged for the banknotes produced outside the Plant shall remain the same as the price for the banknotes produced at the Plant and shall not be altered to the detriment of the Bank.

3.5 The Bank agrees to exclusively place all orders for the printing of banknotes with the Company for the duration of the Agreement Such orders shall be accompanied by delivery schedules agreed upon between the Parties. Both

Parties agree to act with utmost good faith in agreeing on the delivery schedules and which shall be within the Company's normal delivery time scales.

PROVIDED THAT:

The Company hereby undertakes to make a minimum delivery of fifteen (15) million pieces of banknotes per month in respect of each confirmed order.

3.6 If the Company defaults to deliver the minimum monthly quantity of banknotes agreed, the Bank shall be at liberty to suspend payment of further instalments until the Company makes full delivery in compliance with the agreed delivery schedule and the provisions of this clause whereupon the payment of the monthly instalments shall resume.

3.7 The Bank shall take delivery of all printed banknotes as soon as they are ready for delivery in accordance with the agreed delivery schedule: PROVIDED THAT if the Bank delays to take delivery of such consignment for a period exceeding fifteen (15) days from the date of notification of the availability of the printed banknotes for collection, the Company may levy a reasonable storage charge on the said consignment until collection. Delivery shall be deemed to take place ex-works at the Plant (Incoterms 2000).

3.8 The Company reserves the right to utilize any capacity within the Plant not required to fulfil the requirements of the Bank for the production of banknotes for other Central Banks and issuing authorities and other security printed documents for appropriate institutions.

3.9 The prices contained in Schedule 2 shall be subject to a biennual review in December 2004, December 2006, December 2008 and December 2009 on the basis of:

(a) An assessment of the market prices prevailing at the time of the review;

(b) Consideration of technological advancement in the banknotes printing industry;

(c) Adjustment of the price schedule to reflect any cost variations occasioned by agreed changes to the banknotes specifications.

3.10 The prices contained within Schedule 2 hereto relate to the specifications and designs referred to in Schedule 1 hereto. Should the Bank opt to change the size and/or design and/or specifications of the banknotes, which results in a change in the cost to the Company, the Parties shall have the right to negotiate new prices based on the new sizes and/or designs and/or specifications, to reflect the change in cost.

3.11 Should the Bank decide to introduce new banknote denominations, the specifications and prices applicable will be agreed by both parties.

4. TERMS OF PAYMENT

4.1 The Bank undertakes to pay to the Company a down payment amounting to 30% of the total value of the agreed order for a two year tranche of banknote supply at the time details of the said order are confirmed and upon presentation of the requisite invoice. The Company shall make available to the Bank a banker's guarantee against the down payment, which shall reduce progressively by the value of the deliveries made and shall be returned to the Company upon completion of the order. Payment of the balance of the value of the order shall be made in twenty- three equal monthly instalments against documents presented by the Company at the time of delivery of each consignment and in accordance with a payment schedule to be agreed between the Company and the Bank at the time each order is placed by the Bank.

4.2 The down payment shall be paid in British Pounds Sterling. The subsequent monthly instalments may be paid partly in Kenyan Shillings and partly in British Pounds Sterling as may be mutually agreed. If this mode of payment is so agreed, the Company shall invoice the Bank on a monthly basis with the Kenya Shilling element being in the range of 50% to 70% of the value of the invoice. The Company shall determine the exact proportion at the time of invoicing and will convert to Kenya Shilling at the ruling British Pounds Sterling/Kenya Shilling spot rate on the date of invoice. The monthly instalment invoice will be raised and shall become due and payable on the 10th day of the following month or on the last working day prior to the 10th.

5. LIABILITY

5.1 In the event that banknotes, the subject of this Agreement, are damaged or destroyed, whilst in the Plant, or in the event of production overseas under the provisions of Clause 3.4 hereof, whilst in the premises of a member of the De La Rue Group of Companies or the banknotes fails to meet the agreed specifications, the Company shall print and supply at its cost the replacement banknotes therefor.

5.2 In the event of a loss or theft of banknotes whilst the banknotes are in the custody of the Company, the Company shall pay the Bank the equivalent face value of any such lost or stolen banknotes where such losses are proven and are proved to have arisen out of a negligent act or omission of the Company.

5.3 In the event that forged banknotes enter circulation as a result of unlawful use of the origination materials by unauthorised parties whilst the said origination materials are in the custody of the Company, the Company shall pay the Bank the equivalent value of any such forged banknotes where such losses are proven and are proved to have arisen solely out of a negligent act or omission of the Company. The Company shall also reprint, at its cost, the contracted quantity

of banknotes the design and specifications of which shall be determined by the Bank.

5.4 The obligation undertaken by the Company in this Clause 5 shall be the full measure of its liability for any loss sustained by the Bank arising out of the aforesaid loss, misuse, or theft of banknotes and/or origination materials, howsoever caused.

6. SECRECY, SECURITY AND CONTROL OF MATERIALS

6.1 The Company and the Bank shall keep complete secrecy concerning all confidential operations, processes or dealings relating to the production of banknotes for the Bank, and all other confidential information entrusted by one party to the other. This restriction shall continue to apply after the termination of this Agreement without limit in point of time.

6.2 The Company shall take all necessary measures and precautions to prevent paper, plates, and any other materials in its possession for the manufacture of the banknotes from being used in any unauthorised manner.

6.3 The Bank shall be entitled to send authorized officials to inspect the paper stocks and security procedures of the Plant at any time provided that a reasonable notice is given to the Company to ensure that the authorized officials can be vetted or cleared by security personnel at the Plant.

6.4 The engraved dies, plates, and other origination materials, which are the sole property of the Bank shall always remain in the custody of the Company in secure lock-up and all such materials shall only be used by the Company for the purpose of carrying out orders placed by the Bank. All such dies, plates and other origination materials shall be destroyed by the Company or surrendered to the Bank if so requested in writing by the Bank at any time. In the event that such request is made during the execution of orders placed under this Agreement, the Company shall be given reasonable time to complete any

outstanding order. The Bank undertakes not to make the said materials available for use by third parties during the tenure of this agreement as they contain intellectual property rights of the Company without the Company's prior written consent.

6.5 In the event that the Company looses any banknotes whilst in its custody or the production materials described in clause 6.4, the Company shall without delay immediately report such loss to the Bank in writing.

7. LIQUIDATED DAMAGES FOR LATE DELIVERY

Failure to deliver the banknotes within the time or times specified in the delivery schedule agreed pursuant to Clause 3.5 shall in addition to any other remedies of the Bank against the Company under this agreement, render the Company liable to a deduction from the contract price, as liquidated damages a sum to be calculated at the rate of one half of one percent per week on the value of such portion of the delayed consignment for each week or part of a week between the date or dates of delivery specified in the delivery schedule. The maximum amount of liquidated damages is ten percent of the value of any delivery or part delivery and shall be paid in full and final settlement of the claim or claims to which they relate.

PROVIDED THAT:

a) The Company shall have the right to present to the Bank or its agent within three months of the notification of such deduction the reason for the delay and the Bank may at its discretion opt not to demand any damages.

b) No damages shall be payable if:

i) The delay had arisen from causes which were unavoidable and could not have been foreseen or overcome by the Company; or

ii) The delay had arisen as a result of failure or delay in the supply of materials to the Company due to causes which were unavoidable and could not be foreseen or overcome by the manufacturers or vendors of such materials; or,

iii) The delay had been caused by actions attributed to the Bank.

a) The company shall be relieved of any liability under this Clause in respect of any Ex-works deliveries for any period during which the banknotes are not collected by the Bank after having been notified in writing the availability of the printed banknotes for collection.

8. RECONCILIATION OF PAPER

8.1 The paper purchased, the paper used and the banknotes printed; the unserviceable paper and the unused paper shall, within three months after the printing of each Order is completed, be reconciled by the Company and the reconciliation be approved by the Bank and/or its authorized agent before any storage or destruction of such material is effected. The destruction of any misprints and/or unserviceable paper shall be effected under the joint supervision of the Company and the Bank and/or its authorized agent and a reconciliation certificate shall be issued by the parties specifying and detailing the quantities reconciled and destroyed.

8.2 It shall be the Company's sole responsibility to acquire and keep in safe custody the paper and other materials required to fulfil the terms of this Agreement.

9. ASSIGNMENT

9.1 Save as expressly provided herein, this Agreement and rights benefits or obligations hereunder shall not be assigned to any third party without the prior written consent of the other party.

9.2 The Company hereby undertakes that during the term of this Agreement it shall ensure, using it's best efforts, that it shall at all times be wholly owned by a member of the De La Rue Group of Companies.

10. TRANSFER OF ASSETS, INSOLVENCY, OR DISSOLUTION

In the event where the Company is acquired by persons who are not acceptable to the Bank or the Company becomes insolvent or enters into any arrangement with its creditors or proceedings are commenced by any person for the winding-up or dissolution of the Company (excluding any such proceedings which are frivolous or vexatious in nature) then the Bank shall be entitled:

a) To terminate this agreement whereupon the Bank shall be at liberty to procure the supply of banknotes from any other organization or entity of its choice.

b) To require that all origination material held by the Company under Clause 6, sub clause (4) be released to the Bank or any other person duly authorized to receive the said material on behalf of the Bank.

c) To require that all stocks of banknotes be released to the Bank on payment of the sum due which amount shall be pro-rata to the actual printing completed.

11. GOVERNING LAW AND ARBITRATION

11.1 This agreement shall be subject in all respects to the laws of Kenya.

11.2 All disputes, differences or questions between the parties hereto with respect to these presents which cannot be settled amicably between the parties shall be referred to a panel of three Arbitrators: one appointed by the Bank; one appointed by the Company. The two Arbitrators shall acting jointly appoint a

third Arbitrator who shall be the umpire of all sittings, sessions or proceedings of the arbitration. The arbitration proceedings shall be conducted in accordance with the provisions of the Arbitration Act (Chapter 49 of the Laws of Kenya). The award rendered by the Arbitrators shall be binding and final.

12. FORCE MAJEURE

12.1 The Company shall be relieved of their obligation to perform the contract within the time or times stated to the extent that such performance is prevented by reason of war (whether war be declared or not) riot, civil commotion, strike, industrial action, involving the Company or a supplier or transporter, damage caused by fire or other accident or any other cause beyond the control of the Company. In the event of such circumstances arising, the Company shall forthwith notify the Bank which may at its absolute discretion allow completion of the contract to be adjusted for such a period as the circumstances shall prevail.

12.2 The Bank may call at any time for production by the Company of documentary evidence of the circumstances preventing performance and the Company shall provide such documentary evidence as may be reasonably requested by the Bank.

13. GENERAL PROVISIONS

13.1 This Agreement embodies the entire agreement and understanding between the parties hereto relating to the subject matter contained herein. It supersedes and cancels all prior Agreements, statements and representations, if any, made by or between the parties hereto including the Agreements dated 8th October 1991 and 20th February 1996.

13.2 All notices given under this Agreement shall be in writing and shall be effective upon personal delivery or fourteen (14) business days after deposit in the mail, registered mail, postage fully prepaid to the following addresses of the respective parties:

Address of the Bank: The Governor
Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
NAIROBI

Address of the Company: De La Rue Currency and Security Print Limited
LR No 20917
8th Floor, Lonrho House
Standard Street
P.O. Box 40034
NAIROBI

13.3 Either party may change its address indicated above by sending written notice of such change to the other in the manner set forth above.

13.4 The Company shall have the right to assign the contract to De La Rue International Limited on terms to be agreed between the Company and De La Rue International Limited if exchange controls were to be re-imposed in Kenya.

13.5 This Agreement may be varied by the written agreement of both parties.

IN WITNESS WHEREOF the parties have executed this Agreement at Nairobi in the Republic of Kenya on the date mentioned hereinbefore.

Signed for and on behalf of the **CENTRAL BANK OF KENYA** by:

Mr. Jones Makau Nzomo
Chief Banking Manager

Witnessed by:

Mr. John Macharia Gikonyo
Bank Secretary

Signed for and on behalf of
DE LA RUE CURRENCY AND SECURITY PRINT LIMITED by:

5 December 2002.

Mr. James Hussey
Managing Director

Witnessed by a duly authorised attorney:

DE LA RUE CURRENCY AND SECURITY PRINT LTD
P. O. Box 38622, NAIROBI.

5 December 2002

Mr Guy Potter
Regional Manager

SCHEDULE 1

Banknote Specifications

DENOMINATION	SPECIFICATION	
20, 50, 100, 200 shillings		
Paper:	GSM	92
	MDF	5500
	Watermark	Lion's head with highlight in eyes
	Thread	1.2mm Windowed Cleartext®
Print:	Front	3 Lithographic Printings 1 Intaglio Printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours
500, 1000 shillings		
Paper:	GSM	92
	MDF	5500
	Watermark	Lion's head with highlight in eyes
	Thread	1.4mm Windowed Cleartext® Colourshift (Magenta/Green)
Print:	Front	3 Lithographic Printings 1 Intaglio Printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours

BANKNOTE SIZES	
20/-	135mm x 70mm
50/-	138mm x 72mm
100/-	141mm x 74mm
200/-	144mm x 76mm
500/-	147mm x 78mm
1000/-	150mm x 80mm

THIS AGREEMENT is made the day of 2011

BETWEEN

1. **The Permanent Secretary to the Treasury of Kenya** a statutory corporation sole constituted under The Permanent Secretary to the Treasury Act Cap 101 Laws of Kenya (or its Government of Kenya successor in the event of a re-organization) for and on behalf of **The Government of the Republic of Kenya** ("**GoK**"); and

2. **De La Rue Currency and Security Print Limited** incorporated in the Republic of Kenya under Company Number C.48700 ("**DLRK**"); and

3. **Thomas De la Rue AG** incorporated under the laws of Switzerland ("**TDLRAG**")

WHEREAS

A. DLRK is a wholly owned subsidiary of TDLRAG which is in turn a beneficially wholly owned subsidiary of **De La Rue plc** a company incorporated in England and Wales ("**DLR**") and quoted on the London Stock Exchange.

B. DLRK was established by DLR in Kenya in 1992 to carry on the business of currency and security printing in Kenya.

C. DLRK has since establishment conducted the business of a security bank note printers printing bank notes for the CBK and other states and conducting other security printing operations.

D. GoK and TDLRAG now wish to provide for the establishment in Kenya of a new bank note and security printing company ultimately to be owned by TDLRAG and by GoK upon the terms and conditions hereinafter contained.

Now this Agreement witnesseth as follows:

1. **Establishment of the Joint Venture Company**

For the purposes of the transactions contemplated by this agreement TDLRAG has procured the incorporation in Kenya of a joint venture company called **De La Rue Kenya EPZ Limited** Company Number CPR/2011/39289 (hereinafter referred to as "Newco") having the

APPENDIX 5

JOINT VENTURE AGREEMENT

DATED 2011

BETWEEN

THE PERMANENT SECRETARY TO THE TREASURY OF KENYA

AND

DE LA RUE CURRENCY AND SECURITY PRINT LIMITED

AND

THOMAS DE LA RUE AG

DALY & FIGGIS
ADVOCATES
Lonrho House
Standard Street
P.O. Box 40034–00100

SCHEDULE 2

Prices

Denomination	£ per 1000 notes
50/-	25.17
100/-	27.03
200/-	29.83
500/-	34.99
1000/-	34.69

Prices are subject to a minimum order volume of 25 million notes per denomination

1. DRAFT JOINT VENTURE AGREEMENT BETWEEN THE PERMANENT SECRETARY TO THE TREASURY OF KENYA AND DE LA RUE CURRENCY AND SECURITY PRINT LIMITED AND THOMAS DE LA RUE AG.

2. MEMORANDUM & ARTICLES OF ASSOCIATION

3. BUSINESS TRANSFER AGREEMENT

4. SHARE SALE AND PURCHASE AGREEMENT

5. SHAREHOLDERS AGREEMENT

characteristics set out in Schedule 1 of this Agreement and initial Memorandum and Articles of Association as contained in Annex 1 of this Agreement.

2. **Hive down of the business.**

Subject to satisfaction of the condition precedents set out in part A of Schedule 2 of this Agreement TDLRAG will procure that DLRK transfers, and DLRK will transfer its business to Newco subject to and in accordance with the provisions of the Business Transfer Agreement (the "BTA") substantially in the form contained in Schedule 3 of this Agreement. Any material variations to the commercial and all other terms form of the BTA will be agreed with GoK.

3. **Agreement for Sale/Subscription of Shares in Newco**

Following completion of the BTA and subject to the conditions precedent set out in part B of Schedule 2 of this Agreement TDLRAG and GoK shall complete the Share Sale and Purchase Agreement ("SSPA") substantially in the form contained in Schedule 4 (which shall have been entered into contemporaneously with this Agreement) with the effect that upon Completion of the SSPA GoK will own up to 40% and TDLRAG will own the balance of the issued share capital of Newco.

4. **Shareholders Agreement**

Contemporaneously with the signing of this Agreement, the BTA and the SSPA, GoK and TDLRAG shall enter into the Shareholders Agreement ("SA") substantially in the form contained Schedule 5 of this Agreement.

5. **Representations and Warranties**

Each of the parties hereto represents and warrants to each of the other that on the date hereof:

(a) It has the power to enter into, and to deliver, this Agreement and to perform its obligations as contemplated by the agreements to be entered into as provided herein;

(b) The execution and delivery of this Agreement and the agreements to be entered into as provided herein, and the performance by it of its obligations thereunder, have been duly and validly authorized by all necessary corporate actions;

(c) This Agreement has been duly executed by it and constitutes its legal, valid and binding obligation enforceable against it in accordance with the terms hereof;

(d) Neither the making of this Agreement nor the agreements to be entered into as provided herein, will conflict with, or result in a breach of, any of the terms, conditions or provisions of, or constitute a default or require any consent under, any indenture, mortgage, agreement or other instrument or arrangement to which either party is a party or by which it is bound, or will violate any of the terms or provisions of such party's constitutional or corporate documents, or any judgment, decree or order or any statute treaty , rule or regulation applicable to such party;

(e) There is no pending or, to the best of its knowledge, information and belief, there is no threatened suit or administrative action against it which, if adversely decided, would prevent the consummation of the transactions contemplated hereby or have a material adverse effect;

6. **Notification of Change.**

TDLRAG undertakes to give GoK three (3) months prior written notice of the intention to change the ownership and control of TDLRAG with the effect that it will cease to be a wholly owned subsidiary of De La Rue Plc and the identity of the new entity which shall own and control TDLRAG.

7. **Notices.**

All notices or other communications to be given under this Agreement to any party shall be made in writing and sent by letter or facsimile transmission (unless as otherwise stated herein) and shall be deemed to be duly given or made at 9.00 a.m. on a Business Day (Mondays through Fridays excluding any public holidays) following the date when delivered (in the case of personal delivery), when dispatched (in the case of facsimile transmission), PROVIDED THAT the sender has received a receipt indicating proper transmission or ten (10) days after being deposited in the post, postage prepaid, by the quickest international mail available and by registered mail if available (in the case of a letter) to such party at its address or facsimile number specified below, or at such other address or facsimile number as such party may hereafter specify for such purpose to the other by notice in writing.

In the Case of GOK

To: The Permanent Secretary to the Treasury of Kenya (or its Government of Kenya successor in the event of a re-organisation)
P.O. Box 30007 - 00100
Treasury Building,

Harambee Avenue,

NAIROBI

With a copy to:

The Investment Secretary

The Treasury Building

P.O. Box 30007 - 00100

NAIROBI

In case of DLRK

To: The Managing Director

De La Rue Currency and Security Print Limited,

P.O. Box 38622 – 00623

Noordin Road, Off Thika Road, Ruaraka

Nairobi

Kenya

With a copy to:

The Company Secretary

De La Rue Currency and Security Print Limited

8th Floor Lonrho House, Standard Street, Nairobi

Fax +254 0 20 341009

In case of TDLRAG

To: The Managing Director

Rue de Morat 11

1700 Fribourg

Switzerland

Telephone: +41263472610

Fax : +41263472615

With a copy to:

The General Counsel

De La Rue plc

De La Rue House

Jays Close
Basingstoke RG22 4BS UK
Tel - +44 1256 605000
Fax - +44 1256 605336

8. **Modifications and Waivers to be in Writing.**

No modification or waiver of any provision of this Agreement and no consent to any departure there from shall be effective unless such modification or waiver shall be in writing and signed on behalf of each of the parties hereto and the same shall then be effective only for such period and on the conditions and for the specific instances and purposes specified in such writing.

9. **Applicable Law & Dispute Resolution.**

(a) This Agreement and its performance shall be governed by and construed in all respects in accordance with the laws of Kenya.

(b) Any dispute, controversy or claim arising out of or relating to this Agreement or a termination hereof, or the interpretation, breach or validity hereof, shall be resolved by way of consultation held in good faith between the parties. Such consultation shall begin immediately after one party has delivered to the other written request for such consultation. If within fifteen (15) days following the date on which such notice is given the dispute cannot be resolved, the dispute, controversy or claim shall , if so requested by either Party, be finally resolved in accordance with the rules of the Chartered Institute of Arbitrators of the United Kingdom (which rules are deemed to be incorporated by reference into this clause subject to and in accordance with the provisions of the Arbitration Act of Kenya, 1995) by an Arbitrator appointed by agreement of the Parties and failing such agreement within twenty one 21 Business Days of a request therefore by either Party, by an Arbitrator appointed by the Chairman for the time being of the Kenya Branch of the Chartered Institute of Arbitrators, who shall have regard to the nature of the dispute in making such appointment.

(c) The place of arbitration shall be Arusha, Tanzania and the language of the arbitration shall be English.

(d) The award of the arbitration tribunal shall be final and binding upon the Parties and any Party may apply to a court of competent jurisdiction in Kenya for enforcement of such award. The award of the arbitration tribunal may take the form of an order to pay an amount or to perform or

to prohibit certain activities.

(e) Notwithstanding the above provisions of this Clause, a party is entitled to seek preliminary injunctive relief or interim or conservatory measures from any court of competent jurisdiction in Kenya pending the final decision or award of the arbitrators.

(f) Each of the Parties irrevocably waives any immunity in respect of its obligations under this Agreement that it may acquire from the jurisdiction of any court or any legal or arbitral process for any reason including, but not limited to, the service of notice, attachment prior to judgement or attachment in aid of execution.

(g) Any arbitration commenced under the provisions of this Clause may be consolidated with any concurrent arbitration initiated in respect of or pursuant to the Share Sale and Purchase Agreement, the Shareholders Agreement, the Licence and Know How Contract or the Articles of Association if and when appropriate.

10. Confidentiality Provisions

(a) Each of the Parties hereto undertakes with each other that it will not and will procure that it and its respective officers, employees, professional advisers and agents will not, during the period of this Agreement, and for 10 years after its termination (for whatever reason) use or divulge to any person nor publish or disclose or permit to be published or disclosed, any secret or confidential information relating to the transactions hereby contemplated which it has received or obtained, or may receive or obtain, (whether or not, in the case of documents, they are marked as confidential).

Provided that the obligations of this clause shall not apply to any information which:

(i) the recipient can reasonably demonstrate is in the public domain otherwise than by breach of this Agreement by the disclosing party or by any person subject to an obligation of confidentiality;

(ii) is already known to the recipient (as evidenced by its written records) at the date of disclosure and was not acquired directly or indirectly from the disclosing party;

(iii) is required to be disclosed by law or pursuant to a court order;

(iv) is required to be disclosed by any recognised stock exchange or other regulatory body;

(v) is disclosed to or by any adviser to any of the Parties to the extent required for the proper execution of their work.

(b) For the purposes of this clause, "information" includes, without limitation, the following:

(i) information concerning the affairs or property of DLR, DLRK, Newco or any business, property or transaction in which they may be or may have been concerned or interested;

(ii) the names and addresses or any client of the DLR, DLRK, Newco;

(iii) information on the terms of this Agreement and any of the agreements to be entered into hereunder;

(c) If this Agreement ceases to have effect each Party will release and return to the other Party (**"the Disclosing Party"**) or destroy all documents concerning the transactions contemplated by this Agreement provided to the other Party (**"Receiving Party"**) or its advisers in connection with this Agreement and will not use or make available to any other person any information concerning the Disclosing Party which is not in the public domain.

(d) Save in respect of statutory returns or matters or announcements required to be disclosed or publicly made by law or to any stock exchange, neither of the parties hereto shall make any press statement or other public announcement in connection with this Agreement unless the content of such statement or announcement has been substantively agreed in writing.

11. **No partnership**

Nothing contained or implied in this Agreement or any of the agreements to be entered into hereunder shall constitute a partnership between the Parties (or any of them) and none of the Parties shall have any authority to bind or commit any other Party in any way.

12. **Entire Agreement**

This Agreement constitutes the whole Agreement between the parties hereto and no variations thereof shall be effective unless made in writing. Each of the parties hereby acknowledges that it is not entering into this Agreement or the agreements to be entered into hereunder in reliance upon any representations whether express or implied other than those made or expressly referred to herein or therein. This Agreement supersedes and replaces any Agreement whatsoever that may have subsisted between the parties hereto in any way relating to the subject matter hereof.

13. **Timeline**

The Parties agree to use all reasonable endeavours to complete the Agreements referred to in clauses 2, 3, and 4 by no later than 30th June 2012.

As witness whereof the duly authorised representative of the Permanent Secretary of the Treasury pursuant to the provisions of the Permanent Secretary to the Treasury (Incorporation) Act Cap 101 Laws of Kenya and The Government Contracts Act Cap 25 Laws of Kenya and the duly authorised representatives of each of TDLRAG and DLRK have hereunto set their hands.

SCHEDULE 1

Characteristics of Newco

See the First Schedule to the Share Sale and Purchase Agreement as set out in Schedule 4 of this Agreement.

ANNEX 1

Memorandum and Articles of Association



Final Articles of Association.doc

SCHEDULE 2

Part A

See conditions precedent to implementation of the Business Transfer Agreement as set out in Schedule 3 of this Agreement.

Part B

See conditions precedent to completion of the Share Sale and Purchase Agreement as set out in Schedule 4 of this Agreement

THE COMPANIES ACT (CHAPTER 486)

COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION[1]

-OF-

DE LA RUE KENYA EPZ LIMITED[2]

1 The regulations contained in Table A in the First Schedule to the Act shall not apply to the Company.

2 In these Articles, if not inconsistent with the subject or context:

(a) "**Act**" shall mean the Companies Act (chapter 486);

(b) "**Articles**" shall mean these Articles of Association as now framed or as from time to time altered by Special Resolution;

(c) "**Board**" shall mean the Board of Directors of the Company or the Directors present at a duly convened meeting of the Directors at which a quorum is present;

(d) "**Business**" means the currency and security printing business carried out by the Company in Kenya.

(e) "**Company**" shall mean **DE LA RUE KENYA EPZ LIMITED** existing under the laws of The Republic of Kenya or its successor in title;

(f) "**Debenture**" shall include debenture stock;

(g) "**Director**" shall include an alternate director;

(h) "**Dividend**" shall include bonus;

(i) "**Kenya**" shall mean the Republic of Kenya;

(j) "**Member**" shall mean a shareholder in the Company;

(k) "**month**" shall mean a calendar month;

(l) "**paid up**" shall mean paid up or credited as paid up;

(m) "**Seal**" shall mean the common seal of the Company;

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[1] As adopted by Special Resolution passed on 201?

[2] Initially incorporated as Tofferi Limited and name changed to De la Rue Kenya Limited by Special Resolution passed on 24th January 2011 and changed to De La Rue Kenya EPZ Limited by Special Resolution passed on ? October 2011

(n) "**Secretary**" shall include a temporary or assistant secretary and any person appointed by the Board to perform any of the duties of the Secretary "in respect of the Company;

(o) "**Shareholder**" shall mean any holder of shares in the Company;

(p) "**Shareholders Agreement**" shall mean the agreement dated _____ and made between Thomas De la Rue AG ("**TDLRAG**"), the Permanent Secretary to the Treasury of the Republic of Kenya ("the **PST**") in their capacities as Shareholders for the time being, and the Company, for so long only as that Shareholders Agreement shall subsist and be capable of taking effect.

(q) "**Shillings**" and "**Shs.**" shall mean Kenya shillings;

(r) the expression "**in writing**" or "**written**" shall include words written, printed, lithographed or represented or reproduced in any other mode in visible form;

(s) words signifying the singular number only shall include the plural number and *vice versa*;

(t) words signifying the masculine gender only shall include the feminine gender;

(u) words importing persons shall include corporations;

(v) reference to any provision of the Act shall be construed as a reference to such provision as modified or re-enacted by any act for the time being in force.

3 Subject to the last preceding Article, any words or expressions defined in the Act shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.

PRIVATE COMPANY

4 The Company is a private company and accordingly:

(a) the number of Members of the Company is limited to fifty; provided that where two or more persons hold one or more shares in the Company jointly, they shall, for the purpose of this Article, be treated as a single Member;

(b) any invitation to the public to subscribe for any shares or debentures of the Company is prohibited;

(c) the Company shall not have power to issue share warrants to bearer;

(d) the right to transfer shares is restricted in manner hereinafter provided.

BUSINESS

5 Any branch or kind of business which the Company is either expressly or by implication authorised to undertake may be undertaken by the Board at such time or times as it shall deem fit and, further, may be permitted by it to be in abeyance, whether such branch or kind of business may have been actually commenced or not so long as the Board may deem it expedient not to commence or proceed with the same.

6 The registered office of the Company shall be at such place in Kenya as the Board shall from time to time appoint.

7 No part of the funds of the Company shall be employed in the subscription or purchase of or in loans upon the security of the Company's shares or those of its holding company (if any) and the Company shall not give, whether directly or indirectly and whether by means of a

loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of or in connection with any purchase or subscription by any person of or for shares in the Company or in its holding company (if any) provided that nothing in this Article shall prohibit transactions mentioned in the proviso to section 56(1) of the Act

SHARE CAPITAL AND VARIATION OF RIGHTS

8 [3]The share capital of the Company at the date of adoption of these Articles is Shillings twenty five million (Shs. 25,000,000/[4]-) divided into I,250,000 ordinary shares of Shillings Twenty (Shs. 20/-) each all of which have been issued and are fully paid .

9 Without prejudice to any special rights previously conferred on the holders of any shares or class of shares, any share in the Company may be issued with or have attached thereto such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine.

10 Subject to the provisions of section 60 of the Act, any preference shares may, with the sanction of a special resolution, be issued upon the terms that they are or, at the option of the Company, are liable to be redeemed on such terms and in such manner as the Company may by special resolution determine.

11 If, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may from time to time, whether or not the Company is being wound up, be altered or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, all the provisions of these Articles relating to General Meetings of the Company shall, *mutatis mutandis*, apply but so that the necessary quorum shall be two persons at least holding or representing by proxy not less than one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll.

12 The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking *pari passu* therewith.

13 Subject to the provisions of these Articles, the shares in the capital of the Company shall be at the disposal of the Board which may allot, grant options over or otherwise dispose of them to such persons, for such consideration, on such terms and conditions and at such times as it may determine provided that no shares shall be issued at a discount except in accordance with section 59 of the Act.

14 Whenever the Board proposes to issue any shares it shall offer them in the first instance to Members (other than preference shareholders not specifically entitled to them under the terms of issue of their preference shares) in proportion as nearly as may be to the number of existing shares held by them. Such offer shall be made by notice specifying the number of shares to which the Member is entitled and limiting a time (not less than thirty days) within which the offer, if not accepted, will be deemed to be declined and, after the expiration of that time (if the offer is not accepted) or on the earlier receipt of an intimation from the Member to whom the offer is made that he declines to accept the shares offered, the Board shall offer such shares to the other Members of the Company who have taken up the shares originally offered to them in their entirety in proportion as nearly as may be to the number of existing shares held by them and thereafter in the same manner to the Members who may desire to subscribe for shares. The Board may allot or dispose of any shares which have not been taken up by the

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[3]

[4] *Share Capital was increased from Shillings 40,000/ to Shillings 25,000,000 divided into 1,250,000 ordinary shares of .Shillings 20 each by ordinary resolution passed on ..... 201?*

existing Members at the end of such process and such shares which by reason of the ratio which the number of shares offered bears to the total number of existing issued shares, cannot in the opinion of the Board be conveniently offered under this Article.

15 The Company may exercise the powers of paying commissions conferred by section 55 of the Act, provided that the rate per cent or the amount of the commission paid or agreed to be paid and the number of shares for which persons have agreed for a commission to subscribe absolutely shall be disclosed in the manner required by that section and that such commission shall not exceed ten per cent of the price at which the shares in respect whereof the same is paid are issued or an amount equal to ten per cent of such price (as the case may be). Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also, on any issue of shares, pay such brokerage as may be lawful.

16 If any shares in the capital of the Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a long time, the Company may, subject to the conditions and restrictions mentioned in section 67 of the Act, pay interest on so much of such share capital as is for the time being paid up and may charge the same to capital as part of the cost of construction of the works or buildings or the provision of plant as the case may be.

17 Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or compelled in any way to recognise, even when having notice thereof, any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or, except only as by these Articles or by law otherwise required or provided, any right in respect of any share other than an absolute right to the entirety thereof in the registered holder.

CERTIFICATES

18 Every person whose name is entered as a Member in the Register of Members shall be entitled, without payment, to one certificate for all his shares of each class and, when part only of the shares comprised in a certificate is sold or transferred, to a new certificate for the remainder of the shares so comprised or, upon payment of such sum, not exceeding Shillings one hundred (Shs. 100), for every certificate after the first as the Board shall from time to time determine, several certificates each for one or more of his shares of such class. Every certificate shall be issued within sixty days after allotment or lodgment of the instrument of transfer or within such other period as the conditions of issue shall provide, shall be under the Seal and shall specify the share or shares to which it relates and the amount paid up thereon. In the case of shares held jointly by several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to one of the several joint holders shall be sufficient delivery to all.

19 If a share certificate is defaced, lost or destroyed, it may be replaced on payment of such fee, if any, not exceeding Shillings One Hundred (Shs. 100/=) and, in the case of loss or destruction, on such terms, if any, as to evidence and indemnity and payment of the out-of-pocket expenses of the Company of investigating such evidence, as the Board may think fit and, in case of defacement, on delivery of the old certificate to the Company.

LIEN

20 The Company shall have a lien on every share (other than a fully paid share) registered in the name of a Member, whether solely or jointly with others, for all moneys, whether presently payable or not, due by such Member or his estate, either alone or jointly with any other person, to the Company but the Board may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The Company's lien on a share shall extend to all dividends payable thereon.

21 The Company may sell, in such manner as the Board may determine, any share on which the Company has a lien but no sale shall be made unless a sum in respect of which the lien exists is presently payable or before the expiration of fourteen days after a notice in writing, stating and demanding payment of the sum presently payable and giving notice of the intention to sell in default, shall have been given to the holder for the time being of the share or to the person entitled by reason of his death or bankruptcy to the share.

22 To give effect to any such sale, the Board may authorise any person to transfer the share sold to the purchaser thereof. The purchaser shall be registered as the holder of the share and he shall not be bound to see to the application of the purchase money nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the sale.

23 The net proceeds of any such sale, after payment of the cost of such sale, shall be applied in or towards payment or satisfaction of the debt or liability in respect whereof the lien exists so far as the same is presently payable and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the person entitled to the share at the time of the sale.

CALLS ON SHARES

24 The Board may, from time to time, make calls upon the Members in respect of any moneys unpaid on their shares and not, by the conditions of allotment thereof, made payable at fixed times and each Member shall, subject to the Company giving to him at least fourteen days' notice specifying the time or times and place of payment, pay to the Company at the time or times and place so specified, the amount called on his shares. A call may be revoked or postponed as the Board may determine.

25 A call shall be deemed to have been made at the time when the resolution of the Board authorizing the call was passed and may be required to be paid by installments.

26 The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

27 If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding fifteen per cent per annum, as the Board may determine but the Board may waive payment of such interest wholly or in part.

28 Any sum which, by the terms of issue of a share, becomes payable on allotment or on any fixed date, whether on account of the nominal amount of the share or by way of premium, shall for all the purposes of these Articles be deemed to be a call duly made and payable on the date on which, by the terms of issue, the same becomes payable and, in case of non-payment, all the relevant provisions of these Articles as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

29 The Board may, on the issue of shares, differentiate between the holders as to the amount of calls to be paid and the times of payment.

30 The Board may, if it thinks fit, receive from any Member willing to advance the same, all or any part of the moneys uncalled and unpaid upon any shares held by him and upon all or any of the moneys so advanced may, until the same would, but for such advance, become presently payable, pay interest at such rate, not exceeding fifteen per cent per annum, as may be agreed upon between the Board and the Member paying such sum in advance.

TRANSFER OF SHARES AND PRE-EMPTION RIGHTS

31 The transfer of any share in the Company shall be in writing in any usual or common form and shall be signed by the transferor and the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register of Members in respect thereof. All instruments of transfer, when registered, shall be retained by the Company.

32 Subject to the provisions of Article 33 and any overriding provisions of the Shareholders Agreement, no share in the Company shall be transferred unless the proposed transferee (if not already bound by the provisions of the Shareholders Agreement) has entered into a Deed of Adherence to the Shareholders Agreement and until the rights of pre-emption conferred by the provisions of this Article shall have been exhausted.

Every Member (the "**Transferor**") who desires to transfer any shares to a third party shall give to the Members of the Company (the "**Offerees**") notice in writing of that desire ("**transfer notice**"). A transfer notice shall specify the number of shares to be sold, the identity of the person who has offered to purchase the shares, the proposed price (the "**transfer price**") for the shares comprised in the notice (the "**Shares**") and the terms and conditions of sale including the condition that, unless all the Shares are sold pursuant to the provisions of this Article, none shall be sold. If the Transferor holds more than one class of share, he shall specify in the transfer notice the number of each class of shares, which he desires to transfer, and the price proposed for each class of share.

(a) A transfer notice shall constitute the Company the Transferor's agent for the sale of the Shares to the Offerees at the transfer price.

(b) The Offerees shall have the right of first refusal to purchase such shares pro rata their respective shareholdings; such right must be exercised by giving notice in writing to the Transferor within 30 days of the date of receipt of the transfer notice (" first period") provided that in the event that an Offeree does not wish to exercise such right in such period then the number of shares to which that Offeree had the right of first refusal shall be offered to those Offerees who have given notice of exercise of rights of first refusal and who shall then have a further period of 60 days commencing at the expiry of the first period ("second period") to purchase the shares pro rata their respective shareholding in the Company or in such other proportion as they may agree; the price at which the Offerees shall be entitled to exercise the right of first refusal will be the price identified in the transfer notice.

(c) If the right of first refusal is not exercised within the second period in respect of all the shares in the transfer notice, then the Transferor shall have the right to sell such shares within a period of not more than three months to the person (but only the person) specified in the transfer notice at not less that the transfer price and upon terms and conditions no more favourable than specified in the transfer notice. If the Transferor does not sell the shares described in the transfer notice within the said three-month period then the restrictions provided in this Article shall again apply.

(d) If the right of first refusal is exercised by any Offeree(s) then provided this is in respect of all the shares in the transfer notice the Transferor shall be obliged, within 14 days following the exercise of such right, to transfer the relevant shares in the Company to the Offeree(s) who have so exercised the right.

(e) If the Transferor shall fail to complete a transfer of the shares to an Offeree as provided in Article 32(d) above, the Chairman of the Company or some other person appointed by the Board shall be deemed to have been appointed attorney of the Transferor with full power to execute, complete and deliver, in the name and on behalf of the Transferor, transfers of the Shares to the Offerees against payment of the transfer price to the Company. The Company shall forthwith pay the transfer

price into a separate bank account in the Company's name and shall hold the transfer price in trust for the Transferor.

33 The rights of pre-emption conferred in Article 32 shall not apply:

(a) to any transfer approved in writing by all the Members; and

(b) to any Transfer permitted by the Shareholders Agreement

(c) any transfer pursuant to the exercise of any Put or Call Option exercised pursuant to the Shareholders Agreement

34 Notwithstanding the restrictions on the transfer of shares in these Articles, no Shareholder shall otherwise howsoever sell, transfer or dispose of, or, other than jointly with the other Shareholder and for the purposes only of raising capital for the Company, mortgage, pledge or charge any shares or create any third party interest in respect thereof.

TRANSMISSION OF SHARES

35 In the case of the death of a Member, the survivors or survivor, where the deceased was a joint holder, and the executors or administrators of the deceased where he was a sole or only surviving holder, shall be the only persons recognised by the Company as having any title to his shares; Provided that nothing herein contained shall release the estate of a deceased Member from any liability in respect of any share solely or jointly held by him.

36 Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member shall, upon such evidence being produced as may from time to time be required by the Board, have the right either to be registered as a Member in respect of the share or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made but the Board shall, in either case, have the same right to refuse or suspend registration as it would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy.

37 A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share except that he shall not, before being registered as the holder of the share, be entitled in respect of it to exercise any right conferred by membership in relation to General Meetings of the Company. The Board may, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the share and, if the notice is not complied with within three months after the date of service thereof, the Board may, thereafter, withhold payment of all dividends and other moneys payable in respect of the share until compliance with the notice has been effected.

FORFEITURE OF SHARES

38 If a Member fails to pay any call or instalment of a call on the day appointed for payment thereof the Board may, at any time thereafter while any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid together with any interest which may have accrued and all expenses that may have been incurred by the Company by reason of such non-payment.

39 The notice shall specify a date, not less than fourteen days from the date of service of the notice, on or before which and the place where the payment required by the notice is to be made and shall state that, in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is payable will be liable to be forfeited. The Board may accept the surrender of any shares liable to be forfeited hereunder and, in such case, references herein to forfeiture shall include surrender.

40 If the requirements of any such notice are not complied with, any shares in respect of which such notice has been given may, at any time after the date specified therein, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.

41 When any shares have been forfeited, notice of the forfeiture shall forthwith be given to the holder of the shares or, as the case may be, to the person entitled to the shares by reason of the death or bankruptcy of the holder but no forfeiture shall be invalidated by any omission or neglect to give such notice as aforesaid.

42 Forfeited shares shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of upon such terms and in such manner as the Board may think fit but, at any time before a sale, re-allotment or other disposition, the forfeiture may be cancelled on such terms as the Board may determine.

43 A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were presently payable by him to the Company in respect of the shares together with interest thereon, from and including the date of forfeiture to and including the date of payment, at such rate, not exceeding fifteen per cent per annum, as the Board may determine.

44 A statutory declaration that the declarant is a Director or the Secretary of the Company and that shares have been duly forfeited on a date stated in the declaration shall be conclusive evidence of the facts stated therein as against all persons claiming to be entitled to the shares. The Company may receive the consideration, if any, given on the sale, re-allotment or disposition of the shares and, in the case of sale, may appoint some person to execute a transfer thereof to the purchaser who, or, as the case may be, the person to whom the shares are re-allotted or otherwise disposed of shall be registered as the holder thereof and shall not be bound to see to the application of the consideration (if any) and whose title to the shares shall not be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale, re-allotment or other disposition of the shares.

INCREASE OF CAPITAL

45 The Company may from time to time, by ordinary resolution, increase its capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.

ALTERATION OF CAPITAL

46 The Company may, from time to time, by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(b) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the provisions of section 63(1)(d) of the Act);

(c) cancel any shares which, at the date of the passing of the resolution, have not been issued or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

REDUCTION OF CAPITAL

47 The Company may from time to time, by special resolution, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with and subject to any incident authorised and consent required by law.

GENERAL MEETINGS

48 The Company shall, in each year, hold a General Meeting as its Annual General Meeting in addition to any other Meetings in that year and shall specify the Meeting as such in the notices calling it. Not more than fifteen months shall elapse between the date of one Annual General Meeting of the Company and that of the next. So long as the Company holds its first Annual General Meeting within eighteen months of its incorporation, it need not hold it in the year of its incorporation or in the following year. Annual and other General Meetings shall be held at such times and places as the Board shall appoint. All General Meetings, other than Annual General Meetings, shall be called Extraordinary General Meetings.

49 The Board may, whenever it thinks fit, convene an Extraordinary General Meeting and Extraordinary General Meetings shall also be convened on such requisition or, in default, may be convened by such requisitionists as is provided by section 132 of the Act. If, at any, time, there are not within Kenya sufficient Directors capable of acting to form a quorum, any Director or any two Members of the Company may convene an Extraordinary General Meeting in the same manner, as nearly as possible, as that in which Meetings may be convened by the Board.

NOTICE OF GENERAL MEETINGS

50 Every General Meeting shall be called by at least twenty-one days' notice in writing (exclusive of the day on which it is served or deemed to be served and of the day for which it is given). The notice shall specify the place, the date and the time of such General Meeting and, in case of special business, the nature of that business and shall be given, in manner hereinafter mentioned or any such other manner, if any, as may be prescribed by the Company in General Meeting, to such persons as are, under these Articles, entitled to receive such notices from the Company; Provided that a Meeting may be called by shorter notice than that specified in this Article if so agreed by the Members referred to in and otherwise in accordance with the provisions of section 133(3) of the Act.

51 In every notice calling a Meeting there shall appear, with reasonable prominence, a statement that a Member entitled to attend and vote thereat is entitled to appoint one or more proxies to attend and vote in his stead and that a proxy need not be a Member.

52 The accidental omission to give notice of a Meeting to, or the non-receipt of notice of a Meeting by, any person entitled to receive such notice shall not invalidate the proceedings at that Meeting.

PROCEEDINGS AT GENERAL MEETINGS

53 All business shall be deemed special that is transacted at an Extraordinary General Meeting and also all business that is transacted at an Annual General Meeting with the exception of the declaration of dividends, the consideration of the accounts and balance sheets, and any other documents accompanying or annexed thereto, the reports of the Directors and Auditors, the election of Directors, the appointment of Auditors and the fixing of the remuneration of the Directors and Auditors.

54 No business shall be transacted at any General Meeting unless a quorum is present when the Meeting proceeds to business. Save as otherwise provided by these Articles, the quorum at any general meeting shall be two members in all cases comprising TDLRAG and PST present in person or by proxy or by attorney or, in the case of a corporation, represented in accordance with Article 74, provided that save as otherwise provided by these Articles one Member holding the proxy of one or more other Members or one person holding the proxies of two or more Members shall not constitute a quorum.

55 If, within forty - five minutes after the time appointed for the meeting, a quorum is not present at the Meeting, it shall stand adjourned to the same day in the next week at the same time and place and if, at such adjourned meeting, a quorum is not present within forty-five minutes

after the time appointed for the meeting, any Member present in person or by proxy or by attorney or, in the case of a corporation, represented in accordance with Article 74 shall constitute a quorum. The Chairman of the Board shall preside at every General Meeting. If there is no such Chairman or if, at any Meeting, the Chairman is not present within fifteen minutes after the time appointed for the same or if neither is willing to act as chairman the Members present shall one of the other Directors or, if no Director is present or if none of the Directors present is willing to act as chairman, they shall choose some Member present to be chairman of the Meeting.

56 The chairman of any Meeting at which a quorum is present may, with the consent of the Meeting and shall, if so directed by the Meeting, adjourn the Meeting from time to time and from place to place as the Meeting determines but no business shall be transacted at any adjourned Meeting other than the business which might have been transacted at the Meeting from which the adjournment took place. Whenever a Meeting is adjourned for thirty days or more, notice of the adjourned Meeting shall be given in the same manner as in the case of an original Meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned Meeting.

57 At any General Meeting, a resolution or question put to the vote of the Meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded by the chairman of the Meeting or by any Member present in person or by proxy or, in the case of a corporation, represented in accordance with Article 74. Unless a poll is so demanded, a declaration by the chairman of the Meeting that a resolution has, on a show of hands, been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. Unless otherwise required by the Act all resolutions in general meeting shall be passed by a simple majority of the those members attending and voting at such meeting except where the resolution or question relates to a Reserved Matter in accordance with Shareholders Agreement as then applicable

58 A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time and place and in such manner as the chairman of the Meeting shall direct.

59 If a poll has been duly demanded, the result of the poll shall be deemed to be a resolution of the Meeting at which the poll was demanded.

60 The demand for a poll shall not prevent the continuance of a Meeting for the transaction of any business other than the question on which a poll has been demanded and such demand may be withdrawn at any time.

61 On a poll votes may be given personally or by proxy or by attorney or by a representative of a corporation appointed in accordance with Article 74.

62 In the case of an equality of votes, either on a show of hands or on a poll, the chairman of the Meeting shall not be entitled to a second or casting vote.

63 If any vote shall be counted which ought not to have been counted or might have been rejected, the error shall not vitiate the resolution unless it is pointed out at the same Meeting and not, in that case, unless it shall, in the opinion of the chairman of the Meeting, be of sufficient magnitude to vitiate the resolution.

64 A resolution in writing signed by all the Members for the time being entitled to receive notice of and to attend and vote at General Meetings or, being corporations, by their representatives appointed in accordance with Article 74, shall be as valid and effective as if the same had been passed at a General Meeting of the Company duly convened and held. Such resolution

may be contained in one document or in several documents in like form each signed by one or more of the Members or by their representatives as aforesaid.

64 A Meetings of the Company duly convened and at which a quorum shall be attending through out may be conducted by conference telephone facilities or any other telecommunications system by which all participants are able to hear and speak to each other provided that any resolutions passed thereat shall only be valid and effective if the resolution is reduced to writing and signed, including signature by facsimile, as duly confirmed by all shareholders attending the telephone or other telecommunications conference.

VOTES OF MEMBERS

65 Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every Member who is present in person or by proxy or, being a corporation, is present by a representative appointed in accordance with Article 74 shall have one vote. On a poll every Member shall have one vote for each share of which he is the holder.

66 No Member shall be entitled to be present at any General Meeting or to vote on any question, either personally or by proxy or by a representative appointed in accordance with Article 74, at any General Meeting or on a poll or to be reckoned in a quorum whilst any call or other sum shall be due and payable to the Company in respect of any of the shares held by him, whether alone or jointly with any other person.

67 In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.

68 A Member of unsound mind in respect of whose estate a manager has been appointed under section 26 of the Mental Health Act 1989 may vote, whether on a show of hands or on a poll, by such manager who may, on a poll, vote by proxy.

69 No objection shall be raised to the qualification of any voter except at the Meeting or adjourned Meeting at which the vote objected to is given or tendered and every vote not disallowed at such Meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the chairman of the Meeting whose decision shall be final and conclusive.

70 The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or duly authorised attorney of such corporation. A proxy need not be a Member of the Company but shall be entitled to the same right to address a Meeting as the Member appointing him.

71 The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company or at such other place in Kenya as may be specified for that purpose in the notice convening the Meeting not less than twenty-four hours before the time for holding the Meeting or adjourned Meeting at which the person named in the instrument proposes to vote or, in the case of a poll, the time appointed for the taking of the poll and, in default, the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve months from the date of its execution.

72 An instrument appointing a proxy shall be in the following form or a form as near thereto as circumstances admit:

"DE LA RUE KENYA EPZ LIMITED"

I/We ....., of ....., being a Member/Members of the above-named Company, hereby appoint ..... of ..... or failing him ..... of ..... as my/our proxy to vote for me/us on my/our behalf at the Annual/Extraordinary General Meeting of the Company to be held on the ..... day of ..... 20..... and at any adjournment thereof.

Signed this ..... day of ..... 20 .....

This form is to be used *in favour of/against the resolution. Unless otherwise instructed, the proxy will vote as he thinks fit.

**Strike out whichever is not desired*".

73 The instrument appointing a proxy shall be deemed to confer authority to demand a poll.

74 A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the instrument of proxy or of the authority under which it was executed or the transfer of the share in respect of which the instrument of proxy was given, if no intimation in writing of such death, insanity, revocation or transfer shall have been received by the Company before the commencement of the Meeting or adjourned Meeting or the taking of the poll at which the instrument of proxy is used.

75 Any corporation which is a Member of the Company may, by resolution of its Directors or other governing body or by notification in writing under the hand of some officer of such corporation duly authorised in that behalf, authorise such person as it thinks fit to act as its representative at any Meeting of the Company or of the holders of any class of shares of the Company and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member of the Company.

DIRECTORS

76 The number of Directors shall be not less than three and shall not exceed five.

77 The Directors shall be appointed as follows:

(a) TDLRAG shall from time to time be entitled to appoint and remove Three (3) Directors for so long as it holds a majority of the issued share capital which shall be reduced to Two (2) directors should it become the holder of a minority of the issued share capital of the Company provided that TDLRAG shall not be entitled to appoint a Director to the Board if its shareholding falls below 10%;

(b) PST shall from time to time be entitled to appoint and remove 2 Directors one of whom shall not be a public or state officer in the Government of Kenya but may be a Government appointed director in any company. Should PST become the holder of a majority of the issued share capital of the Company it shall be entitled to appoint 3 Directors. Should PST become the holder of between 10% and 20% of the issued share capital of the Company PST's entitlement shall be reduced to one director provided that PST shall not be entitled to appoint a Director to the Board if its shareholding falls below 10% of the issued share capital of the Company

and each such Shareholder shall be entitled at any time to effect the removal or substitution of any Director so appointed by it or them by notice in writing given to the Company Secretary of the Company.

Provided that in the event that either TDLRAG or PST disposes of all of their respective shares or such shares that leave either TDLRAG or PST holding less than 10% of the issued share capital of the Company, TDLRAG or PST as the case may be shall procure the resignation or if need be the removal of the Directors at the time holding office by reason of their nomination by either TDLRAG or PST as the case may be.

78 The continuing Directors may act notwithstanding any vacancy in their body but, if and so long as their number is reduced below the minimum number fixed by these Articles as the necessary quorum for Board Meetings, the continuing Directors may act for the purposes of increasing the number of Directors to that number or of summoning a General Meeting of the Company but not for any other purpose.

79 The Directors, other than those whose remuneration is determined by agreement between them and the Company, shall be entitled to such remuneration for their services as the Company may, from time to time, in General Meeting determine and such remuneration shall be divided among the Directors in such proportion and manner as they may determine or, failing such determination, equally, except that in such event any Director holding office for less than a year shall only rank in such division in proportion to the period during which he has held office during such year. The Directors shall also be entitled to be reimbursed by the Company in respect of their travelling, hotel and incidental expenses reasonably incurred while engaged on the business of the Company.

80 Any Director who, by request, performs special or extraordinary services or goes or resides abroad on behalf of the Company, may be paid such remuneration as the Board may determine.

81 A Director need not be a shareholder but shall be entitled to receive notice of and to attend and speak at all General Meetings of the Company or at any separate meeting of the holders of any class of shares of the Company.

82 Any Director may appoint another Director or any other person who is approved by the Directors to be his alternate to act in his place at any meetings of the Board at which he is unable to be present. Such appointee shall be entitled, in the absence of his appointor, to exercise all the rights and powers of a Director and to attend and vote at meetings of the Board at which his appointor is not personally present and, where he is a Director, to have a separate vote on behalf of his appointor in addition to his own vote. A Director may, at any time, revoke the appointment of an alternate appointed by him. The appointment of an Alternate shall be revoked, *ipso facto*, if his appointor ceases for any reason to be a Director. Every appointment and revocation under this Article shall be effected by notice in writing under the hand of the appointor served on the Company and on such Alternate.

83 The remuneration of an alternate shall be payable out of the remuneration of his appointor and shall be such proportion thereof as shall be agreed between them.

84 An alternate whose appointor is a Member of the Company shall, in the absence of a direction to the contrary in the instrument appointing him, be entitled to receive notice of and to vote at General Meetings of the Company as if he had been appointed a proxy of his appointor under the provisions of these Articles.

85 A Director shall vacate office as such if:

(a) he is removed from office pursuant to section 185 of the Act or by a Resolution of the Company in General Meeting;

(b) he ceases to be a Director by virtue of section 186 of the Act;

(c) he becomes bankrupt or makes an arrangement or composition with his creditors generally;

(d) he becomes prohibited from being a Director by reason of any order made under section 189 of the Act;

(e) he becomes of unsound mind;

(f) he fails, without reasonable cause and without the consent of the Board, to attend three consecutive meetings of the Board and the Board resolves that, by reason of such failure, he shall cease to be a Director; or

(g) he resigns his office by notice in writing to the Company;

(h) he is removed by his appointor pursuant to Article 76 (a) or (b) as the case may be.

(i) If his appointor pursuant to Article 76 (a) or (b) has a shareholding of less than 10% of the issued share capital of the Company.

DIRECTORS' CONTRACTS

86 A Director may contract with and be interested in any way, whether directly or indirectly, in any actual or proposed contract or arrangement with the Company, either as vendor, purchaser or otherwise, and shall not be liable to account for any profit made by him by reason of any such contract or arrangement, provided that the nature of the interest of the Director in such contract or arrangement is declared at the meeting of the Board at which the question is first taken into consideration if his interest then exists or, in any other case, at the next meeting of the Board held after he became interested and it shall be the duty of the Director so to declare his interest. No Director shall vote as a Director in respect of any contract or arrangement in which he is interested and, if he does vote, his vote shall not be counted but he shall, nevertheless, be counted in the quorum present at the meeting. These prohibitions may, at any time, be suspended or relaxed, to any extent, by the Company in General Meeting and they shall not apply:

(a) to any arrangement for giving a Director any security for advances or by way of indemnity or to any allotment to or any contract or arrangement for the underwriting or subscription by a Director of shares or securities of the Company; or

(b) to any contract or dealing in which the Director is interested by reason only of his being a director or other officer, employee or nominee of any government or corporation or company which, being a Member of the Company or holding shares in a corporation or company which is a Member of the Company, is interested in such contract or dealing whether directly or indirectly and this exception shall not cease to have effect merely by reason of the fact that the Director is also a shareholder or creditor of any such government, corporation or company or of any corporation or company in which it is interested.

For the purpose of this Article, a general notice given to the Board by a Director at any meeting of the Board to the effect that he is a member of a specified corporation, company or firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with that corporation, company or firm, shall be deemed to be a sufficient declaration of interest in relation to any contract so made.

87 A Director may hold office as a director or manager of or be otherwise interested in any other company or any corporation in which the Company is in any way interested and shall not, unless otherwise agreed, be liable to account to the Company for any remuneration or other benefits receivable by him from such other company or such corporation.

88 A Director may hold any other office or place of profit under the Company, except that of Auditor, in conjunction with his office of Director and on such terms as to remuneration and otherwise as the Board shall arrange.

89 A Director may act by himself or his firm in a professional capacity for the Company except as Auditor of the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

POWERS AND DUTIES OF THE BOARD

90 The Board may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue income notes, bonds, debentures and other securities.

91 The business of the Company shall be managed by the Board which may pay all such expenses of and preliminary and incidental to the promotion, formation, establishment and registration of the Company as it thinks fit and may exercise all such powers of the Company as are not by the Act or by these Articles required to be exercised by the Company in General Meeting (subject nevertheless to the provisions of these Articles and of the Act) and to such regulations, being not inconsistent with such provisions, as may be prescribed by the Company in General Meeting but no regulation made by the Company in General Meeting shall invalidate any prior act of the Board which would have been valid if such regulation had not been made. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the Board by any other Article.

92 The Board may establish any local boards or agencies for managing any of the affairs of the Company, either in Kenya or elsewhere, and may appoint any persons to be members of such local boards or managers or agents and may fix their remuneration and may delegate to any local board, manager or agent any of the powers, authorities and discretions vested in the Board, with power to sub-delegate, and may authorise the members of any local board or any of them to fill any vacancies therein and to act notwithstanding vacancies. Any such appointment or delegation may be made upon such terms and subject to such conditions as the Board may think fit and the Board may remove any person so appointed and may annul or vary any such delegation but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.

93 The Board may, by power of attorney, appoint any person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney of the Company for such purposes and with such powers, authorities and discretions, not exceeding those vested in or exercisable by the Board under these Articles, and for such period and subject to such conditions as it may think fit. Any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit and may also authorise any such attorney to sub-delegate all or any of the powers authorities and discretions vested in him.

94 The Company may exercise the powers conferred by section 37 of the Act with regard to having an official Seal for use outside Kenya and such powers shall be vested in the Board.

95 The Company may exercise the power conferred by section 121 of the Act with regard to the keeping of a branch Register and the Board may, subject to the provisions of section 122 of the Act, make and vary such regulations as it may think fit regarding the keeping of any such branch Register.

96 All cheques, promissory notes, drafts, bills of exchange and other negotiable and transferable instruments and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Board shall from time to time determine.

97 The Board shall cause Minutes to be made, in books provided for the purpose, recording, in respect of every Meeting of the Company, of the Board and of committees formed by the Board, the names of all persons present and all resolutions and proceedings at such Meeting. The Minutes of every such Meeting shall be read at the next Meeting of the Company, of the Board or of the committee, as the case may be, and, after being amended or corrected, if necessary, and approved by the Meeting, shall be signed by the chairman of the Meeting and, once so signed, shall be *prima facie* evidence of the matters stated therein.

98 The Board may grant pensions, annuities, gratuities or other allowances on death, sickness, disability or retirement to any person who is or has been employed by or in the service of the Company or of its holding company or any subsidiary company of the Company or to any person who is or has been a Director or other officer of the Company or of its holding company or any such subsidiary company and to the widow, family or dependants of any such person. The Board may establish and maintain or concur with such holding or subsidiary company (if any) as aforesaid in establishing and maintaining any schemes or funds for providing such benefits as aforesaid and may pay out of the funds of the Company any premiums, contributions or sums payable by the Company under the provisions of any such scheme or fund.

PROCEEDINGS OF THE BOARD

99 The Board may meet together for the despatch of business, adjourn and otherwise regulate its Meetings as it thinks fit. Questions arising at any meeting shall except as shall otherwise be provided in the Shareholders Agreement be determined by a majority of votes. In case of an equality of votes, the chairman of the meeting shall not have a second or casting vote. The Secretary, on the instructions of the Chairman or on the requisition of a Director, shall at any time summon a Board meeting. At least seven days' notice (inclusive of the date of service and the date of meeting) of all Board meetings shall, unless waived by all Directors, be given in manner hereinafter mentioned to all Directors and Alternates.

100 Unless waived by all the Directors, and except in the case of emergency not less than 21 clear days' notice of all meetings of the Board shall be hand delivered or be electronically sent to each Director at such address as each shall notify the Company as their address for the service of notices and shall be accompanied by an agenda of the business to be transacted at such meeting together with all papers to be circulated or presented at the meeting. Upon receiving notification of a Board meeting of the Company, a Director shall be entitled to require the inclusion on the agenda of any matter which he would like discussed at the meeting provided that he notifies the Secretary with details not later than ten Business Days prior to the meeting. No business shall be discussed at a Board meeting unless such business was included in the agenda including such matters in respect of which any Director shall have requested inclusion in the agenda in accordance with this clause. After each such meeting, a copy of the minutes of that meeting shall be delivered to each Director.

101 The Chairman of the Board shall be appointed by the Board from amongst the Directors nominated for appointment by PST provided that such Chairman shall not be an employee of the Government of Kenya. If such chairman is unable to attend any Board or Shareholder Meeting, then another of the Directors shall be appointed to act as chairman in his place at such meeting. The chairman shall not have a second or casting vote.

102 Meetings of the Board may be conducted by conference telephone facilities or any other telecommunications system by which all participants are able to hear and speak to each other.

103 No meeting of the Board may proceed to business or transact any business unless a quorum is present at such meeting. A quorum of the Board shall be at least three (3) of the Directors present in person or represented by an Alternate Director, including at least one of the Directors appointed by TDLRAG and one of the Directors appointed by the PST, present in person or represented by an Alternate. If within forty five minutes after the time appointed for the meeting there is no quorum, the meeting shall stand adjourned to the same day in the next

week time and place and at such adjourned meeting the directors present shall constitute quorum. Meetings shall, unless otherwise agreed by the Board, be held in Nairobi, Kenya

104 The continuing Directors may act notwithstanding any vacancy in their body but, if and so long as their number is reduced below the minimum number fixed by these Articles as the necessary quorum for Board Meetings, the continuing Directors may act for the purposes of summoning a General Meeting of the Company but not for any other purpose.

105 A meeting of the Board at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Board.

106 The Board may form committees of its members or consisting of one or more of its members and others and may delegate any of its powers to any such committee. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board.

107 The meetings and proceedings of any committee consisting of two or more persons shall be governed by the provisions herein contained for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board under the last preceding Article.

108 A resolution in writing signed or approved by letter, telegram, telex or electronic means by all the Directors or by all the members of a committee shall be as valid and effectual as a resolution passed at a meeting of the Board or, as the case may be, of such committee duly called and constituted. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors or members of the committee concerned. Unless the contrary is stated therein, any such resolution shall be deemed to have been passed on the date on which it was signed by or on behalf of the Director last signing it. A facsimile transmission of a director/s signed resolution shall be acceptable evidence that such resolution has been signed by the director whose signature appears on the facsimile transmission

109 All acts done by the Board or any committee or by any person acting as a Director shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any Director or person acting as aforesaid or that he or any Director or member of such committee had vacated office or was not entitled to vote, be as valid as if every such person had been duly appointed and had continued to be a Director or member of such committee and to be entitled to vote.

MANAGING DIRECTOR

110 The Board may from time to time appoint one or more of its body to the office of Managing Director for such period and upon such terms as it thinks fit and, subject to the provisions of any agreement entered into in any particular case, may revoke such appointment. The appointment of a Director holding such office shall (without prejudice to any claim he may have for damages for breach of any contract of service between him and the Company) *ipso facto* determine if he ceases from any cause to be a Director.

111 A Managing Director shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and either in addition to or in lieu of his remuneration as a Director.

112 The Board may entrust to and confer upon a Managing Director any of the powers exercisable by it, other than the powers to borrow money, charge the property and assets of the Company and pay dividends, upon such terms and conditions and with such restrictions as it thinks fit and either collaterally with or to the exclusion of its own powers and may from time to time, subject to the terms of any agreement entered into in any particular case, revoke, withdraw, alter or vary all or any of such powers.

SECRETARY

113 The Secretary shall be appointed by the Board for such term, at such remuneration and upon such conditions as it may think fit and the appointment of any Secretary may be terminated by the Board. The provisions of sections 178 to 180 inclusive of the Act shall be observed.

THE SEAL

114 The Board shall provide for the safe custody of the Seal which shall only be used by the authority of the Board or a committee authorised by the Board in that behalf and every instrument to which the Seal shall be affixed shall be signed by a Director and by the Secretary or by a second Director or by some other person appointed by the Board for that purpose.

DIVIDENDS AND RESERVES

115 Unless the Board determines that a distribution of dividend will have a material detrimental effect on the ordinary course of the Business, the Company shall, in General Meeting, declare a dividend in respect of every year comprising, to the extent permitted by law and subject to the Company's reasonable working capital requirements as determined by the Board, an appropriate percentage of the profits of the Company available for distribution by way of dividend for that year in cash and after deduction of any applicable taxes (including any liability of the Company to pay any withholding or compensating tax in the Republic of Kenya) provided that no dividend shall exceed the amount recommended by the Board.

116 The Board may, from time to time, pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company.

117 No dividend shall be paid otherwise than out of profits.

118 Subject to the rights of any persons entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividends are declared but no amount paid or credited as paid on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share. A dividend shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid but, if any share be issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

119 The Board may deduct from any dividend payable on a share any sums of money presently payable, by the person to whom the dividend is payable, to the Company on account of calls or otherwise.

