

# KenGen Defined Contributions (DC) Scheme 2012



## ANNUAL REPORT

For The Year Ended 31st December 2014



## 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

This is to inform all members of the two pension schemes and pensioners of the DB scheme that the Annual General Meeting for year 2014 will be held on Friday, 9th October, 2015 at Kamburu Senior Staff Club (Matendeni Camp) from 10.00 am.

### Agenda

1. Notice Convening the Meeting- Trust Secretary
2. Chairman's Report
3. To receive the Fund Managers' Reports
4. To receive the Custodial Report
5. To receive the Administrators' Report
6. To receive, consider and adopt the scheme's audited financial statements for the period ended 31st December, 2014 together with the Chairman's and Auditors' Report thereon.
7. To receive RBA's remark
8. Plenary Session
9. Trust Secretary's closing remarks.
10. Any Other Business

By Order of the Board



MOSES C. RONO  
TRUST SECRETARY

# 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
Notes to the financial statements	17 - 27

# Corporate Information

## TRUSTEES

Ernest N Nadome	Chairman
Rebecca Miano	
Albert Mugo	
Peter Mutemi	
Henry Nyachae	
Ziporah Ndegwa	
Moses C. Rono	Trust Secretary

## 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  
Kolobot Road, Parklands  
P O Box 1811 – 00606  
Sarit Centre  
Nairobi



## Chairperson's Statement



Dear Members,

It is AGM time again and I take this opportunity to welcome you to the Annual General Meeting for the Scheme for the year ending 31 December 2014.

As you are aware, the AGM is a requirement for purposes of compliance with the Retirement Benefits Regulations and it is therefore an important event in the calendar of the Scheme. The AGM provides a forum for you as members to acquaint yourselves with the operations and structure of the Scheme as well as legislative changes that have occurred over time that impact on the Scheme.

### 2014 Economic Overview

The year 2014 was a relatively good year for investors with stable but fairly accommodative macro-economic conditions.

Key growth drivers in the year included increased government spending on infrastructure as well as improved credit growth. In addition, declining fuel and electricity prices had a positive impact on the transport and manufacturing sector. However, there has been some downside risks to economic growth which are insecurity in the country resulting to dwindling tourist numbers, a rising inflation and a vulnerable currency.

The Country's GDP expanded by 5.2% in 2014 compared to 5.7% in 2013. Annual average inflation increased from 5.7 per cent in 2013 to 6.9 per cent in 2014. The modest increase in the rate of inflation was attributed to increases in the cost of several food and non-food items which outweighed notable falls in the cost of electricity and petroleum products including petrol, diesel and kerosene.

The local currency has shed 6 per cent to the USD in 2015 driven by widening of the current account deficit, declining of foreign exchange inflows as a result of poor incomes from agricultural exports and tourism and the global strengthening of the US dollar. We expect the Kenya Shilling to weaken further to trade between 103.00-106.00 in the near term.

Equities performance at the NSE remains robust after a 4 year bull run supported by strong corporate earnings growth and sound fundamentals in leading sectors at the bourse. The NSE 20 share index rose from an average of 4,912 points in the first quarter of 2014 to an average of 5,350 point in the same period of 2015, registering a growth of 8.9 per cent.

Short term interest rates remained stable, with the 91-day Treasury bill rate settling at 8.58 per cent in December 2014.

Rising value of land continued to pose the biggest challenge to stability in the property market for developers, occupiers/owners and investors as suitable land for development continues to be scarce hence property price will continue to remain relatively high.

### The Scheme in 2014

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

It is against this background of positive macroeconomic conditions that your Scheme assets increased from K Shs.1.041 billion as at 31 December 2013 to K Shs.1.733 billion as at 31 December 2014. This was an increase in the value of assets by K Shs.0.69 billion. This growth is attributable to the consistent contributions and positive returns achieved by the Scheme.

The trustees have taken an active role in property development having acquired 38 acres in Athi River. The project shall consist of low cost houses with members of the scheme as the targeted buyers.



The Trustees in consideration of the good performance resolved to allocate an interest rate of 9.8% to your member balances over the same period. Membership benefit statements reflecting this growth in your balances have already been issued.

