



2016

(DC) Scheme



ANNUAL REPORT

For The Year Ended 31st December 2016

KenGen

Defined Contribution



Athi River

“This prime land is located in Mavoko which is in Machakos County. The land is accessible via a quarry road from the main Mombasa road and has easy access to electricity as well as municipal water.”

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To
provide superior
and sustainable
benefits to
members

Our Vision

TRUSTEES

Ernest N Nadome Chairman
Albert Mugo
Rebecca Miano
Ziporah Ndegwa
Henry Nyachae
Peter Mutemi

Josphat Muriuki Trust Secretary (Appointed 2nd June 2016)

ADMINISTRATOR

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

INVESTMENT MANAGERS

Stanlib Kenya Ltd
Liberty House
P.O Box 30550 - 00100
Nairobi

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

CUSTODIAN

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

AUDITOR

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

BANKERS

NIC Bank Ltd
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

The Trustees present their report together with the audited financial statements for KenGen Defined Contribution (DC) Scheme 2012 (the "Scheme") for the year ended 31st December 2016.

Establishment, nature and status of the scheme

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

	2016 Shs'000	2015 Shs'000
Contributing members		
At start of year	1,854	1,841
Adjustment	-	(1)
Joiners	36	63
	1,890	1,903
Less		
Retired with pension	(41)	(26)
Died in service	(10)	(16)
Other secessionists	(12)	(7)
At end of year	1,827	1,854

Financial Review

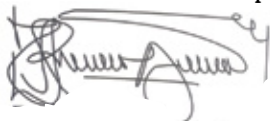
The statement of changes in net assets available for benefits on page 22 shows an increase in the net assets of the Scheme for the year of Shs 789,338,000 (2015: Shs 564,822,000) and statement of net assets available for benefit on page 23 shows the Scheme's net assets as Shs 3,053,285,000 (2015: Shs 2,263,947,000).

Investment of funds

Under the terms of their appointment Stanlib Kenya Limited and Old Mutual Investment Group 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



Ernest N Nadome
Chairman

The Kenyan Retirement Benefits Act requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the financial position of the Scheme at the end of the financial year and its financial performance for the year then ended. The Trustees are responsible for ensuring that the Scheme keeps proper accounting records that are sufficient to show and explain the transactions of the Scheme; disclose with reasonable accuracy at any time the financial position of the Scheme; and that enables them to prepare financial statements of the Scheme that comply with prescribed financial reporting standards and the requirements of the Kenyan Retirement Benefits Act. They are also responsible for safeguarding the assets of the Scheme and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

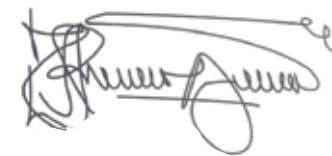
The Trustees accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Retirement Benefits Act. They also accept responsibility for:

- Designing, implementing and maintaining internal controls as they find necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- Selecting suitable accounting policies and then apply them consistently; and
- Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the Trustees have assessed the Scheme's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. 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.

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

Approved by the board of Trustees on 23rd March 2017 and signed on its behalf by:



Ernest N Nadome
Chairman



Josphat Muriuki
Trust Secretary



Ernest Nadome
Chairman

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Dear Members,

It is with great pride that I present to you the Annual Report and Audited Financial Statements of KenGen Defined Contribution (DC) Scheme 2012 for the year ended December 31st 2016. Execution of the Scheme's three strategic pillars: optimal portfolio management, enhanced service delivery and strengthened institutional capacity continue to reward us with strong financial performance granted by a relatively calm macroeconomic environment.

Over view of Macro-economic Environment in 2016 and Scheme performance

In the year under review, Kenya's Gross Domestic Product (GDP) grew by an estimated 5.9% in 2016 compared to 5.6% in 2015. The performance was driven by a stable macroeconomic environment and significantly improved performance of agriculture, construction, finance, insurance and real estate sectors. This was despite inflationary pressures and volatility in foreign exchange rates.

