

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.)



2020

ANNUAL REPORT & FINANCIAL STATEMENTS



Kenpipe Gardens

The Kenya Pipeline Company Retirement Benefits Scheme (KPCRBS) has developed fully detached 3-bedroom and 4-bedroom units in Kitengela called Kenpipe Gardens. They are located off Namanga Road approximately 2 kilometers from the main road near Kitengela International School, Thorn Grove Academy and Orchard School.



For more information

Contact Office Tel:
+254 709740000

Email:
pensions@kpc.co.ke



CONTENTS	PAGE
Chairman's Report	1 - 2
Board Members	3
Advisors to the Scheme and Other Information	4
Report of the Trustees	5 - 8
Statement of Trustees' Responsibilities	9
Independent Auditors' Report	10 - 12
Financial Statements:	
Statement of Changes in Net Assets Available for Benefits	13
Statement of Net Assets Available for Benefits	14
Statement of Cash Flows	15
Notes to the Financial Statements	16 - 43

Chairman's REPORT



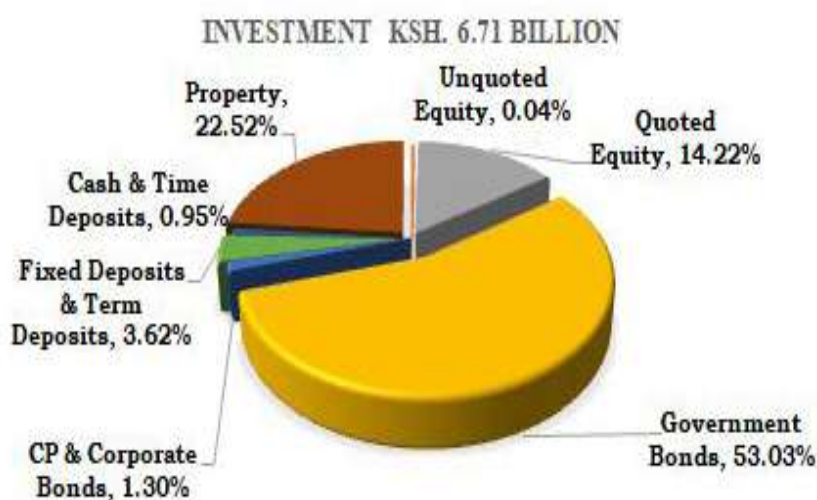
Welcome to the 14th Annual General Meeting. The investments performance in the Scheme have greatly been affected by the Covid-19 pandemic, especially the shares. However, we have ensured the Scheme remains diversified to cushion members from such shocks. The Scheme is pursuing investment in Private Equity as one way of diversifying the portfolio. All structures are in place to ensure the members are financially secure in retirement.

We are compliant with Retirement Benefits Authority (RBA) regulations and guidelines. The board is working on a policy to implement the new mortgage regulations 2020, where

members can access up to 40% of their benefits capped at 7million for purchase of residential houses. We shall keep you updated on the progress. The Scheme is aware of the need for the Post-Retirement Medical Scheme (PRMS) for the members and is engaging the relevant consultants in the industry to have it implemented.

Investment Performance

The Scheme's investments are in compliance with the Retirement Benefits Act and Investment Policy Statement.



Equity Performance

The equity stock market forms a major portion of the Schemes investment portfolio. During the financial year under review the scheme performance on the equity portfolio was -8.2% against a market performance of -8%.

Fixed Income Securities

The yields on government securities continued to shift downwards during the year due to high levels of liquidity in the banking sector and subdued private sector credit growth that increased demand for government bonds and treasury bills. Fixed income portfolio return during the year was 11.8 % against a market performance of 11.5% S&P Kenya sovereign bond index.

Investment Market Outlook

Government fiscal and monetary policies adopted during the pandemic have continued to support a stable economic environment. The recent opening after covid-19 shut down has seen improved business activity that has led to attractive valuations in equities. However, resurgence in covid-19 cases could pose a slowdown in the short term. The Scheme will continue focusing its investment in the medium to long term bonds that promise higher interest. While the economic effects of the pandemic have proved devastating, there is opportunity to pick quality stocks whose market prices have hit the bottom of the price curve with the aim of cashing in when the markets fully recover.

Investment in PPP and Private Equity

The Scheme has been considering investing in Private Equity (PE) for several years now. Private Equity is an alternative asset class that comprises of assets that are not publicly traded on an exchange such as the Nairobi Securities Exchange (NSE). It therefore provides the Scheme with the opportunity for diversification and thus ability to earn excess returns over investments in publicly traded exchanges. The Scheme has shortlisted two (2) funds that are currently in the fund-raising stage after conducted financial due diligence on the funds through the Fund managers. Currently a legal due diligence is ongoing. The Scheme has joined a consortium of local and international Schemes to partner with the Government in funding infrastructure projects under the Public Private Partnership (PPP) arrangement. Establishment of the consortium are already at an advanced stage.

Appreciation

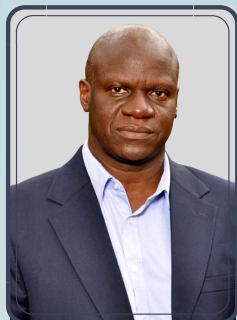
Finally, I would like to appreciate the KPC Board of Directors and the entire management of the Company and members for the continued support. I also take this opportunity to appreciate the professional service providers who continued to offer commendable service during the year:

- The Secretariat
- The scheme investment managers; Sanlam East Africa.
- External Auditors; Deloitte
- Custodian; Standard Chartered Bank and
- The Scheme Financial Advisors Consultant;
- Zamara Actuaries, Administrators and Consultants Ltd.
- The Scheme Legal Advisors – Prof. Mumma & Co. Advocates.

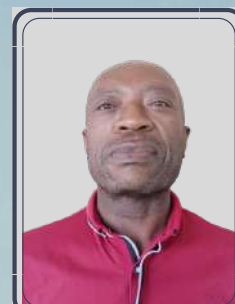
We take this opportunity to recognize and congratulate election of Eng. Fredrick Ogano, Eng. John Chege and Eng. Benson Muange to the Board of Trustees. We also appreciate the good work done by the outgoing trustees, Mr. George Simiyu, Eng. Lucy Kariuki and Mr. Thomas Sumba.