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. Members must 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. For purposes of computing the benefits for any member who leaves the Scheme for any period for which the final rate of interest has not been declared, the interim rate of interest of 0% will be applied to the date of payment. Thereafter, shortfall interest will be paid once the final rate of interest has been declared for the financial year in which the Member has exited the Scheme.

During this year, the Board of Trustees successfully conducted a member education on the Scheme across the Sponsor's various stations in the country from 16th June 2015. Member education is key to all members. This is a forum whereby members are taken through the benefits structure of the Scheme. We were able to train more than fifty per cent of our members. We also issued member's handbooks for reference.

We also ensure that member's personal details are up to date as and when provided. We encourage members to continually update the details in a timely manner.

### **Boost your Savings**

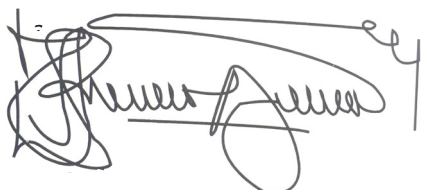
The need to enhance your savings for the purposes of ensuring you can retire comfortably cannot be overemphasised. As a member of the Scheme, the investment strategy deployed by the Trustees targets the achievement of a decent retirement benefit in the long term spanning an estimated saving period of 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 to Stakeholders**

I take this opportunity to thank my fellow Trustees, Sponsor, all professional advisors and most importantly you members for your dedicated support and co-operation during the year 2014.

### **In Conclusion**

The Board of Trustees reaffirm their commitment to ensuring that the Scheme is managed in accordance with the Retirement Benefits Act, international best practice and in the best interests of members. We assure you that we will continue to exert ourselves in concert with the appointed service providers to maximise on the investment returns of the Scheme.



**Ernest Nadome**  
**Chairman, Board of Trustees**  
**Kengen Defined Contribution (DC) Scheme**

## Secretary's Statement



The board of trustees, members , service providers, ladies and gentlemen, I am delighted that you have been able to make the time to attend this year's AGM. During the year we lost twelve (12) members. I wish to request that we observe a minute of silence in their honour.

I wish to confirm that we have continued to serve our members very diligently. We ensure that member's are up to date with their personal data and benefits growth year by year. This is done by issuance of members statements annually.

I wish to request all members to always verify these details and seek for any correction through our office. Member education is key to all members. This is a forum whereby members are taken through the benefits structure of the scheme. In the just concluded member education, we were able to train more than 50% of our members. We have also issued member's handbooks for reference.

I would like to thank all the service providers for their invaluable professional support and request them to continue with the same spirit.

Finally, I take this opportunity to thank the Board of Trustees, KenGen the sponsor, Eastern Hydros Management team, the AGM organizing committee and all the members of the scheme for their co-operation and support in ensuring that this day is success.

Thank you and God bless you abundantly

Mr Moses C. Rono  
The Trust Secretary

## Board of Trustees



Albert Mugo



Ernest Nadome



Henry Nyachae



Peter Mutemi



Zipporah Ndegwa



Rebecca Miano





**Sitting Left -Right:** Benson Rono, Peter Miano, Moses C. Rono  
and Michael Otechi

**Standing Left to Right:** Hannah Nguhi, Jane Namyak, Purity Kamau,  
Nelly Muregi and Gloria Kikete

# 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 2014.

## 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

	2014	2013
<b>Contributing members</b>		
At start of year	1,785	1,618
Adjustment	1	4
Transfers from DB	-	-
Joiners	85	195
	<u>1,875</u>	<u>1,817</u>
Less:		
Retired with pension	(10)	(7)
Died in service	(7)	(9)
Other secessionists	(17)	(16)
At end of year	<u>1,841</u>	<u>1,785</u>

## FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 5 shows an increase in the net assets of the Scheme for the year of Shs 651,702,000 (2012: Shs 594,501,000) and statement of net assets available for benefit on page 6 shows the Scheme's net assets as Shs 1,699,125,000 (2013: Shs 1,047,423,000).

