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Kenya Electricity Generating Company Limited  
ANNUAL REPORT AND ACCOUNTS 1998

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Kenya Electricity Generating Company Limited.

BOARD OF DIRECTORS



Jonathan Mturi



Edwin Wasunna



Crispus Mutitu



Margaret Chemeng'ich



Edward Ambeva

2007/0954



Noor Ali



Michael R Maina



Joseph M Mugwe



Joshua Mwendwa



P T O K'Opiyo



Oreste W Ndirangu



**CORPORATE INFORMATION**

for the year ended 30 June 1998

**Directors** J D Mturi Chairman  
E D Wasunna Managing Director  
C N Mutitu, EBS  
M K Chemeng'ich, EBS, HSC  
M R Maina  
J M Mugwe  
E Ambeva  
M N Ali  
J M Mwendwa

P T O K'Opiyo Alternate to  
M K Chemeng'ich, EBS, HSC  
O W Ndirangu Alternate to  
C N Mutitu, EBS

**Secretary** A H Ali

**Registered**

**Office** Stima Plaza  
Kolobot Road  
P O Box 47936  
Nairobi



**Bankers** Standard Chartered Bank  
(Kenya) Limited  
P O Box 30003, Nairobi

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

**Auditors** Deloitte & Touche  
"Kirungii", Ring Road, Westlands  
P O Box 40092, Nairobi.

**Kenya Electricity Generating Company Limited.**

**M A N A G E M E N T**

**for the year ended 30 June 1998**

**Managing Director** E D Wasunna B. Sc. (Eng.), R. Eng.

**Deputy Managing  
Director** I K Bondet B. Sc. (Eng.) (Hons.)

**Corporate Planning  
Manager and Personal  
Assistant to  
Managing Director** L K Kariuki B. Sc. (Hons)

**Chief Generation  
Manager** N K Gichuki B. Sc. (Hons.), R. Eng., M.I.E.K.

**Chief Projects  
Development Manager** J N Ng'ang'a B. Sc. (Hons.) R. Eng., M.I.E.K.

**Finance Manager** W F Temesi B. Com. (Hons.) CPA (K)

**Human Resources &  
Administration Manager** B M Soy (Mrs.) B. Ed (Hons.) M.Ed (Mgt)

**Information  
Technology Manager** J O Ombongi B. Sc. Electronics, M. Sc. Computer Science

**Communications  
Manager** M Njeru B. A. (Hons), Dip. Mass Com.

**Procurement Manager** G W Muga B. Sc. (Eng)

**Company Secretary** A H Ali LL B (Hons)

## CORPORATE INFORMATION

for the year ended 30 June 1998

**Directors** J D Mturi *Chairman*  
E D Wasunna *Managing Director*  
C N Mutitu, EBS  
M K Chemeng'ich, EBS, HSC  
M R Maina  
J M Mugwe  
E Ambeva  
M N Ali  
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Kenya Electricity Generating Company Limited.

## NOTICE OF MEETING

for the year ended 30 June 1998

NOTICE IS HEREBY GIVEN that the FORTY-SIXTH Annual General Meeting of members will be held at the Registered Office of the company, 8th Floor, Stima Plaza, Phase III, Kolobot Road, Nairobi, on Wednesday, 31st March 1999, at 12.00 noon to transact the Ordinary Business of the Company.

By Order of the Board

A H Ali  
Company Secretary  
Nairobi, Kenya  
3rd March, 1999

A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. To be valid, the form of proxy must be duly completed and must be lodged at the Registered Office of the Company or posted in time to reach there not later than 12.00 noon on Monday, 29th March, 1999.



## CHAIRMAN'S REVIEW

for the year ended 30 June 1998



Jonathan Mturi, Chairman

Kenya Electricity Generating Company Limited (KenGen) was formerly known as Kenya Power Company Limited (KPC). KPC, a wholly Government owned company, was formed in 1954 to purchase power in bulk from Uganda and to develop geothermal resources and other power generating facilities in the country.

In 1994, the Government initiated the reorganisation of the power sector with a view to facilitating the sector's efficient operation and private sector participation. The reorganisation process separated generation function from transmission and distribution.

This is the inaugural Annual Report and Accounts for KenGen since the implementation of the restructuring program.