Headline inflation for the first eight months of 2016 averaged 6.3%, a slight decline from the 6.4% observed over the same period in 2015. This decline was mainly due to lower oil and food prices. The inflation rate bottomed out at 5.0% in May 2016 but increased in Q3 2016, being range-bound between 6% and 6.5%, which is well within the 7.5% Central Bank of Kenya's upper bound. The uptick in inflation in recent months has been largely driven by an increase in food prices

The shilling remained resilient through 2016, closing the year at KES 102 against US dollar, a depreciation of just 0.6%. The resilience was majorly buoyed by strong support from Central Bank of Kenya (CBK) forex reserves and strong diaspora remittances that kept the currency flat even as regional currencies ceded ground to the dollar.

The equities markets slump witnessed in 2015 continued in 2016, with the NSE 20 closing down 21% while the NASI fell 8% through the year.

On an overview, the Scheme's holdings in equities were negatively affected due to the poor performance of the stock markets. That said, the Scheme received a cushion from the fixed income securities that gave a positive return. This was not an exception to the market performance. According to Alexander Forbes Financial Services (EA) Ltd survey, all Schemes participating in the Survey produced a return of -1.1% on their equity holdings compared to a return of 11.7% attributed to their fixed income holdings over one year period to 31st December, 2016.

Scheme's Financial Performance

The Board, with professional advice from the investment managers endeavoured to prudently invest available funds in an optimized portfolio that guarantees a reasonable balance between risk and return. This bore fruits as the Scheme achieved an annual net return of 4.7% (2015: 0.0%) for the year ended 2016 which was a modest performance mainly due to the weak performance in the Kenyan stock market.

The total market value of the Scheme's assets as at the end of year 2016 stood at KShs. 3.053 billion up from KShs. 2.264 billion for the year ended 2015.

Although the Scheme is likely to be affected by the general performance of the economy, Trustees continue to

focus their efforts on implementing strategies that ensure sustainable growth is realized. Towards this goal, the Board has been keen to invest in the property market which cushions the Scheme on negative performance of the traditional investment avenues. As such, the Scheme has enhanced investment in property, currently bare land both in Konza and Athi River; with a view to eventually develop in the near future.

Strategic Direction

The Board reaffirms its commitment to ensuring members earns an optimal return to their investment. Supported by favourable regulatory framework, going forward the Board is keen to diversify its investments to non-traditional financial markets such as Private equity.

Other initiatives to ensure healthy business competition amongst investment managers is to ensure performance-based reward system to them. That said, the Board’s key focus is still on safe, liquid and profitable investment vehicles.

Key Regulatory Highlights

The legislative change contained in The Public Procurement and Asset Disposal Act, 2015 came into effect on January 7th, 2016. The said Act under Part I, Section 2 (o) now includes a pension fund as a “Public Entity” hence placing KenGen DC Scheme 2012 as being a “Procuring Entity” under this Act. The Scheme has already embarked on the process of ensuring compliance with the act.

Other key change includes amendment of the Income Tax Act which harmonized income tax bands on taxation of retirement benefits with taxation of personal income. Schemes have also been given an incentive to transfer assets into Real Estate Investment Trust (REITS) and Asset Backed Securities as they shall be exempted from VAT.

Corporate Governance

The Trustees recognize that corporate governance is crucial in the management of the Fund and takes all necessary steps to implement policies, procedures and systems to ensure full compliance with all the requirements of the regulatory bodies and the Trust Deed and Rules.

I, therefore, wish to confirm, the Scheme complied with the provisions of the Retirement Benefits Act and Regulations, in addition to adherence to best practices as stipulated in the Scheme’s Trust Deed & Rules and the Board Manual. As the Chairman, I will be steadfast and commit myself to providing strong, visionary and effective leadership to enable the Scheme achieve its mission of “providing superior and sustainable benefits to members.”

Board Changes

Mrs. Ziporah Ndegwa retired as a Board member on 31st May, 2017 and the sponsor appointed Mr. Musa Arusei to replace her as a Board member. The Board would like to thank Mrs. Ndegwa for her work and contribution during her term and at the same time, welcomes Mr. Arusei.