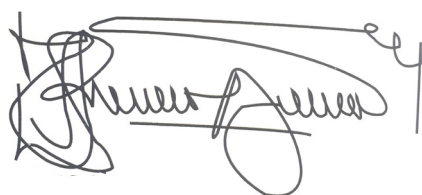
## INVESTMENT OF FUNDS

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

22<sup>nd</sup> June 2015

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:

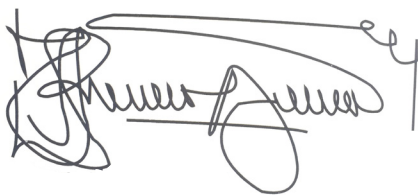
- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- ii) Selecting and applying appropriate accounting policies;
- iii) Making accounting 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 22<sup>nd</sup> June 2015 and signed on its behalf by:

For the Trustees



Ernest N Nadome  
Chairman



Moses C. Rono  
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 2014 set out on pages 14 to 27. These financial statements comprise the statement of net assets available for benefits at 31 December 2014, 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 2014 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

23<sup>rd</sup> June 2015

# FINANCIAL STATEMENTS

## Statement of changes in net assets available for benefits

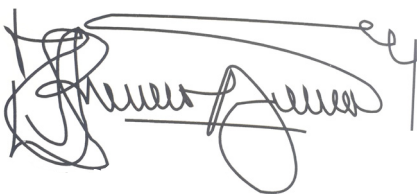
	Notes	Year ended 31 December	
		2014	2013
		Shs'000	Shs'000
<b>Income from dealings with members</b>			
Contributions received	5	552,179	494,845
<b>Outgoings from dealings with members</b>			
Benefits payable:- leavers		(22,415)	(12,663)
<b>Net additions from dealings with members</b>		<b>529,764</b>	<b>482,182</b>
<b>Returns on investments</b>			
Investment income m	6	98,044	72,048
Change in fair value of investment property	7	20,000	27,785
Change in fair value of investment	8	31,076	28,997
Less: Investment management expenses	9	(6,339)	(3,718)
<b>Net returns on investments</b>		<b>142,781</b>	<b>125,112</b>
Administrative expenses	10	(14,726)	(7,950)
Income tax expense		(6,117)	(4,843)
<b>Increase in net assets for the year</b>		<b>651,702</b>	<b>594,501</b>
Net assets available for benefits at start of year		1,047,423	452,922
<b>Net assets available for benefits at end of year</b>		<b>1,699,125</b>	<b>1,047,423</b>

## Statement of net assets available for benefits

	Notes	2014 Shs'000	2013 Shs'000
<b>Assets</b>			
Investment property	7	663,639	130,000
Other investments	8	1,083,894	904,755
Other receivables and accrued income	11	802	114
Cash at bank	13	3,502	43,347
<b>Total assets</b>		<b>1,751,837</b>	<b>1,078,216</b>
<b>Less: liabilities</b>			
Benefits payable		9,367	3,178
Other payables and accrued expenses	12	43,345	27,615
<b>Total liabilities</b>		<b>52,712</b>	<b>30,793</b>
<b>Net assets available for benefits</b>		<b>1,699,125</b>	<b>1,047,423</b>

The financial statements on pages 5 to 19 were approved for issue by the trustees on

22<sup>nd</sup> June 2015 and signed on their behalf by:



**Ernest N Nadome**  
Chairman



**Moses C. Rono**  
Trust Secretary

## Statement of cash flows

	Notes	2014	2013
		Shs'000	Shs'000
<b>Cash flows from operating activities</b>			
Contributions received		552,115	494,845
Benefits paid		(16,226)	(11,954)
Administrative expenses		(18,761)	(3,093)
Due to KenGen Retirement Benefits Scheme		10,172	(5,283)
Income tax		(1,624)	-
Net cash from operating activities		525,676	474,515
<b>Investing activities</b>			
Investment income received		97,420	74,518
Investment management expenses paid		(1,239)	(2,039)
Purchase of investments		(727,993)	(793,489)
Proceeds from sale of investments		671,067	133,537
Purchase of investment property	7	(513,639)	(102,215)
Net cash used in investing activities		(474,384)	(689,688)
<b>Increase /(decrease) in cash and cash equivalents</b>		<b>51,292</b>	<b>(215,173)</b>
<b>Movement in cash and cash equivalents</b>			
At start of year		165,449	380,622
Increase /(decrease)		51,292	(215,173)
At end of year	13	216,741	165,449

# Notes

## 1 Summary of significant accounting policies

KenGen Define 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 actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the actuary and these financial statements should be read in conjunction with it.

