

KenGen Defined Contributions (DC) Scheme 2012



ANNUAL REPORT

and Financial Statements
For The Year Ended
31st December

2015

Our Vision

To provide superior and sustainable benefits to members

Our Mission

To provide timely and adequate benefits to members and beneficiaries
through prudent investment and professional service

Core Values

Professionalism • Customer Focus • Integrity • Teamwork •
Creativity and Innovation • Diversity

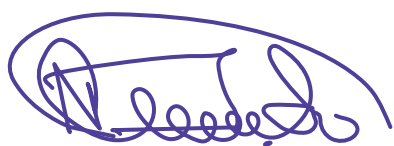
Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the KenGen Defined Contribution (DC) Scheme 2012 will be held on 29th July, 2016 at Sondu Power Station, Social Hall. The DC meeting will commence at 12:00 noon. The Agenda will be:

Agenda

1. Notice Convening the Meeting
2. To receive Trust Secretary's Report
3. To receive Chairperson's Report
4. To receive the Fund Managers' Reports
5. To receive the Custodial Report
6. To receive the Administrators' Report
7. To receive, the Scheme's audited financial statements for the period ended 31st December, 2015 together with the Auditors' Report thereon.
8. To receive RBA's remark
9. Plenary Session
10. Any Other Business
11. Closing Remarks

By Order of the Board



JOSPHAT MURIUKI
CEO & TRUST SECRETARY

12th July 2016

Table of Contents

	Page
Trustees, advisers and other information	1-10
Report of the trustees	11
Statement of trustees' responsibilities	12
Report of the independent auditor	13
Financial statements:	
Statement of changes in net assets available for benefits	14
Statement of net assets available for benefits	15
Statement of cash flows	16
Fund Highlights	17 - 19

Corporate Information

TRUSTEES

Ernest N Nadome Chairman
Rebecca Miano
Albert Mugo
Peter Mutemi
Henry Nyachae
Ziporah Ndegwa
Josphat Muriuki (Trust Secretary - Appointed June 2016)

ADMINISTRATOR

Alexander Forbes Financial Services (EA) Limited
Landmark Plaza
P O Box 52439 - 00200
Nairobi

INVESTMENT MANAGERS

Stanlib Kenya Limited
CFC Life Building
P.O. Box 30550 - 00100
Nairobi

Old Mutual Investment Group Limited
Mara and Hospital road
P.O.Box 11589 – 00400
Nairobi

CUSTODIAN

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

AUDITOR

PricewaterhouseCoopers
PwC Tower
Waiyaki Way/Chiromo Road, Westlands
Nairobi, Kenya
P.O. Box 43963 - 00100
Nairobi

BANKERS

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

REGISTERED OFFICE

KenGen Pension Plaza 2
Kolobot Road, Parklands
P O Box 1811 – 00606
Sarit Centre
Nairobi

Chairperson's Statement

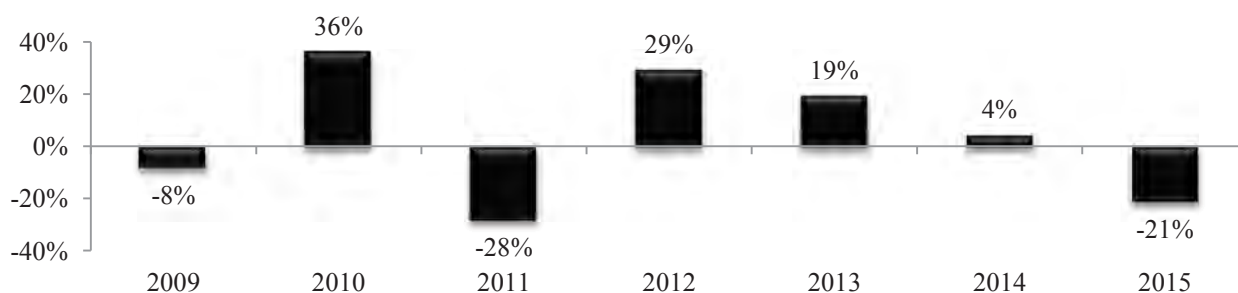


Dear Members,

The economy grew by 5.8% in Q3 2015, supported by growth in agriculture, construction, financial activities, and trade and transportation sectors. Additionally, improved weather conditions, declining fuel and electricity prices, increased government spending and favorable credit growth continued to anchor growth. Accommodation, Hotels and Restaurant sectors shrunk dampened by low tourist numbers due to security lapses and a slow-down in the Euro-zone, a key tourist source market. Lower oil prices as a result of weaker global demand and increased supply was positive for the economy. Higher infrastructural spending and regional integration are likely to continue boosting growth.