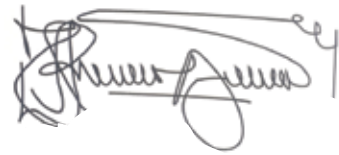
Boost your Savings

The need to enhance your savings for the purposes of ensuring you can retire comfortably cannot be overemphasised. 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 than the higher set limit of 10%. You will not only increase your levels of savings but also reduce your taxable pay.

Appreciation to Stakeholders

In spite of the uncertainties regarding the country’s economy, I am confident that the Scheme is strategically positioned and adequately resourced to exploit any potential opportunities that may emerge. I have no doubt, that with effective monitoring and evaluation of the performance of our investments, it will be possible to achieve both the medium and long term objectives of the Scheme. As I conclude my remarks, I would like to thank my colleagues in the Board for their dedication and reliable support, the Sponsor for his continuing support and the Secretariat for their hard work in handling the day to day operations of the Scheme. I would also like to express the Board’s appreciation and gratitude to the investment managers, custodians, auditors, and all other professional consultants for their valuable services to the Scheme. Last but not least, I say a special thank you to the members of the Scheme for their unrelenting support.

Thank you.



Ernest Nadome
Chairperson, Board of Trustees
KenGen Defined Contribution (DC) Scheme 2012

“Aging is not an option. We have a choice on how to but not when to! In retirement saving, you are just making a choice on how to age which will greatly affect the quality of life in retirement. Do something today that your future self will thank you for!”



Josphat Muriuki
Trust Secretary

D

Dear Members,

The Defined Contribution Scheme 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”.

Though the year 2016 was marked with several economic challenges that affected the Scheme’s performance, the Scheme continues to focus on monitoring and implementing long term strategies that preserve the value of members’ funds. With the guiding pillar on portfolio monitoring, the Scheme investments produced a positive growth in year 2016. Besides the growth in returns, I also take this opportunity to share with you highlights to the Strategic Plan 2013-2018 as well as the outlook for 2017.

System and Process Improvement

In the year under review, the Scheme has been deliberate in leveraging on technological platforms to enhance delivery of pension services. Towards the goal on improved service delivery, digital communication with the customers has been revamped following the set-up of an interactive website which we welcome you to visit on www.Kengensrbs.co.ke . Also, annual benefit statements have been sent to you members through your email address. We have now also ensured relaying of real-time information through mobile alerts.

Scheme Strategy

The Strategic Plan 2013 - 2018 provides a road map on how the DC Scheme will realize its vision and mission to provide superior and sustainable benefits to members. The plan highlights three strategic pillars that will guide the operations of the Board over the 5-year period from 2013-2018. It is the responsibility of the management team to ensure the objectives and strategic goals are achieved. Continuous monitoring and performance management tools will be employed for optimum implementation of the strategies. The three strategic pillars are:

1. Optimal Portfolio Management
2. Enhance Service delivery
3. Strengthening the Institutional Capacity of the Scheme

In 2017, the Scheme will work towards enhancing the return on investments by maintaining an optimized portfolio through consistent monitoring and enhanced diversification.

New Members in the Board

The Board of Trustees is constituted in accordance with the regulations issued by the Retirement Benefits Authority. The new board members have been inducted through the Board induction program to ensure that they are properly equipped with the skills needed to execute the corporate governance mandate. We are looking forward to work with the new trustees.

Future Prospects

The Scheme enjoys a strong and diversified asset base which in itself provides great assurance that the prospects of the Scheme are bright coupled with the great leadership and pool of skilled human resource. Beyond that though, the strategies put in place and highlighted in the strategic plan, paint a picture of opportunity and

solid growth for the Scheme in the year to come.

The focus in 2017-2018 will be to maximize investment returns through diversification of the Scheme's portfolio to alternative investments as well as monitoring performance of the NSE.