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.

### Changes in accounting policy and disclosures

#### (i) New and amended standards adopted by the Fund

The following standards have been adopted by the scheme for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Scheme:

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

*(ii) New standards and interpretations that are not yet effective and have not been early adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. 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 1 January 2018. Early adoption is permitted. The company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted.

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

**(b) Foreign currency translation***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) which is the Scheme's functional currency rounded to the nearest thousand.

*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.

**(c) Contributions receivable**

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

**(d) Benefits payable**

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



- e) 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.

**(f) 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

**(g) 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 are however carried at amortised cost.

**(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.

### 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.

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.

*(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 investments in variable rate corporate bonds and bank deposits exposes it to cash flow interest rate risk, and its investment in fixed rate Government securities, corporate bonds and bank deposits exposes it to fair value interest rate risk. The investment managers advise the trustees on the appropriate balance of the portfolio between equity, fixed rate interest, and variable rate interest investments. The Scheme has no interest bearing liabilities.

At 31 December 2014, an increase/decrease in interest rates of 200 basis points with all other variables held constant would have resulted in an increase in net assets available for benefits of Shs 14 million (2013: Shs 13 million), arising substantially from the change in interest receivable on debt securities

*(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 31 December 2014, 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 39 million (2013: Shs 25 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 at 31 December 2014 is made up as follows:

	2014	2013
	Shs'000	Shs'000
Investments		
Kenya Government securities	330,099	443,805
Commercial paper and corporate bonds	154,904	90,325
Fixed and time deposits (Kenya)	213,240	122,102
Other receivables	802	114
Cash at bank	3,502	43,347
	<b>702,547</b>	<b>699,693</b>

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

Liquidity risk

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 31 December 2013 were payable within 90 days.

*Fair value estimation*

The carrying amounts of all financial assets and liabilities at the balance sheet date approximate their fair values.

The following table presents the Scheme's assets that are measured at fair value at 31 December 2014:

	Level 1 Shs'000	Level 2 Shs'000	Total Balance Shs'000
<b>Financial Assets</b>			
- <u>at fair value through profit or loss</u>	385,651		
Quoted equities	330,099	-	385,651
Kenya Government securities		-	330,099
Commercial Paper and corporate Bonds	-	154,904	154,904
- <u>at amortised cost</u>			
Deposits (Kenya)	213,240	-	213,240
	928,990	90,325	1,083,894

31 December 2013

	Level 1 Shs'000	Level 2 Shs'000	Total Balance Shs'000
<b>Financial Assets</b>			
- <u>at fair value through profit or loss</u>			
Quoted equities	248,523	-	248,523
Kenya Government securities	443,805	-	443,805
Commercial Paper and corporate Bonds		90,325	90,325
- <u>at amortised cost</u>	-		
Deposits (Kenya)	122,102	-	122,102
	814,430	90,325	904,755

The different level of fair value measurement hierarchy is described as follows:

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group 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.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques such as discounted cash flow analysis. 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.

	2014 Shs'000	2013 Shs'000
<b>5 Contributions received</b>		
From employer	368,050	330,348
From members	184,129	164,497
	<u>552,179</u>	<u>494,845</u>
<b>6 Investment income</b>		
Dividends receivable		
- quoted shares (Kenya)	11,392	3,040
Interest and discounts receivable		
- Kenya Government securities	47,345	21,967
- commercial bond and corporate paper	19,435	741
- fixed and time deposits	15,823	18,155
Other income	1,057	26,594
Realised exchange gain	72	-
Loss on disposal of shares	2,920	1,551
	<u>98,044</u>	<u>72,048</u>

**7 Investment property**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	130,000	-
Purchase of land	513,639	102,215
Fair value gains	20,000	27,785
At end of year	<u>663,639</u>	<u>130,000</u>

*Fair value estimation*

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
31 Dec 2014	-	663,639	663,639
31 Dec 2013	-	130,000	130,000

The Scheme's investment properties were revalued at 31 December 2014 by Metrocosmos, independent professionally qualified valuers. Valuations were based on current prices in an active market.