Thank you all and God Bless You.

ENG.MARTIN WANYAMA
CHAIRMAN, BOARD OF TRUSTEES

D.C. BOARD OF TRUSTEES**MARTIN
WANYAMA**

Chairman,
Board of Trustees

**LUCY
KARIUKI****THOMAS
SUMBA****THOMAS
NGIRA****GEORGE
W.SIMIYU****CAXTON
NJUGA****BRIGID
CHERONO****SHARON
KISIRE****INCOMING TRUSTEES****FRED
OGANO****JOHN
CHEGE****BENSON
MUANGE**

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES ADVISORS TO THE SCHEME AND OTHER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2020

TRUSTEES

Eng.Martin Wanyama
Eng.Lucy Kariuki
Mr. Caxton Njuga
Ms. Sharon Kisire
Ms.Brigid Cherono
Mr.Thomas Ngira
Mr.George Simiyu
Mr.Thomas Sumba

SCHEME ADMINISTRATOR

Sammy Njeru
In-house Pension Administration
Kenya Pipeline Company Retirement Benefits Scheme
P.O. Box 13633 - 00800
Nairobi.

INVESTMENT MANAGERS

Sanlam Investment(East Africa) Limited
Africa Re Centre, Hospital Rd
P .O. Box 67262- 00200
Nairobi.

CUSTODIAN

Standard Chartered Bank of Kenya Limited
48 Westlands Road
P. O. Box 40984 – 00100
Nairobi.

AUDITORS

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

LEGAL ADVISORS

Professor Albert Mumma & Company
Advocates
5th Avenue Suites, 5th Ngong Avenue
P. O. Box 10481 - 00100
Nairobi.

KENPIPE *Gardens*

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES REPORT OF THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 2020

The Trustees have the pleasure of presenting their report together with the audited financial statements for the year ended 30 June 2020 for KPC Retirement Benefits Scheme 2006 (DC) Registered Trustees ("the Scheme").

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The Scheme was established on 1 July 2006, and is governed by a trust deed dated 02 November 2006, and amended severally with latest amendment 31 March 2011. It is a defined contribution scheme and provides under the rules of the Scheme, retirement benefits for the staff of Kenya Pipeline Company Limited. Income from the registered Scheme is tax exempt under the Income Tax Act whereas income from the unregistered Scheme is taxable. The Scheme is registered with Retirement Benefits Authority.

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 10 shows an increase in net assets of the Scheme for the year of KShs.533,870,669(2019:KShs571,632,725 and the statement of net assets available for benefits on page 11 shows the Scheme's net assets at KShs 6,659,910,753(2019: KShs6,126,040,084).

INVESTMENT OF FUNDS

Under the terms of their appointment, Investment Managers, Sanlam Investments East Africa Limited, are responsible for the investment of the Scheme funds. The overall responsibility for investment and performance however lies with the trustees.

PRINCIPAL ACTIVITY

The main purpose of the Scheme is the provision of cash benefits and pensions to members upon their retirement and relief for the dependents of deceased members as defined in the rules and regulations governing the Scheme.

REGISTRATION

The Scheme is registered under the Retirement Benefits Act. The address of its registered office is P.O. Box 13633, 00800 Nairobi. The registration number of the Scheme is RBA/SC/INT2/01692.

MEMBERSHIP

The following changes occurred during the year:

	2020	2019
Members at the start of the year	1481	1535
New members joining during the year	7	-
Less: Members who left during the year:		
Retirees	(51)	(43)
Death in service	(4)	(6)
Other leavers	(9)	(7)
Reinstated		2
	=====	=====
Members at the end of the year	1424	1481
	=====	=====
Deferred members	119	118
	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES REPORT OF THE TRUSTEES (Continued)

SCHEME GOVERNANCE

1. Trustees in Office

Name of Trustee	Age	Category (Member- elected/ Sponsor-nominated/ Professional)	No. of meetings attended	Certified (Yes/No)	Highest qualification	Membership of other boards (Provide or- ganisation's name)
Caxton Njuga	43	Sponsor Nominated	8/10	Yes	Degree	None
Sharon Kisire	51	Sponsor Nominated	7/10	Yes	Degree	Enwealth Financial Services Ltd
Brigid Cherono	43	Sponsor Nominated	3/10	No	Masters Degree	Pioneer Insurance Co. Ltd
Thomas Ngira	53	Sponsor Nominated	0/10	No	Masters Degree	None
George Simiyu	50	Member Elected	10/10	Yes	Higher Diploma	-Institute of Engineering Technologists. -Kenya Engineering Technology Board.
Thomas Sumba	53	Member Elected	10/10	Yes	Degree	None
Martin Wanyama	52	Member Elected	10/10	Yes	Degree	None
Lucy Kariuki	47	Member Elected	5/10	Yes	Masters Degree	Mau-Summit Second- ary School

The Trustees who served during the year and up to the date of this report were as follows:

2. The board of trustees held 10 meetings during the year ending the 30 June 2020. The meetings were held on the dates set out hereunder:

- 12/07/2019
- 22/08/2019
- 24/09/2019
- 05/11/2019
- 03/12/2019
- 18/12/2019
- 14/02/2020
- 24/02/2020
- 12/05/2020
- 22/05/2020

3. The Composition of the Board of Trustees is as Hereunder:

- Gender balance: Female 38% Male 62%
- Skills mix: No of trustees with financial skills – One(1)
- Age mix: Number of trustees who are younger than 35 years – None.
- Number of trustees who are older than 35 years – Eight (8)

4. Committees of the Board

Committee Name	No. of meetings held	Any external Allowances paid advisors, invitees to (Kshs.) meetings (Yes/No) (if yes, mention the purpose)	Allowances paid advisors, invitees to (Kshs.)
Audit Risk and Governance Meeting	2	None	None
Investment Committee	None	None	None

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES REPORT OF THE TRUSTEES (Continued)

SCHEME GOVERNANCE (Continued)

5. Fiduciary Responsibility Statement

The board of trustees is the governing body of the Kpc Retirement Benefits Scheme 2006 (D.C.) Registered Trustees and is responsible for the corporate governance of the scheme.