Appreciation

I wish to thank the Board of Trustees for the leadership and support provided. Special thanks also to the industry regulator for providing and lobbying for a conducive framework for pension business. I wish to also thank the Scheme members, Sponsor, fellow team members in the secretariat and service providers for the continued trust, loyalty and hardwork in service delivery.

Thank you.



Josphat Muriuki
CEO & Trust Secretary
KenGen Staff Retirement Benefits Scheme

To provide superior and
sustainable benefits to
members

Our
Vision

BOARD OF TRUSTEES



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, Projects Implementation Team and the Board of Trustees for the KenGen Defined Contribution (DC) Scheme. He is a member of the Procurement & tender 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 also the Chairman of Kenya Power Pension fund (DC Scheme) and a Trustee of Kenya Power Pension Fund (DB Scheme) 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.

Ernest Nadome - Chairman



He has diverse experience of 35 years in the energy sector having been employed by East African Power in 1981 then KPLC and thereafter KenGen whereby he has served in various capacities in the Finance Department and other assignments which include Committee Member, Stima Plaza Area Tender and Member of staff subcommittee of the Board. He was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2014 as a sponsor appointed trustee. He serves in various committee of the Board of Trustees. Member, Finance & Investment, Audit & Risk, Project Implementation Team & Tender Committee for the DB scheme and a member of administration & Legal Committee of the DC scheme. He holds Bachelor of Commerce (Accounting Option) and he is a Certified Public Accountant CPA (K)He is currently the Finance Manager with KenGen, Stima Plaza.

Henry Nyachae - Trustee

BOARD OF TRUSTEES



She was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2014 as a sponsor appointed trustee. She is the Chairperson of the DB Scheme. She is also a trustee of KenGen Defined Contribution (DC) Scheme 2012. She also serves as the Chairperson of the Administration & legal committee in the DC Scheme. She holds a Bachelors in law and a Diploma in legal Practice.

She is a member LSK and Christian Lawyers Fellowship. She is currently a Non-Executive Director on the KenGen Board.

Ziporah Ndegwa - Trustee



She is a sponsor appointed trustee and the chairperson of the Audit & Risk Committee as well as a member of the Administration & legal committee. She is also a member of the KenGen Staff Retirement Benefits Scheme, sitting in the Administration & Legal, Project Implementation and Audit & Risk Committees. She holds a LLB (Hons) Dip in Law, PGDIP Comparative law, CPS (K). She is currently the Company Secretary and Legal Affairs Director of Kenya Electricity Generating Company.

Rebecca Miano - Trustee



He was appointed to the Board of Trustees of KenGen Staff Retirement Benefits Scheme in 2014 as a sponsor appointed trustee. He is also a trustee for KenGen Defined Contribution (DC) Scheme 2012.He holds BSC (Hons) Electrical Engineering, MBA (strategic Management). He is currently the Chief Executive Officer & Managing Director of Kenya Electricity Generating Company.

Albert Mugo - Trustee

BOARD OF TRUSTEES



He has an 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 Trustees of KenGen Staff Retirement Benefits Scheme since 2009 and a trustee of KenGen Defined Contribution (DC) Scheme 2012 since 2012. He is a member of Finance & investment Committee and Audit & Risk Committee. He is currently an Assistant Foreman at KenGen Olkaria and a Change Agent.

Peter Mutemi - Trustee



He was appointed Chief Executive Officer and Trust Secretary in 2016. He holds a Master of Business Administration (MBA-Finance) and Bachelor's Degree in Applied Statistics (Actuarial Science). He is a Certified Investment and Financial Analyst (CIFA), a Certified Information and Security Auditor (CISA) and a Certified Pensions Trustee (CPT). He is a student at Jomo Kenyatta University of Agriculture and Technology pursuing PhD in Leadership & Governance. He has wide experience in Pensions, Finance, Accounting, Information Audit and Investments spanning over 10 years having previously worked as the Pensions Administration Manager with Liaison Group (I.B) Ltd a leading Risk, Insurance, Pensions and Investments Consultancy in Eastern Africa. He is a member of Institute of Certified Investment and Financial Analysts of Kenya (ICIFA) and Information Systems Audit & Control Association – Kenya (ISACA - K).