Equity Markets declined in 2015 weighed down by tightening of monetary policy and a significant depreciation of the Kenya Shilling, a result of which was a shift in investor flows into fixed income. The NSE 20 and NASI indices declined by 21% and 10.6% respectively.

Annual NSE market performance



Bond market

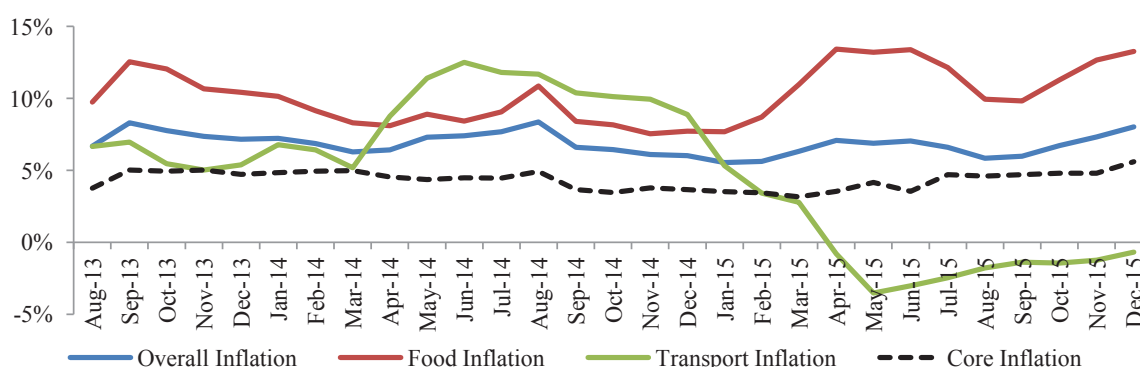
The short end of the yield curve rose sharply in the second half of the year as the CBK intervened to stem further depreciation of the shilling. The FTSE bond index edged lower by 3.5% to close the year at 90.5 points. Going forward, the CBK's liquidity management through Open Market operations and high appetite for funds by Government may support elevated interest rates on the shorter end of the yield curve.

Exchange Rate

In 2015, the Kenya Shilling lost 12.9%, 7.0% and 0.8% against the US Dollar, Sterling Pound and Euro respectively. It however gained 18.8% and 7.8% against the South African Rand and Uganda shilling respectively. Global dollar strengthening, rising import demand especially for infrastructure related expenditures, a decline in tourism revenues and capital outflows contributed to the depreciation of the Kenya shilling in the year.

Inflation

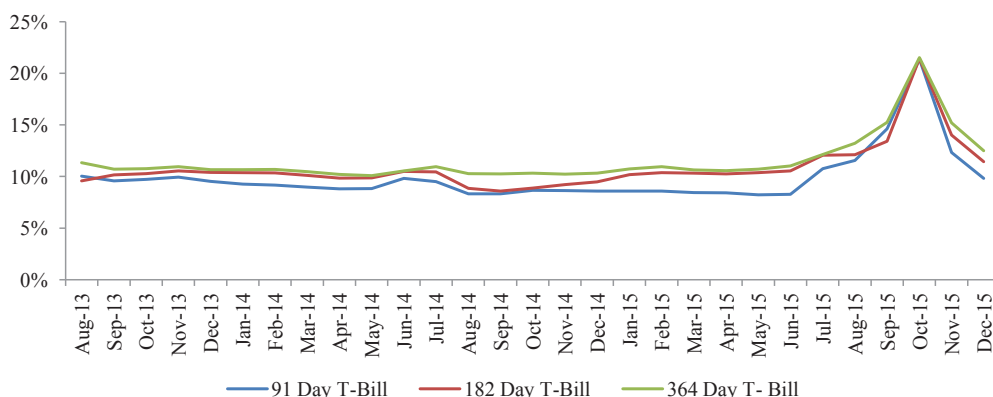
Headline inflation accelerated to 8.01% in December 2015 from 6.02% in December 2014. Overall inflation averaged 6.6% in 2015 as compared to 6.9% in 2014, well within the Central Bank of Kenya's upper target of 7.5%. Non-food non-fuel inflation closed the year above 5% at 5.6%. Core inflation for most of 2015 was within the 5% target and averaged 4.2%.