The trustees are responsible for ensuring that the administration of the scheme is conducted in the best interests of the scheme's members and the sponsor. To achieve this, the trustees embraced their fiduciary responsibility by:

- Acting honestly and did not improperly use inside information or abuse their position;
- Exercising the highest degree of care and diligence in the performance of their duties that a reasonable person in a like position would exercise in the circumstances; and
- Performing their duties with the requisite degree of skill.

The scheme has complied with the laws, regulations and guidelines that govern retirement benefits schemes and the scheme's business operations.

The trustees have ensured that the fund manager has carried out all scheme investments and that all scheme assets and funds are held by the custodian.

The board charter for the scheme has been developed.

6. Responsible Corporate Citizenship

The scheme has participated in socially responsible investments and operations and has not been involved in any activity that may undermine the well-being of the sponsor, members or the community in which it operates.

7. Key Outcomes

The board of trustees seeks to achieve the following:

- Building trust with the members and sponsor of the scheme so that they are satisfied with the administration of the scheme;
- Supporting innovation and developing solutions that meet the members' and sponsor's needs; and
- Ensuring that the scheme's administrative processes remain transparent and accessible to members and the sponsor.

The board of trustees will measure the progress towards these outcomes through regular reports and feedback from the sponsor.

8. Annual General Meeting

The board of trustees held the main annual general meeting on 15th November 2019 at which 117 members attended. The board adequately addressed the members' concerns.

9. Members' Sensitization

The board conducted the following sensitization activities (Name of sensitization forum)	Date held
Member Education days	14 th to 22 nd October 2019
AGMs at various Stations	Various Dates

During the sensitization activity, members were reminded of the Retirement Benefits Authority Whistle Blower portal to report any unusual occurrences in the management of scheme affairs.

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES REPORT OF THE TRUSTEES (Continued)

SCHEME GOVERNANCE (Continued)

10. Trustees Remuneration Policy

During the year under review, the trustees were paid a gross sum of Kshs. 660,000. The payments complied with the trustees' remuneration policy of the scheme which was approved by members at the annual general meeting held on 15th November 2019.

11. Board of Trustees Evaluation

No evaluation was done during the year under review.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors.

BY ORDER OF THE BOARD OF TRUSTEES



Sammy Njeru
Trust Secretary

16 November

2020

KENPIPE *Gardens*

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE 2020

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Retirement Benefits Scheme Regulations require the Trustees to prepare financial statements for each financial year which give a true and fair view of the disposition of the Scheme's assets and liabilities as at the end of the financial year and of the financial transactions of the Scheme for that year. The Regulations also require the Trustees to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme. They are also responsible for safeguarding the assets of the Scheme.

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

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

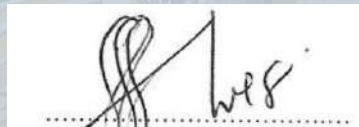
The Trustees also accept responsibility for:

- Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- Selecting suitable accounting policies and applying them consistently; and
- Making accounting estimates and judgements that are reasonable in the circumstances.

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

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

Approved by the Trustees on... 16 November 2020 and signed on its behalf by:



George Simiyu
Trustee



Caxton Njuga
Trustee

KENPIPE Gardens

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of KPC Retirement Benefits Scheme 2006 (D.C) Registered Trustees (the "Scheme"), set out on pages 10 to 31, which comprise the statement of net assets available for benefits as at 30 June 2020, the statement of changes in net assets available for benefits and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2020 and of the disposition at that date of its assets and liabilities, other than liabilities to pay retirement and other benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this 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. We have fulfilled our ethical responsibilities in accordance with these requirements.

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

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

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

KENPIPE Gardens

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES (Continued)

Responsibilities of Trustees for the Financial Statements

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

In preparing the financial statements, the Trustees are responsible for assessing the 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. Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control 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 Scheme's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees;
- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern; and
- 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.

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES (Continued)

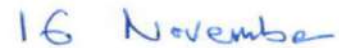
Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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



Certified Public Accountants (Kenya)

Nairobi



2020

CPA Fred Aloo, P/No 1537

Signing partner responsible for the independent audit



KENPIPE *Gardens*

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 KShs	2019 KShs
CONTRIBUTIONS AND BENEFITS PAYABLE			
Contributions receivable	3	599,684,566	484,689,908
Pensions and benefits withdrawals	4	(288,043,409)	(250,270,718)
		<hr/>	<hr/>
		311,641,157	234,419,190
ADMINISTRATIVE EXPENSES			
	5	(36,693,062)	(32,078,605)
		<hr/>	<hr/>
		274,948,095	202,340,585
RETURN ON INVESTMENT			
Investment income	6	467,217,280	401,917,718
Changes in market value of investments	7	(180,260,304)	(3,495,549)
Income from Kenpipe Gardens	8	10,310,225	2,874,958
Investment management expenses	9	(20,619,374)	(18,009,921)
		<hr/>	<hr/>
		276,647,827	383,287,206
OTHER INCOME			
	10	-	2,889,062
INCREASE IN NET ASSETS FOR THE YEAR BEFORE TAX			
		551,595,922	588,516,853
TAX			
	11	(17,725,253)	(16,884,128)
		<hr/>	<hr/>
INCREASE IN NET ASSETS FOR THE YEAR AFTER TAX			
		533,870,669	571,632,725
NET ASSETS OF THE SCHEME AT THE START OF THE YEAR			
		6,126,040,084	5,554,407,359
		<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR			
		6,659,910,753	6,126,040,084
		=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT 30 JUNE 2020

ASSETS	Notes	2020 KShs	2019 KShs
NON CURRENT ASSETS			
Equipment	12(a)	5,821,298	6,646,819
Intangible assets	12(b)	6,750,123	-
		<hr/>	<hr/>
		12,571,421	6,646,819
		<hr/>	<hr/>
INVESTMENTS			
Investment property	13	1,503,726,059	1,509,400,000
Treasury bonds	14(b)	3,115,821,872	2,752,058,511
Treasury bills	14(a)	576,900,311	288,104,217
Quoted equity investments	16	980,480,066	1,123,007,299
Unquoted equity investments	22	24,160,000	24,160,000
Offshore Equity	17	368,154	471,862
Corporate bonds	15	39,736,334	178,226,121
Call and term deposits	18	456,544,644	160,000,000
		<hr/>	<hr/>
		6,697,737,440	6,035,428,010
		<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS AND INVESTMENTS			
CURRENT ASSETS			
Tax receivable	11	1,758,694	-
Other receivables	19	5,430,597	141,002,326
Bank balance		3,425,368	6,192,572
		<hr/>	<hr/>
		10,614,659	147,194,898
		<hr/>	<hr/>
CURRENT LIABILITIES			
Tax payable	11	-	6,446,932
Benefits payable		5,396,120	28,654,882
Other payables	20	55,616,647	28,127,829
		<hr/>	<hr/>
		61,012,767	63,229,643