Josphat Muriuki - Trust secretary

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

Our
CORE VALUES



Management

SEATED FROM LEFT

Josphat Muriuki - Trust Secretary, Hannah Nguhi - Investment Officer, Jane Namnyak

STANDING FROM RIGHT

Albert Moturi - Assistant Pension Officer, Anthony Mang'eli - Property Officer,

Office Assistant, Purity Kamau - Pensions Officer, Gloria Kikete - Finance Officer

Peter Miano - ICT Officer, Rashid Kanyua - Assistant Finance Officer

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

Our
MISSION

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KenGen DEFINED CONTRIBUTION (DC) SCHEME 2012

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of KenGen Defined Contribution (DC) Scheme 2012 (the “Scheme”) set out on pages 22 to 35 which comprise the statement of net assets available for benefits at 31st December 2016 and the statement of changes in net assets available for benefits and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of a significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of KenGen Defined Contribution (DC) Scheme 2012 at 31st December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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 information included in the annual report but 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 identified above 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, 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 the Trustees for the financial statements

The Trustees are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits (Occupational Retirements Benefits Schemes) Regulations 2000, and for such internal controls as the Trustees determine is 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

Scheme’s ability to continue as a 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 Scheme or to cease operations, or have no realistic alternative but to do so.
The Trustees are responsible for overseeing the Scheme’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 ISAs 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 scepticism 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 internal controls.
- 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 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 Scheme 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.

We communicate with the Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor’s report is CPA Peter

Peter Waterhouse

Certified Public Accountants

31st March 2017



Konza

“Measuring approximately 100 acres - this prime land is located in Kiputiei North, Kajiado County a few kilometers from the proposed Stoney Athi SGR railway station. The land is located in an area with scheme developments making it ideal for residential purpose.”

Statement of changes in net assets available for benefits

	Notes	2016 Shs'000	2015 Shs'000
Income from dealings with members			
Contributions received	5	743,811	640,715
Outgoings from dealings with members			
Benefits payable:		(101,024)	(73,843)
Net additions from dealings with members		642,787	566,872
Returns on investments			
Investment income	6	180,887	109,784
Change in fair value of investment property	7	56,547	51,826
Change in fair value of financial assets	8	(43,066)	(104,883)
Impairment of investments	8	-	(21,500)
Less: Investment management expenses	9	(6,472)	(7,780)
Net returns on investments		187,896	27,447
Administrative expenses	10	(28,768)	(22,012)
Income tax expense		(12,577)	(7,485)
Increase in net assets for the year		789,338	564,822
Net assets available for benefits at start of year		2,263,947	1,699,125
Net assets available for benefits at end of year		3,053,285	2,263,947

Statement of net assets available for benefits

	Notes	2016 Shs'000	2015 Shs'000
Assets			
Investment property	7	772,012	715,465
Other investments	8	2,246,990	1,542,611
Other receivables and accrued income	11	305	686
Cash at bank	13	71,700	45,026
Total assets		3,091,007	2,303,788
Less: liabilities			
Benefits payable		3,263	12,295
Other payables and accrued expenses	12	34,459	27,546
Total liabilities		37,722	39,841
Net assets available for benefits		3,053,285	2,263,947

The financial statements were approved for issue by the Trustees on 23rd March 2017 and signed on their behalf by:



Ernest N Nadome
Chairman



Josphat Muriuki
Trust Secretary

Statement of cash flows

	Notes	2016 Shs'000	2015 Shs'000
Cash flows from operating activities			
Contributions received		743,811	640,715
Benefits paid		(113,319)	(70,915)
Administrative expenses		(27,259)	(19,182)
Due to KenGen Retirement Benefits Scheme		8,903	(8,075)
Impairment of investment		-	(20,000)
Income tax paid		(13,843)	(13,524)
Net cash from operating activities		598,293	509,019
Investing activities			
Investment income received		180,190	109,901
Investment management expenses paid		(5,442)	(12,296)
Purchase of investments	8	(1,387,117)	(793,424)
Proceeds from sale of investments	8	591,722	264,297
Purchase of investment property		-	-
Net cash used in investing activities		(620,647)	(431,522)
(Decrease) /increase in cash and cash equivalents		(22,354)	77,497
Movement in cash and cash equivalents			
At start of year	13	294,238	216,741
(Decrease) /increase		(22,354)	77,497
At end of year	13	271,884	294,238

