



Defined
Benefits
Scheme



ANNUAL REPORT

AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2017



KENGEN STAFF RETIREMENT BENEFITS SCHEME

Our Vision

To be the leading Defined Benefits Scheme in providing sufficient, sustainable benefits and pension to members.

Our Mission

To provide expeditious and consistent benefits to members by prudently investing in members' contribution and scheme assets

Our Core Values

- Professionalism
- Customer Focus
- Integrity
- Teamwork
- Creativity & Innovation
- Diversity
- Latest News







NOTICE OF THE ANNUAL GENERAL MEETING

FOR THE PERIOD ENDED 31st DECEMBER 2017

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **KenGen Staff Retirement Benefits Scheme** will be held on **27th July, 2018** at Geothermal Spa Ground, Olkaria - Naivasha.

The meeting will commence at 10.00 am.

THE AGENDA OF THE MEETING WILL BE:

1. To read the Notice Convening the Meeting
2. To Receive Chairperson's Report
3. To receive the Fund Managers' Reports
4. To receive the Custodial Report
5. To receive the Administrator Report
6. To receive the Scheme's audited financial statements for the period ended 31st December, 2017 together with the Auditors' Report thereon.
7. To receive RBA's remarks
8. Questions and Answers Session
9. Any Other Business
10. Closing remarks.

By Order of the Board

A handwritten signature in blue ink, appearing to read "Josphat Muriuki".

Josphat Muriuki
CEO & Trust Secretary
6th July, 2018



REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31st DECEMBER 2017

Content

3-7 Trustees and Professional Advisors & Awards

Registered Office, Trustees, Administrators, Auditors, Investment Managers, Custodians and Bankers.

8-16 Fund Highlights

Graphical presentation, Statement of Changes in Net Assets available for Benefit
Chairman's Report, Trust Secretary's Report

17-19 Report of the Trustees

Establishment, Nature and Purpose of the Scheme.

20 Statement of Trustees' Responsibilities

Adherence to the requirement of Retirement Benefits act and acceptance of responsibilities.

21-22 Independent Auditors' Report

The statement of net assets available for benefits, the statement of changes in net assets available for benefits, statement of cash flows summary of significant accounting policies and other explanatory notes.

23 Statement of changes in Net Assets available for Benefits

Contribution & Withdrawals, Return on Investments, Fund Expenses, Increase/Decrease of net assets And Net Assets as at January 1

24 Statement of Net assets available for Benefits

Assets, Liabilities and Fund Balance.

25 Statement of Cash Flows

Cash Flows from Operating Activities, Cashflow used in investing activities, Cash and Cash Equivalents.

26-40 Notes to the Financial Statement

Contributions, Investment Income, fair value, Provision for Impairment of Financial Assets, Investment Management Expenses, Fund Expenses, Taxation, Short Term deposits held to Maturity, receivable Accrued Income, Government Securities, Corporate Bonds at Fair Value through Profit or Loss, Quoted Equity Investments at fair value, Investment in Properties, related Parties, Intangible Assets, Equipments, payable Accruals, Prior Year Adjustments, Actuarial Valuation, Management of members' Funds, Financial Risk Management, Fair Valuation, Contingent Assets and Liabilities, Registration and Incorporation, Currency.





Joseph Sitati - Chairman

He was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2017 as a sponsor appointed Trustee. He is the Chairman of the DB Scheme. He holds a BSc (Mechanical Engineering) from the University of Nairobi. He is a Fellow of the Association of Chartered Certified Accountant and is a Certified Information Systems Auditor. He has attended various professional development training programs. He has served as the Chief Finance and Administration Officer at Deacons Limited Nairobi, Commercial Finance Manager-Central East & West Africa Business Unit at CocaCola Scheme Nairobi, Group Finance Director at Old Mutual Group Nairobi and Finance Manager at Shell BP Kenya Limited among other positions. He brings a wealth of experience in investments and finance. He is currently a Non-Executive Director on the KenGen Board.



Rebecca Miano, OGW - Trustee

She was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme on in 2014 as a sponsor appointed Trustee. She is a member of Audit & Risk Committee, Procurement Oversight Committee and the Administration & Legal Committee. She holds a Bachelor of Laws (LLB) degree with Honours, a diploma in Law and Post-graduate studies in Comparative Law. In 2010, she completed the Advanced Management Programme from Strathmore University. She is a registered Certified Public Secretary of Kenya and is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Law Society of Kenya (LSK). She was awarded the Company Secretary of the Year award in 2010 under the auspices of the ICPSK Champions of Governance. She is currently the MD and CEO of KenGen.



Ernest Nadome - Trustee

He was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme on 1st January, 2006 as a member elected Trustee. He is the Chairman of the Finance & Investment Committee and a member of the Procurement Oversight Committee and the Administration & Legal Committee. He holds a Master of Arts (MA) in Labour Management Relations, Bachelor of Arts (B.A) Degree (Hons). He is the General Secretary of the Kenya Electrical Trades & Allied Workers Union (KETAWU) a position he has held for the past 13 years. He is well versed in energy, human resources and labour matters, having worked for Kenya Electricity Generating company Limited and Kenya Power for 16 years. He is the 1st Assistant Secretary General for Central Organization of Trade Union (COTU-K) and the Gazetted Vice Chairman of The National Industrial Training Authority (NITA). He is also the Chairman of The National Industrial Training Authority Retirement Pension Scheme. In addition he is the Chairman of Tom Mboya Labour College, Kisumu and a founder Board member of Kenya National Qualification Framework Authority. He is a Certified Pension Fund Trustee.



Abraham Serem - Trustee

He has extensive experience in the Human Resources industry having worked in both private and public sectors in various capacities. He was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2016 as a sponsor nominated Trustee. He is the Chairperson of Administration & Legal Committee. He is a member of Strategy and Projects Committee, Audit & Risk Committee and Procurement Oversight Committee. He holds a bachelor of Arts from Nairobi University and he is a Trained Executive Coach. He is currently the Human Resources & Administration Director with KenGen.

THE BOARD OF TRUSTEES

She was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2017 as a sponsor appointed Trustee. Her vast knowledge and experience in the finance field bolsters the Scheme's finance and investments skills sets. She is the Chairlady of Audit & Risk Committee. She is a member of the Finance & Investment Committee and Strategy & Project Committee. She holds a MBA Finance Option, a Bachelor of Commerce (Accounting Option) and she is a Certified Public Accountant CPA. She has served in several senior positions in Kenya Airways and is currently the Corporate Finance Manager with KenGen.



Mary Maalu - Trustee

He was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2017 as a sponsor appointed Trustee. He is the chairman of the Strategy and Projects Committee & a member of the Procurement Oversight Committee and Audit & Risk Committee. Going forward, the Scheme shall borrow heavily from Mr. Kizito's knowledge in steering the Scheme's strategy to the next level. He is currently KenGen's Strategy Development Manager.



Yaola Kizito - Trustee

He was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2017 as a pensioners elected Trustee. He is the Chairman of the Procurement Oversight Committee and a member of the Audit & Risk Committee and Admin & Legal Committee. He retired from the service of KenGen in year 2014. At the time of retirement from KenGen, he held the position of Supply Chain Manager. Mr. Kimemia shall greatly provide experience in setting up a procurement framework for the scheme following the passing of the Procurement & Asset Disposal Act, 2015 that schemes are now required to comply to.



Patrick Kimemia - Trustee

He has experience of 34 years in the energy sector having been employed by East African Power in 1982 then KPLC and thereafter KenGen. He has been a union leader since 2003 whereby he has been the National Treasurer for KETAWU. He is also the Team leader in Negotiations & Central Joint Council. He has been a member elected Trustee of KenGen Staff Retirement Benefits Scheme since 2009. He is a member of Finance & investment Committee, Strategy and Projects Committee and Finance and Investment Committee. He is currently an Assistant Lab Foreman at KenGen Olkaria and a Change Agent.