The resultant market values were adopted in the financial statements for the year ended 31 December 2014 and reflected a Shs 20,000,000 (2013: Shs 27,785,000) increase from the cost of the property.

**8 Other investments**

<b>Year ended</b>	<b>Value at</b>	<b>Purchases</b>	<b>Sales at</b>	<b>Change in</b>	<b>Interest</b>	<b>Value at</b>
<b>31 December 2014</b>	<b>1.1.2013</b>	<b>at cost</b>	<b>carrying</b>	<b>fair value</b>	<b>receivable</b>	<b>31.12.2014</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>value</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
<u>At fair value</u>						
Quoted shares (Kenya)	248,523	146,084	(32,252)	23,296	-	385,651
Kenya government securities	443,805	253,430	(370,984)	3,848	-	330,099
Commercial paper and corporate bonds	90,325	328,479	(267,832)	3,932	-	154,904
Local Fixed and time deposits (Kenya)	122,102	1,582,781	(1,491,898)	-	255	213,240
	<u>904,755</u>	<u>2,310,774</u>	<u>(2,162,966)</u>	<u>31,076</u>	<u>255</u>	<u>1,083,894</u>



Year ended 31 December 2013	Value at 1.1.2013	Purchases at cost	Sales at carrying value	Change in fair value	Interest receivable	Value at 31.12.2013
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<u>At fair value</u>						
Quoted shares (Kenya)	41,371	194,977	(7,198)	19,373	-	248,523
Kenya government securities	39,545	518,512	(126,339)	5,141	6,946	443,805
Commercial paper and corporate bonds	5,842	80,000	-	4,483	-	90,325
Local Fixed and time deposits (Kenya)	341,970	1,002,308	(1,223,830)	-	1,654	122,102
	428,728	1,795,797	(1,357,367)	28,997	8,600	904,755

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

	2014	2013
	%	%
Kenya government securities	19.4	42.4
Quoted shares (Kenya)	22.7	23.7
Short Term Deposits	12.5	11.7
Commercial paper and corporate bonds	9.1	8.6

The following single investments exceed 5% of the respective class or type of investment:

	2014	2013
	%	%
Kenya Commercial Bank	11	13
Barclays Bank (K) Ltd	9	9
EABL Ltd	12	11
Equity Bank Ltd	9	6
NIC	6	6
Bamburi Cement Ltd	6	13
BAT Ltd	9	7
Safaricom Ltd	12	9

**9 Investment management expenses**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Investment managers	3,667	2,126
Custodian	2,672	1,592
	<u>6,339</u>	<u>3,718</u>

**10 Administrative expenses**

Administrator's fees	3,411	3,072
Audit fees	605	525
RBA levy	2,449	1,841
Trustees' expenses	746	490
Trustees Indemnity	150	-
Training expenses	367	419
Salary and wages	4,121	729
Consultancy fee	382	-
Other administrative expenses	2,495	874
	<u>14,726</u>	<u>7,950</u>

**11 Other receivables and accrued income**

Contribution receivable	64	-
Dividends receivable	7388	1140
	<u>802</u>	<u>114</u>

**12 Other payables and accrued expenses**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
RBA levy	2,449	1,822
Audit fees	551	1,025
Custodial fees	3,151	1,017
Fund management fees	4,243	1,277
Fund administration fees	1,036	5,224
Due to Kengen Staff Retirement Benefits Scheme	22,252	12,080
Excess Contribution	327	327
Current income tax	9,336	4,843
	<u>43,345</u>	<u>27,615</u>

Of the Shs 22,252,000 due to Kengen Staff Retirement Benefits Scheme as at 31 December 2014, Shs 10,172,000 is current and relates to 2014.

**13 Cash and cash equivalents**

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

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Cash at bank	3,502	43,347
Fixed and time deposits(Note 8)	213,239	122,102
	<u>216,741</u>	<u>165,449</u>

**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.

**15 Contingent liabilities**

Other than the liability to pay future pensions and other benefits, there were no contingent liabilities of the Scheme at 31 December 2014 or 31 December 2013.

**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) there were no further transactions carried out during the year:

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