Interest rates

Volatility was the theme for interest rates in 2015. The 91 day Treasury bill rate averaged 10.9% for the year after rising 21.4% in October. The 182 day and the 364 Treasury Bills averaged 12.2% and 12.9% respectively after rising to 21.4% and 21.5% respectively in October.

Monthly average interest rates trend 2015



The Scheme in 2015

The Board of trustees together with the fund's investment managers endeavours to prudently invest available funds in an optimized portfolio that yield favourable returns.

The Scheme assets increased from KShs 1.699 billion as at 31 December 2014 to KShs 2.264 billion as at 31 December 2015. This was an increase in the value of assets by KShs 564 million.

The trustees have taken an active role in acquiring property which has attributed to the positive returns achieved by the Scheme.

The Trustees resolved to employ a market based approach to declaring returns on the member accounts. Under this approach the return declared for any given period will be determined based on the actual investment return on the investments of the Scheme, after deducting the related expenses incurred. Members must appreciate that investing includes the undertaking of risk and also understand that investment returns can be positive or negative and that there are no guarantees to the level of investment performance. It is expected that in the long term, investment performance will generally be positive.

The Policy also provides that the final rate of interest to be declared to the member accounts shall be determined after the Scheme audited accounts for the financial year are availed.

We also encourage members to continually update personal details in a timely manner.

Boost your Savings

The need to enhance your savings for the purposes of ensuring you can retire comfortably cannot be overemphasised. As a member of the Scheme, the investment strategy deployed by the Trustees targets the achievement of a decent retirement benefit in the long term spanning an estimated saving period of 30-40 working years. Being a Defined Contribution Scheme, the benefit you will receive is determined by the total contributions in the Scheme and investment returns earned on these monies over time. Accordingly, I encourage all members to take full advantage of the Scheme and increase their level of contributions. We are confident that the continued participation of members in the Scheme and in the increased levels of savings will be invaluable to reaching your retirement goals.

Appreciation

I wish to convey my gratitude and appreciation to my fellow Trustees, Sponsor, all professional advisors and most importantly you members for working with our leadership during the year 2015 to move towards our vision.

In Conclusion

The Board of Trustees is committed to ensure the Scheme is managed in accordance with the Retirement Benefits Act, international best practice and in the best interests of members. We will continue to work towards maximising on the investment returns of the Scheme.

Thank you.

Ernest Nadome
Chairman, Board of Trustees

Secretary's Statement

The Defined Contribution Fund has grown steadily since its inception in January, 2012 in line with its vision "To provide timely and adequate benefits to members and beneficiaries through prudent investment and professional service." Through close monitoring of performance and investment strategies, including keen focus on achieving long term investment objectives, the Trustees have continued to ensure the Fund performance remains favorable and continues to provide the best possible benefits to its members upon retirement. The Fund's performance continued with its upward growth trend since inception.

The five years Fund strategy (2013 – 2018) was formulated to provide a periodic guiding plan towards attaining the Funds mission, vision and value statements. The strategy is centered on Fund administration, Investment risk and returns, Customer service, Property development, Cost management, Corporate governance and Regulatory compliance. Each year, annual corporate objectives of the Fund are meticulously set and performance monitored through performance targets evaluation to ensure the ultimate achievement of the specific laid out objectives. The Fund has, through the member education program offered to train its members on the fund and its benefits, how to invest wisely, health and nutrition which has made them more enlightened. Corporate governance has been enhanced over the years with the board members having attended various training on corporate governance which has assisted them in laying down sound corporate governance structures for the Fund.

