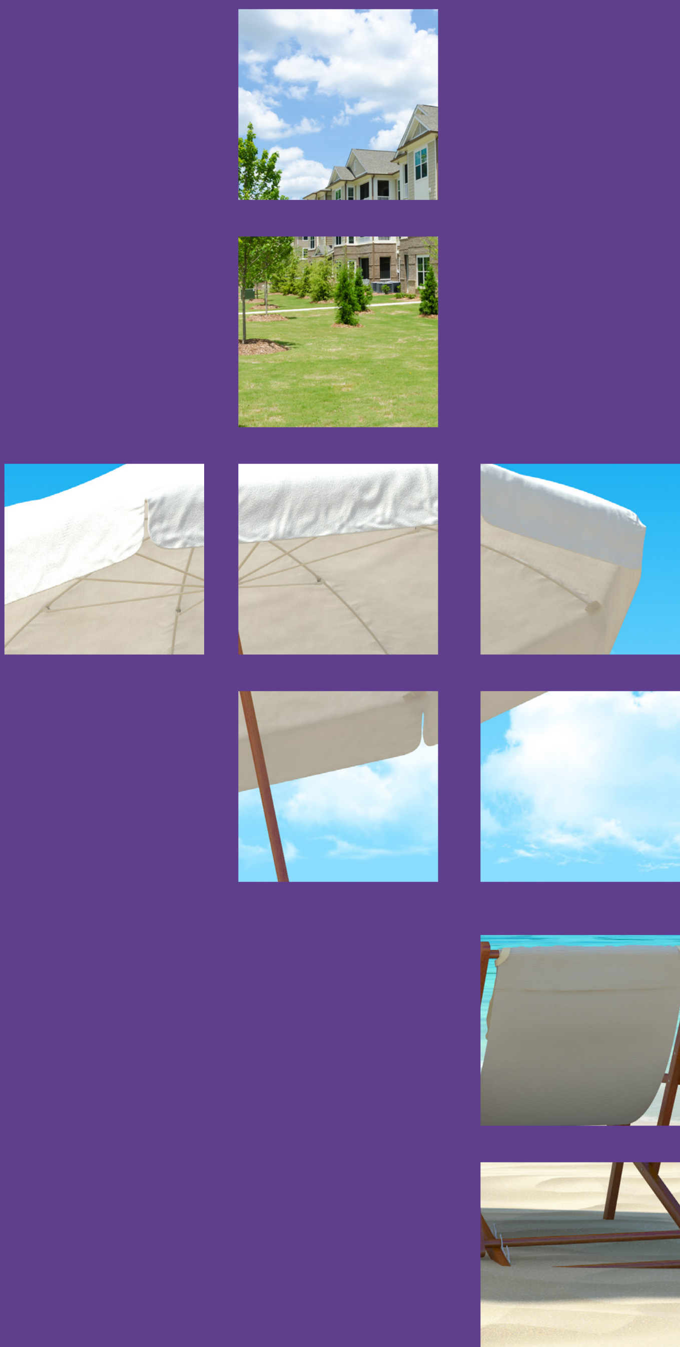
KenGen

Staff Retirement Benefits Scheme



Annual Report

and Financial Statements For The Year Ended 31st December

2014

Our Vision

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

Our Mission

To provide expeditious and conistent benefits to members by prodently investing in members' contribution and scheme assets

Core Values

Professionalism • Customer F ocus • Integrity • Teamwork • Creativity and Innovation • Diversity

Notice of Annual General Meeting

KENGEN STAFF RETIREMENT
BENEFITS SCHEME

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 Administrator's 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

Mr Moses C. Rono

The Secretary, Board of Trustees

KenGen Staff Retirement Benefits Scheme

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Corporate Information

TRUSTEES

Ziporah Ndegwa Chairperson
Albert Mugo
Ernest N Nadome
Beatrice Soy
George Muga
Rebecca Miano
Sospeter Mbogo
Peter Mutemi
Henry Nyachae

ADMINISTRATOR

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

ACTUARY

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

INVESTMENT MANAGERS

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

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

CUSTODIAN

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

PROPERTY ADVISERS

GIMCO Limited
GIMCO Centre
PO Box 61551 - 00200
Nairobi

Villa Care (K) Limited
New Rehema House
Rhapta Road – Westlands
PO Box 66331
Nairobi

AUDITOR

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

BANKERS

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

Co-operative Bank of Kenya Limited
Co-operative Bank House
P O Box 48231 - 00100
Nairobi

REGISTERED OFFICE

The address of the registered office is:

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.