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT 30 JUNE 2020

NET CURRENT ASSETS

(50,398,108)

83,965,255

NET ASSETS AVAILABLE FOR BENEFITS

6,659,910,753

6,126,040,084

REPRESENTED BY:

FUND BALANCE

21

6,659,910,753

6,126,040,084

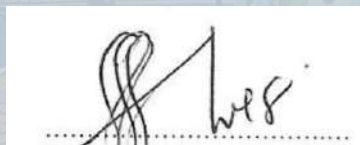
=====

=====

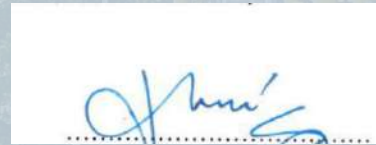
The financial statements on page 10 to 31 were approved and authorized for issue by the Board of Trustees on

16 November

2020 and signed on its behalf by:-



George Simiyu
Trustee



Caxton Njuga
Trustee

KENPIPE Gardens

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

CASH FLOWS FROM OPERATING ACTIVITIES

	2020 KShs	2019 KShs
Contributions received	595,849,441	482,975,839
Benefits paid	(311,302,171)	(224,921,882)
Investment expenses paid	(21,256,916)	(17,667,808)
RBA levy paid	(5,000,000)	(5,000,000)
Rent deposit received/(refunded)	27,929,614	300,000
Administrative expenses paid	(57,859,550)	(57,549,138)
Net cash used in operating activities	228,360,418	178,137,011

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income received		510,137,714	440,882,287
Purchase of intangible asset	12(b)	(6,750,123)	-
Improvements to investment properties	13	(383,300)	-
Purchase of treasury bills	14(a)	(550,463,572)	(349,480,967)
Purchase of treasury bonds	14(b)	(699,591,934)	(844,228,681)
Purchase of corporate bonds	15	-	-
Purchase of quoted equities	16	(212,251,908)	(21,444,512)
Proceeds from sale of treasury bills	14(a)	288,104,217	327,152,850
Proceeds from sale of treasury bonds	14(b)	374,986,372	172,392,291
Proceeds from sale of corporate bonds	15	139,126,121	54,675,000
Proceeds from sale of equities	16	219,078,067	51,973,350
Net cash generated from investing activities		61,991,654	(168,078,382)

INCREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR

CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR

	290,352,072	10,058,629
	166,192,572	156,133,943
	456,544,644	166,192,572
	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Adoption of New and Revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(a) *Relevant new standards and amendments to published standards effective for the yearended 30 June 2020*

Several new and revised standards and interpretations became effective during the year. The Trustee has evaluated the impact of the new standards and interpretations and none of them had a significant impact on the scheme's financial statements.

(b) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020*

At the date of authorisation of these financial statements, various revised standards and interpretations were in issue but not yet effective. The Trustees anticipate that the adoption of these standards, interpretations and amendments when effective, will have no material impact on the financial statements of the scheme.

(c) *Early adoption of standards*

The Scheme did not early-adopt any new or amended standards in 2020.

Basis of Preparation

The financial statements have been prepared under the historical cost basis except for investment properties, financial assets and financial liabilities which are accounted for at fair value.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

a) Contributions Receivable

Under the rules of the Scheme, Kenya Pipeline Company Limited shall contribute to the Scheme at such a rate or rates as the trustees shall determine from time to time with the advice of the actuary. Ordinary contributions are included on the accrual basis as they fall due. Special contributions are accounted for when received.

b) Benefits Payable

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

c) Investment Income

Investment income includes interest and dividends receivable and net exchange gains/ (losses) in the year.

Interest income is accrued in the financial statements when earned, taking into account the effective yield rate of the assets or an applicable floating rate. Interest income includes the amortization of any discount or premium or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognized when the shareholders right to receive payment is established.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

d) Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into Kenya Shillings at rates of exchange ruling at the end of each reporting period. Transactions during the year in foreign currencies are translated at rates ruling at the dates of the transactions. The resulting exchange differences are dealt with in the statement of changes in net assets.

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

1. ACCOUNTING POLICIES (Continued)

Basis of Preparation (Continued)

e) Equipment

Equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any.

Depreciation is calculated on the reducing balance basis and straight-line for equipment and computers respectively, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates are as follows:

Equipment	12.5%
Computers	50%

The carrying values of the equipment are assessed annually and adjusted for impairment where it is considered necessary. An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of net assets available for benefits in the year the asset is derecognised.

f) Intangible Assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

g) Investment Property

Investment properties comprising land and buildings held to earn rentals and for capital appreciation are carried at fair values based on valuations performed by external independent valuers. Surplus and deficits arising from changes in the fair value are reflected in the statement of net assets available for benefits.

h) Cash and Cash Equivalents

Cash and cash equivalents include cash at bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

i) Corporate Bonds

Corporate bonds are classified as fair value through profit or loss and are stated at market value as at 30 June.

j) Equity Shares

Quoted investments are classified as fair value through profit or loss and are stated at market value as at 30 June.

k) Unquoted Equity Investments

Unquoted equity investments are classified as fair value through profit or loss and are stated at market value as at 30 June.

l) Off-Shore Investments

The off-shore investments represent pooled investments in global stock markets. These investments are classified as fair value through profit or loss and are stated at market value.

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (Continued)

j) Financial Instruments

Financial Assets

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Impairment of Financial Assets

The Scheme recognises a loss allowance for expected credit losses on, bank balances, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Scheme always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Scheme's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Scheme recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Scheme measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Scheme compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Scheme considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

(i) Definition of Default

The Scheme considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

j) Financial Instruments (Continued)

Financial Assets (Continued)

Impairment of Financial Assets (Continued)

(ii) Definition of Default (Continued)

- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Scheme, in full (without taking into account any collateral held by the Scheme).