120 The Board may retain any dividend or other money payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

121 No dividend shall bear interest against the Company.

122 With the sanction of a General Meeting, any dividend may be paid wholly or in part by the distribution of specific assets and, in particular, of paid-up shares or debentures of any other company or in any one or more of such ways. Where any difficulty arises in regard to such distribution, the Board may settle the same as it deems expedient and, in particular, may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Member upon the footing of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees upon trust for the Members entitled to the dividend as may seem expedient to the Board.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to such holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first on the Register of Members in respect of the shares. Every such cheque or warrant shall, unless the holder otherwise directs, be made payable to the order of the registered holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register of Members in respect of such shares and shall be sent at his or their risk. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable in respect of the shares held by such joint holders.

123 The Board may, before recommending any dividend, set aside out of the profits of the Company such sum as it thinks proper as a reserve which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company or its holding company, if any) as the Board may from time to time think fit. The Board may also, without placing the same to reserve, carry forward any profits, which it may think prudent not to divide.

CAPITALISATION OF PROFITS

124 The Company in General Meeting may, upon the recommendation of the Board, resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or of any share premium account or of the profit and loss account or otherwise available for distribution and, accordingly, that such sum be set free for distribution amongst the Members who would have been entitled thereto if distributed by way of dividend and in the same proportions, on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such Members respectively or paying up in full unissued shares, income notes or debentures of the Company to be allotted and distributed, credited as fully paid up, to and amongst such Members in the proportions aforesaid or partly in the one way and partly in the other and the Board shall give effect to such resolution; Provided that amounts standing to the credit of a share premium account or a capital redemption reserve fund may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to Members of the Company as fully paid bonus shares.

125 Whenever such a resolution as aforesaid shall have been passed the Board shall make all such appropriations and applications of the undivided profits, allotments and issues of fully paid shares, income notes or debentures as may be required thereby and shall do all acts and things required to give effect thereto, with full power to the Board to acquire fractions or to make such provisions by the issue of fractional certificates or by payment in cash or otherwise as it thinks fit for the case of shares or debentures becoming distributable in fractions, and also to authorise any person to enter on behalf of all the Members entitled thereto into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any shares, income notes or debentures to which they may be entitled upon such capitalisation or, as the case may require, for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised, of the amounts or any part of the amounts remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding on all such Members.

ACCOUNTS

126 The Board shall cause proper books of account to be kept with respect to:

(a) all sums of money received and expended by the Company and the matters in respect of which such receipt and expenditure takes place;

(b) all sales and purchases of goods by the Company; and

(c) the assets and liabilities of the Company.

127 The books of account shall be kept at the registered office of the Company or at such other place or places in Kenya as the Board deems fit and shall always be open to the inspection of the Directors.

128 The Board may, from time to time, determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member, not being a Director, shall have any right of inspecting any account or book or document of the Company except as conferred by statute or authorised by the Directors or by the Company in General Meeting

129 The Directors shall from time to time, in accordance with sections 148 to 152 inclusive, and 154, 155 and 157 of the Act, cause to be prepared and to be laid before the Company in General Meeting such profit and loss accounts, balance sheets and reports as are referred to in those sections.

130 A copy of every balance sheet, including every document required by law to be annexed thereto) which are to be laid before the Company in General Meeting, together with a copy of the Auditor's report, shall, not less than twenty-one days before the date of the Meeting, be sent to every Member of and every holder of income notes or debentures of the Company.

AUDIT

131 Auditors shall be appointed and their duties regulated in accordance with sections 159 to 162 of the Act.

NOTICES

132 Any notice or other document may be served by the Company on any Member or Director either personally or by sending it through the post (by airmail where such service is available) in a prepaid letter or by telegram, telex or fax addressed to such Member or Director at his registered address as appearing in the Register of Members or the Company's other records, whether such address shall be within or outside Kenya, or by telegram, telex or fax addressed as aforesaid. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register of Members and notice so given shall be sufficient notice to all the joint holders.

133 Where a notice or other document is sent by post it shall be deemed to have been served on the third day after the day on which it was posted, if addressed within Kenya, and on the seventh day after the day on which it was posted if addressed outside Kenya. In proving such service or sending, it shall be sufficient to prove that the cover containing the notice or document was properly addressed and put into the post office as a prepaid letter or prepaid airmail letter. Where a notice is sent by telegram, telex or fax it shall be deemed to have been served at the expiration of twenty-four hours after the time at which it was sent.

134 A notice may be given by the Company to the person entitled to any share in consequence of the death or bankruptcy of a Member by sending it through the post in a prepaid cover or by telegram, telex or fax addressed to him by name or by the title of representative or trustee of such deceased or bankrupt member or any like description at the address supplied for the purpose by the person claiming to be so entitled or by giving the notice in the manner in which the same would have been given if the death or bankruptcy had not occurred.

135 Notice of every General Meeting shall be given in some manner authorised above to every Member, to every person upon whom the ownership of a share devolves by reason of his being a personal representative or trustee in bankruptcy of a Member where the Member, but for his death or bankruptcy, would have been entitled to receive notice of the Meeting, to the Directors of the Company and also to the Auditors for the time being of the Company.

WINDING UP

136 If the Company shall be wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Act, divide amongst the Members, *in specie* or in kind, the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit but so that no Member shall be compelled to accept any shares or other securities whereupon there is any liability.

INDEMNITY

137 Every Director, Managing Director, Agent, Auditor, Secretary and other officer for the time being of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal, relating to anything done or not done by him on behalf of the Company in which judgement is given in his favour or in which he is acquitted or in connection with any application under section 402 of the Act in which relief is granted to him by the Court. This Article shall however only have effect in so far as its provisions are not avoided by section 206 of the Act.

MINORITY PROTECTION

138 Subject to the subsistence at the material time of the Shareholders Agreement, notwithstanding anything contained in these Articles, no resolution of the Board of Directors or the Company in General Meeting in respect of any matters (the **"Reserved Matters"**) as referred to in the Shareholders Agreement shall be valid and no business in respect of such Reserved Matters shall be transacted unless the provisions of Article 137 (a) and 136 (b) immediately following have been complied with:

a) None of the Reserved Matters shall be transacted or undertaken by the Board unless approved by the Board in a resolution duly passed and against which no Director appointed by a Shareholder has cast his vote as is provided for in the Shareholders Agreement .

b) None of the Reserved Matters shall be transacted or undertaken by the Company in General Meeting unless the resolution in respect thereof is a resolution duly passed by the Members of the Company and against which no Shareholder has cast its vote as is provided for in the Shareholders Agreement

ARBITRATION

139

(a) Any dispute, controversy or claim between the Shareholders or any Shareholder and the Company arising out of or relating to the provisions of these Articles shall be resolved by way of consultation held in good faith between the parties to the dispute. Such consultation shall begin immediately after one party has delivered to the other written request for such consultation. If within twenty one (21) business days following the date on which such notice is given the dispute cannot be resolved, the dispute, controversy or claim shall be submitted to arbitration upon request of any party by written notice to the other parties.

(b) Such arbitration shall be determined by a single arbitrator being a practising advocate of not less than fifteen (15) years standing to be appointed by agreement of the parties or in default of any such agreement within fourteen (14) days of the notification of any dispute by either party to the other, by, upon application by

either party, the Chairman for the time being of the Kenya Branch of the Chartered Institute of Arbitration of the United Kingdom ("the Institute").

(c) The place of arbitration shall be Arusha, Tanzania and the language of the arbitration shall be English.

(d) The award of the arbitration tribunal shall be final and binding upon the Parties and any Party may apply to a court of competent jurisdiction for enforcement of such award. The award of the arbitration tribunal may take the form of an order to pay an amount or to perform or to prohibit certain activities. Notwithstanding the above provisions of this Clause, a party is entitled to seek preliminary injunctive relief or interim or conservatory measures from any court of competent jurisdiction pending the final decision or award of the arbitrators .Each of the Parties irrevocably waives any immunity in respect of its obligations under this Agreement that it may acquire from the jurisdiction of any court or any legal or arbitral process for any reason including, but not limited to, the service of notice, attachment prior to judgement or attachment in aid of execution.

SCHEDULE 3

Business Transfer Agreement



Business Transfer
Agreement

Dated the_____day of_____2011

**DE LA RUE CURRENCY &
SECURITY PRINT LIMITED**

- AND -

DE LA RUE KENYA EPZ LIMITED

BUSINESS TRANSFER AGREEMENT

DALY & FIGGIS
ADVOCATES
Lonrho House
Standard Street
P.O.Box 40034–00100
NAIROBI

THIS AGREEMENT is made the _____day of_____2011

BETWEEN:

1. **DE LA RUE CURRENCY & SECURITY PRINT LIMITED** (Company Number C48700), incorporated in the Republic of Kenya having its registered office situate at Nairobi (the "**Transferor**" which expression shall where the context so requires include the Transferor's successors in title); and

2. **DE LA RUE KENYA EPZ LIMITED** (Company Number CPR/2011/39289) incorporated in Kenya (the "**Transferee**" which expression shall where the context so requires include the Transferee's successors in title and permitted assigns).

WHEREAS:

(A) The Transferor carries on the Business as defined below;

(B) The Transferee and the Transferor are both wholly owned subsidiaries of TDLRAG (hereinafter defined);

(C) The Transferor , TDLRAG and the Government of the Republic of Kenya have entered into a Joint Venture Agreement of even date ("JVA") pursuant to which TDLRAG has agreed to procure the transfer of the business of the Transferor to the Transferee subject to the conditions set out therein;

(D) Pursuant to the JVA, the Transferor and the Transferee hereby agree to the transfer of the Business on the terms and subject to the conditions set out in this Agreement.

IT IS HEREBY AGREED as follows:

1. INTERPRETATION

1.1 In this Agreement (including the recitals) unless the context otherwise requires the following terms shall have the following meanings:

"2009 Balance Sheet" means the audited Balance Sheet of the Transferor for the year ending in March 2009;

"Act" means the Companies Act (Chapter 486, Laws of Kenya);

"Agreed Form" means, in relation to any document, the form of that document as agreed in writing between the Transferor and the Transferee;

"Assets" means the Lease and all the plant, machinery, tools, equipment, computer equipment, software and software licences tangible chattels, cash as agreed , motor vehicles, furniture and fittings together with all spare parts, accessories and consumables related thereto owned by or (although subject to reservation of title by a third party seller) under the control of the Transferor and used in connection with the Business as at the Transfer Date as laid out in the Balance Sheet and including the working capital required for all Work in Progress, the Book Debts, the benefit (subject to the burden) of the Transferred Contracts, the Cash Float, and the Goodwill a detailed list of which is set out in Schedule 1 of this Agreement;

"Balance Sheet" means the Transferee's pro forma estimated opening balance sheet in respect of the Assets and Transferred Liabilities as at the Transfer Date as laid out in Schedule II hereto;

"Balance Sheet Analysis" means the analysis in the Agreed Form setting out the variances between the 2009 Balance Sheet and the Balance Sheet and which analysis is annexed to this Agreement;

"Book Debts" means the receivables and the debts owing to Transferor other than intercompany loan accounts as at the Transfer Date, in relation to services provided or being provided as at the Transfer Date (whether or not the Transferor has invoiced for such receivables and/or debts) and including any loans made by the Transferor to Employees. Details of the Book Debts are set out in Schedule III of this Agreement;

"Business" means the currency and security printing business carried out by the Transferor in Kenya with the Assets;

"Business Day" means any day (other than a Saturday or Sunday) which is not a public holiday in Kenya;

"Cash Float" any cash balances held at the Transfer Date for the purpose of reimbursing out-of-pocket expenses in connection with the Business;

"Completion" means the completion of the sale and purchase of the Assets and the assumption of the Liabilities in accordance with Clause 12;

"Completion Date" means the first Business Day after the Transfer Date or such other date as may be agreed by the Transferor and the Transferee in writing;

"Consideration" shall have the meaning ascribed thereto in Clause 4 below;

"De La Rue Month end date" means the relevant financial month end as detailed in Schedule 1

"Disclosure Letter" means the letter in Agreed Form of the same date as this Agreement from the Transferor to the Transferee, including all attachments thereto ;

"Employees" means all persons employed by the Transferor in connection with the Business as at the date hereof not under notice of termination of employment, a full list of which and a summary of the terms of which are set out in Schedule IV herein ;

"Employment Contracts" means those contracts of employment entered into between the Transferor and the Employees;

"Encumbrances" includes any mortgage, charge (whether fixed or floating), lien, option, security, interest, deposit by way of security, restrictive covenant, pledge, bill of sale, hypothecation, assignment, title retention, trust, arrangement, sale and leaseback sale and purchase, leasing or other restriction of any kind or other encumbrance securing or any right conferring a priority of payment in respect of any obligation of any person;

"Excluded Assets" means all assets of the Transferor not specifically included in the Assets including without limitation intercompany loan accounts. A list of the Excluded Assets shall be set out in Part B of Schedule I hereto.

"Goodwill" means the goodwill of the Transferor in relation to the Business, together with the exclusive right for the Transferee or its assignees to represent itself as carrying on the Business in succession to the Transferor;

"Intellectual Property Rights" shall mean all intellectual property rights properly exercisable under the law of Kenya including but not limited to Patents, Copyright, Trademarks and Design Rights;

"Law" shall mean all applicable Kenyan local and municipal laws and rules, regulations, codes, and ordinances promulgated there under, as well as applicable case law, judgments, orders, consent orders or decrees;

"Lease" means the lease of the factory premises being Land Reference Number 7878/4 from which the Transferor conducts the Business dated 15 June 1992 for the term of 30 years from 8th June 1992 (renewable) registered as N58 Folio 245/1 File 18297.

"Liabilities" means all the liabilities of the Transferor outstanding as at the Transfer Date;

"Litigation" means all litigation proceedings in relation to the Business (and the consequences, benefits and liabilities in respect thereof) to which the Transferor is a party and which are or have been initiated in court prior to the Transfer Date,

"Post-Contractual Period" means the period commencing on the date of this Agreement and ending on the date of Completion (both days inclusive);

"Material Adverse Change" shall have the meaning ascribed to it in clause 2.4 herein.

"Regulatory Authority" means any governmental, administrative or regulatory body in Kenya to which the Transferor is subject in connection with the Business;

"SSPA" means the Share Sale and Purchase Agreement between TDLRAG , De La Rue Kenya EPZ Limited and The Permanent Secretary to the Treasury of Kenya dated on or about the date of this agreement ;

"SA" means shareholders agreement between TDLRAG , De La Rue Kenya EPZ Limited and The Permanent Secretary to the Treasury of Kenya dated on or about the date of this agreement;

"TDLRAG" means Thomas De La Rue AG, a company incorporated in Switzerland

"Transfer Date" means the next occurring De La Rue Month end date following the date of satisfaction of the conditions precedent set out in clause 5.1 of this Agreement;

"Transferred Liabilities" means only those Liabilities which are more particularly detailed in Schedule IV to this Agreement

"Transfer of Businesses Act" means the Transfer of Businesses Act, Chapter 500 of the Laws of Kenya;

"Transferred Contracts" means those contracts entered into by Transferor with third parties relating to the Business subsisting and remaining to be performed by the Transferor as at the Transfer Date, brief particulars of which are as listed in Schedule V;

"Value Added Tax Act" means chapter 476 of the Laws of Kenya;

"Warranties" means the warranties on the part of the Transferor contained in clause 6 and Schedule VII hereto; and

"Work in Progress" means any Transferred Contracts entered into by the Transferor which as of the Transfer Date have yet to be completed in accordance with the terms thereof by the Transferor.

1.2 all references to a statutory provision shall be construed as including references to:

1.2.1 any statutory modification, consolidation or re-enactment;

1.2.2 all statutory instruments or orders made pursuant to it; and

1.2.3 any statutory provisions of which it is a modification, consolidation or re-enactment.

1.3 except where the context otherwise requires, words denoting the singular include the plural and vice versa; words denoting any gender include all genders; words denoting persons include firms and corporations and vice versa;

1.4 unless otherwise stated, a reference to a clause, sub-clause or Schedule is a reference to a clause or a sub-clause of, or a Schedule to, this agreement;

1.5 clause headings are for ease of reference only and do not affect the construction of this agreement.

2. SALE AND PURCHASE OF THE ASSETS

2.1 Subject to the provisions of clause 6 and to Completion, the Transferor shall as beneficial owner free from any Encumbrance, sell to the Transferee and the Transferee shall purchase as of the Transfer Date the Business and the Assets other than the Excluded Assets and the Transferee shall assume responsibility for the Transferred Liabilities and the Transferred Contracts.

2.2 If there is an interval between the Transfer Date and Completion, the Transferor shall, subject as hereafter provided, retain possession of and title to the Assets and shall carry on the Business as agent for and on behalf of the Transferee and the Transferor shall account to the Transferee accordingly. Nothing shall be added to the Consideration in respect of any surpluses accrued from the Transfer Date to Completion but such surpluses (if any) shall be made over to the Transferee free of any payment of dividend or other income purpose and so as not to be treated as capital monies in the hands of the Transferee PROVIDED always that the Transferee shall reimburse and indemnify the Transferor in respect of all costs claims and expense incurred in the normal course of business in the interval between the Transfer Date and Completion.

2.3 Upon Completion taking place, possession title and risk in relation to the Assets shall pass to the Transferee and the Transferee shall, unless otherwise agreed in this Agreement, assume responsibility for the Business and carry out, perform and discharge all the debts, liabilities and obligations created by or arising under or in connection with the Assets, the Business and the Transferred Liabilities (in each case arising after the Transfer Date) in the normal course of business. The Transferee shall unless otherwise agreed in this Agreement, indemnify the Transferor in full against all costs, claims, demands and liabilities incurred by the Transferor in respect of the Business incurred in the normal course of business from the Transfer Date until Completion provided that such costs, claims, demands and liabilities are promptly disclosed to the fullest extent possible following Completion.

2.4 In the event that during the Post Contractual Period there shall be any Material Adverse Change in the Business then the Transferee may in its sole discretion terminate this agreement upon having given to the Transferor prior to the Completion Date 14 days notice in writing of

its intention so to do if the circumstance giving rise to the Material Adverse Change shall then still be subsisting.

For the purposes of this clause Material Adverse Change means the termination as a consequence of a breach by the Transferor of any subsisting bank note printing contract with the Central Bank of Kenya, the loss of the factory premises comprised in the Lease in circumstances where in the opinion of the Transferee the factory premises have been materially under insured or the insurance cover thereon is otherwise lawfully repudiated, termination of the Lease by the Transferor (for any reason whatsoever) or as a result of breach of the Lease terms by the Transferor, termination of any of the Transferred Contracts by the Transferor other than in the ordinary course of business or as a result of breach by the Transferor, disposal of any of the Assets other than in the ordinary course of business, cessation of any line of business carried out by the Transferor with the Assets as at the Transfer Date, transfer of any line of business carried out by the Transferor with the Assets (whether such transfer is done to an entity within the De La Rue Group or not) or undertaking of any action by the Transferor that would in the opinion of the Transferee (such opinion being reasonably exercised in good faith) materially adversely affect the position of the Business, Assets or Transferred Contracts as at the Transfer Date.

Notwithstanding the foregoing definition of Material Adverse Change, the Parties agree that the disposal or transfer in the Post-Contractual Period to any person of any major production equipment or any asset whatsoever that is directly utilized by the Transferor for the purpose of currency and security printing shall be deemed a Material Adverse Change for purposes of this clause and nothing in this clause shall be interpreted to mean otherwise.

3. RETENTION OF ALL OTHER ASSETS AND LIABILITIES

3.1 For the avoidance of doubt, nothing in this Agreement shall operate to transfer any assets, rights or liabilities of the Transferor other than those specifically referred to in the definitions of Assets and Transferred Liabilities and without limiting the generality of the foregoing there shall be expressly excluded and excepted from the sale and purchase and nothing in this Agreement shall operate to transfer:

(a) the benefit of any insurance effected by or on behalf of the Transferor in respect of claims arising prior to the Transfer Date; or
(b) any of the issued share capital of the Transferor.
(c) Any contracts which are not Transferred Contracts and any Liabilities which are not Transferred Liabilities
(d) Any liability in respect of any Litigation.

4. CONSIDERATION

4.1 The Consideration for the transfer by the Transferor of the Business and the Assets and the assumption of the Transferred Liabilities shall be settled in Sterling Pounds, calculated on the basis of the Transferor's accounting net book value of the assets at the Transfer Date a proforma calculation of which (to be updated to actual numbers at the date of Completion or so soon thereafter as may be practicable) is annexed at Schedule 1 Part A.

The Consideration determined by the Vendor's management in accordance with this Clause shall be satisfied upon Completion by Bank Transfer.

4.2 For tax purposes the Transferor and the Transferee shall elect under the provision of paragraph 13 of the Second Schedule of the Income Tax Act (Chapter 470) that for Income Tax purposes, such of the assets hereby agreed to be sold and purchased as are subject to wear and tear

allowances for such purposes, shall be valued as written down in accordance with paragraph 13 of the said Second Schedule and the Transferor and the Transferee shall jointly serve notice on the Commissioner of Income Tax under the provisions of sub paragraph (3) of the said paragraph 13.

5. CONDITIONS PRECEDENT

5.1 The sale and purchase of the Assets, transfer of the Business and the assumption of the Liabilities by the Transferee is conditional upon:

(a) The Transferor and the Transferee , if necessary, having provided due notification to the Commissioner for Value Added Tax of the transfer of the Business under the provisions of paragraph 21 of Schedule 6 of the Value Added Tax Act (Chapter 476) and the Commissioner not having subsequently required the payment of any Value Added Tax in respect of the transfer of the Assets ;

(b) The Transferor and the Transferee having received all authorisations, consents, orders and approvals from any requisite Government Authority along with any third party consents which the Transferee deems necessary or desirable for the Completion of this Agreement.

(c) Issue in respect of the Transferee of a Certificate of Approved Enterprise under the Foreign Investments Protection Act upon application for the same by TDLRAG

(d) Issue to the Transferee of an Investment Promotion Certificate pursuant to Investment Promotion Act

(e) The approval of the Central Bank of Kenya to the assignment of the Lease by the Transferor to the Transferee.

(f) The Central Bank of Kenya shall have entered into a 10 year Bank Note Printing Agreement with the Transferee to come into force only upon completion of the SSPA as referred to in the JVA

(g) The Transferor's Advocates shall have received from the Government of Kenya a letter to the effect that the SSPA and the SA as referred to in the JVA each constitutes a legally binding contract on the part of the Permanent Secretary to the Treasury in accordance with their terms and that the Permanent Secretary to the Treasury has waived all rights to Sovereign Immunity in respect of its obligations arising under the SSPA and the SA as referred to in the JVA which will be treated as private commercial contracts not entitled to Sovereign Immunity.

(h) The Transferor and Transferee having received written confirmation, in a form satisfactory to them, from the relevant tax authorities in Kenya confirming that the election referred to in Clause 4.2 of this Agreement, to treat assets as being transferred at their tax written value shall be effective, and that no VAT, import duties or stamp duty shall be payable on the transfers made pursuant to this agreement.

(i) Grant of a new Export Processing Operators License to the Transferee under the Export Processing Zones Act.

(j) There shall at the time of Completion have been no Material Adverse Change.

(k) The Parties having obtained approval from the Competition Authority pursuant to the Competition Act for the transfer of the Business and Assets from the Transferor to the Transferee.

(l) The Permanent Secretary to the Treasury of Kenya having confirmed in writing that it is satisfied with the terms of any Know How Licence and Technical Assistance Agreement and Pricing Agreement for the sub-contracting of Intra Group Security Printed Banknotes (whatever name is given to such contracts) between De La Rue International Limited (or any other De La Rue Group Company) and the Company whether such contracts be existing and be part of the Transferred Contracts under this agreement or proposed to be entered into.

It being understood that it is the responsibility of the Parties to obtain the approvals, consents and documents referred to in paragraphs (a) to (k) above)

5.2 Each of the parties shall use their best endeavours to ensure the satisfaction of the conditions in Clause 5.1 above so far as lies within their respective powers to do so.

5.3 In the event that Completion shall not have occurred by no later than 30th June 2012 then either party may thereafter terminate this agreement upon having given the other not less than 14 day notice in writing of its intention to so do.

6. WARRANTIES AND INDEMNITY

6.1 The Transferor hereby represents and warrants to the Transferee that except as disclosed to the Transferee in the Disclosure Letter as at the date of this Agreement and also the Completion Date (as if the Warranties were repeated and subject to a new Disclosure Letter delivered and made on the Completion Date disclosing any matter which is itself not a breach of a warranty given on the Transfer Date but which subsequently occurred merely by the passage of time provided that the new Disclosure Letter shall not prejudice the Transferee's right to claim for a breach of Warranty as at the date of this Agreement, each of the statements set out in Schedule VII is to the best of its knowledge information and belief after full and proper enquiry true and accurate and fairly represented and that any documents which are attached to the statements or delivered with them (and/or referred to therein) are true and up to date copies of the documents they purport to be and no material fact has been omitted from the statements which might render any of that information incomplete or misleading as at the date of this Agreement and the Transferor accepts that the Transferee is entering into this Agreement in express and exclusive reliance upon each of the Warranties and subject as hereinafter provided indemnifies the Transferee accordingly.

6.2 Each of the Warranties set out in Schedule VII is separate and independent and save as expressly provided to the contrary, shall not be limited by reference to or inference from any other of the Warranties or any term of this Agreement that all information contained in the Warranties is true and accurate.

6.3 The Transferor further warrants to the Transferee that:

(a) it is validly existing under the laws of Kenya with the requisite power and authority to enter into and perform, and has taken all necessary corporate action to authorize the execution and performance of its obligations under this Agreement;

(b) this Agreement constitutes valid and binding obligations of the Transferor.

(c) the execution, delivery and performance of this Agreement by the Transferor does not and will not:

(i) violate, conflict with, or result in the breach of any provision of the Articles of Association of the Transferor;

(ii) conflict with or violate any Law or Governmental Order applicable to the Transferor or the Business;

(iii) except as set out in the Disclosure Letter, conflict with, result in any material breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, or result in the creation of any encumbrance on any of the Assets pursuant to any note, bond, mortgage or indenture, contract, agreement, lease, sublease, license, permit, franchise or other instrument or arrangement to which the Transferor is a party or by which any of such Assets is bound or affected.

6.4 The provisions of clause 7 shall apply to limit and regulate the rights of the Transferee in relation to the Warranties given by the Transferor.

6.5 The Transferor shall immediately disclose in writing to the Transferee any event or circumstance which may arise or become known to them after the date of this Agreement and prior to Completion which is inconsistent with any of the Warranties given by the Transferor or which had it occurred on or before the date of this Agreement would have constituted a breach of the Warranties given by the Transferor.

6.6 The parties intend that in relation to any of the Warranties given by the Transferor which are qualified by the expression "to the best of the knowledge information and belief of the Transferor" or "so far as the Transferor is/are aware" or any similar expression, such statement shall be deemed to include an additional statement that it has been made after making all due and diligent enquiries in the specific circumstances, including enquiries of any current officer or employee of the Transferor who devotes substantial attention to matters of such nature during the ordinary course of his employment.

6.7 The Transferor warrants that it will execute and do (or procure to be executed and done by any other related party) all such deeds, documents, acts and things as the Transferee may from time to time reasonably require in order to vest title to any of the Assets in the Transferee, free from all charges, liens and other adverse interests or as otherwise may be necessary to give full effect to this Agreement.

6.8 The Transferee shall be entitled to claim both before and after Completion that any of the Warranties is or was untrue or misleading or has been breached and Completion shall not in any way constitute a waiver of any of the Transferee's rights.

6.9 The Transferee warrants to the Transferor that:

(a) it is a corporation validly existing under the laws of Kenya with the requisite power and authority to enter into and perform, and has taken all necessary corporate action to authorize the execution and performance of its obligations under this Agreement; and

(b) this Agreement constitutes valid and binding obligations of the Transferee.

6.10 The Transferor indemnifies and undertakes to keep fully indemnified the Transferee against all costs claims demands and expenses incurred, suffered or made against the Transferee in accordance with the Transfer of Businesses Act (Cap 500 of the Laws of Kenya).

7. LIMITATION OF LIABILITY PURSUANT TO THE WARRANTIES

7.1 The Transferor shall not have any liability to the Transferee under the Warranties given by the Transferor if any matter giving rise to such a claim for breach of Warranty by the Transferor:

(a) is disclosed in the Disclosure Letter;

(b) is a result of any legislation or regulations which were not in force at the Transfer Date or Completion in relation to any claim against the Transferor and if it results from an amendment to existing legislation or a modification in the interpretation of any legislation or regulation or an increase in the rate of tax; or

(c) arose after Completion from an act or omission of the Transferee other than any action so necessitated resulting from an earlier action or omission of the Transferor.

7.2 Notwithstanding any provisions contained in this agreement, the Transferor shall only be liable for any breach of the Warranties given by the Transferor where the liability relates to an act or omission which occurred or arose on or before (but not after) the Transfer Date and further only if the breach remains unremedied as at Completion and provided further that the

Transferee shall have notified the Transferor of the potential claim forthwith upon the Transferee becoming aware of the potential for a claim and in any event within three months of the claim arising, time being of the essence.

7.3 The Warranties given by the Transferor to the Transferee in connection with the sale of the Assets and the assumption of the Transferred Liabilities by the Transferee are limited to those set out in this Agreement and no other warranty will be deemed to be given by the Transferor.

7.4 In settling any damages or other amounts recoverable for a claim under the Warranties given by the Transferor, there shall be taken into account any benefit actually received or realised by the Transferee on account of such loss giving rise to such claim and resulting directly from any reduction, savings or recovery of debts, taxes and duties, any payment under any insurance policy or any recovery as a result of any litigation brought by the Transferee.

7.5 The Transferee shall not be entitled to make any claim for breach of Warranty or to recover any loss or damages in respect of any such potential claim:

(a) In respect of any claim of less than the equivalent of GBP 1,000 and unless and until the aggregate amount of individual losses in excess of GBP 1,000 which may be recovered from the Transferor equals or exceeds GBP 150,000; nor

(b) where the potential claim relates to any loss which is fully indemnified by insurance; nor

(c) if such liability would not have arisen but for something voluntarily done or omitted to be done by the Transferee after Completion, *other than* (i) pursuant to a legally binding commitment created on or before Completion (ii) in relation to a matter that is in the ordinary and usual course of business, or (iii) where such action or omission of the Transferee was as a consequence of any act or omission of the Transferor (iv) and where the Transferee should have been aware that any such action could result in a breach.

7.6 The liability of the Transferor under the Warranties shall cease after two (2) years , from Completion except in respect of matters which have been the subject of a bona fide written claim made before such date by the Transferee and provided that if the relevant claim or claims has arisen by reason of fraud, fraudulent misrepresentation, wilful concealment, wilful misconduct or dishonesty on the part of the Transferor there shall be no limit on the time period within which such claims may be brought.

7.7 Without prejudice to the time limits set out in Clause 7.6 above, any claim under the Warranties given by the Transferor shall if it has not been previously satisfied, settled or withdrawn be deemed to have been withdrawn and shall become fully barred and unenforceable on the expiry of the period of one (1) year commencing on the date that written notice of such claim was or should have been presented by the Transferee to the Transferor pursuant to Clause 7.2 unless proceedings in respect of such claim shall have been commenced against the Transferor.

7.8 The Transferor shall keep the Transferee indemnified without any limitation as to duration or amount against all costs claims demands and expenses whatsoever, whensover and howsoever arising made against the Transferee arising in respect of any claims made pursuant to the Transfer of Businesses Act made against the Transferee not forming part of the Transferred Liabilities.

7.9 The total liability of the Transferor to the Transferee shall at all times be limited to the Consideration.

8. COVENANTS UP TO COMPLETION

8.1 The Transferor undertakes with the Transferee that the Transferor will during the Post-Contractual Period:

(a) not create, extend, grant or issue or agree to create, extend, grant or issue any encumbrance over the Assets (or any one or more of them) without the prior written consent of the Transferee;

(b) not save in the ordinary course of business, sell, lease, sublet, hire or part with possession or agree to sell, lease, sublet, hire or part with possession of any of the Assets (or any one or more of them);

(c) that the Transferee and any person authorised by it shall promptly be given full access to all the books and records and such documents of title and other evidence of ownership of its assets as the Transferee may reasonably require in respect of the Assets and the Liabilities and the employees of the Transferor shall be instructed to give promptly all such information and explanations to the Transferee or any such person in relation to the Assets and the Liabilities as the Transferee or any such person may reasonably request;

(d) ensure that the Business will be carried on in the ordinary and usual course and without entering into any transaction assuming any liability or making any payment which is not in the ordinary course of the Business and without interruption or alteration in the nature, scope or manner of the Business;

(e) ensure the Transferor will not enter into or agree to enter into any unbudgeted capital commitments in relation to the Business in excess of £100,000 without the prior consent of the Purchaser under the SSPA as referred to in the JVA (in this paragraph referred to as "the SSPA Purchaser") which consent shall not be unreasonably withheld by the SSPA Purchaser. The SSPA Purchaser shall either accept or reject the Transferor's request for consent within 14 calendar days from the date of delivery of the request for consent to the SSPA Purchaser in accordance with the service provisions contained in the SSPA failing which reply consent shall be deemed to have been given. Where the consent required under this paragraph (e) is denied by the SSPA Purchaser negotiations to resolve the disagreement between the Transferor and the SSPA Purchaser shall commence on the day following the date of delivery of the refusal to the request for consent to the Transferor in accordance with this clause. Such negotiations shall be conducted in good faith with a view to reaching resolution between two (2) duly authorised representatives of the Transferor and two (2) duly authorised representatives of the SSPA Purchaser and shall subsist for a period of not more than 14 calendar days from the date of notification by the SSPA purchaser of its refusal of consent. If at the expiry of the 14 day period permitted by this clause for negotiation the SSPA Purchaser and the Transferor through their respective representatives shall not have agreed on the matters pertaining to capital commitments contemplated by this clause, the Transferor may immediately terminate this Agreement by giving notice in writing of such termination to the Transferee hereunder.

(f) to conduct the business in line with the business plan with the objective that there will be no material deterioration in the financial position or prospects or turnover of the Business.

(g) ensure there will be no disposal of any of the Assets other than in the ordinary course of business

8.2 The rights and remedies of the Purchaser in respect of the Transferee shall not be affected by Completion ,and except as set out in the Disclosure Letter(s) by any investigation or inspection made by it or on its behalf into the affairs of the Transferor, by its rescinding or failing to rescind this Agreement, or failing to exercise or delaying the exercise of any right or remedy, or by any other event or matter, except a specific and duly authorised written waiver or release, and no single or partial exercise of any right or remedy shall preclude any further or other exercise.

9 INSURANCE

9.1 The Transferor undertakes to the Transferee that it will notify forthwith the interest of the Transferee to the relevant insurers and keep in force its existing insurance policies in respect of the Assets for a period of one month after Completion, the Transferee paying the pro rata proportion of the insurance premiums from the Transfer Date until the cancellation of the relevant policies.

10. POST COMPLETION RESPONSIBILITY & APPORTIONMENT

10.1 Within a reasonable period from the date of Completion, the Transferee undertakes to respond to any enquiries with respect to the Assets sold under this Agreement and to replace all forms, cheques, orders and other documents and instruments carrying the Transferor's name and logo with forms, cheques, orders and credit cards and other documents and instruments carrying the Transferee's name and/or logo.

10.2 Nothing in this Agreement shall transfer or be deemed to transfer any of trade names belonging to or used by the Transferor to the Transferee and the Transferee shall forthwith upon Completion cease and desist from using any such trade names or any other similar or associated name without the prior written consent of the Transferor which consent shall be given at the sole discretion of the Transferor.

10.3 The Transferor shall take all necessary steps and co-operate fully with the Transferee to ensure that the Transferee obtains the full benefit of the Business and Assets and shall execute such documents and take such other steps (or procure other necessary parties so to do) as are necessary or appropriate for vesting in the Transferee all its rights and interests in the Business and Assets.

10.4 Insofar as the Assets or Transferred Contracts comprise the benefit of contracts which cannot effectively be assigned to the Transferee without the consent of a third party or except by an agreement of novation:

(a) the Transferor and the Transferee shall use all reasonable endeavours to obtain consent or to procure a novation;

(b) unless and until consent is obtained or the contracts are novated the Transferee shall, for its own benefit and to the extent that the contracts permit, perform on behalf of the Transferor (but at the Transferee's expense) all the obligations of the Transferor which fall to be performed after the Completion Date (insofar as they have been disclosed to the Transferee) and indemnify the Transferor against all costs, proceedings, claims, demands and expenses which may be incurred by the Transferor as a result of any act, neglect, default or omission on the part of the Transferee to perform or comply with any such obligation.

10.5 All rents, rates, water, electricity and telephone charges and other outgoings relating to or payable in respect of the Business from the Transfer Date up to the Completion Date shall be paid by the Transferor and as from the Completion Date shall be borne by the Transferee. Such outgoings and payments receivable shall if necessary be apportioned accordingly, provided that any such outgoings or payments receivable which are referable to the extent of the use of any property or right shall be apportioned according to the extent of such use.

10.6 Where any amounts fall to be apportioned or reimbursed under this agreement, the Transferor shall provide the Transferee with full details of the apportionments, together with supporting vouchers or similar documentation, and in the absence of dispute the appropriate payment shall be made by or to the Transferor forthwith. If the amount of any apportionment is in dispute, the provisions of Clause 19 shall apply for resolving the dispute and the amount

determined in accordance with that Clause shall be paid within fourteen (14) days of the determination, together with interest calculated on a daily basis (as well after as before judgement), from the Completion Date until the date of actual payment, at the rate of three per cent per annum above the Kenya Shilling base rate from time to time of Standard Chartered Bank Kenya Limited.

11. SIGNING OF AGREEMENT

11.1 On the signing by the parties of this Agreement:

(a) the Transferee shall deliver to the Transferor an extract from the minutes of a meeting of the directors of the Transferee stating that it is authorised to enter into and execute this Agreement (such extract minutes being certified as true and accurate by the company secretary of the Transferee); and

(b) the Transferor shall deliver to the Transferee an extract from the minutes of a meeting of the directors of Transferor stating that it is authorised to enter into and execute this Agreement (these extract minutes being certified as true and accurate by the company secretary of Transferor).

12. COMPLETION

12.1 The transfer of the Business, sale of the Assets and assumption of the Transferred Liabilities shall be completed on **the Completion Date** when all the matters set out in this clause shall be effected.

12.2 On the Completion Date:

(a) the Transferee shall be placed in effective legal and beneficial ownership of the Assets and the Transferred Contracts and the Transferor shall deliver to the Transferee such of the Assets as are capable of transfer by delivery, together with all relevant documents of title thereto (if any) and instruments of transfer if necessary to vest legal ownership of such assets in the Transferee;

(b) the Transferor shall deliver to the Transferee:

(i) the title deeds and documents relating to all books and records relating to the Assets and the Liabilities, title to which shall vest in the Transferee as from the Completion Date;

(ii) payroll records relating to Transferred Employees , stock and other records relating to the Business;

(iii) relevant computer programmes and other books and documents which relate to the Business (other than minute books relating to directors' and shareholders' meetings and statutory books);

(iv) all records of N.S.S.F and N.H.I.F and PAYE relating to all the Transferred Employees duly completed and up to date.

(c) the Transferor shall deliver to the Transferee assignments in Agreed Form of the Transferred Contracts (to the extent such may be assigned without the consent of the relevant counterparty) duly executed by the Transferor or to extent available novations in Agreed Form in respect of such Transferred Contracts signed by the parties to such contracts; and

(d) upon completion of the matters referred to above the Transferee shall pay the Consideration in cleared funds to the Transferor .

12.3 Each party shall indemnify the others against any document delivered by it pursuant to Clause 12.2 being unauthorised, invalid or for any other reason ineffective for its purpose.

12.4 If for any reason the provisions of Clause 12.2 are not fully complied with by the Transferor or the Transferee (as the case may be), the other party may, provided it has complied in full with its obligations under Clause 12.2, elect (in addition to and without prejudice all other rights or remedies available to it) to:

(a) subject to any applicable legal requirement, waive the relevant requirement of the defaulting party and proceed to Completion; or

(b) rescind this Agreement; or

(c) fix a new date for Completion.

12.5 The Transferee shall not be obliged to complete the purchase of any of the Assets unless the purchase of all the Assets, the transfer of the Business and the assumption of the Liabilities are completed in accordance with this Agreement.

12.6 If, subsequent to the Completion Date, the Transferor made a prepayment or paid a deposit under any of the Transferred Contracts for the purchase of an asset which is not included in the Assets, the Transferee shall reimburse to the Transferor the amount of the prepayment or deposit within twenty eight (28) days of delivery of the asset.

13. EMPLOYEES

13.1 The Transferor and the Transferee agree that, all salaries and other emoluments, including holiday pay, tax and national insurance payments and contributions to retirement benefit schemes, relating to the Employees up to the Transfer Date shall be paid by the Transferor and all necessary apportionments shall be made. For a period of two years from the Transfer Date the Transferor shall indemnify the Transferee against all liabilities (including severance pay) in respect of those Employees who agree to their re-employment by the Transferee in accordance with Section 13.2 below and whose contract of employment is subsequently terminated by reason of redundancy within the period of two years from the Transfer Date for the period of their employment with the Transferor up to the Transfer Date based on their length of service, as of the Transfer Date but based on their salary and conditions of employment as at the date of actual termination of their employment by the Transferee should it occur within the said two year indemnity period..

13.2 The Transferee shall forthwith upon the Completion Date make an offer to every Employee engaged in the Business offering to engage each Employee with effect from the Transfer Date upon terms and conditions no less favourable than those upon which such Employee is engaged at the Transfer Date and (subject to clause 13.1 above), undertakes to assume all of the liabilities of the Transferor in respect of all accrued employment entitlements that such Employee shall have in respect of his employment as if the Transferee had *ab initio* been the employer of such Employee provided that each such Employee shall waive all claims that he may have against the Transferor in respect of the termination of his employment by the Transferor.

13.3 In the event that any Employee shall decline to accept the Transferee's offer of employment made in accordance with the preceding clause, then at the option of the Transferee either:

(a) the Transferor shall terminate such Employee's employment and the Transferor shall be entirely responsible for the costs thereof in which event the Transferee undertakes not to employ such person in any capacity within the period of two years following the date of this agreement.; or

(b) the Transferor will second such Employee to the Transferee provided that the Transferee shall then indemnify the Transferor against all costs and expenses incurred by the Transferor arising out of the employment of such Employee save in respect of the sums to be indemnified by the Transferor in accordance with clause 13.1.

14. ANNOUNCEMENTS

14.1 Unless for consultation with employees or otherwise expressly laid out in this Agreement, neither party shall make any announcement concerning this Agreement or any ancillary matter either before, on or after the Completion Date except as required by law or any competent regulatory body unless the content of such announcement has been substantively agreed in writing save that the notices to Employees pursuant to clause 13 above may be released forthwith upon the execution of this Agreement.

15. CONFIDENTIALITY

15.1 Without prejudice to any other obligation of confidentiality imposed pursuant to this Agreement, each party shall treat as strictly confidential all information received or obtained as a result of entering into or performing this Agreement which relates to:

(i) the provisions of this Agreement;
(ii) the negotiations relating to this Agreement;
(iii) the subject matter of this Agreement; or
(iv) any other party.

15.2 Subject to the other terms of this Agreement, any party may disclose information which would otherwise be confidential if and to the extent:

(i) required by law;
(ii) required by any regulatory or governmental body to which that party is subject or submits which has the force of law;
(iii) required to vest the full benefit of this Agreement in that party;
(iv) disclosed to the professional advisers, auditors and bankers of each party;
(v) that the information has come into the public domain through no fault of that party; or
(vi) that the other relevant party has given prior written approval to the disclosure.

15.3 The parties agree that the restrictions contained in this clause are reasonable and shall continue to apply after the Completion Date.

16 NOTICES

16.1 Any notice or other document to be served under this Agreement shall be delivered to the party to be served as follows:

(a) to Transferor at:

Noordin Road
Off Thika Road
Nairobi Kenya
Tel: 254-2-8560086
Fax: 254-2-8560787

marked for the attention of General Manager

with a copy to General Counsel , De La Rue plc:

De La Rue House
Jays Close
Basingstoke RG22 4BS UK
Tel - +44 1256 605000

Fax - +44 1256 605336

(b) to the Transferee at:

Noordin Road
Off Thika Road
Nairobi Kenya
Tel: 254-2-8560086
Fax: 254-2-8560787

marked for the attention of the General Manager

with a copy to General Counsel , De La Rue plc

De La Rue House
Jays Close
Basingstoke RG22 4BS UK
Tel - +44 1256 605000
Fax - +44 1256 605336

or at such other address as it may have notified to the other parties in accordance with this clause.

16.2 Any notice or document shall be deemed to have been served at 9 am on the next following Business Day.

16.3 In proving service of a notice or document it shall be sufficient to prove that delivery was made.

17 GENERAL

17.1 This Agreement is personal to the parties and may not be assigned by either party without the prior written consent of the other party which consent may be withheld or granted at the other party's sole discretion.

17.2 Time is not of essence in relation to any obligation under this Agreement unless:
(a) time is expressly stated to be of the essence in relation to that obligation; or
(b) one party fails to perform an obligation by the time specified in this Agreement and the other party serves a notice on the defaulting party requiring it to perform the obligation by a specified time and stating that time is of the essence in relation to that obligation.

17.3 Except as expressly provided to the contrary in this Agreement, each party shall pay the costs and expenses incurred by it in connection with the entering into and completion of this Agreement and the Transferee shall pay all stamp duty payable in respect of the transaction contemplated under this Agreement.

17.4 All sums payable under this Agreement shall be paid free and clear of all taxes, deductions or withholdings whatsoever, save only as may be required by law.

17.5 This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same agreement.

17.6 The failure to exercise or delay in exercising a right or remedy provided by this Agreement or by law does not constitute a waiver of the right or remedy or a waiver of other rights or remedies. No single or partial exercise of a right or remedy provided by this Agreement or by law prevents the further exercise of the right or remedy or the exercise of another right or remedy. The rights and remedies provided by this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

17.7 This Agreement shall not be amended, unless such amendment shall be expressly agreed in writing by duly authorised representatives of each party.

17.8 If any of the provisions of this Agreement is found by an arbitrator, court or other competent authority to be void or unenforceable, such provision shall be deemed to be deleted from this Agreement and the remaining provisions of this Agreement shall continue in full force and effect. Notwithstanding the foregoing, the parties shall thereupon negotiate in good faith in order to agree the terms of a mutually satisfactory provision to be substituted for the provision so found to be void or unenforceable.

18 ENTIRE AGREEMENT

18.1 This Agreement and documents referred to in it contain the whole agreement between the parties relating to the transactions contemplated by this Agreement and supersede all previous agreements between the parties relating to these transactions.

18.2 In entering into this Agreement neither party may rely on any representation, warranty, collateral contract or other assurance (except those set out in this Agreement and the documents referred to in it) made by or on behalf of any other party before the signature of this Agreement and each of the parties waives all rights and remedies which, but for this sub-clause, might otherwise be available to it in respect of any such representation, warranty, collateral contract or other assurance; provided that nothing in this sub-clause shall limit or exclude any liability for fraud.

19 ARBITRATION

19.1 This Agreement and its performance shall be governed by and construed in all respects in accordance with the laws of Kenya.

19.2 Any dispute, controversy or claim arising out of or relating to this Agreement or a termination hereof, or the interpretation, breach or validity hereof, shall be resolved by way of consultation held in good faith between the parties. Such consultation shall begin immediately after one party has delivered to the other written request for such consultation. If within fifteen (15) days following the date on which such notice is given the dispute cannot be resolved, the dispute, controversy or claim shall , if so requested by either Party, be finally resolved in accordance with the rules of the Chartered Institute of Arbitrators of the United Kingdom (which rules are deemed to be incorporated by reference into this clause subject to and in accordance with the provisions of the Arbitration Act of Kenya, 1995) by an Arbitrator appointed by agreement of the Parties and failing such agreement within twenty one 21 Business Days of a request therefore by either Party, by an Arbitrator appointed by the Chairman for the time being of the Kenya Branch of the Chartered Institute of Arbitrators, who shall have regard to the nature of the dispute in making such appointment.

19.3 The place of arbitration shall be Arusha, Tanzania and the language of the arbitration shall be English.

19.4 The award of the arbitration tribunal shall be final and binding upon the Parties and any Party may apply to a court of competent jurisdiction in Kenya for enforcement of such award. The

award of the arbitration tribunal may take the form of an order to pay an amount or to perform or to prohibit certain activities.

19.5 Notwithstanding the above provisions of this Clause, a party is entitled to seek preliminary injunctive relief or interim or conservatory measures from any court of competent jurisdiction in Kenya pending the final decision or award of the arbitrators.

20 GOVERNING LAW

20.1 This Agreement is governed by and shall be construed in accordance with Kenyan law.

IN WITNESS whereof the duly authorized representatives of the Transferor and Transferee have hereunto set their hands on the date and year hereinbefore written.

SIGNED by: _____)
DIRECTOR duly authorised for and on behalf of)
DE LA RUE CURRENCY &)
SECURITY PRINT LIMITED)
in the presence of:)
)
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)

SIGNED by:_____)
DIRECTOR duly authorised for and on behalf of)
DE LA RUE KENYA EPZ LIMITED)
in the presence of:)
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SCHEDULE I

PART A

ASSETS
(as per Appendix 1 annexed)

PART B

EXCLUDED ASSETS

- All Intercompany Loans
- Cash except such as is included in the Balance Sheet

PART C

DE LA RUE FINANCIAL MONTH ENDS
(as per Appendix 1A annexed)

SCHEDULE II

THE BALANCE SHEET
(as per Appendix II annexed)

BALANCE SHEET ANALYSIS

(as per Appendix IIA annexed)

SCHEDULE III

BOOK DEBTS
(as per Appendix III annexed)

SCHEDULE IV

TRANSFERRED LIABILITIES
(as per Appendix IV annexed)

SCHEDULE V

TRANSFERRED CONTRACTS
(as per Appendix V annexed)

SCHEDULE VI

LIST OF EMPLOYEES AND SUMMARY OF TERMS

SCHEDULE VII

THE WARRANTIES

1 The Transferor

1.1 The Transferor is a company duly incorporated and existing under the laws of Kenya and has all requisite corporate power and authority to enter into and complete this Agreement without obtaining the consent of any third party.

1.2 Compliance with the terms of this Agreement and any document entered into by the Transferor in accordance with it does not and will not conflict with or result in a breach of any of the provisions of the Transferor's Memorandum and Articles of Association.

1.3 The Transferor has at all times carried on the Business in all respects in accordance with its Memorandum and Articles of Association for the time being in force.

1.4 Neither the Transferor nor any of the members of the De La Rue Group of companies has any interest directly or indirectly in any company or business other than the Business which is likely to be or become competitive with the Transferee within Kenya.

2 The Balance Sheet

2.1 The Balance Sheet correctly and fully sets out all the assets and liabilities of the Business to be transferred as at the Transfer Date.

2.2 The Balance Sheet Analysis is correct and accurate.

2.3 At the Transfer Date the estimated value of the assets and liabilities of the Business are as set out in the Balance Sheet.

3 Books and Records

3.1 All of the Transferor's accounts, books, ledgers, financial and other records of any kind relating to the Business have been fully and accurately maintained in accordance with generally accepted accounting practices and standards and there are no material inaccuracies or discrepancies of any kind contained or reflected in them or in any of them and in the opinion of the directors of the Transferor give and reflect a true and fair view of the financial and contractual and trading position of the Transferor in relation to the Business and of its plant machinery and other fixed assets, debtors, creditors and other current assets and liabilities in relation to the Business and will be fully written up to the date of Completion.

3.2 Without limiting paragraph 3.1 all proper records have been kept and all proper returns and payments made as required by law for the purpose of the enactments relating to Tax in connection with the Business.

4 Insolvency

4.1 No receiver or administrative receiver has been appointed in respect of the whole or any part of the Assets.

4.2 No meeting has been convened at which a resolution will be proposed, no resolution has been passed, no petition has been presented and no order has been made for the winding up of the Transferor.

5 Acquisition of the Business by the Transferee

The acquisition of the Business, the Assets and the Transferred Liabilities by the Transferee or compliance with the terms of this Agreement will not:

5.1 cause the Business to lose the benefit of any right or privilege it presently enjoys or cause any person who normally does business with the Transferor in relation to the Business not to continue to do so in the same basis as before.

5.2 relieve any person of any obligation to the Transferor in respect of the Business (whether contractual or otherwise) or enable any person to determine any such obligation or any right or benefit enjoyed by the Transferor in relation to the Business or to exercise any right whether under agreement with or otherwise in respect of the Business

5.3 give rise to or cause to become exercisable any right of pre-emption relation to the Business or any of the Assets and

5.4 result in a breach of or constitute a default under (i) the terms, conditions or provisions of any Transferred Contract or any agreement, understanding, arrangement or instrument in relation to the Business, Assets or Transferred Contracts or (ii) any order, judgement or decree of any court or governmental agency to which the Transferor is a party and by which the Transferor is bound in relation to the Business, any of the Assets, Transferred Contracts or Transferred Liabilities.

and the relationship of the Transferee with customers, suppliers and employees will not be adversely affected by the execution completion and/or implementation of this Agreement.

6 Assets

6.1 The Transferor has good title to all the Assets and the Transferor owns absolutely all the Assets free from and not subject to any agreement or commitment to give or create any mortgage, charge, lien, option, bill of sale, leasing agreement, hire purchase agreement, credit sale or conditional sale agreement or any other encumbrance or claim of any kind

6.2 The Assets are all situated on the factory premises on which the Transferor conducts the Business and comprise all of the assets and rights used in the Business at the Transfer Date.

6.3 The Assets comprise all assets used in the Business as at the Transfer Date (other than the Excluded Assets) and which are necessary for the continuation of the Business as presently carried on by the Transferor. No asset is shared by the Transferor with any other person and the Transferor does not depend for its Business upon any assets facilities or services owned or supplied by any person of the Transferor's Group.

6.4 All documents which in any way affect the right, title or interest of the Transferor in or to any of the Assets and on which stamp duty is payable have been duly stamped within the requisite period of stamping.

6.5 Schedule 1 contains full and accurate details of the Assets.

6.6 The Assets do not contravene any requirement or restriction having the force of law and have been regularly and properly maintained and are fully serviceable and all the motor vehicles forming part of the Assets are roadworthy and duly licensed for the purposes for which they are used and are capable of being efficiently and properly used for the purposes of the Business and they are adequate for and not surplus to the requirements of the Business.

6.7 There has been no exercise purported exercise or claim for any charge, lien, encumbrance or equity over any of the Assets and there is no dispute directly or indirectly relating to any of the Assets

6.8 The Transferor has not disposed or agreed to dispose of, granted or agreed to grant any option or right of pre-emption in respect of, or offered for sale any interest in any of its Assets except in the ordinary course of business

7 The Property comprised in the Lease

7.1 The Transferor is fully entitled to vacant possession of the property comprised in the Lease (hereinafter referred to as "the Premises") save as otherwise disclosed and the particulars of the Premises set out in this Agreement are accurate in all respects and the Transferor has obtained all necessary consents and permissions in relation to the same and for the purposes of the carrying on of the Business.

7.2 The Transferor has exclusive occupation of the Premises free from any encumbrance or third party rights of any kind whatsoever (save as may be disclosed in the Lease) and all covenants and statutory obligations relating to the same or to the carrying on in the Premises by the Transferor of the whole or part or parts of the Business have been and are being properly performed and observed and the Transferor has not received notice of any outstanding breaches of covenant as regards the Premises.

7.3 The Premises is currently used for the purposes specified in the Lease to the Premises

7.4 No development alterations or other works whatsoever have been carried out in relation to the Premises which would require any permission or consent under any bylaws or building regulations, any other relevant legislation or under the Lease without such permission or consent having been properly obtained and implemented and any conditions or restrictions imposed therein having been fully observed and performed.

7.5 The Transferor has not committed any breach of the Physical Planning Act or any other relevant legislation or the Lease in relation to the Premises.

7.6 The Transferor has not received any notices or orders affecting the Premises from the local or other competent authority or from any third party and so far as the Transferor is aware, there are no proposals made or intended to be made by any such authority concerning the compulsory acquisition of the whole or any part of the Premises or which would adversely affect the Premises.

7.7 All the buildings and other structures in the Premises are in good and substantial repair and condition and are in such condition and state of repair as to be fit for the purpose for which they are presently used.

7.8 The Premises are served by drainage water and electricity services which are connected to the mains by media located entirely on in or under the Premises or by media elsewhere in respect of the use of which the Transferor has the benefit of a permanent legal easement free from onerous or unusual conditions and the passage and provision of such services is uninterrupted and so far as the Transferor is aware, there is no imminent or likely interruption of such passage or provision.

7.9 There are no disputes regarding boundaries, easements, covenants or other matters relating to the Premises or their use and without prejudice to the generality of the foregoing, the access of light and air to the Premises are enjoyed as of right.

7.10 None of the facilities necessary for the enjoyment and current use of the Premises are enjoyed on terms entitling any person to terminate or curtail them.

8 Material Contracts

The Transferor is not a party to or subject to any agreement, transaction, obligation, commitment, understanding, arrangement or liability which will require an aggregate consideration payable by the Transferee in excess of £25 000.

9 Litigation

9.1 The Transferor is not engaged in connection with the Business whether as defendant or plaintiff in any litigation or arbitration or prosecution or other legal proceedings and in particular with any substantial customer or customers of the Business and to the best of its knowledge and belief there are no facts which are likely to give rise to the same and the Transferor has not been a party to any undertaking or assurance given to any court or governmental agency relating to the Business and/or the Assets which is still in force.

9.2 There has been no exercise purported exercise or claim for any charge, lien, encumbrance or equity over any of the Assets and there is no dispute directly or indirectly relating to any of the Assets.

9.3 None of the litigation is with any substantial customer or customers of the Business and to the best of the Transferor's knowledge and belief, none of the litigation would affect the Business and/or the Assets.

10 Intellectual Property Rights

10.1 De La Rue plc (hereinafter referred to as "the Owner") is the absolute beneficial owner, registered proprietor or licensor of the Intellectual Property Rights licensed to the Transferee and there are no subsisting licences or other agreements under which the Owner has granted to any third party in Kenya or any rights or interest in connection with the Intellectual Property Rights or any rights to any know-how or confidential information relating to the Business.

10.2 The Business does not require any intellectual property rights (other than the Intellectual Property Rights) in order to use any of the processes employed in the Business and neither the operations of the Business nor its products infringe or are likely to infringe any patent or other rights of any kind vested in any other party or give rise to the payment of any royalty or similar sum (other than that stipulated under the Licence and Know-How Agreement) or involves the use of any confidential information of any other party.

10.3 there has been no infringement of the Intellectual Property Rights at any time during the period of twenty four (24) months prior to the date of this Agreement.

11 Disclosure of Trade Secrets

The Transferor has not (except in the ordinary and normal course of business) disclosed or permitted to be disclosed or undertaken or arranged to disclose to any person other than the Transferee and its agents or the Government of Kenya and its professional advisors or entities within the De La Rue Group, any of its Know-how, trade secrets, confidential information or details of customers or suppliers relating to the Business.

12 Environmental Warranties

12.1 The Transferor has at all times prior to the date of this Agreement complied in all material respects with all applicable laws, relating to the protection of the environment (including without limitation to the prevention of pollution of any land, water or air due to the release, escape or other emission of any substance or the production, transportation, storage, treatment, recycling or disposal of waste or the making of noise) that are now in existence and where relevant enforceable (hereinafter referred to as "the Environmental Laws") both in respect of the Business as carried on from time to time and in respect of the Premises.

12.2 The Transferor is not aware of any circumstances that may cause it to be in breach of any of the Environmental Laws to a material degree or would so cause it to be in breach were it to remain as the occupier and the Transferor is not aware of any circumstances affecting the Business that might justify the imposing of any requirement by a competent authority in accordance with such authority's powers and obligations under the Environmental Laws which would, if the requirement were not complied with, result in there being a breach of the Environmental Laws.

12.3 There are no past pending or threatened proceedings, claims or actions against the Transferor brought under the Environmental Laws before any court, arbitrator or other body which have had or which would, in the event of a judgement, decision, ruling or order being unfavourable to the Business, have a materially adverse effect on the financial or trading prospects of the Business.

12.4 All necessary permits, licences, certificates, approvals and other authorizations ("the Authorizations") required for the lawful and safe conduct of the Business as carried on at the date of this Agreement have been obtained and maintained by the Transferor and copies of the same have been provided to the Transferee. All conditions, restrictions and obligations contained in the Authorizations have been complied with and the Transferor is not aware of any reason why any of the Authorizations should be or may be revoked or amended.

12.5 No part of the Premises has been contaminated (whether by the deposit, spillage, disposal or leaching of any hazardous or toxic material or other pollutant) and as a result of any contamination no part of the Premises represents a hazard to health or to the environment and would not represent such a hazard were the Premises developed or otherwise put to use in ways differing from the current operations carried on the Premises.

12.6 The Transferor is not aware of any circumstances which may give rise or have in the past given rise to any liability in nuisance in respect of the Premises or the operation of the Business.

12.7 No third party has committed any act which has resulted or to the knowledge of the Transferor may result in any liability being incurred by that third party in respect of nuisance caused in relation to the Premises or the Business.

13 Defaults

Neither the Transferor nor any other party to any agreement or arrangement to which the Transferor is a party is in default under such agreement or arrangement being a default which would be material in the context of the financial or trading position of the Business or in the context of the Assets nor has any threat or claim of any such default been made by or notified to the Transferor nor (as far as the Transferor is aware) are there any circumstances likely to give rise to such a default.

14 Existing Business

14.1 Other than the Transferred Contracts, there are no other contracts, agreements or commitments with either a sales value greater than the equivalent of £25 000 individually or £100 000 in aggregate or with a purchase obligation of £10 000 individually or £50 000 in aggregate whether conditional or unconditional and no arrangements or undertakings whether legally binding or not

relating to the Business which are material in relation to the Business or which the Transferee would require to enable it to carry on the Business in the same manner as previously carried on by the Transferor.

14.2 There is attached to the Disclosure Letter a true complete accurate and up to date copy of the terms and conditions upon which the Business is operated in relation to suppliers and customers, and such terms and conditions apply to and govern all contracts and arrangements to which the Transferor is or has offered to become a party in relation to the Business.

14.3 No contractual rights and obligations of the Transferor in relation to the Business will terminate by virtue of this Agreement.

14.4 No customer who during the twenty four (24) months preceding the Transfer Date accounted for 5% or more of the business of the Transferor during such period has ceased or indicated to the Transferor an intention to cease doing business with the Transferor or has substantially reduced or indicated to the Transferor the intention to substantially reduce their business with the Transferor.

14.5 No supplier who during the twenty four (24) months preceding the Transfer Date accounted for 5% or more of the business of the Transferor during such period has ceased or (as a result of the acquisition of the Business by the Transferee or for any other reason) will cease supplying the Business or may substantially reduce its supplies to the Business.

15 Insurance

15.1 All the Assets are insured in accordance with generally accepted practice with a well established and reputable insurer against all risks customarily insured against in respect of assets and property of such description.

15.2 There are in force policies of insurance against all other risks and liabilities usually covered by insurance by persons carrying on the business of the same type as the Business.

15.3 To the best of the Transferor's knowledge, information and belief there are no circumstances which could lead to any such insurance being revoked, vitiated or not renewed in the ordinary course.

16 Transferred Employees

16.1 Full and accurate details have been supplied to the Transferee as to the Employees' ages, length of service, rates of remuneration, bonus and commission, benefits in kind, periods of notice, pension and other rights under any retirement benefits, life assurance or hospital insurance scheme of the Transferor (whether statutory or otherwise). Such details will remain true and accurate at the Transfer Date and the Transferor is not under any legal commitment to change or vary any such details and will not prior to the Transfer Date enter into any such commitment. There are no share options or other schemes either in operation or proposed whereby any of the Employees is or is to be entitled to any shares or to any shares or to any commission.

16.2 All accrued holiday pay due to any of the Transferring Employees up to the Transfer Date is set out in the Disclosure Letter.

16.3 The Transferor has in relation to each Employee complied in all material respects with:

16.3.1 all obligations imposed on it by all statutes and regulations relevant to the relations between it and any Employee or trade union (including without limitation any obligation under any health and safety legislation or any legislation relation to the environment).

16.3.2 all collective agreements and customs and practices for the time being dealing with relations between the Transferor and any Employee or any trade union or the terms and conditions of service of any Employees; and

16.3.3 all relevant orders, declarations and awards made under any relevant statute, regulation or codes of conduct and practice affecting the conditions of service of any of the Employees.

16.4 There are not in existence any contracts of employment between the Transferor and any of the Employees nor any consultancy agreements between the Transferor and any of the Employees which cannot be terminated by three months' notice or less or (where not reduced in writing) by reasonable notice without giving rise to any claim for damages or compensation. The Transferor has neither given nor received any notice to terminate any contract of employment of any of the Employees or any other person employed in the Business which expires on or after the Completion Date.

16.5 The Transferor has not offered and will not prior to Completion offer a contract of employment or for services to any person other than in the ordinary course of business.

17 Pensions

17.1 Apart from the provision made by Transferor's Scheme, there are not in existence nor has any proposal been announced or commitment given to establish any retirement, death or disability benefits schemes for the Transferred Employees or obligations to or in respect of Transferred Employees with regards to retirement, death or disability pursuant to which gratuity is currently being paid or has been promised by the Transferor to or in respect of any Employee.

17.2 All contributions which under the Transferor's Scheme have become payable by the Transferor have been duly paid.

17.3 The Transferor's Scheme is exempt from tax.

17.4 True copies of all the trust deeds and rules constituting and governing the Transferor's Scheme have been delivered to the Transferee and except as may be expressed otherwise therein, such documents are up to date and satisfactory to ensure continued treatment of the Transferor's Scheme as an tax-exempt scheme.

17.5 True copies of all explanatory booklets and announcements and other communications to Employees relating to the Transferor's Scheme have been delivered to the Transferee and the Transferor has no obligation under the Transferor's Scheme in respect of any Employee other than disclosed.

17.6 There has not been exercised any power under the Transferor's Scheme to augment any benefit under it or otherwise to provide more favourable terms of membership for any of the Employees that would apply but for the exercise of that power.

17.7 All requirements and obligations under the Transferor's Scheme have been duly observed and performed and there is no dispute with regard to the benefits payable under the Transferor's Scheme and no legal proceedings by or against the trustees of the Transferor's Scheme in their capacity as such are pending threatened or expected and so far as the Transferor is aware (having made due and careful enquiry of such trustees) there is no fact of circumstance likely to give rise to any such proceedings.

17.8 No undertaking, promise or indication (whether legally enforceable or not) has been given to any Employee:

17.8.1 who is not a member of the Transferor's Scheme to include the Employee in the Transferor's Scheme

17.8.2 who is a member of the Transferor's Scheme to increase the rate at which contributions are being paid to the Transferor's Scheme in respect of the Employee

17.9 The Transferor's Scheme has not at any time prior to the Transfer Date been operated in such a way as to discriminate between male and female members of such Scheme.

18 Licences and Consents

The Transferor has obtained all necessary licences and consents from any person, authority or body for the proper carrying on of the Business and is not in breach of any of their terms and conditions.

SCHEDULE 4

Share Sale and Purchase Agreement.