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 KShs 6.557 billion as at 31 December 2013 to K Shs 6.763 billion as at 31 December 2014. This was an increase in the value of assets by K Shs 206.5 million. This growth is attributable to the positive returns achieved by the Scheme.

The Trustees in consideration of the good performance resolved to allocate an interest rate of 10% to your member balances over the same period. Membership benefit statements reflecting this growth in your balances have already been issued.

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.

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.

Thank you.

Ziporah Ndegwa
Chairperson, Board of Trustees
Kengen Staff Retirement Benefits 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, pensioners and beneficiaries 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 have been able to train more than 50% of our members. We have also issued member's handbooks for reference.

The secretariat office is always open to attend to member and our staff are always ready to assist. Please continue to channel all your pension matters directly to the office for advice.

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

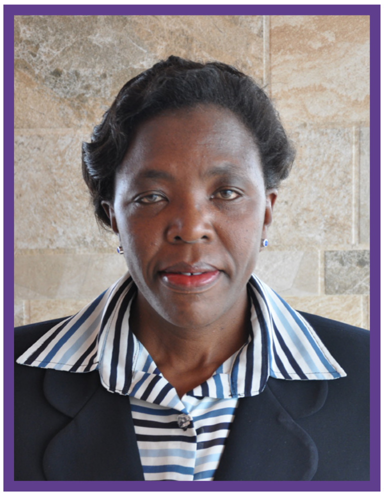
Finally, I take this opportunity to thank the Board of Trustees, KenGen the sponsor, Eastern Hydros Management team, the AGM organizing committee and all the members of the scheme for their co-operation and support in ensuring that this day is success.