### General Overview of the Kenyan Economy

The year experienced continued decline in economic performance due to recession in the economy. The real growth rate declined to 1.5% in the year compared to 2.3% and 4.6% in 1997 and 1996 respectively. The decline was due to a combination of natural, socio-economic and financial factors involving the following:

- adverse weather condition and high costs of inputs that constrained production in agriculture through poor yields and reduced capacity utilisation;
- poor state of the country's infrastructure leading to increased maintenance costs;
- shortage of working capital and depressed local investments due to high cost of domestic funds arising from high interest rate charges on credit; and
- reduced inflow of tourists that adversely affected the tourism industry, a principal foreign exchange earner for the country.

## CHAIRMAN'S REVIEW

for the year ended 30 June 1998

This recessionary state of the Kenyan economy impacted adversely on the power sector in terms of decline in sales especially to large commercial and industrial consumers.

Despite the slow growth in demand, the system continued to be constrained by inadequate spare capacity for preventive maintenance and attendance to breakdowns.

### Performance

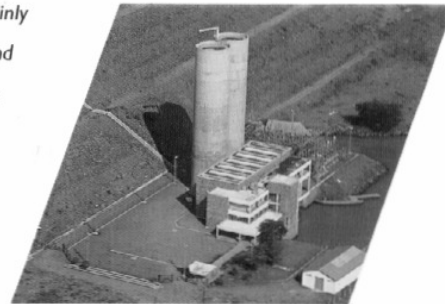
The company sells electricity to The Kenya Power & Lighting Company Limited (KPLC), in bulk and at cost. KPLC is the authorised distributor of electricity in the country. The sale of electricity between the Company and KPLC is based on an ascertained cost formula. This arrangement requires KPLC to meet the Company's operating and administration costs, debt service obligations and development surcharge at cost. The total ascertained cost of a given year constitutes a revenue to the Company in respect of units sold to KPLC. This current arrangement will cease upon execution of a Power Purchase Agreement between the Company and KPLC.

The company sold 3,348 Million kilowatt-hours during the year, compared to 3,481 million kilowatt-hours sold the previous year. This represented a decline of 4% attributed to clearance of a backlog of planned maintenance for major generating stations.

The operating expenditure, which includes electricity purchased from Uganda Electricity Board (UEB), rose from Kshs. 1,968 million in the previous year to Kshs. 2,774 million. The increase, equivalent to 41%, is mainly attributable to increase in cost of UEB purchases and major repairs undertaken on the generating equipment during the year.

### Taxation

The Company is exempted from Corporation Tax. The exemption ceases in January 1999 as per Legal Notice No. 73 of 1998.



Masinga Dam

## CHAIRMAN'S REVIEW

for the year ended 30 June 1998



Kamburu Spillway

### RESTRUCTURING OF THE POWER SECTOR

*Under the restructuring of the power sector program, all power generation assets and related liabilities belonging to TRDC, KPLC, TARDA, and KVDA are to be transferred to KenGen. Transmission and distribution assets and related liabilities belonging to the aforesaid companies are to be transferred to KPLC.*

*Commercial generation of electricity was liberalised, leading to licensing of Independent Power Producers (IPPs). Electricity Regulatory Board was also established, under Electric Power Act, 1997, to inter alia regulate electricity tariffs and license power producers and distributors. The Government has appointed members of the Electricity Regulatory Board (ERB).*

### Asset Separation Study

*To facilitate transfer of assets and liabilities consistent with the new developments in the power sector, the Government awarded the contract for asset separation study to Messrs. Price Waterhouse of UK. The study would recommend ownership of assets and liabilities in the sector. It is scheduled for completion in the next fiscal year.*

### Tariff Study

*In line with the new developments, the Government appointed a consultant, Messrs. Merz and McLellan of UK to update the 1993 Tariff Study and recommend appropriate tariffs applicable to the restructured power industry. The study is scheduled for completion in the next fiscal year.*

*The process of developing a Power Purchase Agreement between KenGen and KPLC is to commence after completion of Asset Separation Study and Tariff Study.*

## CHAIRMAN'S REVIEW

for the year ended 30 June 1998

### INSTITUTIONAL STRENGTHENING

#### PROJECT (ISP)

During the year, KenGen commenced the process of setting up its own computer centre. Major systems such as Integrated Financial Systems, Integrated Logistic Systems and Integrated Human Resources Systems were customised to KenGen requirements.

#### MILLENNIUM BUG PROJECT

In response to the impending millennium bug problem, KenGen commenced the implementation of a project to ensure that all its operations are year 2000 compliant by mid 1999.