Fund Administration

The Defined Contribution Fund has outsourced administrative functions to the Secretariat of the DB Fund.

The following functions have been outsourced:

- Finance & Investments
- Property Management & Development
- Risk Management
- Customer Service
- Scheme Administration

Risk management

Generating returns involves taking investment risks. As institutional investors we need to be aware of these risks and know when to take advantage or avoid them. We have continuously invested in a more sophisticated risk management system that allows us to better monitor Scheme risks and generate more robust and multi-dimensional "what-if" scenarios and stress tests. This allowed for a more detailed level of risk reporting and increased Trustee engagement in assessing these risks.

We are committed to identifying, evaluating and managing risk to the Fund and to implementing and to maintaining control procedures to reduce significant risks to an acceptable level through a risk register which majors in;



- Highlighting the scope of the risks to which the Fund is exposed;
- Ranking those risks in terms of likelihood and impact; and
- Identifying management actions that are either currently being taken, or that it is believed should be taken, in order to mitigate the identified risks to an acceptable level.

Outlook

The Fund we will endeavor to prudently manage members' funds and seek to provide superior returns as a commitment to offer decent lives in retirement to our members. This will be done through continuous monitoring of our investments, prudent portfolio selection through diversification while ensuring compliance to the Retirement Benefits Authority regulations on investments, the Fund's investment policies as well as with all relevant legal requirements.

Appreciation

I take this opportunity to thank the Board of Trustees for their continued support and the stakeholders for their hard work in service delivery to the Fund. As we reflect on this year operations and performance, I would like to assure you all that the KenGen Defined Contribution (DC) Scheme 2012 has a solid foundation and will continue to build on the strength of the Fund and uphold its vision while working together with all stakeholders to build a secure and better benefits for all members.

Sincerely,

Josphat Muriuki
CEO/ Trust Secretary

Board of Trustees



Albert Mugo



Ernest Nadome



Henry Nyachae



Peter Mutemi



Zipporah Ndegwa



Rebecca Miano



Sitting Left -Right: Hannah Nguhi, Purity Kamau, Gloria Kikete and Jane Namnyak

Standing Left to Right: Danson Munyao, Micheal Otechi, Josphat Muriuki, Albert Moturi, Peter Miano and John Kinyanjui

Report of the Trustees

The trustees present their report together with the audited financial statements for KenGen Defined Contribution (DC) Scheme 2012 (the "Scheme") for the year ended 31 December 2015.

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The Scheme was established with effect from 1 January 2012 and is governed by a trust deed dated 1 January 2012. 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.

The scheme is governed by a trust deed. Contributions to the Scheme by both the employer and employees at the rate of 10% for the employees and 20% for the employer of the individual members' basic salaries

	2015	2014
Contributing members		
At start of year	1,841	1,785
Adjustment	(1)	1
Joiners	63	85
	<u>1,903</u>	<u>1,875</u>
Less:		
Retired with pension	(26)	(10)
Died in service	(16)	(7)
Other secessionists	(7)	(17)
At end of year	<u>1,854</u>	<u>1,841</u>

FINANCIAL REVIEW

The statement of changes in net assets available for benefits shows an increase in the net assets of the Scheme for the year of Shs 564,822,000 (2014: Shs 651,702,000) and statement of net assets available for benefit shows the Scheme's net assets as Shs 2,263,947,000 (2014: Shs 1,699,125,000).

INVESTMENT OF FUNDS

Under the terms of their appointment Stanlib Kenya Limited are responsible for advising the trustees on investment of the available funds. The overall responsibility for investment and performance lies with the Trustees.

AUDITOR

PricewaterhouseCoopers continue in office in accordance with the Retirement Benefit Act

For the trustees



Nadome
Chairman

31st March 2016

Statement of the Trustees Responsibilities

The Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000 require the Trustees to prepare financial statements in a prescribed form for each financial year. They also require the Trustees to ensure that the Scheme keeps proper accounting records of its income, expenditure, liabilities and assets, and that contributions are remitted to the Custodian in accordance with the rules of the Scheme.