Share Purchase
Agreement- Executio1

DATED THE DAY OF 2011

THOMAS DE LA RUE AG

AND

THE PERMANENT SECRETARY TO THE TREASURY OF KENYA

AND

DE LA RUE KENYA EPZ LIMITED

SHARE SALE AND PURCHASE AGREEMENT IN RESPECT OF SHARES IN DE LA RUE KENYA EPZ LIMITED

DRAWN BY:-
MBOYA WANGONG'U & WAIYAKI
ADVOCATES,
LEX CHAMBERS,
MAJI MAZURI ROAD,
OFF JAMES GICHURU ROAD,
LAVINGTON
P.O. BOX 74041 - 00200
NAIROBI

File Ref: C003/057/M/2007/W

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THIS SHARE SALE AND PURCHASE AGREEMENT (hereinafter "this Agreement") is made on of this _____ day of _____Two Thousand and Eleven BETWEEN:

1. THOMAS DE LA RUE AG, having it registered office at Rue de Morat 11 CH-1700 Fribourg, Switzerland (hereinafter called "the Vendor" or "TDLRAG " ; and

2. THE PERMANENT SECRETARY TO THE TREASURY OF KENYA constituted under The Permanent Secretary to the Treasury Act Cap. 101 Laws of Kenya (or its Government of Kenya successor in the event of a re-organization) for an on behalf of The Government of the Republic of Kenya hereinafter referred to as "the Purchaser" or " the PST") of the other part;

3. DE LA RUE KENYA EPZ LIMITED incorporated in the Republic of Kenya under the provisions of the Companies Act Company number CPR/2011/39289 and of Post Office Box Number 40034 Nairobi 00100 in the said Republic (hereinafter referred to as "the Company")

WHEREAS

(A) DE LA RUE CURRENCY AND SECURITY PRINT LIMITED incorporated in the Republic of Kenya ("DLRK"); and TDLRAG and the PST entered into a Joint Venture Agreement dated on or about the date of this Agreement ("JVA") which sets out the framework for the purchase by PST of Shares in The Company in accordance with this Agreement.

(B) Pursuant to the JVA and the BTA hereinafter defined, DLRK agreed to hive-down and transfer the business and Assets of DLRK to the Company as more particularly provided in the BTA.

(C) Following the completion of the BTA the Vendor will be the beneficial holder of 2,000 shares of Kshs 20 each being 100% of the issued shares in the Company which shares are credited as fully paid ("the Shares"). The Vendor is a wholly -owned subsidiary of De La Rue Plc.

(D) Pursuant the JVA, the Vendor agrees to sell and the Purchaser agrees to purchase shares in the Company held by the Vendor (hereinafter referred to as "the Sale Shares") representing 40% of the entire issued share capital of the Company, on the terms, and the conditions contained in this Agreement.

NOW IT IS HEREBY AGREED as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Save as otherwise expressly provided or the context otherwise requires in this Agreement and in its Schedules the following words and expressions shall have the following meanings:

"Accounts"	means the opening balance sheet of the Company which will substantially be in the form set out in the Fifth Schedule as adjusted for the completion of the BTA;
"Accounts Date"	means the Transfer Date as defined in the BTA

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"Act" or "Companies' Act"	means the Companies Act of Kenya, Cap. 486 of the Laws of Kenya;
"Associate"	In relation to an individual: (a) any relative, that is to say, any issue, or any spouse, brother, sister or parent, or any issue of any of them; (b) any company which is or is capable of being directly or indirectly controlled by the individual or any such relative or by any two or more of them, and for this purpose the expression "control" shall be construed to mean the possession of majority voting power in a Company. In relation to a company, any subsidiary or holding company of the Vendor and any other subsidiary of any holding company of the Vendor and for purposes of this Agreement 'subsidiary' or 'holding company' shall bear the meaning set out section 154 of the Act;
"Business"	means the business in which the Company is engaged, being the business of currency and security printing in Kenya;
"Business Day"	means a day on which banks are open for business (including dealings in foreign currency and exchange) in Kenya;
"Business Plan"	means the business plan for the Company set out in schedule 3 of this Agreement
"Business Transfer Agreement " or " BTA"	means the Business Transfer Agreement dated on or about the date of this Agreement and entered into between DLRK and the Company for the transfer of the business of DLRK to the Company as therein provided ;
"CBK Contract"	means the 10 year term Bank Note Printing Agreement between the Company, and the Central Bank of Kenya
"Completion"	means the completion of the sale and purchase of the Sale Shares in accordance with clause 5;

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"Completion Certificates"	means the certificates to be delivered in accordance with clause 5.2 to the Purchaser on Completion by the Vendor and the Company
"Completion Date"	means the date determined pursuant to the provisions of clause 5.1 (or such other date as the Parties shall agree) on which Completion shall take place;
"Conditions Precedent"	means the conditions precedent to Completion, set out in clause 4;
"Disclosure Letter"	means the disclosure letters in agreed form from the Vendor to the Purchaser executed and delivered on the execution hereof and as updated for Completion together with the bundle of documents attached to it as a disclosure bundle.
"Intellectual Property/ Intellectual Property Rights"	means the full benefit of all patents, trademarks registered designs discoveries inventions copyrights and processes permitted to be utilized by the Company ;
"Purchaser's Advocates"	means Mboya Wangong'u & Waiyaki' Advocates of Lex Chambers, Maji Mazuri Road, Off James Gichuru Road, Lavington and Post Office Box Number 74041-00200 Nairobi;
"Purchase Price "	means the sum Sterling Pounds Five million
"the Sale Shares"	means 40% of the Shares being 800 shares of Kshs. 20/= each credited as fully paid in the issued share capital of the Company registered in the name of the Vendor following completion of the Business Transfer Agreement;
"the Shareholder's Agreement"	means the agreement between The Vendor , PST and the Company of even date for the purposes of regulating the relationship of shareholders in the Company;
"the Shares"	the 2,000 shares of KShs. 20 /= each (par value) all issued and credited as fully paid in the issued share capital of the Company registered in the name of the Vendor and its nominees following completion of the Business Transfer Agreement .

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"Vendor's Advocates"	means Daly & Figgis Advocates of 8th Floor, Lonrho House, Standard Street, Nairobi
"Warranties"	means the representations warranties and undertakings given by the Vendor referred to in clause 6 and the Second Schedule.

1.2 The Schedules to this Agreement constitute an integral part thereof;

1.3 The headings used in the Agreement are for convenience only and shall not constrain or affect its construction or interpretation in any way whatsoever;

1.4 Where the context so admits, any reference to the singular includes the plural, any reference to the plural includes the singular, and any reference to one gender includes all genders;

1.5 Wherever in this Agreement a period of time is referred to, the day upon which that period commences shall be the day after the day from which the period is expressed to run, or the day after the day upon which the event occurs which causes the period to start running;

1.6 Wherever in this Agreement obligation or liability is stated as being on any or both of the Vendor, the liability shall be deemed to apply jointly and severally to both of the Vendor.

References to days or dates (including without limitation to the Completion Date) which do not fall on a Business Day shall be construed as references to the day or date falling on the immediately subsequent Business Day.

2. SALE AND PURCHASE OF SHARES

2.1 In consideration of the payment of the Purchase Price hereinafter agreed to be paid by the Purchaser to the Vendor subject to the provisions of this Agreement and subject to fulfillment by the parties and satisfaction of the Conditions Precedent hereinafter contained :

2.1.1 the Vendor shall as beneficial owner sell; and

2.1.2 the Purchaser relying upon the representations warranties undertakings and indemnities by the Vendor in this Agreement shall purchase

the Sale Shares free from all trusts, liens, charges, assignments and encumbrances of any description (and other legal rights exercisable by third parties) for the Purchase Price set out in clause 3 herein.

2.2 The Purchaser shall be entitled to all dividends and distributions declared in respect of the Sale Shares any time after Completion.

2.3 The Purchaser shall not be obliged to complete the purchase of any of the Sale Shares unless the purchase of all the Sale Shares is completed simultaneously

2 4 The Vendor shall not be obliged to complete the sale of all of the Sale Shares unless payment in full of the Purchase Price and any accrued interest thereon shall be effected in accordance with the provisions of this agreement

3 CONSIDERATION

3.1 The consideration payable for the Sale Shares shall be the Purchase Price which shall be paid in two installments in the following manner:

3.1.1 The Sterling Pound equivalent of Kenya Shillings Five Hundred Million (KShs. 500,000,000.00 ("the First Installment") shall be paid to the Vendor's Advocates not later than sixty (60) days after execution of this Agreement to hold in escrow and release on the terms set out in clause 5 herein;

3.1.2 Subject to the conditions precedent set out in clause 4 herein having been fulfilled in accordance with the provisions of clause 4.2 herein, Sterling Pounds Five Million (£ 5,000,000 less the Sterling Pounds sum received by the Vendor's Advocates under clause 3.1 above ("the Second Installment") shall be paid to the Vendors Advocates not later than 30th September 2012, provided that if the Second Installment is paid later than 31st October 2012, it shall accrue interest at the rate of the three month Sterling London Inter Bank Offered Rate as quoted by the Vendors London Bankers plus two and a half per cent (2 ½ %), interest being applicable from 1st October 2012 but subject to the provisions of clause 5.6 below.

3.2 The monies to be held in escrow by the Vendor's Advocates under this clause 3 shall be held in an interest-bearing account for the benefit of the eventual payee of the money, whether the Vendor or the Purchaser, as the case may be.

4 CONDITIONS PRECEDENT

4.1 The obligation of the Parties to complete the sale and purchase of the Sale Shares pursuant to the provisions of this Agreement shall be conditional upon:

4.1.1 The Business Transfer Agreement having been completed in accordance with its terms and there being no outstanding warranty claims against the Vendor subsisting on the Completion Date ;

4.1.2 the Shareholder Agreement having been signed between the Parties contemporaneously with this Agreement in the form attached to the JVA.

4.1.3 The Vendor's Advocates shall have obtained from the Government of Kenya a letter to the effect that this Agreement and the Shareholders Agreement each constitutes a legally binding contract on the part of the Purchaser in accordance with their terms and that the Purchaser has waived all rights to Sovereign Immunity in respect of its obligations arising under this Agreement and the Shareholders Agreement which will be treated as private commercial contracts not entitled to Sovereign Immunity.

4.1.4 the passing of a resolution of the Shareholders and/or the Board of the Company (certified by the Company Secretary or the Chairman):

4.1.4.1 approving the transaction contemplated by and the terms of this Agreement;

4.1.4.2 authorising full completion of the Agreement (including, but not limited to, the transfer of the Sale Shares to the Purchaser conditional upon Completion taking place.

4.1.5 The Vendor shall have provided to the Purchaser a Certificate that no Material Adverse Change as defined in the BTA shall have occurred prior to the Completion of the BTA and that the business of the Company has been run in the ordinary course and the Purchaser being satisfied with the Certificate.

4.1.6 The Purchaser having confirmed in writing that it is satisfied with the terms of any Know How Licence and Technical Assistance Agreement and Pricing Agreement for the sub-contracting of Intra Group Security Printed Banknotes (whatever name is given to such contracts) between De La Rue International Limited (or any other De La Rue Group Company) and the Company whether such contracts be existing and be part of the Transferred Contracts under the BTA as referred to in the JVA or such contracts be proposed to be entered into.

4.1.7 The Parties having applied for and obtained approval pursuant to the Competition Act from the Competition Authority for the purchase of the Sale Shares.

4.2 The Parties shall respectively use all reasonable endeavours to procure that the conditions in clause 4.1 are fulfilled by 31st March 2012 or such later date as may be agreed but if all such conditions have not been fulfilled (or waived by the Purchaser or the Vendor as the case may be) by 30th June 2012 then either party may give notice in writing to the other terminating this Agreement which shall from the date such notice is given be void and of no effect save in respect of clauses 9, 11 and 18.

5 COMPLETION

5.1 Completion shall take place immediately following the completion of the BTA (or such later date as may be agreed upon between the Parties) at the offices of the Vendor or such other venue as the Parties may agree.

5.2 On the Completion Date, the Advocates of the Vendor and the Purchaser will hold a meeting at which

5.2.1 the Vendor's Advocates will deliver to the Purchaser's Advocates as escrow agents pending Completion and payment to the Vendor's Advocates of the First Installment:

5.2.1.1 In order to facilitate the entering into of the CBK Contact which is a condition precedent to the completion of the BTA and this Agreement and notwithstanding that only the First Installment shall be paid on Completion a duly executed transfer of the Sale Shares in favour of the Purchaser accompanied by the respective share certificate;

5.2.1.2 Stamp duty Form D duly completed with respect to the sale and purchase of the Sale Shares and signed by the Company's auditors;

5.2.1.3 Such waivers consents or other documents as may have been properly required and prior to the Completion Date so as to give a good title to the Sale Shares and to enable the Purchaser to become their registered holder;

5.2.1.4 A legal opinion from the Vendor's Advocates addressed to the Purchaser 's Advocates in the agreed form confirming the corporate status of the Company, the current Directors of the Company, that the Vendor is the registered and beneficial owners of the Sale Shares, that the Sale Shares are free from all encumbrances, that this Agreement constitutes a legally binding contract on the part of the Vendor, that so far as they are aware the Business Transfer Agreement has been completed in its terms, that so far as they are aware no unsatisfied claims have been made against the Vendor under the Business Transfer Agreement, that the execution and registration of share transfers has been conditionally approved by the board of the Company subject to payment of the First Installment and delivery by the Purchaser of a duly stamp duty exempted and executed transfer instrument in respect of the Sale Shares and that so far as they are aware no winding up and liquidation proceedings have been instituted or threatened against the Company;

5.2.1.5 a certified copy of the Memorandum and Articles of Association of the Company immediately prior to Completion;

5.2.1.6 a certified extract of the Board Resolutions of the Company conditionally authorising the transfer of the Sale Shares and the registration of the Purchaser as a member of the Company subject only to completion;

5.2.1.7 such other documents as the Purchaser may (by notice from the Purchaser's Advocates to the Vendor's Advocates given not less than fifteen (15) business days prior to Completion) reasonably require for the purposes of effecting Completion .

5.2.2 Consequent upon the transfer of all of the Sale Shares upon Completion notwithstanding that the Second Installment shall not have been paid so as to facilitate the provisions of clause 5 the Purchaser's Advocates will deliver to the Vendor's Advocates as escrow agents pending payment of the Second Installment of the Purchase Price and any interest that may have accrued thereon in accordance with the provisions of clause 3.2 to be held by them in Escrow subject to the provisions of clause 5.1:

5.2.2.1 a duly executed but undated transfer by the Purchaser in favour of the Vendor of the equivalent of the proportion of the Sale Shares in the Company (rounded to the nearest share) ascribed to the Second Installment and determined using the following formula: Second Installment/Purchase Price X Sale Shares ("the Balance Shares").

5.2.2.2 An irrevocable instruction by the purchaser to the Company requiring the Company to issue two share certificates covering the Sale Shares one

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for the proportion of the Sale Shares in the Company (rounded to the nearest share) ascribed to the First Installment and determined using the following formula: First Installment/Purchase Price X Sale Shares ("the Paid Shares") and one for the Balance Shares which later share certificate on issue is to be delivered by the Company to the Vendors Advocates to hold in escrow pending payment of the Second Installment.

5.2.2.3 such other documents as the Vendor may (by notice from the Vendors Advocates to the Purchasers Advocates given not less than fifteen (15) business days prior to Completion) reasonably require for the purposes of effecting a transfer of the Balance Shares back to the Vendor following the Purchaser's failure to pay the Second Installment of the Purchase Price and any interest that may have accrued thereon in accordance with the provisions of Clause 3.2. The Purchaser shall be responsible for any taxes or stamp duty charged on this transfer back to the Vendor and the Purchaser shall indemnify the Vendor for all taxes paid by the Vendor to achieve the purpose of this clause.

The documents set out above shall collectively be referred to as "Completion Documents".

5.2.3 On the Completion Date and subject to clauses 4.1.1 and 4.1.2, the Vendor will procure that a meeting of the Board of Directors of the Company shall be held at which:

5.2.3.1 Such two persons as the Purchaser may have previously nominated pursuant to the Shareholders Agreement will be appointed as Directors of the Company with immediate effect;

5.2.3.2 The share transfer referred to in clause 5.2.1.1 shall be approved for registration (subject to stamping);

5.2.3.3 The company secretary of the Company will be authorized to enter the name of the Purchaser in the Register of Members in respect of the Sale Shares and issue share certificates in respect thereof as provided in Clause 5.2.2

5.2.4 The Purchaser shall procure that the additional Directors to be appointed pursuant to clause 5.2.3.1 attend the said meeting of the Board of Directors and accept office.

5.3 Upon satisfaction of the foregoing and subject to the provisions of clause 3.1, the Purchaser shall pay the First Installment to the Vendor or the Vendor's Advocates designated bank account in immediately available cleared funds upon receipt of which by the Vendor or Vendors Advocates as the case may be the Purchasers Advocates shall release the Completion Documents held by them to the Purchaser.

5.4 Subject to the clause 3.1.2, the Purchaser shall pay the Second Installment and any interest that may have accrued thereon free of any deduction whatsoever to the Vendor or the Vendor's Advocate's designated bank account in immediately available cleared funds.

5.5 Upon payment of the Second Installment and any interest that may have accrued thereon the Vendor's Advocates shall release to the Purchaser's Advocate un-used the share transfer and share certificate and Authority held by them in accordance with clause 5.2.2

5.6 In the event that the Second Installment shall have not have been paid by the Purchaser by 30th June 2013 then for the purposes of this Agreement the number of Sale Shares shall automatically be deemed to have been reduced by the Balance Shares and the Consideration therefore limited to the First Installment, consequent upon which:

5.6.1 the Second Installment shall no longer be payable and

5.6.2 the Vendor's Advocates shall release to the Vendor the documentation held by them pursuant to Clause 5.2.2; and

5.6.3 the Vendor shall be entitled to procure the transfer back to it or any of its Associates the Balance Shares

5.6.4 Provided that if only a part of the Second Installment is paid, the shares to be transferred back to the Vendor (rounded to the nearest share) will be determined in accordance with the following formula: **Amount of Second Installment not paid/Purchase Price X Sale Shares.**

5.7 If in any respect the provisions of clause 5.1 are not complied with on the Completion Date the party not in default may:

5.7.1 defer the Completion to a date not more than 30 days after the Completion Date (and so that the provisions of clause 5.1 shall apply to Completion as deferred); or

5.7.2 proceed to Completion so far as practicable (without prejudice to its rights under this Agreement); or

5.7.3 upon having given not less than 14 days prior notice in writing specifying the default and its intention so to rescind this Agreement, without prejudice to any other remedy and without incurring any liability to the other party if such other party shall not prior to the expiry of the notice aforesaid rectify such breach and upon such termination and regardless of the party in default or breach, the amount of the Purchase Price as shall be held in escrow under the provisions of clause 3 shall be refunded to the Purchaser, without any deduction or set-off whatsoever inclusive of interest but less any bank charges applicable to effect the refund within forty eight (48) hours of the expiry of the notice.

6 WARRANTIES

6.1 The Vendor hereby warrants to the Purchaser that (except as disclosed to the Purchaser in the Disclosure Letter as at the date of this Agreement and also the Completion Date) as at the date of this Agreement and also the Completion Date (as if the Warranties were repeated on the Completion Date except as subsequently disclosed by the Vendor to the Purchaser provided that such disclosure is in respect of any matter which is itself not a breach of warranty but of matters which subsequently occurred merely by the passage of time provided that the new Disclosure Letter shall not prejudice the Vendor's right to claim for a breach of Warranty as at the date of this Agreement) each of the statements set out in the Second Schedule is to the best of its knowledge information and belief after full and proper enquiry true and accurate and fairly represented and that any documents which are attached to the statements or delivered with them (and/or referred to therein) are true and up to date copies of the documents they purport to be and no

material fact has been omitted from the statements which might render any of that information incomplete or misleading as at the date of this Agreement and the Vendor accepts that the Purchaser is entering into this Agreement in express and exclusive reliance upon each of the Warranties and subject as hereinafter provided indemnifies the Purchaser accordingly. Provided always and the Purchaser warrants to the Vendor that as of the Date hereof neither it nor any of its professional advisors or employees are aware of any matter which could give rise to any claim under the Warranties provided that such knowledge by the Purchaser or any of its professional advisors or employees shall not prejudice the Purchaser's right to bring any claim whatsoever in respect of the herein warranties and representations herein given or made by the Vendor to the Purchaser, save for the avoidance of doubt that which is disclosed in the Disclosure Letter which shall according to its terms prejudice the right to bring any claim whatsoever.

6.2 The Vendor warrants that it has the right and authority to sell the full beneficial interest in the Sale Shares and to transfer the legal title to each of the Sale Shares;

6.3 The Vendor warrants that none of the Sale Shares are subject to any dispute as to legal or beneficial ownership whatsoever;

6.4 The Vendor undertakes to disclose to the Purchaser promptly prior to and after Completion anything which comes to the Vendor's notice which is to the knowledge of the Vendor materially inconsistent with any of the Warranties.

6.5 The Vendor undertakes (in the event of any claim being made against it pursuant to the provisions of this Agreement) not to make any claim against the Company or its employees and directors in respect of the matter giving rise to such claim.

6.6 In the event any Warranty given by the Vendor herein is shown to be incorrect or inaccurate, the Vendor shall indemnify the Purchaser in respect of its loss in respect thereof.

6.7 The Purchaser shall have the right to rescind this Agreement by notice to the Vendor if prior to Completion:

6.7.1 If the Vendor is found to be in any material breach of any of the Warranties or any other provision of this Agreement;

6.7.2 it appears that any of the Warranties is or has become materially inaccurate or misleading;

Provided that any such rescission or the failure of the Purchaser upon the occurrence of any such act or event or discovery of such circumstance to rescind this Agreement will not extinguish any right to damages or other compensation to which the Purchaser may be entitled in respect of such breach or the occurrence of such event.

6.8 The rights and remedies of the Purchaser in respect of any breach of the Warranties shall not be affected by the Completion, by any investigation made by it or on its behalf into the affairs of the Company, by its rescinding or failing to rescind this Agreement, or failing to exercise or delaying the exercise of any right or remedy, or by any other event or matter, except a specific and duly authorised written waiver or release, and no single

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or partial exercise of any right or remedy shall preclude any further or other exercise.

6.9 Any information supplied by or on behalf of the Company or its officers, employees, agents, representatives or advisers to the Vendor or its agents, representatives or advisers in connection with, or which forms the basis of, any of the Warranties, the information disclosed or otherwise in relation to the business and affairs of the Company (whether before or after the date hereof) shall not constitute a warranty, representation or guarantee as to the accuracy of such information in favour of the Vendor and shall not constitute a defence to any claim by the Purchaser. The Vendor hereby irrevocably waives any and all claims against the Company, its officers, employees or agents in respect of any information so supplied (and undertake that no other person claiming under, or through, any of them will make any such claim).

6.10 The benefit of the Warranties may be assigned in whole or in part and without restriction to any purchaser of the Sale Shares provided that such purchaser shall:

6.10.1 be the Central Bank of Kenya or an entity controlled by the Central Bank of Kenya; or

6.10.2 be a state corporation within the meaning of the State Corporations Act (Cap. 466, Laws of Kenya) and which;

6.10.2.1 has not less than 75% direct Government ownership and control; and

6.10.2.2 is a 100% Kenyan owned and controlled entity.

6.11 If, at any time after the date of this Agreement, any claim is made by a third party or any liability of the Company to a third party (actual or contingent) comes to the notice of the Purchaser (a "third party claim") which causes or may cause the Vendor to be liable under the Warranties, then the Purchaser shall to the extent of its loss, forthwith notify the Vendor of the same in writing and subject to the Vendor providing an indemnity reasonably satisfactory to the Purchaser in respect of all costs, liabilities, claims and expenses which may be incurred by the Purchaser or the Company as a result of the same:

6.11.2 the Vendor shall be entitled at its expense to take or procure that the Company shall in its name take such action as the Vendor may reasonably require to avoid, contest, dispute, resist, appeal, compromise or defend the third party claim (including, but without limitation, making counter-claims and exercising all rights of set-off against third parties);

6.11.3 the Purchaser shall provide the Vendor with all such information concerning any such third party claim as the Vendor may reasonably request in writing;

6.11.4 no third party claim shall be compromised or settled by the Purchaser or the Company without the consent of the Vendor (such consent not to be unreasonably withheld or delayed); and

6.11.5 the Vendor shall in any event keep the Purchaser and the Company informed as to the steps which are being taken in connection with the third party claim.

6.12 The Vendor shall indemnify the Purchaser against any losses, expenses or damages that

may be incurred by the Purchaser arising from tax claims in accordance with the terms of the Tax Indemnity set out in the Fourth Schedule.

7. LIMITATION OF LIABILITY PURSUANT TO THE WARRANTIES/INDEMNITY

7.1 The Vendor shall not have any liability to the Purchaser under the Warranties given by the Vendor or on any other basis whatsoever or howsoever arising if any matter giving rise to such a claim for breach of Warranty by the Vendor :

(a) is disclosed in the Disclosure Letter;

(b) is a result of any legislation or regulations which were not in force at the Transfer Date of in relation to any claim against the Vendor or if it results from an amendment to existing legislation or a modification in the interpretation of any legislation or regulation or an increase in the rate of tax; or

(c) arose after Completion from an act or omission of the Purchaser other than any action so necessitated resulting from an earlier action of the Vendor .

7.2 Notwithstanding any provisions contained in this Agreement, the Vendor shall only be liable for any breach of the Warranties given by the Vendor where the liability relates to an act or omission which occurred or arose on or before (but not after) the Completion Date and further only if the breach remains unremedied as at Completion and provided further that the Purchaser shall have notified the Vendor of the potential claim forthwith upon the Purchaser becoming aware of the potential for a claim and in any event within three months of the claim arising, time being of the essence.

7.3 In settling any damages or other amounts recoverable for a claim under the Warranties given by the Vendor, there shall be taken into account any benefit actually received or realised by the Purchaser or the Company on account of such loss giving rise to such claim and resulting directly from any reduction, savings or recovery of debts, taxes and duties, any payment under any insurance policy or any recovery as a result of any litigation brought by the Purchaser or the Company.

7.4 The Purchaser shall not be entitled to make any claim for breach of Warranty or any other claim whatsoever or to recover any loss or damages in respect of any such potential claim:

(a) In respect of any claim of less than the equivalent of GBP 1000 nor unless and until the aggregate amount of individual losses in excess of GBP 1,000 which may be recovered from the Vendor equals or exceeds GBP 150,000; nor

(b) where the potential claim relates to any loss which is fully indemnified by insurance; nor

(c) if such liability would not have arisen but for something voluntarily done or omitted to be done by the Purchaser after Completion, *other than* (i) pursuant to a legally binding commitment created on or before Completion (ii) in relation to a matter that is in the ordinary and usual course of business, or (iii) where such action or omission of the Purchaser was as a consequence of any act or omission of the Vendor (iv) and where the Purchaser was aware that any such action could result in a breach.

7.5 The liability of the Vendor under the Warranties shall cease after three years from Completion except in respect of matters which have been the subject of a bona fide written claim made before such date by the Purchaser and provided that if the relevant claim or claims has arisen by reason of fraud, fraudulent misrepresentation, wilful concealment, wilful misconduct or dishonesty on the part of the Vendor there shall be no limit on the time period within which such claims may be brought provided that any such claim is brought within two years of it being discovered.

7.6 Without prejudice to the time limits set out in Clause 7.5 above, any claim under the Warranties given by the Vendor shall if it has not been previously satisfied, settled or withdrawn be deemed to have been withdrawn and shall become fully barred and unenforceable on the expiry of the later of four (4) years from the date of this Agreement or 18 months after the date that written notice of such claim was or should have been presented by the Purchaser to the Vendor pursuant to and subject to the time limit in Clause 7.2, unless proceedings in respect of such claim shall have been commenced against the Vendor within the said later period .

7.7 The total liability of the Vendor to the Purchaser shall notwithstanding the provisions of clause 7.8 at all times be limited to the Consideration paid pursuant to clause 3.

7.8 Nothing herein provided and no claim made under this Agreement shall be deemed to prevent the Company at the instance of the Purchaser from making any claims pursuant to any breach of warranty against DLRK as the Vendor of the Business and Assets under the Business Transfer Agreement. Any such claims shall pro tanto discharge any liability of the Vendor to indemnify the Purchaser in accordance with the provisions of the Agreement. Any payments made pursuant to the warranties /indemnity by Vendor to Purchaser shall be treated as an adjustment to the Consideration paid for the Sale Shares

8. NON-COMPETITION AND NON-SOLICITATION

8.1 The Vendor covenants with the Purchaser that except as otherwise agreed in writing with the Purchaser neither it nor its Affiliated Companies will during the term of this agreement

8.1.1 either solely or jointly with or a manager agent or consultant of any other person (corporate or unincorporate) carry on or be engaged or concerned or interested directly or indirectly within Kenya in the business of currency and security print;.

8.1.2 Solicit the clients of the Company;

8.1.3 induce or seek to induce away from the Company with a view to engaging them in any competing business any director manager employee consultant or representative employed or engaged by the Company other than those provided by or seconded to the Company by the DLR Group;

8.1.4 save for its interest in the Company, own beneficially or otherwise or be interested in the share capital of any company engaged, directly or indirectly, in the business of currency and security print in Kenya

8.2 The Vendor covenants that it shall procure that it will not , unless directly invited by the Central Bank of Kenya ,directly or indirectly bid for or compete for or carry on any security printing business for the Kenya government, any of its departments or agencies or any other entity, governmental or private, resident or carrying on business in Kenya , except through the Company.

8.3 The Vendor acknowledges that the covenants contained in this are no greater than is reasonable or necessary for the protection of the interests of the Shareholders and further that such

covenants shall be deemed to be entire separate severable and separately enforceable in the widest sense.

8.4 For purposes of this clause 8, the term "Client" shall mean any person who or which the Company has entered into contracts for the provision of any services in Kenya falling within the business of the Company as set out in clause 1 of this Agreement or provision of related services.

Provided always that if, for any reason, the Government of Kenya does not award the CBK Contract to the Company after the expiry of the initial ten-year CBK Contract with the Company or in the event of termination of the CBK contract with the Company for reasons of breach or non-performance on the part of the Company, CBK shall not be deemed to be in breach of the non-competition and non-solicitation covenants set out in this clause in relation to the solicitation by the Central Bank of Kenya of a new bank note printing contract

9. CONFIDENTIALITY

Each of the Parties shall keep confidential this Agreement and shall not, without the consent of the other Party, disclose to any other person nor use for any purpose any information obtained from the other party as a result of negotiating, entering into or implementing the agreement other than information which:

9.1 Is required to be disclosed by operation of law, or any requirement of a competent Authority;

9.2 Is reasonably required to be disclosed in confidence to a party's professional advisors for use in connection with the proposed acquisition contemplated herein in which case the professional adviser shall be bound by the same standards of confidentiality as are required of the Parties;

9.3 Is or becomes within the public domain (otherwise than through the default of the recipient party).

10. PUBLIC ANNOUNCEMENT

No public announcement or press release in connection with the subject matter of this Agreement shall be made or issued by or on behalf of any party unless the content of such statement or announcement has been substantively agreed upon in writing by the Parties, except as may be required by law, government policy or by any governmental authority.

11. COSTS

11.1 Each party shall bear its own costs incurred in connection with the negotiation, preparation, completion and implementation of this Agreement but any stamp duty payable shall be borne and paid by the Purchaser.

11.2 The Parties acknowledge that the Company may under the Business Transfer Agreement commission a post-completion audit following the purchase of the business and assets. Should the Purchaser wish for the Company to carry out such a post-completion audit within 3 months of Completion the cost of such post-completion audit shall be borne by the Company and the

Vendor will not use its majority voting rights to prevent the Company from commissioning such an audit.

12. DISPUTE RESOLUTION

12.1 This Agreement and its performance shall be governed by and construed in all respects in accordance with the laws of Kenya.

12.2 Any dispute, controversy or claim arising out of or relating to this Agreement or a termination hereof, or the interpretation, breach or validity hereof, shall be resolved by way of consultation held in good faith between the parties. Such consultation shall begin immediately after one party has delivered to the other written request for such consultation. If within fifteen (15) days following the date on which such notice is given the dispute cannot be resolved, the dispute, controversy or claim shall , if so requested by either Party, be finally resolved in accordance with the rules of the Chartered Institute of Arbitrators of the United Kingdom (which rules are deemed to be incorporated by reference into this clause subject to and in accordance with the provisions of the Arbitration Act of Kenya, 1995) by an Arbitrator appointed by agreement of the Parties and failing such agreement within twenty one 21 Business Days of a request therefore by either Party, by an Arbitrator appointed by the Chairman for the time being of the Kenya Branch of the Chartered Institute of Arbitrators, who shall have regard to the nature of the dispute in making such appointment

12.3 The place of arbitration shall be Arusha, Tanzania and the language of the arbitration shall be English.

12.4 The award of the arbitration tribunal shall be final and binding upon the Parties and any Party may apply to a court of competent jurisdiction in Kenya for enforcement of such award. The award of the arbitration tribunal may take the form of an order to pay an amount or to perform or to prohibit certain activities.

12.5 Notwithstanding the above provisions of this Clause, a party is entitled to seek preliminary injunctive relief or interim or conservatory measures from any court of competent jurisdiction in Kenya pending the final decision or award of the arbitrators.

13. SURVIVAL OF WARRANTIES

The Warranties, and all undertakings or representations contained in, or obligations imposed by this Agreement shall survive Completion and continue in full force effect notwithstanding Completion, except for those obligations to be performed on or prior to Completion but only to the extent that they have been so performed.

14. NOTICES

14.1 Any notice to be given for the purposes of this Agreement shall either be delivered personally or sent by registered post or telefax (facsimile transfer) or electronic mail.

14.2 The address for service for each of the parties shall be that set out below or such other address as either of the parties shall nominate by notice in writing to the other party for the purpose:

To the Vendor:

The Managing Director

Rue de Morat 11

1700 Fribourg
Switzerland
Telephone: +41263472610
Fax : +41263472615

With a copy to the General Counsel

De La Rue plc
De La Rue House
Jays Close
Basingstoke RG22 4BS UK
Tel - +44 1256 605000
Fax - +44 1256 605336

To the Company:

The General Manager

Noordin Road
Off Thika Road
Nairobi Kenya
Tel: 254-2-8560086
Fax: 254-2-8560787

With a copy to the General Counsel

De La Rue plc
De La Rue House
Jays Close
Basingstoke RG22 4BS UK
Tel - +44 1256 605000
Fax - +44 1256 605336

To the Purchaser:

Permanent Secretary Treasury (or its Government of Kenya successor in the event of a re-organization)
The Treasury Building
P.O. Box 30007 - 00100
NAIROBI
Telephone:
Fax:
Email:
For the Attention of:

With a copy to the Investment Secretary (or its Government of Kenya successor in the event of a re-organization)

The Treasury Building

P.O. Box 30007 - 00100
NAIROBI

14.3 A notice shall be deemed to have been served as follows:

(a) if personally delivered at the time of delivery;

(b) if sent by registered post at the expiration of fourteen (14) days after the same was delivered into the custody of the postal authorities;

(c) if sent by telefax (facsimile transfer) or electronic mail, twenty four hours after dispatch provided that a hard copy of such Notice shall within 24 hours thereafter have been dispatched or served by another permitted method of service .

14.4 In proving such service it shall be sufficient to prove that delivery was made or that the envelope containing such notice was properly addressed and delivered into the custody of the postal authorities as registered post letter or that the telefax (facsimile transfer) or electronic mail was properly addressed and dispatched and acknowledged as having been correctly transmitted .

15. FORCE MAJEURE

15.1 Neither Party shall be liable to the other Party in respect of any delay in performing or failure to perform any of its obligations hereunder if such delay or failure results from acts or intervention of Government or Government agencies, fire, flood or explosion, acts of God, declared or undeclared war, or riots or civil commotion, strikes or other industrial disputes, any act neglect or default of the other Party, or other any cause outside its reasonable control.

15.2 If the performance of a particular Party's obligations under this Agreement is in the opinion of that Party likely to be hindered, delayed or affected by a reason falling within clause 15.1, then the Party so affected shall promptly notify the other Party in writing. If the force majeure event continues for a further 60 days, then the party not so affected may upon written notice terminate this agreement and neither party shall have any further obligations hereunder save for antecedent breach.

16. ASSIGNMENT

No rights or obligations under this Agreement may be assigned by either Party without the prior consent of the other parties hereto.

17. AMENDMENT

Any variation or amendment to this Agreement shall not be effective unless recorded in writing and executed by the Parties in the same manner as this Agreement.

18. ENTIRE AGREEMENT

This Agreement constitutes the entire Agreement between the Parties in relation to the acquisition contemplated herein and supersedes any prior agreements and arrangements between the parties concerning the subject matter hereto.

19. GOVERNING LAW

This Agreement shall be governed by and construed in all respects in accordance with the laws of the Republic of Kenya.

IN WITNESS WHEREOF the duly authorized representative of the Permanent Secretary of the Treasury of Kenya pursuant to the provisions of The Permanent Secretary to the Treasury Act Cap 101 Laws of Kenya and the Government Contracts Act Cap 25 Laws of Kenya and the duly authorised representatives of each of TDLRAG and the Company have hereunto set their hands

SIGNED for and on behalf of Thomas De La Rue AG:

Name: _____

Designation: _____

Signature: _____

Date: _____

SIGNED for and on behalf of De La Rue Kenya EPZ Limited:

Name: _____

Designation: _____

Signature: _____

SIGNED for and on behalf of The Permanent Secretary to the Treasury:

Name: _____

Designation: The Permanent Secretary Treasury

Signature: _____

In the presence of:

)
)
)
)
)

FIRST SCHEDULE

Details of the Company

Corporate Name	De La Rue Kenya EPZ Limited
Country of Incorporation	Kenya
Corporate Status	Private company limited by shares
Registration Number	CPR/2011/3928
Registered Office	8th Floor Lonrho House Standard Street Nairobi
Date of Incorporation	17th January 2011
Authorised Share Capital	40000 shillings
Issued and to be issued Share Capital	40000 shillings
Shareholders	Thomas De La Rue AG. De La Rue Holdings Plc
Directors	a) David Hepple b) Keith Noel Brown c) Kenneth Hamish Wooler Keith
Company Secretary	Kenneth Hamish Wooler Keith
Auditors	KPMG Kenya

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transaction contemplated herein is prohibited by or violates any legal provision and will not result in breach of any applicable law rule regulation judgement decree order or other requirements of the law of Kenya or of any Court authority department commission or agency constituted in Kenya;

3.4 This Agreement constitutes and imposes valid legal and binding obligations on the Vendor fully enforceable in accordance with the terms hereof.

4. BUSINESS PLAN

4.1 The Business Plan has been diligently prepared and, as at the date of this Agreement, and Vendor believes that it represents a realistic plan in relation to the future progress, expansion and development of the Business based on the facts and circumstances known the Vendor at the time at which it was prepared.

4.2 All factual information contained in the Business Plan was when given, and is at the date of this Agreement, true, complete and accurate in all material respects and not misleading.

4.3 The financial forecasts, projections or estimates contained in the Business Plan have been diligently prepared, are fair, valid and reasonable and are not in need of material amendment, modification, review or other alteration, nor have they been disproved in the light of any material events or circumstances which have arisen after the preparation of the Business Plan up to the date of this Agreement. The assumptions on which the prospects of the Company are based, as stated in the Business Plan, are set out in the Disclosure Letter and have been carefully considered and the Vendor believes that, having regard to the information available and to the market conditions prevailing at the time that the Business Plan was prepared, they were reasonable.

4.4 The Vendor believes that all statements of opinion in the Business Plan are fair and reasonable and are not misleading.

4.5 All matters within management control which could materially and adversely affect the achievement of the financial forecasts in the Business Plan (other than general economic factors) are referred to in the Business Plan and have been taken into account in its preparation.

5. TRANSFER OF BUSINESS

The Vendor warrants to the Purchaser that DLRK will have fulfilled all its obligations under the Business Transfer Agreement and that the Transfer of DLRK's business to the Company as contemplated under the Business Transfer Agreement will upon Completion be complete.

6. OPTIONS MORTGAGES AND OTHER ENCUMBRANCES

6.1 there is no mortgage, charge, pledge, lien or other form of security or encumbrance on, over or affecting, and there is no option or right to acquire or call for the issue (including pursuant to conversion rights) of, any of the share or loan capital of the Company (including, without limitation, the Shares) and there is no agreement or commitment to

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2.2 Since the Date of Incorporation of the Company save as contemplated by the Business Transfer Agreement:

2.2.1 no share capital of the Company has been issued or allotted or agreed to be issued or allotted whether conditionally or absolutely save as disclosed in this Agreement;

2.2.2 the Company has not undergone any capital reorganization or change in its capital structure;

2.2.3 no resolutions have been passed by the Company which affect its share capital; and

2.2.4 nothing has been done in the conduct or management of the affairs of the Company which would be likely to prejudice the interests of the Purchaser as prospective purchaser of the Sale Shares.

2.3 The Company has not at any time:

2.3.1 reduced its share capital;

2.3.2 redeemed any share capital;

2.4 No shares in the capital of the Company have at any time been issued and no transfers of shares in the capital of the Company have been registered otherwise than in accordance with the Articles of Association of the Company from time to time in force and the Companies Act.

2.5 No dividends or other distribution of profits have been declared made or paid since the Date of Incorporation of the Company, and

3. CAPACITY OF THE VENDOR TO ENTER AGREEMENT

3.1 The Vendor is the beneficial owner of the Sale Shares and is entitled to transfer the full legal and beneficial ownership of the Sale Shares without the consent of any third party.

3.2 The execution and delivery and completion of this Agreement will not:

3.2.1 cause the Company to lose the benefit of any present or future right,

3.2.2 relieve any person of or entitle any person to determine any contractual or other obligation to the Company;

3.2.3 entitle any person to exercise any contractual or other right (including a right of pre-emption) in respect of the Company;

3.2.4 result in any present or future indebtedness of the Company becoming due or capable of being declared due and payable prior to its stated maturity;

3.2.5 result in a breach of any provision of the Memorandum or Articles; or

3.2.6 result in a breach of, or constitute a default under, any instrument to which the Company or any or both of the Vendor is a party or by which each such party is bound or any order or judgement or decree of any court or competent tribunal or governmental agency.

3.3 Neither the execution or delivery of this Agreement by the Vendor nor Completion of the

The Warranties and Undertakings referred to in Clause 6 of the Agreement are as follows except as otherwise disclosed under this Agreement

1. ACCURACY OF INFORMATION AND CORPORATE MATTERS

1.1 The information given in the Recitals to this Agreement and in the First Schedule is complete true and accurate in all respects and nothing has been omitted which could make such information inaccurate or misleading in any respect.

1.2 All information contained in the Warranties is true, complete and accurate in all material respects and there is no fact or matter which renders or which might render any such information untrue, incomplete, inaccurate or misleading in any respect or which might affect the willingness of the Purchaser to purchase the Sale Shares on the terms (including as to price) of this Agreement.

1.3 The copy of the Memorandum and Articles of the Company supplied by the Vendor to the Purchaser is true and complete and has embodied therein or annexed thereto a copy of every resolution passed by the Company amending the same.

1.4 No allotment of share capital of the Company has been made in contravention of the provisions of the Companies Act and neither has the Company made unlawful distribution.

1.5 The Company has complied in all material respects with the provisions of all applicable legislation and all returns, particulars, resolutions and other documents required under any legislation to be delivered on behalf of the Company to the Registrar of Companies in Kenya or to any other authority whatsoever have been properly made and delivered.

1.6 The statutory books (including all registers and minute books) of the Company have been properly kept and are up to date and contain an accurate and complete record of the material matters which ought to be dealt with in those books and no notice or allegation that any of them is incorrect or should be rectified has been received.

1.7 The Company has maintained and continues to maintain readily available for inspection by members of the public all documents required to be made so available by the Companies Act

2. THE SHARES AND SHARE CAPITAL

2.1 There are no agreements or other arrangements in force other than the Business Transfer Agreement which:

2.1.1 provide for the present or future issue allotment or transfer of; or
2.1.2 accord to any person the right (absolute or conditional) to call for the issue allotment or transfer of

any share in the share capital of the Company (including any option or right of pre-emption or conversion.

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SECOND SCHEDULE

THE WARRANTIES

(Referred to in Clause 6 of the Agreement)

1.	Accuracy and Adequacy of and Access to Information
2.	The Shares and Share Capital
3.	Capacity of the Vendor/Company to enter Agreement
4.	Business Plan
5.	Transfer of Business
6.	Options, Mortgages and other Encumbrances
7.	Accounts
8.	Events since the Date of Incorporation
9.	Financial Commitments and Borrowings
10.	Insolvency
11.	Business
12	Intellectual Property
13	Contracts and Commitments
14.	Terms of Trade
15.	Arrangements with Connected Persons
16.	Litigation
17.	Insurance
18.	Employees and Consultants
19.	The Assets
20.	Subsidiaries
21.	Taxation
22.	Pensions
23.	Competition and Trade Regulation Law

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give or create any of the foregoing and no claim to be entitled to any of the foregoing has been made by any person; and

6.2 no option, right to acquire, mortgage, charge, pledge, lien or other form of security or encumbrance or equity on, over or affecting the whole or any part of the undertaking or assets of the Company is outstanding and there is no agreement or commitment to give or create any of the foregoing and no claim to be entitled to any of the foregoing has been made by any person.

7. ACCOUNTS

7.1 At Completion the Accounts shall exhibit:

7.1.1 Fixed Assets of £3,458,000 less depreciation between 31 March 2011 and the date of Completion as deducted by De La Rue Currency and Security Print Limited;

7.1.2 Combined Cash and Inventory of not less than £3,000,000, with at least £500,000 in cash;

7.1.3 Shareholders Funds of not less than £5, 500,000; and

7.1.4 No Borrowings or indebtedness other than Trade Payables as set out in the pro forma Balance Sheet.

7.1.5 Net Current Asset position of not less than £1,500,000

7.2 All proper and necessary books of account, ledgers, registers and records have been fully, properly and accurately kept and completed by the Company and contain full and correct information relating to all transactions to which the Company has been a party in accordance with law and generally accepted accounting practice.

8. EVENTS SINCE INCORPORATION OF THE COMPANY

Since acquisition of the business by the Company under the Business Transfer Agreement:

8.1 the Company has carried on its Business in the ordinary and usual course with a view to profit and so as to maintain the same as a going concern and without entering into any transaction, or assuming any liability of a long term (i.e. in excess of one year) or onerous or unusual nature, or making any payment which is not in the ordinary course of its business and without any material interruption, reduction or alteration in the nature, scope or manner of its business;

8.2 the Company has not incurred any liability for any capital expenditure nor committed itself to any forward purchasing contracts;

8.3 no distribution of capital or income has been declared, made or paid in respect of any share capital or assets of the Company;

8.4 no debenture stock or loan capital of the Company has been issued or agreed to be issued; and

8.5 no resolution of the Company in general meeting has been passed other than as allowed

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or mandated by this Agreement.

9. FINANCIAL COMMITMENTS AND BORROWINGS

9.1 The Company is not a party to (and has not agreed to enter into) any lending (or purported lending) agreement or arrangement, including, without limitation, the granting of financial accommodation or of credit to the Vendor or any director of the Company (or any connected persons or associates of any of them) or any other person (other than agreements to give credit in the normal course of its business) or any agreement or arrangement which is *ultra vires* the Company.

9.2 The Company is not exceeding any borrowing limit imposed upon it by its bankers or by other lenders or by the Articles or otherwise and has not entered into any commitment or arrangement which might lead it so to do.

9.3 Full and accurate details of all bank mandates and bank accounts of the Company have been disclosed to the Purchaser and the Company has no other bank or deposit account not included in such disclosure.

9.4 The Company is not in default under, and no event has occurred which would constitute a breach under, any borrowing or facility agreement to which it is party or which could result in any present or future indebtedness of the Company becoming due or capable of being declared due and payable prior to its stated date of maturity.

9.5 The Company has no credit cards in issue in its own name or that of any officer or employee of the Company or any person connected with any officer or employee.

10. INSOLVENCY

10.1 No order has been made or resolution passed or petition presented for the winding up of the Company or for a provisional liquidator to be appointed in respect of the Company and no meeting has been convened for the purpose of winding-up the Company.

10.2 No receiver has been appointed in respect of the Company or all or any of its assets.

10.3 No distress execution or other process has been levied in respect of the Company's undertaking or assets or any part thereof and the Company has not received any notice under nor is it unable to pay its debts for the purposes of any applicable insolvency legislation.

10.4 No unsatisfied or unfulfilled judgement or Court order is outstanding against the Company.

11. BUSINESS

11.1 All government, government agency and local authority licences, consents, permissions and authorities have been obtained by the Company.

11.2 So far as the Vendor is aware, there are no matters of a material nature relating to or affecting the Company in dispute with any government authority within Kenya or elsewhere.

11.3 The Company does not operate a place of business or have any branch outside Kenya.

12. INTELLECTUAL PROPERTY

12.1 The Company does not carry on business under any name other than its corporate name for any purpose.

12.2 The only Intellectual Property Rights used by the Company in connection with its business either belong to the Company or are provided for in agreements to which the Company is party (and which have been disclosed to the Purchaser) and which are in full force on the Transfer Date.

12.3 The Company does not require any intellectual property rights (other than the Intellectual Property Rights) in order to use any of the processes employed in the Business for purposes of carrying out its business in the normal course.

12.4 Neither the business of the Company nor any of its operations infringe the Intellectual Property Rights of any other person or give rise to a liability on the part of the Company to pay any royalty or other compensation except as have been expressly disclosed to the Purchaser in writing.

12.5 Save in respect of applicable provisions contained in the agreements the Company is not party to any agreement or arrangement for the licensing or the use or provision or acquisition or assignment or sale or transfer of any Intellectual Property or which prohibits or restricts the ability of the Company to disclose or use any Intellectual Property.

12.6 Save as provided in the Business Transfer Agreement or the Company's contracts with its customers the Company is not subject to any secrecy agreement or agreement which may restrict the use or disclosure of information.

13. CONTRACTS AND COMMITMENTS

So far as the Vendor is aware, the Company is not a party to nor liable in respect of nor is any asset or property owned or used by the Company affected by:

13.1 any contract, covenant, commitment or arrangement that has not been disclosed to the Purchaser:

13.1.1 which is of an onerous or unusual nature or which is likely to involve undue or unusual or exceptional expenditure of money or effort or which is likely to be unprofitable;

13.1.2 which cannot readily be fulfilled or performed by it on time;

13.1.3 which is outside the ordinary and usual course of the business of the Company as now carried on;

13.1.4 which in any way restricts the Company's freedom to carry on its business or any part thereof in Kenya in such manner as it thinks fit;

13.1.5 which relates to the management of the Company's business;

13.1.6 which is, or is or may be liable to be, terminated or altered by another party as a result of any change in the control, management or shareholders of the Company; or

13.1.7 which is invalid, or which is or may be liable to be terminated, avoided, repudiated or rescinded;

13.2 any partnership, joint venture, consortium, trade association or society or any agreement or arrangement relating thereto;

13.3 any selling, purchasing, manufacturing, licensing, franchising, agency, distribution or other similar agreement relating to sale or provision of goods or services by or to the Company other than in the ordinary course of the Company's business;

13.4 other than in the ordinary course of business any offer or tender or similar matter given or made by the Company which is still outstanding and capable of giving rise to a contractually binding commitment by the unilateral act of a third party;

13.5 other than in the ordinary course of business any leasing, hiring, hire-purchase, credit sale or conditional sale agreement or other agreement providing for periodical payment;

13.6 other than in the ordinary course of business, any guarantee, letter of credit, indemnity, surety or similar commitment,

13.7 other than in the ordinary course of business any power of attorney or other authority (express or implied or ostensible),

13.8 other than in the ordinary course of business any contract for services or for the future delivery of goods; or

13.9 so far as the Vendor is aware, any oral contract adversely material to the Company's business or financial or trading position.

14. TERMS OF TRADE

The Company has not done or omitted to do anything in contravention or breach of any applicable legislation in Kenya regulating trade descriptions.

15. ARRANGEMENTS WITH CONNECTED PERSONS

15.1 Save as has been disclosed, none of the Directors (nor any associate or connected person of any of them) has any interest, direct or indirect, in any agreement, arrangement or understanding (whether legally enforceable or not):

15.1.1 to which the Company is a party; or

15.1.2 in any business which has a close trading relationship with that of the Company or which is or is likely to become competitive with the business of the Company.

15.2 Save for remuneration and expenses properly due to its Directors in the ordinary course, there are no amounts owing and no amounts have been paid, whether by way of dividend, management charge, capital interest charge or otherwise howsoever, by or to the Company to or by the Directors or any person connected with any of them and the Company is under no liability (contingent or otherwise) in respect of any guarantee, suretyship, indemnity or like obligation given by or binding on the Company in respect of any liabilities or obligations of the Vendor , the Directors or any connected persons as aforesaid.

16. LITIGATION

16.1 the Company is not engaged or proposing to engage in or the subject of any litigation, arbitration, investigation, prosecution or other legal or tribunal proceedings or any claims or actions;

16.2 no litigation, arbitration, investigation, prosecution or other legal or tribunal proceedings or claims or actions are in progress or outstanding or pending or threatened by or against the Company (or any of its assets or any person for whom it is vicariously responsible) in respect of which the Company is or could be liable to indemnify or compensate any third party; and

16.3 there are no facts of which the Vendor is aware which are likely to give rise to any litigation, arbitration, investigation, prosecution or other legal or tribunal proceedings or claims or actions.

16.4 The Company has not committed any breach of or failed to perform or observe any provision of the Memorandum or Articles or of any legislation in any part of the world or any covenant or agreement or the terms or conditions of any consent or licence or any judgement or order of a Court or other competent tribunal or authority by which the Company is bound or to which it is a party or which affects any of its assets.

17. INSURANCE

17.1 The Vendor has provided the Purchaser with full particulars of all insurances effected by the Company.

17.2 All premiums due in respect of the policies of insurance to which the Company is a party have been paid and there are no outstanding claims or circumstances likely to give rise to a claim thereunder and so far as the Vendor is aware nothing has been done or omitted to be done which has made or could make any such policy void or voidable or whereby the renewal of any such policy might be adversely affected or the premiums due in respect thereof may be liable to be increased.

18. EMPLOYEES AND CONSULTANTS

18.1 The Company maintains accurate details of all of its officers and employees and copies of all contracts for the provision of services and full particulars of the terms of employment and engagement of all employees of the Company are contained in the Company's offices and that all employee and consultants contracts are terminable by the Company giving three (3) month notice of intention to terminate.

18.2 There is not in existence any share incentive scheme, share option scheme or profit sharing scheme for all or any of the Company's officers, employees or other personnel and no proposals for any such scheme or arrangement are under consideration by or have been requested of the Company.

18.3 The Company is not party to any agreement or arrangement imposing any obligation on it to increase the rates of remuneration of or to make any bonus or incentive payments or any benefits in kind or any payments under a profit sharing scheme to or on behalf of any of its former, present or future officers, employees, consultants and other personnel whether now or at any future date:

18.4 Save as has been disclosed to the Purchaser, the Company is not party to any collective agreement or any other agreement or arrangement with any trade union or any other body representing employees of the Company.

18.5 The Company has fully complied in all material respects with all its statutory obligations relating to employees and other personnel.

19. THE ASSETS

19.1 The List of Assets furnished to the Purchaser is a complete and accurate list of all the assets belonging to or used by the Company.

19.2 The only immovable property held by the Company is under leasehold interest and:

19.2.1 the Company has paid the rent and observed and performed the covenants on the part of the tenant and the conditions contained in any lease (which expression for the purposes of this Warranty includes under leases) under which the Properties are held and all such leases are valid and in full force; and

19.2.2 Save as disclosed in the leases, there are no rent reviews under the leases of the Properties in progress.

19.3 Save as has otherwise been disclosed, all assets used or employed by the Company (other than leasehold property) are the absolute property of the Company free from any mortgage, charge, lien, or other encumbrance and such assets and the purchase thereof by the Company is in no instance the subject of any leasing, hiring or any hire purchase agreement or agreement for payment on deferred terms or assignment or factoring or other similar agreement and all such assets are in the possession or under the exclusive control of the Company.

19.4 The Company has, up to date registers showing a complete and accurate record of all equipment and vehicles owned or used by it at the date of this Agreement.

19.5 Save as has been disclosed, the Company is not owed any money other than trade debts incurred in the ordinary course of business and cash at bank.

19.6 The Vendor is not aware of any circumstances under which debts owing to the Company at Completion will not realise their full face value within 90 days of the Completion Date.

20. SUBSIDIARIES

The Company does not have any subsidiaries.

21. TAXATION

21.1 The Company has within the requisite time limits duly made all returns, given all notices and supplied all other information required to be supplied to the Kenyan taxation and customs and excise authorities and/or to any other competent fiscal authority in any part of the world and all such information, returns and notices were when given or supplied and are now accurate in all material respects and made on a proper basis and are not, so far as the Vendor is aware, liable to be the subject of any dispute with any of the relevant authorities concerned.

21.2 The Company has duly deducted, withheld, paid and accounted for all tax due to have been deducted, withheld, paid or accounted for by it before the date of this agreement and is not and has not at any time been liable to pay interest on any unpaid taxation.

21.3 The Company has not entered into or been a party to any scheme or arrangement designed partly or wholly for the purposes of avoiding or deferring taxation and no such scheme or transaction of any nature has been carried out in relation to the Company which has given rise to a charge to taxation.

21.4 All expenditure which the Company has incurred on the provision of plant or machinery has qualified or will qualify for writing-down allowances.

21.5 No event has occurred which could give rise to a claim under the Tax Indemnity

22. PENSIONS

Save as has been disclosed to the Purchaser, the Company is not a party to any pension scheme in respect of any past or present employee and the Company is not under any legal liability or obligation to pay any pension or retirement, death or disability or other similar payment to any past or present director, officer or employee or to any relation or dependent of any such person and no such pension or payment is now being paid voluntarily.

23. COMPETITION AND TRADE REGULATION LAW

23.1 So far as the Vendor is aware, the Company has not been the subject of any investigation, reference or report nor has the Company received any order or notice alleging that its practices are in breach of any competition legislation.

23.2 So far as the Vendor is aware, the Company is not engaged in any practices in contravention with the Competition Act and the consent of the Competition Authority has been obtained as required under the Competition Act in respect of all relevant practices or actions of the Company.

THIRD SCHEDULE

BUSINESS PLAN

FOURTH SCHEDULE

Deed of Tax Indemnity

THIS TAX DEED is made the day of 20
BETWEEN:

1. THOMAS DE LA RUE AG having its registered office at 18 Route de Beaumont, CH-1700 Fribourg, Switzerland.

2. PERMANENT SECRETARY TREASURY of Post Office Box Number 30007-00100 Nairobi (hereinafter referred to as "the Purchaser") of the third part;

(2) DE LA RUE KENYA EPZ LIMITED incorporated in the Republic of Kenya under the provisions of the Companies Act Company number CPR/2011/39289 and of Post Office Box Number 40034 Nairobi 00100 in the said Republic (hereinafter referred to as "the Company")

1. of the second part; and

WHEREAS pursuant to an agreement ("the Agreement") of even date the Purchaser will complete the Purchase from the Vendor of up to 40% of the issued share capital of the Company in reliance *inter alia* upon the indemnities contained in this Deed.

NOW IT IS HEREBY AGREED as follows:

1. DEFINITIONS

1.1 In this Deed where the context so admits:-

"Business Day"	means a day on which banks are open for business (including dealings in foreign currency and exchange) in Kenya;
"Claim"	includes any lawful notice, demand, assessment, letter or other document issued or action taken by or on behalf of any competent tax authority whereby it appears that a tax liability is or may be imposed or incurred;
"Effective Date"	means the date of this Deed
"Event"	includes every event, act, transaction, occurrence, circumstance, dealing, arrangement, default or omission of any kind whatsoever done or omitted to be done or deemed done or omitted to be done by or involving the Vendor or the Company or any director or participator thereof or in any way concerning or affecting the Company whether or not done or omitted to be

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done by or involving the Vendor or the Company or any of them including (without limitation) the entry into and/or completion of this Agreement.

1.2 references to any "tax liability" include any liability of the Company to make actual payment of any taxation or on account of taxation provided always that at the Effective Date the Company would otherwise have had an actual or contingent liability to make a tax payment.

1.3 Other expressions used in this Deed shall where the context so admits have the meanings ascribed to them in the Agreement.

1.4 Reference to the result of any Event on or prior to a particular date shall include the combined effect of two or more Events the first of which shall have taken place on or before such date and shall also include any Event which is deemed for taxation purposes to have occurred prior to such date.

1.5 Any reference to a statute or statutory provision shall be construed as a reference to such provision as modified or re-enacted from time to time.

2. INDEMNITIES

2.1 The Vendor hereby covenants with the Purchaser that, subject as stated in paragraph 4, it will on demand at any time after the Effective Date it shall indemnify the Purchaser and hold harmless, to the extent of its loss), against any undisclosed tax liability of the Company and which has arisen or may hereafter arise wholly or partly in respect of or in connection with or in consequence of any income, profit or gain actually or deemed or treated for tax purposes as having been earned, accrued or received (and/or any event occurring or entered into or deemed for tax purposes to have occurred or have been entered into) on or before the Effective Date;

2.2 Payment by the Vendor pursuant hereto shall be effected:

2 1.1 within three (3) Business Days preceding the date before the relevant tax shall be due for payment; and

2.1.2 in any other case, within ten (10) Business Days following the date on which the Vendor's auditors shall have certified to the Vendor that it has a liability to pay in the terms on this Deed of Indemnity.

2.2 The indemnity contained in paragraph 2 above shall not apply to any claim for taxation to the extent that:

2.2.1 the liability therefor was specifically identified in the Accounts or Disclosure Letter ; or

2.2.2 the liability therefor arose by reason only of a change in legislation withdrawal of extra-statutory concessions or changes in accountancy practice or principles made after the Effective Date with retrospective effect; or

2.2.3 any liability to tax results from any failure by the Purchaser or the Company to make any elections or claim any reliefs, the making or claiming of which was taken into account in the computing of provisions or reserves for tax in the Post Completion Audit or

2.2.4 any amount of such claim has already been made good by:

2.2.4.1 the proceeds of any insurance claim made by the Company which is directly related thereto; or

2.2.4.2 compensation otherwise received by the Company in respect thereof; or

2.2.5 such claim directly results from:

2.2.5.1 a cessation of or change in the nature or conduct of the business of the Company after Completion; or

2.2.5.2 any failure by the Company to take any steps to make any election or to claim any relief in respect of any period prior to the Effective Date which would thereby have reduced any tax liability in respect of such claim.

2.2.6 such claim arose after seven (7) years of execution of the Agreement.

3. CONDUCT OF CLAIMS

3.1 In the event that the Purchaser or the Company becomes aware of any Claim the Purchaser or the Company (as the case may be) shall as soon as reasonably practicable give written notice (subject to the provisions of this clause 3) of the Claim to the Vendor but such notice shall not be a condition precedent to the liability of the Vendor.

3.2 In the case of receipt by the Company of a Claim, the Vendor shall give details thereof to the Purchaser:

3.2.1 at least twenty (20) Business Days prior to the due date for the payment of such claim; or

3.2.2 in the event that the Company receives a demand in respect of such claim less than twenty (20) Business Days prior to the due date for the payment of such claim, within five (5) Business Days of receipt of the relevant demand; and

3.2.3 in the event that the Company (in circumstances where it (either on behalf of itself or on behalf of the Vendor, at the Vendor's request) would want to object to or to contest such claim) is required by the relevant tax authority to so object or contest within a specified time period, the Vendor shall give details thereof to the Purchaser:

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3.2.3.1 at least twenty (20) Business Days prior to the expiry date for the submission of representations or objections to the relevant tax authority; or

3.2.3.2 in the event that the Company becomes aware of such claim less than twenty (20) Business Days prior to the expiry date for the submission of representations or objections to the relevant tax authority, within five (5) Business Days of becoming aware of such claim;

3.4 subject to the Purchaser first being indemnified and secured to its satisfaction against all costs, expenses and liabilities of and in relation to any action or steps or proceedings which may be taken in respect of such claim the Company shall not accept or pay or compromise any such claim (except on a without prejudice basis to avoid penalties or interest) without giving the Vendor an opportunity to resist such claim.

Provided that if the Vendor does not, within twenty (20) Business Days of first being given notice thereof (unless the Company would otherwise become liable for penalties for non-payment, in which event within the time limited for that payment, less one (1) Business Day), request the Company to take any action as aforesaid in connection with the claim concerned, then the Company shall (without prejudice to the Purchaser's rights under this Agreement) be free to pay or settle such claim or take such other action in connection therewith as they may in their absolute discretion decide.

4. TIME OF ESSENCE

The time limits referred to in Clause 3 of this Deed shall be of the essence and in default of compliance therewith, the Vendor shall (without prejudice to its liability hereunder in respect of any other claims) have no further liability in respect of any claims by the Purchaser which directly relate to the matter in respect of which such default has occurred.

5. NO DEDUCTIONS

All sums payable by the Vendor under this Agreement shall, save where expressly required by law, be paid without withholding or other deduction provided that if any such deductions or withholdings are required by law the Vendor shall be obliged to pay to the Purchaser such sum as will, after such deduction or withholding has been made, leave it with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding provided that this clause shall not apply to withholding tax on interest.

6. DISPUTE RESOLUTION

6.1 In the event that there shall be any dispute between the parties as to whether or not a claimed tax liability should be settled or contested with the relevant tax authority, the dispute shall not be referred to arbitration but shall be referred to an independent expert in taxation matters, appointed by agreement between the parties and in default of agreement appointed by the Chairman for the time being of the Kenya Branch of the Chartered Institute of Arbitrators of the United Kingdom; which expert acting as an expert and not as an arbitrator shall determine whether in his opinion an appeal against the claim or liability to tax would on a balance of probability be likely to succeed, and an appeal shall only be made if the expert's opinion shall be in the affirmative.

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6.2 All other disputes arising out of or in connection with this Deed shall be referred to Arbitration in accordance with Clause 12 of this Agreement as if the same were herein set out in extension.