Peter Mutemi - Trustee

THE BOARD OF TRUSTEES



KenGen Staff Retirement Benefits Scheme

THE MANAGEMENT TEAM

SEATED FROM RIGHT

Josphat Muriuki - Trust Secretary, Hannah Nguhi - Investment Officer, Jane Namnyak - Office Assistant,
Purity Kamau - Pensions Officer, Gloria Kikete - Finance Officer

STANDING FROM LEFT

Albert Moturi - Assistant Pension Officer, Anthony Mang'eli - Property Officer, Peter Miano - ICT Officer,
Rashid Kanyua - Assistant Finance Officer

- A -



Awards

PENSION AWARDS KENYA 2017

The KenGen Staff Retirement Benefits Scheme participated in the inaugural Pension Awards conducted by Institute of Pensions Management Kenya. An evaluation was carried out and completed in the month of October 2017 enabling the Scheme to be shortlisted in various categories of awards. The Award Gala Dinner was held at Radisson Blu Hotel on 10th November 2017. The Scheme was honoured to bag the following awards as a confirmation of the numerous improvements and continuous innovation in accordance with the legislative changes.

1. Post-Retirement Medical Scheme of the Year
2. Best Managed Occupational Scheme of the Year
3. 1st Runners Up: Best Managed Public-Sector Scheme of the Year
4. CEO & Trust Secretary – Josphat Muriuki being named Trust Secretary of the Year



FIRE AWARDS KENYA 2017

The Scheme participated in the Fire Awards 2017 conducted by Institute of Certified Public Accountants of Kenya (ICPAK) which has partnered with the Capital Market Authority (CMA) Kenya, and the Nairobi Securities Exchange (NSE) in the initiative. The evaluation was carried out and the Scheme immereged the 1st Runners Up: Not for Profit Category.



INVESTMENT AWARDS 2017

The Scheme also participated in the 9th edition of the Investment Awards which was organized by Think Business Ltd and supported by Nairobi Securities Exchange(NSE), Retirement Benefits Authority(RBA), Kenya Association of Stockbrokers and Investment Banks (KASIB). The Scheme managed to win two awards being Occupational Scheme of the Year and Public Entity Scheme of the Year.

These awards are a confirmation of our promise that aims to grow, secure and pay members' benefits when they are due by prudently investing members' contributions and Scheme Assets.

KenGen Staff Retirement Benefits Scheme

PROFESSIONAL ADVISORS

Registered Office

KenGen Pension Plaza 2
Kolobot Road, Parklands
P. O Box 47936 - 00100
Sarit Centre
Nairobi

Custodians

NIC Bank Ltd
NIC House
P O Box 44599 - 00100
Nairobi

Administrators

Zamara Actuaries, Administrators & Consultants Limited
Landmark Plaza
P O Box 52439 - 00200
Nairobi

Bankers

NIC Bank Ltd
NIC House
P O Box 44599 - 00100
Nairobi

Auditors

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

Investment Managers

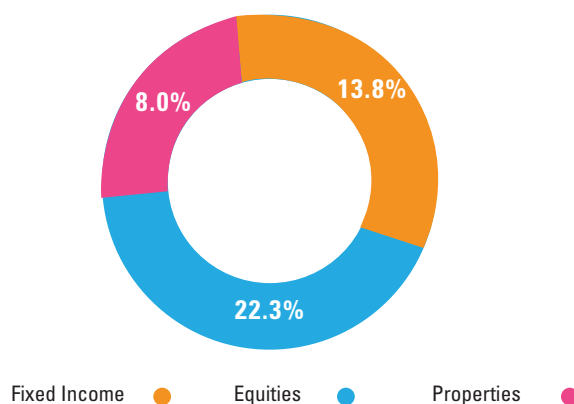
British- American Asset Managers
British- American Centre
Mara & Ragati Road Junctions
P O Box 30375 - 001000
Nairobi

Co-op Trust Investment Services Ltd
Co-operative Bank House
P O Box 48231 - 002000
Nairobi.

KenGen Staff Retirement Benefits Scheme

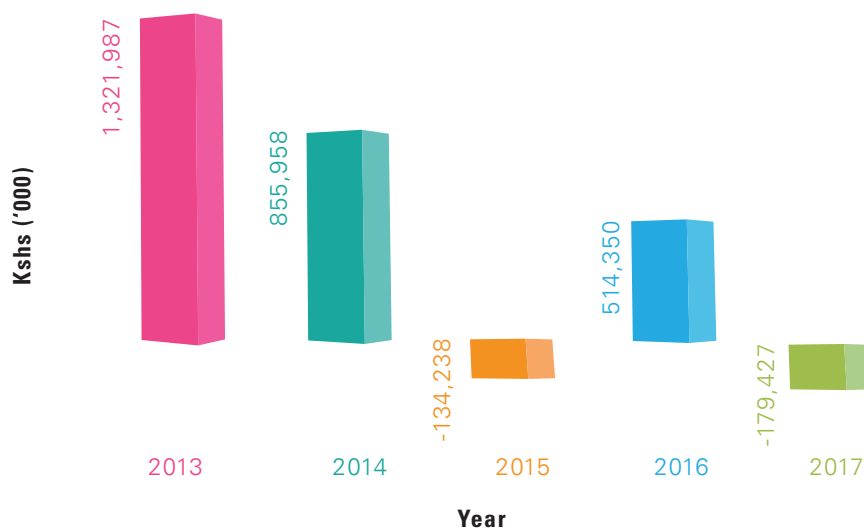
FUND HIGHLIGHTS

Return Attribution



The Trustees have adopted an investment policy and strategies in order to maximize the long-term return on investments while mitigating against short-term volatility. The investment framework takes into consideration the maturity profile of the Fund to ensure that liquidity requirements are met.

Scheme Growth

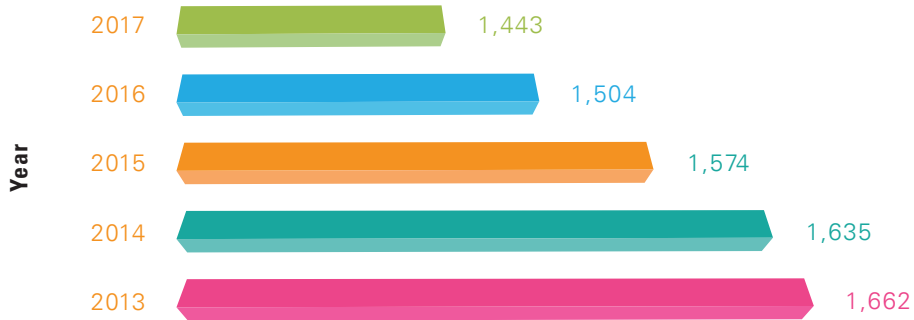


The growth of the fund is attributable to both the realized and unrealized returns on the fund. In years of a challenging investment environment, financial assets record paper value losses, resulting in negative returns on the fund.

KenGen Staff Retirement Benefits Scheme

FUND HIGHLIGHTS

Membership



Members

Pensioners



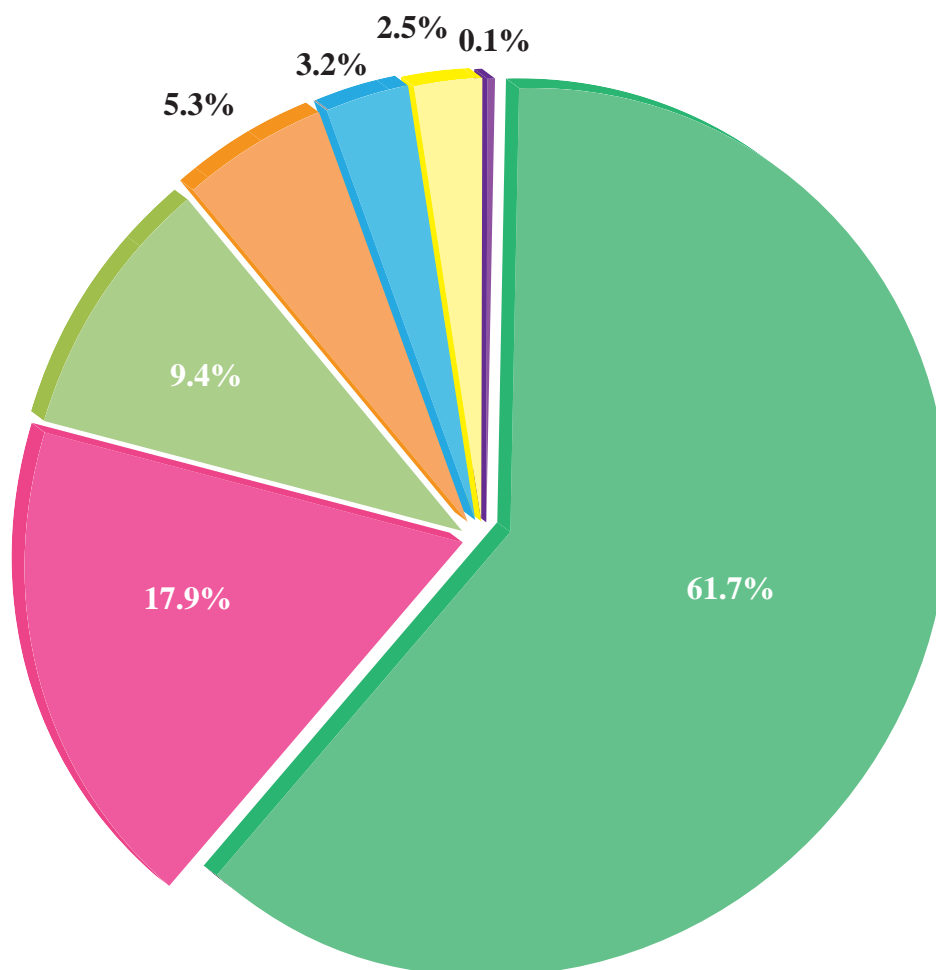
Pensioners

The DB Scheme is closed to new entrants, as of 31st December 2011, with only exits experienced and therefore the number of active employees goes down as the number of pensioners increases.