Irrespective of the above analysis, the Scheme considers that default has occurred when a financial asset is more than 90 days past due unless the Scheme has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The Scheme write-offs debt only when there objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

(iii) Measurement and Recognition of Expected Credit Losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

Financial Liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Scheme, are measured in accordance with the specific accounting policies set out below.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

k) Taxation

The Fund is a registered pension fund and is exempt from income tax.

l) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES

In the process of applying the Scheme's accounting policies, Trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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. These are dealt with below:

Impairment Losses on Financial Assets

At each reporting period end, the Fund reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the statement of changes in net assets whenever the carrying amount of the asset exceeds its recoverable amount.

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES (Continued)

Impairment Losses on Financial Assets (Continued)

When measuring expected credit losses (ECL), the Fund uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. The loss rate is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Equipment

Critical estimates are made by the scheme management in determining depreciation rates for equipment.

Fair Value of Investment Properties

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

3 CONTRIBUTIONS RECEIVABLE	2020 KShs	2019 KShs
Received from employer – normal	396,089,839	320,605,320
Received from employees – normal	199,340,027	160,302,659
Received from employees - AVC	4,254,700	3,781,929
	<hr/>	<hr/>
	599,684,566	484,689,908
	=====	=====
4 PENSIONS AND BENEFITS PAYABLE		
Transfer out	-	4,235,651
Retirees	257,512,457	219,476,407
Withdrawals	16,765,244	11,859,719
Deceased	13,765,708	14,698,941
	<hr/>	<hr/>
	288,043,409	250,270,718
	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020	2019
	KShs	KShs
5 ADMINISTRATIVE EXPENSES		
Audit fees	1,640,335	1,677,186
Bank charges	29,350	22,851
Trustees allowances	660,000	628,000
Meeting expenses	1,187,719	999,371
Training expenses	3,465,934	4,390,533
AGM expenses	1,470,586	1,323,722
Printing and stationery expenses	56,694	112,559
Member education	392,714	300,959
Professional/Scheme advisors fees	1,251,159	719,448
Trustees elections	22,500	-
Office expenses	718,159	680,968
Land rates/valuation cost	1,003,416	-
Security services	1,578,277	315,000
Travelling and subsistence	1,055,715	1,677,342
Staff salaries and allowances	9,069,951	7,429,111
Leave Accrual	-	278,410
Staff medical expenses	1,003,935	1,074,970
General Insurance	833,178	918,568
Property Insurance	660,578	-
Property advertising	457,500	-
Property maintenance expenses	446,916	-
Subscriptions	100,720	188,238
Subscriptions-Eboard	655,132	693,633
Amortization of intangible assets (Note 11(b))	-	99,347
Software maintenance	216,000	216,000
Advertising and tendering costs	381,441	109,190
Website maintenance	6,000	6,000
Telephone and postage	11,709	86,154
Legal fees	660,280	898,560
Depreciation on property and equipment (Note 11(a))	825,521	900,806
Commission on rent and sale of Kitengela houses	1,711,850	1,180,000
Strategic plan review	-	116,000
Repairs & Maintenance	119,793	35,679
RBA levy (Note 19)	5,000,000	5,000,000
	36,693,062	32,078,605

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 INVESTMENT INCOME

Dividend income	54,640,048	62,534,222
Interest income		
Treasury bonds	379,386,798	279,001,870
Treasury bills	36,455,883	29,001,826
Corporate bonds	14,687,557	25,447,646
Call and fixed deposits	15,965,524	8,915,492
Loss on sale of equity investments	(27,232,154)	(1,930,505)
Loss on sale of offshore equity investments	(72,749)	-
Loss on disposal of treasury bonds	(4,001,837)	(1,052,833)
Loss on disposal of corporate bonds	(2,611,790)	-
	<hr/>	<hr/>
	467,217,280	401,917,718
	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020	2019
	KShs	KShs
7 CHANGES IN MARKET VALUE OF INVESTMENTS		
Changes in fairvalue of equity investments(note 16)	(135,701,076)	(177,868,512)
Changes in fair value of property(note 13)	(6,057,241)	56,881,976
Changes in fairvalue of off-shore investments(note 17)	19,478	-
Changes in fairvalue of treasury bonds(note 14(b))	(39,157,799)	117,490,987
Changes in fairvalue of corporate bonds(note 15)	636,334	-
	<hr/>	<hr/>
	(180,260,304)	(3,495,550)
	=====	=====
8 RENTAL INCOME		
Rental Income	4,752,500	410,000
Income from Tenant Purchase Scheme	5,557,725	1,064,958
Gain/loss from disposal of property- Kenpipegardes	-	1,400,000
	<hr/>	<hr/>
	10,310,225	2,874,958
	=====	=====
9 INVESTMENT MANAGEMENT EXPENSES		
Management fees	11,534,766	10,041,110
Custody fees	9,084,608	7,968,811
	<hr/>	<hr/>
	20,619,374	18,009,921
	=====	=====
10 OTHER INCOME		
Miscellaneous income	-	2,889,062
	<hr/>	<hr/>
	-	2,889,062
	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 TAX

(a) Statement of changes in net assets:

Total investment income	515,229,389	404,792,677
Less: Interest from infrastructure bonds	(30,103,927)	(23,642,810)
Gain/loss on investments disposals	(33,918,530)	
Less:		
Administration expenses	(36,693,062)	(32,078,605)
Investment management expenses	(20,619,374)	(18,009,921)
	<hr/>	<hr/>
	393,894,497	331,061,341
Taxable income due to Unregistered Fund at 18% (2019: 17%) of the taxable scheme income	70,901,009	56,280,428
Tax thereon at 25% (2019: 30%)	17,725,253	16,884,128
Tax payable as at 1 July	6,446,932	381,000
Tax provision for the year	24,172,185	17,265,128
Installment tax paid during the year	(25,930,879)	(10,818,196)
	<hr/>	<hr/>
Tax (recoverable)/ payable as at 30 June	(1,758,694)	6,446,932
	=====	=====