FIFTH SCHEDULE

Pro Forma Accounts

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DRAWN BY:
MBOYA AND WANGONG'U
ADVOCATES,
LEX CHAMBERS,
MAJI MAZURI ROAD,
OFF JAMES GICHURU ROAD,
LAVINGTON
P.O. BOX 74041-00200,
NAIROBI

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SCHEDULE 5

Shareholders Agreement



Shareholders
Agreement

SIGNED for and on behalf of The Permanent Secretary to the Treasury of Kenya:

Name: _____

Designation: The Permanent Secretary to the Treasury of Kenya:

Signature: _____

In the presence of:

SIGNED for and on behalf of Thomas De La Rue AG:

Name: _____

Designation: _____

Signature: _____

SIGNED for and on behalf of De La Rue Currency and Security Print Limited:

Name: _____

Designation: Director

Signature: _____

SHAREHOLDERS AGREEMENT

DATED 2011

BETWEEN

THE PERMANENT SECRETARY TO THE TREASURY OF KENYA

THOMAS DE LA RUE AG

AND

DE LA RUE KENYA EPZ LIMITED

RE:

DE LA RUE KENYA EPZ LIMITED

DALY & FIGGIS
ADVOCATES
Lonrho House
Standard Street
P.O.Box 40034–00100
NAIROBI

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SCHEDULE 1 Details of the Company

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THIS SHAREHOLDERS AGREEMENT (this "Agreement") is made on the day of 2011

BETWEEN:

(1) **THE PERMANENT SECRETARY TO THE TREASURY OF THE REPUBLIC OF KENYA** a statutory corporation sole constituted under The Permanent Secretary to the Treasury Act Cap. 101 Laws of Kenya (or its Government of Kenya successor in the event of a re-organization) for an on behalf of The Government of the Republic of Kenya (**"The PST"**);

(2) **THOMAS DE LA RUE AG** a company incorporated under the laws of Switzerland (**"TDLRAG "**); and

(3) **DE LA RUE KENYA EPZ LIMITED**, Company number Company number CPR/2011/39289 a company incorporated in Kenya (**"the Company"**);

WHEREAS

(A) **DE LA RUE CURRENCY AND SECURITY PRINT LIMITED** a private company incorporated in the Republic of Kenya (**"DLRK"**); and **TDLRAG** and the **PST** entered into a Joint Venture Agreement of even date ("JVA") which set out the framework for the purchase by PST of Shares in the Company and the entering into of this Agreement.

(B) Pursuant to the JVA, TDLRAG agreed to incorporate the Company and hive-down and transfer the business and assets of DLRK to the Company through the Business Transfer Agreement hereinafter defined

(C) Pursuant to the JVA TDLRAG and PST entered into the Share Purchase Agreement of even date (the "SSPA") by which TDLRAG agreed to sell and PST agreed to purchase shares in the Company following which PST would be the holder of up to 40% and TDLRAG the holder of the remainder of the issued share capital of the Company.

(D) Pursuant to the terms of the JVA and following signing of the BTA and the SSPA to the extent therein provided it being acknowledged by the PST that the Second Instalment as in the SSPA defined remains to be paid TDLRAG and PST now enter into this Shareholder Agreement on the terms and conditions hereinafter contained for purposes of regulating their relationship as shareholders in the Company.

NOW IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

(a) In this Agreement and the Recitals, where the context so admits, the following words and expressions shall have the following meanings:

(i) "**Agreement**" means this Agreement;

(ii) "**Associated Agreement(s)**" means the SSPA and the Licence and Know How Contract as referred to in the SSPA

(iii) "**Articles of Association**" means the new Articles of Association which the Parties have agreed shall be adopted by the Company substantially in the form of the draft

attached as Schedule 2 and any reference to an "Article" shall be a reference to that article of the Articles of Association;

(iv) "**Affiliated Company** means with reference TDLRAG its holding company and any subsidiary of the holding company or its holding company or corporation

(v) "**Business Transfer Agreement**" or "BTA" means the agreement dated on or about the date of this Agreement under which the Business is to be transferred by DLRK to the Company

(vi) "**Board**" means the Company's board of directors or the Directors present (personally or by their alternates) at any meeting of the Directors duly convened and held;

(vii) "**Business**" means the business transferred to the Company pursuant to the Business Transfer Agreement and such other business as the Shareholders may agree from time to time should be carried on by the Company;

(viii) "**Business Plan**" means the Company's business plan, including the annual budget and any rolling or forecast plan prepared by the Company's management in the terms approved as required by the Board from time to time;

(ix) "**Companies Act**" means the Companies Act of Kenya (Cap 486);

(x) "**Deed of Adherence**" means a deed pursuant to which a transferee or allottee of Shares agrees to be bound by all the terms of this Agreement and the Share Purchase Agreement as if it had been a signatory thereto;

(xi) "**Director**" means any director of the Company (or his duly appointed alternate);

(xii) "**DLR Group**" means TDLRAG and its and their Affiliated Companies

(xiii) "**Guarantee**" means the guarantees, indemnities, covenants or other securities given by the Shareholders (or any of them) at any time during the term of this Agreement, to secure the indebtedness and/or obligations of the Company for the proper purposes of the Business;

(xiv) "**Licence and Know How Contract** " means the licence and know how contract as referred to in the SSPA;

(xv) " **Put Option** " means the option conferred on TDLRAG by Clause 10;

(xvi) "**Parties**" means the parties to this Agreement, and "**Party**" means any one of them including any other person who becomes a member of the Company and who agrees to be bound by the provisions of this Agreement by executing a seed of adherence;

(xvii) "**Relevant Proportion**" means in relation to a Shareholder, the proportion which the Shares of that Shareholder bears to the total of all the Shares in issue at that time;

(xviii) "**Reserved Matters** " means the matters described in Clause 6(a) of this Agreement.

(xix) "**Share**" means an ordinary share in the share capital from time to time of the Company;

(xx) "**SSPA**" means the agreement referred to in Recital C of this Agreement.

(xxi) "**Shareholder**" means any TDLRAG , PST or any other registered holder of one or more shares from time to time who shall have executed a Deed of Adherence;

(xxii) "**Shs.**" means Kenya shillings;

(xxiii) "**Third Party Interest**" means and includes any interest or equity of any person (including any right to acquire, option or right of pre-emption), voting arrangement, mortgage, charge, pledge, bill of sale, lien, deposit, hypothecation, assignment or any other encumbrance, priority or security interest under any contract or trust or any other third party interest of whatsoever nature over or in the relevant property;

(xxiv) **"Pricing Agreement"** means the agreements from time to time to determine the pricing of work subcontracted from DLR Group companies to the Company.

(b) In this Agreement, unless the context otherwise requires, any reference to:

(i) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural and visa versa, and words importing person shall include individuals, corporations, partnerships, joint ventures, associations, joint stock companies, trusts, unincorporated organizations and governments and any agency or political subdivision thereof.

(ii) any written law includes that law as amended or re-enacted from time to time;

(iii) any agreement or other document includes that agreement or other document as varied or replaced from time to time;

(iv) a document in the "approved terms" is a reference to a document in the form approved, and for the purposes of identification, signed by or on behalf of the Parties;

(v) a clause is to the relevant clause of this Agreement;

(vi) any party includes that party's successors and assigns.

(c) Clause headings are inserted for convenience only and shall be ignored in construing this Agreement.

2. CONDITIONS PRECEDENT

(a) This Agreement shall be conditional upon the following matters/events having taken place or occurred:

(i) Completion under the SSPA having occurred; and

(ii) The Articles having been adopted by the Company.

(b) If the conditions set out in Clause 2(a) are not fulfilled by the 30th June 2012 (or such later date as the parties may agree in writing) either party shall be entitled to serve written notice on the other of its intention to terminate this Agreement and in the event that such conditions remains unfulfilled within ten (10) Business Days of the date of the said written notice, this Agreement shall save for the provisions of Clauses 18,28 and 31 cease to have effect and neither party shall have any claim under it against the other, save in respect of any prior breach.

3. THE BUSINESS

(a) The Parties shall procure that the business of the Company (the **"Business"**) shall be the business of printing and production of currency and other security printing business as transferred to the Company pursuant to the Business Transfer Agreement and such additional business as shall be procured by the Parties for the benefit of the Company. The Business may include such other activities as may be agreed from time to time by the Board. The Business shall be conducted in accordance with good and commercial business practice and subject thereto, in accordance with the Business Plan from time to time. Each of the Parties shall use its respective reasonable endeavours, without being required to incur any financial obligation (other than as expressly set out in this Agreement) to promote the interests of the Company, to ensure that the Company conducts the Business with maximum energy and efficiency and to facilitate the promotion of the Business and the interests of the Company.

(b) The Parties undertake to expend their reasonable efforts in developing the Business in accordance with the Business Plan including the procurement of additional local and

international contracts where practicable and TDLRAG undertakes that it will treat the Company no less favourably than the most favoured DLR Group Company in the allocation of subcontracted work taking into account the usual parameters of customer preference, capability, cost and capacity.

(c) The Parties further undertake to expend reasonable efforts towards enhancing the capacity and capability of the Company with a view to increasing the competitive edge of the Company.

4. MANAGEMENT OF THE COMPANY

(a) Subject as below, the Board shall comprise of five Directors. The Shareholders shall have the right to appoint Directors in accordance with the following provisions of this clause provided that all Directors shall be persons of good repute:

(i) TDLRAG from time to time shall be entitled to appoint and remove 3 Directors for so long as it holds a majority of the issued share capital which shall be reduced to two directors should it become the holder of a minority of the issued share capital of the Company provided that TDLRAG shall not be entitled to appoint a Director to the Board if its shareholding falls below 10%;

(ii) PST from time to time shall be entitled to appoint and remove 2 Directors one of whom shall not be a public or state officer in the Government of Kenya but may be a Government appointed director in any company. Should PST become the holder of a majority of the issued share capital of the Company it shall be entitled to appoint 3 directors. Should PST become the holder of between 10% and 20% of the issued share capital of the Company PST's entitlement shall be reduced to one director provided that PST shall not be entitled to appoint a Director to the Board if its shareholding falls below 10% of the issued share capital of the Company and each such Shareholder shall be entitled at any time to effect the removal or substitution of any Director so appointed by it or them by notice in writing given to the Company Secretary of the Company.

(b) In the event that any Shareholder disposes of all its Shares or such shares that leave the shareholder holding less than 10% of the issued share capital of the Company, such Shareholder shall procure the resignation or if need be the removal of the Directors at the time holding office by reason of their nomination by such Shareholder.

(c) Each year an annual schedule of meetings of the Board shall be agreed and shall be adhered to unless the Shareholders otherwise agree to vary the schedule. Unless waived by all the Directors, not less than 21 clear days' notice of all meetings of the Board shall be hand delivered or faxed to each Director at such address each shall notify the Company as their address for the service of notices and shall be accompanied by an agenda of the business to be transacted at such meeting together with all papers to be circulated or presented at the meeting. Meetings of the Board will be held at least quarterly.

Upon receiving notification of a Board meeting of the Company, a Director shall be entitled to require the inclusion on the agenda of any matter which he would like discussed at the meeting provided that he notifies the Secretary with details not later than ten Business Days prior to the meeting.

No business shall be discussed at a Board meeting unless such business was included in the agenda including such matters in respect of which any Director shall have requested inclusion in the agenda in accordance with this clause. After each such meeting, a copy of the minutes of that meeting shall be delivered to each Director.

(d) The Chairman of the Board shall be one of the Directors nominated for appointment by PST provided that such Chairman shall not be an employee of the Government of Kenya. If such chairman is unable to attend any Board or Shareholder Meeting, then another of the Directors

shall be appointed to act as chairman in his place at such meeting. The chairman shall not have a second or casting vote.

(e) No meeting of the Board may proceed to business or transact any business unless a quorum is present at such meeting. A quorum of the Board shall be at least **three** of the Directors present in person or represented by an alternate Director, including at least one of the Directors appointed by TDLRAG and one of the Directors appointed by the PST, present in person or represented by an alternate. If within forty five minutes after the time appointed for the meeting there is no quorum, the meeting shall stand adjourned to the same day in the next week time and place and at such adjourned meeting the directors present shall constitute quorum. Meetings shall, unless otherwise agreed by the Board, be held in Nairobi, Kenya.

(f) A meeting of the Directors may consist of a telephone or video conference between Directors or their representatives, some or all of whom are in different places, provided that each Director or representative who participates is able at such conference whether directly, by conference telephone or by any other form of communications equipment (whether in use when this Agreement was executed) or by a combination of those methods:

(i) to hear each of the other participating Directors or their Alternates addressing the meeting; and

(ii) to address all of the other participating Directors or their representatives simultaneously

A quorum shall be present if these conditions are satisfied in respect of at least the number of Directors or their Alternates required to form a quorum in accordance with this clause.

(g) A resolution of shareholders or the directors of the Company, as the case may be, signed by all the shareholders or directors, as the case may be, shall be valid and effective as if it had been adopted by a duly convened meeting of shareholders or directors, as the case may be. Unless the contrary is stated therein, any such resolution shall be deemed to have been passed on the date on which it was signed by or on behalf of the director or shareholder last signing it. A facsimile transmission of a director/s signed resolution shall be acceptable evidence that such resolution has been signed by the director whose signature appears on the facsimile transmission

(h) The Parties shall procure that:

i. the registered office of the Company shall be at the premises of the Company Secretary;

ii. The Board will appoint a Company Secretary;

iii. The auditors of the Company shall be KPMG until the financial year end following completion of the SSPA and immediately thereafter the auditors shall be appointed by the Board and shall be a firm of international auditors of good repute which shall have offices in Nairobi, Kenya London England and New York USA. Provided that, except as set out in this sub-clause , for the initial three (3) financial years of the Company, the auditors appointed shall not be KPMG; and

iv. the accounting reference date of the Company shall be the last Saturday in March in each year.

5. PROCEEDINGS OF SHAREHOLDERS

(a) No general meeting of the Shareholders may proceed to business unless a quorum is present at the start of and throughout such meeting. The quorum at any general meeting shall be each of the two Shareholders represented by their respective duly authorised representatives. If within forty-five minutes after the time appointed for the meeting there is no quorum, then the meeting shall stand adjourned to the same day in the next week time and place and at such

adjourned meeting if there shall be no quorum (the shareholder present as represented by their duly authorised representative shall constitute a quorum).

(b) The Chairman of the Board from time to time shall preside as chairman at every Shareholder's meeting as more particularly set out in the Articles of Association. If the Chairman is unable to attend any Shareholder Meeting, then one of the Directors present shall be appointed to act as chairman in his place at such meeting. The chairman shall not have a second or casting vote at any meeting of Shareholders

(c) Subject to clause 6 resolutions and questions arising at any Shareholders' or Directors meeting shall be decided by a simple majority of votes of those attending and voting except where a greater majority is required by the Companies Act.

6. RESERVED MATTERS

(a) The Shareholders shall exercise all voting rights and other powers of control available to them in relation to the Company and any subsidiaries to procure that the Company or any such subsidiaries and/or the Board shall not do, transact or conduct any of the following matters or actions (**"the Reserved Matters"**) in respect of the Company, unless the provisions of the rest of this clause immediately following are complied with :

(i) amend the memorandum or articles of association;(Shareholders)

(ii) allot or issue additional shares;(Directors)

(iii) increase the authorised share capital; (Shareholders)

(iv) approval of the Business Plan;(Directors)

(v) any expenditure in excess of the equivalent of 10 per cent of the annual approved yearly budget, being for purposes of capital expenditure, charges, investments, liabilities, or the disposal or acquisition of assets;(Directors)

(vi) the commencement or settlement of any material litigation in an amount exceeding GBP 100,000;(Directors)

(vii) the acquisition or disposal of the whole or part of the undertaking of any other person or the disposal of the whole of the undertaking of the Company;(Directors)

(viii) the entry into, or giving, permitting or suffering to subsist any guarantee of or indemnity or contract of suretyship for or otherwise commit itself in respect of the due payment of money or the performance of any contract, engagement or obligation of any other person or body other than a wholly owned subsidiary of the Company (Directors)

(ix) Other than to secure funding required for the conduct of the Business mortgage or charge or permit the creation of or suffer to subsist any mortgage or fixed or floating charge, lien (other than a lien arising by operation of law) or other Encumbrance over the whole or any part of the undertaking, property or assets of the Company; (Directors)

(x) dispose (otherwise than in accordance with any relevant capital disposals forecast in the budget approved pursuant to clause 6 (a) (xii) herein) of any asset of a capital nature having a book or market value greater than 0.5% of the Total Capital; (Directors)

(xi) any variation to the Company's pension scheme or any of the benefits payable to the members of the scheme; (Directors)

(xii) the approval of the yearly budget if the budget has increased by more than 10% from the previous year's budget (which is to be approved by the Board before 31st December preceding the year to which it relates provided that if the yearly budget

(whether or not it has increased by 10% from the previous year's budget) changes materially by more than 15% in any specific items included or the funds allocated to the individual budget items, then approval of the budget shall be a reserved matter (Directors).

(xiii) the choice of, or any changes in the external auditors of the Company during the first three financial years following Completion after which this matter shall not be a reserved matter(Shareholders)

(xiv) any related party transactions (Directors)

(xv) the entry into:

i. a merger or amalgamation with any other company; (Shareholders)

ii. a scheme for the acquisition of the shares of another company or its subsidiaries; (Directors)

iii. a partnership, joint venture or similar arrangement or any transaction which is not in the ordinary course of its business; (Directors)

iv. the passing of any special resolution;(Shareholders)

(xvi) authorise the entry into contracts with any of the Shareholders, other than the Licence and Know How Contract, ;

(xvii) any variation to the Licence and Knowhow Contract, and the Pricing Agreement (Directors)

(xviii) any other action that has an impact on the rights, obligations or liabilities of the Shareholders as a shareholders or would result in the dilution of the equity interest of either shareholder. (Shareholders)

(b) No resolution shall be passed at any Board meeting of the Company in respect of the matters set out in clause 6(a) if any director casts a negative vote against the resolution nor shall any resolution be passed at any general meeting of the Company in respect of the matters set out in clause 6(a) if any shareholder present casts a negative vote against the resolution.

(c) The Parties agree that any decision to change the top management team of the Company (for the time being including but without limitation to the General Manager, the Company Secretary and the Finance Manager) though itself not a reserved matter, shall only be undertaken and effected upon consultation with the PST and due regard being given to PST's view of and input in the decision.

(d) As a separate and independent undertaking, the Company agrees with each Shareholder that, so far as it is legally able to do so, it shall observe and comply with the prohibitions and restrictions in clause 6(a).

(e) The provisions of this Clause shall not apply to the Put Option and all matters pertaining to it. All resolutions necessary to give effect to the Option shall require a simple majority and the Parties shall procure that the appropriate directors and shareholders resolutions in that regard shall be passed.

(f) The parties agree that if the shareholding of PST falls below 15% of the issued share capital of the Company then for the duration of the Central Bank of Kenya Bank Note Printing Agreement referred to in the BTA, , only the following matters shall be reserved matters, and be dealt with in accordance with clause 6

(i) the matters set out in clause 6 (ii) (iii) , (viii). (x), (xiv), (xv) and (xvii); ; and

(ii) the change of external auditors to auditors who are not one of the top 5 internationally recognised firm of accountants.

7. DEADLOCK

(a) If the Shareholders or Directors are unable to agree on a Reserved Matter and as a result it is apparent that the Board or the Company in general meeting will be unable to pass a resolution on such a Reserved Matter a Deadlock shall be deemed to have arisen, and either Shareholder may cause its appointees on the Board to prepare and circulate to the other Shareholders and Directors a memorandum setting out its position on the matter in dispute and its reasons for adopting such position. Each such memorandum shall be considered by the respective chairman or chief executive officer of each Shareholder, whose representatives shall meet together within 14 days of receipt of the memoranda and use their reasonable endeavours to resolve the Deadlock. In respect of the PST, any escalation shall be to the Cabinet Secretary for the time being in charge of Finance in the Government of Kenya.

(b) If they do so agree, they shall jointly issue a statement setting out the terms of such agreement and each Shareholder shall exercise the voting rights and other powers of control available to it in relation to the Company to procure that the terms of such agreement are implemented and the Company shall do all things within its power to implement such terms. If they do not so agree then the provisions of the next following clauses shall apply

(c) If they do not so agree either Shareholder (the **"Initiating Shareholder"**) requiring the passing of a resolution relating to a Reserved Matter shall be entitled to serve on the Directors of the Company a notice (Deadlock Notice) requiring either that the Company be wound up or that the other Shareholder ('the Recipient') either purchases all (but not some only) of the Shares in the Company or of the Initiating Shareholders or sells all (but not some only of) their Shares in the Company.

(d) Upon service of the Deadlock Notice by the Initiating Shareholder on the Directors:

(i) if the Deadlock Notice requires the Company to be wound up the Shareholders shall immediately procure that the Company is wound up PROVIDED THAT in no circumstances shall either of the Shareholders create an 'artificial deadlock' and then exercise its rights under this clause to require the winding up of the Company. For this purpose, an 'artificial deadlock' is a deadlock caused by either Shareholder, or its appointees on the Board, voting against a proposal the approval of which is required to enable the Company to carry on the Business properly and efficiently and the objecting shareholder has no substantive reason for voting against any such resolution: or

(ii) if the Deadlock Notice requires the Recipient to purchase or sell their shares in the Company) the Initiating Shareholder and the Recipient shall become bound to buy and sell their Shares respectively and the applicable purchase price shall be the Market Value determined in accordance with the provisions of Clause 10 and completion of such sale and purchase shall take place in accordance with the provisions of Clause 10

8. ACCOUNTING, BUSINESS PLAN AND INFORMATION RIGHTS

(a) The Company shall, and Shareholders to the extent that such shall be in their power so to do shall procure that the Company shall, at all times maintain accurate and complete accounting and other financial records.

(b) The Company shall, and Shareholders to the extent that such shall be in their power so to do shall procure that the Company shall, prepare monthly management accounts (in a form reasonably acceptable to both Shareholders) and shall on request send summary accounts to all Directors within 30 days of the end of each month.

(c) Shareholders to the extent that such shall be in their power so to do shall procure that the Company shall continue to prepare and update the business plan for the Company for each financial year (while comparing it to the approved Business Plan)

and shall provide each of the Shareholders s with a copy of the revised business plan for their comments before the end of November of each year.

(d) The audited accounts of the Company in respect of each financial year, together with the related audit and management letters and all correspondence between the Company and the auditors of the Company concerning the accounts, shall be completed and approved by the Board and delivered to both shareholders within three months after the end of the accounting period to which such audited accounts relate together with the related audit and management letters and all correspondence between the Company and the auditors of the Company concerning the accounts,.

(e) The Company shall provide PST promptly with such other information concerning the Company and its business as PST may reasonably require from time to time.

(f) If the Company does not comply with its obligations under clause 8 (b) to clause 8 (e) within 30 days from such request or due date as the case may be, PST, PST's Directors and a firm of international recognised accountants nominated by PST at the Company's expense will be entitled to attend the Company's premises to examine the books, records and accounts of the Company and to discuss the Company's affairs, finances and accounts with its directors, officers and senior employees. Each of TDLRAG and the Company separately undertakes to PST to co-operate with any accountants or representatives appointed by them pursuant to this clause. The Directors nominated by PST may, from time to time, make full disclosure to PST or PST's staff of any non Customer specific Confidential information as is determined by management relating to the Company.

(g) PST shall be at liberty from time to time to disclose such information relating to the business affairs and financial position of the Company as is required by law to be disclosed provided always that no customer production information or any other information identifying a customer of the Company shall be disclosed unless there is an express court order specifying disclosure of the same, and then only to the absolute minimum ordered by the Court.

9. SHAREHOLDERS LOANS AND FINANCE

(a) All funds required by the Company for the conduct of the Business shall, in order of priority, come:

(i) firstly , from such trade credit as the Company may be able to obtain;

(ii) secondly , from such secured or unsecured normal overdraft or other financing facilities as licensed commercial banks are prepared to grant the Company on normal terms and conditions;

(iii) thirdly, from such unsecured loans, from the Shareholders as the Shareholders hereafter agree to lend to the Company. No Shareholder shall at any time be obliged to advance any loan or other credit to the Company. Such Shareholders Loans shall unless the Shareholders otherwise agree, bear interest calculated on a daily balance and shall be paid monthly in arrears. The rate of interest applicable shall be such rate as may be mutually agreed upon but in any event not greater than the best market rates available to the Company and on the same terms offered for or applicable to similar facilities. Where one party is able to make a shareholders loan, no obligation shall be imposed on the other to make a proportionate shareholders loan to the Company.

(iv) fourthly , by way of a rights issue to all the Shareholders in the Relevant Proportions:

(c) Notwithstanding the provisions of this clause neither Shareholder shall:

(i) without the consent in writing of the other Shareholder advance a loan to the Company; or

(ii) be obliged to take up its rights under a rights issue made by the Company.

10. GUARANTEES

Save as provided in this Agreement none of the Shareholders shall be obliged to give any Guarantee. Any Shareholder may be at liberty to give a Guarantee upon such terms as may be agreed upon from time to time between the Shareholder and the Company.

11. THE TDLRAG PUT OPTION.

In the event that the CBK Bank Note Printing Contact referred to in the Business Transfer Agreement shall be terminated other than for breach or non-performance by the Company before the expiry of 10 years from the date hereof then TDLRAG shall be entitled to require that the PST shall purchase its holding of Shares and any Shareholder loans and the following provisions shall apply:

a) TDLRAG shall have the right but not the obligation to serve on the PST a Put Transfer Notice requiring the PST to purchase and take a transfer all of the Shares held by TDLRAG and any of its Associates for the Transfer Price (as defined below) and accordingly, the PST shall be obliged to purchase and take a transfer of such Shares.

b) The Transfer Price shall be the Market Value as agreed in writing between the Shareholders but if not so agreed within thirty (30) days of the Put Transfer Notice being served between the Shareholders, shall be an amount equal to the Market Value of the Company on the date the Put Transfer Notice was served multiplied by the proportion (expressed as a percentage) that the nominal value of Shares to be acquired bears to the total nominal value of issued Shares in the capital of the Company and shall be exclusive of all dividends accrued to the date of payment of the Transfer Price

c) For the purposes of this clause 'Market Value' shall mean the value of the Company as determined by agreement between the Shareholders. But if agreement cannot be reached within 30 days of the Put Transfer Notice being deemed to have been served in accordance with this clause, Market Value shall be defined in accordance with Standard 1 of the International Valuation Standards and shall be determined through the application of valuation methods and procedures as defined by the International Valuation Standards, by a firm of accountants of international repute with offices in London, Nairobi and New York acting as independent experts and not as arbitrators. Such firm shall be agreed by the Parties and in default of such agreement shall be appointed by the Chairman for the time being by the Institute of Certified Public Accountants of Kenya.

d) Completion of the purchase pursuant to the Put Transfer Notice shall take place no later than 14 days after the date on which the Transfer Value shall have been agreed or, as applicable, the Market Value applicable thereto shall have been determined and in respect of the procedure for payment and the transfer of the Shares, the provisions of the Articles in respect of pre-emption rights shall in so far as possible apply *mutatis mutandis* thereto.

Provided that the Transfer Price shall be paid not later than twelve (12) months after the date on which the Transfer Value shall have been agreed on or the Market Value shall have been determined as the case may be.

e) Any person, having become bound to transfer any Shares ('the Transferor') pursuant to this Agreement, shall deliver to the other Shareholder (the "Transferee") duly executed transfers in respect of such Shares in favour of the transferee together with the relative share certificate(s) against payment by the transferee of the price due in respect thereof. If the

Transferor makes default in transferring the same, the Board is hereby irrevocably and unconditionally appointed as the attorney of the Transferor to complete and execute the necessary instrument of transfer of such Shares together with a standard form of indemnity for non-production of share certificates for such Shares and may deliver them on its behalf and the Company shall receive the purchase money on trust for the Transferor and shall thereupon (subject to such instrument being duly stamped at the expense of the Transferee) cause the Transferee to be registered as the holder of such Shares. The Company shall not be bound to earn or pay interest on any money so held and shall not pay such money to the Transferor until it shall have delivered its share certificates (or an appropriate indemnity in respect of any lost certificates) to the Company. The receipt of the Company for such purchase money shall be a good discharge to the transferee who shall not be bound to see to the application thereof, and after the name of the transferee has been entered in the register of members in purported exercise of the aforesaid power, the validity of the proceedings shall not be questioned by any person.

f) An obligation to transfer a Share under the provisions of this Agreement shall be deemed to be an obligation to transfer as beneficial owner the entire legal and beneficial interest in such Share free and clear of all third party Interests and together with all rights attaching thereto.

g) The provisions of this Clause may be waived in whole or in part in any particular case with the prior written consent of all the Shareholders.

h) The parties shall exercise all voting and other rights available to them to ensure the implementation of the preceding provisions of this clause and that any provisions contained in the Memorandum and Articles of Association of the Company restricting transfers of shares shall be waived or suspended to allow such sales and purchases to proceed as provided above and the parties shall procure the registration of any transfer of any shares in the Company pursuant to this Section 5 accordingly.

i) On the occurrence of any transfer of shares to the PST pursuant to the provisions of this Agreement all other agreements whatsoever between the Company and any company in the DLR Group shall ipso facto cease and determine but without prejudice to ante cedent rights and obligations of any party arising thereunder

12. TRANSFER AND PLEDGE OF SHARES

(a) No transfer of any Share to a third party shall be registered unless:

(i) the proposed transferee (if not already bound by the provisions of this Agreement) has entered into a Deed of Adherence; and

(ii) such transfer is made in compliance with the Articles and in particular the pre-emption rights therein.

and no Shareholder shall otherwise howsoever sell, transfer or dispose of, or other than jointly with the other Shareholder and for the purposes only of raising capital for the Company mortgage, pledge or charge any Shares or create any Third Party Interest in respect thereof and in the event that any Shareholder shall be in breach of this provision they shall be deemed to have given a deemed transfer Notice and the provisions of clause 15 shall apply. The Shareholders will procure that the Directors shall register any transfer of Shares which complies with the provisions of clause 12(a) (i) and (ii).

(b) Upon any transfer, other than pursuant to the Articles, each of the Parties will use all reasonable endeavours to procure the release of the transferring Shareholder from any Guarantees given by it or them or the appropriate proportion thereof (as the case may be) failing which the remaining Shareholders shall indemnify the transferring Shareholder *pro rata* in accordance with their respective Relevant Proportions, in which event such indemnity shall be deemed to be a Guarantee of the relevant remaining Shareholders.

13. CHANGE OF CONTROL

13.1 TDLRAG undertakes to inform promptly the PST (i) should it cease to be a wholly-owned subsidiary of De La Rue plc and in this respect shall give PST three (3) months prior notice of intention to change TDLRAG's ownership and control; and (ii) the identity of the new entity which shall own and control TDLRAG and in the event that the Company ceases to be a subsidiary of De La Rue plc the PST shall have the irrevocable option to sell the entire but not part of the PST's shareholding in the Company to TDLRAG ("PST Put Option). Such option shall only be exercised (if at all) within six months of the notification by TDLRAG of such event, time being of the essence.

13.2 The purchase price for such shares shall be the higher of the Market Value determined in accordance with the provisions of Clause 10 which shall apply mutatis mutandis to this clause or the price offered to TDLRAG for the Company under clause13.1 above which TDLRAG hereby undertakes to disclose in full.

14. SPECIFIC PERFORMANCE

Where either PST or TDLRAG (**"the Defaulter"**):

(a) is in material breach of its obligations hereunder and such breach, if capable of remedy, has not been remedied to the reasonable satisfaction of the other Shareholder at the expiry of 30 days following written notice to that effect having been given to the Defaulter by the other Shareholder indicating the steps required to be taken to remedy the failure; or

(b) is in material breach of the terms of any of the Associated Agreements and such breach, if capable of remedy, has not been remedied to the reasonable satisfaction of the other Shareholder at the expiry of 30 days following written notice to that effect having been given to the Defaulter by the other Shareholder indicating the steps required to be taken to remedy the failure then in any such event the parties will be at liberty to seek:

(i) injunctive relief from the High Court of Kenya pending arbitration pursuant to the provisions of this Agreement; and

(ii) in any arbitration proceedings seek the remedy of specific performance against the Defaulter.

15. TERMINATION

(a) Without prejudice to the provisions of clause 12, either Shareholder may forthwith terminate this Agreement with respect to the other (in this clause referred to as the **"Defaulter"**, (which term shall include its holding or ultimate holding company or corporation within the meaning of the Companies Act) upon having given not less than 14 days prior notice of its intention to do so written notice (**"Termination Notice"**) to the other on the occurrence of any of the following events (**"Termination Events"**):

(i) an interim liquidator being appointed of or a receiver being appointed over all the assets of the Defaulter and the receivership not terminated in ninety (90) days and provided that such order or appointment is not the subject of a bona fide challenge in court.

(ii) The Defaulter remaining in material breach of any of its obligations arising under this agreement having been served by the other Shareholder of notice in writing specifying the material breach and if then capable of rectification, requiring its rectification within no more than 14 days of service of such notice

(b) The Shareholder that is not a Defaulter itself shall have the right, at its sole discretion, to terminate this Agreement and to deem the Defaulter Shareholder (and each of its Affiliates which holds Shares in the Company) to have served a Transfer Notice in respect of all of its Shares in accordance with the Articles and *to acquire all* of the Shares held by the Defaulter against the Default Price and accordingly, the Defaulter shall be obliged to sell and transfer such Shares.

(c) The Default Price shall be an amount equal to the Market Value of the Company on the Determination Date multiplied by the proportion (expressed as a percentage) that the nominal value of Shares to be acquired bears to the total nominal value of issued Shares in the capital of the Company. For purposes of this clause, the Determination Date shall be:

(i) if the default has occurred within the first half of the calendar year, the 31st day of December of the calendar year immediately preceding the calendar year in which the default has occurred; or

(ii) if the default has occurred within the second half of the calendar year, the 30th day of June of the calendar year the default occurred.

(d) For the purposes of this clause 'Market Value' shall mean the value of the Company as determined by agreement between the Shareholders. But if agreement cannot be reached within 30 days of the Transfer Notice being deemed to have been served in accordance with this clause shall mean the value of the Company as defined in accordance with Standard 1 of the International Valuation Standards and shall be determined through the application of valuation methods and procedures as defined by the International Valuation Standards, as determined by a firm of accountants of international repute with offices in London, Nairobi and New York acting as independent experts and not as arbitrators. Such firm shall be agreed by the Parties and in default of such agreement shall be appointed by the Chairman for the time being by the Institute of Certified Public Accountants of Kenya

(e) If the Default Price of the Shares is required to be determined, such determination shall be by joint agreement between the relevant Shareholders under 15 (d) above, upon notice in writing by the appropriate Party to that effect.

(f) In the event that the Shareholders fail to agree on the Market Value within a period of 30(thirty) Business Days after the date on which notice has been given pursuant to clause 15(b), the Default Price shall be determined in accordance with clause (d).

(g) Completion of the purchase pursuant to a deemed Transfer Notice shall take place no later than 14 days after the date on which the Default Value applicable thereto shall have been determined and in respect of the procedure for payment and the transfer of the Shares, the provisions of the Articles in respect of pre-emption rights shall in so far as possible apply *mutatis mutandis* thereto.

(h) the provisions of sub Clause 11(e) to 11(i) shall apply to this Clause.

16. UNDERTAKINGS REGARDING THE OPERATIONS OF THE COMPANY

The Company undertakes to each of the Shareholders that, and each of the Shareholders shall to the extent that such shall be in their power so to do procure that, the Company shall:

a) maintain with a well established and reputable insurer, adequate insurance against all risks usually insured against by companies carrying on the same or similar business to the Business and (without prejudice to the generality of the foregoing) for the full replacement or reinstatement value of all its assets of an insurable nature;

b) keep books of account and therein make true and complete entries of all its dealings and transactions of and in relation to the Business and, where applicable, the business of any other relevant Subsidiary; such books of account and all other records and documents relating to the business affairs of the Company shall be open to inspection during normal business hours

and on reasonable prior notice by each of the Directors nominated by the Shareholders and they shall be permitted to take and remove copies thereof;

c) provide each Shareholder within 4 weeks of the end of half year with unaudited management accounts for such month to include a profit and loss account, balance sheet and cash flow statement, an analysis of sales and other revenue, a reconciliation of the actual results for the preceding half year compared with the budgeted figures for the corresponding period as set out in the Business Plan and such other information as the Shareholders may require;

d) prepare such accounts in respect of each accounting reference period as are required by statute and procure that such accounts are audited as soon as practicable and in any event not later than 3 months after the end of the relevant accounting reference period;

e) prepare the primary accounts for the Company and the Subsidiaries in accordance with International Financial Reporting Standards applicable to Certified Public Accountants practising in Kenya;

f) keep each of the Shareholders fully informed as to all its financial and business affairs and in particular shall provide each of the Shareholders with full details of any actual or prospective material change in such affairs as soon as such details are available; and

g) Each of the Parties acknowledge that the Company will be an associate of a group in which the ultimate parent company is listed on the London Stock Exchange and that the Company shall be required to comply with applicable statutory provisions and each of the Shareholders to the extent that such shall be in their power so to do procure that the Company will comply with the policies and procedures which may from time to time set by the Board and applicable statutory provisions.

h) The management of the Company shall prepare clear business plans for each financial year of the Company to be approved by the Board and further undertake to seek to expand the business of the Company beyond the contract with Central Bank of Kenya.

17. DIVIDEND DISTRIBUTION POLICY

17.1 Unless the Board determines that a distribution of dividend will have material detrimental effect on the ordinary course of the Business, the Company shall, to the extent permitted by law and subject to the Company's reasonable working capital requirements as determined by a majority resolution of the Board , distribute by way of dividend in respect of each year an appropriate percentage of the Net Profits of the Company for that year in cash and after deduction of any applicable taxes (including any liability of the Company to pay any withholding or compensating tax in the Republic of Kenya).

17.2 The Company shall, in accordance with this Agreement and to the extent permitted by law, pay dividends within 28 (twenty eight) days after the date of the holding of the annual General Meeting before which the audited accounts of the Company for the year were laid and approved.

17.3 For the avoidance of doubt the Company may from time to time pay interim dividends if agreed by the Board.

18. CONFIDENTIALITY AND NON COMPETITION

(a) Each Shareholder undertakes to the other and to the Company that it will not and will procure that its respective officers, employees, professional advisers and agents will not, during the currency of this Agreement and until the expiry of 5 years after the last of the shareholders shall have ceased to be a Shareholder (for whatever reason) use or divulge to any person nor publish or disclose or permit to be published or disclosed, any secret or confidential information relating to the Company or any Subsidiary or of the other Shareholder which it

has received or obtained, or may receive or obtain, (whether or not, in the case of documents, they are marked as confidential) except in the proper course of the provision of services on behalf of the Company or the relevant Subsidiary.

Provided that the obligations of this clause shall not apply to any information which:

(i) the recipient can reasonably demonstrate is in the public domain otherwise than by breach of this Agreement by the disclosing party or by any person subject to an obligation of confidentiality;

(ii) is already known to the recipient (as evidenced by its written records) at the date of disclosure and was not acquired directly or indirectly from the disclosing party;

(iii) is required to be disclosed by law or pursuant to a court order is required to be disclosed by any recognised stock exchange or other regulatory body;

(iv) is disclosed to or by any adviser to any of the Parties to the extent required for the proper execution of their work.

(b) For the purposes of this clause, "information" includes, without limitation, the following:

(i) information concerning the affairs or property of the Company or any Shareholder or any business, property or transaction in which they may be or may have been concerned or interested;

(ii) the names and addresses or any client of the Company or any Shareholder;

(iii) information on the terms of this Agreement; and

(iv) information relating to the business methods of the Company or any other Shareholder.

(c) Each of the Shareholders covenants with the other that except as otherwise agreed in writing with the other that neither they nor their Affiliated Companies will during the term of this agreement

(i) either solely or jointly with or a manager agent or consultant of any other person (corporate or unincorporate) carry on or be engaged or concerned or interested directly or indirectly within Kenya in the business of currency and security print.

(ii) Solicit the clients of the Company

(iii) induce or seek to induce away from the Company with a view to engaging them in any competing business any director manager employee consultant or representative employed or engaged by the Company other than those provided by or Seconded to the Company by the DLR Group

(iv) save for its interest in the Company, own beneficially or otherwise or be interested in the share capital of any company engaged, directly or indirectly, in the business of currency and security print in Kenya.

(d) The Shareholders covenant that they shall procure that they will not, unless directly invited by the Central Bank of Kenya, directly or indirectly bid for or compete for or carry on any security printing business for the Kenya government, any of its departments or agencies or any other entity, governmental or private, resident or carrying on business in Kenya, except through the Company.

(e) The Shareholders acknowledge that the covenants contained in this are no greater than is reasonable or necessary for the protection of the interests of the Shareholders and further that such covenants shall be deemed to be entire separate severable and separately enforceable in the widest sense.

(f) For purposes of this clause 8, the term "Client" shall mean any person who or which the Company has entered into contracts for the provision of any services falling within the

business of the Company as set out in clause 1 of this Agreement or provision of related services;.

Provided always that if, for any reason, the Government of Kenya does not award the CBK Contract to the Company after the expiry of the initial ten-year CBK Contract with the Company or in the event of termination by the Government of Kenya of the CBK contract with the Company for reasons of breach or non-performance on the part of the Company, Neither Shareholder shall be deemed to be in breach of the non-competition and non-solicitation covenants set out in this clause in relation to the solicitation by the Central Bank of Kenya of a new bank note printing contract.

19. MUTUAL CO-OPERATION

(a) Each of the Shareholders agrees that it will use all reasonable endeavours to promote the business and profitability of the Company.

(b) Each of the Parties shall do and execute or procure to be done and executed all such acts, deeds, documents and things as may be within its power including in relation to the Shareholders (without prejudice to the generality of the foregoing) the passing of resolutions (whether by the Board or in general meeting of the Company) to give full effect to this Agreement and to procure that all provisions of this Agreement are observed and performed.

(c) Each of the Shareholders agrees with each of the others that this Agreement is entered into between them and will be performed by each of them in a spirit of mutual co-operation, trust and confidence and that it will use all means reasonably available to it (including its voting power whether direct or indirect, in relation to the Company) to give effect to the objectives of this Agreement and to ensure compliance by the Company with its obligations.

(d) Each Shareholder undertakes that whilst it remains a Shareholder, it will not (except as expressly provided for in this Agreement) agree to cast any of the voting rights exercisable in respect of any of the Shares held by it in accordance with the directions or subject to the consent of any other person (including any other Shareholder).

20. RESTRICTIONS ON ANNOUNCEMENTS

(a) Each of the Parties undertakes that it will not (save as required by law or any applicable regulatory body or Stock Exchange) make any announcement in connection with this Agreement unless the other Parties shall have given their respective consents to such announcement (which consents may not be unreasonably withheld and may by given either generally or in a specific case or cases and may be subject to conditions).

(b) Where an announcement is required by law or any applicable regulatory body Stock Exchange, the Parties shall consult with one another on the wording of any announcement.

21. NO PARTNERSHIP

Nothing contained or implied in this Agreement shall constitute a partnership between the Parties (or any of them) and none of the Parties shall have any authority to bind or commit any other Party in any way.

22. CONFLICT WITH ARTICLES OF ASSOCIATION

The Shareholders hereby agree that if and to the extent that the Articles of Association conflict with the express provisions of this Agreement, this Agreement shall prevail for so long as it is in force and that they will exercise their respective voting rights as Shareholders and take all such further steps as may be necessary including amending the Articles of

Association or the articles of association of the relevant Subsidiary or requisite to ensure that the provisions of this Agreement shall prevail.

23 NAME AND INTELLECTUAL PROPERTY RIGHTS

(a) The Company and PST acknowledge and accept that the DLR Group owns all right, title and interest in and to the names, trade names and designations 'Thomas De La Rue and De La Rue" including without limitation any trademarks from time to time authorised by the DLR Group for use by the Company as well as any abbreviations or permutations thereof (collectively the 'Trademarks')with or without the founder's head.

(b) By licence hereof, TDLRAG (on its own behalf and on behalf of the DLR Group) authorises the Company to use the name De La Rue and Thomas De La Rue and the Trademarks in Kenya for so long as a member of the DLR Group holds not less than 51% of the Shares of the Company. The Trademarks are and shall continue to be the sole property and right of the DLR Group and the licence herein created shall only be in effect (and the Company may only use them, or any reference to them), for so long as this agreement is in effect. This agreement and the transactions contemplated hereby shall in no way be construed as conferring to the Company any right, title or interest of any kind in or to the Trademarks except the limited licence referred to in the first sentence of this clause as limited further by sub clause a) to k) below.

(c) ~~the licence hereby granted is exclusive within Kenya, non-assignable and may not be sub-~~ licensed to any third party and is granted solely for the Company's use in connection with the operation of the Business in Kenya in accordance with this agreement..

(d) all goodwill relating to the Trademarks is expressly reserved to the DLR Group and the Company will acquire no right or interest in or to it.

(e) the Company will not at any time, either before or after the period of permitted use specified in this agreement:

(i) use the Trademarks for any purpose except as authorised herein nor use the Trademarks in any manner likely to negate, impair or dilute any of the rights of the DLR Group in relation to the Trademarks;

(ii) adopt, use, apply for registration of or otherwise employ any trade name, trademark, logo or other designation that is a permutation of or is substantially or confusingly similar to the Trademarks; or

(iii) apply for the registration of the Trademarks in any territory, province or jurisdiction for use on or in connection with any manner of goods or services.

(f) the Company will not at any time dispute or contest:

(i) the validity of the registration of the Trademarks;

(ii) the exclusive ownership rights of the DLR Group, its successors or assigns in and to the Trademarks;

(iii) the exclusive right of the DLR Group to employ a corporate or trade name comprising one or more of the Trademarks; or

(iv) the exclusive right of the DLR Group to grant to the Company the rights and privileges herein mentioned.

(g) The Company shall immediately notify TDLRAG of any claims against the Company, or the DLR Group alleging that the use of the Trademarks by the Company infringes the proprietary rights of a third party, and of any claims which the Company, may have against third parties for infringement of the Trademarks in Kenya. The decision to institute or defend any such action against or by any infringer or claimant, and the conduct of such action shall be in the

sole discretion of DLR Group and costs thereof shall be borne by DLR Group.

(h) In the event this agreement is terminated, the Company will immediately cease and desist from any further reference to the Trademarks or any other name that is confusingly similar to the Trademarks or to make or imply any continued association and/or co-operation with the DLR Group in any manner whatsoever and shall forthwith change corporate name to same name acceptable to DLR Group that is not in their opinion confusingly similar

(i) Upon termination of this agreement, the Company will destroy all existing stocks of any printed materials, including letterheads, business cards, signs, displays and other like materials that make any reference to the Trademarks.

(j) The Company shall submit to TDLRAG , for approval by TDLRAG (on behalf of itself and the De la Rue Group) prior to printing and/or dissemination, samples or drafts of all letterheads, business cards, signs, displays and any other materials that make any reference in any way to the Trademarks.

(k) Without prejudice to the generality of the foregoing all intellectual property rights relating to the business developed by:

(i) TDLRAG shall belong to the DLR Group;

(ii) The Company shall belong to the Company;

(l) In the event that TDLRAG or any Associated Company shall not hold at least 51% of the Shares of the Company

(i) the Company shall, at its own expense, immediately take all steps necessary to change within a period of 14 days its corporate and business name to another and different business name as the case may be.

(ii) Such new name shall not contain either the words "De La Rue" nor any other name or word resembling the words De La Rue in appearance or sound to which TDLRAG shall object.

(iii) The new name must not suggest a connection with the DLR Group in any other way.

(iv) The Shareholders shall promptly pass all resolutions required to give effect to the foregoing.

24 EXECUTION

This agreement may be entered into on separate engrossments, each of which when executed and delivered shall be an original, but each engrossment shall together constitute one and the same instrument and shall take effect from the time of execution of the last engrossment.

25. WAIVER

The failure to exercise or delay in exercising a right or remedy provided by this Agreement or by law does not constitute a waiver of the right or remedy or a waiver of other rights or remedies. No single or partial exercise of a right or remedy provided by this Agreement or by law prevents the further exercise of the right or remedy or the exercise of another right or remedy. The rights and remedies provided by this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

26. VARIATION

This agreement shall not be varied or cancelled, unless such variation or cancellation shall be expressly agreed in writing by each party.

27. SEVERABILITY

If any of the provisions of this Agreement is found by an arbitrator, court or other competent authority to be void or unenforceable, such provision shall be deemed to be deleted from this Agreement and the remaining provisions of this Agreement shall continue in full force and effect. Notwithstanding the foregoing, the Parties shall thereupon negotiate in good faith in order to agree the terms of a mutually satisfactory provision to be substituted for the provision so found to be void or unenforceable.

28. ENTIRE AGREEMENT

This agreement constitutes the entire agreement between the parties about its subject matter and any previous agreements, undertakings, representations, warranties and negotiations ("prior representations") on that subject cease to have any effect. Each party confirms that it has not relied upon any prior representations and waives any rights which it may have in respect of such reliance if it in fact occurred.

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29. DISPUTE RESOLUTION - ARBITRATION

(a) Any dispute, controversy or claim arising out of or relating to this Agreement or a termination hereof, or the interpretation, breach or validity hereof, shall be resolved by way of consultation held in good faith between the parties. Such consultation shall begin immediately after one party has delivered to the other written request for such consultation. If within fifteen (15) days following the date on which such notice is given the dispute cannot be resolved, the dispute, controversy or claim shall , if so requested by either Party, be finally resolved in accordance with the rules of the Chartered Institute of Arbitrators of the United Kingdom (which rules are deemed to be incorporated by reference into this clause subject to and in accordance with the provisions of the Arbitration Act of Kenya, 1995) by an Arbitrator appointed by agreement of the Parties and failing such agreement within twenty one 21 Business Days of a request therefore by either Party, by an Arbitrator appointed by the Chairman for the time being of the Kenya Branch of the Chartered Institute of Arbitrators, who shall have regard to the nature of the dispute in making such appointment.

(b) The place of arbitration shall be Arusha, Tanzania and the language of the arbitration shall be English.

(c) The award of the arbitration tribunal shall be final and binding upon the Parties and any Party may apply to a court of competent jurisdiction for enforcement of such award. The award of the arbitration tribunal may take the form of an order to pay an amount or to perform or to prohibit certain activities.

(d) Notwithstanding the above provisions of this Clause, a party is entitled to seek preliminary injunctive relief or interim or conservatory measures from any court of competent jurisdiction pending the final decision or award of the arbitrators.

(e) Each of the Parties irrevocably waives any immunity in respect of its obligations under this Agreement that it may acquire from the jurisdiction of any court or any legal or arbitral process for any reason including, but not limited to, the service of notice, attachment prior to judgement or attachment in aid of execution.

(f) Any arbitration commenced under the provisions of this Clause will be consolidated with concurrent arbitration initiated in respect of or pursuant to the Share Purchase Agreement, the Management Agreement or the Articles of Association.

30. COSTS

Each party shall be responsible for its own costs incurred in the negotiation, preparation and execution of this Agreement and the Associated Agreements.

31. NOTICES

Any notice or communication under or in connection with this Agreement shall be in writing shall be delivered by hand or sent by fax to the addresses given below or such other address as the recipient may have notified to the other parties in writing. In the absence of evidence of earlier receipt, any notice or communication shall be deemed to have been received, if delivered by hand, at the time of delivery or, if sent by fax, on the completion of transmission.

TDLRAG

The Managing Director

Rue de Morat 11

1700 Fribourg

Switzerland

Telephone: +41263472610

Fax : +41263472615

With a copy to the General Counsel

De La Rue plc

De La Rue House

Jays Close

Basingstoke RG22 4BS UK

Tel - +44 1256 605000

Fax - +44 1256 605336

To the Company:

The General Manager

Noordin Road

Off Thika Road

Nairobi Kenya

Tel: 254-2-8560086

Fax: 254-2-8560787

With a copy to the General Counsel

De La Rue plc

De La Rue House

Jays Close

Basingstoke RG22 4BS UK

Tel - +44 1256 605000

Fax - +44 1256 605336

To the PST:

Permanent Secretary Treasury (or its Government of Kenya successor in the event of a re-organization)

The Treasury Building

P.O. Box 30007 – 00100

NAIROBI

Telephone:

Fax:

Email:

For the Attention of:

With a copy to the Investment Secretary (or its Government of Kenya successor in the event of a re-organization)

The Treasury Building

P.O. Box 30007 - 00100

NAIROBI

32. GOVERNING LAW

The construction, validity and performance of this Agreement shall be governed in all respects by the law of Kenya.

IN WITNESS WHEREOF the duly authorised representative of the Permanent Secretary of the Treasury pursuant to the provisions of The Permanent Secretary to the Treasury Act Cap 101 Laws of Kenya and The Government Contracts Act Cap 25 Laws of Kenya and the duly authorised representatives of each of TDLRAG and the Company have hereunto set their hands

Signed by)
duly authorised on behalf of)
TDLRAG)
in the presence of:)
)

)
Signed by)
duly authorised on behalf of)
DE LA RUE KENYA EPZ LIMITED)
in the presence of:)
)

SIGNED for and on behalf of The Permanent Secretary Treasury:

Name: _____

Designation: The Permanent Secretary Treasury

Signature: _____

In the presence of:

)
)
)
)

Schedule 1

Details of the Company

Name:	De La Rue Kenya EPZ Limited
Registered Number:	CPR/2011/39289
Registered office:	8th Floor, Lonrho House, Standard Street, L.R. No. 209/7155 P.O. Box 40034-00100
Date of incorporation:	17th January 2011
Authorised share capital:	Forty Thousand Kenya Shillings (KShs. 40,000/=) divided into two thousand (2,000) ordinary shares of Kenya Shillings Twenty (KShs. 20/=) each.
Issued share capital on Completion of the BTA will be:	Forty Thousand Kenya Shillings (KShs. 40,000/=) issued as follows:

Shareholder	Number of Shares
Thomas De La Rue AG.	1999
De La Rue Holdings Plc.	1

Schedule 2

The New Articles



Final Articles of Association

APPENDIX 6

Dated 15th June 1992

The Central Bank of Kenya

- to -

Thomas De La Rue Kenya Limited

Lease

- of -

L.R. No. 7878/4, Nairobi

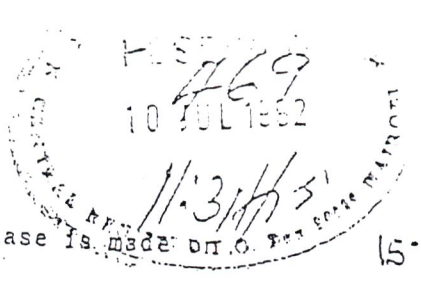
Kaplan & Stratton

Advocates

P.O. Box 40111

Nairobi

CCL/SETL/FBO/Ae003



EXEMPT FROM STAMP DUTY
Section 29(2)(e) Chapter ... EPZ Act
LAWS OF KENYA.
#110 18/6/92
Collector of Stamp Duties

This Lease is made on the 15th June 1992 between:

(1) The Central Bank of Kenya ("the Lessor") a statutory corporation established under The Central Bank of Kenya Act (Chapter 491 of the Laws of Kenya) of Haile Selassie Avenue, P.O. Box 6000, Nairobi; and

(2) Thomas De La Rue Kenya Limited ("the Lessee") a limited liability company incorporated in the Republic of Kenya having its registered office at Queensway House, Kaunda Street, P.O. Box 40111, Nairobi

whereby its mutually agreed that in consideration of the rent hereinafter reserved and of the covenants by the Lessee hereinafter contained the Lessor hereby demises unto the Lessee all that piece or parcel of land situate in the City of Nairobi in the Nairobi Area comprising Four decimal two four one (4.241) hectares or thereabouts known as Land Reference Number 7878/4 (Original Number 7878/2/2) being a portion of the premises comprised in and conveyed by a Conveyance dated the 29th day of June 1981 and made between Ora Lesham and the Lessor (registered in the Government Lands Registry at Nairobi in Volume 37 Folio 237/12) which said piece or parcel of land is delineated and described on the Plan annexed hereto and more particularly on Land Survey Deed Plan Number 162949 deposited in the Survey Records Office at Nairobi and thereon bordered red together with the buildings and improvements erected and being thereon (hereinafter called "the Premises") to hold the same unto the Lessee for the term of Thirty (30) years ("the term") from 8th June 1992 (subject nevertheless to determination as hereinafter provided) yielding and paying therefor and thereout an annual rent of Six thousand pounds Sterling (UK£6,000) for the first Ten (10) calendar years of the term, Nine thousand pounds Sterling (UK£9,000) for the second Ten (10) calendar years of the term and Twelve thousand pounds Sterling (UK£12,000) for the third Ten (10) calendar years of the term such rents to be paid clear of all deductions annually in advance on the Eighth day of June in each year throughout the term.

1. The Lessee hereby covenants with the Lessor, to the intent that the covenants shall be observed and performed by the Lessee throughout the subsistence of this Lease, as follows:

(a) to pay the rents hereby reserved on the days and in the manner aforesaid;

(b) to pay the rates payable under the Rating Act (Cap.266) from time to time payable in respect of the Premises;

(c) to pay all charges for conservancy, water, electricity and telephone (if any) in respect of the Premises;

(d) to keep the buildings forming part of the Premises and any water, sanitary and electrical apparatus therein in good and tenantable repair and condition;

(e) to insure and keep insured the buildings forming part of the Premises from loss or damage by fire, storm, tempest and other usual risks in some insurance office or with underwriters of repute to the full insurable value thereof and to pay all premiums necessary for that purpose and to rebuild or reinstate the said buildings including the means of access thereto so far as the same may be damaged or destroyed and to apply all moneys received by virtue of such

insurance in making good the loss or damage in respect of which the same shall have been received;

(f) to insure against all risks for which the Lessee or the Lessor may be liable to third parties as the occupier and owner of the Premises and to keep the Lessor indemnified against all costs, claims, demands and expenses incurred by the Lessor to any third party howsoever arising out of any incident occurring in the Premises during the subsistence of this Lease;

(g) not, without the prior consent in writing of the Lessor (which consent shall not be unreasonably withheld or delayed), to assign, sub-lease or part with possession of the Premises provided that the Lessee may, without such consent, assign, sub-lease or part with possession of the Premises to any associated company of the Lessee;

(h) not to do or to permit or suffer upon the Premises anything which shall be a nuisance, annoyance or cause damage or disturbance to the Lessor or the owners or occupiers of adjoining or neighbouring premises;

(i) not to do or to permit or suffer any act which shall amount to a breach or non-observance of any negative or restrictiye covenant or special condition contained in any Lease, Grant or other instrument under which the Premises are held by the Lessor or to which they are otherwise subject;

(j) to comply with all lawful and reasonable recommendations of the insurers of the Lessee and the local fire authorities as to fire precautions relating to the Premises and, at the sole expense of the Lessee, to install and maintain in good working order and condition on the Premises such fire fighting equipment and appliances as shall be required and approved by the Chief Fire Officer, Nairobi;

(k) to indemnify the Lessor against any actions, claims or demands arising out of leakage or overflow of water, effluent or chemicals from the Premises;

(l) at all times during the continuance of the term hereby created to comply with all laws, acts, rules, regulations or bye-laws now or hereafter enacted, passed, made or issued by the Government of Kenya or any municipal, township, local or other authority in relation to the occupation, conduct or user of the Premises;

(m) within seven days of the service thereof upon the Lessee to give full particulars to the Lessor of any notice, order or proposal relating to or affecting the Premises given, made or issued under or by virtue of any Act or any rule, regulation, order or direction thereunder or under the bye-laws of any competent authority;

(n) not to commit any act of bankruptcy or convene a meeting of creditors or any class thereof for the purpose of making or proposing or entering into any arrangement, composition, assignment or re-organisation with or for the benefit of creditors or any class thereof;

(o) not to do or permit or suffer to be done any act, matter or thing whereby an encumbrancer may take possession of or a receiver or receiver and manager may be appointed of or a distress or execution be levied or enforced upon or sued out against or analogous proceedings be taken in respect of the whole or any part of the undertaking, assets or property of the Lessee or whereby the Lessee

may be declared by any competent authority or deemed by operation of any law to be insolvent or whereby an order may be made or an effective resolution passed or analogous proceedings be instituted for the winding up of the Lease;

(p) to yield up the Premises at the expiration or determination of the term hereby granted in good and tenantable repair and condition, fair wear and tear excepted, in accordance with the covenants hereinbefore contained.

2. The Lessor hereby covenants with the Lessee, to the intent that the covenants shall be observed by the Lessor throughout the subsistence of this Lease, as follows:

(a) on the written request of the Lessee made at least One (1) year before the expiration of the term hereby created and if there shall not at the time of such request be any existing fundamental breach or non-observance of any of the covenants on the part of the Lessee hereinbefore contained at the expense of the Lessee to grant to the Lessee a lease of the Premises for the further term of Thirty (30) years from the expiration of the term hereby created at an annual rent to be agreed by the parties hereto containing the like covenants and provisos as are herein contained with the exception of the present covenant for renewal and, in the event that the parties fail to agree a rent, then at such rent as may be determined in accordance with the provisions of the Schedule hereto;

(b) not to erect or permit to be erected on any land owned by the Lessor adjacent to the Premises any building or other object which is within twelve metres of the relevant boundary of the Premises or which might endanger in any way the security of any buildings on the Premises;

(c) on the termination of this Lease for whatever cause, to permit the Lessee to remove from the Premises all plant, machinery, equipment, fixtures, fittings and furnishings installed in or affixed to the buildings on the Premises by the Lessee;

(d) that the Lessee paying the rent hereby reserved and observing and performing the several covenants and stipulations on the part of the Lessee herein contained or implied shall peaceably hold and enjoy the Premises during the said term without any interruption by the Lessor or any person rightfully claiming under or in trust for the Lessor.

3. Provided always and it is hereby agreed and declared as follows:

(a) if the rent hereby reserved or any part thereof shall at any time be unpaid for thirty days after becoming payable (whether lawfully demanded or not) or if any of the covenants on the part of the Lessee herein contained shall not be performed and observed for a period of thirty days after the receipt by the Lessee of a notice from the Lessor specifying the non-performance or non-observance in question, then and in any of the said cases it shall be lawful for the Lessor to re-enter upon the Premises or any part thereof in the name of the whole and thereupon this Lease shall determine absolutely but without prejudice to the right of action of the Lessor in respect of any antecedent breach of any of the covenants on the part of the Lessee herein contained;

(b) if the Lessee shall desire to determine the term hereby created at any time during the said term and shall give to the Lessor one calendar year's previous notice in writing of such desire (and shall up to the time of such determination pay the rent and perform and

observe the covenants on the part of the Lessee hereinbefore reserved and contained), then immediately on the expiration of such notice this Lease and everything herein contained shall cease and be void but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach of covenant.

4. Any notice required to be served hereunder shall be in writing and shall be sufficiently served upon either party if forwarded to that party by registered post or left at that party's last known address in Kenya. A notice to the Lessee may be left at the Premises. A notice sent by post shall be deemed to be given four days after the date of posting thereof.

5. In this Lease, where the context so admits:-

(a) words importing the singular number only include the plural number and vice versa; and

(b) the expressions "the Lessor" and "the Lessee" shall include their respective successors in title and assigns.

In witness whereof the parties have caused their respective Common Seals to be hereunto duly affixed the day and year first hereinbefore written.

The Schedule

1. Agreement between the Lessor and the Lessee as to the rent to operate for the further term of Thirty (30) years ("the New Rent") shall be in writing and signed by the parties hereto.

2. If such agreement has not been made Six (6) months before the commencement of the said further term, an independent valuation surveyor ("the Surveyor") shall be appointed to determine the New Rent as hereinafter provided. The Surveyor may be nominated by agreement between the Lessor and the Lessee or, failing such agreement, he shall be appointed by the Chairman for the time being of the Institution of Surveyors of Kenya on the application of the Lessor.

3. If the said Chairman shall for any reason not be available or be unable to make such appointment at the time of application therefor, the appointment may be made by the Vice-Chairman or next senior officer of the said Institution then available and able to make such appointment or, if no such officer of the said Institution shall be so available and able, by such officer of such professional body of surveyors as the Lessor shall designate and any reference hereafter to the said Chairman shall be deemed to include a reference to such Vice-Chairman or other officer.

4. Notice in writing of his appointment shall be given by the said Chairman to the Surveyor and to the Lessor and the Lessee inviting each party to submit within a specified period (which shall not exceed Four (4) weeks) a valuation accompanied, if desired, by a statement of reasons.

5. The Surveyor shall act as an expert and not as an arbitrator. He shall consider any valuation and reasons submitted to him within the said period but shall not be in any way limited or fettered thereby and shall determine the New Rent in accordance with his own judgement as hereinafter provided.

6. The New Rent to be agreed by the parties or failing agreement to be determined by the Surveyor shall be the open market value of the site of the premises based on the following assumptions: that

(a) both the Lessor and the Lessee shall be regarded as willing parties;

(b) the value of the buildings, services, access roads and other improvements to the site paid for by the Lessee shall be disregarded ;

(c) the site has consent for the construction and use of industrial and ancillary buildings only;

(d) any value attributable to the previous use or businesses by the Lessee shall be disregarded;

(e) the terms of the lease should be those of the original lease excluding the option to renew.

7. The Surveyor shall give notice in writing of his determination to the Lessor and the Lessee within Three (3) months of his appointment.

8. If the Surveyor shall fail to determine the New Rent and give notice thereof within the time and in the manner hereinbefore provided or if he shall relinquish his appointment or die or if it shall become apparent that for any reason he will be unable to complete his duties hereunder, the Lessor shall apply to the said Chairman for a substitute to be appointed in his place which procedure may be repeated as many times as necessary.

9. The decision of the Surveyor shall be final on all matters hereby referred to him.

10. The New Rent shall not be due until after the Lessee shall have been given notice thereof as is hereby provided and, in the event that the said further term commences before such notice has been given to the Lessee, rent shall continue to be due at the rate payable at the end of the term on each day appointed by this Lease for payment of rent until the said notice is given to the Lessee. Not more than Thirty (30) days after the notice is given to the Lessee, the Lessee shall pay to the Lessor a sum equal to the difference between the New Rent and the rent actually paid for any part of the said further term in respect of which a rent less than the New Rent has been paid.

11. The fees of the Surveyor shall be shared equally between the Lessor and the Lessee.

12. As respects all periods of time referred to in this Schedule, time shall be deemed to be of the essence of the contract.

Sealed with the common seal)
of The Central Bank of Kenya)
in the presence of:)
)
)
)
)
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)
)
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)
)

Deputy Governor

Bank Secretary

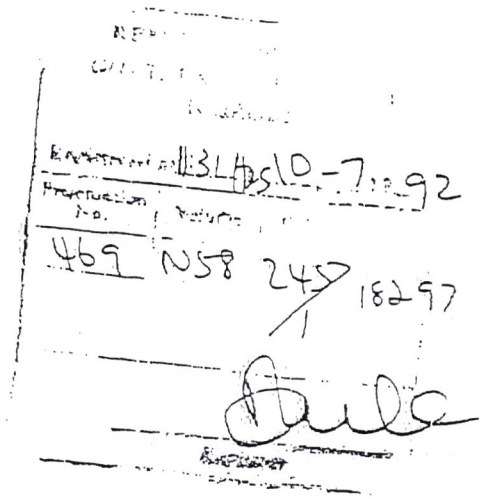
Sealed with the common seal of Thomas De La Rue Kenya Limited in the presence of:

Director

COUDRANT SECRETARIES

Partner

~~Director~~/Secretary



Appendix 7

Appearance by the Hon. Ag. Minister for Finance before the Public Accounts Committee (PAC)

Monday, 19th March, 2012

De La Rue

BRIEF ON THE JOINT VENTURE BETWEEN GOVERNMENT OF KENYA AND DE LA RUE AND OTHER MATTERS

Introduction

1. De La Rue Currency and Security Print Kenya Ltd was established in Kenya in 1992 as a wholly owned subsidiary of the De La Rue International UK. Its core mandate is to operate currency and security print business. It operates a modern factory complex with adequate capacity and machinery.

2. The initial investment was KShs 1.54 billion but this has grown over the years such that the total amount of investment to date stands at around KShs. 3 billion.

Background

3. During the period 1966-1985 Kenyan bank notes were printed by Bradbury & Wilkinson, UK which was later acquired by Thomas De La Rue and Co. Ltd. in 1986. Since then, De La Rue International, UK (renamed after Thomas De la Rue & Co. Ltd) has provided currency printing services to the Central Bank of Kenya (CBK).