The Trustees accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- ii) Selecting and applying appropriate accounting policies;
- iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The Trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits and the cash flows in accordance with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

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

Approved by the Board of Trustees on 31st March 2016 and signed on its behalf by:

For the Trustees



Ernest N Nadome
Chairman



Rebecca Miano
Trust Secretary

Report Of The Independent Auditor To The Trustees Of KenGen Defined Contribution (DC) Scheme 2012

We have audited the accompanying financial statements of Kengen Defined Contribution (DC) Scheme 2012 (the "Scheme") for the year ended 31 December 2015. These financial statements comprise the statement of net assets available for benefits at 31 December 2015, and the statement of changes in net assets available for benefits and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Trustees' responsibility for the financial statements

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances

Auditor's responsibility

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

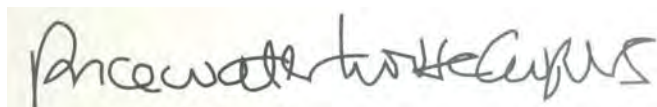
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the scheme's preparation and fair presentation of the financial statements 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 Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the Scheme's net assets available for benefits at 31 December 2015 and of the changes in net assets available for benefits and cash flows for the year then ended in accordance with International Financial Reporting Standards.

The engagement leader responsible for the audit resulting in this independent auditor's report is CPA Moses Nyabanda – P/2047.



Certified Public Accountants
Nairobi

31st March 2016

FINANCIAL STATEMENTS

Statement of changes in net assets available for benefits

	Year ended 31 December	
	2015	2014
	Shs'000	Shs'000
Income from dealings with members		
Contributions received	640,715	552,179
Outgoings from dealings with members		
Benefits payable:- leavers	(73,843)	(22,415)
Net additions from dealings with members	566,872	529,764
Returns on investments		
Investment income	109,784	98,044
Change in fair value of investment property	51,826	20,000
Change in fair value of investment	(104,883)	31,076
Impairment of Investment	(21,500)	-
Less: Investment management expenses	(7,780)	(6,339)
Net returns on investments	27,447	142,781
Administrative expenses	(22,012)	(14,726)
Income tax expense	(7,485)	(6,117)
Increase in net assets for the year	564,822	651,702
Net assets available for benefits at start of year	1,699,125	1,047,423
Net assets available for benefits at end of year	2,263,947	1,699,125

Statement of net assets available for benefits

	2015	2014
	Shs'000	Shs'000
Assets		
Investment property	715,465	663,639
Other investments	1,542,611	1,083,894
Other receivables and accrued income	686	802
Cash at bank	45,026	3,502
Total assets	2,303,788	1,751,837
Less: liabilities		
Benefits payable	12,295	9,367
Other payables and accrued expenses	27,546	43,345
Total liabilities	39,841	52,712
Net assets available for benefits	2,263,947	1,699,125

The financial statements on pages 5 to 20 were approved for issue by the trustees on

31st March 2016 and signed on their behalf by:



Ernest N Nadome
Chairman

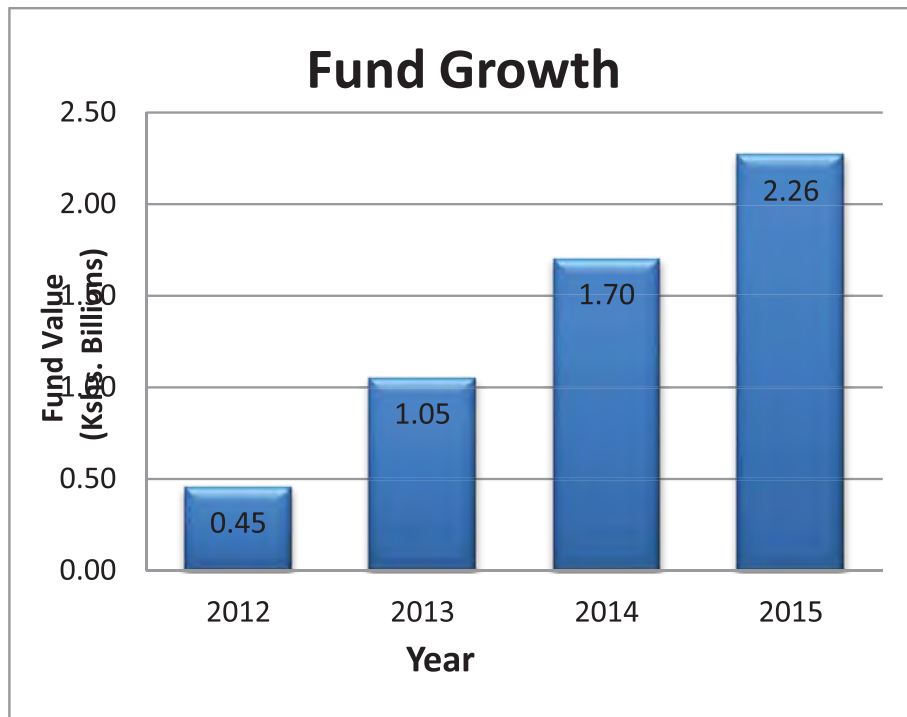


Rebecca Miano
Trustee

Statement of cash flows

	2015	2014
	Shs'000	Shs'000
Cash flows from operating activities		
Contributions received	640,715	552,115
Benefits paid	(70,915)	(16,226)
Administrative expenses	(19,182)	(18,761)
Due to KenGen Retirement Benefits Scheme	(8,075)	10,172
Impairment of Investment	(20,000)	
Income tax	(13,524)	(1,624)
Net cash from operating activities	509,019	525,676
Investing activities		
Investment income received	109,901	97,420
Investment management expenses paid	(12,296)	(1,239)
Purchase of investments	(793,424)	(727,993)
Proceeds from sale of investments	264,297	671,067
Purchase of investment property	-	(513,639)
Net cash used in investing activities	(431,522)	(474,384)
Increase /(decrease) in cash and cash equivalents	77,497	51,292
Movement in cash and cash equivalents		
At start of year	216,741	165,449
Increase /(decrease)	77,497	51,292
At end of year	294,238	216,741