Thank you and God bless you abundantly

Mr Moses C. Rono
The Trust Secretary

Board of Trustees

Albert Mugo

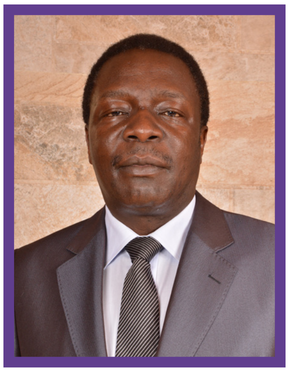


Zipporah Ndegwa

Rebecca Miano

Beatrice Soy

Ernest Nadome



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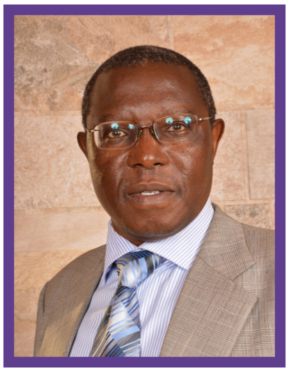
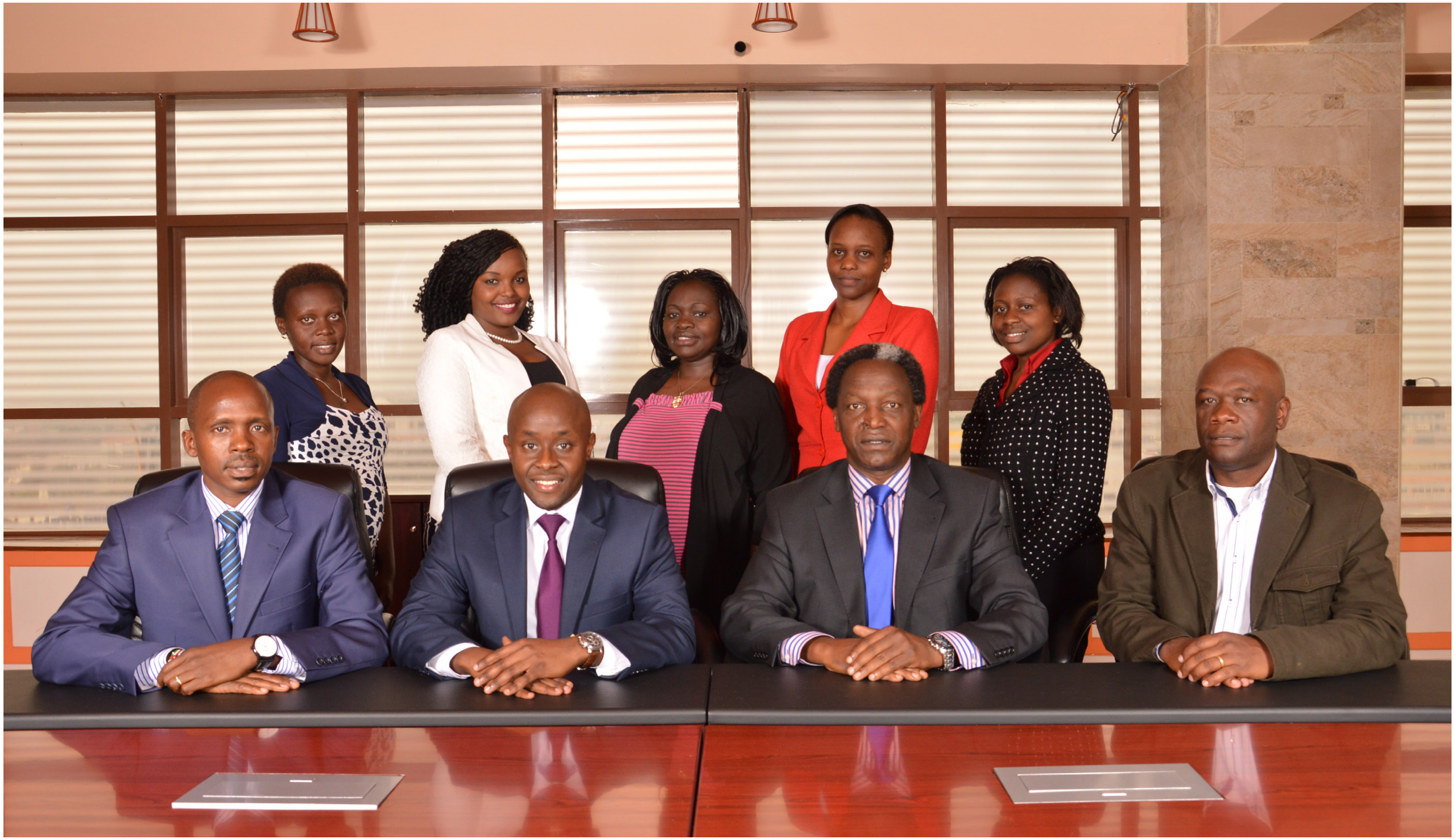


Sospeter Mbogo

Secretariat Team



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 Staff Retirement Benefit Scheme (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 2000 and is governed by a trust deed dated 6 November 2000. It is a defined benefit Scheme and provides, under the rules of the Scheme, retirement benefits for the staff of Kenya Electricity Generating Company Limited (KenGen). It is an exempt approved scheme under the Income Tax Act and is registered with the Retirement Benefits Authority.

Employees contribute to the Scheme at the rate of 10% (2013: 10%) of their respective basic salaries. The employer contributes at rates based on periodic advice of the actuary. The current rate is 20% (2013: 20%) of employees' basic salaries.

In compliance with the Treasury Circular No. 18 dated 24 November 2011, KenGen undertook a redesign of the retirement benefits arrangement whereby a new defined contributory (DC) scheme 2012 was established with effect from 01 January 2012. As stipulated in the aforementioned circular, the members who were below 45 years were required to transfer and join the new DC scheme. The members who were 45 years and above were given the option to either remain in this scheme or move to the DC scheme.

Background to the Scheme

Prior to 1 January 2001, the Kenya Power and Lighting Company Staff Retirement Benefits Scheme ("KPLC SRBS") was the only Scheme existing for the employees of Kenya Power and Lighting Company Limited ("KPLC") and Kenya Electricity Generating Company Limited ("KenGen"). A decision was made by the two employers to operate two separate Schemes and the KenGen Staff Retirement Benefits Scheme ("KenGen SRBS") was established as at 1 January 2000. As at 31 December 2014, all assets to be transferred to Kengen SRBS from KPLC had been fully transferred.

Actuarial position

The last actuarial valuation was as at 31 December 2013 by Alexander Forbes Financial Services (E.A) Limited, an independent firm of actuaries, using the Attained Age Method.

According to the valuations at that date, the actuarial present value of promised retirement benefits was Shs 6,309 million and the fair value of the net assets available for benefits at that date was Shs 6,626 million resulting in a surplus of Shs 317 million.