KENPIPE *Gardens*

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020	2019
	KShs	KShs
12.(a) PROPERTY AND EQUIPMENT		
COST		
At the beginning of the year	10,286,737	10,286,737
Additions	-	-
	<hr/>	<hr/>
At the end of the year	10,286,737	10,286,737
	<hr/>	<hr/>
DEPRECIATION		
At the beginning of the year	3,639,918	2,739,112
Charge for the year	825,521	900,806
	<hr/>	<hr/>
At the end of the year	4,465,439	3,639,918
	<hr/>	<hr/>
NET BOOK VALUE		
At the end of the year	5,821,298	6,646,819
	<hr/>	<hr/>
Amount of fully depreciated Assets	-	-
	<hr/>	<hr/>
12.(b) INTANGIBLE ASSETS		
COST		
At the beginning of the year	-	920,881
Additions	6,750,123	-
	<hr/>	<hr/>
At the end of the year	6,750,123	920,881
	<hr/>	<hr/>
AMORTISATION		
At the beginning of the year	-	821,534
Charge for the year	-	99,347
	<hr/>	<hr/>
At the end of the year	-	920,881
	<hr/>	<hr/>
NET CARRYING AMOUNT		
At the end of the year	6,750,123	-
	<hr/>	<hr/>
Amount fully depreciated intangible assets	920,881	920,881

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
13 INVESTMENT PROPERTY

	Kajiado/ Kitengela/ 76600-76872	Kajiado/ Kitengela/ 76873 (Kenpipe Gardens)	Kitengela Rangers	Kogony, Kisumu	Total
2020					
At the beginning of the year	383,600,000	990,900,000	116,000,000	18,900,000	1,509,400,000
Additions		383,300	-	-	383,300
Change in Fair Value	-	(8,707,241)	1,750,000	900,000	(6,057,241)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At the end of the year	383,600,000	982,576,059	117,750,000	19,800,000	1,503,726,059
	=====	=====	=====	=====	=====

Details of Scheme's investment properties and information about the fair value hierarchy at the end of the reporting period are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
30-Jun-20				
Kajiado/Kitengela/ 76600-76872	-	-	383,600,000	383,600,000
Kajiado/Kitengela/ 76873 (Kenpipe Gardens)	-	-	982,576,059	982,576,059
Kitengela Rangers	-	-	117,750,000	117,750,000
Kogony, Kisumu	-	-	19,800,000	19,800,000
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	1,503,726,059	1,503,726,059
	=====	=====	=====	=====
30-Jun-19				
Kajiado/Kitengela/ 76600-76872	-	-	383,600,000	383,600,000
Kajiado/Kitengela/ 76873 (Kenpipe Gardens)	-	-	990,900,000	990,900,000
Kitengela Rangers	-	-	116,000,000	116,000,000
Kogony, Kisumu	-	-	18,900,000	18,900,000
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	1,509,400,000	1,509,400,000
	=====	=====	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The income generated from the property is as follows:

	2020 KShs	2019 KShs
Rental income from investment properties (note 6)	4,752,500	410,000
Rental income from Tenant Purchase Agreement	5,557,725	1,064,958
Direct operating expense arising from Kenpipe Gardens	(3,276,844)	(1,180,000)
	<hr/>	<hr/>
	7,033,381	294,958
	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 INVESTMENT PROPERTY(Continued)

The scheme's investment property consists of 40 quarter acre plots located in Rangers, Kitengela and 50.2 acre plot in Milimani, Kitengela and in Kisumu (LR NO Kisumu-Kogony 7100 to 7109).

The fair value of the Company's investment properties as at 30 June 2020 has been arrived at on the basis of valuation carried out at that date by CrystalValuersLimited,MetrocosmoLtd,IconValuers Ltd registered and independent valuers not connected with the Scheme. The Valuers are members of the Institute of Surveyors of Kenya and they have appropriate qualifications, relevant and recent experience in the fair value measurement of property in various locations in Kenya.

The fair value of investment properties were determined by reference to market evidence of recent transactions for similar properties. The valuations were based on both discounted cash flows and Comparable sales methods. There has been no change on the valuation technique during the year.

14 GOVERNMENT SECURITIES

	2020 KShs	2019 KShs
Treasury bills	576,900,311	288,104,217
Fixed treasury bonds	3,115,821,872	2,752,058,511
	3,692,722,183	3,040,162,728
	=====	=====
a) Treasury bills		
At amortised cost		
The movement of treasury bills is as follows;		
At the beginning of the year	288,104,217	265,776,100
Purchases during the year	550,463,572	349,480,967
Disposal	(288,104,217)	(327,152,850)
Accrued interest	26,436,739	-
	-----	-----
At the end of the year	576,900,311	288,104,217
	=====	=====
The maturity dates of the treasury bills are as follows:		
Maturing within 3 months	154,804,539	83,116,060
Maturing within 4-12 months	422,095,772	204,988,157
	-----	-----
At the end of the year	576,900,311	288,104,217
	=====	=====

The weighted effective average interest rate on the treasury bills at 30 June 2020 was 9.86%(2019:11.02%).

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Treasury bonds

At fairvalue through profit or loss

The movement of treasury bonds is as follows;

At the beginning of the year

2,752,058,511

1,962,731,134

Purchases during the year

699,591,934

844,228,681

Disposal

(374,986,372)

(172,392,291)

Change in fair value

39,157,799

117,490,987

At the end of the year

3,115,821,872

2,752,058,511

KENPIPE *Gardens*

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 GOVERNMENT SECURITIES (Continued)

2020

2019

KShs

KShs

The maturity dates of the treasury bonds are as follows:

Maturing within one year	224,312,621	166,042,739
Maturing in the second year	84,394,240	84,735,249
Maturing in 2-5 years	473,068,322	554,970,263
Maturing after 5 years	2,334,046,689	1,946,310,260
	<hr/>	<hr/>
	3,115,821,872	2,752,058,511
	=====	=====

The weighted effective average interest rate on the treasury bonds at 30 June 2020 was 12.23% (2019:11.89%).