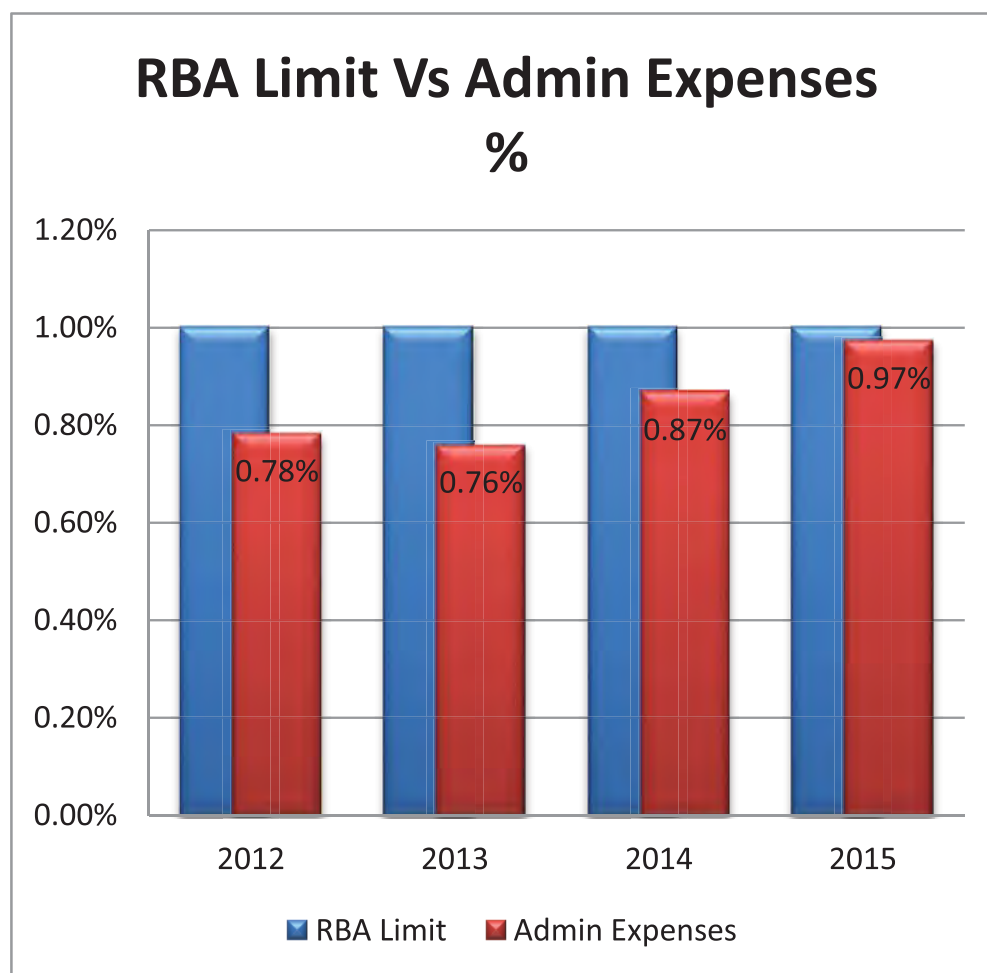
FUND HIGHLIGHTS



The net assets available for members continued to grow steadily over the years. As at the end of the financial year the net assets available for members stood at Kshs. 2.26 Billion (2014: 1.70 Billion)



The fund membership increased to 1854 from 1841 recorded in the previous year



The fund administrative expenses have been lower than the retirement benefits authority recommended limit of 1% of the fund value of the period.

Four Year Summary**Statement of changes in Net Assets available for Benefits**

YEAR	2012 Kshs '000'	2013 Kshs '000'	2014 Kshs '000'	2015 Kshs '000'
Income from dealings with members				
Contributions received	448,519	494,845	552,179	640,715
Outgoings from dealing with members				
Benefits Payable:- Leavers	(3,317)	(12,663)	(22,415)	(73,843)
	(3,317)	(12,663)	(22,415)	(73,843)
Net additions from dealings with members	<u>445,202</u>	<u>482,182</u>	<u>529,764</u>	<u>566,872</u>
Return on Investments				
Investment Income	11,262	72,048	98,044	109,784
Change in fair value of investment property	-	27,785	20,000	51,826
Change in fair value of available for sale investments	615	28,997	31,076	(104,883)
Impairment of assets	-	-	-	(21,500)
Less: Investment management expenses	(615)	(3,718)	(6,339)	(7,780)
Net return on investments	<u>11,262</u>	<u>125,112</u>	<u>142,781</u>	<u>27,447</u>
Administrative expenses	(3,542)	(7,950)	(14,726)	(22,012)
Income Tax expense	<u>-</u>	<u>(4,843)</u>	<u>(6,117)</u>	<u>(7,485)</u>
Increase in net assets for the year	<u>452,922</u>	<u>594,501</u>	<u>651,702</u>	<u>564,822</u>

Statement of Net Assets available for Benefits

Assets				
Investment Property	-	130,000	663,639	715,465
Other Investments	428,728	904,755	1,083,894	1,542,611
Other receivables and accrued income	9,530	114	802	686
Cash at Bank	38,652	43,347	3,502	45,026
Total Assets	<u>476,910</u>	<u>1,078,216</u>	<u>1,751,837</u>	<u>2,303,788</u>
Less: Liabilities				
Benefits payable	2,469	3,178	9,367	12,295
Other payables and accrued expenses	<u>21,519</u>	<u>27,615</u>	<u>43,345</u>	<u>27,546</u>
Total Liabilities	<u>23,988</u>	<u>30,793</u>	<u>52,712</u>	<u>39,841</u>
Trust Fund	<u>452,922</u>	<u>1,047,423</u>	<u>1,699,125</u>	<u>2,263,947</u>

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 1811 – 00606, Nairobi, Kenya
Tel: +254 20 3666 0000 | Fax: +254 20 248 848