1.Summary of significant accounting policies

KenGen Defined Contribution (DC) Scheme 2012 is a scheme domiciled in Kenya under the Retirement Benefit Act. For the Retirement Benefit Act reporting purposes, in these financial statements the balance sheet is represented by the statement of net assets available for benefits

2.Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards, the Retirement Benefits Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000. The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of Trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year.

The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

(b) Changes in accounting policy and disclosures

The following standards and amendments have been applied by the Scheme for the first time for the financial year beginning 1st January 2016:

(i) New and amended standards adopted by the Scheme Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1st January 2016, provide clarifications on a number of issues,

including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.
- According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1st January 2016, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Scheme, except the following set out below

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair

value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1st January 2018. Early adoption is permitted.

The Scheme is yet to assess IFRS 9's full impact. Disclosure Initiative – Amendments to IAS 7; Effective 1st January 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example, by providing a, net debt, reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances,

but a specific format is not mandated. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Scheme.

(c) Foreign currency translation

(i) Functional and presentation currency translation
Items included in the financial statements are measured using the currency of the primary economic environment in which the Scheme operates (the "functional currency"). The financial statements are presented in Kenya Shillings (Shs) rounded to the nearest thousand which is the Scheme's functional currency.

(ii) Transactions and balances
Transactions in foreign currencies during the year are converted into Currency at rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of changes in net assets available for benefits.

(d) Contributions receivable

Current service and other contributions are accounted for in the period in which they fall due.

(e) Benefits payable

Pensions and other benefits payable are taken into account in the period in which they fall due.

(f) Investment properties

Properties such as land and buildings and parts of buildings that are held for long-term rental yields or for capital appreciation or both, are classified as investment properties. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Scheme and the cost can be reliably measured. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and exclude the costs

of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains and losses arising from the changes in the fair value of investment properties are included in the statement of changes in net assets available for benefit in the year in which they arise. Subsequent expenditure is included in the assets carrying amount only when it is probable that future economic benefits associated with the item will flow to the Scheme and the cost of the item can be reliably measured. All other repairs and maintenance costs are charged to the statement of changes in net assets available for benefits during the year in which they are included. On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of changes in net assets available for benefits.

(g) Income from investments

(i) Interest income is recognised on a time-proportion basis for all interest bearing instruments using the effective yield method. Interest income includes coupons earned on fixed income investments and accrued discount and premium on treasury bills and other discounted instruments.

(ii) Dividends are recognised as income in the period in which the right to receive payment is established.

(iii) Rental income is recognised in the period in which it is earned

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

(i) Financial assets at fair value through profit or loss
All purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date, which is the date the Scheme commits to purchase or sell the asset. Financial assets are initially recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Scheme has transferred substantially all risks and rewards of ownership. All changes in the fair value

arising on investments are recognised in the statement of changes in net assets available for benefits. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Trustees establish fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. Fixed deposits and other receivables are carried at amortised cost.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In particular, critical estimates are made by the Trustees in determining the fair values of investments that are not traded in an active market and investment properties.

(i) Fair value estimation of financial assets at fair value through profit or loss
The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

(ii) Fair value of investment properties
Management estimates the fair value of investment properties by discounting expected net rentals at market yields.