KenGen Staff Retirement Benefits Scheme

FUND HIGHLIGHTS

Asset Allocation December 2017



- Investment Property (61.7%)
- Government Securities (17.9%)
- Quoted Equity Investments (9.4%)
- Due from Related Parties & other Receivables (5.3%)
- Cash, Bank Balances & Short Term Deposits (3.2%)
- Corporate Bonds (2.5%)
- Intangible Assets & Equipment (0.1%)

KenGen Staff Retirement Benefits Scheme

FUND HIGHLIGHTS

	2013 Shs'000	2014 Shs'000	2015 Shs'000	2016 Shs'000 Restated	2017 Shs'000
ASSETS					
Cash and Bank Balances	77,745	69,103	81,048	44,367	46,715
Short term deposits	234,788	220,079	83,460	122,592	203,394
Other Receivables & Accrued Income	14,794	26,237	285,412	47,129	19,801
Government Securities	1,566,448	1,566,835	1,297,880	1,472,548	1,394,899
Corporate Bonds	316,992	350,218	296,428	287,736	194,396
Quoted Equity Investments	739,789	801,600	458,841	388,715	734,015
Offshore	183,007	71,086	41,706	-	-
Investment Property	3,547,222	4,473,428	4,853,029	5,165,871	4,813,470
Due from Related Parties	-	-	-	387,161	393,930
Intangible Asset	5,278	5,650	7,671	7,922	3,483
Equipment	251	4,953	4,953	5,677	631
	6,686,314	7,589,189	7,410,428	7,929,718	7,804,734
LIABILITIES					
Payables and Accruals	43,757	85,679	38,203	52,825	121,936
Benefits Payable	16,402	21,397	24,350	14,668	-
	60,159	107,076	62,553	67,493	121,936
NET ASSETS	6,626,155	7,482,113	7,347,875	7,862,225	7,682,798
REPRESENTED BY					
FUND BALANCE	6,626,155	7,482,113	7,347,875	7,862,225	7,682,798

KenGen Staff Retirement Benefits Scheme

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS



	2013 Shs'000	2014 Shs'000	2015 Shs'000	2016 Shs'000 Restated	2017 Shs'000
Contributions and Withdrawals					
Contributions	458,149	101,056	63,062	61,858	58,570
Withdrawals - Pensioners	(119,247)	(116,780)	(139,706)	(170,265)	(198,624)
- Leavers	(35,509)	(33,758)	(109,621)	(158,687)	(150,209)
Net deficit from dealings with members	303,393	(49,482)	(186,265)	(267,094)	(290,263)
RETURN ON INVESTMENTS					
Investment Income	408,788	518,519	540,244	487,176	460,133
Fair value (Loss)/Gain on Investments	669,898	486,888	(393,981)	421,904	(201,093)
Provision for Impairment of Financial Assets	-	-	(15,000)	(38,563)	-
Investment Management Expenses	(11,602)	(20,350)	(10,225)	(8,151)	(8,855)
Net returns on Investments	1,067,084	985,057	121,038	862,366	250,185
Fund Expenses	(48,499)	(54,631)	(69,011)	(80,922)	(104,504)
Tax	-	(24,986)	-	-	(34,845)
(Decrease) / Increase in Net Assets For The Year	1,321,978	855,958	(134,238)	514,350	(179,427)
NET ASSETS AT 1 JANUARY	5,304,177	6,626,155	7,482,113	7,347,875	7,862,225
NET ASSETS AT 31 DECEMBER	6,626,155	7,482,113	7,347,875	7,862,225	7,682,798

Chairman's Statement

Year 2017 AGM

"The Board has consistently delivered its mandate of giving high and consistent returns to guarantee members' benefits."

Joseph Sitati - Chairman

Dear Members,

It is with great pride that I present to you the Annual Report and Audited Financial Statements of KenGen Staff Retirement Benefits Scheme for the year ended December 31, 2017.

Global & Domestic Macroeconomic environment

The IMF estimates that the global economy growth expanded by 3.7% in 2017 compared to 3.1% in 2016. This stronger global momentum experienced in 2017 is expected to carry into 2018 and 2019, with growth revised up to 3.9 percent for both years.

The Kenyan economy was characterized with prolonged electioneering period coupled with effects of adverse weather conditions. A widespread drought experienced during the fourth quarter of 2016 and somewhat suppressed long rains in 2017, negatively impacted on crop production and rearing of animals as well as generation of hydro-electric power. A slowdown in credit uptake to the private sector also contributed to the deceleration in growth during the year. The KNBS Economic Survey 2018 estimates the economy expanded by 4.9% in 2017 compared to a growth of 5.9% in year 2016, contrary to a revised growth in the global economy.

Inflation averaged 8.0% in 2017 compared to 6.3% in the previous year. The high inflationary periods in the first half of the year were due to adverse weather conditions which caused food prices to rise which saw the inflation touch a five-year high of 11.7% in May 2017. Intervention by Government steered food prices lower and this reflected in lower inflation prints in the second half of the year. By the end of Q4 2017 inflation averaged at 5.0%, easing from 7.5% and 10.8% inflation averages in



Quarter 3 2017 and Quarter 2 2017 respectively.

The Kenya Shilling shed 75 cents against the US Dollar during the year (0.7%) as higher inflation and protracted election weighed in investor sentiment. However, the Kenya Shilling gained against the Sterling Pound and Japanese Yen by 3.2% and 1.4% during the review period. On the regional front, the Kenya Shilling strengthened against the Rwandese Francs, Ugandan Shilling and Tanzanian Shilling by 7.7%, 3.7% and 0.4%.

2017 delivered better-than-expected equity returns. The Nairobi All Share Index (NASI) was up 28.4% with the benchmark NSE 20 index up 16.5% over the same period. This was surprisingly strong performance in the face of heightened political uncertainty, drought in the first half of the year and weaker financial results by listed companies. The comparable index returns for NASI was -8.5% in 2016 and -10.6% in 2015 while NSE 20 was -21% for both 2016 and 2015.

In 2017, Treasury bills generally remained stable even when inflation spiked to 11.7% early in the year. This situation was credited to the Central Bank's careful management of the auctions of the treasuries as well as high bank appetite for government paper. Demand for the treasuries was elevated in the course of the year especially as banks slowed lending to the private sector following the interest capping law and diverted funds to government securities. The 91-day rate averaged 8.35% in 2017 compared to 8.65% and 10.85% for year 2016 and 2015 respectively.

Through the year, the bond yields curve experienced a significant downward shift across all tenors, despite the fact that average inflation went up by about 2% in 2017 to 8.02%. On average short-term tenors shifted down by about 0.3% while the longer-term papers dropped by 0.94% in the year 2017. These resulted in capital gains across the Scheme's bond portfolio.

On the real estate front, like all other sectors, the market was slow. Demand for residential properties and land is expected to increase as investor confidence is restored for making firm commitments. The government's focus in providing affordable housing also provides a platform for retirement benefits schemes to contribute to the Big Four Agenda.

I am happy to report that despite these economic and political concerns; the strong Scheme's balance sheet makes it resilient to these cyclical disruptions and we remain upbeat to continued positive performance going forward.