4. In 1991, a 10-year agreement, which became effective in 1993, was signed between the CBK and De La Rue International, UK to provide currency printing services. The minimum order under the contract was for the supply of 170 million pieces of banknotes each year. This was to be produced in the new factory to be established at Ruaraka, Nairobi.

5. In 1992, De La Rue International established at Ruaraka, Nairobi the De La Rue Currency Printing & Security Print Ltd as a subsidiary to operate currency and security printing business in Kenya. The investment by De La Rue in a Kenyan subsidiary was only justified on the basis that it would print currency for the CBK.

6. In December 2002, following expiry of the initial 10-year contract, the CBK entered into a new 10-year contract with the De La Rue Currency & Security Print Ltd. The contract was later, in March 2003, cancelled by the new NARC government to allow for competitive tendering. The company was, however, granted temporary extensions to provide

currency printing services to the CBK following delays in arrangements for an open tender process for printing of currency.

7. When the CBK tendered for currency printing services in 2006, De La Rue won a three-year contract under an open tender to print 1.71 billion pieces of banknotes for CBK at a cost of US$ 51.2 million. The new currency was to be issued beginning June/July 2007.

8. The Government, however, considered it not prudent to have a new generation currency issued in an election year and accordingly directed the CBK to delay the commencement of the contract until January 2008.

9. Under the new contract, production of the new-look banknotes were to be done, not at the Ruaraka factory, but at plants owned by the De La Rue International, UK located in other countries. The other plants worldwide enjoyed a comparative advantage and low cost structure, mainly arising from economies of scale and more efficient equipment for printing currencies.

10. Since currency printing accounts for over 90% of the operations of the Ruaraka factory, the company was no longer financially viable and sustainable under the new contract. **Consequently, under the new contract, De La Rue International, UK was contemplating closing down the Kenyan factory as there was no guaranteed business to sustain the company operations.**

Consequences of Closure

11. The location of the currency printing factory in Kenya has had a beneficial effect on the economy in terms of employment generation for many Kenyans, tax revenue and foreign exchange earnings. The closure of the factory would mean losing direct benefits associated with the factory.

12. This plant employed 301 Kenyans at the time. Its closure, therefore, meant that these Kenyans, who have been specially trained, would automatically lose their jobs and join the already large army of unemployed Kenyans.

13. The country would also lose tax revenues and foreign exchange that the plant generates.

14. The closure of the Ruaraka plant would also give the wrong signal to potential investors, who most likely would interpret it to mean serious erosion of investor confidence in Kenya.

15. Consistent with making Nairobi the regional financial services hub under Vision 2030, there is, therefore, need to safeguard this investment in the country to continue promoting Kenya as a regional hub, as most of our neighbouring countries use the company for currency printing services.

16. There is also need to safeguard the ownership of our currency features by securing a strategic long term relationship with the firm located in the country. This will provide incentives for the firm to invest in new technology and materials to boost the quality of our currency features to counteract forgery and adulteration.

17. Many countries consider security printing so strategic that they have established fully Government owned currency and security printing presses and mints, e.g. USA, Australia, India, Sudan, etc. Many others have joint ventures with printing firms to secure sustainable currency printing services.

18. Examples where De La Rue International has joint ventures with other countries in banknote production include:

	Shareholding		
Company/Country	**De La Rue (DLR)**	**Government**	**Other**
DLR Lanka, Sri Lanka	60%	40%	-
Valora, Portugal	25%	75%	-
Nigerian Security Printing and Minting PLC	2.9%	77%	20.1%
Orell Fussli, Switzerland	75%	25% (central bank)	-
Portals (pre-DLR), United Kingdom	75%	25% (central bank)	-

The Government regards this as a strategic investment.

The Decision by the Kenya Government to Invest in De La Rue (K) Ltd

19. Against the above background, the Cabinet in its sitting of **29th May, 2007**, approved a joint venture in currency printing between the Government of Kenya (GoK) and De La Rue Currency and Security

Printing (K) Limited, with De La Rue International (UK) retaining 75% ownership and GoK acquiring 25% shareholding in the existing company based in Kenya.

20. This proposed Investment was subsequently discussed by the:

(i) Departmental Committee on Finance, Trade and Planning of Parliament; and the

(ii) Cabinet Committee on Finance, Trade and Planning chaired by the Rt. Hon Prime Minister.

21. Both Committees approved and supported the Joint Venture and noted that Government should have more shareholding. Consequently, following negotiations with De La Rue, an agreement was reached for GOK to invest 40%.

Current Status

22. Negotiations have been completed following the **final Cabinet approval** which was granted on **13th September 2011**.

23. The key terms of the investment are as follows:-

(i) **Shareholding structure:-** 40% GOK: 60% De La Rue

(ii) **Investment Vehicle:** A new company (NEWCO) into which De La Rue will vest all the operating assets of the De La Rue (Kenya) Ltd plus Stg£ 2 million in equity to fund the initial working capital of the NewCo

(iii) **Purchase Price** for 40% stake in NewCo: Stg£5 million

(iv) **Number of Directors** : GOK 2: De La Rue 3

(v) **Management**: De La Rue

(vi) **Chairmanship**: GOK

(vii) **Key Conditions Precedent:**

(a) Grant of a new Export Processing Operators License to NewCo under the Export Processing Zones Act provided

that NewCo qualifies for the Licence under the Laws of Kenya.

(b) The Central Bank of Kenya (CBK) shall have entered into a 10-year Bank Note Printing Agreement with NewCo to come into force only upon completion of the Share Sale and Purchase Agreement. **(NB. CBK is negotiating this contract separately).**

- The currency supply contract is between the CBK and De La Rue and is not against the procurement law. We expect that CBK will negotiate the Currency Printing Agreement with the new joint venture company under Section 74 of the Public Procurement and Disposal Act, which provides for direct procurement.

- In the Currency Printing Agreement, CBK would ensure that the agreement provides for benchmarking with international prices, with provision for regular review of the prices to ensure they are in tandem with international prices.

24. The investment will be undertaken the Permanent Secretary/Treasury, who is the Purchaser under the Permanent Secretary/Treasury Incorporation Act, Cap 101 of the Laws of Kenya.

25. The negotiated position is:

- All the operating assets of De La Rue Currency Print & Security Limited will be hived down to a new company called De La Rue EPZ Kenya Limited under a Business Transfer Agreement between De La Rue Currency Print & Security Limited and De La Rue EPZ Kenya Limited. This will be done in accordance with the Transfer of Business Act Cap 500. The staff will also be transferred to the new company.
- Permanent Secretary/Treasury (PS/T) will purchase 40% of shares in De La Rue EPZ Kenya Limited under a Share Sale and Purchase Agreement between Thomas De La Rue AG and PS/T and De La Rue EPZ Kenya Limited.
- Completion of the Business Transfer Agreement is one of the Conditions Precedent to the purchase of shares by PS/T. Which

means the hived down must be completed before the PS/T purchases and pays for the shares in the company.

Ownership Structure of De La Rue

25. According to De La Rue, the ownership structure is as indicated in ***Annex 1***. The chart indicates that all subsidiaries are 100% owned by the relevant parent company. According to the information provided, De La Rue Currency & Security Print (Kenya) Ltd is owned 100% by Thomas De La Rue AG of Switzerland. De La Rue PLC is the listed entity. (***see Annex I and Annex II***)

Lease LR 78784 (the land on which the plant is situated in Ruaraka)

26. With respect to lease LR 78784, this was signed by Thomas De La Rue Kenya Limited, which was the name of De La Rue's operating company in Kenya at that time. On 30 September 1997, as part of a wider re-organisation, Thomas De La Rue Kenya Limited was renamed De La Rue Currency & Security Print Limited, but, since this was simply a renaming of the company, there was no legal requirement to assign the lease and, consequently, it still carries the earlier name of the company.

AUDITING OF THE CENTRAL BANK OF KENYA BY THE AUDITOR GENERAL

1. The Central Bank of Kenya is established under Article 231 (1) of the Constitution of Kenya, 2010 as an independent office of the state.

2. Article 229 (4) of the Constitution of Kenya, 2010, requires that "within six months after the end of each financial year, the Auditor-General shall audit and report, in respect of that financial year, on-

(a) the accounts of the national and county governments;
(b) the accounts of all funds and authorities of the national and county governments;
(c) the accounts of all courts;
(d) the accounts of every commission and independent office established by this Constitution;
(e) the accounts of the National Assembly, the Senate and the county assemblies;
(f) the accounts of political parties funded from public funds;
(g) the public debt; and
(h) the accounts of any other entity that legislation requires the Auditor-General to audit."

3. Article 229(5) further states that "the Auditor-General **may** audit and report on the accounts of any entity that is funded from public funds."

4. Section 2 of the Public Audit Act, Cap 12 requires that the Auditor General audits all Government books and records. It defines ""government" to include the Central Government, the Courts, the National Assembly, the commissions established under the Constitution and any other institution connected with the Government or bodies set up under an Act of Parliament".

5. Section 54 of the Central Bank of Kenya Act, Cap 491 requires that "within three months after the close of each financial year the Bank shall submit to the Minister a report on the Bank's operations throughout that year, together with the balance sheet and the profit and loss account as **certified by auditors appointed by the Bank and approved by the Minister**."

6. Under Section 56 of the Central Bank of Kenya Act, the Minister for Finance "may, in addition to the audit carried out under section 54, if he

thinks fit, require the Auditor-General to audit the accounts of the Bank."

7. It is, therefore, clear that, while previously the Central Bank of Kenya had the discretion under its enabling legislation to appoint its own auditors, that discretion was removed by the Constitution of Kenya, 2010. Henceforth, CBK will be required to be audited by the Auditor General.

8. Section 39 of the Public Audit Act grants the Auditor-General authority to appoint an auditor who is not a member of the staff of the KeNAO to assist in an examination and audit of accounts. An auditor appointed under this section must report to the Auditor-General, and the responsibility for certification of the results of the examination and audit remains with the Auditor General.

9. If CBK so desires, it may seek the indulgence of the Auditor General to appoint a private auditor under Section 39 of the Public Audit Act.

THE TREASURY
19th MARCH, 2012

Annex 1

Ownership Structure
(All subsidiaries are 100% owned by the relevant parent company)



Annex II
Excerpt from their Annual Accounts.

Principal subsidiaries, branches and associated companies

As at 26 March 2011
The trading companies and branches listed below include those which principally affect the profits and assets of the Group.
A full list of subsidiary undertakings will be filed with the Company's Annual Return.

Country of incorporation and operation		Activities	De La Rue interest in ordinary shares %
Europe			
United Kingdom	DLR (No.1) Limited	Holding company	100
	DLR (No.2) Limited	Holding company	100†
	De La Rue Holdings plc	Holding and general commercial activities	100
	De La Rue International Limited	Security paper and printing, sale and maintenance of CPS products and services, identity systems, brand protection and holograms	100
	De La Rue Overseas Limited	Holding company	100
	De La Rue Investments Limited	Holding company	100
	Portals Group Limited	Holding company	100
	Portals Property Limited	Property holding company	100
Channel Islands	The Burnhill Insurance Company Limited	Insurance	100
Malta	De La Rue Currency and Security Print Limited	Security printing	100
The Netherlands	De La Rue BV	Holding company and distribution and marketing of CPS products	100
Russia	De La Rue CIS	Manufacturing, distribution, service and marketing	100
Switzerland	Thomas De La Rue A.G.	Holding company	100
North America			
USA	De La Rue North America Holdings Inc.	Holding company	100
USA	De La Rue North America Inc.	Security printing	100
South America			
Brazil	De La Rue Cash Systems Limitada	Distribution, service and marketing	100
Mexico	De La Rue Mexico, S.A. de C.V.	Distribution, marketing and identity systems	100
Africa			
Kenya	De La Rue Currency and Security Print Limited	Security printing	100
Far East			
China	De La Rue Trading (Shenzhen) Co Limited	Distribution, service and marketing	100
Hong Kong	De La Rue Systems Limited	Distribution, service and marketing	100
Sri Lanka	De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60

†Held directly by De La Rue plc

Appendix 8

AN AGREEMENT FOR THE DESIGN, MANUFACTURE, PRINTING AND SUPPLY OF NEW GENERATION BANKNOTES

BETWEEN

THE CENTRAL BANK OF KENYA

AND

DE LA RUE INTERNATIONAL LIMITED

INDEX TO AGREEMENT

Clause 1	-	Quantities and Prices
Clause 2	-	Delivery and Title
Clause 3	-	Payment
Clause 4	-	Copyright and Control of Working Tools
Clause 5	-	Inspection
Clause 6	-	Liability
Clause 7	-	Force Majeure
Clause 8	-	Termination of Agreement
Clause 9	-	Effect of Transfer of Assets, Insolvency and Dissolution
Clause 10	-	Duration
Clause 11	-	Confidentiality
Clause 12	-	General
Appendix A	-	Banknote Specifications
Appendix B	-	Breakdown of Volumes of Banknotes per Denomination per Contract Year
Appendix C	-	Delivery Schedule
Appendix D	-	Bank Guarantee for Advance Payment
Appendix E	-	Performance Guarantee

AN AGREEMENT made the 4th day of May 2006 BETWEEN The Central Bank of Kenya, a body Corporate established under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya, of P. O. Box 60000, 00200, Nairobi, Kenya (hereinafter referred to as "the Customer"), which expression shall include, where the context so requires, its assigns and successors in title, of the one part, AND De La Rue International Limited of Basingstoke, Hampshire, England whose registered office is at De La Rue House, Jays Close, Viables Basingstoke, Hampshire RG22 4BS, England (hereinafter referred to as "the Company") which expression shall include, where the context so requires, its assigns and successors in title, of the other part.

WHEREAS the Customer, being desirous of entering into an agreement with a reputable international company for the design, manufacture, printing and supply of new generation banknotes, invited tenders on 6th June, 2005 for the supply of the new generation Banknotes in accordance with stipulated specifications and other terms and conditions.

WHEREAS the Company responded to the Customer's invitation and tendered for the design, manufacture printing and supply of the new generation banknotes to the Customer.

AND WHEREAS the Company undertakes to design, manufacture, print and supply to the Customer banknotes in accordance with the terms and conditions of this Agreement.

NOW THE PARTIES HERETO AGREE AS FOLLOWS:

Clause 1 - Quantities and Prices

1.1 The Company hereby undertakes to design, manufacture, print and supply banknotes to the Customer in accordance with the banknote specifications contained in Appendix A to this Agreement in the denominations and at the prices set out in Table 1 below: -

TABLE 1

Denomination	Quantity (Millions)	Price per 1000 Banknotes	Total Price
Shs 1000	486.0	38.59	18,754,740.00
Shs 500	216.0	38.94	8,411,040.00
Shs 200	245.0	26.21	6,421,450.00
Shs 100	461.0	23.09	10,644,490.00
Shs 50	302.0	23.06	6,964,120.00
TOTAL	1,710		51,195,840.00

All Prices quoted are CIP Nairobi, (as defined in Incoterms 2000) and are expressed in US Dollars. Banknotes are insured for their replacement value +10%.

1.2 The volumes referred to in Clause 1.1 above represent the total quantities to be supplied by the Company to the Customer under a three-year Agreement. The Company hereby undertakes to deliver to the Customer the volumes for each denomination for each year of the Agreement as shown in Appendix B to this Agreement and in accordance with the

delivery schedule referred to in sub – clause 2.2 below. The Company hereby further undertakes that the prices shown in Clause 1.1 shall remain fixed for the duration of the Agreement.

1.3 The Customer reserves the right to increase or decrease the volume of banknotes subject of this Agreement without any change to unit price or terms and conditions provided that such reduction or increase does not exceed 20% of the volumes shown in Clause 1.1.

1.4 The prices shown in Clause 1.1 above relate to the specifications and designs of the banknotes contained in Appendix A to this Agreement. Should the Customer opt to change the size and/or design and/or specifications of the banknotes, which change of size and/or design and/or specification results in a change in the cost to the Company, the parties shall have the right to negotiate new prices based on the new sizes and/or designs and/or specifications, to reflect the change in cost. Pending any renegotiated terms agreed in writing between the parties, the provisions of this Agreement shall continue to apply and bind the parties. **PROVIDED** however that any change of specified dates and/or signatures printed on the banknotes, effected by the parties during the term of the Agreement, shall not be construed as a change of size and/or design and/or specification of the banknotes to warrant renegotiation of new prices under this Clause.

Clause 2 - Delivery and Title

2.1 The Company shall submit to the Customer final designs for approval within one (1) month of the Contract Effective Date as defined in Clause 3.1.

The Company shall submit proofs to the Customer and deliver to the Customer the first consignment of banknotes as detailed in Appendix C to this Agreement.

The Customer hereby agrees to purchase and the Company hereby undertakes to deliver to the Customer seventy five (75) million pieces of banknotes per month for the first 4 months as more particularly provided for in Appendix C to this Agreement.

2.2 The Company shall deliver the finished banknotes to the Customer in accordance with the delivery schedule shown in Appendix C to this Agreement.

2.3 The Company shall notify the Customer of each shipment on completion of its loading aboard vessel. In addition the Company shall notify the Customer when a consignment has arrived in Nairobi, Kenya and is ready for delivery.

2.4 If the Company fails to deliver any or all of the banknotes within the period specified in the Agreement, the Customer shall, without prejudice to its other remedies under the Agreement, deduct from the contract price, as liquidated damages a sum equivalent to 0.5% per month of the Agreement price of the delayed banknotes up to a maximum deduction of 10%.

Provided that no liquidated damages shall be payable if the delay has arisen from causes which were unavoidable and could not have been foreseen or overcome by the Company; or the delay has been caused by actions attributable to the Customer.

2.5 Title to the banknotes shall pass to the Customer upon delivery of the banknotes to the Customer CIP Nairobi port (Incoterms 2000). If the Customer fails to take delivery of the banknotes or notifies the Company to delay a shipment because it is unable to take delivery of the banknotes as agreed in the delivery schedule set out in Appendix C to this Agreement then the Customer will pay the Company a late delivery charge of a sum equivalent to 0.5% per month of the Agreement price of the undelivered banknotes up to a maximum payment of 10%.

2.6 If the Company defaults to deliver the minimum quantity of banknotes in accordance with the provisions of this Agreement and in compliance with the delivery schedule set out in Appendix C to this Agreement, the Customer shall be at liberty to suspend further payments until the Company makes full delivery in accordance with the provisions of this Agreement and in compliance with the agreed delivery schedule whereupon the payment for the deliveries shall resume.

Clause 3 – Payment

3.1 The Customer undertakes to pay the Company, upon execution of this Agreement and subject to full compliance by the Company with the provisions of Clause 3.2 below, a down payment amounting to 50% of the total value of the deliveries for the term of the Agreement, as more particularly set out in Appendix C to this Agreement, using the account whose details are set down here below. The date of receipt of the said 50% down payment shall be referred to in this Agreement as the "Contract Effective Date".

Payment of the balance shall be paid strictly against deliveries as set out in Appendix C to this Agreement and within 30 days of receipt of the respective invoices by the Customer which invoices shall be submitted to the Customer at the time of delivery of each consignment. All payments shall be in US Dollars.

The Royal Bank of Scotland
PO Box 450
5-10 Great Tower Street
LONDON EC3P 3HX

US Dollar account TDLRSPPD - USDC

Sort Code 16-04-00
Swift Code RBOS GB 2L

3.2 The Company shall upon the execution of this Agreement provide the Customer with:-

i) a Performance Bond in the form of a Bank Guarantee conforming to the format contained in Appendix E to this Agreement representing 10% of the total contract sum;

ii) the requisite invoice for the down payment; and

iii) a Banker's Guarantee in respect of the down payment from a bank acceptable to the Customer, in the form set out in Appendix D to this Agreement, which guarantee shall be returned to the Company upon expiry of the Agreement.

3.3 The Performance Bond shall be adjusted downwards in accordance with the deliveries made and prorated to cover the deliveries for the entire term of the Agreement.

The Customer shall return the Performance Bond to the Company within 30 days of the expiry of this Agreement.

Clause 4 - Copyright and Control of Working Tools

4.1 The Company hereby assigns to the Customer the designs of the banknotes approved by the Customer at no further consideration (except in so far as they contain proprietary security features of the Company for which a royalty - free licence is granted).The designs shall during the term of this Agreement be safely secured by the Company and used solely by the Company in the production and delivery of banknotes to the Customer in accordance with the terms of this Agreement. The parties agree and it is hereby agreed that without the written approval of the Company, the Customer shall not have any right to own, manufacture or use the proprietary security features of the Company contained in such designs which security features shall be disclosed to the Customer upon the execution of this Agreement.

4.2 The designs, art works, films, engraved dies, plates and other origination materials, namely the working tools, are the property of the Customer and shall during the term of this Agreement be held in safe custody by the Company and used only by the Company under the Customer's express authority. All such designs, art works, films, engraved dies, plates and other origination materials shall either be:

i) returned to the Customer within fourteen (14) days if the Customer requests so in writing; or

ii) destroyed by the Company if so requested in writing by the Customer, at any time after completion of this Agreement.

4.3 The Company undertakes that the banknotes to be manufactured and supplied to the Customer will not infringe any patent, trademark, registered design copyright or other right in the nature of intellectual property of any third party and the Company hereby duly indemnifies the Customer against all actions, suits, claims, demands, loses, charges, costs and expenses which the Customer may suffer or incur as a result of or in conjunction with any breach of this condition subject to the Customer:-

4.3.1 Making no admission or other statement admitting liability;

4.3.2 Allowing the Company to fully conduct the defence and settlement of any such claim at the cost and expense of the Company;

4.3.2 Providing reasonable assistance requested by the Company at the cost of the Company in the defence of any such claim.

4.4 Subject to clause 4.1 which gives no right to the Customer to sublicense the use of proprietary security features of the Company, the parties expressly agree that the designs, engraved dies, art works, plates, films, all origination materials and copy rights developed

by the Company shall be the property of the Customer and the Customer shall have the right to demand in writing for the return of the same from the Company and the Company shall comply within fourteen (14) days from the date of receipt of the demand from the Customer, whereupon the Customer may, at its absolute discretion, procure the manufacture and supply of banknotes from another supplier using the same designs, engraved dies, art works, plates, films, origination materials and copy rights.

Clause 5 – Inspection

5.1 The Customer or its representative shall have the right to inspect and/or test the banknotes to confirm their conformity to the specifications in Appendix A to this Agreement.

5.2 The inspections and/or tests may be conducted at the premises of the Company and/or at the premises of the Customer on receipt of the banknotes. If conducted at the Company's premises all reasonable facilities and assistance shall be furnished to the inspectors at no additional charge to the Customer. Further, and to facilitate inspection, the Company shall notify and furnish particulars of the production plant to the Customer fourteen (14) days prior to the date that production of a scheduled delivery of banknotes commences.

5.3 Should any inspected or tested banknotes, subject of the Agreement fail to conform to the specifications, the Customer shall reject the banknotes and the Company shall either replace the rejected banknotes or reimburse the Customer with the invoice value of the affected notes, based on the prices shown in Clause1.

5.4 The Customer's right to inspect, test and where necessary reject the banknotes after their delivery shall in no way be limited or waived by reason of the banknotes having previously been inspected, tested and passed by the Customer or its representative prior to delivery.

Clause 6 - Liability

6.1 In the event that banknotes, dies, plates and other original materials are lost, stolen, damaged or destroyed whilst at the risk of the Company, the Company shall reprint and supply the banknotes, the design and specifications of which shall be agreed with the Customer or replace the dies, plates and other origination materials at its own cost, and within the time frame provided for in Appendix C to this Agreement or agreed with the Customer.

6.2 In the event that the banknotes delivered by the Company do not meet the agreed specifications, the Company shall print and deliver, at its cost, the replacement banknotes thereof within the time frame provided for in Appendix C to this Agreement or agreed with the Customer. The rejected banknotes shall be destroyed, at the earliest opportunity, either by incineration or shredding in Kenya, under the joint supervision of the Company and the Customer and the destruction shall be at the cost of the Company.

6.3 In the event that forged banknotes enter circulation as a result of unlawful use of the Company origination materials by unauthorised parties whilst the said Company origination materials are in the custody of the Company, the Company shall reprint, at its cost and within the agreed time, the agreed quantity of banknotes of the denomination affected by the unlawful use of the origination materials, the design and specifications of which shall be determined between the Company and the Customer.

6.4 The Company shall take all appropriate measures and precautions to prevent paper, plates and any other materials in its possession for the manufacture of the banknotes from being used in any unauthorised manner. In the event that the Company loses any banknotes or origination materials whilst in the custody of the Company, the Company shall without delay immediately report such loss to the Customer in writing.

6.5 With a view to ensuring that the paper and materials used for the manufacture of banknotes is not used in an unauthorised manner, the paper purchased, the paper used, the banknotes printed, the unserviceable paper and the unused paper shall be regularly reconciled by the Company and the reconciliation shall be approved by the Customer and/or its authorised agent before any storage or destruction of such material is effected. The destruction of any misprints and or unserviceable paper shall be notified to the Bank and the Bank shall have the option to attend and witness, and a reconciliation certificate shall be issued by the parties specifying and detailing the quantities reconciled and destroyed.

6.6 The remedies set out in clauses 6.1, 6.2 and 6.3 above, are the exclusive remedies for the loss, damage or theft of banknotes, dies, plates and other origination materials or for any claim related to the banknotes not meeting the specifications. The Company shall have no liability for the face value of the banknotes. Provided however that nothing in this Agreement shall be construed to exclude or limit the liability of the Company from any personal injury claim or loss incurred or suffered by the Customer, whether in contract, negligence or other tort.

Clause 7 - Force Majeure

7.1 Neither party shall be liable for any failure in complying with the terms of this Agreement within the time or times stated to the extent to which such failure is occasioned by war (whether war be declared or not), riot, terrorism, civil commotion, strike, industrial dispute, acts of state, damage caused by fire or other accident or any other cause beyond the control of the parties. In the event of such circumstances arising, the affected party shall forthwith notify the other party and the other party shall allow performance of the delayed obligation to be adjusted for a sufficient period to compensate for the Force Majeure event.

7.2 The parties hereby agree further that the party in default may be required to produce documentary evidence of the circumstances preventing performance and the affected party shall provide such documentary evidence as may be reasonably requested by the other party.

Clause 8 – Termination of Agreement

8.1 The Customer may without prejudice to any other remedy for breach of contract, by written notice of default sent to the Company and which is not remedied by the Company within Twenty Eight (28) Days of the date of receipt of the notice of default, terminate the Agreement in whole or in part.

a) If the Company fails to deliver any or all of the banknotes within the period(s) specified in the Agreement, or within any extension thereof granted by the Customer.

b) If the Company fails to perform any other obligation(s) under the Agreement

c) If the Company, in the judgement of the Customer has engaged in corrupt or fraudulent practices in executing this Agreement.

d) If the Company is declared bankrupt or enters into arrangements with creditors.

8.2 In the event that the Customer terminates the Agreement in whole or in part, or the Agreement expires by effluxion of time, the Customer may procure, from any other supplier, and upon such terms and in such manner, as it deems appropriate, banknotes similar to those undelivered, and the Company shall be liable to the Customer for any excess costs incurred in respect of such undelivered quantity of banknotes. Further, and to facilitate production, the Company shall on written demand by the Customer, release to the Customer the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company, in accordance with the provisions of Clause 4.4 but subject to Clause 4.1 hereof.

Clause 9 – Effect of Transfer of Assets, Insolvency or Dissolution

In the event that the Company is acquired by persons who are not acceptable to the Customer or the Company becomes insolvent or enters into any arrangement with its creditors or proceedings are commenced by any person for the winding – up or dissolution of the Company (excluding any such proceedings which are frivolous or vexatious in nature) and not defended by the Company then the Customer shall be entitled:

a) To terminate this Agreement whereupon the Customer shall be at liberty to procure the supply of banknotes from any other organisation or entity of its choice in which event the Company shall, on written demand by the Customer, release to the Customer the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company in accordance with the provisions of Clause 4.4 hereof. In such event it is hereby agreed by and between the parties that the Customer shall subject to clause 4.4 be at liberty and at its absolute discretion to handover the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company to any other organisation or entity for use in the production of banknotes for the Customer.

a) To require that all origination material held by the Company be released to the Customer or any other person duly authorised to receive the said material on behalf of the Customer;

b) To require that all stocks of banknotes be released to the Customer on payment of the sum due which amount shall be pro - rata to the actual printing completed.

Clause 10 – Duration

10.1 This Agreement shall take effect on the day of execution hereof and continue for a period of three (3) years unless otherwise terminated under the provisions of this Agreement. The parties expressly agree that the expiry of this Agreement will not in any way prejudice or hinder the rights and obligations of either party accruing from the Agreement. The parties further agree that notwithstanding the duration of this Agreement, the provisions of this

Agreement shall continue to apply to all orders made during the tenure of this Agreement whose delivery period falls after the expiry of this Agreement and the provisions of this Agreement shall be deemed to be applicable to such orders until the orders are delivered by the Company and duly paid for by the Customer.

10.2 Prior to expiry thereof, the parties may extend this Agreement for such a period and on such terms and conditions as may be mutually agreed.

Clause 11 - Confidentiality

The parties agree to keep complete secrecy concerning all confidential operations, processes or dealings relating to the production of the Bank notes and all confidential information entrusted by one party to the other. This clause shall continue to bind the parties even after expiry of the Agreement.

Clause 12 - General

12.1 Any notice required to be given pursuant to the Agreement by one party to the other shall be in the English language and in writing, state the date of and the parties to the Agreement, and state that the notice is served pursuant to this clause.

Notices shall be delivered personally, or by prepaid first class airmail, or transmitted by email or facsimile (and in the case of transmission by email or facsimile followed within 3 days by a copy thereof being delivered by prepaid first class airmail) to the addresses or number specified below (or such other address or number, as the parties shall from time to time notify in accordance with this clause).

Notices shall be deemed to be given a) upon receipt in the case of personal delivery or b) within fourteen (14) business days of posting in the case of delivery by prepaid first class airmail or c) at 10.00 am local time, country of receipt, on the next business day following receipt on the sending party's machine that the transmission has been successfully received in the case of transmission by email or facsimile, whichever occurs first.

Notices to The Company	
Address for postal or personal delivery	De La Rue International Limited De La Rue House, Jays Close, Viables Basingstoke, Hampshire, England RG22 4BS For attention: Company Secretary
Facsimile number	+44 (0)1256 605336
e-mail address	noticesto.currency@uk.delarue.com

Notices to the Customer	
Address for postal or personal delivery	The Governor Central Bank of Kenya Haile Selassie Avenue P. O. Box 60000, 00200 Nairobi
Facsimile number	020 -340192
e-mail address	info@centralbank.go.ke

12.2 This Agreement including any Appendices attached hereto embodies the entire agreement between the parties in relation to the banknotes ordered under this Agreement. In the event of any conflict arising between the terms of the main part of this Agreement and any Appendices hereto the terms of the main part of this Agreement shall prevail. No amendment or variations of this Agreement or any provisions hereof shall be effective unless the same shall be in writing signed by both parties.

12.3 A person who is not a party to this Agreement shall have no right to enforce any of the terms of this Agreement or otherwise and no party to this Agreement can declare itself a trustee of the rights under it for the benefit of any third party.

12. 4 This Agreement and the rights benefits or obligations hereunder shall not be assigned or sub – contracted to any third party without the prior written consent of the other party. Such consent if given shall not relieve the applying party from any obligation or liability under this Agreement. But for the avoidance of doubt, the parties recognise that the tender the subject of this Agreement is an International Tender and the Company may produce the banknotes in whole or in part at any site owned or controlled by the De La Rue group of Companies. The parties agree however that subject to clause 4.4, the provisions of this Clause shall not, in any way whatsoever, affect the right of the Customer, as the owner from contracting with another supplier, assigning, releasing or using the designs, engraved dies, art works, plates, films, all origination materials and copy rights developed by the Company, in whichever manner it deems fit.

12.5 The Agreement is governed by and shall be construed in accordance with the Laws of Kenya and the parties agree to submit to the exclusive jurisdiction of the Kenyan Courts.

12.6 In the event of any dispute between the parties hereto out of or in connection with this Agreement, the parties shall use their best efforts to settle such dispute amicably by negotiation. If after thirty (30) days from the commencement of such negotiations the parties are unable to resolve the dispute amicably, the parties shall agree on the appointment of an arbitrator. Failing agreement to concur on the appointment of an arbitrator, the arbitrator shall be appointed by the Chairman of the Institute of Arbitrators, Kenya branch, on the application of either party. The Arbitration proceedings shall be conducted in accordance with the provisions of the Arbitration Act (Chapter 49 of the Laws of Kenya). To the extent permissible by law, the determination of the Arbitrator shall be final and binding upon the parties.

12. 7 If any clause of this Agreement, or any part of a clause, is found by any court or tribunal, of competent jurisdiction to be illegal, invalid or unenforceable, and the clause (or the part) in question is not of a fundamental nature to the Agreement as a whole, the legality, validity and enforceability of the remainder of the clauses of the Agreement (including the remainder of the clause which contains the relevant provision) are severable and shall not be affected. If the foregoing applies, the parties shall use all reasonable endeavours to agree upon any lawful and reasonable variations to the Agreement which may be necessary in order to achieve, to the greatest extent possible, the same effect as would have been achieved by the clause or part of the clause in question.

12.8 This Agreement has been made in the English language.

IN WITNESS WHEREOF the parties have executed this Agreement on the day and year first above written.

SIGNED for and on behalf of
THE CENTRAL BANK OF KENYA

MR. EDWIN LUKE OGOLA
DIRECTOR, CURRENCY OPERATIONS AND BRANCH ADMINISTRATION

Witnessed by:

MR. JOHN MACHARIA GIKONYO
DIRECTOR, GOVERNOR'S OFFICE

SIGNED for and on behalf of
DE LA RUE INTERNATIONAL LIMITED
By Virtue of Power of Attorney dated 24th April, 2006

MR. STEPHEN JUSTIN PRIOR
AREA SALES DIRECTOR

Witnessed by:

MR. DOUGLAS DENHAM
LEGAL ADVISER – DE LA RUE INTERNATIONAL LIMITED

BANKNOTE SPECIFICATION

SHS 50

TECHNICAL SPECIFICATION

Size	70 mm x 130 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.0 mm Windowed Cleartext™ thread reading CBK 50 and inverted, fluorescing red
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Blue Front: 1 printing in 3 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Back main subject: Ostrich Signature: *(To be provided by the Customer)* Designation: *(To be provided by the Customer)* Signature: *(To be provided by the Customer)* Designation: Member Date: *(To be provided by the Customer)*
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink Phosphorescent invisible machine readable block – value numeral

APPENDIX A

BANKNOTE SPECIFICATIONS

SHS 50

SECURITY FEATURES

Paper features	• 2.0 mm Windowed Cleartext® Security Thread reading CBK 50 and inverted, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '50' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading CBK • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 50'
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm^2*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

BANKNOTE SPECIFICATION

SHS 100

TECHNICAL SPECIFICATION

Size	70 mm x 135 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.0 mm Windowed Cleartext™ thread reading CBK 100, fluorescing red
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Red Front: 1 printing in 3 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Main back subject: Cape Buffalo Signature: *(To be provided by the Customer)* Designation: *(To be provided by the Customer)* Signature: *(To be provided by the Customer)* Designation: Member Date: *(To be provided by the Customer)*
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink Phosphorescent invisible machine readable block – value numeral

SECURITY FEATURES

Paper features	• 2.0 mm Windowed Cleartext® Security Thread reading CBK 100 and inverted, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '100' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading 'CBK' • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 100'
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm²*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

BANKNOTE SPECIFICATION

SHS 200

TECHNICAL SPECIFICATION

Size	70 mm x 140 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 200, fluorescing red
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Green Front: 1 printing in 3 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Back main subject: Waterfall Signature: *(To be provided by the Customer)* Designation: *(To be provided by the Customer)* Signature: *(To be provided by the Customer)* Designation: Member Date: *(To be provided by the Customer)*
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink Phosphorescent invisible machine readable block – value numeral

SECURITY FEATURES SHS 200

Paper features	• 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 200, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '200' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading 'CBK' • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 200'
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm²*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

BANKNOTE SPECIFICATION

SHS 500

TECHNICAL SPECIFICATION

Size	70 mm x 145 mm
Paper: gsm MDF Watermark Electrotype Security thread	93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 500, fluorescing red
Optically Variable Device (OVD)	10mm holographic stripe with demetallised edges
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Purple Front: 1 printing in 4 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Back main subject: Topi Signature: *(To be provided by the Customer)* Designation: *(To be provided by the Customer)* Signature: *(To be provided by the Customer)* Designation: Member Date: *(To be provided by the Customer)*
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink *HSDF*** Phosphorescent invisible machine readable block – value numeral

** *Machine readable high level (Level 4) secret feature identifiable by the Customer only, as confirmed by the Company vide their letter dated 2nd March 2006.*

APPENDIX A

BANKNOTE SPECIFICATIONS

BANKNOTE SPECIFICATION

SHS 50

TECHNICAL SPECIFICATION

Size	70 mm x 130 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.0 mm Windowed Cleartext™ thread reading CBK 50 and inverted, fluorescing red
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Blue Front: 1 printing in 3 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Back main subject: Ostrich Signature: ***(To be provided by the Customer)*** Designation: ***(To be provided by the Customer)*** Signature: ***(To be provided by the Customer)*** Designation: Member Date: ***(To be provided by the Customer)***
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink Phosphorescent invisible machine readable block – value numeral

SECURITY FEATURES

Paper features	• 2.0 mm Windowed Cleartext® Security Thread reading CBK 50 and inverted, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '50' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading CBK • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 50'
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm^2*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

BANKNOTE SPECIFICATION

SHS 100

TECHNICAL SPECIFICATION

Size	70 mm x 135 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.0 mm Windowed Cleartext™ thread reading CBK 100, fluorescing red
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Red Front: 1 printing in 3 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Main back subject: Cape Buffalo Signature: ***(To be provided by the Customer)*** Designation: ***(To be provided by the Customer)*** Signature: ***(To be provided by the Customer)*** Designation: Member Date: ***(To be provided by the Customer)***
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink Phosphorescent invisible machine readable block – value numeral

SHS 100

SECURITY FEATURES

Paper features	• 2.0 mm Windowed Cleartext® Security Thread reading CBK 100 and inverted, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '100' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading 'CBK' • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 100'
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm^2*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

BANKNOTE SPECIFICATION

SHS 200

TECHNICAL SPECIFICATION

Size	70 mm x 140 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 200, fluorescing red
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Green Front: 1 printing in 3 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Back main subject: Waterfall Signature: ***(To be provided by the Customer)*** Designation: ***(To be provided by the Customer)*** Signature: ***(To be provided by the Customer)*** Designation: Member Date: ***(To be provided by the Customer)***
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink Phosphorescent invisible machine readable block – value numeral

SHS 200

SECURITY FEATURES

Paper features	• 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 200, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '200' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading 'CBK' • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 200'
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm^2*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

BANKNOTE SPECIFICATION

SHS 500

TECHNICAL SPECIFICATION

Size	70 mm x 145 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 500, fluorescing red
Optically Variable Device (OVD)	10mm holographic stripe with demetallised edges
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Purple Front: 1 printing in 4 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Back main subject: Topi Signature: ***(To be provided by the Customer)*** Designation: ***(To be provided by the Customer)*** Signature: ***(To be provided by the Customer)*** Designation: Member Date: ***(To be provided by the Customer)***
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink *HSDF*** Phosphorescent invisible machine readable block – value numeral

*** Machine readable high level (Level 4) secret feature identifiable by the Customer only, as confirmed by the Company vide their letter dated 2nd March 2006.*

SHS 500

SECURITY FEATURES

Paper features	• 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 500, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '500' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities • 10mm holographic stripe with demetallised edges
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading 'CBK' • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 500' • OVI™ Optically Variable Ink
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • *HSDF*** Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm^2*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

** *Machine readable high level (Level 4) secret feature identifiable by the Customer only, as confirmed by the Company vide their letter dated 2nd March 2006.*

BANKNOTE SPECIFICATION

SHS 1000

TECHNICAL SPECIFICATION

Size	70 mm x 150 mm
Paper: gsm MDF Watermark Electrotype Security thread	 93 including coating 5500 High durability Platinum™ paper H E Mzee Jomo Kenyatta Value numeral 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 1000, fluorescing red
Optically Variable Device (OVD)	10mm holographic stripe with demetallised edges
Lithographic Print	Front: 3 workings Back: 3 workings
Intaglio Print	Predominant colour: Brown Front: 1 printing in 4 colours Back: 1 printing in 3 colours Portrait: H E Mzee Jomo Kenyatta Back main subject: Kenya National Assembly Signature: ***(To be provided by the Customer)*** Designation: ***(To be provided by the Customer)*** Signature: ***(To be provided by the Customer)*** Designation: Member Date: ***(To be provided by the Customer)***
Letterpress	1 Horizontal Novel serial number printed in black magnetic machine readable ink 1 Vertical Novel serial number printed in red fluorescent ink *HSDF*** Phosphorescent invisible machine readable block – value numeral

*** Machine readable high level (Level 4) secret feature identifiable by the Customer only, as confirmed by the Company vide their letter dated 2nd March 2006.*

SECURITY FEATURES

Paper features	• 2.5 mm Windowed Cleartext™ Holographic thread reading CBK 1000, fluorescing red • Three dimensional watermark of Mzee Jomo Kenyatta • Electrotype '1000' • Invisible fibres* in 3 colours fluorescing green, blue and red. See bottom of page for densities. • 10mm holographic stripe with demetallised edges
Lithographic features	• See-through front and back • Visible Fluorescent Ink front • Anti scan/anti copy features • Repeating micro text tint panel front • Duplex/Triplex pattern front
Intaglio features	• Lift Classic front reading 'CBK' • Micro engraved Lettering Tint (MELT) reading 'CBK', positive and negative • Extra Small Print line (ESP) reading 'CBK 1000' • OVI™ Optically Variable Ink
Letterpress features	• Vertical Novel Numbering in red fluorescent ink • Horizontal Novel Numbering in black magnetic machine readable ink • *HSDF*** Machine readable feature which phosphoresces under UV light

* *Fibre Densities: 16 – 30 fibres per dm²*

3mm invisible fluorescing green fibres, 3mm long 5 dtex.
3mm invisible fluorescing blue fibres, 3mm long, 5 dtex.
3mm invisible fluorescing red fibres, 3mm long, 6.7 dtex.
NB fibre count on one side of the banknote only

** *Machine readable high level (Level 4) secret feature identifiable by the Customer only, as confirmed by the Company vide their letter dated 2nd March 2006.*

SPECIMENS	• Specimen notes are taken from the production run and are therefore identical to actual Banknotes. The Company undertakes to supply to the Customer free of charge with One thousand (1000 No.) specimen Banknotes of each denomination. • The specimen banknotes will be overprinted diagonally on both sides with the words 'SPECIMEN' in bold characters in red ink. They will be numbered in nullahs. • The Customer agrees that the Company may retain up to 100 cancelled specimen Banknotes of each denomination for its own use. • The Company shall provide dual language posters (1000No.), leaflets (5000No.) and promotional materials for public education in English and Kiswahili.
PACKAGING	The packaging shall be in accordance with the following provisions: • Counted and paper-banded in bundles of 100 banknotes • Shrink wrapped in paper-banded parcels of 1000 banknotes • Packed 50,000 banknotes per case in polythene-lined heavy duty secure plywood boxes/paper cartons, banded and sealed. • Packaging to indicate dates on plywood boxes/paper cartons.

APPENDIX B

BREAKDOWN OF VOLUMES OF BANKNOTES PER DENOMINATION PER CONTRACT YEAR

	2007	2008	2009	TOTAL
1000/=	175,000,000	158,000,000	153,000,000	486,000,000
500/=	78,000,000	70,000,000	68,000,000	216,000,000
200/=	88,000,000	80,000,000	77,000,000	245,000,000
100/=	166,000,000	150,000,000	145,000,000	461,000,000
50/=	109,000,000	98,000,000	95,000,000	302,000,000
TOTAL	**616,000,000**	**556,000,000**	**538,000,000**	**1,710,000,000**

DELIVERY SCHEDULE

The delivery schedule detailed under item 7 hereunder has been calculated taking into account the following:

1. The Contract Effective Date ("CED") as defined in clause 3.1 of the Agreement.

2. The later of either Contract Effective Date ("CED") or design approval will happen by 22nd May 2006.

3. The Customer will approve proofs within two weeks after submission

The Company shall provide proofs and first delivery for each denomination as shown in Table 1 hereunder:

TABLE 1

Denomination	Design Approval	Proof Availability	First Dispatch ex factory	Available Nairobi
1000/=	Anticipated design approval 22 May 2006	17 weeks after CED or receipt of Customer design approval, whichever is the later	17 weeks after Customer proof approval	6 weeks after dispatch
500/=	Anticipated design approval 22 May 2006	17 weeks CED or receipt of Customer design approval whichever is the later	25 weeks after Customer proof approval	6 weeks after dispatch
200/=	Anticipated design approval 22 May 2006	17 weeks after CED or receipt of Customer design approval whichever is the later	25 weeks after Customer proof approval	6 weeks after dispatch
100/=	Anticipated design approval 22 May 2006	17 weeks after CED or receipt of Customer design approval whichever is the later	21 weeks after Customer proof approval	6 weeks after dispatch
50/=	Anticipated design approval 22 May 2006	17 weeks after CED or receipt of Customer design approval whichever is the later	17 weeks after Customer proof approval	6 weeks after dispatch

4. Subsequent deliveries, following the first deliveries of each denomination, shall occur at the intervals and volumes shown in Table 2 below, but are contingent upon full* design and proof approvals being achieved on time as specified hereabove.

5. Signatures, Designations and Dates will require approval at the same time as design approval.

6. Numbering schemes will be required within two months of design approval.

7. The monthly delivery volumes are shown in Table 2 hereunder.

* Full design approval refers to:

- Watermark design;
- Security thread design;
- Holographic stripe design; and
- Banknote design.



Table 2 - Delivery Schedule

This delivery schedule is dependent upon timely completion of all milestones listed in Table 1

Volumes in Millions

		2007												
		January	February	March	April	May	June	July	August	September	October	November	December	Total
1000/=				50			40		30		15	40		175
500/=						35		20	23					78
200/=						40			7	31			10	88
100/=					40			45			51		30	166
50/=				25	35		35			14				109
														0
Total				75	75	75	75	65	60	45	66	40	40	**616**

		2008												
		January	February	March	April	May	June	July	August	September	October	November	December	Total
1000/=				50					50	20		38		158
500/=					50						20			70
200/=						50				30				80
100/=		50					2	50			30	18		150
50/=			50				48							98
														0
Total		50	50	50	50	50	50	50	50	50	50	56	0	**556**

		2009												
		January	February	March	April	May	June	July	August	September	October	November	December	Total
1000/=				50					50	32	21			153
500/=					50					18				68
200/=						50					27			77
100/=		50					5	50				40		145
50/=			50				45							95
														0
Total		50	50	50	50	50	50	50	50	50	48	40	0	**538**

GRAND TOTAL **1,710**

APPENDIX D

BANK GUARANTEE FOR ADVANCE PAYMENT

To: Central Bank of Kenya
P O Box 60000 – 00200
NAIROBI

Re: **DE LA RUE INTERNATIONAL LIMITED**

Dear Sir,

In accordance with the payment provision included in Clause 3 of the Agreement dated.....between yourself and De La Rue International Limited of Basingstoke, Hampshire, England whose registered office is at De La Rue House, Jays Close, Viables Basingstoke, Hampshire RG22 4BS, England (hereinafter referred to as "the Company") which requires that the Company shall procure and deposit with the Central Bank of Kenya a Bank Guarantee to guarantee its proper and faithful performance under the said Contract in an amount of ---------- ---------- (amount of guarantee in figures and words).

We, the ----------
(bank), as instructed by the Company, hereby unconditionally and irrevocably give you our guarantee as primary obligator and not as surety merely and undertake to pay to you on your first demand without whatsoever right of objection on our part and without your first claim to the Company, any amount not exceeding ----------
(amount of guarantee in figures and words).
We further agree that no change or addition to or other modification of the terms of the Contract to be performed thereunder or of any of the Contract documents which may be made between the Central Bank of Kenya and the Company, shall in any way whatsoever release us from any liability under this guarantee, and we hereby waive notice of any such change, addition, or modification.

This guarantee shall remain valid and in full effect from the date of the advance payment received by the Company under the Contract until **22nd May, 2009.**

Yours truly,

Signature and seal of the Guarantors

_____
(name of bank)

_____
(address)

_____
(date)

APPENDIX E

PERFORMANCE GUARANTEE

To: Central Bank of Kenya
P O Box 60000 – 00200
NAIROBI

Re: **DE LA RUE INTERNATIONAL LIMITED**

Dear Sir,

WHEREAS De La Rue International Limited of Basingstoke, Hampshire, England whose registered office is at De La Rue House, Jays Close, Viables Basingstoke, Hampshire RG22 4BS, England (hereinafter called "the tenderer") has undertaken, in pursuance of an Agreement dated -- ---------- 20---- to design, manufacture, print and supply to you banknotes of agreed specifications (hereinafter called "the Contract").

AND WHEREAS it has been stipulated by the parties in Clause 3 of the said Contract that as security for compliance with the tenderer's performance obligations in accordance with the contract the tenderer shall furnish you with a Bank Guarantee by a reputable Bank representing 10% of the total contract sum.

AND WHEREAS we have agreed to give the tenderer a guarantee:

THEREFORE WE hereby unconditionally and irrevocably affirm that we are Guarantors and responsible to you, on behalf of the tenderer, up to a total of ----------
---

(amount of the guarantee in words and figures), and we undertake to pay you, upon your first written demand declaring the tenderer to be in default under the Contract and without cavil or argument, any sum or sums within the limits of ----------
(amount of guarantee) as aforesaid, without your needing to prove or to show grounds or reasons for your demand or the sum specified **PROVIDED** that our liability under this guarantee will be reduced automatically by the value of each consignment delivered by the tenderer and duly received and acknowledged by you.

This guarantee is valid until **31st December, 2009.**

Signature and seal of the Guarantors

_____
(name of bank or financial institution)

_____
(address)

_____
(date)

Appendix 4

MEETING WITH THE PUBLIC ACCOUNTS COMMITTEE ON PROPOSED GOK – DE LA RUE JOINT VENTURE APRIL 12, 2012 AT 2.30 P.M.

I. Introduction

1. First, I wish to record my sincere apology to this Committee for not being able to appear before you yesterday, April 11, 2012 at 9.30 a.m.

2. However, notwithstanding my apology, I would like to put the record straight. The letter from the Clerk's office inviting me to the meeting in question reached, my office, though written on April 4, 2012, in the morning of April 10, 2012. Realizing that my schedule for 11th April, 2012 was extremely tight, I quickly wrote that same morning to the Clerk's office, requesting him to talk to the Chair with a view to rescheduling the meeting to another date, preferably April 13, 2012 same time. I even went further to speak to Mr. P. C. Owino Omolo, Deputy Clerk, who assured me that he was to take up the matter with the Chair.

3. I acted quickly and ensured the focal office in Parliament was aware of my time constraint. Under the circumstances, I do not know what else I would have done.

II. Today's Agenda

4. Now turning to today's agenda I would like to start by stating that the Minister for Finance appeared before the Public Accounts Committee on 19th March, 2012 and made

a substantive brief on the proposed investment of a 40% stake in the De La Rue operation in Kenya. He also addressed other areas related to the Central Bank of Kenya (CBK) currency printing contracts over the years as requested by members.

5. For this meeting we have been informed by our officer who supports the Committee that the tentative Agenda is to discuss the following;-

(i) Explain Treasury presence at De La Rue Ruaraka
(ii) Shed more light on the Treasury "Secret" letter to CBK
(iii) Any other related issues

6. With respect to **"Treasury presence at De La Rue, Ruaraka,** our joining the Committee at Ruaraka was informed by the letter from the Clerk's office dated March, 21, 2012, Ref. No. NA/PAC/CORR/2012/12. The last paragraph of this letter states and I quote:

> ***"The purpose of this letter is to request you to make necessary arrangements for the visit".***

On the material date of the visit, I spoke to the Clerk's office wishing to know whether we were expected to help Parliament in any way on the visit. The Clerk's office confirmed that ours (Permanent Secretary/Treasury & Investment Secretary) was to arrange to be at Ruaraka. The Clerk's office later in the morning of the material day called my office to confirm change of time for the visit from

10.30 a.m to 2.30 p.m. Why did Parliament write to me and even bother to inform my office of the change of time if, indeed, Treasury's presence was considered prohibited.

7. With respect to the so called Treasury **"Secret"** letter to CBK, let me start by stating that there was nothing secret about the letter. The letter was marked 'Secret' because of the sensitivity of the subject (currency printing). It is standard practice in government for correspondence on sensitive issues to be marked 'secret'. It is similar to the situation where Parliamentary Committees discuss sensitive matters in camera.

8. Having said that, I would like to confirm that late 2002, Permanent Secretary/Treasury wrote to the Governor, Central Bank of Kenya, giving the Bank authority to directly negotiate for a new term contract for currency printing with De La Rue. This letter was in response to a request by the Central Bank to be allowed to procure directly from De La Rue currency printing services. The request was proper and in line with the requirement of Procurement law then.

9. In the said letter, Treasury did recommend to the Bank to consider a term contract of ten years instead of six years. I would like to emphasize, Treasury only recommended but did not direct the Bank to act as proposed. The final decision regarding the period for the term-contract in question rested squarely with the Central Bank of Kenya.

III. Other Issues

(i) Feasibility Study

Previously we have been asked whether or not we undertook a feasibility study to justify the investment.

We wish to reiterate that the basis of which this investment is being undertaken is a policy decision made by Cabinet at its meeting held on 29th May, 2007 when they:

(a) *Approved the proposed joint venture in the De La Rue Currency and Security Print Ltd (K), with the De La Rue International of Kenya acquiring 25 percent.*

(b) *Directed the Minister for Finance and the Attorney General to take necessary action to effect the joint venture.*

This policy was made for the strategic reason of the Government being in control of the printing of its currency. As we have stated before, other economic considerations included the need to retain the current Currency and Security Print investment in the Country, to enhance Kenya's position as a financial hub and to secure related jobs.

Given that we are investing in an existing facility and not a Greenfield investment it was not necessary to undertake the feasibility study as there is sufficient operational information to make a determination of the parameters necessary to inform the investment.

We however undertook an asset valuation to determine the value of the assets that would be hived down to the New Company De La Rue Kenya EPZ Ltd. The asset valuation report has been availed to Parliament as requested.

(ii) Draft Joint Venture Agreement

During my last appearance before this Committee, I was requested to avail the draft joint venture Agreement which I hereby do as (***Appendix ii).*** As is customary in transactions of this nature, the parties have legally agreed to be bound by a Confidentiality Agreement in respect of the negotiations and the resultant contracts. We therefore request this Committee to treat these documents as Confidential Documents and accord them the necessary treatment to maintain their confidentiality.

IV. Conclusion

10. In conclusion Mr. Chairman, I wish to confirm to this Committee and through the Committee, to the entire House

that we have done a professional job to the best of our ability in implementing the Cabinet directive relating to this investments.

11. As Kenyans and as Public Officers charged with the responsibility of managing public assets, we discharge our responsibilities with diligence and a sense of responsibility to the people of Kenya whom we serve.

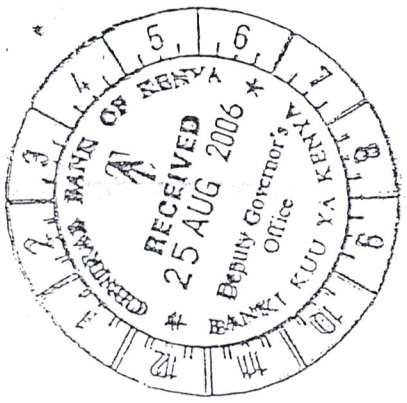
12. We remain convinced that this is a good investment for our country. The issues of pricing of the currency printing services are issues for a separate contract. Although that contract is a Condition Precedent to this investment, the pricing is a matter that can adequately be dealt with within the currency supply contract based on international bench marks including the rates obtained by CBK in the international tender. Further, the Public Procurement and Disposal Act does provide for direct procurement.

13. Against this background we will be guided by this Committee. If it is the wisdom of the Committee that the investment is not in the interest of the Country and that the country is better served by sourcing these services internationally, we will stand guided.

JOSEPH K. KINYUA, CBS
PERMANENT SECRETARY/TREASURY

April 12, 2012
Attachment:

Appendix 10



REPUBLIC OF KENYA

MINISTRY OF FINANCE
OFFICE OF THE MINISTER

Telegraphic Address: 22921
FINANCE-NAIROBI
Fax No.: 240045
Telephone: 252299
When replying please quote

THE TREASURY
P.O. Box 30007-00100
NAIROBI
KENYA

Ref: CONF. 36/02

Date: 25th August 2006

Mrs. Jacinta Mwatela
Acting Governor
Central Bank of Kenya
P.O. Box 60000
NAIROBI

Dear Jacinta,

RE: AGREEMENT FOR THE DESIGN, MANUFACTURE AND SUPPLY OF NEW GENERATION BANKNOTES BY DE LA RUE INTERNATIONAL LIMITED

Thank you for your letter of August 21st, 2006 on the above, whose contents and implications have been the subject of concern to ourselves as well.

As discussed with you in my office on August 22nd 2006, the critical issue on the new generation banknotes is the date of launch, which **should not** be before the next general election. Accordingly, the delivery schedule can now be adjusted from March 2007 to later, which also gives us time to sort out the issue of signatures.

Could you therefore proceed as follows:-

1. Liaise with DeLaRue on the adjustment of the delivery schedule, with New Generation currency launch planned for January 2008;



2. Initiate the necessary procurement process for the extra currency required to ensure adequacy of stocks to January 2008;

In our discussions with James Hussey of DeLaRue during the visit to the Ruaraka Plant in July, they were agreeable to change in dates without cost implications to Central Bank of Kenya.

Let me know of progress on these, and if I need to intervene, based on our broad understanding with DeLaRue on the potential future partnership.

Warm regards.

AMOS KIMUNYA, EGH, MP
MINISTER FOR FINANCE

cc: The Permanent Secretary
Ministry of Finance
TREASURY

Appendix II

Mr. Bahari: On a point of order, Mr. Deputy Speaker, Sir. You have promised, as the Chair, to give a ruling on the issue raised by hon. Imanyara which is making reference to a document that is not properly before this House. Am I in order to ask you to perhaps reconsider that decision until that document is properly before the House?

Mr. Deputy Speaker: Order! Order! You have absolutely no authority to direct the Chair! The Chair has given a ruling on that matter.

Hon. Kimunya, can we have your Ministerial Statement?

MINISTERIAL STATEMENT

DE LA RUE'S FAILURE TO PRINT NEW GENERATION CURRENCY NOTES

The Minister for Finance (Mr. Kimunya): Mr. Speaker, Sir, on the 18th of June, 2008, Dr. Khalwale sought a Ministerial Statement from the Minister for Finance in respect to contract that was awarded to De La Rue Printing and Security Limited---

Mr. Imanyara: On a point of order, Mr. Deputy Speaker, Sir. Dr. Khalwale had requested this Ministerial Statement and it was indicated that it would be given today. However, he also said that he would be out on official business and requested that the Ministerial Statement be issued when he is back in the country. Is it in order for the Minister for Finance to take advantage of Dr. Khalalwe's absence and give the Ministerial Statement?

(Applause)

Mr. Deputy Speaker: Order! order! A Ministerial Statement is the property of the House. I am made to understand that Mr. Khalwale requested for direction, but that request was not given.

So, Mr. Minister, proceed!

Mr. Ethuro: On a point of order, Mr. Deputy Speaker, Sir.

Mr. Deputy Speaker: Is it about the same?

Mr. Ethuro: Yes, Sir!

Mr. Deputy Speaker: Your point of order is overruled!

Mr. Minister, proceed and give your Ministerial Statement!

Mr. Ethuro: On a point of order, Mr. Deputy Speaker, Sir.

Mr. Deputy Speaker: Mr. Ethuro, you are out of order! Your point of order is overruled!

(Mr. Mbadi moved to the Dispatch Box)

Mr. Mbadi: On a point of order, Mr. Deputy Speaker, Sir.

Mr. Deputy Speaker: Hon. Mbadi, you have not been given the Floor!

Hon. Minister, proceed with your Ministerial Statement.

The Minister for Finance (Mr. Kimunya): Mr. Deputy Speaker, Sir, on the 18th of June 2008, Mr. Khalwale sought a Ministerial Statement from the Minister for Finance in respect of a contract awarded to De La Rue International Limited for the supply of New Generation Kenya Currency Notes. In particular, he wanted to know the following:

First, why De La Rue International Ltd has not supplied new generation notes to the Central Bank of Kenya (CBK) since the signing of the contract; secondly, whether it is true or not that the technocrats of the CBK came out strongly to oppose an attempt to commit the Government into a

lopsided arrangement but the Minister still insisted and directed in November 2007 that De La Rue International Ltd should continue to supply old generation notes despite higher costs; thirdly, what the Minister's interest was in the matter to warrant such a gross unilateral disregard of technical advice; fourthly, what prompted the Minister to commit the Government of Kenya to a joint venture with De La Rue International Ltd and not other credible firms from South Africa, Canada, France, Austria and Netherlands and fifth, how much money has been lost by being in that continued expensive supply of old generation currency notes?

Arising from the above request, I wish to state the following: First, De La Rue International Ltd has not supplied any new generation notes to the CBK due to the fact that the agreement entered into on 4th May, 2006 was mutually cancelled by the parties.

Mr. K. Kilonzo: On a point of order, Mr. Deputy Speaker, Sir. Thank you, for giving me this opportunity. The Ministerial Statement being read by the Minister touches on his Ministry and more so on his integrity. Would I be in order to ask that, in view of the fact that it touches on him since he is the one who was in office at that time, that the matter be referred to the Prime Minister so that he can come and give the Statement?

Mr. Deputy Speaker: Order! The Ministerial Statement was sought from the Ministry of Finance. The Ministry has the regulatory function for handling the issue at hand.

Order! Hon. Members! You all know the Standing Orders of this House very well. You cannot impute improper motive on another Member of Parliament without bringing a substantive Motion. It is incumbent upon us to protect the dignity and the integrity of the House. This is the supreme arm of the Government and the State. I hope that, in future, nobody is going to impute improper motive of that magnitude on a fellow Member of Parliament without bringing in a Substantive Motion.

Hon. Minister, proceed!

Mr. Imanyara: On a point of order, Mr. Deputy Speaker, Sir. Yesterday, Mr. Speaker ruled that the word "fellow" was unparliamentary. You have, twice, mentioned the word "fellow." Are you overruling the ruling of the Speaker?

(Applause)

Mr. Deputy Speaker: Order! Mr. Imanyara, you are out of order!

The Minister for Finance (Mr. Kimunya): Mr. Deputy Speaker, Sir, I beg the House to be attentive to this. The matter has been blown out of proportion, it has been taken out to the media and this is the opportunity for the House to get the truth.

As I was saying, De La Rue International Ltd. has not supplied any new generation notes since the agreement that was entered into on 4th May, 2006 was mutually cancelled by the parties.

The agreement was cancelled after thorough consultations which brought out several issues including the following: First, the concept of new currency had not been comprehensively dissected and addressed by the bank. For instance, the fate of the old currency was not determined and was not clear whether the old currency would be demonetised or if the new currency would be debased. In other words, we were replacing one currency with another, without provision for what happens to all the money in circulation.

The second issue was that of storage. This was a major constraint since the new consignment would have been printed, shipped and delivered to the CBK for storage. It is important to note that under the new Generation Currency Contract, the printing of the money was supposed to be off-shore and all the money was to be printed, delivered to Kenya and given to the CBK. Now, without the strong rooms and vaults that were constructed in Times Tower which have now been taken over and transferred to the Kenya Revenue Authority, storage of 1.7 million pieces

of currency would have been a major problem to the CBK. The third item under consideration was that the cost implication of the new currency to commercial banks and to Kenyans in general had not been considered especially as it relates to changes necessary to ensure conformity with the technological requirements of the new currency. There was also need for public education and sensitisation which had not been factored in the agreement.

The fourth item was that the CBK requirement for bank notes after the three-year agreement for the new currency, which expires in the year 2009, had not been addressed. Number five, under the terms of the agreement, all the security features - and this is very important - in the bank notes were the property of the printer and not the CBK. Since the contract had not seen the need to purchase the corporate security features of this new generation currency notes by the CBK, it meant that every time the supplier is changed on the basis of cost or price competitiveness, a new currency design would emerge. In effect, that means that we would have to be changing the currency every three years because the contract was run for three years and you have a new competitive bid.

Mr. Deputy Speaker, Sir, the sixth item that has not been considered is the fate of 300-plus jobs at the Ruaraka factory. It was not considered, as the production of the new generation currency would have to be done abroad for cost competitiveness with the result that the factory in Ruaraka would have had to be closed down. It would have been difficult for a Government institution like the Central Bank of Kenya (CBK) to justify the export of jobs abroad given the current levels of unemployment in the country.

Mr. Deputy Speaker, Sir, on the second item under Dr. Khalwale's request, I want to state that one of the key roles of the senior bank staff is to provide advice to management at the bank. This also applies to whichever bank committees they serve in. In this regard, I am not aware of any bank staff who came out strongly to oppose an attempt to cancel the new generation currency agreement. The information I have, and which is on public record, is that all this was discussed and approved by the Board of Governors (BOG) of the CBK. The technocrats at the CBK do not advise the Minister.

Mr. Deputy Speaker, Sir, on the third item, it is critical and I want to state both as the Minister for Finance, and as Mr. Amos Kimunya, the Member of Parliament for Kipipiri Constituency, that I have absolutely no personal interest in the matter. All my actions in the matter were strictly guided by the public interest and the advise I received from the CBK.

Mr. Deputy Speaker, Sir, on the fourth item, I want to state that I, as Minister, have not committed the Government of Kenya with De La Rue in a joint venture. The issue of a joint venture with De La Rue in currency production was discussed in detail and approved by the Cabinet. It is only after Cabinet approval that Treasury constituted a multi-disciplinary technical four-member task force which includes Treasury, CBK, De La Rue and the Attorney-General's office to negotiate with De La Rue on the issue of a joint venture. The negotiations are still ongoing and have not been concluded. I want to state that the overriding objective of seeking this joint venture is to ensure that the security and access to the required currency in the most cost effective manner, while ensuring local production with the added benefit of job creation and contribution to the growth of our domestic economy.

Mr. Deputy Speaker, Sir, lastly, I want to state that I am not aware of any funds that have been lost in this matter.

Thank you.

Hon. Members: On a point of order, Mr. Deputy Speaker, Sir.

Mr. Deputy Speaker: Order! Hon. Members, it has been brought to my attention that the Chair did, indeed, rule that the Ministerial Statement should be read when the hon. Dr. Bonny Khalwale is in the House.

(Applause)

Under the circumstances, we will not allow any debate on the same. It is the ruling of the Chair that, that statement be furnished to hon. Dr. Khalwale. At an appropriate time when he is here with us, is when we will debate it or supplementary questions will be asked.