15 CORPORATE BONDS

At fair value through profit or loss

The movement of corporate bonds as follows;

At the beginning of the year	178,226,121	232,901,127
Purchases during the year	-	-
Disposals	(139,126,121)	(54,675,006)
Change in fair value	636,334	-
	<hr/>	<hr/>
At the end of the year	39,736,334	178,226,121
	=====	=====

The maturity dates of the Corporate bonds are as follows:

Maturing within one year	25,636,334	123,126,121
Maturing in the second year	14,100,000	25,000,000
Maturing in 2-5 years	-	30,100,000
	<hr/>	<hr/>
	39,736,334	178,226,121
	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 QUOTED EQUITY INVESTMENTS

At fair value through profit or loss

At the beginning of the year	1,123,007,299	1,331,617,566
Purchases during the year	212,251,908	21,244,512
Disposals during the year	(219,078,065)	(51,973,350)
Change in market value	(135,701,076)	(177,881,429)
	<hr/>	<hr/>
At the end of the year	980,480,066	1,123,007,299
	=====	=====

The weighted effective average interest rate on the corporate bonds at 30 June 2020 was 12.99% (2019: 12.2%).

KENPIPE *Gardens*

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 OFFSHORE EQUITY

At fair value through profit and loss

At 01.07.2019 No.	Number of shares		At 30.06.2020 No.	Description	Fair					Fair	
	Additions No.	Disposals No.			value at 01.07.2019 Shs	Additions Shs	Disposal Shs	Disposal proceeds Shs	Loss on disposal Shs	Gain/Loss on revaluation Shs	value as at 30.06.2020 Shs
12	-	-	12	Pinebridge US large Cap	348,677	-	-	-	-	19,478	368,154
6	-	6	-	Pinebridge Global Us Focus Equi- ty Fund	123,185	-	123,185	(50,436)	72,749	-	-
18	-	6	12		471,862	-	123,185	(50,436)	72,749	19,478	368,154
=====	=====	=====	=====		=====	=====	=====	=====	=====	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 CALL AND TERM DEPOSITS

	2020 KShs	2019 KShs
Equity Bank Kenya Limited	35,321,370	140,000,000
Kenya Commercial Bank Limited	158,093,972	-
NCBA Group Ltd	73,867,315	-
The Co-operative Bank of Kenya Limited	113,328,562	20,000,000
Absa Bank Ltd	75,933,425	-
Imperial Bank Limited	19,552,844	19,552,844
	<hr/>	<hr/>
	476,097,488	179,552,844
Less provision for impairment of fixed and call deposits	(19,552,844)	(19,552,844)
	<hr/>	<hr/>
	456,544,644	160,000,000
	=====	=====

The weighted effective average interest rate on the short term deposits as at 30 June 2020 was 8% (2019: 6.53%).

19 OTHER RECEIVABLES

	2020 KShs	2019 KShs
Contribution receivable	-	41,292,366
Rent receivable	-	40,000
Insurance prepaid	888,252	622,145
Accrued investment income	-	98,600,747
Service charge	3,737,010	447,067
Medical fund	805,335	-
	<hr/>	<hr/>
	5,430,597	141,002,326
	=====	=====

20 OTHER PAYABLES

	2020 KShs	2019 KShs
Deposits (Kitengela housing)	10,073,220	5,415,050
Prepaid tenant purchase scheme	4,220,407	227,432
Legal fees	625,400	230,000
Rent deposit refundable	1,893,000	300,000
Prepaid rent	1,284,000	80,000
Medical fund	-	92,056
RBA levy payable	5,000,000	5,000,000

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES NOTES TO THE FINANCIAL STATEMENTS (Continued)

Management fees	980,498	750,761
Custody fees	789,362	1,425,422
Audit fees	1,761,045	1,797,896
General creditors	106,000	
Income tax on pension benefits	343,881	-
Tax payable	30,000	85,500
Due to KPC Retirement Benefit Scheme	25,808,611	11,917,844
Accrued gratuity	1,429,974	-
Accrued Leave days	280,914	805,868
Contribution refundable	990,335	-
	55,616,647	28,127,829
	=====	=====

**KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS (continued)**

	Registered Fund Kshs	Unregistered Fund Kshs	Total Kshs
21 ACCUMULATED FUND			
	5,128,727,692	997,312,392	6,126,040,084
Members Contribution	365,711,003	233,973,573	599,684,576
	5,494,438,695	1,231,285,965	6,725,724,660
Percentage on Total Fund	82%	18%	100%
Net Income for the year	346,376,557	77,621,868	423,998,425
Benefits Payable	(239,937,141)	(48,106,269)	(288,043,410)
Investment holdings gain	(150,350,591)	(33,693,079)	(184,043,670)
	(43,911,175)	(4,177,480)	(48,088,655)
Tax (Unregistered Scheme)	-	(17,725,252)	(17,725,252)
Balance as at 30/06/2020	5,450,527,520	1,209,383,233	6,659,910,753
	=====	=====	=====


KENPIPE Gardens

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (Continued)

23 TAX

The registered Scheme is registered under the Income Tax Act and its income is exempt from tax. Investment income attributable to Unregistered Scheme is subject to corporation tax under the Income Tax Act at corporation tax rate.

24 CONTINGENT LIABILITIES

There were no contingent liabilities of the Scheme as at 30 June 2020 and as at 30 June 2019

25 FINANCIAL RISK MANAGEMENT

The Scheme generates revenues for the members by investing in various income generating activities, which involve trading in the stock exchange, trading in government securities and offshore investments. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates.

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.

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

The trustees provide written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

a) Market Risk

(i) Foreign Exchange Risk

The Scheme invests internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from investment in offshore investments.

The Scheme's currency risk is evaluated as low because the foreign investments are long term and any currency losses are expected to be recouped through dividend income earned and which comprises the value of the fund. The Scheme manages foreign exchange risk by limiting offshore investments to the strategic range of 5% of total portfolio.

Since the above do not constitute trading activities, the Scheme does not manage foreign exchange risk arising from future commercial activity but only revalues the assets and liabilities at the prevailing exchange rates at the end of the year.

(ii) Price Risk

The Scheme is exposed to equity securities price risk because of investments in quoted shares classified at fair value through the statement of changes in net assets. The Scheme is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Scheme diversifies its portfolio. Diversification of the portfolio is done in accordance with statement of investment policy, which is reviewed every three years. Most quoted shares held by the Scheme are traded on the Nairobi Securities Exchange (NSE).