### OPERATIONS

#### Hydrology

High rainfall was recorded throughout the Country as a result of the "El Nino" weather phenomenon. Ndula power station recorded the highest annual rainfall of 2096 mm while Turkwel power station recorded the lowest annual rainfall of 910.6 mm. The highest spillage of 1218 cumecs was recorded at Kiambere power station.

#### Kindaruma

Major overhaul on unit 1 and stator rewind were carried out. Annual inspection and repairs were done on unit 2. Circuit Breaker 205 was replaced with an SF<sub>6</sub> Breaker.

#### Gitaru

Generator transformer No. 2 broke down in March 1998. Urgent arrangements were made to procure temporary transformer to facilitate early resumption of operation while procurement for replacement transformers was made. As at the time of compiling this report, the temporary transformer had already been installed (August 1998) and the replacement units are due at site in March 1999. Overhaul work on unit 3 commenced in May 1998.



KenGen Signage

## CHAIRMAN'S REVIEW

for the year ended 30 June 1998



Kindaruma Power Station

### **Olkaria**

Major overhaul was carried out on unit 3.

### **Kipevu**

Boiler 5 was overhauled. Generator circuit breaker for turbine no. 4 was replaced. Boiler 6 air heater ash hopper and the gas exhaust duct were repaired. Turbine no. 6 and boiler 7 were overhauled. Turbine no. 7 was overhauled.

### **Other Stations**

Overhauls and other major repairs were done in Tana and various other stations.

## **DEVELOPMENT**

### **Generation Planning**

The least cost power development plan was updated during the year. The update was done jointly with KPLC using services of Acres International. From the update, Kipevu I-75 MW, Gitaru Unit 3 - 80 MW, Olkaria II- 64 MW, and Sondu Miriu 60 MW were included in the 5-year investment program.

### **Kipevu I -75 MW Diesel Project**

Contract negotiation for the project was initiated in July 1997 and awarded to a Consortium of Mitsubishi Heavy Industries and Mitsubishi Corporation on 1st December, 1997. At the close of the year, all the 6 diesel engines had been manufactured and tested. Assembly of the generators was in progress. The project is expected to be on line by December 1999.

### **Gitaru 3rd Unit-80 MW**

The installation of an 80 MW Unit No. 1 at Gitaru Power Station will provide additional peaking capacity to improve the reliability of supplies from this major power station. The contract for installation of the above unit was awarded to the Consortium of Siemen-Voith of Germany in December 1997. Manufacture of the generating equipment is in



## CHAIRMAN'S REVIEW

for the year ended 30 June 1998

progress. The project is expected to be on line by December 1999.

### **Olkaria II-64 MW Power Project**

Finalisation of tender documents and pre-qualification documents was in progress. Kingston Morrison in association with Kennedy & Donkin and Howard Humphrey were invited for negotiations for supervision of the project during implementation. Award of the contract will be finalised in 1998/99.

The project is proposed to be financed by International Development Association (IDA), European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), and the Company under the Energy Sector Reform and Power Development Project. IDA credit KE- 2966 which funds the Consultancy and other works became effective on 23rd June, 1998. Financing arrangements with other financiers are expected to be concluded in the next fiscal year. The project is expected to be on line by September 2001.

### **Geothermal Resources Development**

By 30th June, 1998, Well-308 had been deepened from 700M to 2200M. Deepening of another Well, OW-801, from 1500M was in progress.

Preparation of tender documents for connection of make up Wells OW-32 & OW-34 was completed. Invitations for proposals for supervision of connection of these wells were sent out to the consultants with a closing date of 29th July, 1998. Connection of the Wells is expected to commence during the third quarter of the next fiscal year.

### **Sondul/Miriu Hydro Power Project**

The contract for Engineering Services for the project was signed with Nippon Koei. The loan agreement, signed with OECF, towards the implementation of phase I became effective in July 1997. Procurement for a contractor for Civil



75 MW Kipevu I Diesel Plant under construction

## CHAIRMAN'S REVIEW

for the year ended 30 June 1998



Kamburu Control Room

Works Lot I-I contract of the project continued. Resettlement and land compensation for the project commenced. The award of contract for Civil Works Lot I-I will be in the next fiscal year. The project is expected to be on line in October 2002.

### **180 MW Ewaso Ngiro Multipurpose Project**

Efforts were on to reactivate the project funding following the signing of Consultancy Agreement Amendment No. 2 of 20/3/97. It is anticipated that disbursements will resume during 1998/99 to enable further site investigations and preparation of detailed design and tender documents.