(Applause)

Mr. Mbadi: On a point of order, Mr. Deputy Speaker, Sir. My point of order is completely unrelated to the matter you have just ruled on.

On the same date of 18th June, you made a ruling---

Mr. Deputy Speaker: Order! Hon. Members, we have to move on to the next Order. Next Order!

BILL

First Reading

THE FINANCE BILL

The Minister for Finance (Mr. Kimunya): Mr. Deputy Speaker, Sir, I beg to move:-

THAT, in accordance with Standing Order No.101(A1), this House orders that the Financial Bill be referred to the Departmental Committee on Finance, Planning and Trade.

(Order for First Reading read - Ordered to be referred to the relevant Departmental Committee)

COMMUNICATION FROM THE CHAIR

PROCEDURE TO BE FOLLOWED DURING COMMITTEE OF WAYS AND MEANS

Mr. Deputy Speaker: Order, hon. Members, before we start the next Order, I have some information which I want to relay.

The debate on the Financial Statement which was concluded yesterday during the morning sitting was debate on policy issues contained in the Financial Statement. The Motion before the House was: "THAT, Mr. Speaker Do Now Leave the Chair". The Question of the Motion "THAT, Mr. Speaker Do Now Leave the Chair" was put and agreed to by the House. This literally means that the Speaker left the Chair and we are, therefore, in the Committee of Ways and Means. The Chairman of the Committee will, therefore, be in the Chair and the Mace will be lowered.

The Business before the Committee of Ways of Means is taxation proposals as contained in the Financial Statement. This Business is supposed to take three Allotted Days. This is provided for under Standing Order No.138. At the end of today's sitting, the Committee will report progress to the House and seek leave to sit again. The purpose of the Motion before the Committee is to legitimise the collection of the proposed taxing and the provision of collection of taxes. The taxes listed in the Motion are also contained in the Finance Bill which has been read a First Reading this

Appendix 12

(24)

CENTRAL BANK OF KENYA
RECEIVED
17 MAR 2003
GOVERNOR'S OFFICE
BANKI KUU YA KENYA

CENTRAL BANK OF KENYA
RECEIVED
18 MAR 2003
CHIEF BANKING MANAGER
BANKI KUU YA KENYA

REPUBLIC OF KENYA

MINISTRY OF FINANCE

Telegraphic Address: 22921
FINANCE-NAIROBI
Fax No.: 219365
Telephone: 338111
When replying please quote
Email: psfinance@treasury.go.ke

THE TREASURY
P.O. Box 30007
NAIROBI
KENYA

Ref. No. Conf 36/02

Date: 14th March, 2003

cc. Bank Secretary
for necessary
action.
17/03/03

Dr. Andrew K. Mullei
Governor
Central Bank of Kenya
NAIROBI

Dear Andrew,

CONTRACT WITH DE LA RUE AND CURRENCY NOTES

Refer to your letter of 13th March 2003, which recorded our discussions with H.E. the President on the above subject.

This is to confirm that the contents of your letter represent true record of the decisions reached in the meeting. However, after further consultations, the Government has decided to terminate the contract entered into between the Central Bank of Kenya and De La Rue on 5th December 2002, on the following grounds:

1. The Contract was single-sourced instead of being opened for competitive bidding, as transparency would require.

2. The Contract period was extended to ten years instead of the normal five years for no apparent reason.

3. The Contract became effective on 1-1-03 when NARC Government was in power and should therefore have been consulted. There was therefore no reason for the former Government to award the contract as early as they did unless there was something fishy.

Accordingly, you are hereby directed to terminate the contract with immediate effect.

Yours sincerely,

David.

DAVID MWIRARIA, M.P
MINISTER FOR FINANCE

Appendix 13

17

CURRENCY PRODUCTION

AGREEMENT

BETWEEN

CENTRAL BANK OF KENYA

AND

DE LA RUE CURRENCY AND SECURITY PRINT LIMITED

AGREEMENT FOR PRODUCTION OF BANKNOTES

AN AGREEMENT MADE the 14th day of July 2005 BETWEEN The Central Bank of Kenya a body Corporate established under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya, (hereinafter referred to as the "Bank") of the one part AND De La Rue Currency and Security Print Limited (hereinafter referred to as the "Company") whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya of the other part.

WHEREBY IT IS AGREED as follows: -

1. OBJECT OF THE AGREEMENT

For the benefits of security, reliability of supply and access to technological developments in banknote security from a reputable company which is a subsidiary of one of the world's leading commercial banknotes producers, the Bank agrees to purchase, not less than 300 million banknotes ("the Minimum Order") during the term of this Agreement which the Company undertakes to produce and supply to the Bank banknotes in accordance with the provisions of this Agreement.

2. TERM AND CONDITIONS OF SALE

2.1 This Agreement shall continue until a term of one year has elapsed from the 15th day of July 2005 to the 14th day of July 2006 unless otherwise terminated prior to the said date under the provisions of this Agreement. The parties recognise that and it is hereby expressly agreed by the parties that notwithstanding this duration of the Agreement the provisions of this agreement shall continue to apply to all orders made during the tenure of this agreement whose delivery period falls after the 14th day of July 2006 and this agreement shall be deemed to be applicable to such orders until the orders are delivered by the company.

2.2 The parties may extend this Agreement at any time on terms and conditions to be mutually agreed.

3. BANKNOTE PRODUCTION, DELIVERY AND PRICES

3.1 The Bank agrees to purchase and the Company undertakes to print and deliver not less than the numbers of banknotes and by the dates set out in Table 1 (being not less than the minimum quantity referred to in Clause 1 of this Agreement) in accordance with the banknote specifications for the existing series of Kenyan banknotes more particularly set out in Schedule 1 (hereinafter referred to as " Current Generation Banknotes") hereto attached in the denominations and at the prices set out in Schedule 2 hereto which shall be subject to the provisions of sub-clauses 3.2 and 3.3 below.

Table 1 – fixed quantities

Year : 2006

(million pieces)

Denom	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
50/-	30		30						9				69
100/-		30		30				30	20				110
200/-					30		14						44
500/-						32							32
1000/-							15			30			45
TOTAL	30	30	30	30	30	32	29	30	29	30	-	-	300

3.2 The Company hereby undertakes that, subject to the provisions of clause 3.4 below, the banknotes specified in Schedule 1 shall be produced at the Company's plant in Kenya (hereinafter referred to as "the Plant") and that the Company is a member of the De La Rue Group of Companies.

3.3 The Company shall make all arrangements for the procurement of the necessary raw materials from suppliers, including, where appropriate local suppliers to ensure that it fulfils without delay any orders made by the Bank.

3.4 If for any reason the Company is not able to meet the Bank's orders or the Company's delivery commitments to the Bank from the Plant, the Bank consents to the Company meeting any delivery through production at any of the other facilities owned or operated by the De La Rue Group of Companies. In such event, the price charged for the banknotes produced outside the Plant shall remain the same as the price for the banknotes produced at the Plant and shall not be altered to the detriment of the Bank.

3.5 The Bank agrees to place all orders for the printing of Current Generation Banknotes exclusively with the Company for the duration of the Agreement. Any orders additional to the Minimum Order shall be accompanied by delivery schedules to be agreed upon between the Parties. Both parties agree to act with utmost good faith in agreeing on the delivery schedules and which shall be within the Company's normal delivery time scales. The Bank agrees that the delivery of the Minimum Order of 300 million banknotes ordered under this Agreement shall be as provided in Table 1.

PROVIDED THAT:

The Bank hereby agrees to purchase and the Company hereby undertakes to deliver, a minimum of twenty nine (29) million pieces of banknotes per month, commencing from January 2006 as detailed in Table 1.

PROVIDED FURTHER THAT:

The Bank may from time to time place orders for additional banknotes, over and above the Minimum Order and the Fixed Quantities detailed in Table 1 and the Company shall deliver the same on the terms and conditions of this agreement and in accordance with delivery schedules to be agreed upon by the parties.

3.6 If the Company defaults to deliver the minimum monthly quantity of banknotes agreed, the Bank shall be at liberty to suspend payment of further instalments until the Company makes full delivery in compliance with the agreed delivery schedule and the provisions of this clause whereupon the payment of the monthly instalments shall resume.

4. **TERMS OF PAYMENT**

4.1 The Bank undertakes to pay to the Company a down payment amounting to 30% on contract signature of the total value of the minimum banknote order as per Table 1 and upon presentation of the requisite invoice for the down payment. The Company shall make available to the Bank a banker's guarantee in respect of the down payment, which guarantee shall reduce progressively by the value of the deliveries made and which shall be returned to the Company upon completion of the Contract.

Payment of the balance shall be made in ten equal monthly instalments commencing January 2006 and in accordance with schedule 3 against invoices presented by the Company.

4.2 The down payment shall be paid in British Pounds Sterling. The subsequent monthly instalments shall be paid partly in Kenyan Shillings and partly in British Pounds Sterling. The Company shall invoice the Bank on a monthly basis with the Kenya Shilling element being 70% of the value of the invoice. The Company shall convert to Kenya Shilling at the ruling British Pounds Sterling/Kenya Shilling spot rate on the date of invoice. The monthly instalment invoices will be presented on the first working day of each such month commencing January 2006 and shall become due and payable forthwith.

4.3 In respect of orders placed with the Company by the Bank over and above the minimum banknote order referred to in Clauses 1 and 3.1 of this Agreement, the provisions of Clauses 4.1 and 4.2 shall apply in respect of the terms of payment provided however that payment of the balance of the value of each order shall be made in instalments against documents presented by the Company at the time of delivery of each consignment and in accordance with a payment schedule to be agreed between the Company and the Bank at the time each order is placed by the Bank.

5. LIABILITY

5.1 In the event that banknotes, the subject of this Agreement, are damaged or destroyed whilst in the Plant, or in the event of production overseas under the provisions of Clause 3.4 hereof, whilst in the premises of a member of the De La Rue Group of Companies or the banknotes fails to meet the agreed specifications, the Company shall print and supply at its cost the replacement banknotes therefor.

5.2 In the event of a loss or theft of banknotes whilst the banknotes are in the custody of the Company, the Company shall pay the Bank the equivalent face value of any such lost or stolen banknotes where such losses are proven and are proved to have arisen out of a negligent act or omission of the Company.

5.3 In the event that forged banknotes enter circulation as a result of unlawful use of the origination materials by unauthorised parties whilst the said origination materials are in the custody of the Company, the Company shall pay the Bank the equivalent value of any such forged banknotes where such losses are proven and are proved to have arisen solely out of a negligent act or omission of the Company. The Company shall also reprint, at its cost, the contracted quantity of banknotes the design and specifications of which shall be determined by the Bank.

6. SECRECY, SECURITY AND CONTROL OF MATERIALS

6.1 The Company and the Bank shall keep complete secrecy concerning all confidential operations, processes or dealings relating to the production of banknotes for the Bank, and all other confidential information entrusted by one party to the other. This restriction shall continue to apply after the termination of this Agreement without limit in point of time.

6.2 The Company shall take all necessary measures and precautions to prevent paper, plates, and any other materials in its possession for the manufacture of the banknotes from being used in any unauthorised manner.

6.3 The Bank shall be entitled to send authorised officials to inspect the paper stocks and security procedures of the Plant at any time provided that a reasonable notice is given to the Company to ensure that the authorised officials can be vetted or cleared by security personnel at the Plant.

6.4 The engraved dies, plates, and other origination materials which are the sole property of the Bank shall always remain in the custody of the Company in secure lock-up and all such materials shall only be used by the Company for the purpose of carrying out orders placed by the Bank. All such dies, plates and other original materials shall only be destroyed by the Company or surrendered to the Bank if so requested in writing by the Bank at any time. In the event that such request is made during the execution of orders placed under this Agreement, the Company shall be given reasonable time to complete any outstanding order. The Bank undertakes not to make the said materials available for use by third parties without the Company's prior written consent as they contain intellectual property rights of the Company.

6.5 In the event that the Company looses any banknotes whilst in its custody or the production materials described in clause 6.4, the Company shall without delay immediately report such loss to the Bank in writing.

7. LIQUIDATED DAMAGES FOR LATE DELIVERY

Failure to deliver the banknotes within the time or times specified in the delivery schedule agreed pursuant to Clause 3.5 shall in addition to any other remedies of the Bank against the Company under this agreement, render the Company liable to a deduction from the contract price, as liquidated damages a sum to be calculated at the rate of one half of one percent per week on the value of such portion of the delayed consignment for each week or part of a week between the date or dates of delivery specified in the delivery schedule. The maximum amount of liquidated damages is ten percent of the value of any delivery or part delivery and shall be paid in full and final settlement of the claim or claims to which they relate.

PROVIDED THAT:

a) The Company shall have the right to present to the Bank or its agent within three months of the notification of such deduction the reason for the delay and the Bank may at its discretion opt not to demand any damages.

b) No damages shall be payable if:

i) The delay had arisen from causes which were unavoidable and could not have been foreseen or overcome by the Company; or

ii) The delay had arisen as a result of failure or delay in the supply of materials to the Company due to causes which were unavoidable and could not be foreseen or overcome by the manufacturers or vendors of such materials; or,

iii) The delay has been caused by actions attributed to the Bank .

c) The company shall be relieved of any liability under this Clause in respect of any Ex-works deliveries for any period during which the banknotes are not collected by the Bank after having been notified in writing of the availability of the printed banknotes for collection.

8. RECONCILIATION OF PAPER

8.1 The paper purchased, the paper used and the banknotes printed; the unserviceable paper and the unused paper shall, within three months after the printing of each Order is completed, be reconciled by the Company and the reconciliation be approved by the Bank and/or its authorised agent before any storage or destruction of such material is effected. The destruction of any misprints and/or unserviceable paper shall be effected under the joint supervision of the Company and the Bank and/or its authorised agent and a reconciliation certificate shall be issued by the parties specifying and detailing the quantities reconciled and destroyed.

8.2 It shall be the Company's sole responsibility to acquire and keep in safe custody the paper and other materials required to fulfil the terms of this Agreement.

9. ASSIGNMENT

9.1 Save as expressly provided herein, this Agreement and rights benefits or obligations hereunder shall not be assigned to any third party without the prior written consent of the other party.

9.2 The Company hereby undertakes that during the term of this Agreement it shall ensure, using its best efforts, that it shall at all times be wholly owned by a member of the De La Rue Group of Companies.

10. TRANSFER OF ASSETS, INSOLVENCY, OR DISSOLUTION

In the event where the Company is acquired by persons who are not acceptable to the Bank or the Company becomes insolvent or enters into any arrangement with its creditors or proceedings are commenced by any person for the winding-up or dissolution of the Company (excluding any such proceedings which are frivolous or vexatious in nature) and not defended by the Company then the Bank shall be entitled:

a) To terminate this agreement whereupon the bank shall be at liberty to procure the supply of banknotes from any other organisation or entity of its choice.

b) To require that all origination material held by the Company under Clause 6, sub clause (4) be released to the Bank or any other person duly authorised to receive the said material on behalf of the Bank.

c) To require that all stocks of banknotes be released to the Bank on payment of the sum due which amount shall be pro-rata to the actual printing completed.

11. GOVERNING LAW AND ARBITRATION

11.1 This agreement shall be subject in all respects to the laws of Kenya.

11.2 All disputes, differences or questions between the parties hereto with respect to these presents which cannot be settled amicably between the parties shall be referred to a panel of three Arbitrators: one appointed by the Bank; one appointed by the Company. The two Arbitrators shall acting jointly appoint a third Arbitrator who shall be the umpire of all sittings, sessions or proceedings of the arbitration. The arbitration proceedings shall be conducted in accordance with the provisions of the Arbitration Act (Chapter 49 of the Laws of Kenya).

11.3 To the extent permissible by law, the determination of the Arbitrators shall be final and binding upon the parties.

11.4 Notwithstanding the above provisions of this Section, a party is entitled to seek preliminary injunctive relief or interim or conservatory measures from any court of competent jurisdiction pending the final decision or award of the arbitrators

12. FORCE MAJEURE

12.1 The Company shall be relieved of their obligation to perform the contract within the time or times stated to the extent that such performance is prevented by reason of war (whether war be declared or not) riot, terrorism, civil commotion, strike, industrial action, involving the Company or a supplier or transporter, damage caused by fire or other accident or any other cause beyond the control of the Company. In the event of such circumstances arising, the Company shall forthwith notify the Bank which may at its absolute discretion allow completion of the contract to be adjusted for such a period as the circumstances shall prevail.

12.2 The Bank may call at any time for production by the Company of documentary evidence of the circumstances preventing performance and the Company shall provide such documentary evidence as may be reasonably requested by the Bank.

13. GENERAL PROVISIONS

13.1 This Agreement embodies the entire agreement and understanding between the parties hereto relating solely to the specific subject matter of this Agreement. The provisions of this Agreement shall not impinge upon or prejudice the rights of the respective parties with regard to any other matters arising between them.

13.2 All notices given under this Agreement shall be in writing and shall be effective upon personal delivery or fourteen (14) business days after deposit in the mail registered mail, postage fully prepaid to the following addresses of the respective parties:

Address of the Bank:
The Governor
Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
NAIROBI

Address of the Company:
De La Rue Currency and Security Print Limited
Attention: Mr K.H.W. Keith
LR No 20917
8th Floor, Lonrho House
Standard Street
P.O. Box 40034
NAIROBI 00100

13.3 Either party may change its address indicated above by sending written notice of such change to the other in the manner set forth above.

13.4 The Company shall have the right to assign the contract to De La Rue International Limited on terms to be agreed between the Company and De La Rue International Limited if exchange controls were to be re-imposed in Kenya.

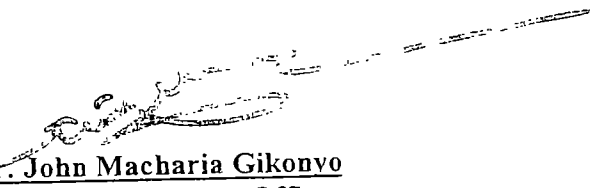
13.5 This Agreement may be varied only by the written agreement of both parties.

IN WITNESS WHEREOF the parties have executed this Agreement at Nairobi in the Republic of Kenya on the date mentioned hereinbefore.

Signed for and on behalf of the **CENTRAL BANK OF KENYA** by:



Mr. Hezbon Kadullo Mariwa
Director, Currency Operations and Branch Administration
Witnessed by:

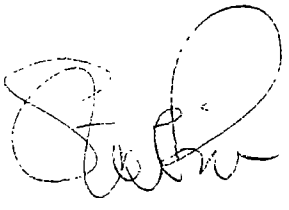


Mr. John Macharia Gikonyo
Director, Governor's Office

Signed for and on behalf of
DE LA RUE CURRENCY AND SECURITY PRINT LIMITED by:



Mr. John Langdon Cornish
Director
Witnessed by:



Mr Stephen Justin Prior
Area Sales Director

SCHEDULE 1

Banknote Specifications

DENOMINATION	SPECIFICATION	
50, 100, 200 shillings Paper:	GSM MDF Watermark Electrotype: Cornerstone™ Thread	92 5500 Lion's head with highlight in eyes Value numeral Reinforced watermark bars on each corner 2.0 mm Windowed Cleartext®
Print:	Front	3 Lithographic Printings 1 Intaglio Printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours
500, 1000 shillings Paper:	GSM MDF Watermark Electrotype Cornerstone™ Thread	92 5500 Lion's head with highlight in eyes Value numeral Reinforced watermark bars on each corner 3mm StarChrome® Windowed Cleartext®
Print:	Front	3 Lithographic Printings 1 Intaglio Printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours

BANKNOTE SIZES	
50/- 100/- 200/- 500/- 1000/-	138mm x 72mm 141mm x 74mm 144mm x 76mm 147mm x 78mm 150mm x 80mm

SCHEDULE 2

Prices (ex-works Nairobi)

Denomination	£ per 1000 notes
50/-	25.17
100/-	27.03
200/-	29.83
500/-	34.99
1000/-	34.69

SPECIFICATIONS

PRICES

The prices and discount agreed upon with De La Rue Currency is tabulated below.

No.	Denomination	Volume (Million)	Unit Price (£ per 1,000)	Cost (STG£)
1	50/-	120	25.17	3,020,400
2	100/-	140	27.03	3,784,200
3	200/-	80	29.83	2,386,400
4	500/-	20	34.99	699,800
5	1,000/-	30	34.69	1,040,700
	Total	**390**		**10,931,500**
			3.75% Discount	**409,931**
			Total Cost	**10,521,569**
	Sterling £ Value of Down payment			**8,840,961**
	Amount to top up in St£			**1,680,608**

MODE OF PAYMENT

ST£. 8,840,961 will be paid from the downpayment held by De La Rue International.
ST£. 1,680,608 will be paid upon deliveries and invoicing from De La Rue Currency.

DELIVERY SCHEDULE

Based on the projected order of 390 million pieces of banknotes, the table below shows the expected delivery timetable.

Proposed Delivery Schedule (Figures in Millions of Pieces)

Denomination	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
50/-	27			60			33			120
100/-			18			60			62	140
200/-	20				60					80
500/-								20		20
1000/-								30		30
Total	47	-	18	60	60	60	33	50	62	390

Total 65 million pieces

(89)

Appendix 14

INTERIM ORDER.

BANKNOTES PRODUCTION AND SUPPLY

AGREEMENT

BETWEEN

THE CENTRAL BANK OF KENYA

AND

DE LA RUE CURRENCY AND SECURITY PRINT LIMITED

INDEX TO AGREEMENT

Clause 1	-	Quantities and Prices
Clause 2	-	Delivery and Title
Clause 3	-	Payment
Clause 4	-	Copyright and Control of Working Tools
Clause 5	-	Inspection
Clause 6	-	Liability
Clause 7	-	Force Majeure
Clause 8	-	Termination of Agreement
Clause 9	-	Effect of Transfer of Assets, Insolvency and Dissolution
Clause 10	-	Duration
Clause 11	-	Confidentiality
Clause 12	-	General
Schedule 1	-	Technical Specifications
Schedule 2	-	Pricing
Schedule 3	-	Advance Payment Guarantee Form

AGREEMENT FOR THE PRODUCTION AND SUPPLY OF BANKNOTES

AN AGREEMENT made the 10th day of January 2007 **BETWEEN** The Central Bank of Kenya, a body Corporate established under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya, of P. O. Box Number 60000, 00200, Nairobi, Kenya (hereinafter referred to as "the Bank"), which expression shall include, where the context so requires, its assigns and successors in title, of the one part, **AND** De La Rue Currency and Security Print Limited whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya (hereinafter referred to as "the Company") which expression shall include, where the context so requires, its assigns and successors in title, of the other part.

WHEREAS the Bank is desirous of entering into an Agreement with the Company for the printing and supply of banknotes to the Bank in accordance with stipulated specifications, denominations and other terms and conditions in order to meet the supply gap occasioned by the deferred launch date of the New Generation Kenya Currency Banknotes.

AND WHEREAS the Company, an associated company of De La Rue International Limited, is the current supplier of banknotes to the Bank and has undertaken to print and supply to the Bank the required banknotes in accordance with the terms and conditions of this Agreement.

NOW THE PARTIES HERETO AGREE AS FOLLOWS:

Clause 1 - Quantities and Prices

1.1 The Bank agrees to purchase and the Company hereby undertakes to print and deliver to the Bank banknotes in the denominations, quantities and by the dates set out in Table 1 here below and in accordance with the banknote specifications for the current series of Kenyan Currency banknotes supplied by the Company to the Bank as more particularly set out in Schedule 1 hereto attached and at the prices set out in Schedule 2 attached hereto.

Table 1

Fixed Quantities and Delivery Period

Year: 2007

(Million pieces)

Denom	April	May	June	July	Aug	Sept	Total
50/=	30.00	-	-	28.70	-	-	**58.70**
100/=	-	30.00	30.00	-	-	16.90	**76.90**
200/=	-	-	-		28.45	-	**28.45**
TOTAL	**30.00**	**30.00**	**30.00**	**28.70**	**28.45**	**16.90**	**164.05**

1.2 The volumes referred to in Clause 1.1 above represent the minimum quantities to be supplied by the Company to the Bank under this Agreement. **IT IS FURTHER AGREED BY AND BETWEEN THE PARTIES HERETO THAT** the Bank may from time to time place orders for additional banknotes, over and above the Minimum Order and the Fixed Quantities detailed in Table 1 and the Company shall print and deliver the banknotes to the Bank on the terms and conditions of this Agreement and in accordance with delivery schedules to be agreed upon by the parties.

1.3 The Company hereby undertakes to deliver to the Bank the volumes for each denomination by the 15th day of each month indicated in Table 1. The Company hereby further undertakes that the prices of the banknotes specified in Schedule 2 shall remain fixed for the duration of the Agreement.

1.4 The Bank agrees to place all orders for the printing of the banknotes specified in Schedule 1 exclusively with the Company for the duration of this Agreement and agrees further that the delivery of the Order of 164.05 million banknotes ordered under this Agreement ("Minimum Order") shall be as provided in Table 1 above.

1.5 The Bank shall take delivery of all printed banknotes as soon as they are ready for delivery in accordance with the agreed delivery schedule. If the Bank delays to take delivery of such consignment for a period exceeding fifteen (15) days from the date of notification of the availability of the printed banknotes for collection, the Company may levy a reasonable storage charge on the said consignment until collection. Delivery shall be deemed to take place ex-works at De La Rue Ruaraka Banknote Printing Factory, Nairobi (Incoterms 2000).

1.6 The Company hereby undertakes that, subject to the provisions of Clause 1.9 below, the banknotes specified in Schedule 1 shall normally be produced at the Company's plant in Kenya (hereinafter referred to as "the Plant") and that the Company is a member of the De La Rue Group of Companies.

1.7 The Company reserves the right to utilize any capacity within the Plant not required to fulfil the requirements of the Bank for the production of banknotes for other Central Banks and issuing authorities and other security printed documents for appropriate institutions.

1.8 The prices indicated in Schedule 2 hereto relate to the specifications and designs referred to in Schedule 1 hereto. Should the Bank opt to change the size and/or design and/or specifications of the banknotes, which change results in a change in the cost to the Company, the parties shall have the right to negotiate new prices based on the new sizes and/or designs and/or specifications, to reflect the change in cost. Pending any renegotiated terms agreed in writing between the parties, the provisions of this Agreement shall continue to apply.

1.9 The Company shall make all arrangements for the procurement of the necessary raw materials from suppliers, including, where appropriate local suppliers in order to ensure that the Company fulfils its obligations under this Agreement.

If for any reason the Company is not able to meet the Bank's orders or the Company's delivery commitments to the Bank from the Plant, the Bank consents to the Company meeting any delivery through production at any of the other facilities owned or operated by the De La Rue Group of Companies. In such event, the price charged for the banknotes produced in such other facility or plant shall remain the same as the price for the banknotes produced at the Nairobi Plant and shall not be altered to the detriment of the Bank.

Clause 2 - Delivery and Title

2.1 The Company shall deliver to the Bank the minimum quantities of banknotes as specified in Table 1 in accordance with the volumes shown in Table 1 and by the 15th day of each of the months for the year shown in Table 1. The parties hereby expressly agree that any orders additional to the Minimum Order shall be accompanied by delivery schedules to be agreed upon between the parties. In this regard, both parties agree to act with utmost good faith in agreeing on the delivery schedules and which shall be within the Company's normal delivery time scales.

2.2 If the Company fails to deliver banknotes within the time or times specified in Table 1 or in the delivery schedules agreed upon pursuant to Clause 2.1, in addition to any other remedies of the Bank against the Company under this Agreement, the Company shall be liable to a deduction from the contract price, as liquidated damages, a sum to be calculated at the rate of one half of one percent per week on the value of such portion of the delayed consignment for each week or part of a week between the date or dates of delivery specified in the delivery schedule. The maximum amount of liquidated damages is ten percent of the value of any delivery or part delivery and shall be paid in full and final settlement of the claim or claims to which they relate.

PROVIDED THAT:

a) The Company shall have the right to present to the Bank or its agent within three months of the Notification of such deduction the reason for the delay and the Bank may at its discretion opt not to demand any damages.

b) No damages shall be payable if:

i) The delay had arisen from causes which were unavoidable and could not have been foreseen or overcome by the Company; or

ii) The delay had arisen as a result of failure or delay in the supply of materials to the Company due to causes which were unavoidable and could not be foreseen or overcome by the manufacturers or vendors of such materials; or,

iii) The delay has been caused by actions attributed to

the Bank.

c) The company shall be relieved of any liability under this Clause in respect of any Ex-works deliveries for any period during which the banknotes are not collected by the Bank after having been notified in writing of the availability of the printed banknotes for collection.

Clause 3 – Payment

3.1 The total cost for the printing and supply by the Company to the Bank of the agreed quantities of banknotes as shown in Table 1 above is Pounds Sterling 4,157,608.34 as more particularly set out in Schedule 2 of this Agreement. The parties hereby agree that upon execution of this Agreement and subject to Clause 3.2 below, the Bank shall authorise the Company's associated company, De La Rue International Limited, to release to the Company the sum of Pounds Sterling 4,157,608.34, from the down payment and accrued interest thereon held by the said De La Rue International Limited pursuant to the provisions of the New Generation Banknotes Agreement entered into on 4th May, 2006 between the Bank and De La Rue International Limited. The Exchange Rate used to convert Pounds Sterling to US Dollars is $1.906, as per the offer letter to the Bank dated 8th September 2006, therefore the net reduction in the down payment will equate, after discounting USD 303,142 of accrued interest, to a total of USD 7,924,401.50.

3 2 To facilitate payment to the Company as provided for in Clause 3.1, the Company shall upon execution of this Agreement provide to the Bank a duly completed Invoice for the total contract sum together with an Advance Payment Guarantee for £ 4,157,608.34 from a reputable bank acceptable to the Bank in the form set out in Schedule 3 to this Agreement. The Bank Guarantee to be provided shall be automatically adjusted downwards in accordance with the value of the banknotes deliveries made by the Company to the Bank as detailed in Table 1 above and duly accepted and acknowledged by the Bank.

3.3 The Company shall be entitled to invoice and bill for any banknotes which are manufactured and due for delivery to the Bank according to the delivery schedule in Table 1 of this Agreement, but remain uncollected by the Bank and are held in secure storage by the Company **PROVIDED THAT** the invoice raised by the Company shall state that the amount due shall be deducted from the advance payment made by the Bank and held by the Company and that no further payment is due from the Bank to the Company in respect of that particular consignment.

Clause 4 - Copyright and Control of Working Tools

4.1 The parties agree that the designs, art works, films, engraved dies, plates and other origination materials for the banknotes are the sole property of the Bank and shall during the term of this Agreement be held in safe custody by the Company and shall only be used by the Company for purposes of carrying out

orders placed by the Bank. All such designs, art works, films, engraved dies, plates and other origination materials shall either be:

i) returned to the Bank within fourteen (14) days if the Bank requests so in writing at any time; or

ii) destroyed by the Company if so requested in writing by the Bank, at any time after completion of this Agreement.

PROVIDED THAT if a request is made by the Bank under this Clause during the execution of orders placed under this Agreement, the Company shall be given reasonable time to complete any outstanding order.

4.2 The Bank undertakes not to make the said materials available for use by third parties without the Company's prior written consent as they contain intellectual property rights of the Company.

4.3 The Company undertakes that the banknotes to be supplied to the Bank will not infringe any patent, trademark, registered design copyright or other right in the nature of intellectual property of any third party and the Company hereby duly indemnifies the Bank against all actions, suits, claims, demand, loses, charges, costs and expenses which the Bank may suffer or incur as a result of or in conjunction with any breach of this condition subject to the Bank:-

4.3.1 Making no admission or other statement admitting liability;

4.3.2 Allowing the Company to fully conduct the defence and settlement of any such claim at the cost and expense of the Company;

4.3.2 Providing reasonable assistance requested by the Company at the cost of the Company in the defence of any such claim.

Clause 5 – Inspection

5.1 The Bank or its representative shall have the right to inspect and/or test the banknotes to confirm their conformity to the specifications in Schedule 1 of this Agreement.

5.2 The inspections and/or tests may be conducted at the premises of the Company and/or at the premises of the Bank on receipt of the banknotes. If conducted at the Company's premises all reasonable facilities and assistance shall be furnished to the inspectors at no additional charge to the Bank.

5.3 Should any inspected or tested banknotes, subject of the Agreement fail to conform to the specifications, the Bank shall reject the banknotes and the Company shall either replace the rejected banknotes or reimburse the Bank with the invoice value of the affected notes, based on the prices shown in Schedule 2 hereto.

5.4 The Bank's right to inspect, test and where necessary reject the banknotes after their delivery shall in no way be limited or waived by reason of the banknotes having previously been inspected, tested and passed by the Bank or its representative prior to delivery.

5.5 The Bank shall be entitled to send authorised officials to inspect the paper stocks and security procedures of the Plant at any time provided that a reasonable notice is given to the Company to ensure that the authorised officials can be vetted or cleared by security personnel at the Plant.

Clause 6 - Liability

6.1 In the event that banknotes, engraved dies, plates, films and other origination materials are lost stolen, damaged or destroyed whilst at the risk of the Company, the Company shall reprint and supply the banknotes, the design and specifications of which shall be agreed with the Bank or replace the engraved dies, plates, films and other origination materials at its own cost and within a time frame agreed upon with the Bank.

6.2 In the event that the banknotes delivered by the Company do not meet the agreed specifications, the Company shall print and deliver, at its cost, the replacement banknotes thereof within a time frame agreed upon with the Bank. The rejected banknotes shall be destroyed, at the earliest opportunity, either by incineration or shredding, under the joint supervision of the Company and the Bank and the destruction shall be at the cost of the Company.

6.3 In the event that forged banknotes enter circulation as a result of unlawful use of origination materials by unauthorised parties whilst the said origination materials are in the custody of the Company, the Company shall reprint, at its cost and within the agreed time, the agreed quantity of banknotes of the denomination affected by the unlawful use of the origination materials, the design and specifications of which shall be determined between the Company and the Bank.

6.4 The Company shall take all appropriate measures and precautions to prevent paper, plates and any other materials in its possession for the manufacture of the banknotes from being used in any unauthorised manner. In the event that the Company looses any banknotes or origination materials whilst in the custody of the Company, the Company shall without delay immediately report such loss to the Bank in writing.

6.5 With a view to ensuring that the paper and materials used for the manufacture of banknotes is not used in an unauthorised manner, the paper purchased, the paper used, the banknotes printed, the unserviceable paper and the unused paper shall be regularly reconciled by the Company and the reconciliation shall be approved by the Bank and/or its authorised agent before any storage or destruction of such material is effected. The destruction of any misprints and or unserviceable paper shall be notified to the Bank and the Bank shall have the option to attend and witness, and a reconciliation certificate shall be issued by the parties specifying

and detailing the quantities reconciled and destroyed.

6.6 The obligations undertaken by the Company under this Clause 6 shall be the full measure of its liability for any loss sustained by the Bank arising out of the aforesaid loss, misuse, or theft of banknotes howsoever caused. Provided however that nothing in this Agreement shall be construed to exclude or limit the liability of the Company from any personal injury claim or loss incurred or suffered by the Bank, whether in contract, negligence or other tort.

Clause 7 - Force Majeure

7.1 Neither party shall be liable for any failure in complying with the terms of this Agreement within the time or times stated to the extent to which such failure is occasioned by war (whether war be declared or not), riot, terrorism, civil commotion, strike, industrial dispute, acts of state, damage caused by fire or other accident or any other cause beyond the control of the parties. In the event of such circumstances arising, the affected party shall forthwith notify the other party and the other party shall allow performance of the delayed obligation to be adjusted for a sufficient period to compensate for the Force Majeure event.

7.2 The parties hereby agree further that the party in default may be required to produce documentary evidence of the circumstances preventing performance and the affected party shall provide such documentary evidence as may be reasonably requested by the other party.

Clause 8 – Termination of Agreement

8.1 The Bank may without prejudice to any other remedy for breach of contract, by written notice of default sent to the Company, terminate the Agreement in whole or in part.

a) If the Company fails to deliver any or all of the banknotes within the period(s) specified in the Agreement, or within any extension thereof granted by the Bank

b) If the Company fails to perform any other obligation(s) under the Agreement

c) If the Company, in the judgement of the Bank has engaged in corrupt or fraudulent practices in executing this Agreement.

d) If the Company is declared bankrupt or enters into arrangements with creditors.

8.2 In the event that the Bank terminates the Agreement in whole or in part, or the Agreement expires by effluxion of time, the Bank may procure, from any other supplier, and upon such terms and in such manner, as it deems appropriate, banknotes similar to those undelivered, and the Company shall be liable to the Bank for any excess costs incurred in respect of such undelivered quantity of banknotes. Further, and to facilitate production, the Company shall on written

demand by the Bank, release to the Bank the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company, in accordance with the provisions of Clause 4.1 but subject to Clause 4.2 hereof.

Clause 9 – Effect of Transfer of Assets, Insolvency or Dissolution

In the event that the Company is acquired by persons who are not acceptable to the Bank or the Company becomes insolvent or enters into any arrangement with its creditors or proceedings are commenced by any person for the winding – up or dissolution of the Company (excluding any such proceedings which are frivolous or vexatious in nature) and not defended by the Company then the Bank shall be entitled:

a) To terminate this Agreement whereupon the Bank shall be at liberty to procure the supply of banknotes from any other organisation or entity of its choice in which event the Company shall, on written demand by the Bank, release to the Bank the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company in accordance with the provisions of Clause 4.1 hereof. In such event it is hereby agreed by and between the parties that the Bank shall subject to Clause 4.2 be at liberty and at its absolute discretion to handover the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company to any other organisation or entity for use in the production of banknotes for the Bank.

b) To require that all origination materials held by the Company be released to the Bank or any other person duly authorised to receive the said material on behalf of the Bank;

c) To require that all stocks of banknotes the subject of this Agreement be released to the Bank on payment of the sum due which amount shall be pro - rata to the actual printing completed.

Clause 10 -- Duration

10.1 This Agreement shall take effect on the day of execution hereof and continue until **31st December, 2007** unless otherwise terminated under the provisions of this Agreement. The parties expressly agree that the expiry of this Agreement will not in any way prejudice or hinder the rights and obligations of either party accruing from the Agreement. The parties further agree that notwithstanding the duration of this Agreement, the provisions of this Agreement shall continue to apply to all orders made during the tenure of this Agreement whose delivery period falls after the expiry of this Agreement and the provisions of this Agreement shall be deemed to be applicable to such orders until the orders are delivered by the Company and duly paid for by the Bank.

10.2 Prior to expiry thereof, the parties may extend this Agreement for such a period and on such terms and conditions as may be mutually agreed.

Clause 11 - Confidentiality

The parties agree to keep complete secrecy concerning all confidential operations, processes or dealings relating to the production of the Banknotes and all confidential information entrusted by one party to the other. This clause shall continue to bind the parties even after expiry of the Agreement.

Clause 12 - General

12.1 Any notice required to be given pursuant to the Agreement by one party to the other shall be in the English language and in writing, state the date of and the parties to the Agreement, and state that the notice is served pursuant to this clause.

Notices shall be delivered personally, or by prepaid first class airmail, or transmitted by email or facsimile (and in the case of transmission by email or facsimile followed within 3 days by a copy thereof being delivered by prepaid first class airmail) to the addresses or number specified below (or such other address or number, as the parties shall from time to time notify in accordance with this clause).

Notices shall be deemed to be given a) upon receipt in the case of personal delivery or b) within four (4) business days of posting in the case of delivery by prepaid mail or at 10.00 am on the next business day following receipt on the sending party's machine that the transmission has been successfully received in the case of transmission by email or facsimile, whichever occurs first.

Notices to the Company	
Address for postal or personal delivery	De La Rue Currency and Security Print Limited Attention: **Mr K.H.W. Keith** LR No 20917 8th Floor, Lonrho House Standard Street P.O. Box 40034, 00100 **NAIROBI**
e-mail address	noticesto.currency@uk.delarue.com

Notices to the Bank	
Address for postal or personal delivery	The Governor Central Bank of Kenya Haile Selassie Avenue P. O. Box 60000, 00200 Nairobi
Facsimile number	020 - 340192
e-mail address	info@centralbank.go.ke

12.2 This Agreement including any Schedules attached hereto embodies the entire agreement between the parties in relation to the banknotes ordered under this Agreement. In the event of any conflict arising between the terms of the main part of this Agreement and any Schedules hereto the terms of the main part of this Agreement shall prevail. No amendment or variations of this Agreement or any provisions hereof shall be effective unless the same shall be in writing signed by both parties.

12.3 A person who is not a party to this Agreement shall have no right to enforce any of the terms of this Agreement or otherwise and no party to this Agreement can declare itself a trustee of the rights under it for the benefit of any third party.

12. 4 This Agreement and the rights benefits or obligations hereunder shall not be assigned or sub – contracted to any third party without the prior written consent of the other party. Such consent if given shall not relieve the applying party from any obligation or liability under this Agreement.

12.5 This Agreement is governed by and shall be construed in all respects in accordance with the Laws of Kenya.

12.6 In the event of any dispute between the parties hereto out of or in connection with this Agreement, the parties shall use their best efforts to settle such dispute amicably by negotiation. If after thirty (30) days from the commencement of such negotiations the parties are unable to resolve the dispute amicably, the parties shall agree on the appointment of an arbitrator. Failing agreement to concur on the appointment of an arbitrator, the arbitrator shall be appointed by the Chairman of the Institute of Arbitrators, Kenya branch, on the application of either party. The Arbitration proceedings shall be conducted in accordance with the provisions of the Arbitration Act (Chapter 49 of the Laws of Kenya). To the extent permissible by law, the determination of the Arbitrator shall be final and binding upon the parties.

12. 7 If any clause of this Agreement, or any part of a clause, is found by any court or tribunal, of competent jurisdiction to be illegal, invalid or unenforceable, and the clause (or the part) in question is not of a fundamental nature to the Agreement as a whole, the legality, validity and enforceability of the remainder of the clauses of the Agreement (including the remainder of the clause which contains the relevant provision) are severable and shall not be affected. If the foregoing applies, the parties shall use all reasonable endeavours to agree upon any lawful and reasonable variations to the Agreement which may be necessary in order to achieve, to the greatest extent possible, the same effect as would have been achieved by the clause or part of the clause in question.

12.8 This Agreement has been made in the English language.

IN WITNESS WHEREOF the parties have executed this Agreement in Nairobi within the Republic of Kenya on the date and year mentioned hereinbefore.

Signed for and on behalf of the **CENTRAL BANK OF KENYA** by:

Mr. Edwin L. Ogola
Director, Currency Operations and Branch Administration

Mr. Lawrence C. Kungu
Director, Estates Management and Procurement

Witnessed by:

Mr. John M. Gikonyo
Director, Governor's Office

Signed for and on behalf of
DE LA RUE CURRENCY AND SECURITY PRINT LIMITED by:

Mr. David Hepple
Finance Director
De La Rue Currency and Security Print Limited

Witnessed by:

Mr. Fergus Hugh Stirling Graham
Regional Manager
De La Rue International Limited

SCHEDULE 1

Banknote Specifications

DENOMINATION	SPECIFICATION	
50, 100, 200 shillings		
Paper:	GSM	92
	MDF	5500
	Watermark	Lion's head with highlight in eyes
	Electrotype:	Value numeral
	Cornerstone™	Reinforced watermark bars on each corner
	Thread	2.0 mm Windowed Cleartext®
Print:	Front	3 Lithographic Printings 1 Intaglio Printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours
BANKNOTE SIZES		
50/-	138mm x 72mm	
100/-	141mm x 74mm	
200/-	144mm x 76mm	

SCHEDULE 2

Prices (ex-works Nairobi)

Denomination	Volume (millions)	Unit Price (£ per 1000 banknotes)	Total £
50/=	58.70	25.17	1,477,479.00
100/=	76.90	27.03	2,078,607.00
200/=	28.45	29.83	848,663.50
		Total	**4,404,749.50**
		Less 2% discount	88,094.99
		Less interest credited	*159,046.17
		Total	**4,157,608.34**

All Prices quoted are in Pounds Sterling Ex-Works, Nairobi.

* ***Interest accrued on the down payment of USD 25,597,920 made to De La Rue International Limited by the Bank pursuant to the terms of the Agreement dated 4th May, 2006 for the design, manufacture and supply of New Generation Kenyan Currency Banknotes for the period 22nd May, 2006 to 30th September, 2006, which interest the Company and the Bank, with the concurrence of De La Rue International Limited, have agreed shall be applied towards part payment of the cost for the Interim Order.***

SCHEDULE 3

BANK GUARANTEE FOR ADVANCE PAYMENT

To: Central Bank of Kenya
P O Box 60000 – 00200
NAIROBI

Re: **DE LA RUE CURRENCY AND SECURITY PRINT LIMITED**

Dear Sir,

In accordance with the payment provision included in Clause 3 of the Agreement dated.....between yourself and De La Rue Currency and Security Print Limited whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya (hereinafter referred to as "the Company") which requires that the Company shall procure and deposit with the Central Bank of Kenya a Bank Guarantee to guarantee its proper and faithful performance under the said Contract in an amount of **Sterling Pounds Four Million One Hundred and Fifty Seven Thousand Six Hundred and Eight Pence Thirty Four (£4,157,608.34).**

We, the ----------
(bank), as instructed by the Company, hereby unconditionally and irrevocably give you our guarantee as primary obligator and not as surety merely and undertake to pay to you on your first demand without whatsoever right of objection on our part and without your first claim to the Company, any amount not exceeding **Sterling Pounds Four Million One Hundred and Fifty Seven Thousand Six Hundred and Eight Pence Thirty Four (£4,157,608.34).**

We further agree that no change or addition to or other modification of the terms of the Contract to be performed thereunder or of any of the Contract documents which may be made between the Central Bank of Kenya and the Company, shall in any way whatsoever release us from any liability under this guarantee, and we hereby waive notice of any such change, addition, or modification.

This guarantee shall remain valid and in full effect from the date of the advance payment received by the Company under the Contract until **31st December, 2007.**

Yours truly,

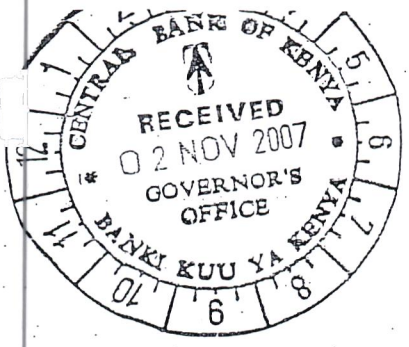
Signature and seal of the Guarantors

(name of bank)

(address)

(date)

Appendix 15



SECRET

(14) (12) 0141

REPUBLIC OF KENYA
MINISTRY OF FINANCE

Telegraphic Address: 22921
FINANCE-NAIROBI
FAX NO. 330426
Telephone: 252299
When replying please quote

THE TREASURY
P.O. Box 30007
NAIROBI

Our Ref: CONF 36/02

1st November 2007

Prof. Njuguna Ndung'u
Governor
Central Bank of Kenya
NAIROBI

Cluge 02/11/07
1) This letter and subject matter is important
2) Proceed to write a letter to De La Rue on our currency requirement for the next two years - to allow for joint venture completion.

Dear Governor,

PRINTING OF BANKNOTES

Please refer to deliberations held at the 342nd Central Bank of Kenya Board meeting held on 30th October 2007 and previous correspondence on the above subject.

3) This interim order cost should draw on our deposit already made.

Following the signing of the Agreement between the Central Bank of Kenya and De La Rue Currency and Security Print Ltd. on 4th May 2006, for printing of new generation banknotes, several important developments have taken place. Firstly, the Government, through cabinet decision on 29th May 2007, approved the proposal for a joint venture between the Government of Kenya and De La Rue Currency and Security Print Ltd. Secondly, the view of the Government is that introduction of new currency during an election year would not be prudent.

4) Move fast to ensure tendering is completed to follow the letter later.

An important component of the joint venture will be a long term currency production contract between the Central Bank of Kenya (CBK) and De La Rue Currency and Print (K) Ltd. While awaiting the completion of the transaction, the Central Bank of Kenya must ensure that the country has adequate supply of banknotes. Therefore, the purpose of this letter is to advise the Central Bank the following: -

1. The implementation of the Agreement for the new generation banknotes signed on 4th May 2006 has been overtaken by events and stands cancelled;

2. Pending the completion of the joint venture transaction incorporating the long

SECRET

SECRET

term banknotes supply agreement, the Central Bank should make arrangements to print the current generation banknotes under the existing arrangements with De La Rue Currency and Security Print Ltd. Before the Bank can make payments for subsequent orders, the company should first exhaust the deposit paid for the new generation banknotes.

Warm Regards.

Yours Sincerely,

HON. AMOS KIMUNYA, EGH, MP.
MINISTER FOR FINANCE

cc: Joseph K. Kinyua, CBS
Permanent Secretary/Treasury
Ministry of Finance
NAIROBI

consents to the Company meeting any delivery through production at any of the other facilities owned or operated by the De La Rue Group of Companies. In such event, the price charged for the banknotes produced in such other facility or plant shall remain the same as the price for the banknotes produced at the Nairobi Plant and shall not be altered to the detriment of the Bank.

Clause 2 - Delivery and Title

2.1 The Company shall deliver to the Bank the minimum quantities of banknotes as specified in Table 1 in accordance with the volumes shown in Table 1 and by the 15th day of each of the months for the year shown in Table 1. The parties hereby expressly agree that any orders additional to the Minimum Order shall be accompanied by delivery schedules to be agreed upon between the parties. In this regard, both parties agree to act with utmost good faith in agreeing on the delivery schedules and which shall be within the Company's normal delivery time scales.

2.2 If the Company fails to deliver banknotes within the time or times specified in Table 1 or in the delivery schedules agreed upon pursuant to Clause 2.1, in addition to any other remedies of the Bank against the Company under this Agreement, the Company shall be liable to a deduction from the contract price, as liquidated damages, a sum to be calculated at the rate of one half of one percent per week on the value of such portion of the delayed consignment for each week or part of a week between the date or dates of delivery specified in the delivery schedule. The maximum amount of liquidated damages is ten percent of the value of any delivery or part delivery and shall be paid in full and final settlement of the claim or claims to which they relate.

Provided that no liquidated damages shall be payable if the delay has arisen from causes which were unavoidable and could not have been foreseen or overcome by the Company; or the delay has been caused by actions attributable to the Bank.

Clause 3 – Payment

3.1 The total cost for the printing and supply by the Company to the Bank of the agreed quantities of banknotes as shown in Table 1 above is Pounds Sterling £GBP10,177,492 as more particularly set out in Schedule 2 of this Agreement. The parties hereby agree that upon execution of this Agreement and subject to Clause 3.2 below, the Bank shall authorise the Company's associated company, De La Rue International Limited, to release to the Company as a down payment the sum of Pounds Sterling £GBP 8,840,961.00 from the down payment and accrued interest thereon held by the said De La Rue International Limited pursuant to the provisions of the New Generation Banknotes Agreement entered into on 4th May, 2006 between the Bank and De La Rue International Limited. The Exchange Rate used to convert Pounds Sterling to US Dollars is $2.08/£1, as fixed on the date of the Letter of Intent from the Central Bank of Kenya dated 2 November 2007, therefore the net reduction in the down payment will equate, after

AGREEMENT FOR THE PRODUCTION AND SUPPLY OF BANKNOTES

AN AGREEMENT made the 14th day of December 2007 BETWEEN The Central Bank of Kenya, a body Corporate established under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya, of P. O. Box Number 60000, 00200, Nairobi, Kenya (hereinafter referred to as "the Bank"), which expression shall include, where the context so requires, its assigns and successors in title, of the one part, AND De La Rue Currency and Security Print Limited whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya (hereinafter referred to as "the Company") which expression shall include, where the context so requires, its assigns and successors in title, of the other part.

WHEREAS the Bank is desirous of entering into an Agreement with the Company for the printing and supply of banknotes to the Bank in accordance with stipulated specifications, denominations and other agreed terms and conditions.

AND WHEREAS the Company, an associated company of De La Rue International Limited, is the current supplier of banknotes to the Bank and has undertaken to print and supply to the Bank the required banknotes in accordance with the terms and conditions of this Agreement

NOW THE PARTIES HERETO AGREE AS FOLLOWS:

Clause 1 - Quantities and Prices

1.1 The Bank agrees to purchase and the Company hereby undertakes to print and deliver to the Bank banknotes in the denominations, quantities and by the dates set out in Table 1 here below and in accordance with the banknote specifications for the current series of Kenyan Currency banknotes supplied by the Company to the Bank as more particularly set out in Schedule 1 hereto attached and at the prices set out in Schedule 2 attached hereto.

Table 1

Fixed Quantities and Delivery Period

Year: 2008

(Million pieces)

Denom	April 2008	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
50/=	27			60			33			120
100/=			18			60			62	140
200/=	20				60					80
500/=								20		20
1000/=								30		30
Total	47	0	18	60	60	60	33	50	62	390

GRAND TOTAL 390.0

1.2 The volumes referred to in Clause 1.1 above represent the minimum quantities to

INDEX TO AGREEMENT

Clause 1	-	Quantities and Prices
Clause 2	-	Delivery and Title
Clause 3	-	Payment
Clause 4	-	Copyright and Control of Working Tools
Clause 5	-	Inspection
Clause 6	-	Liability
Clause 7	-	Force Majeure
Clause 8	-	Termination of Agreement
Clause 9	-	Effect of Transfer of Assets, Insolvency and Dissolution
Clause 10	-	Duration
Clause 11	-	Confidentiality
Clause 12	-	General
Schedule 1	-	Technical Specifications
Schedule 2	-	Pricing
Schedule 3	-	Advance Payment Guarantee Form

APPENDIX 16

BANKNOTES PRODUCTION AND SUPPLY

AGREEMENT

BETWEEN

THE CENTRAL BANK OF KENYA

AND

DE LA RUE CURRENCY AND SECURITY PRINT LIMITED

discounting £GBP 344,077.00 of accrued interest, to a total of £GBP 8,496,884.00.

The down payment of the New Generation Banknote Agreement will thereby be eliminated and the Bank will make to the Company further payments totalling £GBP 1,680,608 strictly against deliveries as set out in Table 1 to this Agreement within 30 days of receipt of the respective invoices by the Bank which invoices shall be submitted to the Bank at the time of delivery of each consignment. **PROVIDED HOWEVER** that payment of £GBP 1,680,608 shall not commence before the down payment of £GBP 8,840,961.00 is fully utilised against deliveries to be made by the Company to the Bank as set out in Table 1 to this Agreement. Payment to be made in Kenya Shillings to the Bank Account set out in Schedule 4.

3.2 To facilitate payment to the Company as provided for in Clause 3.1, the Company shall upon execution of this Agreement provide to the Bank a duly completed down payment Invoice for the sum of £GBP 8,840,961.00 together with an Advance Payment Guarantee for £GBP 8,840,961.00 from a reputable bank acceptable to the Bank in the form set out in Schedule 3 to this Agreement. The Bank Guarantee to be provided shall be automatically adjusted downwards in accordance with the value of the banknotes deliveries made by the Company to the Bank as detailed in Table 1 above and duly accepted and acknowledged by the Bank.

3.3 The Company shall be entitled to invoice and bill for any banknotes which are manufactured and due for delivery to the Bank according to the delivery schedule in Table 1 of this Agreement, but remain uncollected by the Bank and are held in secure storage by the Company.

Clause 4 - Copyright and Control of Working Tools

4.1 The parties agree that the designs, art works, films, engraved dies, plates and other origination materials for the banknotes are the sole property of the Bank and shall during the term of this Agreement be held in safe custody by the Company and shall only be used by the Company for purposes of carrying out orders placed by the Bank. All such designs, art works, films, engraved dies, plates and other origination materials shall either be:

i) returned to the Bank within fourteen (14) days if the Bank requests so in writing at any time; or

ii) destroyed by the Company if so requested in writing by the Bank, at any time after completion of this Agreement.

PROVIDED THAT if a request is made by the Bank under this Clause during the execution of orders placed under this Agreement, the Company shall be given reasonable time to complete any outstanding order.

4.2 The Bank undertakes not to make the said materials available for use by third parties without the Company's prior written consent as they contain intellectual property rights of the Company.

4.3 The Company undertakes that the banknotes to be supplied to the Bank under this Agreement will not infringe any patent, trademark, registered design copyright or other right in the nature of intellectual property of any third party and the Company hereby duly indemnifies the Bank against all actions, suits, claims, demands, loses, charges, costs and expenses which the Bank may suffer or incur as a result of or in conjunction with any breach of this condition subject to the Bank:-

4.3.1 Making no admission or other statement admitting liability;

4.3.2 Allowing the Company to fully conduct the defence and settlement of any such claim at the cost and expense of the Company;

4.3.2 Providing reasonable assistance requested by the Company at the cost of the Company in the defence of any such claim.

Clause 5 – Inspection

5.1 The Bank or its representative shall have the right to inspect and/or test the banknotes to confirm their conformity to the specifications in Schedule 1 of this Agreement.

5.2 The inspections and/or tests may be conducted at the premises of the Company and/or at the premises of the Bank on receipt of the banknotes. If conducted at the Company's premises all reasonable facilities and assistance shall be furnished to the inspectors at no additional charge to the Bank.

5.3 Should any inspected or tested banknotes, subject of the Agreement fail to conform to the specifications, the Bank shall reject the banknotes and the Company shall either replace the rejected banknotes or reimburse the Bank with the invoice value of the affected notes, based on the prices shown in Schedule 2 hereto.

5.4 The Bank's right to inspect, test and where necessary reject the banknotes after their delivery shall in no way be limited or waived by reason of the banknotes having previously been inspected, tested and passed by the Bank or its representative prior to delivery

5.5 The Bank shall be entitled to send authorised officials to inspect the paper stocks and security procedures of the Plant at any time provided that a reasonable notice is given to the Company to ensure that the authorised officials can be vetted or cleared by security personnel at the Plant

Clause 6 - Liability

6.1 In the event that banknotes, engraved dies, plates, films and other origination

materials are lost, stolen, damaged or destroyed whilst at the risk of the Company, the Company shall reprint and supply the banknotes, the design and specifications of which shall be agreed with the Bank or replace the engraved dies, plates, films and other origination materials at its own cost and within a time frame agreed upon with the Bank.

6.2 In the event that the banknotes delivered by the Company do not meet the agreed specifications, the Company shall print and deliver, at its cost, the replacement banknotes thereof within a time frame agreed upon with the Bank. The rejected banknotes shall be destroyed, at the earliest opportunity, either by incineration or shredding, under the joint supervision of the Company and the Bank and the destruction shall be at the cost of the Company.

6.3 In the event that forged banknotes enter circulation as a result of unlawful use of origination materials by unauthorised parties whilst the said origination materials are in the custody of the Company, the Company shall reprint, at its cost and within the agreed time, the agreed quantity of banknotes of the denomination affected by the unlawful use of the origination materials, the design and specifications of which shall be determined between the Company and the Bank.

6.4 The Company shall take all appropriate measures and precautions to prevent paper, plates and any other materials in its possession for the manufacture of the banknotes from being used in any unauthorised manner. In the event that the Company looses any banknotes or origination materials whilst in the custody of the Company, the Company shall without delay immediately report such loss to the Bank in writing.

6.5 With a view to ensuring that the paper and materials used for the manufacture of banknotes is not used in an unauthorised manner, the paper purchased, the paper used, the banknotes printed, the unserviceable paper and the unused paper shall be regularly reconciled by the Company and the reconciliation shall be approved by the Bank and/or its authorised agent before any storage or destruction of such material is effected. The destruction of any misprints and or unserviceable paper shall be notified to the Bank and the Bank shall have the option to attend and witness, and a reconciliation certificate shall be issued by the parties specifying and detailing the quantities reconciled and destroyed.

6.6 The obligations undertaken by the Company under this Clause 6 shall be the full measure of its liability for any loss sustained by the Bank arising out of the aforesaid loss, misuse, or theft of banknotes howsoever caused. Provided however that nothing in this Agreement shall be construed to exclude or limit the liability of the Company from any personal injury claim or loss incurred or suffered by the Bank, whether in contract, negligence or other tort.

Clause 7 - Force Majeure

7.1 Neither party shall be liable for any failure in complying with the terms of this Agreement within the time or times stated to the extent to which such failure is occasioned by war (whether war be declared or not), riot, terrorism, civil

commotion, strike, industrial dispute, acts of state, damage caused by fire or other accident or any other cause beyond the control of the parties In the event of such circumstances arising, the affected party shall forthwith notify the other party and the other party shall allow performance of the delayed obligation to be adjusted for a sufficient period to compensate for the Force Majeure event

7.2 The parties hereby agree further that the party in default may be required to produce documentary evidence of the circumstances preventing performance and the affected party shall provide such documentary evidence as may be reasonably requested by the other party.

Clause 8 Termination of Agreement

8.1 The Bank may without prejudice to any other remedy for breach of contract, by written notice of default sent to the Company, terminate the Agreement in whole or in part.

a) If the Company fails to deliver any or all of the banknotes within the period(s) specified in the Agreement, or within any extension thereof granted by the Bank;

b) If the Company fails to perform any other obligation(s) under the Agreement;

c) If the Company, in the judgement of the Bank has engaged in corrupt or fraudulent practices in executing this Agreement;

d) If the Company is declared bankrupt or enters into arrangements with creditors.

8.2 In the event that the Bank terminates the Agreement in whole or in part, or the Agreement expires by effluxion of time, the Bank may procure, from any other supplier, and upon such terms and in such manner, as it deems appropriate, banknotes similar to those undelivered, and the Company shall be liable to the Bank for any excess costs incurred in respect of such undelivered quantity of banknotes. Further, and to facilitate production, the Company shall on written demand by the Bank, release to the Bank the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company, in accordance with the provisions of Clause 4.1 but subject to Clause 4.2 hereof.

Clause 9 – Effect of Transfer of Assets, Insolvency or Dissolution

In the event that the Company is acquired by persons who are not acceptable to the Bank or the Company becomes insolvent or enters into any arrangement with its creditors or proceedings are commenced by any person for the winding-up or dissolution of the Company (excluding any such proceedings which are frivolous or vexatious in nature) and not defended by the Company then the Bank shall be entitled:

a) To terminate this Agreement whereupon the Bank shall be at liberty to procure the supply of banknotes from any other organisation or entity of its choice in which event the Company shall, on written demand by the Bank, release to the Bank the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company in accordance with the provisions of Clause 4.1 hereof. In such event it is hereby agreed by and between the parties that the Bank shall subject to Clause 4.2 be at liberty and at its absolute discretion to handover the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company to any other organisation or entity for use in the production of banknotes for the Bank.

b) To require that all origination materials held by the Company be released to the Bank or any other person duly authorised to receive the said material on behalf of the Bank;

c) To require that all stocks of banknotes the subject of this Agreement be released to the Bank on payment of the sum due which amount shall be pro - rata to the actual printing completed.

Clause 10 -- Duration

10.1 This Agreement shall take effect on the day of execution hereof and continue until **31st March 2009** unless otherwise terminated under the provisions of this Agreement. The parties expressly agree that the expiry of this Agreement will not in any way prejudice or hinder the rights and obligations of either party accruing from the Agreement. The parties further agree that notwithstanding the duration of this Agreement, the provisions of this Agreement shall continue to apply to all orders made during the tenure of this Agreement whose delivery period falls after the expiry of this Agreement and the provisions of this Agreement shall be deemed to be applicable to such orders until the orders are delivered by the Company and duly paid for by the Bank.

10.2 Prior to expiry thereof, the parties may extend this Agreement for such a period and on such terms and conditions as may be mutually agreed.

Clause 11 - Confidentiality

The parties agree to keep complete secrecy concerning all confidential operations, processes or dealings relating to the production of the Banknotes and all confidential information entrusted by one party to the other. This clause shall continue to bind the parties even after expiry of the Agreement.

Clause 12 - General

12.1 Any notice required to be given pursuant to the Agreement by one party to the other shall be in the English language and in writing, state the date of and the parties to the Agreement, and state that the notice is served pursuant to this clause.

Notices shall be delivered personally, or by prepaid first class airmail, or transmitted by email or facsimile (and in the case of transmission by email or facsimile followed within 3 days by a copy thereof being delivered by prepaid first class airmail) to the addresses or number specified below (or such other address or number, as the parties shall from time to time notify in accordance with this clause)

Notices shall be deemed to be given a) upon receipt in the case of personal delivery or b) within four (4) business days of posting in the case of delivery by prepaid mail or at 10.00 am on the next business day following receipt on the sending party's machine that the transmission has been successfully received in the case of transmission by email or facsimile, whichever occurs first

Notices to the Company	
Address for postal or personal delivery	De La Rue Currency and Security Print Limited Attention: **Mr K.H.W. Keith** LR No 20917 8th Floor, Lonrho House Standard Street P.O. Box 40034, 00100 **NAIROBI**
e-mail address	noticesto.currency@uk.delarue.com

Notices to the Bank	
Address for postal or personal delivery	The Governor Central Bank of Kenya Haile Selassie Avenue P. O. Box 60000, 00200 Nairobi
Facsimile number	020 - 340192
e-mail address	info@centralbank.go.ke

12.2 This Agreement including any Schedules attached hereto embodies the entire agreement between the parties in relation to the banknotes ordered under this Agreement. In the event of any conflict arising between the terms of the main part of this Agreement and any Schedules hereto the terms of the main part of this Agreement shall prevail. No amendment or variations of this Agreement or any provisions hereof shall be effective unless the same shall be in writing signed by both parties.

12.3 A person who is not a party to this Agreement shall have no right to enforce any of the terms of this Agreement or otherwise and no party to this Agreement can declare itself a trustee of the rights under it for the benefit of any third party.

12. 4 This Agreement and the rights benefits or obligations hereunder shall not be assigned or sub – contracted to any third party without the prior written consent of the other party. Such consent if given shall not relieve the applying party from any obligation or liability under this Agreement.

12.5 This Agreement is governed by and shall be construed in all respects in accordance with the Laws of Kenya.

12.6 In the event of any dispute between the parties hereto out of or in connection with this Agreement, the parties shall use their best efforts to settle such dispute amicably by negotiation. If after thirty (30) days from the commencement of such negotiations the parties are unable to resolve the dispute amicably, the parties shall agree on the appointment of an arbitrator. Failing agreement to concur on the appointment of an arbitrator, the arbitrator shall be appointed by the Chairman of the Institute of Arbitrators, Kenya branch, on the application of either party. The Arbitration proceedings shall be conducted in accordance with the Arbitration Act, 1995 and any other modifications or amendments thereto. To the extent permissible by law, the determination of the Arbitrator shall be final and binding upon the parties.