"We remain upbeat to continued positive performance going forward"

Pensions Regulatory Environment

During the year, there was a key legislative change contained in the 2017/2018 budget which harmonized pension tax rates with individual tax rates during this year. This was a welcome clarification which saw the change in personal income tax bands in 2016 applied to only income taxation and emoluments and was not extended to cover taxation of retirement benefits.

Financial Results

Our commitment to grow members benefits remains intact as evidenced by the consistent growth in generated profits. The Scheme marked this year with a net return on investments of Kshs. 0.25 billion. We also note the total market value of the Scheme's assets as at the end of the year stood at Kshs. 7.682 billion.

"Net return on investments grew by Kshs. 0.25 b in year 2017"

The Board aims to maximize the long-term return on investments notwithstanding short-term volatility.

Membership benefit statements reflecting the Scheme growth have already been issued. We also encourage members to continually update their personal details and their beneficiaries on a timely and continuous manner.

Transformational Strategy

The Board of Trustees plan to hold strategy sessions to take stock of what we have accomplished as part of our review of the five-year strategic plan ending in 2018. This will help us in refining what we need to do to develop the building blocks for the next 10-year strategy 2018 – 2028.

Corporate Governance

Corporate governance is key to the growth and sustenance of the Scheme and it is therefore essential that we have the right structures in place. The Scheme ensures its accountable to the sponsor, members, and other stakeholders. All trustees are taken through a continuous training on leadership, investment of scheme assets, changing regulations and the Board's fiduciary responsibility owed to members.

Awards

For the very first time, the Scheme filed its applications to participate in various awards in year 2017. Firstly, the Scheme filed to participate in the Institute of Pension Management 2017 which are awards organized by the Institute of Pension Management. These awards recognize excellence in innovation and service provision to improve the outcomes of both the retirement benefits schemes and members.

Under this awards, the DB Scheme won the following categories: -

- i. Best Managed Occupational Scheme of the Year- Winner
- ii. Post-Medical Retirement Scheme of the Year- Winner
- iii. Best Managed Public-Sector Scheme of the Year -1st Runners-up
- iv. Trust Secretary of the Year-Winner

Secondly, the Scheme also participated in Think Business Investment Awards organized by Think Business Limited and supported by Retirement Benefits Authority (RBA), Nairobi Securities Exchange (NSE) and The Kenya Association of Stockbrokers and Investment Banks (KASIB). The awards recognize, and reward outstanding performance of companies as reflected in contribution to the growth of the sector, good corporate governance, compliance and great customer service. The Scheme scored as follows in the stated categories-

- i. Occupation Scheme of the Year - Winner
- ii. Public Entity Scheme of the Year – Winner

Lastly, the Scheme participated in the Financial Reporting (FiRe) Awards and it emerged as 1st runners up in the Not for Profit category, Public Entity Scheme of the Year. The FiRe Award is an initiative of the Institute of Certified Public Accountants of Kenya (ICPAK) the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE) and aims at recognizing excellence in financial reporting, fostering sound corporate governance practices and enhancing corporate social responsibility and environmental reporting in East Africa.

The above victorious triumph is an assurance

to members that the Scheme's structures and processes are sound, and we can only work to maintain and improve on who we are, a leading Defined Benefits Scheme in providing sufficient, sustainable benefits and pension to our members.

Outlook for 2018

The global outlook is now expected to exceed 2% in 2018 and 2019. This forecast reflects the expectation that favourable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially in investment, with a noticeable impact on growth in economies with large exports.

In the local economy, there are brighter prospects and optimistic markets ahead. We foresee marginal declines on government securities yields as Central Banks adjust their policy rates downward in response to low inflation and to spur economic activity. The Nairobi Bourse is likely to recover in the second half of the year supported by improved economic growth resulting in increased profitability of listed companies.



Appreciation

We recognise that we would not exist without our people: both those who work for us and by those who have believed us to work for them. We are extremely grateful and thankful to the Sponsor, my fellow board members, our supportive regulator and service providers, secretariat staff and you our members for giving us the platform to move the DB Scheme to the next level.

Joseph Sitati
Chairman

"Looking ahead, we will focus our efforts on putting you our members first, delivering sustainable benefits and operational excellence."

Josphat Muriuki - CEO & Trust Secretary

CEO & Trust Secretary's Statement Year 2017 AGM

Dear Members,

I am delighted to bring to you this year's achievements and operational highlights as we make strides to fulfil the purpose for which DB SCHEME exists. That purpose is to provide expeditious and consistent benefits to members by prudently investing members' contribution and Scheme assets".

Fund Investments & Growth

The Scheme's long-term investment horizon remains in tandem with the members' expected pay-outs and can therefore withstand short-term growth volatility. The value of assets as 31 December 2017 stood at Kshs 7.682 billion despite the turbulent investment horizons during the year.

The Board's strategic plan on properties development has over the years provided a cushion to superior returns through collection of rental income as well as gains from sale of houses. This year we continued with an aggressive marketing drive of the Scheme's properties for-sale and envisage this will be sold within the set timelines.

In addition, it's during the year we completed the construction of a modern gymnasium and health facility conveniently located on 12th floor of KenGen Pension Plaza 2. The facility will offer a gym complete with fitted steam bath and sauna. We are also happy to report that it's during the year there was full occupancy of the offices at KenGen Pension Plaza 2. These optimized positions are set to post stronger revenue growth and improved profitability and in turn will deliver value to you.

Fund Administration

Today we are excited to have over 35% of the Scheme's membership consisting of pensioners and beneficiaries draw pension from the Scheme every month.

In line with the Government's agenda to provide affordable healthcare to its citizens, we commenced remittance of NHIF deductions for our pensioners who had



registered to benefit from this cover. In addition, having been among the first Schemes to set-up and successfully implement a post-retirement medical plan, we have not stopped at that. As insurance companies continue to embrace such covers, we are here to ensure retirees can have a choice of the providers. Upon conducting due-diligence, we now have on-board UAP Insurance as an alternative insurance provider to First Assurance's post-medical cover.

Procurement

In line with the changes in public procurement law (Public Procurement and Asset Disposal Act 2015) that now includes pension funds of public entities as entities required to comply to this new law with effect from 7th January 2016, the Scheme has made strides towards compliance of the same.

Risk Management

The Scheme has instituted proactive risk management and therefore has become an integral part of decision making at all levels of managing the Scheme. As a first, we the Board has put in place periodic review process for identifying, assessing, monitoring and managing risks to ensure that the Scheme's objectives are achieved, and the potential risks mitigated. This measure safeguards the members value in the Scheme.

Strategy

As we come to the final year of the Scheme's five-

year strategy (2013 - 2018), we take stock on the achievements of all the three guiding strategic pillars: Portfolio Management, Customer Service and Enhancing Operational Excellence. The Scheme has made tremendous strides in implementing these pillars over the past four years.

We note the continuous improvement in our systems and processes in line with the Scheme's strategy was affirmed by awards received within the year

Rolling out Pensioner Awareness Forums

In order to foster continuous engagement with the various groups in the Scheme, aside from the education forums targeting in-service members, the board identified the need to provide information uniquely-tailored for the retired pensioners. Like the current in-service programs, this will also be conducted bi-annually.

The objective of the pensioner education programs is to inform them on the performance of the Scheme, sensitize them on optimal use of their resources while in retirement in addition to bringing awareness on Scheme, industry and general developments that would benefit them such as tax exemptions, NHIF cover and KenGen post-retirement medical cover among other benefits.

Looking ahead

Our outlook is optimistic on account of the successful implementation of our strategy. We remain confident we shall continue providing sustainable benefits to our members.

I would like to most sincerely thank all our members for believing in us, board members for the support, my fellow secretariat staff and service providers for the relentless support and enabling us to succeed.

I thank you and may God richly bless you.

Josphat Muriuki

CEO & Trust Secretary

KenGen Staff Retirement Benefits Scheme



KenGen Staff Retirement Benefits Scheme

REPORT OF THE TRUSTEES

"The Trustees present their report together with the audited financial statements for the period ended 31st December 2017"



The Trustees present their report together with the audited financial statements for the period ended 31 December 2017.

Establishment, nature and purpose of the Scheme

The Scheme was established with effect from 1 January 2000 and is governed by a Trust Deed dated 6 November 2000. It is a defined benefit scheme and provides, under the rules of the Scheme, retirement benefits for the staff of Kenya Electricity Generating Company Limited (KenGen). It is an exempt approved scheme under the Income Tax Act and is registered with the Retirement Benefits Authority.