4.Financial risk management objectives and policies

Market risk

- (i) Foreign exchange risk
The Scheme has no investments that are subject to foreign exchange risk.
- (ii) Cash flow and fair value interest rate risk
The Scheme’s interest bearing assets include corporate bonds and bank deposits which are at fixed interest rates and hence not subject to interest rate risk. The Scheme has no interest bearing liabilities. Holding all other factors constant, the impact of a 10% change in the effective interest rate of investments in bonds would have increased/decreased the net assets available for benefits by Shs 36,808,600 (2015: Shs 43,099,700).
- (iii) Other price risk
The Scheme is exposed to equity price risk in respect of its investments in quoted and unquoted shares, both local and foreign. The exposure to price risk is managed primarily by setting limits on the percentage of net assets available for benefits that may be invested in equity, and by ensuring sufficient diversity of the investment portfolio. At 31st December 2016, if the prices of all equity investments had increased/decreased by 10% with all other variables held constant, the increase in net assets available for benefits for the year would have been Shs 42 million (2015: Shs 45 million) higher/lower.

Credit risk

Credit risk arises from investments other than equity investments, contributions receivable, other receivables and cash and cash equivalents. The Scheme does not have any significant concentrations of credit risk. The investment manager assesses the credit quality of each investment, taking into account its credit rating. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Trustees. The amount that best represents the Scheme’s maximum exposure to credit risk as at 31st December 2016 is made up as follows:

	2016 Shs’000	2015 Shs’000
Investments		
Kenya Government securities	1,458,602	662,001
Commercial paper and corporate bonds	167,902	181,785
Fixed and term deposits (Kenya)	200,156	249,212
Other receivables	305	686
Cash at bank	71,700	45,026
	1,898,665	1,138,710

No collateral is held for any of the above assets and none of the above assets are either past due or impaired.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The Trustees agree with the investment manager on the amount to be invested in assets that can be easily liquidated.

All financial liabilities at 31st December 2016 were payable within 90 days.

Fair value estimation

The following table presents the Scheme’s financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1 Shs’000	Level II Shs’000	Total Balance Shs’000
31 st December 2016			
- At fair value through profit or loss			
Quoted equities	420,302	-	420,302
Kenya Government securities	1,458,602	-	1,458,602
Commercial paper and corporate bonds		167,902	167,902
	1,878,904	167,902	2,046,806
31 st December 2015			
- At fair value through profit or loss			
Quoted equities	449,613	-	449,613
Kenya Government securities	662,001	-	662,001
Commercial paper and corporate bonds		181,784	181,784
	1,111,614	181,784	1,293,398

There were no transfers between levels 1 and 2 during the year

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly

available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Scheme is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily NSE equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value;

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no level 3 assets.

5.Contributions received

From employer
From members

2016 Shs'000	2015 Shs'000
498,353	426,826
245,457	213,889
743,811	640,715

6.Investment income

Dividends receivable
- quoted shares (Kenya)
Interest and discounts receivable
- Kenya Government securities
- commercial bond and corporate paper
- fixed and term deposits
Other income
Realised exchange loss
Gain on disposal of shares

2016 Shs'000	2015 Shs'000
22,122	17,693
110,380	46,824
19,429	20,409
14,205	23,845
13,228	187
-	(4)
1,523	830
180,887	109,784

7.Investment property

At start of year
Fair value gains

2016
Shs'000

715,465
56,547

2015
Shs'000

663,639
51,826

At end of year

772,012

715,465

The Scheme's investment properties were revalued at 31st December 2016 by Metrocosmo, independent professionally qualified valuers. Valuations were based on current prices in an active market. The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31st December 2016
Investment property

Level 1
Shs'000

-

Level 2
Shs'000

772,012

Total
Shs'000

772,012

At 31st December 2015
Investment property

-

715,465

715,465

Valuation techniques used to derive level 2 fair values

Level 2 fair values of land and retail units have been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

8.Other investments

Year ended 31 st December 2016	Value at 1.1.2016 Shs'000	Purchases at cost Shs'000	Sales at carrying value Shs'000	Change in fair value Shs'000	Impairment provision Shs'000	Value at 31.12.2016 Shs'000
At fair value						
Quoted shares (Kenya)	449,613	137,018	(103,826)	(62,503)	-	420,302
Kenya government securities	662,001	1,250,099	(474,536)	21,038	-	1,458,602
Commercial paper and corporate bonds	181,785	-	(13,360)	(523)	-	167,902
Local fixed and time deposits (Kenya)	249,212	2,686,230	(2,734,180)	(1,078)	-	200,184
	1,542,611	4,073,347	(3,325,902)	(43,066)	-	2,246,990