The principal actuarial assumptions used were as follows:

- expected rate of return on Scheme assets	- 10% p.a.
- rate of salary escalation	- 8% p.a.
- rate of pension increases	- 0% p.a. for post 31 December 99 service
	- 3% p.a. for pre 31 December 99 service
- withdrawals	- in accordance with the average experience of other similar schemes
- Ill health early retirement	- in accordance with the average experience of other similar schemes
- assets	- taken into account at the full values shown

Membership

	2014	2013
a) Total members		
Contributing members	1,635	1,662
Pensioners	410	394
	2,045	2,056
b) Contributing members		
Contributing	146	151
Deferred	78	76
Dormant	4	4
Contributing in DC	1,407	1,431
At end of year	1,635	1,662
c) Pensioners		
At start of year	394	380
Contributing members who retired	11	7
Widows or widowers pension becoming payable	16	16
	421	403
Less: Deaths	(8)	(7)
Less: Cessation of children pension	(3)	(2)
At end of year	410	394

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 8 shows an increase in the net assets of the Scheme for the year of Shs 858,958,000 (2013:Shs 1,321,978,000) and the net assets statement on page 9 shows the Scheme's net assets as Shs 7,482,113,000 (2013: Shs 6,626,155,000).

INVESTMENT OF FUNDS

Under the terms of their appointment, Co-op Trust Investment Services Limited and British American Asset Managers were responsible for the investment of available funds. They are not responsible for investment in properties, which are separately managed by GIMCO Limited upto March 2014 and Villa Care Management Limited.

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

Ziporah Ndegwa
Chairperson

22nd June 2015

Statement Of The Trustees Responsibilities

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

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

i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

ii) Selecting and applying appropriate accounting policies;

iii) Making accounting estimates and judgements that are reasonable in the circumstances.

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

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

Approved by the Board of Trustees on 22nd June 2015 and signed on its behalf by:

For the Trustees

Ziporah Ndegwa
Chairperson

Moses C. Rono
Trust Secretary

Report Of The Independent Auditor To The Trustees Of Kengen Staff Retirement Benefits Scheme

We have audited the accompanying financial statements of KenGen Staff Retirement Benefits Scheme ("the "Scheme") for the year ended 31 December 2014 set out on pages 16 to 29. 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 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

23rd June 2015

Statement of changes in net assets available for benefits

	Notes	Year ended 31 December	
		2014	**2013**
		Shs'000	**Shs'000**
Income from dealings with members			
Contributions received	5	101,056	458,149
Outgoings from dealings with members			
Benefits payable:- pensioners		(116,780)	(119,247
- leavers		(33,758)	(35,509
		(150,538)	(154,756
Net additions from dealings with members		**(49,482)**	**303,393**
Returns on investments			
Investment income	6	518,519	408,788
Change in fair value of investment property	7	415,110	505,690
Change in fair value of financial assets	8	71,778	164,208
Less: Investment management expenses	9	(20,350)	(11,602
Net returns on investments		**985,057**	**1,067,084**
Administrative expenses	10	(79,617)	(48,499)
Increase in net assets for the year		**855,958**	**1,321,978**
Net assets available for benefits at start of year		6,626,155	5,304,177
Net assets available for benefits at end of year		**7,482,113**	**6,626,155**

Financial Statements

Statement of net assets available for benefits

	Notes	2014	2013
		Shs'000	Shs'000
Assets			
Investment property	7	4,473,428	3,547,222
Other investments	8	3,009,818	3,041,024
Intangible assets		5,650	5,278
Computers		4,953	251
Other receivables and accrued income	11	26,237	14,794
Cash at bank	13	69,103	77,745
Total assets		**7,589,189**	**6,686,314**
Less: liabilities			
Benefits payable		21,397	16,402
Other payables and accrued expenses	12	85,679	43,757
Total liabilities		**107,076**	**60,159**
Net assets available for benefits		**7,482,113**	**6,626,155**

The financial statements on pages 8 to 23 were approved for issue by the trustees on _2015
and signed on their behalf by:

Ziporah Ndegwa
Chairperson

Moses C. Rono
Trust Secretary

Statement of cash flows

	Notes	2014 Shs'000	2013 Shs'000
Cash flows from operating activities			
Contributions received		101,056	458,149
Benefits paid		(145,543)	(154,986)
Administrative expenses		(41,840)	(40,127)
Taxation paid		-	-
Net cash from operating activities		(86,327)	263,036
Investing activities			
Investment income received		507,075	471,229
Investment management expenses paid		(16,205)	(11,248)
Purchase of investments		(2,092,300)	(3,302,202)
Proceeds from sale of investments		2,090,444	3,024,062
Purchase of intangible assets		(372)	(5,278)
Purchase of Computer		(4,702)	(293)
Purchase of investment property	7	(511,096)	(634,601
Net cash used in investing activities		(27,156)	(458,331)
Decrease in cash and cash equivalents		(113,483)	(195,295)
Movement in cash and cash equivalents			
At start of year		402,665	597,960
Decrease in cash and cash equivalents		(113,483)	(195,295)
At end of year	13	289,182	402,665

Notes

1 General Information

KenGen Staff Retirement Benefit Scheme 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 scheme 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

*I*tems 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) 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

(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 incurred.

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) 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.

(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 using open market value

4 Financial risk management objectives and policies

The Scheme's activities expose it to a variety of financial risks, including credit risk, liquidity risk and the effects of changes in foreign currency exchange rates, interest rates, and market prices of equities. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the Scheme does not hedge any risks.

Risk management is carried out by the investment manager under policies and guidelines approved by the trustees.

(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 43 million (2013: 42 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 million 87 (2012: Shs 92 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	801,680	1,566,448
Commercial paper and corporate bonds	350,218	316,992
Offshore investment and deposit	71,006	183,007
Local deposits	220,079	234,788
Other receivables	26,238	14,794
Cash at bank	69,103	77,745
	1,538,324	2,393,774

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 apart from rent deposits at 31 December 2014 were payable within 90 days. Rent deposits are payable within 1 year.

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
Financial assets			
Quoted equities	*801,680*	-	*801,680*
Kenya Government securities	*1,566,835*	-	*1,566,835*
Offshore Deposits and Investments	*71,006*	-	*71,006*
Commercial Paper and corporate bonds	-	*350,218*	*350,218*
	2,439,521	*350,218*	*2,789,739*

31 December 2013

	Level 1 Shs'000	Level 2 Shs'000	Total Balance Shs'000
Financial Assets			
uoted equities	739,789	-	739,789
Kenya Government securities	1,566,448	-	1,566,448
Offshore Deposits and Investments	183,007	-	183,007
Commercial Paper and corporate bonds		316,992	316,992
Investment property	2,489,244	316,992	2,806,236

- 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.

5 Contributions received

	2014 Shs'000	2013 Shs'000
From employer	37,950	35,837
From members	18,975	18,212
Actuarial deficit	-	379,100
Interest on actuarial deficit	44,131	25,000
	101,056	458,149

In accordance with the recommendations of the actuary, contributions are made to the Scheme at the following rates; employees 10%, employer's normal 20%.

6 Investment income

	2014 Shs'000	2013 Shs'000
Rent receivable	211,972	132,766
Less: operating expenses	(78,028)	(88,888)
	133,944	43,878
Dividends receivable		
- quoted shares (Kenya)	24,492	28,210
Interest and discounts receivable		
- Kenya Government securities	201,708	209,371
- offshore government securities	-	238
- commercial paper and corporate bonds	35,227	53,599
- fixed and time deposits	24,791	27,041
Gain on disposal of shares	102,267	65,967
Gain on offshore	92	-
Other income	1,000	(19,204)
Realised loss on offshore investments	(5,002)	(312)
	518,519	408,788

7 Investment property

At start of year	3,547,222	2,406,931
Additions	511,096	634,601
Fair value gains	415,110	505,690
At end of year	4,473,428	3,547,222

The Scheme's investment properties were revalued at 31 December 2014 by Gimco Limited, 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 415,110,000 (2013: Shs 505,690,000) increase from the fair values carried in the books.