Employees contribute to the Scheme at the rate of 10% (2016: 10%) of their respective basic salaries. The employer contributes at rates based on periodic advice of the actuary. The current rate is 20% (2016: 20%) of employees' basic salaries.

In compliance with the Treasury Circular No. 18 dated 24 November 2011, KenGen undertook a redesign of the retirement benefits arrangement whereby a new defined contributory (DC) scheme 2012 was established with effect from 1 January

Background to the scheme

Prior to 1 January 2000, the Kenya Power and Lighting Company Staff Retirement Benefits

Scheme ("Kenya Power SRBS") was the only Scheme existing for the employees of Kenya Power and Lighting Company Limited ("Kenya Power") and Kenya Electricity Generating Company Limited ("KenGen"). A decision was made by the two employers to operate two separate Schemes and the KenGen Staff Retirement Benefits Scheme ("KenGen SRBS") was established as at 1 January 2000. As at 31 December 2014, all assets to be transferred to KenGen SRBS from Kenya Power had been fully transferred.

Actuarial Valuation

The last actuarial valuation was as at 31 December 2016 by Zamara (Formerly Alexander Forbes Financial Services (E.A) Limited) an independent firm of actuaries, using the Attained Age Method.

According to the valuations at that date, the actuarial present value of promised retirement benefits was Shs 8,900 million and the fair value of the net assets available for benefits at that date was Shs 7,862 million resulting in a deficit of Shs (1,038) million. The actuary recommended a total contribution rate of 16.6% of members' pensionable emoluments per annum.

The principal actuarial assumptions used were as follows:

- Expected rate of return on Scheme assets - 10% p.a.
- Rate of salary escalation 8% p.a.
- Rate of pension increases
- 0% p.a. for post 1 January 2000 service
- 3% p.a. for pre 1 January 2000 service
- Withdrawals
- In accordance with the average experience of other similar schemes
- Ill health early retirement
- In accordance with the average experience of other similar schemes
- Assets
- Taken into account at the full values shown

A summary of the results of the actuarial valuation of the Scheme as at 31 December 2016 is presented in note 22 to the financial statements.

Membership

The Scheme's membership was as follows:

	2017	2016
a) Total members		
Contributing members	1,443	1,504
Pensioners	872	467
	2,315	1,971
b) Contributing members		
Contributing	115	123
Deferred	68	77
Dormant	-	2
Contributing in DC	1,260	1,302
At end of year	1,443	1,504
c) Pensioners		
At start of year	467	458
Contributing members who retired	39	18
2016 retirees who joined payroll in 2017	4	3
Widows or widowers pension becoming payable	17	7
Adjustment ***	403	-
	930	486
Less: Deaths	(5)	(4)
Less: Cessation of children pension	(53)	(15)
At end of year	872	467

***The adjustment comes after getting the number of beneficiaries i.e. spouses plus children instead of picking the principle members.

Financial Review

The statement of changes in net assets available for benefits on page 10 shows a decrease in the net assets of the Scheme for the year of Shs 179,427,000 (2016: Increase of Shs 514,350,000) and the net assets statement on page 11 shows the Scheme's net assets as Shs 7,682,798,000 (2016: Shs 7,862,225,000).

Assets management

Under the terms of their appointment, Co-op Trust Investment Services Limited and British American Asset Managers were responsible for the investment of available funds. They are not responsible for investment in properties, which are managed in-house. However, the overall

responsibility for investment and performance lies with the Trustees.



The Scheme's net assets position as at 31 December 2017 was as follows:

	2017	2017	2016	2016	RBA limits
	Sh'000	%	Sh'000	%	%
Equities	734,015	10	388,715	5	70
Government Securities	1,394,899	19	1,472,548	20	70
Corporate Bonds	194,396	3	287,736	4	30
Fixed Deposits	203,394	3	122,592	2	15
Investment Properties & Investment Properties – (Held for Sale)	4,813,470	65	5,165,871	51	30
	7,340,174	100	7,437,462	100	

The Scheme's immovable property holding is 35% above the RBA requirement of 30%. The Scheme has issued a remedial plan on how to reduce the holding. This involves disposing the investment properties until the holding is brought down to 30% or below.

We confirm that there is no self-investment, nor

have any Scheme assets been used as security or collateral on behalf of the employer or any connected business or individual.

Trustees

The trustees are appointed in accordance with the Kenya Retirement Benefits Act. The names of the trustees who served during the year and

subsequent period to the date of this report are shown on page 2.

Auditors

Deloitte & Touche, were appointed as auditors during the year and having indicated their willingness, continue in office as auditors.

SIGNED ON BEHALF OF THE TRUSTEES


Chairperson



KenGen
Staff Retirement
Benefits Scheme

KenGen Staff Retirement Benefits Scheme

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Retirement Benefits Act requires the Trustees to prepare financial statements for each financial year, which give a true and fair view of the Scheme's financial affairs as at the end of the financial year and of the operating results of the Scheme for that year. It also requires the Trustees to ensure that the Scheme keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Scheme. They are also responsible for safeguarding the assets of the Scheme.

The Trustees are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and Retirement Benefits Act, and for such internal controls as trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by Retirement Benefits Act.

The Trustees also accept responsibility for:

(i) Designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) Selecting suitable accounting policies and applying them consistently; and

(iii) Making accounting estimates

and judgements that are reasonable in the circumstances.

Having made an assessment of the Scheme's ability to meet its obligations, the Trustees are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Fund's ability to meet its obligations.

The Trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Trustees on 27 March

2018 and signed on its behalf by:

Joseph Sitati
Chairperson

Josphat Muriuki
Trust Secretary



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENGEN STAFF RETIREMENT BENEFITS SCHEME

Independent Auditors' Report Opinion

We have audited the accompanying financial statements of KenGen Staff Retirement Benefits Scheme, set out on pages 10 to 36, which comprise the statement of net assets available for benefits as at 31 December 2017, the statement of changes in net assets available for benefits and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 December 2017 and of the disposition at that date of its assets and liabilities, other than liabilities to pay retirement and other benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with Institute of Certified Public Accountants Kenya Code of Ethics (ICPAK Code of Ethics) which is consistent with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya.

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

Other Information

The trustees are responsible for the other information.



The other information comprises the Report of the Trustees, which is obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Trustees for the Financial Statements

The trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act, and for such internal controls as the trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the Fund's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements,

whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Fund to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Fund's audit. We remain responsible for our audit opinion.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Fredrick Aloo - P/No: 1537.

Deloitte Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

27 March 2018



STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE PERIOD ENDED 31st DECEMBER 2017



	Notes	2017 Shs'000	2016 Shs'000 Restated
CONTRIBUTIONS AND WITHDRAWALS			
Contributions	3	58,570	61,858
Withdrawals - Pensioners		(198,624)	(170,265)
- Leavers		(150,209)	(158,687)
Net Deficit from Dealings with Members		(290,263)	(267,094)
RETURN ON INVESTMENTS			
Investment Income	4	460,133	487,176
Fair value (Loss)/Gain on Investments	5	(201,093)	421,904
Provision for Impairment of Financial Assets	6	-	(38,563)
Investment Management Expenses	7	(8,855)	(8,151)
Net Returns on Investments		250,185	862,366
FUND EXPENSES			
Tax	8	(104,504)	(80,922)
	9	(34,845)	-
(DECREASE) / INCREASE IN NET ASSETS FOR THE YEAR		(179,427)	514,350
NET ASSETS AT 1 JANUARY		7,862,225	7,347,875
NET ASSETS AT 31 DECEMBER		7,682,798	7,862,225

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE PERIOD ENDED 31st DECEMBER 2017

	Notes	2017 Shs'000	2016 Shs'000 Restated
ASSETS			
Cash and Bank Balances	10(a)	46,715	44,367
Short Term Deposits	11	203,394	122,592
Other Receivables & Accrued Income	12	19,801	47,129
Government Securities – Treasury Bills	13(a)	58,434	88,077
Government Securities – Treasury Bonds			
– Available for Sale	13(b)	1,336,465	1,384,471
Corporate Bonds	14	194,396	287,736
Quoted Equity Investments	15	734,015	388,715
Investment Property	16(a)	3,750,970	3,809,671
Investment Property – Held for sale	16(b)	1,062,500	1,356,200
Due from Related Parties	17	393,930	387,161
Intangible Asset	18	3,483	7,922
Equipment	19	631	5,677
		<u>7,804,734</u>	<u>7,929,718</u>
LIABILITIES			
Payables and Accruals	20	121,936	52,825
Benefits Payable		-	14,668
		<u>121,936</u>	<u>67,493</u>
NET ASSETS			
		7,682,798	7,862,225
REPRESENTED BY			
FUND BALANCE			
		<u>7,682,798</u>	<u>7,862,225</u>