Year ended 31 st December 2015	Value at 1.1.2015 Shs'000	Purchases at cost Shs'000	Sales at carrying value Shs'000	Change in fair value Shs'000	Impairment provision Shs'000	Value at 31.12.2015 Shs'000
At fair value						
Quoted shares (Kenya)	385,651	172,568	(26,862)	(81,744)	-	449,613
Kenya government securities	330,099	546,068	(194,787)	(19,379)	-	662,001
Commercial paper and corporate bonds	154,905	74,788	(42,648)	(3,760)	(1,500)	181,785
Local fixed and time deposits (Kenya)	213,239	2,372,100	(2,316,127)	-	(20,000)	249,212
	1,083,894	3,165,524	(2,580,424)	(104,883)	(21,500)	1,542,611

The Scheme does not hold any single investment exceeding 5% of the net assets of the Scheme except for:

	2016 %	2015 %
Kenya government securities	65	29.2
Quoted shares (Kenya)	19	19.8
Short term deposits	9	11.0
Commercial paper and corporate bonds	7	8.0

The Scheme does not hold any single investment exceeding 5% of the respective class or type except for:

	2016 %	2015 %
Kenya Commercial Bank	10	13
Barclays Bank (K) Ltd	3	6
EABL Ltd	9	9
Equity Bank Ltd	10	12
Bamburi Cement Ltd	5	5
BAT Ltd	3	6
Safaricom Ltd	35	19

9.Investment management expenses

	2016 Shs'000	2015 Shs'000
Investment managers	3,662	4,016
Custodian	2,810	3,764
	6,472	7,780

10.Administrative expenses

	2016 Shs'000	2015 Shs'000
Administrator's fees	3,345	3,746
Audit fees	513	650
RBA levy	3,813	3,014
Trustees' expenses	2,607	2,051
Training expenses	6,499	2,135
Salary and wages	6,662	5,047
Members education	110	1,474
Other administrative expenses	5,219	3,895
	28,768	22,012



11. Other receivables and accrued income

	2016 Shs'000	2015 Shs'000
Contribution Receivable	6	-
Dividends receivable	299	686
	305	686

12. Other payables and accrued expenses

	2016 Shs'000	2015 Shs'000
RBA levy	3,808	3,012
Audit fees	724	724
Custodial fees	1,483	1,188
Fund management fees	2,426	1,690
Fund administration fees	907	2,613
Due to KenGen Staff Retirement Benefits Scheme	23,080	14,177
Excess contribution	-	845
Current income tax	2,031	3,297
	34,459	27,546

13. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2016 Shs'000	2015 Shs'000
Cash at bank	71,700	45,026
Fixed and term deposits (Note 8)	200,184	249,212
	271,884	294,238

14. Tax status of the Scheme

KenGen Defined Contribution (DC) Scheme 2012 has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income to the extent allowable. Investment income earned from investing the accumulated funds arising from the employer and employee's contributions that are in excess of the statutory limit are subject to tax using the statutory income tax rate.

15. Contingent liabilities

Other than the liability to pay future pensions and other benefits, there were no contingent liabilities of the Scheme at 31st December 2016 or 31st December 2015.

16. Related party transactions

Related parties comprise the Trustees, the sponsoring company and companies which are related to these parties through common shareholding or common directorships.

In addition to amount due to KenGen Staff Retirement Scheme (Note 12) and contributions received (Note 5) the following transactions were carried out with related parties during the year:

	2016 Shs'000	2015 Shs'000
Included in net assets at the year-end are:		
- Quoted shares held in the sponsor company	5,698	9,229

[illegible]



KenGen Defined Contribution (DC) Scheme 2012

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