### **Raising of Masinga Dam and Redevelopment of Tana Power Station**

Feasibility study on the project was completed during the year, with a conclusion that raising of operational level of Masinga dam is technically feasible and economically viable. However, redevelopment of Tana Power Station was found marginally uneconomical.

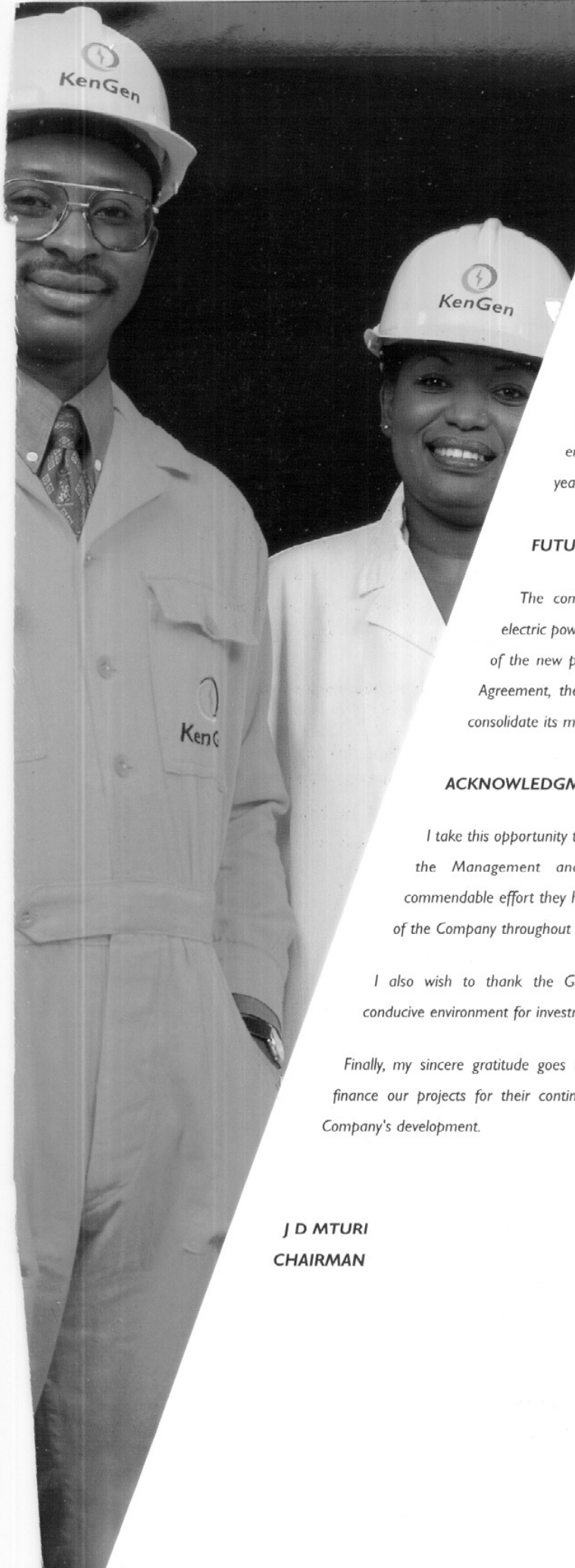
### **Mutonga/Low Grand Falls**

Nippon Koei Company Limited of Japan finalised the feasibility study for the project. Additional environmental impact assessment in the lower reaches of River Tana will have to be carried out prior to commencing detailed design of the project.

## **HUMAN RESOURCES AND TRAINING**

The separation of staff took place smoothly in the early part of the year as a result of the power sector-restructuring program. The staff who transferred to the Company retained all their benefits and years of service rendered to KPLC. By the close of the year staff capacity was 1,438.

Unionisable staff of KenGen continued to be under Kenya Electrical Trades and Allied Workers Union (KETAWU). A



Kenya Electricity Generating Company Limited.

## CHAIRMAN'S REVIEW

for the year ended 30 June 1998

Recognition Agreement between the Company and KETAWU will be entered into in the near future. However, industrial harmony prevailed.

The Company continued training its staff with 496 employees trained locally and internationally during the year under review.

### FUTURE PROSPECTS

The company currently manages about 90% of total electric power generation in Kenya. With the commissioning of the new projects and finalisation of a Power Purchase Agreement, the Company will be able to improve and consolidate its market leadership in power generation.