The financial statements on pages 10 to 36 were approved and authorised for issue by the Board of Trustees on 2018 and were signed on their behalf by:


Joseph Sitati
Chairperson


Josphat Muriuki
Trust Secretary



STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31st DECEMBER 2017

	Notes	2017 Shs'000	2016 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions	3	58,570	61,858
Administrative Expenses		(94,519)	(80,922)
Decrease/(Increase) in Receivables		27,328	(40,312)
Increase in Payables		27,977	4,936
Increase in Receivable from Related Parties		(6,769)	(108,819)
Benefits		(348,833)	(328,952)
Income Tax Paid		(8,379)	-
Net Cash Used in Operating Activities		(344,625)	(492,211)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Investment Income Received		460,133	487,176
Investment Management Expenses		(8,855)	(8,151)
Purchase of Treasury Bills	13 (a)	(57,054)	(86,837)
Purchase of Treasury Bonds	13 (b)	(338,454)	(261,500)
Purchase of Corporate Bonds	14	(21,200)	-
Purchase of Quoted Equities	15	(255,135)	(92,412)
Proceeds from Sale of Treasury Bills	13 (a)	86,837	17,781
Proceeds from Sale of Treasury Bonds	13 (b)	428,149	198,771
Proceeds from sale of Corporate Bonds	14	115,373	15,174
Proceeds from Sale of Equities	15	39,210	90,287
Purchase of Investment Property	16 (a)	(19,100)	(16,196)
Purchase of Investment Property -Held for Sale	16 (b)	(2,029)	(3,327)
Proceeds on Sale of Property-Held for Sale	16 (b)	-	154,300
Purchase of Intangible Asset	18	(22)	-
Purchase of Computer	19	(78)	(404)
Net Cash Generated from Investing Activities		427,775	494,662
INCREASE IN CASH AND CASH EQUIVALENTS		83,150	2,451
CASH AND CASH EQUIVALENTS AT 1 JANUARY		166,959	164,508
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10(b)	250,109	166,959

NOTES TO THE FINANCIAL STATEMENTS

	2017 Sh'000	2016 Sh'000
1. CONTRIBUTIONS		
Employer and Employee	58,570	61,858
2. INVESTMENT INCOME		
Rent		
Rent Receivable	253,691	270,114
Less: Operating Expenses	(73,812)	(76,151)
	179,879	193,963
Interest on Deposits	16,918	3,731
Interest on Government Securities – Available for Sale	148,471	170,745
Interest on Corporate Bonds	32,652	35,503
Dividend Income	31,802	22,008
Gain on Sale of Government Securities	1,863	2,105
Gain on Sale of Offshore	36,134	-
(Loss)/Gain on Sale of Equities	(17,963)	21,805
Interest on Treasury Bills	7,163	2,219
Interest on Partitioning –(Contractual Works)	19,728	4,932
Other Income	3,486	30,165
	460,133	487,176
3. Fair Value (Loss)/ Gains		
Treasury Bills (Note 13 (a))	140	(979)
Treasury Bonds (Note 13(b))	41,689	43,863
Equity Investments (Note 15)	129,375	(72,252)
Property (Note 16(a))	(77,801)	352,445
Property- Held for Sale (Note 16(b))	(295,729)	95,173
Deposits	401	315
Offshore Investments	-	(3,143)
Corporate Bonds	832	6,482
	(201,093)	421,904
4. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS		
Provision for impaired Offshore	-	(38,563)

Provision for impairment of financial assets refers to the provision for impairment of offshore investments placed with Standard Master Equity. The Offshore investment were disposed in 2017.



NOTES TO THE FINANCIALS STATEMENTS

	2017 Sh'000	2016 Sh'000
5. INVESTMENT MANAGEMENT EXPENSES		
Investment Manager	4,470	5,521
Custodian Fees	4,385	2,630
	<u>8,855</u>	<u>8,151</u>
6. FUND EXPENSES		
Administrative Fees	2,100	2,101
Actuarial Fees	3,150	3,654
Rba Levy	5,000	5,000
Audit Fees	2,100	1,800
Agm Expenses	3,763	1,488
Trustee Sitting Expenses	6,792	13,703
Trustee Capacity Building	10,406	7,843
Salary and Wages	21,985	26,649
Other Administrative Costs	39,721	16,705
Consultancy Fees	2,010	1,979
Leave Accrual	4,384	-
Provision for Bad Debts	3,093	-
	<u>104,504</u>	<u>80,922</u>
7. Taxation		
Taxation on Investment Income		
For The Non-Tax Exempt Fund at 30% - 2017	4,174	-
Prior Period Tax Liability		
Taxation on Investment Income		
For The Non-Tax Exempt Fund at 30% - 2013 To 2016	22,292	-
Taxation on Investment Income		
For The Non-Tax Exempt Fund at 30% - 2009 To 2012	8,379	-
	<u>34,845</u>	<u>-</u>
Taxation Movement During the Year		
At 1 January	-	-
Taxation Charge	34,845	-
	<u>34,845</u>	<u>-</u>
Taxation Paid	(8,379)	-
	<u>26,466</u>	<u>-</u>
At 31 December (Note 20)		

NOTES TO THE FINANCIALS STATEMENTS



	2017 Sh'000	2016 Sh'000
8 (a) CASH AND BANK BALANCE		
Bank Balances	46,715	44,367
8(b) CASH AND CASH EQUIVALENTS		
Cash and Bank Balances (Note 10 (a))	46,715	44,367
Short Term Deposits (Note 11)	203,394	122,592
AT 31 DECEMBER	250,109	166,959
9. SHORT TERM DEPOSITS HELD TO MATURITY		
The Weighted Average Interest Rate as at 31 December 2017 was 9% (2016: 8%).		
	2017 Sh'000	2016 Sh'000
Maturing as Follows:		
Within 1 Month	150,333	31,260
Between 1 – 3 Months	53,061	91,332
Included in the Cash and Cash Equivalents in Note 10(b)	203,394	122,592
	2017 Sh'000	2016 Sh'000
10. RECEIVABLES AND ACCRUED INCOME		
Rent Income Receivable	11,625	12,491
Provision for Bad debts	(3,093)	-
Net rent Income Receivable	8,532	12,491
Prepayments	2,125	3,178
Dividend Receivables	9,144	1,460
Balance on Purchase of House No 12 Rosslyn	-	30,000
	19,801	47,129

The Receivable Balances are Interest Free, Unsecured and Have no Fixed Repayment Period.



NOTES TO THE FINANCIALS STATEMENTS

11. GOVERNMENT SECURITIES

(a) Treasury Bills Held to Maturity

	2017 Sh'000	2016 Sh'000
At The Beginning of the Reporting Period	88,077	20,000
Additions at Face Value	57,054	86,837
Disposals	(86,837)	(17,781)
Change in Fair Value	140	(979)
At the End of the Reporting Period	58,434	88,077
Maturing as Follows:		
Within 1 Year	58,434	88,077
Between 1 – 3 Years	-	-
After 3 Years	-	-
	58,434	88,077

The Weighted Average Interest Rate as at 31 December 2017 was 10.36 % (2016: 11.61 %).

11(B) TREASURY BONDS AT FAIR VALUE

Through Profit Or Loss

	2017 Sh'000	2016 Sh'000
At The Beginning of the Reporting Period	1,384,471	1,277,879
Additions at Face Value	338,454	261,500
Disposals at Face Value	(428,149)	(198,771)
Change in Fair Value	41,689	43,863
At The End Of The Reporting Period	1,336,465	1,384,471
Maturing As Follows:		
Within 1 Year	-	-
Between 1 – 3 Years	82,892	72,884
After 3 Years	1,253,573	1,311,587
	1,336,465	1,384,471

The weighted average interest rate as at 31 December 2017 was 12.47% (2016: 12.23 %).