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

25 FINANCIAL RISK MANAGEMENT (continued)

a) Market Risk (continued)

(ii) Price Risk

		2020 KShs	2019 KShs
Effect on returns from 5% appreciation investment		48,820,589	56,150,365
	5% depreciation	(48,820,589)	(56,150,365)
Effect on Fund balance 5% appreciation		48,820,589	56,150,365
	5% depreciation	(48,820,589)	(56,150,365)

(iii) Interest Rate Risk

The Scheme's interest bearing assets are investments in treasury bonds, corporate bonds, treasury bills, commercial papers and fixed deposits, which bear a fixed coupon rate except for some corporate bonds which earn interest at a floating rate.

At 30 June 2020, an increase/decrease of 100 basis points would have resulted in an increase or decrease respectively in net returns on investments of approximately KShs3,169,110 (2019: KShs 3,279,000).

b) Credit Risk

Credit risk arises from cash and cash equivalents, fixed deposits, interest bearing investments, deposits with banks, and receivables. As part of the credit risk management system, the investment manager and the trustees monitor and review information on significant investments, Trustees have approved larger portfolio investments with the Government of Kenya which has a low credit rating and has the lowest default record.

The amount that best represents the Scheme's exposure to credit risk as at 30 June 2020 and 30 June 2019 is made up as follows:

At 30 June 2020	Fully performing KShs	Past due KShs	Impaired KShs	Total KShs
Government securities	3,692,722,183	-	-	3,692,722,183
Corporate bonds	39,736,334	-	-	39,736,334
Other receivables	5,430,957	-	-	5,430,957
Call and fixed deposits	456,544,644	-	19,552,844	476,097,488
	<hr/>	<hr/>	<hr/>	<hr/>
	4,194,434,118	-	19,552,844	4,213,986,962
	=====	=====	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

	Fully performing	Past due	Impaired	Total
At 30 June 2019				
Government securities	3,040,162,728	-	-	3,040,162,728
Corporate bonds	178,226,121	-	-	178,226,121
Other receivables	141,002,326	-	-	141,002,326
Call and fixed deposits	160,000,000	-	19,552,844	179,552,844
	<hr/>	<hr/>	<hr/>	<hr/>
	3,519,391,175	-	19,552,844	3,538,944,019
	=====	=====	=====	=====


 KENPIPE Gardens

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (Continued)

25 FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Scheme's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

30 June 2020	Up to 3 Months KShs	4-12 Months KShs	1-5 Years KShs	Over 5 years KShs	Total KShs
Financial assets					
Government securities	154,804,539	646,408,393	557,462,562	2,335,046,689	3,693,722,183
Corporate bonds	-	25,636,334	14,100,000	-	39,736,344
Call and term deposits	456,544,644	-	-	-	456,544,644
Other receivables	5,430,597	-	-	-	5,430,597
Bank balance	5,396,120	-	-	-	5,396,120
	622,175,900	672,044,727	571,562,562	2,335,046,689	4,200,829,888
Financial liabilities					
Benefits payable	5,396,120	-	-	-	5,396,120
Other payables	55,616,647	-	-	-	55,616,647
	61,012,767	-	-	-	61,012,767
NET LIQUIDITY GAP	561,163,133	672,044,727	571,562,562	2,335,046,689	4,139,817,121
	=====	=====	=====	=====	=====
30 June 2019					
Financial assets					
Government securities	28,547,161	468,197,066	725,139,543	1,818,280,222	3,040,163,992
Corporate bonds	25,400,000	97,726,120	55,100,000	-	178,226,120
Call and term deposits	160,000,000	-	-	-	160,000,000
Bank balance	6,192,572	-	-	-	6,192,572
	220,139,733	565,923,186	780,239,543	1,818,280,222	3,384,582,684

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (Continued)

Financial liabilities					
Tax payable	(6,446,932)	-	-	-	(6,446,932)
Benefits payable	(28,654,882)	-	-	-	(28,654,882)
Other payables	(47,848,305)	-	-	-	(47,848,305)
	(82,950,119)	-	-	-	(82,950,119)
NET LIQUIDITY GAP	137,189,614	565,923,186	780,239,543	1,818,280,222	3,301,632,565
	=====	=====	=====	=====	=====

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

27 FINANCIAL RISK MANAGEMENT (continued)

d) Fair Value of Financial Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
 - In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible by the Scheme.

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

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

KPC RETIREMENT BENEFITS SCHEME 2006 (D.C.) REGISTERED TRUSTEES
NOTES TO THE FINANCIAL STATEMENT (Continued)

27 FINANCIAL RISK MANAGEMENT (continued)

	Level 1 KShs	Level 2 KShs	Level 3 KShs	Total KShs
30 June 2020				
<i>Held for trading through profit or loss:</i>				
Quoted Equity Investments	1,339,397,815	-	-	1,339,397,815
Unquoted Equity Investment	-	24,160,000	-	24,160,000
Offshore Equity	-	368,154	-	368,154
Corporate Bonds	-	3,115,821,872	-	3,115,821,872
Corporate Bonds	-	39,736,335	-	39,736,335
Call and fixed deposits	-	456,544,644	-	456,544,644
	<hr/>	<hr/>	<hr/>	<hr/>
	1,339,397,815	3,636,631,005	-	4,976,028,820
	=====	=====	=====	=====
30 JUNE 2019				
<i>Held for trading through profit or loss:</i>				
Quoted Equity Investments	1,123,007,299	-	-	1,123,007,299
Unquoted equity investments	-	24,160,000	-	24,160,000
Offshore Equity	-	471,862	-	471,862
Corporate Bonds	-	3,040,162,728	-	3,040,162,728
Corporate Bonds	-	178,226,121	-	178,226,121
Call and fixed deposits	-	160,000,000	-	160,000,000
	<hr/>	<hr/>	<hr/>	<hr/>
	1,123,007,299	3,403,020,711	-	4,526,028,010
	=====	=====	=====	=====

There were no transfers between levels 1, 2 and 3 in the year (2019: none).

KENPIPE Gardens





KENYA PIPELINE COMPANY LIMITED
RETIREMENT BENEFITS SCHEME



CRESCENT BUSINESS CENTRE
Crescent Road off Parklands Road
Opp.MP Shah Hospital, Parklands
P.O. Box 13633 - 00800, Nairobi



+254 0709 740 000
+254 0709 740 015



pensions@kpc.co.ke



www.kpcrbs.com