12. 7 If any clause of this Agreement, or any part of a clause, is found by any court or tribunal, of competent jurisdiction to be illegal, invalid or unenforceable, and the

clause (or the part) in question is not of a fundamental nature to the Agreement as a whole, the legality, validity and enforceability of the remainder of the clauses of the Agreement (including the remainder of the clause which contains the relevant provision) are severable and shall not be affected If the foregoing applies, the parties shall use all reasonable endeavours to agree upon any lawful and reasonable variations to the Agreement which may be necessary in order to achieve, to the greatest extent possible, the same effect as would have been achieved by the clause or part of the clause in question

12.8 This Agreement has been made in the English language

IN WITNESS WHEREOF the parties have executed this Agreement in Nairobi within the Republic of Kenya on the date and year mentioned hereinbefore

Signed for and on behalf of the CENTRAL BANK OF KENYA by:

Mr. Daniel M. Chege
Director, Currency Operations and Branch Administration

Mr. Jones M. Nzomo
Director, Human Resources and Services

Witnessed by:

Mr. John M. Gikonyo
Director, Governors' Office

Signed for and on behalf of
DE LA RUE CURRENCY AND SECURITY PRINT LIMITED by:

Mr. Ian Richter
General Manager
De La Rue Currency and Security Print Limited

Witnessed by:

Mr. Jonathan Murray Lucas
Area Sales Director
De La Rue International Limited

SCHEDULE 1

Banknote Specifications

DENOMINATION	SPECIFICATION	
50, 100, 200 shillings		
Paper:	GSM	92
	MDF	5500
	Watermark	Lion's head with highlight in eyes
	Electrotype	Value numeral
	Cornerstone™	Reinforced watermark bars on each corner
	Thread	2.0mm Windowed Cleartext®
Print:	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours
500, 1000 shillings		
Paper:	GSM	92
	MDF	5500
	Watermark	Lion's head with highlight in eyes
	Electrotype	Value numeral
	Cornerstone™	Reinforced watermark bars on each corner
		3mm Star Chrome® windowed clear text ®
Print:	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours

BANKNOTE SIZES	
50/=	138mm x 72mm
100/=	141mm x 74mm
200/=	144mm x 76mm
500/=	147mm x 78mm
1000/=	150mm x 80mm

SCHEDULE 2

Prices (ex-works Nairobi)

Denomination	Volume (millions)	Unit Price (£ per 1000 banknotes)	Total £
50/=	120.0	25.17	3,020.400
100/=	140.0	27.03	3,784.200
200/=	80.0	29.83	2,386.400
500/=	20.0	34.99	699.800
1000/=	30.0	34.69	1.040.700
Total price before global discount			**10,931,500**
Less 3.75% discount			409.931
Total			10,521,569
Less interest credited			*344.077
TOTAL			**10,177,492**

All Prices quoted are in Pounds Sterling Ex-Works, Nairobi.

* *Interest accrued on USD17,673,518.50 for the period 1 October 2006 to 31 October 2007 (13 months). This amount being the balance of the down payment made to De La Rue International Limited by the Bank pursuant to the terms of the Agreement dated 4th May 2006 for the design, manufacture and supply of New Generation Kenyan Currency Banknotes and the subsequent Agreement dated 10th January 2007 for the Interim Order. Which interest the Company and the Bank, with the concurrency of De La Rue International Limited, have agreed shall be applied towards part payment of the cost of the new order, the subject of this Agreement.*

SCHEDULE 3

BANK GUARANTEE FOR ADVANCE PAYMENT

To: Central Bank of Kenya
P O Box 60000 – 00200
NAIROBI

Re: DE LA RUE CURRENCY AND SECURITY PRINT LIMITED

Dear Sir,

In accordance with the payment provision included in Clause 3 of the Agreement dated.....between yourself and De La Rue Currency and Security Print Limited whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya (hereinafter referred to as "the Company") which requires that the Company shall procure and deposit with the Central Bank of Kenya a Bank Guarantee to guarantee its proper and faithful performance under the said Contract in an amount of **Sterling Pounds Eight million eight hundred and forty thousand nine hundred and sixty one (£8,840,961.00).**

We, the ----------
(bank), as instructed by the Company, hereby unconditionally and irrevocably give you our guarantee as primary obligator and not as surety merely and undertake to pay to you on your first demand without whatsoever right of objection on our part and without your first claim to the Company, any amount not exceeding **Sterling Pounds Eight million eight hundred and forty thousand nine hundred and sixty one (£8,840,961.00).**

We further agree that no change or addition to or other modification of the terms of the Contract to be performed thereunder or of any of the Contract documents which may be made between the Central Bank of Kenya and the Company, shall in any way whatsoever release us from any liability under this guarantee, and we hereby waive notice of any such change, addition, or modification.

This guarantee shall remain valid and in full effect from the date of the advance payment received by the Company under the Contract until **30th June, 2009.**

Yours truly,

Signature and seal of the Guarantors

_____
(name of bank)

_____
(address)

_____
(date)

SCHEDULE 4

Bank Account Details

Barclays Bank of Kenya
Barclays Plaza Business Centre
A/C 5052570
Bank Code 030771:11

BANKNOTES PRODUCTION AND SUPPLY

AGREEMENT

BETWEEN

THE CENTRAL BANK OF KENYA

AND

DE LA RUE CURRENCY AND SECURITY PRINT LIMITED

INDEX TO AGREEMENT

Clause 1	-	Quantities and Prices
Clause 2	-	Delivery and Title
Clause 3	-	Payment
Clause 4	-	Copyright and Control of Working Tools
Clause 5	-	Inspection
Clause 6	-	Liability
Clause 7	-	Force Majeure
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Clause 11	-	Confidentiality
Clause 12	-	General
Schedule 1	-	Technical Specifications
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Schedule 3	-	Advance Payment Guarantee Form

AGREEMENT FOR THE PRODUCTION AND SUPPLY OF BANKNOTES

AN AGREEMENT made the 17th day of June 2009 **BETWEEN** The Central Bank of Kenya, a body Corporate established under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya, of P. O. Box Number 60000, 00200, Nairobi, Kenya (hereinafter referred to as "the Bank"), which expression shall include, where the context so requires, its assigns and successors in title, of the one part, **AND** De La Rue Currency and Security Print Limited whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya (hereinafter referred to as "the Company") which expression shall include, where the context so requires, its assigns and successors in title, of the other part.

WHEREAS the Bank is desirous of entering into an Agreement with the Company for the printing and supply of banknotes to the Bank in accordance with stipulated specifications, denominations and other agreed terms and conditions.

AND WHEREAS the Company, an associated company of De La Rue International Limited, is the current supplier of banknotes to the Bank and has undertaken to print and supply to the Bank the required banknotes in accordance with the terms and conditions of this Agreement

NOW THE PARTIES HERETO AGREE AS FOLLOWS:

Clause 1 - Quantities and Prices

1.1 The Bank agrees to purchase and the Company hereby undertakes to print and deliver to the Bank banknotes in the denominations, quantities and by the dates set out in Table 1 here below and in accordance with the banknote specifications for the current series of Kenyan Currency banknotes supplied by the Company to the Bank as more particularly set out in Schedule 1 hereto attached and at the prices set out in Schedule 2 attached hereto.

Table 1

Fixed Quantities and Delivery Period

Year: 2009

(Million pieces)

Denom	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	March 10	April 10	May 10	June 10	Total
50/=		50	19		12	28				109
100/=			30	30	17		20	40	5	142
200/=		20		14		40				74
500/=		13			10			20		43
1000/=					40			20	22	82
Total	0	83	49	44	79	68	20	80	27	450

GRAND TOTAL 450.00

1.2 The volumes referred to in Clause 1.1 above represent the minimum quantities to be supplied by the Company to the Bank under this Agreement. **IT IS FURTHER AGREED BY AND BETWEEN THE PARTIES HERETO THAT** the Bank may from time to time place orders for additional banknotes, over and above the Minimum Order and the Fixed Quantities detailed in Table 1 and the Company shall print and deliver the banknotes to the Bank on the terms and conditions of this Agreement and in accordance with delivery schedules to be agreed upon by the parties.

1.3 The Company hereby undertakes to deliver to the Bank the volumes for each denomination by the 15th day of each month indicated in Table 1. The Company hereby further undertakes that the prices of the banknotes specified in Schedule 2 shall remain fixed for the duration of the Agreement.

1.4 The Bank agrees to place all orders for the printing of the banknotes specified in Schedule 1 exclusively with the Company for the duration of this Agreement and agrees further that the delivery of the Order of 450.00 Million banknotes ordered under this Agreement ("Minimum Order") shall be as provided in Table 1 above.

1.5 The Bank shall take delivery of all printed banknotes as soon as they are ready for delivery in accordance with the agreed delivery schedule. If the Bank delays to take delivery of such consignment for a period exceeding fifteen (15) days from the date of notification of the availability of the printed banknotes for collection, the Company may levy a reasonable storage charge on the said consignment until

collection. Should any finished banknotes be placed into storage, the Company reserves the right to issue an into-stock invoice.

Delivery shall be deemed to take place ex-works at De La Rue Ruaraka Banknote Printing Factory, Nairobi (Incoterms 2000).

1.6 The Company hereby undertakes that, subject to the provisions of Clause 1.9 below, the banknotes specified in Schedule 1 shall normally be produced at the Company's plant in Kenya (hereinafter referred to as "the Plant") and that the Company is a member of the De La Rue Group of Companies.

1.7 The Company reserves the right to utilize any capacity within the Plant not required to fulfil the requirements of the Bank for the production of banknotes for other Central Banks and issuing authorities and other security printed documents for appropriate institutions.

1.8 The prices indicated in Schedule 2 hereto relate to the specifications and designs referred to in Schedule 1 hereto. Should the Bank opt to change the size and/or design and/or specifications of the banknotes, which change results in a change in the cost to the Company, the parties shall have the right to negotiate new prices based on the new sizes and/or designs and/or specifications, to reflect the change in cost. Pending any renegotiated terms agreed in writing between the parties, the provisions of this Agreement shall continue to apply.

1.9 The Company shall make all arrangements for the procurement of the necessary raw materials from suppliers, including, where appropriate local suppliers in order to ensure that the Company fulfils its obligations under this Agreement. If for any reason the Company is not able to meet the Bank's orders or the Company's delivery commitments to the Bank from the Plant, the Bank consents to the Company meeting any delivery through production at any of the other facilities owned or operated by the De La Rue Group of Companies. In such event, the price charged for the banknotes produced in such other facility or plant shall remain the same as the price for the banknotes produced at the Nairobi Plant and shall not be altered to the detriment of the Bank.

Clause 2 - Delivery and Title

2.1 The Company shall deliver to the Bank the minimum quantities of banknotes as specified in Table 1 in accordance with the volumes shown in Table 1 and by the 15th day of each of the months for the year shown in Table 1. The parties hereby expressly agree that any orders additional to the Minimum Order shall be accompanied by delivery schedules to be agreed upon between the parties. In this regard, both parties agree to act with utmost good faith in agreeing on the delivery schedules and which shall be within the Company's normal delivery time scales.

2.2 If the Company fails to deliver banknotes within the time or times specified in Table 1 or in the delivery schedules agreed upon pursuant to Clause 2.1, in addition to any other remedies of the Bank against the Company under this Agreement, the Company shall be liable to a deduction from the contract price, as liquidated damages, a sum to be calculated at the rate of one half of one percent per week on the value of such portion of the delayed consignment for each week or part of a week between the date or dates of delivery specified in the delivery schedule. The maximum amount of liquidated damages is ten percent of the value of any delivery or part delivery and shall be paid in full and final settlement of the claim or claims to which they relate.

Provided that no liquidated damages shall be payable if the delay has arisen from causes which were unavoidable and could not have been foreseen or overcome by the Company; or the delay has been caused by actions attributable to the Bank.

Clause 3 – Payment

3.1 The Bank undertakes to pay the Company, upon execution of this Agreement and subject to full compliance by the Company with the provisions of Clause 3.2 below, a down payment amounting to 50% of the total value of the minimum banknote order as per Table 1 above using the account whose details are set down here below.

De La Rue International
T/A Currency Banknotes
The Royal Bank of Scotland
PO Box 450
5-10 Great Tower Street
LONDON EC3P 3HX

Sort Code 16-04-00
A/C No. 20075246
Swift Code RBOS GB 2L
IBAN GB47RBOS16040020075246

Payment of the balance of the price shall be paid strictly against deliveries as set out in Table 1 above within 30 days of receipt of the respective invoices by the Customer which invoices shall be submitted to the Customer at the time of delivery of each consignment. All payments shall be in Sterling Pounds.

3.2 The Company shall upon the execution of this Agreement provide the Customer with an Invoice for the down payment and a Banker's Guarantee in respect of the down payment from a bank acceptable to the Customer, in the form set out in Schedule 3 to this Agreement, which guarantee shall reduce progressively by the pro rated value of the deliveries made and which shall be returned to the Company on completion of the Agreement.

3.3 The Company shall be entitled to invoice and bill for any banknotes which are manufactured and due for delivery to the Bank according to the delivery schedule in Table 1 of this Agreement, but remain uncollected by the Bank and are held in secure storage by the Company.

Clause 4 - Copyright and Control of Working Tools

4.1 The parties agree that the designs, art works, films, engraved dies, plates and other origination materials for the banknotes are the sole property of the Bank and shall during the term of this Agreement be held in safe custody by the Company and shall only be used by the Company for purposes of carrying out orders placed by the Bank. All such designs, art works, films, engraved dies, plates and other origination materials shall either be:

i) returned to the Bank within fourteen (14) days if the Bank requests so in writing at any time; or

ii) destroyed by the Company if so requested in writing by the Bank, at any time after completion of this Agreement.

PROVIDED THAT if a request is made by the Bank under this Clause during the execution of orders placed under this Agreement, the Company shall be given reasonable time to complete any outstanding order.

4.2 The Bank undertakes not to make the said materials available for use by third parties without the Company's prior written consent as they contain intellectual property rights of the Company.

4.3 The Company undertakes that the banknotes to be supplied to the Bank under this Agreement will not infringe any patent, trademark, registered design copyright or other right in the nature of intellectual property of any third party and the Company hereby duly indemnifies the Bank against all actions, suits, claims, demands, loses, charges, costs and expenses which the Bank may suffer or incur as a result of or in conjunction with any breach of this condition subject to the Bank:-

4.3.1 Making no admission or other statement admitting liability;

4.3.2 Allowing the Company to fully conduct the defence and settlement of any such claim at the cost and expense of the Company;

4.3.2 Providing reasonable assistance requested by the Company at the cost of the Company in the defence of any such claim.

Clause 5 – Inspection

5.1 The Bank or its representative shall have the right to inspect and/or test the banknotes to confirm their conformity to the specifications in Schedule 1 of this Agreement.

5.2 The inspections and/or tests may be conducted at the premises of the Company and/or at the premises of the Bank on receipt of the banknotes. If conducted at the Company's premises all reasonable facilities and assistance shall be furnished to the inspectors at no additional charge to the Bank.

5.3 Should any inspected or tested banknotes, subject of the Agreement fail to conform to the specifications, the Bank shall reject the banknotes and the Company shall either replace the rejected banknotes or reimburse the Bank with the invoice value of the affected notes, based on the prices shown in Schedule 2 hereto.

5.4. The Bank's right to inspect, test and where necessary reject the banknotes after their delivery shall in no way be limited or waived by reason of the banknotes having previously been inspected, tested and passed by the Bank or its representative prior to delivery.

5.5 The Bank shall be entitled to send authorised officials to inspect the paper stocks and security procedures of the Plant at any time provided that a reasonable notice is given to the Company to ensure that the authorised officials can be vetted or cleared by security personnel at the Plant.

Clause 6 - Liability

6.1 In the event that banknotes, engraved dies, plates, films and other origination materials are lost, stolen, damaged or destroyed whilst at the risk of the Company, the Company shall reprint and supply the banknotes, the design and specifications of which shall be agreed with the Bank or replace the engraved dies, plates, films and other origination materials at its own cost and within a time frame agreed upon with the Bank.

6.2 In the event that the banknotes delivered by the Company do not meet the agreed specifications, the Company shall print and deliver, at its cost, the replacement banknotes thereof within a time frame agreed upon with the Bank. The rejected banknotes shall be destroyed, at the earliest opportunity, either by incineration or shredding, under the joint supervision of the Company and the Bank and the destruction shall be at the cost of the Company.

6.3. In the event that forged banknotes enter circulation as a result of unlawful use of origination materials by unauthorised parties whilst the said origination materials are in the custody of the Company, the Company shall reprint, at its cost and within the agreed time, the agreed quantity of banknotes of the denomination affected by the unlawful use of the origination materials, the design and specifications of which shall be determined between the Company and the Bank.

6.4. The Company shall take all appropriate measures and precautions to prevent paper, plates and any other materials in its possession for the manufacture of the banknotes from being used in any unauthorised manner. In the event that the Company looses any banknotes or origination materials whilst in the custody of the Company, the Company shall without delay immediately report such loss to the Bank in writing.

6.5 With a view to ensuring that the paper and materials used for the manufacture of banknotes is not used in an unauthorised manner, the paper purchased, the paper used, the banknotes printed, the unserviceable paper and the unused paper shall be regularly reconciled

by the Company and the reconciliation shall be approved by the Bank and/or its authorised agent before any storage or destruction of such material is effected. The destruction of any misprints and or unserviceable paper shall be notified to the Bank and the Bank shall have the option to attend and witness, and a reconciliation certificate shall be issued by the parties specifying and detailing the quantities reconciled and destroyed.

6.6 The obligations undertaken by the Company under this Clause 6 shall be the full measure of its liability for any loss sustained by the Bank arising out of the aforesaid loss, misuse, or theft of banknotes howsoever caused. Provided however that nothing in this Agreement shall be construed to exclude or limit the liability of the Company from any personal injury claim or loss incurred or suffered by the Bank, whether in contract, negligence or other tort.

The parties agree that the Company will not be liable for any indirect, consequential or face value losses under this Agreement.

Clause 7 - Force Majeure

7.1 Neither party shall be liable for any failure in complying with the terms of this Agreement within the time or times stated to the extent to which such failure is occasioned by war (whether war be declared or not), riot, terrorism, civil commotion, strike, industrial dispute, acts of state, damage caused by fire or other accident or any other cause beyond the control of the parties. In the event of such circumstances arising, the affected party shall forthwith notify the other party and the other party shall allow performance of the delayed obligation to be adjusted for a sufficient period to compensate for the Force Majeure event.

7.2 The parties hereby agree further that the party in default may be required to produce documentary evidence of the circumstances preventing performance and the affected party shall provide such documentary evidence as may be reasonably requested by the other party.

Clause 8 Termination of Agreement

8.1 The Bank may without prejudice to any other remedy for breach of contract, by written notice of default sent to the Company, terminate the Agreement in whole or in part.

a) If the Company fails to deliver any or all of the banknotes within the period(s) specified in the Agreement, or within any extension thereof granted by the Bank;

b) If the Company fails to perform any other obligation(s) under the Agreement, provided that the Bank shall give the Company at least Fourteen (14) days within which to perform the obligation(s) before terminating the Agreement under this sub - section;

c) If the Company, in the judgement of the Bank has engaged in corrupt or fraudulent practices in executing this Agreement;

d) If the Company is declared bankrupt or enters into arrangements with creditors.

8.2 In the event that the Bank terminates the Agreement in whole or in part, or the Agreement expires by effluxion of time, the Bank may procure, from any other supplier, and upon such terms and in such manner, as it deems appropriate, banknotes similar to those undelivered, and the Company shall be liable to the Bank for any excess costs incurred in respect of such undelivered quantity of banknotes. Further, and to facilitate production, the Company shall on written demand by the Bank, release to the Bank the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company, in accordance with the provisions of Clause 4.1 but subject to Clause 4.2 hereof.

Clause 9 – Effect of Transfer of Assets, Insolvency or Dissolution

In the event that the Company is acquired by persons who are not acceptable to the Bank or the Company becomes insolvent or enters into any arrangement with its creditors or proceedings are commenced by any person for the winding-up or dissolution of the Company (excluding any such proceedings which are frivolous or vexatious in nature) and not defended by the Company then the Bank shall be entitled:

a) To terminate this Agreement whereupon the Bank shall be at liberty to procure the supply of banknotes from any other organisation or entity of its choice in which event the Company shall, on written demand by the Bank, release to the Bank the designs, engraved dies, art works, plates, films, all origination materials and copyrights developed by the Company in accordance with the provisions of Clause 4.1 hereof. In such event it is hereby agreed by and between the parties that the Bank shall subject to Clause 4.2 be at liberty and at its absolute discretion to handover the designs, engraved dies, art works, plates, films, all origination materials and copyrights

developed by the Company to any other organisation or entity for use in the production of banknotes for the Bank.

b) To require that all origination materials held by the Company be released to the Bank or any other person duly authorised to receive the said material on behalf of the Bank;

c) To require that all stocks of banknotes the subject of this Agreement be released to the Bank on payment of the sum due which amount shall be pro - rata to the actual printing completed.

Clause 10 – Duration

10.1 This Agreement shall take effect on the day of execution hereof and continue until **30th July, 2010** unless otherwise terminated under the provisions of this Agreement. The parties expressly agree that the expiry of this Agreement will not in any way prejudice or hinder the rights and obligations of either party accruing from the Agreement. The parties further agree that notwithstanding the duration of this Agreement, the provisions of this Agreement shall continue to apply to all orders made during the tenure of this Agreement whose delivery period falls after the expiry of this Agreement and the provisions of this Agreement shall be deemed to be applicable to such orders until the orders are delivered by the Company and duly paid for by the Bank.

10.2 Prior to expiry thereof, the parties may extend this Agreement for such a period and on such terms and conditions as may be mutually agreed.

Clause 11 - Confidentiality

11 The parties agree to keep complete secrecy concerning all confidential operations, processes or dealings relating to the production of the Banknotes and all confidential information entrusted by one party to the other. This clause shall continue to bind the parties even after expiry of the Agreement.

Clause 12 - General

12.1 Any notice required to be given pursuant to the Agreement by one party to the other shall be in the English language and in writing, state the date of and the parties to the Agreement, and state that the notice is served pursuant to this clause.

Notices shall be delivered personally, or by prepaid first class airmail, or transmitted by email or facsimile (and in the case of transmission by email or facsimile followed within 3 days by a copy thereof being

delivered by prepaid first class airmail) to the addresses or number specified below (or such other address or number, as the parties shall from time to time notify in accordance with this clause).

Notices shall be deemed to be given a) upon receipt in the case of personal delivery or b) within four (4) business days of posting in the case of delivery by prepaid mail or at 10.00 am on the next business day following receipt on the sending party's machine that the transmission has been successfully received in the case of transmission by email or facsimile, whichever occurs first.

Notices to the Company	
Address for postal or personal delivery	De La Rue Currency and Security Print Limited Attention: **Mr K.H.W. Keith** LR No 20917 8th Floor, Lonrho House Standard Street P.O. Box 40034, 00100 NAIROBI
e-mail address	noticesto.currency@uk.delarue.com

Notices to the Bank	
Address for postal or personal delivery	The Governor Central Bank of Kenya Haile Selassie Avenue P. O. Box 60000- 00200 Nairobi
Facsimile number	020 - 340192
e-mail address	info@centralbank.go.ke

12.2 This Agreement including any Schedules attached hereto embodies the entire agreement between the parties in relation to the banknotes ordered under this Agreement. In the event of any conflict arising between the terms of the main part of this Agreement and any Schedules hereto the terms of the main part of this Agreement shall prevail. No amendment or variations of this Agreement or any provisions hereof shall be effective unless the same shall be in writing signed by both parties.

12.3 A person who is not a party to this Agreement shall have no right to enforce any of the terms of this Agreement or otherwise and no party to this Agreement can declare itself a trustee of the rights under it for the benefit of any third party.

12. 4 This Agreement and the rights benefits or obligations hereunder shall not be assigned or sub – contracted to any third party without the prior written consent of the other party. Such consent if given shall not relieve the applying party from any obligation or liability under this Agreement.

12.5 This Agreement is governed by and shall be construed in all respects in accordance with the Laws of Kenya.

12.6 In the event of any dispute between the parties hereto out of or in connection with this Agreement, the parties shall use their best efforts to settle such dispute amicably by negotiation. If after thirty (30) days from the commencement of such negotiations the parties are unable to resolve the dispute amicably, the parties shall agree on the appointment of an arbitrator. Failing agreement to concur on the

appointment of an arbitrator, the arbitrator shall be appointed by the Chairman of the Institute of Arbitrators, Kenya branch, on the application of either party. The Arbitration proceedings shall be conducted in accordance with the Arbitration Act, 1995 and any other modifications or amendments thereto. To the extent permissible by law, the determination of the Arbitrator shall be final and binding upon the parties.

12. 7 If any clause of this Agreement, or any part of a clause, is found by any court or tribunal, of competent jurisdiction to be illegal, invalid or unenforceable, and the clause (or the part) in question is not of a fundamental nature to the Agreement as a whole, the legality, validity and enforceability of the remainder of the clauses of the Agreement (including the remainder of the clause which contains the relevant provision) are severable and shall not be affected. If the foregoing applies, the parties shall use all reasonable endeavours to agree upon any lawful and reasonable variations to the Agreement which may be necessary in order to achieve, to the greatest extent possible, the same effect as would have been achieved by the clause or part of the clause in question.

12.8 This Agreement has been made in the English language.

IN WITNESS WHEREOF the parties have executed this Agreement in Nairobi within the Republic of Kenya on the date and year mentioned hereinbefore.

Signed for and on behalf of the CENTRAL BANK OF KENYA by:

Mr. James Teko Lopoyetum
Director, Currency Operations and Branch Administration

Mr. Nicholas B.T.A. Korir
Director, Estates, Supplies and Transport

Witnessed by:

Mr. Kennedy Kaunda Abuga
Director, Governors' Office

Signed for and on behalf of
DE LA RUE CURRENCY AND SECURITY PRINT LIMITED by:

Mr. Ian Richter
General Manager
De La Rue Currency and Security Print Limited

Witnessed by:

Mr. James Comyn
Regional Manager
De La Rue Currency

SCHEDULE 1

Banknote Specifications

DENOMINATION	SPECIFICATION	
50, 100, 200 shillings		
Paper:	GSM	92
	MDF	5500
	Watermark	Lion's head with highlight in eyes
	Electrotype	Value numeral
	Cornerstone™	Reinforced watermark bars on each corner
	Thread	2.0mm Windowed Cleartext®
Print:	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours
500, 1000 shillings		
Paper:	GSM	92
	MDF	5500
	Watermark	Lion's head with highlight in eyes
	Electrotype	Value numeral
	Cornerstone™	Reinforced watermark bars on each corner
	Thread	3mm Star Chrome® windowed clear text ®
Print:	Front	3 Lithographic printings 1 Intaglio printing in 3 colours 1 Letterpress printing
	Back	3 Lithographic printings 1 Intaglio printing in 3 colours

50/=	138mm x 72mm
100/=	141mm x 74mm
200/=	144mm x 76mm
500/=	147mm x 78mm
1000/=	150mm x 80mm

50/=	138mm x 72mm
100/=	141mm x 74mm
200/=	144mm x 76mm
500/=	147mm x 78mm
1000/=	150mm x 80mm

SCHEDULE 2

Prices (ex-works Nairobi)

No.	Denomination	Pieces (Million)	Unit Price (£ per 1,000)	Cost (STG£)
1.	50/-	109	25.17	2,743,530
2.	100/-	142	27.03	3,838,260
3.	200/-	74	29.83	2,207,420
4.	500/-	43	34.99	1,504,570
5.	1,000/-	82	34.69	2,844,580
	Total	450		13,138,360

All Prices quoted are in Pounds Sterling Ex-Works, Nairobi.

SCHEDULE 3

BANK GUARANTEE FOR ADVANCE PAYMENT

To: Central Bank of Kenya
P O Box 60000 – 00200
NAIROBI

Re: **DE LA RUE CURRENCY AND SECURITY PRINT LIMITED**

Dear Sir,

In accordance with the payment provision included in Clause 3 of the Agreement dated.....between yourself and De La Rue Currency and Security Print Limited whose registered office is at 8th Floor, Lonrho House, Standard Street, Nairobi, Kenya (hereinafter referred to as "the Company") which requires that the Company shall procure and deposit with the Central Bank of Kenya a Bank Guarantee to guarantee its proper and faithful performance under the said Contract in an amount of **Sterling Pounds Six Million Five Hundred and Sixty Nine Thousand One Hundred and Eighty Only (£6,569,180.00).**

We, the ----------
(bank), as instructed by the Company, hereby unconditionally and irrevocably give you our guarantee as primary obligator and not as surety merely and undertake to pay to you on your first demand without whatsoever right of objection on our part and without your first claim to the Company, any amount not exceeding **Sterling Pounds Six Million Five Hundred and Sixty Nine Thousand One Hundred and Eighty Only (£6,569,180.00).**

We further agree that no change or addition to or other modification of the terms of the Contract to be performed thereunder or of any of the Contract documents which may be made between the Central Bank of Kenya and the Company, shall in any way whatsoever release us from any liability under this guarantee, and we hereby waive notice of any such change, addition, or modification.

This guarantee shall remain valid and in full effect from the date of the advance payment received by the Company under the Contract until **30th July, 2010.**

Yours truly,

Signature and seal of the Guarantors

(name of bank)g6

(address)

(date

APPENDIX 1: PRINTING COSTS OF KENYA CURRENCY BANKNOTES

A COMPARATIVE PRICE ANALYSIS

Unit prices per 1000 pieces in UK Sterling Pounds

Main Contracts (unit Prices in UK £)*				Stop Gap Contracts 2003 - 2011
Denomination	**1991-2002 Unit Prices**	**The 2002 Tender price (Cancelled)**	**The 2006 International Tender (Cancelled)**	
10	-	-	-	-
20	-	-	-	-
50	43.83	25.17	**20.84**	25.17
100	37.36	27.03	**21.03**	27.03
200	41.67	29.83	**14.15**	29.83
500	51.46	34.99	**12.47**	34.99
1000	48.79	34.69	**12.45**	34.69

*The unit prices per 1000 was based on the volume ordered.

- The price range before 2002 is much higher than the prices for 2002
- The stop gap contracts have utilized the 2002 prices without adjustments

29/03/12

- The 2006 tender price was on average lower than the 2002 prices. The 2006 price quotes are location specific; they were prices for printing currency by De La rue International at their factory in Malta. This had implications for the De La Rue factory in Nairobi.

APPENDIX 2: PRINTING COSTS OF KENYA CURRENCY BANKNOTES

TOTAL COST: 2003 – 2011

Amounts

Order size	**820 mn**	**300 mn**	**164.05 mn**	**390 mn**	**450 mn**	**483 mn**
Date	**Jun. '03 - Nov.'04**	**14th July 2004**	**10th Jan. 2007**	**14th Dec. 2007**	**17th Jun. 2009**	**16th Jul. 2010**
UK Sterling Pounds	24,456,560	8,703,280	4,404,749	10,521,569	13,138,360	14,358,650
Kshs equivalent*	3,179,352,800	1,131,426,400	572,617,435	1,367,803,970	1,707,986,800	1,866,624,500
Average Unit Price UK Sterling Pound	29.95	29.01	26.85	26.98	29.19	29.73

*UK sterling pound = Ksh 130/=

The average prices of currency orders:

- The 10 year contract that should have covered 2003 to 2012 had initial orders of 1120 million pieces of notes at a cost of UK £ 33,159,840 that gives an average price of **UK £ 29.61 per 1000 pieces of notes**.

- All the stop gap orders added together from 2003 to 2011 as shown in the table have an average price of UK **£ 28.62 per 1000 pieces**. The prices for the stop gap orders remained constant throughout the period.

- The international order for the New Currency generation Notes of 2006 was for 1,710 million pieces at a cost of **UK £ 31,505,132** giving an average price of **UK £ 18.42 per 1000 pieces**. This was to be produced in Malta and delivered in one consignment to the Central Bank of Kenya. There were important economic implications and considerations to be made for the country.

29/03/12

CENTRAL BANK OF KENYA

BRIEF ON CURRENCY (BANKNOTES) PRINTING IN KENYA

1966 – 2011

TO PARLIAMENTARY ACCOUNTS COMMITTEE

28TH MARCH, 2012

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A. PRODUCTION OF BANKNOTES BEFORE 1966

1. Until 1966, printing of currency for the country was handled by The East Africa Currency Board.

B. PRODUCTION OF BANKNOTES BETWEEN 1966 – 1991

2. Between 1966 and 1986 Kenyan banknotes were printed on order by Bradbury & Wilkinson U.K. This company was subsequently acquired by Thomas De La Rue & Company Limited, U.K, who took over and continued the printing role of Kenyan banknotes.

C. PRODUCTION OF BANKNOTES BETWEEN 1992 – 2002

3. In October 1992, Thomas De La Rue & Company Limited having changed its name to De La Rue International and also having established a factory in Kenya, signed a ten (10) year Contract with the Central Bank of Kenya. The ten (10) year Contract was to expire on 31st December, 2002.

D. CURRENCY PRINTING CONTRACT 2003 – 2012

4. On 5th December, 2002 the Central Bank entered into a new Contract for Currency printing with De La Rue International for ten (10) years to expire on 31st December, 2012.

5. The December 2002 Contract was terminated in 2003 by the Minister for Finance who by a letter to the Bank dated 14th March, 2003 cited the following reasons for the cancellation:-

   a. The Contract was single-sourced instead of being open for competitive bidding.

   b. The Contract period was extended for ten years instead of a lesser period.

   c. The Contract became effective on 1st January, 2003 when NARC Government was in power and should therefore have been consulted.

E. INTERNATIONAL TENDER FOR NEW GENERATION CURRENCY

6. Following the cancellation of the ten (10) year Contract with De La Rue on 14th March, 2003, the Bank initiated an International Open Tendering process in which De La Rue International participated. To ensure sustained supply of banknotes when the tender process was in progress, the Bank entered into a 21 months' Contract with De La Rue Currency to produce existing (current) generation design banknotes with effect from 1st April, 2003. Total deliveries amounted to 820 Million pieces of different denominations as shown below:-

Order Date	Denomination	Delivered Amount (Mill. of pieces)	Total Deliveries (Mill. of pieces)
18th June 2003	50/=	20	**40**
	200/=	20	
October 2003" **New Issues"**	50/=	48	**186**
	100/=	85	
	200/=	16	
	500/=	10	
	1000/=	27	
4th June 2004	50/=	51	**244**
	100/=	68	
	200/=	28	
	500/=	29	
	1000/=	68	
4th November 2004	50/=	52	**350**
	100/=	80	
	200/=	60	
	500/=	48	
	1000/=	110	
		TOTAL	**820**

7. Through a lengthy procurement process, the Bank issued a tender for New Generation currency on 6th January, 2005. This was done in order to avail equal opportunity to all tenderers to quote for design, manufacture, printing and supply of 1710 million pieces of banknotes. This also gave the Bank an opportunity to review the design

specifications of currency in tandem with international best standards and also taking into consideration enhanced security features.

8. Five firms were invited to participate in the tender. The five firms were:-

a. Giesecke & Devrient — Germany
b. De La Rue Currency— United Kingdom
c. Orell Fussli — Switzerland
d. Francois Charles Oberthur Fiduciaire — France
e. Joh Enschede Banknotes — Holland

The firm Joh Enschede however opted not to participate owing to new commitments.

The financial proposals for printing 1,710 Million pieces of new generation banknotes were opened first in the presence of the bidders' representatives and the results are summarized below:

No.	Tenderer	Tender Offer Price (US$)
1.	M/S Giesecke & Devrient GMBH	148,635,557.10
2.	M/S De La Rue Currency	139,535,341
3.	M/S Orell Fussli Security Printing Ltd	104,161,532
4.	M/S Francois-Charles Oberthur	98,527,836

However, the entire tender was cancelled on 6th June, 2005 due to various anomalies and a fresh start of the project was required.

F. INTERIM STOP GAP ORDER – 300 MILLION

9. The above cancellation and the expected lengthy retendering process necessitated an order for additional banknotes to forestall imminent stock out gaps. Consequently, the Bank placed an order for an additional **300 Million** pieces of existing (current) generation banknotes from De La Rue Currency and Security Print Limited while

the re-tendering process for New Generation Banknotes was on-going. Details of these 300 Million pieces are as shown on the table below.

Order Date	Denomination	Delivered Amount (Mill. of pieces)	Price per 1000 Pieces (ST£)	Total Price ST£
14th July, 2005	50/=	69	25.17	1,736,730
	100/=	110	27.03	2,973,300
	200/=	44	29.83	1,312,520
	500/=	32	34.99	1,119,680
	1000/=	45	34.69	1,561,050
		300		**8,703,280**

G. RE-TENDER OF INTERNATIONAL TENDER FOR NEW GENERATION CURRENCY

10. The following firms were invited for the re-tender.

No.	Name of Firm	Country
1	De La Rue International	United Kingdom
2	Giesecke & Devrient GMBH	Germany
3	Francois Charles Oberthur Fiduciaire	France
4	Orell Fussli Security Printing Limited	Switzerland
5	Joh Enschede	Holland
6	Canadian Banknote Company	Canada

The tenders were initially expected to be opened on 18th July, 2005 but rescheduled to 29th August, 2005 to allow prospective tenderers sufficient time to prepare their proposals. Orell Fussli had withdrawn from participating citing earlier intention of partnering with another firm which was not allowed.

11. Of the six firms invited, only three responded as follows.

No.	Name of Firm	Country
1	De La Rue International	United Kingdom
2	Giesecke & Devrient GMBH	Germany
3	Francois Charles Oberthur Fiduciaire	France

The bid from Francois Charles Oberthur Fiduciaire was not evaluated because they did not meet the mandatory tender requirements.

12. After evaluation, De La Rue International was eventually declared the winner of the re-tender on technical specifications as well as price and a Contract was thus executed between CBK and De La Rue International on 4th May, 2006 to print **1710 Million** pieces of new generation Kenya banknotes at a total cost of **US$ 51,195,840** as detailed in the table below. Thus the only other firm to get to the final stage of the tender was Giesecke & Devrient GMBH which quoted a price of US$.76,331,500. — What did De La Rue quote ?

Order Date	Denomination	Banknotes (Mill. of pieces)	Price per 1000 Pieces (US$)	Total Price (US$)
4th May 2006	50/=	486	38.59	18,754,740
	100/=	216	38.94	8,411,040
	200/=	245	26.21	6,421,450
	500/=	461	23.09	10,644,490
	1000/=	302	23.06	6,964,120
		1710		**51,195,840**

Among the conditions to be fulfilled by the Bank under the Contract was payment of down payment of 50% of the Contract price amounting to US$ 25,597,920.

13. According to the Contract, the commencement date for the tender was set for 22nd May, 2006 subject to the Bank submitting to De La Rue International approved designs of the banknotes by that date.

14. As provided in the Contract, the Central Bank of Kenya paid the 50% down payment on 18th May, 2006 but did not submit approved banknotes designs, together with approved signatories, as guidance was being awaited from the Ministry of Finance. Subsequently, approval for the designs was received from Treasury, but approval for signatories continued to be awaited from Treasury as there was no substantive holder of the office of the Governor at the time.

15. In a letter dated 25th August, 2006 the Minister for Finance advised the Bank that the launch date of the New Generation Banknotes should be deferred until after the general elections of 2007 and advised the Bank to:-

    i) *"Liaise with De La Rue International Limited for adjustment of delivery schedule for New Generation banknotes to January 2008 as the new launch date should be after the general elections in 2007"*

    ii) *"Initiate necessary procurement process for supply of additional current generation currency to ensure adequate stock is available up to January 2008".*

H. INTERIM STOP GAP ORDER – 164.05 MILLION

16. On 17th October, 2006, the Bank assessed its currency requirements and placed an order for **164.05 Million** pieces of current banknotes in 50,100 and 200 shillings denominations with De La Rue Currency and Security Print Limited to abridge another stock-out gap. This was to be paid from the 50% deposit held by De La Rue International for the production of New Generation Banknotes. Details of the 164.05 Million pieces supplied to the Bank are shown in the table below.

Order Date	Denomination	Delivered Amount (Mill. of pieces)	Price per 1000 Pieces	Total Price ST£
10.01.07	50/=	58.7	25.17	1,477,479
	100/=	76.9	27.03	2,078,607
	200/=	28.45	29.83	848,664
		164.05		**4,404,750**
			Discount 2%	88,095
			Total Cost	**4,316,655**

17. On 16th April, 2007, the approved designs of the New Generation banknotes were forwarded to De La Rue International for production. However, by a letter dated 24th September 2007, the Minister for Finance advised the Bank that:

    a) The Cabinet had approved a joint venture proposal between the Government of Kenya and De La Rue International;

    b) The Bank was expected to provide technical support on the joint venture negotiations taking into account the lessons learnt from the last competitive bid undertaken by the CBK including pricing.

18. On 1st November, 2007 the Minister for Finance notified the Bank that the 1710 Million pieces of New Generation banknotes printing contract stood cancelled and advised the Bank to liase with De La Rue International to print Current Generation Banknotes under the terms of the previous interim orders.

19. Arising from the Minister's directive as contained in the letters dated 24th September, 2007 and 1st November, 2007 aforesaid, the Bank had to deal with the following issues:-

    i. Inevitable gap in stock-out beginning April, 2008 to cover a period of two years in the absence of any procurement arrangements while the joint venture negotiations were proceeding.

ii. Cancellation of the Contract and consequences of doing so in both financial terms and commercial terms.

I. INTERIM STOP GAP ORDER – 390 MILLION

20. To meet demand for currency, an order for **390 Million** pieces of banknotes to cover the Currency needs for a period of two years was made. The Bank also managed to obtain a 3.75% discount on the order which amounted to ST£.409,931. The table below summarises the details of the order:

Order Date	Denomination	Delivered Amount (Mill. of pieces)	Price per 1000 Pieces	Total Price ST£
14.12.07	50/=	120	25.17	3,020,400
	100/=	140	27.03	3,784,200
	200/=	80	29.83	2,386,400
	500/=	20	34.99	699,800
	1000/=	30	34.69	1,040,700
		390		**10,931,500**
			Discount 3.75%	409,931
			Total Cost	**10,521,569**

From the Bank's projections, the 390 Million pieces of banknotes in addition to stocks held as at September 2007 was expected to last up to 1st October, 2009. It was then hoped that the joint venture negotiations would have been finalised.

J. UTILISATION OF THE 50% DOWN PAYMENT THAT WAS MADE FOR THE NEW GENERATION BANKNOTES

21. The Bank paid De La Rue International Limited a sum of **USD.25,597,920** as a 50% down payment for the printing and supply

of 1710 Million pieces of banknotes. This amount was paid on **18th May, 2006**. As a result of deferment and eventual cancellation of the new generation contract, the Bank utilised the down payment to meet the cost of the interim orders placed with De La Rue as illustrated below:-

	ST£	
1. Down payment made on 18th May, 2006 (USD.25,597,920.00) $ equivalent	12,687,926.30	
2. Payment for 164.05 million pieces of banknotes less Interest Credit - 18th May, 2006 to 5th Sept. 2006 of ST£.124,790.10	(4,191,042.30)	
	8,496,884.00	
3. Interest Credit accrued - 1st October, 2006 to 31st October, 2007	344,077.00	
	8,840,961.00	
4. Total cost for the 390 million pieces of banknotes after the 3.75% discount	(10,521,569.00)	
5. Total Cost		**14,712,611.30**
6. Balance financed by direct payments to De La Rue	(1,680,608.00)	

From the analysis, the down payment was fully utilised by the two stop gap orders and also the interest credit provided.

K. INTERIM STOP GAP ORDER - 450 MILLION

22. While the Joint Venture negotiations were ongoing, the Bank once again placed an order for additional currency of **450 Million** pieces on 17th June, 2009 in the following quantities to meet the country's currency needs until September, 2010.

Denomination	No. of Pieces (Million)	Price per 1000 Pieces	Total Price ST£
50/=	109	25.17	2.743,530
100/=	142	27.03	3,838,260
200/=	74	29.83	2,207,420
500/=	43	34.99	1,504,570
1000/=	82	34.69	2,844,580
	450		**13,138,360**

L. INTERIM STOP GAP ORDER - 483 MILLION

23. The Bank in July 2010 entered into another stop gap agreement with De La Rue Currency and Security Print for an order of **483 Million** pieces of banknotes. This order was meant to cushion the country's currency needs to the month of December 2011, pending the completion of the Joint Venture initiative between the Government of Kenya and De La Rue. Details of the order are tabulated below.

Denomination	No. of Pieces (Million)	Price per 1000 Pieces	Total Price ST£
50/=	77	25.17	1,938,090
100/=	137	27.03	3,703,110
200/=	131	29.83	3,907,730
500/=	75	34.99	2,624,250
1000/=	63	34.69	2,185,470
	483		**14,358,650**

M. CURRENCY AUDITS

24. The Bank has been engaged in printing of banknotes from 1991 at the De La Rue Currency and Security Print Ltd. firm in Ruaraka, Nairobi.

25. All orders are subjected to audit after completion of expected deliveries. The audits are aimed at ensuring all orders have been fully completed and reconciliation of paper stocks done.

N. KENYA'S NEW CONSTITUTION

26. On 4th August, 2010 Kenya ratified a New Constitution which was promulgated on 27th August, 2010.

27. Section 231 (4) of the New Constitution, states that **"Notes and Coins issued by the Central Bank of Kenya may bear images that depict or symbolize Kenya or an aspect of Kenya but shall not bear the portrait of any individual"**. However, Section 262 item 34 on transitional and consequential provisions states that this change does not affect the validity of notes and coins issued before the effective date of the New Constitution. The current series of currency shall continue to be used and will run concurrently with the new design currency and will be phased out gradually and naturally.

28. In this regard, the Bank has already taken measures to comply with the provisions of the Constitution by embarking on the process of designing new designs for Kenyan currency.

29. Advertisements inviting the public to offer new proposals for both notes and coins were published in the dailies on 9th and 13th March, 2012 (copy attached). It is expected that new designs will be selected from the proposals submitted by the public and approved for production. The closing date for receipt of proposals from the public is 13th April, 2012.

30. Upon approval of the designs for the new Kenyan currency, the Central Bank shall procure the new generation currency in accordance with the public procurement laws.

CENTRAL BANK OF KENYA

MARCH 2012

DISCUSSION NOTE WITH THE PUBLIC ACCOUNTS COMMITTEE

JUSTIFICATION FOR THE STOP GAP ORDERS AND

ROAD MAP FOR THE DESIGN AND PRINTING OF NEW CURRENCY

Justification for currency stop gap orders

- Kenya has used De La Rue International to print its currency since 1967 when CBK was created.
- The Bank entered into a 10 year contract to print new currency on 5th December 2002.
- The contract was to run until 31st December 2012.
- This was cancelled on March 14th 2003 to allow for a competitive tendering process.
- Following the cancellation of the contract, the Bank initiated a competitive Open Tender process.

Justification for currency stop gap orders

- The process of design, printing and distribution of the new design was expected to take 21 months.
- In the meanwhile, there was imminent danger of a stock-out of notes hence the need for a stop gap measure to cover **21 months** before design printing and delivery of new notes.
- The process up to the invitation to tender for new designs and printing of new Generation Currency took **20 months**. This was finalized on 6th January 2005.

Justification for currency stop gap orders

- The tender process had anomalies and was cancelled on 6th June, 2005.
- Meanwhile, the stock of notes ordered to last **21 months** were getting depleted and needed replenishment to avert a stock-out. This led to another interim stop gap order on 14th July 2005.
- The process of the re-tender for the new Generation to evaluation and selection of the winner took **12 months up** to 4th May 2006. These notes would have been produced by De La Rue in Malta

Justification for currency stop gap orders

- On 25th August 2006, 4 **months** after the selection of the winner, the Minister for Finance advised the Bank that the launch of new generation should be deferred until the general election of 2007.
- The delay in concluding the contract and the upcoming general elections therefore led to a further interim order on 17th October 2006, after the Bank assessed its currency requirements for the period.

Justification for currency stop gap orders

- In the 13 months after the Bank was advised to defer the launch of the new currency, the Minister for Finance by a letter dated 24th September, 2007 advised the Bank that the cabinet had approved a **joint venture proposal between the Government of Kenya and De La Rue International.** This was followed by a notification on 1st November 2007 to the effect that the contract for the new generation banknote printing stood cancelled.

Justification for currency stop gap orders

- Arising from the Minister's directive as contained in the letters dated 24th September, 2007 and 1st November, 2007 aforesaid, the Bank had to deal with an inevitable currency stock-out beginning April, 2008. This led to the subsequent stop Gap orders to date, while the joint venture negotiations were proceeding.

NEW CONSTITUTION

- On 4th August, 2010 Kenya ratified a New Constitution which was promulgated on 27th August, 2010.

- Section 231 (4) of the New Constitution, states that **"Notes and Coins issued by the Central Bank of Kenya may bear images that depict or symbolize Kenya or an aspect of Kenya but shall not bear the portrait of any individual".**

NEW CONSTITUTION

- However, Section 262 item 34 on transitional and consequential provisions states that this change does not affect the validity of notes and coins issued before the effective date of the New Constitution. The current series of currency shall continue to be used and will run concurrently with the new design currency and will be phased out gradually and naturally.

- In this regard, the Bank has already taken measures to comply with the provisions of the Constitution by embarking on the process of new designs for Kenyan currency.

NEW CONSTITUTION

- Section 231(2) confers Central Bank of Kenya the responsibility of issuing currency. Pursuant to this constitutional provision, the Bank will execute this responsibility and procure currency competitively. The Bank has already embarked on a process to design and procure new currency which meets the constitutional requirements as specified under section 231(4). A road map toward the design, printing delivery and distribution has already been drawn as attached.

Rod map to new designs-Schedule of Activities

Activity	Duration (Months)
Formulation of an appropriate theme of the new currency	0.5
Public invitation to submit proposals on elements to be featured on new Kenya currency	1
Review, evaluation and shortlisting of the best features proposed by the public.	1
Review and approval of the recommended features by Senior Management and the Board.	0.5
Concurrence review with other stakeholders-	
(National currency symbolizes sovereignty of the state hence need to seek wider approval)	1
Sub - Total	4

Activity	Duration (Months)
Tendering Process as Guided by Kenyan law, evaluation and tender award for the designs of new currency to production of new Currency Design Drafts (incorporation of the proposed features into a sample design)	6
Final Review and concurrence by the Senior Management, the Board and other stakeholders.	2
Sub - Total	8

Activity	Duration (Months)
Tender Document Preparation Advertisement and return of tender documents from tenderers.	3
Tender Opening, Evaluation and Award	1
Tender Committee Review	1
Provision for Appeals	1
Provision for Public Procurement and Oversight Authority (PPOA) Review	1
Currency production to 1st Delivery	6
Shipment of full consignment – CIF Nairobi (Delivery schedule to be spread out)	5
Public Awareness and Distribution	2
Sub-Total	20
Grand Total	**32**

Appendix 20

PRESENTATION TO THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING AND TRADE ON 27/09/2008

Introduction

Since my presentation follows Dr.Mullei's (Former Governor of CBK) presentation I will only pick from where he left.

1. Following the successful Tender and award to De La Rue International, the Bank Lawyers in conjunction with De la Rue Lawyers worked together and finalized the Contract document which was acceptable to both parties.
2. The final contract was signed on 4th May 2006 with and effective date of 22nd May 2006. Each party had obligations to meet to ensure effective implementation of the Contract.
   Central Bank of Kenya made the 50% deposit payment of US $25, 597,920 on 18/05/2006 in compliance with the terms of the contract. CBK was also to forward to De La Rue the designs duly signed and dated. I signed as the Acting Governor and the PS Finance Signature was already in custody of De La Rue.
3. De La Rue refused to proceed with the process unless supported by a confirmation from the Ministry of finance.
   I sought the clarification from the Minister for Finance, then the Minister orally advised that the Ag. Governor could not sign the currency Design- Simply it did not look good.
4. In my letter to the Minister dated 17/05/2006. I sought the Minister guidance emphasizing the obligation for the Bank to fulfil the contractual obligations and allow other parties to the contract to meet their obligations as defined in the contract. The minister did not reply.
5. We met in his office on 19/05/2006 and he promised a reply through his PS. In this meeting the minister had orally agreed on the two signatures of the Ag.Governor and the one from the PS Finance. Since I did not receive the response by 22nd May 2006 which was the deadline, I proceeded to confirm the two mentioned signatures to De la Rue at the same time called the PS Finance to avail the written confirmation.

Presented on 12.04.2012 to PAC
JACINTA WANJALA MWATELA
12.04.2012

6. The PS in his letter ref Conf.36/02 of 22nd May 2006 confirmed the go ahead for the signatures but with a qualification that "actual production will have to await confirmation of signatures" etc. This effectively stagnated the process as De la rue could not work with Designs with unconfirmed signatures. This caused me to respond on 24th May 2006 to the Minister advising of the implications of this directive. No response was again forthcoming from the Minister).
7. In another letter, (Dated 14th June 2006), to the Minister following a discussion in his office, I forwarded to him a legal opinion obtained from the CBK legal Department making a case for the Ag.Governor and a member of the Board to sign the design s currency notes. The Minister guidance was again sought as time was against the Bank. No response from the Minister.

   Another letter dated 20th June 2006 was dispatched to the minister bringing to his attention the concerns expressed by De La Rue about the 3 weeks delay and the implication of delays. No response from the minister.
8. A month went by and on 19th July 2006 I wrote to the minister a fairly lengthy letter emphasizing again on the implication of the delays. I pointed out that CBK was in blatant breach of the express terms of the agreement:
   a. The bank risked termination of the contract.
   b. Guarantees by De la Rue may expire before full deliveries and this expose the bank to risks.
   c. The risk to supply gaps arising from currency shortages was real.
   d. Reminded the Minister that the Legal opinion supported the signature of Ag.Governor
   e. The earlier agreement to cover supply gaps has already expired on June 2006.
   f. The bank had already made a US $ 25,597,920 deposit as required by the contract terms yet nothing was happening on the ground.
   g. This was the best priced contract at almost half the price of the Old contract yet covering more qualitative products.
   h. Emphasized the reputational risk the Bank faced in terms of public Interest and governance issues etc.

The bottom line was that it was better to implement the contract late than allowing it fail. The minister was kindly asked to consider and save the weak image of the Bank. No response from the Minister.

9. Final letter of 21st August 2006 which elaborated the concerns from the consumer Department currency decrying the potential and exposure risks of currency stockout in second half of 2007. Again pleaded for the minister's action.
   The Minister called a meeting on 22nd August 2006 where He informed me that the President had refused a launch of new currency in an election year and the fact that issue of signatures was still pending. The minister directed that the effective date of the contract should be reviewed and differed to early 2007 while launch should be made in January 2008 after the election. This was a major decision affecting the contract and I requested the minister to give the instructions in writing to facilitate action at the Bank.
10. The Minister sent me a letter dated 25th August 2006 making reference to the discussion in his office on 22nd August 2006 touching on critical issue o the new generation banknotes. He confirmed in the letter that the launch of the currency should not be before the next general election. Delivery adjustments to be made on the contract to dates later than March 2007. He advised the Bank to proceed as follows:
    a. Liaise with De La rue on adjustment of the delivery schedule so that the New generation currency launch could be planned for 2008,
    b. The minister referred to his discussion with James Hussey of De la Rue during his visit to Ruaraka Plant in July 2006 where they agreed on change of dates without any cost implication to CBK. The letter was also copied to PS Finance.

11. I responded to the Minister's letter on 12th September 2006. I advised that the Bank needed more time to stock pile the new currencies in various places. Since the delivery could only start in December 2007, I proposed April 2008 as the better launch time.

12-04-2012

I also indicated that whatever was being agreed on was subject to the implementation of the contract with CBK supplying the signatures on the designs by 28th February 2007. Failure to do so would still adversely impact on the Delivery programme. At that time the Tender Committee was a Board Committee and some Board members had retired since August 2006 but as at the time of writing they had not been replaced. This impacted on the committee's ability to perform as it lacked quorum. I was therefore urging the minister to facilitate the appointment of members of the Board to facilitate convening of necessary meetings.

12. I had also received a letter from PS Finance dated 11th September 2006 referring to the Minister's visit to De La Rue factory in Ruaraka in mid July and that there was threat of divesture by De la Rue thus there was hatching of the joint venture strategy and it was important for CBK to be represented. The request was for CBK to appoint a person to work with the investment secretary, Mrs. Esther Koimett. When we discussed this matter internally in the Bank, the legal advice was that CBK could not be a party to the joint venture as the CBK Act does not allow CBK to engage in any business other than what is defined in the Act. The Bank Secretary was to represent the Bank position on this matter.

13. Arising from the deferment of the contract on New Generation currency, the Currency Department identified a supply gap of 164.05 million pieces in 50, 100 and 200 notes to cover the gap up to April 2008. This was going at a cost higher that what is provided in the new contract. It exceeded the cost by over Shs. 218 million and was paid from the Deposit held by De La Rue reducing the Deposit held by De La Rue to about US $17 million
The Board of the Bank met and endorsed the need to cover the gap and the tender committee approved the procurement after the Bank sought and received clearance from the Government (Ministry of Finance) to proceed in that manner.

14. A new Governor was appointed in early March 2007.He sought a brief from the Director, Currency Department. The Governor was required to activate the contract which had been deferred so that the process of implementation of the contract could be started .He was required to sign

the designs which had pended awaiting a signature of a Governor.
It took a lot of convincing for the Governor to sign; I recall forwarding a recommendation done by Director of currency and adding my own recommendation to the Governor to sign the Designs. I assured the Governor that the Contract on New Generation currency was properly drawn and a 50% down payment was already made, an amount in excess of US $25 million. The Ag.Governor's signature had been rejected by Minister for Finance thus delaying the process .The Minister had furthér advised against a launch of new currency in an election year.
A supply gap of 164.05 million pieces had to be serviced using part of the deposit held by De La rue at a price higher than what was quoted in the new contract. The balance of the deposit held by De La Rue was reduced to about US $17million. I raised the concern that it was crucial that the Governor signed the designs and released them to De La Rue to avoid another supply gap at higher cost to the Bank.
There was also a further risk of the contract being terminated by unnecessary delays. Since the only outstanding matter was the Governor's signature, it was important that he signed signalling the activation of the contract and save the Bank from reputational risks of morally justifying on an otherwise decision.
I will not forget the E-mail I received from the Governor Ndung'u in response to my advice which I had considered modest and professionally given,

He complained that since he came to the Bank, he had been working on Ultimatums, while appreciating my concerns about time he alleged that there were many players in this game, starting with suppliers who talk like if they failed to deliver currency as per the contract, Kenya would collapse. He accused CBK staff of adopting the same line hiding behind reputational risks. He indicated that the issue was not a matter of life and death. He claimed to have been involved in the currency debates internationally and he knew more about suppliers behaviour. He alleged that this issue had been leaked to the press when I was away and that the Director, currency was equally surprised. He also insinuated that the figures quoted outside

12.04.2012

were similar to what I had quoted in my memo. Actually I understood him to indirectly accuse me of the leakage. In his view we needed to look at issues more objectively and remain a team even when things go wrong. I was greatly disturbed by this reaction as I had not at any time discussed this matter outside the Bank. The outcome of the tender had been announced openly to the public.

15. The Governor signed the designs and the Department concerned forwarded to De La Rue effectively reactivating the contract. There was a 33 days delay which could impact on deliveries however De La Rue agreed they could accommodate the delay without any repercussion on scheduled deliveries. -

    Around 27th April 2007 or thereabout the Governor sent an E-mail to one John Lucas of De La Rue advising on the Joint Venture discussion with Treasury and the need therefore to defer or hold the process for two months to see if the negotiations between Treasury and De L a rue would materialise. John Lucas confirmed the holding on 30th April 2007. This Hold on the contract took us by surprise and various correspondences were exchanged on the implication of this action. Currency Department questioned how De La Rue intended to meet the Delivery deadlines in the face of this agreed delay. They also raised concern about another supply gap being created; they even questioned John Lucas confirmation of 30th April 2007. Since they understood that a clear nine months of work was needed for deliveries to materialize.

16. I was called to a meeting on 2nd May 2007 between (De La Rue) John Lucas and the Governor Ndung'u. Others present were the Bank secretary and the Director Currency

    This meeting basically focussed on the issue of Joint Venture. I dared question the relationship between a firmed contract and the Joint Venture which was still at discussion stage. I was vilified by the Governor after the guest left for questioning the Joint Venture vs. the Contract, my two colleagues were present.

17. I was no longer invited for any meetings on this subject, thus there is a gap until November when I was asked to chair a special Tender committee to

consider printing of 390 million pieces to cover two years. We held a tender committee on 8th November 2007 but the information was not adequately prepared and the committee deferred the meeting to 12th November 2007 to allow the user department and the procurement department to organise the data for use. Another meeting was held on 12th November 2007 and chaired by the Deputy Chairman of the Tender Committee- Director of the Finance Department. This meeting was unable to proceed as new information emerged that the Minister for Finance had cancelled the contract covering 1710 million pieces of new generation currency vide a letter to the Governor dated 1st November 2007. This was news to me. We held another meeting on 15th November 2007 which I chaired. The committee realised the difficulty of the situation in view of the legal implications and supply gap reality on the ground. The way forward was to request a Board meeting to be briefed about this policy shift, contract cancellation and give policy direction on future currency procurement policy. The tender committee participated in preparing a board paper and a board meeting was scheduled for the 22nd November 2007. (All minutes of tender committee can be availed by the procurement department.)

18. Board meeting of 22nd November 2007 – This was the most acrimonious meeting I have ever attended. The meeting was delayed for one hour where the Governor as Chairman of the Board held a closed up meeting with all the Board members except the Deputy Governor. The Chair opened the meeting by accusing the Deputy Governor as the Chairman of the Tender Committee of discussing the issue at hand with the Press. The Chair advised that I should have obtained a solution to the problem from the Press instead of wasting the Board's time. All members of the Board contributed to the discussion terming the Tender Committee irresponsible, time wasting, misleading the Board vide a Board Paper that was biased and which was intended to influence the Board negatively. The laws that were quoted in the Board Paper were criticised and in fact should be amended. When I asked to be given time to respond to various accusations and criticism, I made the following comments:

L O Musa Ella
12.04.2012

a. I had not spoken to the Press and if anyone had any evidence, it is fair that some was provided.
b. The Tender Committee was only called for a special tender meeting scheduled for 8th November 2007 and thereafter could not have presented the matter of supply gap in the Board meeting of October 2007.
c. Using the Board Paper I highlighted the matters of grave concern namely
    i. Cancellation of the contract by the Minister when he was not a party to the contract.
    ii. Only the Tender Committee is allowed to cancel the contract after satisfactory reasons were given for termination, contractual grounds for termination, and the cost of terminating the contract. (Public procurement and disposal regulations section 32 [2])
    iii. The 390 million pieces did not qualify as interim order which under the Procurement Act was defined as 10% or less of the initial order. 390 million pieces was being considered as an interim order of the 164.05 million. The law disqualified this as an interim order.
    iv. Grounds for Direct procurement under section 74[2] and [3] of procurement act is only allowed if one person can supply the goods and there is no reasonable alternative or substitute for the goods. There is also basis for which direct procurement can be allowed, namely;
        - There is an urgent need for the goods,
        - Because of the urgency, the other available methods of procurement are impractical.
        - The circumstances that gave rise to the urgency were not foreseeable and were not the result of dilatory conduct on the part of the procuring entity.

        1. It was the view of the Tender Committee that the Bank deliberately failed to implement the contract, there was

no emergency as the supply gap was foreseen and indeed through the International tender, it was evident that other suppliers could supply. There was dilatory conduct on the part of the Governor when he delayed the implementation of the contract. The contract was deliberately frustrated to the status of the stillborn. On the basis of all these, the Tender committee was inhibited by the law to go for single sourcing yet the position on the ground was that the Bank was faced by a stock out. It was important for the Board to give a sense of direction in view of the legal provisions and also to determine the way forward in view of the illegal cancellation of the contract. The Board only guided on the 390 million pieces gap to be printed, the law notwithstanding. The Bank remained exposed. I was so disillusioned that I offered to resign as Chair to the Tender Committee but the procurement act defines the Deputy Governor as the chairman to that committee.

In another Board meeting held on 30thJuly 2008 the Board was advised of another gap of 450 million pieces. There was an attempt to convince the Board that De La Rue came to Kenya to specifically meet the needs of CBK and that CBK gave land as grant to De La Rue to ensure they functioned. This was false as De La Rue was setup in Kenya as an Export Processing Zone (EPZ) and the land upon which the factory stands is under lease arrangement with CBK.

The department of Currency attempted to give a proposal on long term procurement policy that complies with the law by proposing the need for them to request for fresh currency designs and later to tender for manufacturer and printing of currency. This was differed to allow the department come up with clear positions on

12.04.2012

its stocks levels and future requirement.

On 15th August 2008 another special Board meeting was called as a follow up on this issue of currency. Again the Ad hoc printing of 450 million pieces took centre stage. I drew the attention of the Board to the acrimonious meeting of 22nd November 2007while discussing the 390 million pieces. It was clear to me the Bank was out to break the law again in procuring currency outside the procurement Act. I reiterated the position of the Tender committee. I was not going to chair any meeting which sanctioned breech of the law. Way forward was agreed for the Bank to seek the direction from the Minister for Finance and also from the oversight Board overseeing procurement seeking guidance in view of the law. While I am aware of a letter that was sent to the Minister, I do not know whether any opinion was sought from the oversight Board.

19. I am convinced that my firm stand on this matter led to my sacking. My regrets are as follows:

    a. CBK is totally exposed and compromised to De la Rue
       CBK must continue on ad hoc orders of currency to meet its legal responsibility of supplying currency o the nation at any cost? Is De la Rue the sole beneficiary to this pricing?
    b. CBK procurement remains outside the procurement Act yet CBK is subject to the Act. Staffs involved within this process are unfairly exposed professionally to these illegalities.
    c. The dilatory conduct of the Chief Executive is questionable ands the passive conduct of the Board is unacceptable.
    d. The Joint Venture of the Government with De La rue should be done on merit not on basis that CBK is a captive market of the Venture.
    e. CBK should remain independent and subject to Procurement law as to provide checks and balances in this area of procurement.

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f. While Joint Venture is yet to be concluded it has cancelled the Best Contract the Bank ever had. Who is the beneficiary of this, as CBK is a total loser.
g. Joint Venture is meant to protect 300 jobs. What is the Government policy on investment? It has divested from Telkom's, sending over 1000 Kenyans home but is pretty committed to keeping 300 jobs at De La Rue. Is there another benefit that I am missing as I am also aware that the savings that were forfeited on the new contract could have created more than 300 jobs?
h. Is CBK seen as a permanent milking cow which Kenyans must keep alive to benefit foreign interests like De La Rue or might there be unseen interests?
i. How about quality control and value for money? How will CBK ever check this? How does this fit Vision 2030? Can Kenya keep itself at the cutting edge with the rest of the world or the vision is undermined to remain a piped dream?
j. Six years after the new political dispensations and we are still paying for unreasonable contracts. For these questions and challenges Jacinta must go home for rocking the boat or derailing the gravy train.

   Truth like oil will always remain afloat whether you pour cold or hot water on it.

All the correspondence referred therein can be obtained from the Bank.

27th September 2008

12.04.2012

Gikonyo J. M.

From: Njuguna Ndungu
Sent: 18 October 2007 18:02
To: Gikonyo J. M.
Subject: RE: The De Lau Rue Contract with the Treasury

Dear Gikonyo,

Thanks for your response. But misses a few points on history. When De la Rue invested in Kenya, thye did so with the understanding that they would get a 10 year currecny supply contract, that time they knew the quatitities and the prices. So they invested and that was sunk cost. When 10 years lapsed, the issue was another 10 years contract. But new wisdom of international tendering came in which was good. But they won, but now the danger was the Nairobi factory had to close. The Treasury in an effort to secure it and to prevent closure (save 300 jobs and investments), they are negotiating a JV. But this is because CBK cannot invest with the current legal conditions, in future if the law is changed, Treasury will transfer this to CBK.