NOTES TO THE FINANCIALS STATEMENTS

12. CORPORATE BONDS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 Sh'000	2016 Sh'000
At The Beginning of The Reporting Period	287,736	296,428
Additions	21,200	-
Disposals	(115,373)	(15,174)
Add: Accrued Interest	833	6,482
At The End of the Reporting Period	<u>194,396</u>	<u>287,736</u>

13. QUOTED EQUITY INVESTMENTS AT FAIR VALUE

	2017 Shs '000	2016 Shs'000
At the Beginning of the Reporting Period	388,715	458,841
Additions	255,135	92,412
Disposals	(39,210)	(90,287)
Change in Fair Value	129,375	(72,251)
At the End of the Reporting Period	<u>734,015</u>	<u>388,715</u>

14. (a) INVESTMENT IN PROPERTY

	KenGen Pension Plaza 1 & 2 Sh'000	KenGen RBS Gardens Sh'000	Land Malindi - Kilifi Sh'000	Total Sh'000
2017				
At the Beginning of the Reporting Period	1,793,068	1,871,603	145,000	3,809,671
Additions	19,003	97	-	19,100
Disposals	-	-	-	-
Change in Fair Value	(3,256)	(17,645)	(56,900)	(77,801)
At the End of the Reporting Period	<u>1,808,815</u>	<u>1,854,055</u>	<u>88,100</u>	<u>3,750,970</u>



NOTES TO THE FINANCIALS STATEMENTS

2016

	Sh'000	Sh'000	Sh'000	Sh'000
At the Beginning of the Reporting Period	1,552,305	1,748,725	140,000	3,441,030
Additions	11,114	5,082	-	16,196
Disposals	-	-	-	-
Change in Fair Value	229,649	117,796	5,000	352,445
At the end of the reporting period	<u>1,793,068</u>	<u>1,871,603</u>	<u>145,000</u>	<u>3,809,671</u>

14. (b) INVESTMENT IN PROPERTY - HELD FOR SALE

	2017 Sh'000	2016 Sh'000
Rosslyn Springs Estate		
At the Beginning of the Reporting Period	1,356,200	1,412,000
Additions	2,029	3,327
Disposals	-	(154,300)
Change in Fair Value	(295,729)	95,173
At the end of the reporting period	<u>1,062,500</u>	<u>1,356,200</u>

14. (c) FAIR VALUE MEASUREMENTS OF THE COMPANY'S INVESTMENT PROPERTIES & PROPERTY HELD FOR SALE

The scheme's Investment Properties & Properties held for sale are stated at their revalued amounts, being the fair values at the date of revaluation. The fair value measurements of part of the scheme's investment property as at 31 December 2017 and 31 December 2016 were performed Ark Consultants Limited, registered and independent valuers (i.e. not related to the scheme).

The valuers are members of the Institute of Surveyors of Kenya and they have appropriate qualifications and relevant and recent experience in the fair value measurement of properties in various locations in Kenya. The fair value of investment property was determined by reference to market evidence of recent transactions for similar properties. The valuations were based on open market value.

NOTES TO THE FINANCIALS STATEMENTS

Details of the company's investment property and information about fair value hierarchy as at 31 December 2017 are as follows:

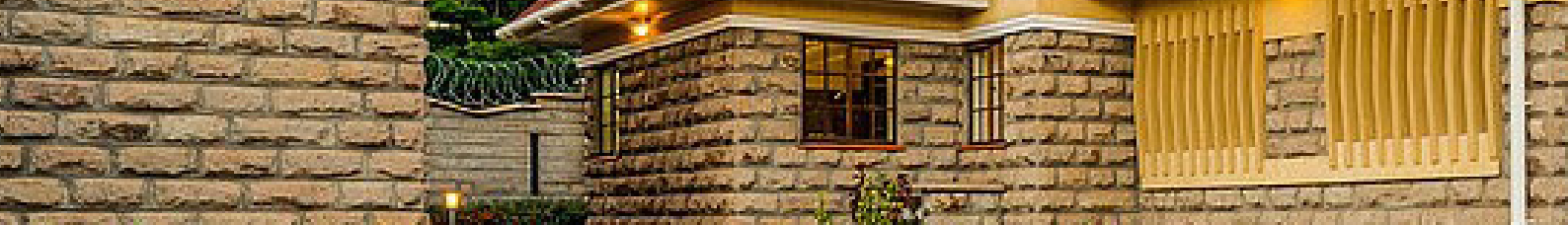
	Level 1 Sh 000	Level 2 Sh 000	Level 3 at 31 December Sh 000	Fair value as Sh 000
31 December 2017				
Investment Property	-	3,750,970	-	3,750,970
Investment Property-Held for Sale	-	1,062,500	-	1,062,500
31 December 2016				
Investment Property	-	3,809,671	-	3,809,671
Investment Property-Held for Sale	-	1,356,200	-	1,356,200

15. RELATED PARTIES

Related parties comprise the Trustees, the sponsoring company and KenGen Defined Contribution (DC) Scheme, which is related to these parties through common sponsorship and trustship.

Amounts due from the sponsors represent relates to contractual works at KenGen Pension Plaza 2 outstanding at year-end and transactions with KenGen Defined Contribution (DC) Scheme 2012.

	2017 Sh'000	2016 Restated Sh'000
Due from KenGen-DC	10,025	23,080
Due from KenGen –Sponsor *	383,905	364,081
	<u>393,930</u>	<u>387,161</u>

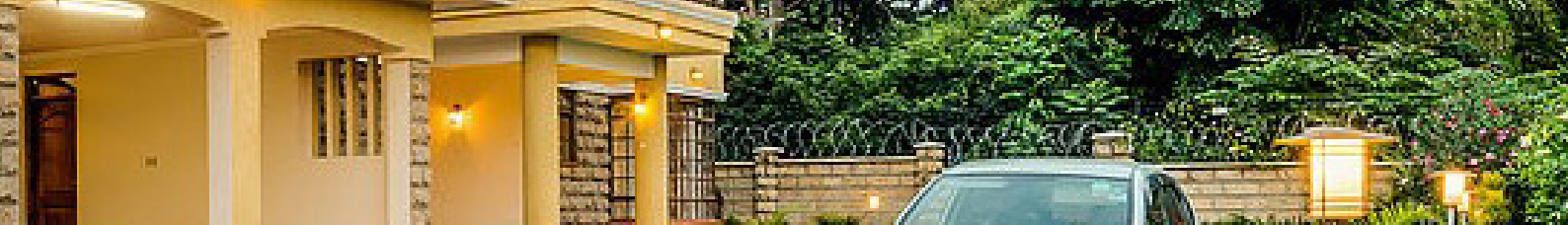


The following transactions were carried out with related parties during the year:

	2017	2016
	Shs'000	Sh'000
Rent Receivable	136,653	193,964
Included in Net assets at the Year-end are:		
Quoted Shares Held in KenGen (Sponsor) Company	51,684	18,497
KenGen Bonds	26,510	39,120

16. INTANGIBLE ASSETS-Computer Software

	2017	2016
	Shs'000	Sh'000
COST	Shs	Shs
At 1 January	7,922	7,922
Additions	22	-
	<u>7,944</u>	<u>7,922</u>
AMORTISATION		
At 1 January	-	-
Charge for the Year	4,461	-
At 31 December	4,461	-
NET BOOK VALUE		
At 31 December	<u>3,483</u>	<u>7,922</u>



17. EQUIPMENT

COST

Sh'000

Sh'000

At 1 January

6,196

5,792

Additions

78

404

Disposal

-

-

At 31 December

6,274

6,196

ACCUMULATED DEPRECIATION

At 1 January

519

453

Depreciation

5,124

66

At 31 December

5,643

519

NET BOOK VALUE

631

5,677

18. PAYABLES AND ACCRUALS

2017

2016

Restated

Sh'000

Sh'000

Accrued Payables

59,781

42,000

Accrued Expenses

10,390

-

Rent Deposit

9,559

9,152

Other Payables

15,740

1,673

Tax Payable

26,466

-

121,936

52,825



NOTES TO THE FINANCIALS STATEMENTS

19. PRIOR YEAR ADJUSTMENT

Restatement of audited statement of net assets held for benefits as at 31 December 2016

	Note	As previously reported 2016 Sh'000	Prior year adjustment Sh'000	Restated 2016 Sh'000
Assets				
Decrease in Related Parties		457,847	(93,766)	364,081
Liabilities				
Decrease in Interest on Partitioning Works		(93,766)	93,766	-
Net Effect on Fund Balance		-	-	-

20. ACTUARIAL VALUATION

An actuarial review was last carried out as at 31 December 2016 by Zamara Actuaries, Administrators & Consultants Limited, (formerly Alexander Forbes Financial Services (East Africa) Limited).