	Level 1 Shs'000	Level 2 Shs'000	Total Balance Shs'000
31 Dec 2014	-	4,473,428	4,473,428
31 Dec 2013	-	3,547,222	3,547,222

The Scheme leases out all its investment property under operating leases. The leases are for a maximum term of five years. The future minimum rentals receivable under non-cancellable operating leases are as follows:

	2014 Shs'000	2013 Shs'000
Not later than one year	211,972	132,766

8 Other investments

Year ended 31 December 2014	Value at 1.1.2014 Shs'000	Purchases at cost Shs'000	Sales at carrying value Shs'000	Change in fair value Shs'000	Value at 31.12.2014 Shs'000
Quoted shares (Kenya)	739,789	161,717	(126,541)	26,714	801,680
Offshore deposits and investments	183,007	-	(116,144)	4,143	71,006
Kenya government securities	1,566,448	355,910	(382,905)	27,382	1,566,835
Commercial paper and corporate bonds	316,992	309,393	(289,706)	13,539	350,218
Local deposits	234,788	1,485,359	(1,500,068)	-	220,079
	3,041,024	2,312,379	(2,415,364)	71,778	3,009,818

Year ended 31 December 2013	Value at 1.1.2013 Shs'000	Purchases at cost Shs'000	Sales at carrying value Shs'000	Change in fair value Shs'000	Value at 31.12.2013 Shs'000
Quoted shares (Kenya)	643,071	88,105	(173,345)	181,958	739,789
Offshore deposits and investments	187,619	90,794	(100,000)	4,594	183,007
Kenya government securities	1,298,871	1,116,393	(828,414)	(20,402)	1,566,448
Commercial paper and corporate bonds	245,612	177,727	(104,405)	(1,942	316,992
Local deposits	424,838	2,154,104	(2,344,154)	-	234,788

Notes

2,800,011	3,627,123	(3,550,318)	164,208	3,041,024

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

	2014	2013
	%	%
Kenya government securities	21	24
Quoted shares (Kenya)	11	11
Investment property	60	54

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

	2014	2013
	%	%
Safaricom	19	11
Kenya Commercial Bank	15	18
Equity	8	8
KPLC	8	6
Standard Chartered Bank	6	6
Bamburi Cement Ltd	-	6
Cooperative Bank	10	10

9 Investment management expenses

	2014	2013
	Shs'000	Shs'000
Investment managers	13,863	5,343
Custodian	6,487	6,259
	20,350	11,602

10 Administrative expenses

	2014	2013
Administrator's fees	2,144	2,169
Actuarial fees	4,176	1,160
Audit fees	1,778	2,096
RBA levy	5,000	5,000
Annual General Meeting expenses	2,788	4,810
Trustees' expenses	7,003	6,983
Training expenses	1,466	5,935
Salary and wages	16,486	12,316
Consultancy fees	1,526	-
Other administrative expenses	12,264	8,030
Tax expense	24,986	-
	79,617	48,499

11 Other receivables and accrued income

	2014	2013
Dividends receivable	323	825
Prepayments	1,489	876
Due from KenGen Defined Contribution (DC) scheme 2012	22,252	12,080
Rent receivable	2,173	1,013
	26,237	14,794

Of the Shs 22,252,000 due from KenGen Defined Contribution (DC) scheme 2012 as at 31 December 2014, Shs 10,172,000 is current and relates to 2014.

12 Other payables and accrued expenses

	2014	2013
	Shs'000	Shs'000
Accrued expenses	37,688	36,449
Rent deposits	7,805	7,308
Taxation payable	24,986	-
Deposit on sale of investment pı ›perty	15,200	-
	85,679	43,757

13 Cash and cash equivalents

For the purposes of the cash flow s ıtement, cash ınd cash equivalents comprise the following:

	2014	2013
	Shs'000	Shs'000
Cash at bank	69,103	77,745
Fixed and time deposits	220,079	324,920
	289,182	402,665

14 Tax status of the Scheme

KenGen Retirement Benefits Scheme has been approved by the Kenya Revenue Authority, as per the Income Tax Act only the portion of registered retirement benefit scheme income is exempt from tax.

15 Contingent liabilities

Kenya Revenue Authority conducted an audit of the scheme in 2014; there are matters in discussion with them and the Trustees do not believe that these will result in a material impact to the scheme's financial statements in the near future.

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

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 from KenGen Defined Contribution (DC) Scheme 2012 (Note 11) the following transactions were carried out with related parties during the year:

	Note	2014	2013
		Shs'000	Shs'000
Net rent receivable	6	133,944	43,878
Trustee's expenses	10	7,003	6,983
Included in net assets at the year-end are:			
- Quoted shares held in the sponsor company		19,744	16,868
- Kengen infrastructure bond		65,890	49,753

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Personal Notes

Personal Notes

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