The 10 year currency supply does not state quantity or prices - the determinants of a competitive tendering process - the CBK will still be free to survey international prices and negeotiate with the De La Rue even if this JV goes through. What I am asking you is to marry development policy of the Treasury with your thinking and CBK position. That way you will look at your legal opinion differently.

Thanks and please prepare the briefs for Treasury along these lines.

Njuguna

From: Gikonyo J. M.
Sent: Thu 10/18/2007 10:45 AM
To: Njuguna Ndungu
Subject: RE: The De Lau Rue Contract with the Treasury

,

Thanks for your response.

Dear Governor,

I refer to your email dated 12th October, 2007 and would like to respond to the issues raised as follows:-

a) The Central Bank is a statutory body owned by the Government of Kenya;

b) When we declare profits, we pay dividends to the Treasury. However, payment of dividend by the Bank is subject to Board approval;

c) We are not saying that the CBK should prevent the Treasury from investing for the nation, instead we are advising that such investment should not be conditional upon the CBK entering into a ten year currency supply contract with De La Rue especially taking into account the fact that after the competitive bids obtained by the Bank, it is evident that a competitive tender is able to give the Bank a very competitive price;

d) I have not advised against the CBK being connected in an indirect way with the proposed joint venture between Treasury and De La Rue. Indeed CBK is already indirectly involved in the initiative through membership in the Joint Venture Negotiation Committee. All I did in my memo to you of 9th October, 2007 was to advise that the direct involvement of the CBK in the matter, through a ten - year Currency Production Agreement as demanded by De La Rue will have serious legal implications that require to be addressed by the Treasury and CBK

To recap, the legal issues that must be addressed include:

i) CBK shall not be a party to the Joint Venture Agreement once concluded and executed and cannot therefore be legally bound by its terms,

ii) In any event CBK cannot be a party to the joint venture Agreement as CBK is prohibited by Section 52 of the Central Bank of Kenya Act from engaging in any "commercial undertakings";

iii) CBK is required by law to adhere to the Public Procurement and Disposal Act, 2005 and the Rules issued thereunder;

iv) The proposed ten year Currency Production Agreement with De La rue will not allow CBK to enjoy the benefits of international competitive pricing,

v) In the absence of agreed technical specifications and prices, it is not possible for CBK to comprehensively review the draft Currency Production Agreement forwarded to the Treasury by De La Rue International Limited;

vi) It is advisable that the fate of the earlier Agreement entered into on 4th May, 2006 between CBK and De La Rue be determined before any fresh negotiations can be entered into with De La Rue for the supply of currency to the Bank.

However, I confirm that following the instructions contained in your email of 14th October, 2007 I have embarked on the review of the draft Currency Production Agreement forwarded to the Bank by the Treasury and shall communicate to you my comments thereof in due course.

Best regards,

J.M Gikonyo

-----Original Message-----
From: Njuguna Ndungu
Sent: 14 October 2007 20:03
To: Gikonyo J. M.
Subject: FW: The De Lau Rue Contract with the Treasury

Gikonyo,

I have waited for your response, but it does appear that I need to give guidance on the matter before your make your response:

The CBK Position: The Treasury and CBK should discuss the Long term Currency contract with De La Rue to see if it is too restrictive and to agree on the way forward . The CBK should not argue against its existence at all.

I hope this gives guidance while i wait for answers to questions below.

From: Njuguna Ndungu
Sent: Fri 12/10/2007 16:25
To: Gikonyo J. M.
Subject: The De Lau Rue Contract with the Treasury

Dear Gikonyo,

I read your report and I enjoyed the arguments in it. But I must say, you seem to fall in the same troughs of conservativeness. Perhaps you have been in the bank for too long to allow you to think outside the box and for longterm. Perhaps you could anwer me the folowing questions:

- Who owns the Central Bank?
- When we declare profits, we send to who?
- If we are barred by law from investment in De La Rue kind of investments (but we can invest in KSMS type of business), then we are prevented to behave like the SA Reserve Bank or Nigeria Fed where they have their own printing facilities and they can look for business in other countries. In this case, and in the short term we cannot change the law, should we prevent the Treasury from investing for the Nation?
- But for this to make sense for now, the CBK, being an a ntional instititiom must be enjoined in an indirect way, othersise why would the Treasury want to invest if not to help the CBK?

I was thinking you may want to look at this along these lines rather than keep harping on the concluded contract and how we need to adhere to it. It will only last three years, what will we do after that contract?

Please answer these questions for me so that I can understand your position more clearly.

Thanks

Njuguna Ndung'u

APPENDIX 22 C07/11

Governor.
I have consistently raised my concerns regarding these arrangements where CBK is drawn into the joint venture while it is a purchaser/buyer of goods and services from De La Rue. I also maintained the position that De La Rue as an interested party cannot be advising Central Bank on matters of what to purchase. As I read this legal advice I am conscious of the need to heed the legal opinion

CONFIDENTIAL

MEMO

From:	Director, Governors' Office	To:	Governor
		Thro:	Deputy Governor

RE: PROPOSED PURCHASE OF SHARES IN DE LA RUE CURRENCY AND SECURITY PRINT LIMITED BY THE GOVERNMENT OF KENYA

The Treasury has vide a letter dated 28th September, 2007 forwarded to the Bank, a Proposal on the structure of the proposed Joint Venture between the Government and De La Rue and a proposed draft Currency Production Agreement with the Central Bank of Kenya "to facilitate consultation prior to negotiations with De La Rue". Both documents were submitted to Treasury by De La Rue.

As the Governor is aware, on 4th May, 2006 the Bank following the conclusion of a successful international tendering process entered into a Three (3) Year Agreement with De La Rue International Limited for the design, manufacture and supply to the Bank of 1,710,000,000 New Generation Banknotes at the total cost of US$ 51,195,840.00 in accordance with the banknote technical specifications contained in "Appendix A" to the Agreement. The technical specifications were prepared by the Bank with the assistance of an expert from Canada and representatives from the Bank of Uganda and the Central Bank of Tanzania.

Under the terms of the Agreement entered into with De La Rue on 4th May, 2006 aforementioned, the agreed prices for the banknotes are to remain fixed throughout the Three (3) year contract period while deliveries of the banknotes are to be made by De La Rue to the Bank as specified in the Delivery Schedule attached to the Agreement as "Appendix C" and the Schedule of the Breakdown of Volumes of Banknotes per contract year attached to the Agreement as "Appendix B." The Delivery Schedule was mutually agreed upon by the parties and was conditioned on the strict understanding that the Bank will approve the designs, signatures, designations and dates for the banknotes by 22nd May, 2006.

On payment terms, the Bank was upon execution of the Agreement required to make a down payment to De La Rue amounting to 50% of the total value of deliveries for the term of the Agreement subject to De La Rue providing to the Bank a Performance Bond representing 10% of the total contract sum and a Banker's Guarantee in respect of the down payment, from a bank acceptable to the Bank. The parties agreed that all payments under the Agreement were to be made in US dollars and payment of the balance would be pegged against deliveries and made within

thirty (30) days from the date of receipt of the respective invoices by the Bank which invoices are to be submitted to the Bank at the time of delivery of each consignment.

As provided for in the Agreement, in May 2006 the Bank made the 50% down payment of USD 25,597,920 to De La Rue after De La Rue had met the conditions precedent mentioned in the foregoing paragraph.

Due to delay on the part of the Bank to approve the designs for the Banknotes and meet the deadline of 22nd May, 2006 aforementioned, the Bank with the approval of the Tender Committee and subsequently by the Treasury vide a letter dated 9th November, 2006 (copy attached), entered into a Variation Agreement with De La Rue International Limited in January 2007 whereby the sum of £ 4,191,042.30 was utilised out of the down payment of USD 25,597,920 made to De La Rue International Limited, towards the financing of an Interim Order for the supply of 164.05 Million pieces of the existing generation of banknotes by De La Rue Currency and Security Printing Limited to the Bank.

As the Governor is further aware, delay in approval of the designs for the banknotes by the Bank was occasioned by failure on the part of Treasury to confirm signatories of the banknotes. There was also the guidance by the Treasury that the Government was not keen to launch new banknotes during an election year. The stand of Treasury on the matter was communicated to the Bank vide a letter dated 25th August, 2006 a copy of which is also attached herewith for the Governor's ease of reference.

Following your appointment as Governor, on 19th April, 2007 the Bank duly approved all the designs for the new generation banknotes and forwarded the same to De La Rue for further action, in accordance with the terms and conditions of the Agreement signed by the parties on 4th May, 2006. However, during the same month the Bank advised De La Rue to slow down on the implementation of the Agreement for a period of two (2) months to allow for negotiations between the Government of Kenya and De La Rue International Limited on a proposed joint venture relating to De La Rue's Nairobi plant. Subsequently, a Committee comprising of representatives from the Treasury and the Central Bank was constituted to negotiate with De La Rue International Limited on the proposed joint venture. In this regard, the negotiations with De La Rue are on going.

Taking the foregoing background into account and based on the reasons outlined below, we are perturbed that De La Rue International Limited are proposing to make a long term Currency Production Agreement with the Central Bank a key factor as well as an integral component in the proposed Joint Venture Agreement with the Government of Kenya:

i) The proposed joint venture will be based on negotiations leading to the execution of a Joint Venture Contract to be entered into between the Government of Kenya and De La Rue International Limited. Save for providing technical support during the negotiations, the Central Bank of Kenya shall not be a party to the Joint Venture Agreement once concluded and executed. As a third party therefore, the Central Bank cannot legally be bound by a Contract in respect of which it is not a party. Moreover, it is not prudent for the Central Bank as a purchaser of goods and services from De La Rue to be directly involved in the joint venture;

ii) In any event, the Central Bank is prohibited by Section 52 of the Central Bank of Kenya Act from engaging in any "commercial undertakings". The proposed joint venture between the Government and De La Rue International Limited is clearly a commercial undertaking and by the force of law, the Central Bank of Kenya is barred from engaging in any such undertakings;

iii) The proposed integration of a long term Currency Production Agreement in the joint venture negotiations is in blatant breach of the requirements of the Public Procurement and Disposal Act, 2005. The Central Bank, being a public entity, will clearly be procuring goods in contravention of the law;

iv) By binding itself to a long term contract with one supplier, the Central Bank will be captive of De La Rue in the production and supply of banknotes and will therefore loose out on the advantages of international competitive pricing;

v) In the absence of agreed technical banknote specifications and prices, it is not possible for the Bank to review the draft Currency Production Agreement forwarded to the Treasury by De La Rue International Limited;

vi) The Agreement for the design, manufacture and supply of New Generation Currency Banknotes by De La Rue to the Bank dated 4th May, 2006 is still in full force and binding on all the parties. Indeed, Treasury has not as yet formally instructed the Bank in writing to rescind the Agreement before any fresh negotiations can be entered into with De La Rue for the production and supply of currency to the Bank. In any event, even if such instructions were to be issued by the Treasury, rescission of the Agreement by the Bank would render the Bank liable to be sued for damages by De

La Rue International Limited since the said company has not failed to meet its obligations under the Agreement.

We would also like to note that there was a price difference of US$ 25 Million between De La Rue International Limited and the next tenderer during the international tendering process concluded in December 2005. Accordingly, whereas rescission of the Agreement at this stage would be in the interest of De La Rue International Limited as that would present an opportunity for them to bid higher in any fresh tenders, rescission of the Agreement would in our considered opinion be detrimental to the Bank as the Bank would not have taken full advantage of the low prices offered by De La Rue International Limited as a result of the international competitive tendering process.

In view of the foregoing, we are subject to the Governor's concurrence recommending that Treasury be strongly advised by the Bank that it is not advisable at all for Treasury to allow De La Rue to inextricably intertwine the proposed joint venture with a long term Currency Production Agreement with the Central Bank of Kenya. In our opinion De La Rue should compete with other Currency suppliers so as to ensure that Central Bank obtains the most competitive prices for production and supply of currency.

Forwarded for the Governor's consideration and further guidance, please.

J. M. GIKONYO

9th October, 2007

PRESENTATION TO THE PUBLIC ACCOUNTS COMMITTEE ON 22/05/2012

1.) I joined the Central Bank of Kenya (hereinafter 'the Bank') on 1st November ,1993 as a Chief Legal Officer. I retired from the service of the Bank on 1st April, 2008. At the time of retirement my title was the Director Governors' Office and my duties inter alia included being in charge of the Legal Division of the Bank.

2.) Following the conclusion of a successful international tendering process the Bank awarded the Tender for the design, manufacture and supply of 1710 million new generation banknotes for three (3) years to De La Rue International at the total cost of USD 51,195,840. The Legal Division of the Bank under my supervision together with the Currency and Branch Administration Department in conjunction with De La Rue lawyers embarked on preparation of the contract documents. The final contract document acceptable to both the Bank and De La Rue International was signed on 4th May, 2006.

3.) The contract has several schedules annexed dealing with:

i. The Bank note technical specifications (which were prepared by the Bank with the assistance of an expert from Canada and representatives from the Bank of Uganda and the Central Bank of Tanzania).

ii. Delivery schedule specifying how deliveries of banknotes would be made by De La Rue International. The delivery schedule was mutually agreed upon by the Bank and De La Rue International and was conditional on the strict understanding that the Bank would approve the designs, signatures and dates for the banknotes by 22nd May, 2006.

iii. Breakdown of volumes of banknotes per a contract year.

iv. The format of the Performance Bond representing 10% of the total contract sum.

v. The format of the Bankers Guarantee from a bank acceptable to the Central Bank of Kenya in respect of the down payment to De La Rue International amounting to 50% of the total contract amount.

4.) Under the contract the Bank was required to pay De La Rue International 50% of the total value of the contract upon execution of the contract. Payment of the balance would be pegged against deliveries and made within thirty (30) days from the date of receipt of the respective

invoices by the Bank, which invoices are to be submitted to the Bank at the time of delivery of each consignment of the banknotes.

5.) The Bank after receipt of the Performance Bond and the Bank Guarantee aforementioned from De la Rue International made the 50% deposit payment of USD 25,597,920 on the 18th May, 2006 in compliance with the terms of the contract. The Bank was also required to forward to De La Rue International the approved designs as well as confirm the signatures that would appear on the banknotes.

6.) Whereas the Bank was able to forward to De La Rue International the approved designs of the banknotes within the stipulated deadline of 22nd May, 2006 in the contract, the issue of confirmation of the signatures remained outstanding which meant that the Bank was in breach of one of the key milestones in the contract. According to discussions with the then Acting Governor Mrs. Jacinta Mwatela approval of the signatures was awaited from the Treasury.

7.) As the time continued to run against the Bank, sometime in June 2006 the Legal Department of the Bank was requested by the Acting Governor to advise on whether legally the Acting Governor can sign banknotes. A legal opinion was duly prepared confirming that the Acting Governor having been appointed by His Excellency, the President of the Republic of Kenya in accordance with the provisions of the Central Bank of Kenya Act, to act as the Governor of the Central bank of Kenya can legally sign the banknotes. Sections11(6) and 13(3) of the Central Bank of Kenya Act are pertinent in this regard.

8.) The issue of confirmation of signatures remained outstanding and from discussions in our management meetings it was reported that confirmation was awaited from the Minister for Finance. The Currency and Branch Administration Department also continued to impress on the Bank that a currency shortage would arise as De La Rue International would no longer be able to supply the new generation banknotes within the stipulated time in the contract.

9.) Sometime in August 2006 the Acting Governor Jacinta Mwatela showed me a letter from Hon. Amos Kimunya the then Minister for Finance which to the best of my recollection stated that the critical issue on the new generation banknotes is the date of the launch, which should not be before the next general election and indicated that the delivery schedule can be

adjusted from March 2007 to later which would also give time to sort out the issue of signatures. The letter further requested the Bank to proceed as follows:

a. ***Liaise with De La Rue on the adjustment of the delivery schedule, with the New Generation currency launch planned for January 2008;***

b. ***Initiate the necessary procurement process for the extra currency required to ensure adequacy of stocks to January 2008.***

10.) In view of the rescheduled launch date of the new generation banknotes as advised by the Minister for Finance and having regard to the currency consumption requirements as advised by the Currency and Branch Administration Department it became necessary to place an interim order for the existing Kenya currency banknotes so as to avoid a currency shortage. Consequently, the Bank with the approval of the Tender Committee and subsequently by the Treasury vide a letter dated 9th November, 2006 entered into a Variation Agreement with De La Rue International Limited in January 2007 whereby a sum of £4, 191,042.30 was utilised out of the down payment of USD 25, 597, 920 made to De la Rue International Limited towards the payment of an interim order for the supply of 164.05 million pieces of the existing generation of banknotes by De La Rue Currency and Security Print Limited.

11.) A new Governor Prof. Njuguna Ndung'u was appointed in early March 2007 and following the appointment of a Governor, on 19th April, 2007 the Bank approved all designs and signatures for the new generation banknotes and forwarded the same to De La Rue International for further action. However, during the same month Prof. Njuguna Ndung'u the Governor advised De La Rue International Limited to slow down on the implementation of the contract for a period of two (2) months to allow for negotiations between the Government of Kenya and De La Rue International Limited on a proposed joint venture relating to De La Rue's Nairobi plant.

12.) On 03/10/2007 Prof. Njuguna Ndung'u, the Governor marked to Chege/ Abuga/ Gikonyo a letter dated 28th September, 2007 from the Investment Secretary in the Treasury, Esther Koimett with the remarks ***"see my note and let's move fast."*** In the notes the Governor's instructions to the three of us were:

"-I would like you to study and comment on the attached so that Treasury can move forward with this JV while we are also in the picture

-The Currency Production Agreement is key to this JV arrangement with the Treasury.

-Please move fast."

The aforesaid letter from the Investment Secretary, Esther Koimett had forwarded to the Bank a proposal on the structure of the proposed Joint Venture between the Government of Kenya and De La Rue Currency and Security Print Limited together with a proposed draft Currency Production Agreement with the Bank.

13.) On 9th October ,2007 I wrote to Prof. Njuguna Ndung'u, the Governor a lengthy memo in response to his instructions. In my memo, I briefed the Governor on the history of the contract between the Bank and De La Rue International Limited on the design , manufacture and supply of the new generation banknotes, the delayed implementation of the contract due to the failure by the Treasury to approve the signatures and underscored the fact that the said contract is still valid. In my memo to Prof. Njuguna Ndung'u, the Governor, I indicated that I was perturbed that De La Rue International Limited is proposing to make a long term Currency Production Agreement with the Bank a key factor as well as an integral component in the proposed Joint Venture Agreement with the Government of Kenya. I then proceeded to give the following reasons as to why the Bank should not be part of the joint venture and should not concur in the proposed long term Currency Production Agreement.

i. *The joint venture will be based on a joint venture contract to be entered into between the Government of Kenya and De La Rue International Limited. The Bank shall not be a party to the Joint Venture Agreement once concluded and executed. As a third party therefore, the Bank cannot legally be bound by a contract in respect of which it is not a party. Moreover, it is not prudent for the Bank as a purchaser of goods and services from De La Rue to be directly involved in the joint venture;*

ii. *The Bank is prohibited by Section 52 of the Central Bank of Kenya Act from engaging in "any commercial undertakings". The proposed joint venture between the Government and De La Rue International Limited is clearly a commercial*

undertaking and by the force of law, the Bank is barred from engaging in any such undertakings;

iii. *The proposed integration of a long term Currency Production Agreement in the joint venture negotiations is in blatant breach of the requirements of the Public Procurement and Disposal Act, 2005. The Bank , being a public entity would be procuring goods in contravention of the law;*

iv. *By binding itself to a long term currency supply contract with one supplier, the Bank will be captive of De La Rue in the production and supply of banknotes and will therefore loose out on the advantages of international competitive pricing;*

v. *In the absence of agreed technical banknote specifications and prices, it is not possible for the Bank to review the draft Currency Production Agreement forwarded to the Treasury by De La Rue International Limited;*

vi. *The Agreement for the design, manufacture and supply of new generation currency banknotes between De La Rue International Limited and the Bank dated 4th May, 2006 is still in full force and binding on all the parties. Rescission of the Agreement by the Bank would render the Bank liable to be sued for damages by De La Rue International Limited since the said company has not failed to meet its obligations under the Agreement ; and*

vii. *There was a price difference of USD 25 million between De La Rue International Limited and the next tender during the international tendering process concluded in December 2005. Accordingly, whereas rescission of the Agreement would be in the interest of De La Rue International Limited as that would present an opportunity for them to bid higher in any fresh tenders, the rescission of the Agreement would in our considered opinion be detrimental to the Bank as the Bank would not have taken full advantage of the low prices offered by De La Rue International Limited as a result of competitive tendering process.*

In conclusion, I advised the Governor that Treasury be strongly advised by the Bank that it is not advisable at all for the Treasury to allow De La Rue International to inextricably intertwine the proposed joint venture with a long term Currency Production Agreement with

the Bank. I further indicated that in my opinion De La Rue International should compete with other currency suppliers so as to ensure that the Bank obtains the most competitive prices for production and supply of currency.

14.) As my aforesaid memo to the Governor was forwarded through the Deputy Governor, Jacinta Mwatela, in her forwarding remarks she stated:

> ***" I have consistently raised my concerns regarding these arrangements where CBK is drawn into the Joint Venture while it is a purchaser /buyer of goods and services from De La Rue. I also maintained the position that De La Rue an interested party cannot be advising Central Bank on matters of what to purchase. As I have read this legal advice I am convinced of the need to heed the legal opinion."***

It appears the Governor, Prof. Njuguna Ndung'u was not impressed by my advice and the Deputy Governor's remarks thereon since in his response to me endorsed on the memo he said to me:

> ***"Gikonyo- I have been waiting for your response on the verbal questions I asked you. I appreciate positive thinking- Looks absent in this brief"***

15.) In an email to me dated 12/10/2007 with respect to my aforementioned advise to the Governor, Prof. Njuguna Ndung'u stated:

> ***"I read your report and I enjoyed the arguments in it. But I must say, you seem to fall in the same thoughts of conservativness. Perhaps you have been in the bank for too long to allow you to think outside the box and for longterm. Perhaps you could answer me the following questions:***
>
> - ***Who owns Central Bank?***
> - ***When we declare profits, we send to who?***
> - ***If we are barred by law from investment in De La Rue kind of investments (but we can invest in KSMS type of business), then we are prevented to behave like the SA Reserve Bank or Nigeria Fed where they have their own printing facilities and they can look for business in other countries. In this case, and in***

the short term we cannot change the law, should we prevent the Treasury from investing for the Nation?

- *But for this to make sense for now, the CBK, being an a national institution must be enjoined in an indirect way, otherwise why would the Treasury want to invest if not to help the CBK?*

I was thinking you may want to look at this along these lines rather than keep harping on the concluded contract and how we need to adhere to it. It will only last three years, what will we do after that contract?

Please answer these questions for me so that I can understand your position more clearly."

16.) The aforementioned email was followed by another email to me from Prof. Njuguna Ndung'u, the Governor dated 14th October, 2007 in which Prof.Njuguna Ndung'u stated:

" I have waited for your response, but it does appear that I need to give guidance on the matter before you make your response:

The CBK Position: The Treasury and CBK should discuss the Long term Currency contract with De La Rue to see if it is too restrictive and to agree on the way forward. The CBK should not argue against its existence at all. (For emphasis this paragraph was in bold, in the original email).

I hope this gives guidance while I wait for answers to questions below".

17.) Sometime in late October 2007 Prof. Njuguna Ndung'u, the Governor forwarded to the Deputy Governor/ Chege and myself a letter dated 24th September, 2007 from the Hon. Amos Kimunya, the Minister for Finance with the *remarks "please take note of the contents of this letter."* In the said letter, the Minister inter alia advised the Bank that:

a. The Cabinet had by a decision made on 29th May, 2007 approved a joint venture in the De La Rue Currency and Security Print (K) Limited between De La Rue International UK and the Government of Kenya.

b. One of the critical issue to be considered in consummating the transaction is a long term supply contract between the Bank and De La Rue Currency and Security Print (K) Limited.

c. The Bank initiates work on the nature of the said contract taking into account some of the ideas, including on pricing, from lessons learnt from the last competitive bid undertaken by the Bank.

18.) By a further letter dated 1st November, 2007 from the Hon. Amos Kimunya, the Minister for Finance advised the Bank that the 1710 million pieces of new generation currency banknotes printing contract stood cancelled and the Bank was requested to liaise with De La Rue Currency and Security Print Limited to print current generation banknotes to cater for the stock-out and also allow time for negotiations on the proposed joint venture.

19.) As issues relating to award, variation and cancellation of contracts fell within the scope of the Tender Committee of the Bank, the Tender Committee of the Bank under the chairperson Jacinta Mwatela, the Deputy Governor held three (3) meetings in November, 2007 to address the effects of the aforesaid letter and the way forward.

20.) The Tender Committee having regard to the legal implications arising from the cancellation of the contract for the new generation banknotes and imminent currency supply gap that would arise resolved that in view of the magnitude of the issues at hand, a Board Meeting should be convened to urgently address the following critical issues:

i. The inevitable gap in stock-out beginning April, 2008 which was identified as 390 million pieces of banknotes to cover a period of two years;

ii. The cancellation of the Agreement for the design, manufacture and supply of New Generation Kenyan Currency; and

iii. The policy guidance to address the issue of currency procurement in the future.

In view of the gravity of the issues at hand, the entire Tender Committee participated in preparation of a Board Paper so as to ensure that all the pertinent information was captured in the Board Paper. The Board Meeting was held on 23rd November, 2007.

21.) The Board after deliberating on the matter noted that the Bank urgently required to procure 390 million pieces of banknotes in order to avoid a national crisis when the stocks held ran out in April 2008 as forecasted. The Board authorised the Management to procure 390 million pieces of the current generation banknotes from De La Rue Currency and Security Print Limited. The Board also authorised the Management to terminate the contract entered into on 4th May, 2006 between the Bank and De La Rue International Limited.

22.) Upon forwarding the draft Minutes of the Board Meeting to Prof. Njuguna Ndung'u, the Governor for approval. The Governor made several amendments and remarked that I was putting my own personal biases in the Minutes. After inserting the amendments made by the Governor, the Governor again made further amendments before finally approving the Minutes.

23.) Thereafter, I received a letter from Prof. Njuguna Ndung'u , the Governor demoting me from the position of Secretary to the Board albeit the fact that I had only three (3) months left to the date of my retirement from the Bank. In my view, the demotion was not warranted as I had previously for a long time handled minute writing for the Board under the tenures of Governors Micah Cheserem, Nahashon Nyaga, Andrew Mullei and the Acting Governor, Jacinta Mwatela.

John Macharia Gikonyo

APPENDIX 24

DE LA RUE CURRENCY

3 May 2012

BRIEFING ON DE LA RUE'S OPERATIONS IN KENYA

De La Rue is the world's largest banknote security printer with a market share of over 40% - UBS estimate 40% and Citi Group estimate 48% (see attached). It is a trusted partner of governments, central banks, issuing authorities and commercial organisations around the world.

The De La Rue Group is involved in the design and production of over 150 national currencies and a wide range of security documents including passports, driving licences, authentication labels and tax stamps. In addition, the Group manufactures sophisticated, high speed, cash sorting equipment.

The proposed joint venture company, De La Rue Kenya EPZ Limited, would be an integral part of the De La Rue group of companies and its 60% shareholding would be owned by the UK Stock Exchange listed parent via a number of other wholly-owned subsidiaries. This type of structure is completely normal for a company with global operations, such as De La Rue.

For the valuation process, both the Government and De La Rue had separate, independent valuations undertaken by highly respected specialist firms and De La Rue shared the results of its valuation with the Government. These valuations assessed the market value of the various assets that the joint venture will own as distinct from the book value of the assets, which is computed using standard accounting formulae and does not necessarily reflect their real economic value. The proposed purchase price of £5m for the 40% shareholding was negotiated based broadly on those valuations. In addition, De La Rue will ensure a guaranteed minimum of £3m of cash and inventory in the final share sale transaction.

De La Rue estimate that the return on the Government's investment will be less than three years and it should be noted that for the financial year 2011/12, which has just concluded, the business has been trading in line with expectations and we have seen nothing to cause us to lower the projected EBIT budget figure for our Kenyan operation of £4.2 million as contained in the joint venture business plan.

The banknote printing equipment installed in its factory in Ruaraka was purchased new by De La Rue directly from the manufacturers. It is regularly maintained and was refurbished and upgraded in 2009. Banknote printing presses are major items of capital equipment and are expected to have a long life as a consequence. It is used to print all Kenyan banknotes – no Kenyan notes are printed abroad – and has also manufactured notes for over 30 other countries. If the proposed joint venture proceeds then all Kenya notes will continue to be produced locally.

De La Rue's decision to invest in Kenya followed an invitation and an undertaking from the Governor of the Central Bank of Kenya, Governor Kotut in 1991 who recognised 'the viability of the plant hinges on the production of the entire banknote requirements of the

Central Bank of Kenya. Accordingly I would like to confirm that the Central Bank of Kenya will place its entire indent with the Kenya plant.'

For clarity the following is a summary of the contract chronology relating to the banknote printing contracts issued by the Kenyan authorities.

- 18th October 1991 contract signed between the Central Bank of Kenya and De La Rue International Limited (formerly Thomas De La Rue and Company Limited).
- First order to be placed on or before 1 January 1993 and produced in another De La Rue facility until the Kenya plant was operational.
- The agreement was for a term of 10 years from the date of the placing of the first order which was to be no later than 1 January 1993. Order placed 15th April 1992.
- New 10 year agreement signed 5 December 2002, cancelled in March 2003 and replaced by a 2 year contract.
- 1st International tender was launched November 2004 and De La Rue submitted the lowest cost compliant bid based on Kenya production.
- The tender was subsequently cancelled 15th May 2005.
- A new tender for New Generation banknotes was launched on 6 June 2005.
- The Central Bank of Kenya placed 12 month new order on 14th July 2005 for 300m notes.
- De La Rue was announced as the preferred bidder for the New Generation banknotes in late 2005 based on overseas production.
- New Generation Contract signed 4th May 2006 and cancelled on 14th December 2007

The second 2005 "New Generation" tender took no account of the strategic, security and cost advantages to Kenya of the local production of banknotes. This put local production at a disadvantage against companies who based their offers on printing in their overseas locations, and thus did not have to include the local storage and logistics costs currently covered in De La Rue's banknote price. Consequently the winning tender submitted by De La Rue was based on production at its larger factory in Malta, to put the company's offer on an equal basis with the offers of other overseas companies. Although the contract was signed by both parties, the Government subsequently reviewed the contract, as indicated in the recent testimony to the Committee by the then Finance Minister Mr Kimunya, and decided to cancel the contract. The downpayment on the New Generation contract was fully utilised instead for the purchase of existing design notes.

There has been considerable discussion around the 'interim'orders placed by CBK following the cancellation of the New Generation agreement with De La Rue. The cost of banknotes is dependent on a large number of factors, including such things as the detailed specification, security features and the length of the production run. The New Generation contract was based on a different specification to the existing series of banknotes, including a reduction in size for all denominations, and, as stated in Mr Kimunya's submission, was based on a much larger volume (1710 million notes which is 5 times the average size of interim orders placed between 2001 and 2010). As indicated above, it was also based on overseas production.

100% of the costs of the New Generation banknotes produced overseas would have left the Kenyan economy. In contrast De La Rue's Kenyan operations currently contribute over 1 billion Ksh annually to the Kenyan economy in the form of salaries, taxes and the purchase of goods and services. Thus over the five year period from 2007 to 2011, De La Rue has injected over 5 billion Ksh into the Kenyan economy, a benefit that would have been lost if production was undertaken overseas.

Consequently De La Rue believes that any suggestion that the prices for the interim orders compare unfavourably with those quoted for the proposed New Generation is inaccurate, as the two specifications and sets of contractual conditions were totally dissimilar. Prices for the current Kenyan banknotes average approximately two-thirds of the average prices paid by other central banks in the region. For reasons of customer confidentiality we cannot reveal prices that are not in the public domain. Kenyan Banknotes average 3,721 Ksh per 1000 notes and this compares favourably for example with a budget price for US banknotes of 7,387 Ksh and 27,000 Ksh for Swiss banknotes.

As a reflection of its continued commitment to invest in its Kenyan operations, De La Rue has recently installed 'Chip & Pin' smart card personalisation equipment into the factory at a cost of over 60 million Ksh. This has been accredited by leading credit card suppliers and De La Rue's Ruaraka facility is the first location in Africa to obtain this accreditation.

In the event that the joint venture does not proceed then clearly De La Rue would have to review the future of its operations in Kenya and, very regrettably, there is a high probability that the company would cease currency manufacturing in Kenya with the concomitant loss of jobs and income for the local economy.

We believe that the way that our involvement in Kenya is being portrayed sends a very unfortunate message to the international business community about investing in Kenya. De La Rue, a respected world leading company which works with over 100 governments worldwide, accepted the Government of Kenya's invitation to invest in the country, over and above invitations received from a number of other African countries. Over the last 18 years we have provided significant investment, employment and export earnings for Kenya and we very much hope that we will be able to continue to do so in the future should the business climate allow.

Douglas Denham
Commercial Legal Director
De La Rue Plc
email – douglas.denham@uk.delarue.com

De La Rue Supply Chain

Welcome to De La Rue Kenya

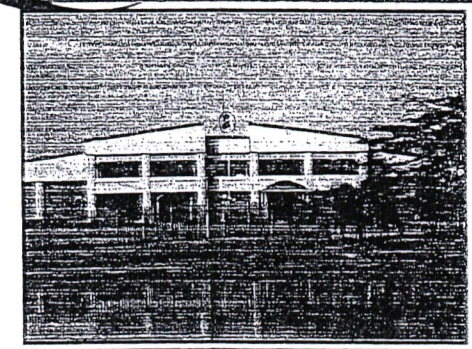
Contents

- De La Rue Africa
- Kenya Site Overview
- Banknote History
- History of Other Secure Products
- Meet the Team
- Health, Safety and Environment
- Quality
- CSR
- Security
- Banknote Production
- Cheque Production
- Card Production
- Voucher Production
- Our Vision and Mission

De La Rue in Africa



Kenya Site Overview



Kenya Site Overview

Address	Noordin Road, Off Thika Road, Ruaraka
No. Employees	262
No. Expats	3
Size of Facility (SqFt)	70,000
Years in Operation at Site	18
Shift Pattern	2 shift system
Principal Business Streams	Currency & Security Products
Head of Operations / Head of Site	Steve Craig

Banknote History

- Site opened in 1994 following a request from the Central Bank of Kenya, the factory has a 30 year lease from CBK, currently expiring in 2023
- EPZA licence granted
- Production – initially CBK banknotes only with 95 employees & volume of 200M notes per year
- Current budget volume is 720M banknotes and 182 banknote employees
- Total investment is £16.2M
- Annual contribution to the Kenyan Economy £10M
- JV status was envisaged from the outset

History of Other Secure Products

- 1996 - Local banks approach DLR to produce cheques
- 1997 - Local cheque production takes off (Standard Chartered)
- 1998 - Local banks bring card production
- 2000 - Win FNB (South Africa) contract and print cheques in Kenya
- 2003 – South Korean vouchers produced in Kenya
- 2011 – designed and delivered truncation cheques
- Currently only firm in Africa with pin and chip card capability

Health, Safety & Environment

- Excellent safety record – No reportable injury in 4 years
- Over 500 days since the last lost time accident
- Site among the first 5 companies in East Africa to achieve OHSAS 18001
- ISO 14001 certified since June 2004
- HSE scores very well in 'Your Say' surveys
- Site won two corporate HSE awards in 2011

Quality

Quality

- Site certified to ISO 9001 since the year 2000
- Quality Manager and six Quality Assurance operatives
- Fulltime Continuous Improvement Leader – Green Belt
- Lean Six Sigma – five certified Green Belts, one Black Belt

Corporate Social Responsibility

The Nairobi Hospice
- Company and some employees are Friends of Nairobi Hospice

Good Samaritan Children's home



Christmas gifts from DLR-UK delivered to Good Samaritan Children's Home.



Clothes and food items donated by employees to the Children's Home.

Others

- ✓ Used pc's being donated to Computers for Schools Kenya
- ✓ Also looking at sponsoring some schools

Security

In order to safeguard our products, De La Rue Kenya has a professional team of uniformed security officers, audit, materials control and armed GSU personnel



Armed Guards



Uniformed Security



Materials Control & Audit

Security

Combined with state of the art security technology, specifically designed to keep our products safe and secure, allowing us to effectively meet the challenges of the 21st century.





External Alarm Protection



Under Vehicle Search Cameras



Surveillance Suite

Banknote Production

- Single banknote line
- Current capacity of 720m notes a year
- Packing capacity of more than 16m notes/week
- 18 different jobs being completed this financial year (2011-12), including Kenya and South Sudan





Cheque Production

- Kenya Bankers Association accredited
- Main Cheque printer in East Africa Region
- 55m cheques a year
- 42 customers in total including CBK, KCB, Barclays, Standard Chartered, Cooperative and Equity
- 89% market share
- Designed truncation cheques and produced 92% of the truncation project cheques



Card Production

- Visa and Master Card Accredited
- Only company with chip and pin ability in Africa; MX6000 installed this year.
- 2.5m cards a year
- Customers include KCB, Standard Chartered, Barclays and Co-operative

CHIP PERSONALIZATION



Voucher Production

- Mainly produced for Korean market
- 15m a year
- Local customers include Nakumatt, Uchumi and Westgate stores

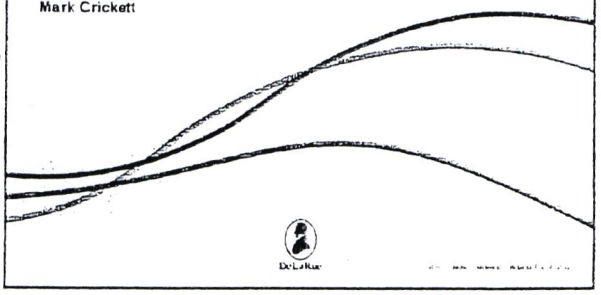


DeLaRue

Thank You

Overview of De La Rue

Mark Crickett



De La Rue

De La Rue – who we are

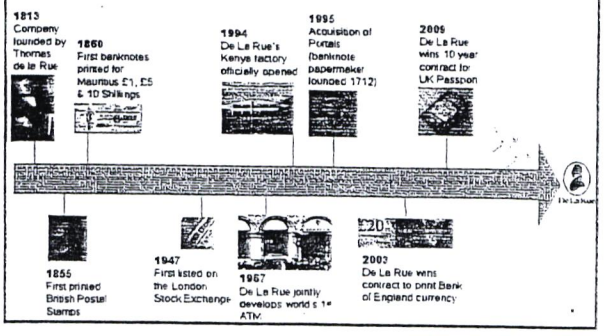
- The world's largest integrated commercial security printer and papermaker
- The trusted partner of governments, central banks, issuing authorities and commercial organisations around the world
- Involved in the production of over 150 national currencies and a wide range of other security documents including passports, driving licences, authentication labels and tax stamps
- Manufacturer of sophisticated, high speed cash sorting equipment
- Offers a range of specialist services and software solutions including government identity schemes, product authentication systems and cash management processing solutions
- Generated revenue of £464m and an operating profit of £40m in the year ended March 2011

Ownership & Corporate Governance

London Stock Exchange

- De La Rue became a public company in 1921 and listed on the London Stock Exchange in 1947
- Today De La Rue features in the FTSE 250 index
- Members of the London Stock Exchange are regulated by the UK Listing Authority which requires them to follow strict disclosure requirements and maintain the highest standards of corporate governance
- De La Rue has over 6800 shareholders with the top five shareholders owning approximately 36% of the share capital as at March 2012

A Well Established Business – some of our history

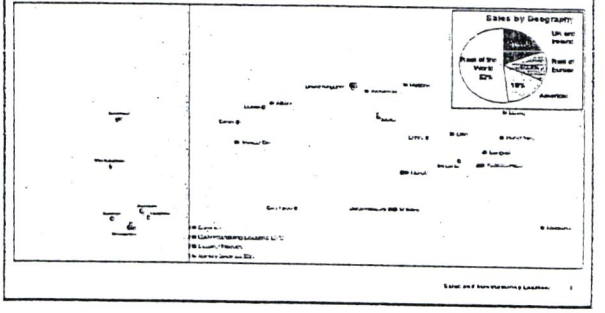


De La Rue Business Overview

		Proportions of Group*	
		Revenue	Operating Profit
Currency	• Banknote substrates and security features • Design, origination and printing	60%	72%
Cash Processing	• High speed sorting machines • Service, maintenance and spares • Cash management solutions	13%	3%
Security Products	• Design, origination and printing of secure products • Tax stamp and authentication solutions	13%	12%
Identity	• Design, origination and printing of identity documents • Personalisation solutions	14%	13%

Solutions

An International Business



Currency

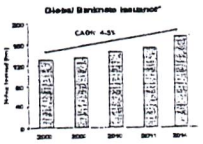
Market Growth Drivers

- Central Bank policy
  - New designs
  - Note cleanliness
  - Fitness standards
- Security
- Durability









Design

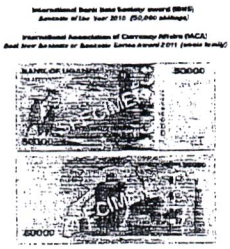
- Centre of Excellence for Design incorporating:
  - Banknotes
  - Security Print
  - Holograms
  - Passports
  - ID Cards



- Largest Banknote Design Team in the industry
  De La Rue has realised the design of one in two new banknotes issued in the last two years

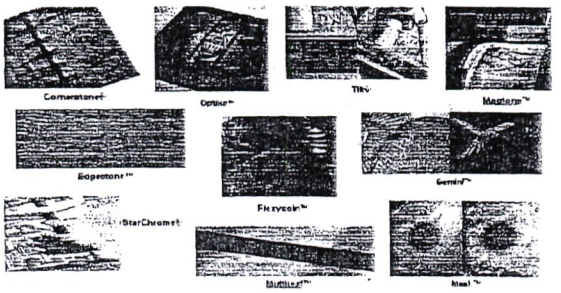
Award Winning Designs

Eight Design Awards in the last five years

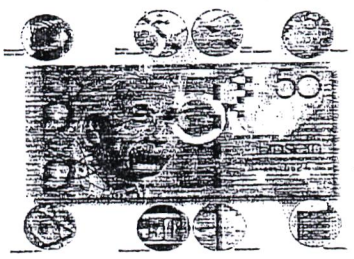




Currency: Leading Technology



Leading Technology – "Einstein" House Note



South Sudan – supporting a new country

- Countrywide currency solution
- Designed and delivered within 6 months
- Rapid delivery exemplified De La Rue capability and flexibility
- Note sorting equipment also supplied
- Notes printed in Kenya



UK ePassport

One of the world's largest and most prestigious identity systems, delivering a complete solution for ePassport design, manufacture and personalisation

Annual capacity of 5 - 6 million books
Highest levels of quality, accuracy, security and innovation
Sophisticated layering of security features to combat specific threats and ensure the book's integrity
Providing end to end protective, logical and procedural controls for the entire manufacturing and personalisation process



Chip & PIN Technology Upgrade in Kenya

De La Rue's highly secure card personalisation bureau in Nairobi has enhanced its offering by becoming the first in the region to upgrade to chip and PIN technology

This upgrade allows De La Rue to deliver secure, personalised chip and PIN cards to its African bank clients with lead times as short as 24 hours



DeLaRue

Kenya Joint Venture

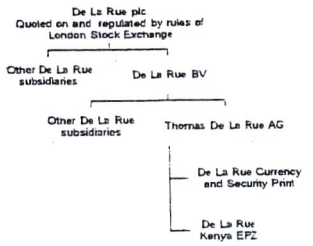
Douglas Denham
Group Commercial Legal Director
De La Rue plc

Background

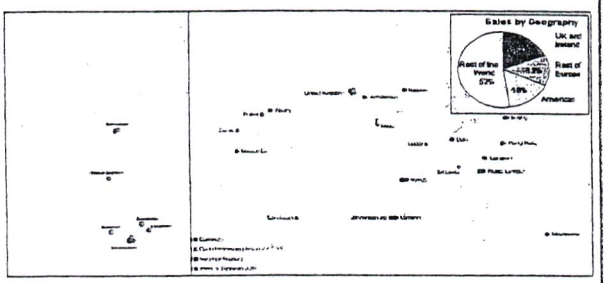


- Initial investment in Kenya – Factory commissioned and built in February 1994
- 10 year contract to produce banknotes for CBK
- Since 2003 short term contracts have been awarded
- 2007 - De La Rue won IBT on the basis of offshore production and the closing of a local facility
- 2007 - negotiation commenced in Kenya for the government to buy a strategic stake and award a long term contract to the JV
- 2012 – JV Agreements agreed in principle. Attorney General and Cabinet approval having been obtained

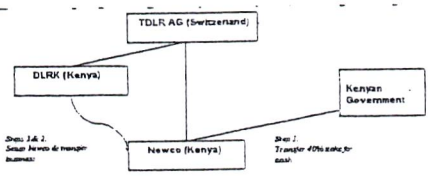
De La Rue Group Structure (extract)



An International Business



Schematic Map of proposed JV structure



De La Rue Currency and Security Print – Kenya (Historic and Projected Earnings)

Year	08/09	09/10	10/11	11/12e	12/13e	13/14e	14/15e
EBIT £m Total	5.5	8.5	2.8	4.2	4.7	5.0	5.5
40% share	2.2	3.4	1.1	1.68	1.88	2.0	2.2
Cumulative Total	-	-	-	-	1.88	3.88	6.0
Cumulative ROI of £5M					37.6%	77.6%	120%

e = estimate
b = budget

How do you value a business

Many methods (for example)
- Multiple of earnings (p/e ratio)
- Discounted cash flow
- Asset value

De La Rue plc current market value of – £930m with p/e ratio of approx 17 x earnings – shares publically traded

Applied to Kenyan operations implies value on 11/12 EBIT of £4 2m of £71 4m

Last independent market valuation of DLRC&SP current assets = £11.7m
(does not include land and buildings or new equipment purchased since valuation)

Why a Joint Venture with De La Rue?

Government partnership with the largest commercial security printer in the world

Continues to deliver over 1 billion shilling annual contribution to the Kenyan economy

Maintains 260 highly skilled Kenyan jobs

Possible manufacturing location for any future East African Currency

Maintains critical national infrastructure in Kenya and security of currency manufacture

Retains De La Rue Kenya as De La Rue's African hub

Provides Kenya with a secure manufacturing facility for government identity and fiscal documents

Agreed Principles and Key Terms

60/40 DLR /GoK Shareholding

Sale of 40% of the Company for £5m

DLR will provide 3 Directors

GoK will provide 2 Directors and the right to appoint (non-employee) Chairman

Balance sheet guarantees to GoK

EPZ Tax Status

New long term 10 year contract

Where are we now?

The legal documents
- JV Agreements
- Hive Down Agreements
- Shareholder Agreements
- Sale & Purchase of minority interest

Cabinet and Attorney General approval for the transaction already obtained

All documents ready to be signed

Kenya Joint Venture

The Joint Venture will allow De La Rue and the Government of Kenya to continue the very successful relationship that has developed since 1992 when the factory project began

Any Questions?

Appendix 25

Andrew K Mullei

Longonot Place Apartment 3

Harry Thuku Road

P O Box 55237-00200
Nairobi, KENYA

Office Tel: (254) 20 2217310 Fax: (254) 20 2217315 Email: mullei@andrewmullei.com

CLERK'S OFFICE

Mr. Patrick G. Gichohi, CBS
Clerk t of the National Assembly
Clerk's Chambers,
National Assembly,
Parliament Buildings
P O Box 41842,
NAIROBI

14th May 2012

Thursday
pls TNA
& inform
the Comm.
CMA
14/5

Dear Mr. Gichohi,

RE: MEETING WITH PABLIC ACCOUNTS COMMITTEE

I am writing this letter to confirm that this morning (Monday 14th May 2012) I found your two letters dated 23rd and 27th April 2012 waiting in my office for attention together with a Summon from you dated 8th May 2012 directing me to appear before the PUBLIC ACCOUNTS COMMITTEE at 9:30 am on Thursday the 10th of May 2012. I sorry and do apologize to you and the Members of the Public Accounts Committee for failing to respond as required. I was away from Nairobi on official and private business from the 23rd of April, 2012 to today 14th of May 2012. I will also be away from afternoon of 14th May 2012 for a scheduled official visit to Israel returning on or about the 21st May, 2012.

Given the fact that I was not and will not be available to present myself to the Committee in person I thought I should submit written evidence detailing all that I know about De La Rue and its relations with the Central Bank of Kenya. As you may recall, the written evidence I am forwarding to you now was submitted earlier to the Departmental Committee on Finance, Planning and Trade on Monday 29th 2008 at 4:30 pm when I was invited by the Chairman of that Committee to give evidence on De La Rue and its dealings with the Central Bank of Kenya especially during my tenure as Governor.

You will therefore find in the attachment to this letter the evidence I am requesting you to submit to the Chairman of the Public Accounts Committee in response to the Committee's invitation as conveyed in your two letters cited above and the Summon you forwarded to my office on 8th May 2012 directing me to appear before the Committee without fail

I wish the Committee well in its deliberations and should there be anything that the Committee would wish me to clarify based on the attached submission, I shall be glad to present myself and give any necessary clarifications on a day and time designated by the Committee soon after my return.

Sincerely

ANDREW K. Mullei

- Thursday 25th September, 2008, I received a letter from the Clerk of the National Assembly Ref: KNA/DC/FPT/2008 (119) dated 23rd September 2008 inviting me to appear before the Departmental Committee on Finance, Planning and Trade on Monday 29th 2008 at 4:30 p.m.

- The letter stated that I was expected to give this Departmental committee background information concerning the printing of New Generation Kenya Banknotes.

- At the outset, let me state that I welcome the invitation because of the opportunity it offers me to provide to this committee detailed and factual information on what the Central Bank did in connection with the preparation for design, origination, manufacture, printing and supply of New Generation Banknotes.

- It is apt to point out that at the time the initiative was taken to print New Generation Banknotes I was Governor of the Central Bank of Kenya having been appointed on 4th March 2003. This appointment brought me back to the Central Bank where I had earlier served for 8 years from 1980-1987, holding successive positions of Counselor to Governor Duncan Ndegwa, Secretary to the Board of the Central Bank of Kenya and Director of Research under Governor Philip Ndegwa.

- As Secretary to the Board, I was aware that Bradbury and Wilkinson of the United Kingdom were the Printer for Kenya Bank notes for 20 years from 1966-1986. Prior to that, the East African Currency Board were the printer for the common Currency for inter-alia Kenya, Uganda and Tanzania.

- In 1986, Thomas De La Rue acquired Bradbury and Wilkinson and took over the printing role of Kenya Banknotes through an exclusive Contract with the Central Bank, and this Contract lasted up to 1992.

- In 1993, the Central Bank signed a contract with De La Rue, which gave this company exclusive rights to manufacture and supply Kenya Banknotes for 10 years up to December 2002. On expiry of this term, the Central Bank renewed the Contract with De La Rue for a further 10 years, which was to run up to 2012. This extention of the Contract was signed on 5th December 2002.

- The Narc Government came to power in 2003, and in a letter dated 14th March 2003, the Minister for Finance Hon. David Mwiraria directed cancellation of the Contract signed on 5th December 2002, stating the following:-

- -That the contract came into force on January 1st 2003 when the Narc Government came into power, and should therefore have been consulted.

- -That the Contract was single sourced instead of being open for competitive bidding as transparency would require.

- -That the Contract period was for 10 years instead of the normal 5 years for no apparent reason

- The Minister's letter of 14th March 2003 further directed the Central Bank to initiate an international open tender for printing of Kenya Banknotes.

- This Ministerial Directive was implemented strictly in accordance with the provisions of the Public Procurement Law then in force.

- In order to ensure that there was adequate supply of Banknotes between the cancellation of the Contract dated 5th December 2002 and the supply of the new Banknotes, the Government authorized the Central Bank to enter into an interim arrangement with De La Rue to secure enough Banknotes for a period of 21 months. Within that period the International competitive tendering process was expected to be completed, and the new Banknotes ready for supply.

- The Minister instructed the Bank to negotiate a reduction of the terms and conditions of the cancelled contract. As a result, De La Rue agreed to offer the Bank a discount of 2% off the contract price dated 5th December 2002.

- This interim Contract with De La Rue was necessitated by the fact that the plates and designs used for printing existing Kenya Banknotes belonged to them.

- The Directive to initiate an international competitive tendering process gave the Central Bank unique opportunity to review with a view to upgrading the quality of the Banknotes for it had been decades since reforms were done on the Kenyan Banknotes. It also became necessary to gather upto date information on what exactly is involved with respect to Banknote printing.

- In this regard, the Bank invited leading experts and international players to provide information on best practices intandem with international standards and also make presentations to the Board of Directors and senior managers of

the Central Bank on all aspects of Banknote printing including design, origination, manufacture and supply of the notes.

- We learnt from the experts that there are six key considerations apart from cost, which inform decisions about printing of Banknotes.

  These considerations include:-
  - Importance of reviewing currency every 8-10 years in order to take advantage of technological advances incurrency printing,
  -The choice of materials on which Banknotes are printed,
  -the choice of Banknote Denomination mix, the Banknote sizes,
  - ownership of copyright of security features which are necessary for safeguarding against counterfeighters,
  -Banknote themes,
  -inscriptions,
  -portraits and finally
  -ownership of copyrights of engraved dies,
  plates and other origination materials which should be the sole property of the Bank and not the supplier.

- On 18th March 2004, I wrote to the Minister, providing a detailed brief of the procedures that the Bank planned to put in place in drawing up specifications for Kenya's new Generation Banknotes, and facilitating floatation of an international competitive tender.

- On 23rd March 2004, the Minister wrote to me confirming his agreement with the proposed procedures.

- On 20th July 2004, I wrote to the Minister again recommending specifications which the Bank was proposing for inclusion in the new Kenya Banknotes.

- The specifications recommended comprised:- denomination mix of five Bank notes, (50,100,200,500 and 1000), reduced size of Banknotes to facilitate easy handling, change of Banknotes colours to make them more distinctive, new advanced security features to protect Banknotes against counterfeighting, and improved identification of the Banknotes to facilitate easy recognition by both wananchi and modern sorting machines.

- It was necessary to obtain the Government's approval of the proposed advanced security features and other specifications and designs before the Central Bank proceeded to the next stage of the process which was to float the international competitive tender.

- The Minister communicated approval by the Government, of the above recommendations through a letter to me dated 6th January 2005.

- Following the approval of the tender document by the Directorate of Procurement at Treasury, the Board of the Central Bank, the Tender Committee of the Central Bank floated the Tender availing equal opportunities to all invited companies to quote for design, manufacture and supply of 1710million pieces of New generation Banknotes.

- As a result of a lengthy process in 2005, De La Rue won the Tender for a 3 year contract to design, manufacture and supply 1710 million pieces of new Generation Bank notes at a cost of US Dollars 51,195,840.

- The Tender was at one stage cancelled and re-tendered due to a breach of tendering procedures by two bidders during the Tender opening process.

- The average price per Banknote arising from the international competitive Tender came to approximately one half of the average price paid to De La Rue for the existing Banknotes.

- Among the conditions to be fulfilled by the Central Bank was a down payment of 50% of the contract price amounting to USD 25,597,920.

- I understand that the Central Bank paid this deposit on the 18th May 2006.

- The new Generation Bank notes were to be delivered by De La Rue within the period between August 2006 and December 2009. The launching of the same was planned to take place soon after the General Elections in 2007.

- In preparation for scheduled delivery of the new Banknotes, the Bank put in place the necessary arrangements to issue official gazettement and notices, secure storage facilities in various branches of the Central Bank, conclude agreement with KRA for use of the strong rooms and Vaults in Times Tower, conduct public education and awareness campaigns and ensure Banknote processing machines are adapted to the new Banknotes.

- Based on the rate of consumption, the existing stock of the old Banknotes plus recoveries were to be exhausted by December 2007. Any remaining balances were to circulate side by side with the new generation Banknotes.

- On 23rd March 2006, I was suspended from executing my duties as Governor.

- I understand that the contract between the Central Bank and De La Rue was signed on 4th May 2006, with the commencement date of 22nd May 2006.

- I also understand that the submission of the approved Banknote designs and signatories to De La Rue was delayed by the Bank for quite sometime.

- Meanwhile, I also came to understand that the Cabinet had approved a joint Venture between the Government of Kenya and De La Rue to produce Kenya Banknotes at it's factory in Ruaraka, and that the approval was for Ksh.600million investment for a 25% stake.

- My understanding is that De La Rue Factory in Ruaraka does not have the technology necessary to produce the New Generation Banknotes. To do so, it would require upgrading of the machinery necessitating injection of new capital. This would take time, and therefore there is a choice to be made.

- Of course, one would hope that the joint Venture would not cause Kenyans to lose out on the benefits of competitive pricing of the new Generation Banknotes at half the cost of existing Banknotes, nor the superior designs that have been approved by the Government for the new notes and the security features which are capable of countering the ingenuity of Banknote counterfeighting.

- Looking ahead, it may be worthwhile to ponder over the merits and demerits of engaging in multiple sourcing of our Banknotes, especially given our experience so far.

- Multiple sourcing of Banknotes has the benefit of enhancing transparency in the procurement process. It is a risk management tool incase of a disaster affecting a country's Banknote printer.

- Multiple sourcing also introduces competition which brings better quality and lower prices while providing continuous quality comparison and Benchmarking.

- There are three aspects of multiple sourcing which can be considered namely, design, origination, paper supply and the actual printing of the Banknotes.

- Hitherto, the Central Bank has traditionally sourced all it's denominations and all the three components from De La Rue.

- Information provided by experts during the presentations made to the Central Bank Board indicated that it is a generalized practice to source different denominations and components from different suppliers with substantial cost savings.

September 27th, 2008.

SECRET

APPENDIX 26

Governor

BANKI KUU YA KENYA

CENTRAL BANK OF KENYA

Haile Selassie Avenue
P.O. Box 60000 Nairobi Kenya
Telephone 226431 Telex 22324

November 15, 2002

Mr. Joseph K. Kinyua
Permanent Secretary/Treasury
Ministry of Finance & Planning
The Treasury
NAIROBI.

Dear Hon. [illegible]

RE: SECURITY PRINTING CONTRACT FOR KENYA BANKNOTES

The current ten-year banknote security printing contract between the Central Bank of Kenya and De La Rue Currency and Security print Ltd. (DLR) is due to expire on January 1, 2003. The purpose of this communication is to seek your concurrence for the Bank to source for this specialised service from one reputable international security-printing firm.

The Central Bank of Kenya, based on the need to obtain secure and reliable services in the design, production, and supply of the national banknotes coupled with the desire to access the latest technological developments in banknote security and all other material facts, recommends that we seek your concurrence to continue engaging the services of M/S De La Rue Currency and Security print Ltd. (DLR) but under revised terms beneficial to the Bank. The justification for our recommendation to continue engaging the services of the DLR Group is based on the following:

First, the design and origination, production, supply, and physical delivery of any form of currency is by its very nature a security-based operation, whose specific particulars must be handled at all times with utmost confidentiality to

avoid its access to unauthorized third parties. It is, therefore, our considered view that if we were to widely distribute the specifications of our banknotes to multiple security printers, there exists the likelihood and the real danger that our banknotes would be exposed to the possibility of counterfeiting. Indeed, our view is supported by the fact that all the other international printers that we would have to consider do not maintain a physical presence in Kenya. As a result, these other security printers have resorted to engaging a multitude of local agents whose credentials in matters of high security nature cannot be guaranteed or ascertained. It is even more worrisome that these agents have tended to operate within circles of well-connected personalities. This, coupled with their observed undesirable business conduct as they canvass for business, has left the Bank deeply concerned were such persons to gain access to the intricate security features of our banknotes. This concern is further heightened by the proliferation of counterfeiting incidences worldwide that are being facilitated by the ever-growing sophistication in information technology.

The foregoing obliges the Central Bank to engage the services of a most reputable international security-printing firm. The DLR Group, which is both the oldest and largest security-printing firm in the World, seems best placed to address all our security-based concerns.

Second, the continued engagement of the DLR Group would not only gives us the comfort of secure production devoid of counterfeiting but also timely deliveries as it has a physical presence locally. The Group's local presence has also been a boon to the Central Bank as it presents the Bank with the advantage of not having to hold up large stocks as re-orders can be made and delivered at short notices. We would like to confirm that the DLR Group has since October 1991 given the Central Bank the requisite comfort in respect of security and timely deliveries.

The aspect of timely deliveries is even more relevant at this current point in time when the country is going through the process of political change. In such a time, the Central Bank needs to be well prepared in the event that the next Government requires the Bank at short notice to redesign some features of the national currency. A comprehensive redesign of the currency features

upto the stage of delivering the final product takes on average a minimum period of 18 months. In such an eventuality, the DLR Group would serve the country best as they hold all the requisite patented origination materials.

Third, the re-engagement of the DLR Group would still ensure that the production of our banknotes remains price competitive. The pricing structure in the current ten-year contract, which is reviewable every two years, has been revised downwards substantially in the last three reviews. It is noteworthy that the DLR Group have already indicated that they would be willing to maintain prices at the current levels for the next two years despite the fact that were the price to be review this year, based on the current production costs, the prices would have been enhanced substantially. The re-engaging of the DLR Group should, therefore, ensure that the current prices effectively remain unchanged for a period of four years. It is also notable that the Group has indicated that it would be willing to accept for half of the contract value to be payable in Kenya shillings.

Fourth, any shift from the DLR Group would require us to either replace or totally remodel all our current banknote counting machines, an action that would be far too costly to the Bank. Presently, we have made a heavy investment in our heavy-duty banknote-counting machines, which comprises of a set of specialised machines that are specifically designed and programmed to process the DLR-generated banknotes. The other set of smaller banknote-counting machines were sourced directly from the DLR Group and are custom made to process DLR-produced banknotes only.

It is also important to point out a secondary issue that ought to be taken into account whilst considering the merits or otherwise of granting this request. As you are aware, the DLR Group made a bold move in 1993 to establish a security document-printing factory, which serves its worldwide clientele, at a cost of Pound Sterling 11.0 million. The move was, indeed, commendable as it was undertaken at a time that foreign direct investment was fleeing the country.

A study carried out by the Bank reveals that the physical local presence of the DLR Group has made a significant contribution in our economy: it has trained highly specialised/skilled Kenyans and currently generates employment for nearly 200 local staff whose total annual wage bill is Shs.102 million; it spends Shs.184 million in the purchase of local inputs and services; and, Shs.88 million directly to the Exchequer in the form of taxes. In the event that the Group were to disinvest in Kenya, the economy will have lost a major foreign investor with all the specialised facilities and attendant skills being rendered to waste. This course of action would undoubtedly also send the wrong signals to other potential foreign investors.

It should also be noted that the DLR Group is willing to inject an additional Pound Sterling 4.0 million to expand its Ruaraka-based plant were the Central Bank to re-engage the services of the Group. We hasten to add, however, that the Group has indicated that it would be unable to make an economic case to retain a physical presence in Kenya nor for undertaking its envisaged expansion programme were the banknote contract not renewed.

It is on the basis of the foregoing that we request for your approval for the Central Bank to re-engage the services of M/S De La Rue Currency and Print Limited in the specialised service of designing and printing of the Kenyan banknotes, for a period not exceeding six years, under terms to be negotiated between the Bank and the Group.

Yours Sincerely,

NAHASHON N NYAGAH
GOVERNOR

Appendix 27

PERMANENT SECRETARY
MINISTRY OF FINANCE
RECEIVED
- 5 MAY 2007
P. O. Box 30007
NAIROBI

PRESIDENT
5 JUN 2007
P.O. BOX 30007 NAIROBI

OFFICE OF THE PRESIDENT

PERMANENT SECRETARY, SECRETARY TO THE CABINET

AND HEAD OF THE PUBLIC SERVICE

Telegraphic Address: "Rais"
Telephone: Nairobi 227411
When replying please quote
Ref. No. OP.CAB.58/4A
and date

P.O. Box 62345-00200
NAIROBI

SECRET

29th May, 2007 ..... 20 .....

URGENT

Hon. S. Amos Wako, E.G.H.,E.B.S., M.P.
Attorney-General
State Law Office
NAIROBI

Mr. Joseph K. Kinyua, C.B.S.
Permanent Secretary
Ministry of Finance
NAIROBI.

Dear

CABINET MEMORANDUM ON PROPOSED JOINT VENTURE IN CURRENCY PRINTING BETWEEN THE KENYA GOVERNMENT AND THE DE LA RUE CURRENCY AND SECURITY PRINT LTD

I refer to the Third Cabinet meeting held on 29th May, 2007, during which a Cabinet Memorandum CAB(07)35 submitted by the Minister for Finance was presented and discussed.

I wish to inform you that Cabinet considered the contents of the Memorandum and:

i) Approved the proposed joint venture in the De La Rue Currency and Security Print Ltd. (K), with the De La Rue International UK retaining 75 percent ownership and the Government of Kenya acquiring 25 percent.

SECRET

SECRET

Please proceed and initiate action along the lines of the Cabinet decision.

Yours

Amb. Francis K. Muthaura, EGH
PERMANENT SECRETARY, SECRETARY TO THE CABINET AND HEAD OF THE PUBLIC SERVICE

Copy to:

Hon. Uhuru Muigai Kenyatta, EGH, MP
Deputy Prime Minister and
Minister for Finance,
NAIROBI

SECRET

SECRET

OFFICE OF THE PRESIDENT

PERMANENT SECRETARY, SECRETARY TO THE CABINET

AND HEAD OF THE PUBLIC SERVICE

Telegraphic Address: "Rais"
Telephone: Nairobi 227411
When replying please quote

P.O. Box 62345–00200
NAIROBI

Ref. No. OP/CAB.58/4A and date

13th September, 2011 20....

Mr. Joseph K. Kinyua, CBS
Permanent Secretary,
Office of the Deputy Prime Minister
& Ministry of Finance,
NAIROBI

Dear Joseph

CABINET MEMORANDUM ON A PROPOSAL FOR A JOINT VENTURE IN CURRENCY PRINTING BETWEEN THE GOVERNMENT OF KENYA AND DE LA RUE CURRENCY AND SECURITY PRINTING (K) LIMITED

I refer to the **Fourteenth Cabinet Meeting of 2011** held on **13th September, 2011** during which Cabinet Memorandum **CAB(11)42**, submitted by the Deputy Prime Minister and Minister for Finance was presented and discussed.

I wish to inform you that Cabinet **considered** the contents of the Memorandum and:

(i) **Approved** that GoK enters into a joint venture in currency and security printing with De La Rue, in which GoK will acquire 40% shareholding in a New Company (NewCo) to be initially formed by De La Rue International, who will also hive out all operating assets of the existing De La Rue (K) Limited to the NewCo. on the negotiated terms.

(ii) **Directed** the Deputy Prime Minister and Minister for Finance and the Attorney-General to take the necessary action.

SECRET

ii) **Directed** the Minister for Finance and the Attorney-General to take necessary action to effect the joint venture.

The Minister for Finance and the Attorney-General to take necessary action.

Please proceed and initiate action along the lines of the Cabinet decision.

Yours

AMB. FRANCIS K. MUTHAURA, EGH
PERMANENT SECRETARY, SECRETARY TO THE CABINET AND HEAD OF THE PUBLIC SERVICE

c.c.

Hon. Amos Kimunya, E.G.H., M.P.
Minister of Finance
NAIROBI.