The purpose of the review was:

- To Assess the Financial Position of the Scheme as at 31 December 2016;
- To Undertake Calculations to Provide Projections of Scheme's Benefits Expenditure; and
- To fulfill the requirements of the Retirement Benefits Act and the Income Tax Rules.

Actuarial review results

Below is a summary of the results of the review:

Outstanding benefits payments
Value of:

	2016 Sh'000
Future Benefits to Current Pensioners (Including Spouses and Dependants Pensions)	1,739,942
Past Service Pension Benefits for Active in Service Members Based on Projected Earnings	6,000,277
Future Benefits to Deferred Pensioners	99,602
Outstanding Benefit Payments	155,058
Additional Voluntary Contributions ("AVCs")	2,100
Expense Reserve	903,235

NOTES TO THE FINANCIALS STATEMENTS

Total accrued past service liabilities

	2016 Sh'000
Value Placed on Scheme's Assets	8,900,214
	(7,862,225)
Actuarial Deficit	(1,037,989)
Funding Level	88.3%
A remedial plan has been prepared by the Trustees of KenGen SRBS to cover the actuarial deficit.	
The principal actuarial assumptions used were as follows:	
- Discount Rate	10%
- Future Salary Increment	8%

In accordance with the requirements of the Retirement Benefits Authority Act, defined benefits schemes are subjected to actuarial valuations every 3 years. A valuation is therefore due in 2019.

21. MANAGEMENT OF MEMBERS' FUNDS

The Fund maintains an efficient structure of members' funds consistent with the Fund's risk profile and the regulatory and market requirements of its operating environment.

The Fund's objectives when managing members' funds are to safeguard the Fund's ability to continue as a going concern in order to fulfill its obligations of paying retirement benefits when they fall due.

22. FINANCIAL RISK MANAGEMENT

The Fund generates revenues for the members by investing in various income generating activities. These activities expose the Fund to a variety of financial risks, including credit risk and the effects of changes in equity market prices, foreign currency exchange rates and interest rates. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the investment managers and the Trustees under policies approved by the Trustees. Investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks.

NOTES TO THE FINANCIALS STATEMENTS

Market risk

Interest rate risk

The Fund's interest bearing assets include treasury bonds and term deposits, which are at variable and fixed interest rates.

At 31 December 2017, an increase/(decrease) of 1% on the interest bearing financial assets' interest rate would have resulted in increase/(decrease) respectively in net increase in net assets of approximately Shs 15,398,590 (2016 – Shs 15,070,630).

Price risk

The Scheme is exposed to equity securities price risk because of investments in quoted shares that are carried at fair values. The Scheme is also exposed to the risk that the value of debt securities will fluctuate due to changes in market values. To manage its price risk arising from investments in equity and debt securities, the Scheme diversifies its portfolio. For equities, the Scheme has invested in entities operating in different sectors of the economy, while for debt securities; the Scheme has invested in bonds with varying maturities.

If the price of securities were to appreciate/depreciate by 5 percentage points, this would have the following effect (approximately) as at 31 December 2017, Shs 36,700,750 (2016 – Shs 19,435,750).

Credit risk

Credit risk arises from cash and cash equivalents and receivables. As part of the credit risk management system, the investment managers and the Trustees monitor and review information on significant investments.

The amount that best represents the Fund's exposure to credit risk as at 31 December 2017 is made up as follows:

	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000
2017				
Treasury Bonds	1,336,465	-	-	1,336,465
Treasury Bills	58,434	-	-	58,434
Bank Balances	46,715	-	-	46,715
Short Term Deposits	203,394	-	-	203,394
Other Receivables and Related Party Balances	296,850	119,975	(3,093)	413,732
Corporate Bonds	209,399	-	(15,004)	194,396
	<u>2,151,257</u>	<u>119,975</u>	<u>(18,097)</u>	<u>2,253,136</u>



2016

Treasury Bonds	1,384,471	-	-	1,384,471
Treasury Bills	88,077	-	-	88,077
Bank Balances	44,367	-	-	44,367
Short Term Deposits	122,592	-	-	122,592
Other Receivables and Related Party Balances	404,296	29,994	-	434,290
Corporate Bonds	295,236	-	(7,500)	287,736
	<u>2,339,039</u>	<u>29,994</u>	<u>(7,500)</u>	<u>2,361,533</u>

The debts that are impaired are fully provided for. The debts that are past due are not impaired and continue to be paid. The Fund's management is actively pursuing these debts.

Liquidity risk

The Fund is required to make payments in respect of pension payments when members withdraw or retire from the Fund, and is therefore exposed to the risk of difficulty in raising funds to make such payments. It therefore invests a portion of its assets in investments that are readily convertible to cash. The investment managers monitor the Fund's liquidity on a regular basis and the Trustees review it on a quarterly basis.

The amounts disclosed in the table below are the contracted undiscounted cash flows of the Fund's financial liabilities.

	2017 Shs'000	2016 Shs'000
Other payables	<u>15,740</u>	<u>1,671</u>

The Fund's current liabilities other than rent deposits are payable within 90 days. Tax payable and Rent deposits are all payable within a year.

Fair value of financial assets and liabilities

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2017					
Fair Value Through Profit or Loss:					
Quoted Investments	15	734,015	-	-	734,015
Available for Sale:					
Government Securities	13	1,336,465	-	-	1,336,465
		<u>2,070,480</u>	<u>-</u>	<u>-</u>	<u>2,070,480</u>

	Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2016					
Fair Value Through Profit or Loss:					
Quoted Investments	15	388,715	-	-	388,715
Available for Sale:					
Government Securities	13	1,384,471	-	-	1,384,471
		<u>1,773,186</u>	<u>-</u>	<u>-</u>	<u>1,773,186</u>

There were no transfers between levels 1, 2 and 3 in the year (2016: none).

23. FAIR VALUE

The Trustees consider that there is no material difference between the fair value and the carrying value of the Fund's financial assets and liabilities where fair value details have not been presented.

24. CONTINGENT ASSETS AND LIABILITIES

Contingent Assets

Trustees have made a claim against one of its property managers for breach of an agreement and potential recovery of Shs 166 million of the Scheme assets. The outcome of this will be dependent on the decisions made from the available legal avenues.



Contingent Liabilities

Kenya Revenue Authority in 2014 conducted an in-depth audit on the Scheme that revealed some non-compliance that resulted in tax payable together with penalties. The trustees involved a tax consultant to determine the tax payable for the period 2013 to 2017, which has been accrued. The estimated penalties and interest as at 31 December 2017 amounts to Shs 10,658,461 (2016: Nil). The trustees intend to apply for waiver of penalties and interest. No provision has been made in these financial statements as the trustees are of the opinion that the liabilities will not crystallize.

25. REGISTRATION AND INCORPORATION

The Fund is registered in Kenya under the Retirement Benefits Act.

26. CURRENCY

The financial statements are presented in Kenya Shillings (Shs).

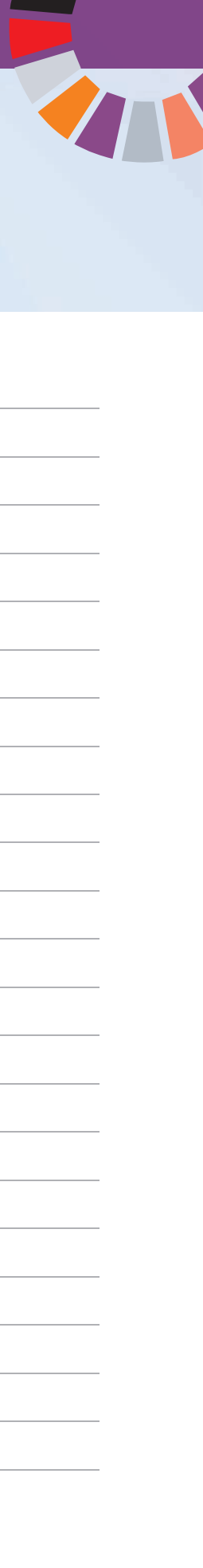




KenGen
Staff Retirement
Benefits Scheme

NOTES

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



KenGen
Staff Retirement
Benefits Scheme

NOTES

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



KenGen Staff Retirement Benefits Scheme
KenGen Pension Plaza 2, 11th Floor
Kolobot Road, Parklands
P. O. BOX 47936, 00100, Nairobi-Kenya.
Tel: (+254) 0711 036000 / 0732116000 / 20 3666000
Email: info@kengensrbs.co.ke