### ACKNOWLEDGMENT

I take this opportunity to thank my fellow Board Members, the Management and staff of KenGen for the commendable effort they have extended to the operations of the Company throughout the year.

I also wish to thank the Government for creating a conducive environment for investment in the power sector.

Finally, my sincere gratitude goes to all institutions that finance our projects for their continued support to the Company's development.

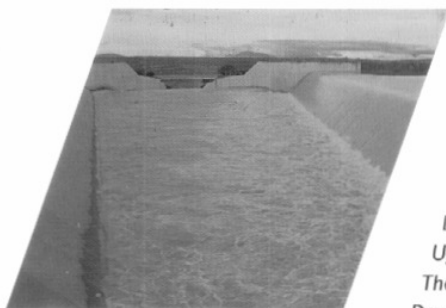
**J D MTURI**  
**CHAIRMAN**



Kiambere Dam

## REPORT OF THE DIRECTORS

for the year ended 30 June 1998



Masinga Spillway

The directors submit their report together with the audited financial statements for the year ended 30 June 1998.

### ACTIVITIES

The principal activity of the company continued to be the generation and sale of electricity to the Authorised Distributor, The Kenya Power and Lighting Company Limited. The company also purchases energy from the Uganda Electricity Board to supplement its production.

The operations, assets and liabilities of Tana River Development Company were merged with those of Kenya Power Company with effect from 1 July 1997 under the terms of an agreement executed on 20 January 1997.

These financial statements present the financial position and results of merged operations of the two companies.

### CHANGE OF NAME

A special resolution was passed during an extraordinary general meeting held on 12 January 1998 to have the name of the Company changed to Kenya Electricity Generating Company Limited (KenGen). The approval of the Registrar of Companies was obtained on 19 January 1998.

### RESULTS

Sh'000

Net income	<u>657,165</u>
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Transferred to reserves as follows:

Revenue reserve	(91,532)
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Capital reserve	
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Reserve and equalisation fund	39,833
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Loan capital redemption fund	708,864
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	<u>657,165</u>
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### DIRECTORS

The present members of the board of directors are shown on page 2.

### AUDITORS

The auditors, Deloitte & Touche, having indicated their willingness, continue in office in accordance with Section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

Secretary  
Nairobi, 1998

## S T A T I S T I C S

POWER STATION	CAPACITY (MW) as at 30/6/98		ENERGY(GW/hr)						
	Installed	Effective	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
<b>Hydro</b>									
Tana (KenGen)	14.4	12.4	72	74	64	78	97	84	75
Wanjii (KenGen)	7.4	7.4	42	62	30	27	51	48	50
Kamburu (TRDC)	91.5	84.0	402	416	420	484	489	445	479
Gitaru (TDRC)	145.0	145.0	811	843	854	703	700	925	816
Kindaruma (TDRC)	40.0	4.0	206	212	216	212	238	230	198
Small Hydros (KPLC)	6.2	5.4	19	24	16	22	29	23	25
Masinga (TARDA)	40.0	40.0	185	177	180	200	225	214	204
Kiambere (TARDA)	144.0	144.0	872	885	889	993	1028	1025	1020
Turkwell (KVDA)	106.0	106.0	166	273	369	376	296	351	383
UEB (Imports)	30.0	0.0	240	273	264	187	149	144	146
<b>TOTAL HYDRO SENT OUT INCLUDING IMPORTS</b>	<b>628.5</b>	<b>584.2</b>	<b>2775.8</b>	<b>3237.4</b>	<b>3302.2</b>	<b>3280.7</b>	<b>3301.6</b>	<b>3487.7</b>	<b>3395.9</b>
<b>THERMAL</b>									
Kipevu (KPLC)	75.5	58.0	75	56	127	201	208	187	189
<b>GEO THERMAL</b>									
Olkaria (KenGen)	45.0	45.0	272	258	248	277	375	378	353
<b>GAS TURBINE</b>									
Fiat-Nairobi South (KPLC)	13.5	12.0	3	2	2	15	58	6	0
JBE-Kipevu (KPLC)	30.0	30.0	0	0	0	30	107	165	178
<b>UNITS SENT OUT</b>	<b>792.5</b>	<b>729.2</b>	<b>3126.0</b>	<b>3553</b>	<b>3679</b>	<b>3804</b>	<b>4050</b>	<b>4224</b>	<b>4117</b>



## Kenya Electricity Generating Company Limited.

8 YEAR FINANCIAL AND  
STATISTICAL RECORD

FOR THE YEARS ENDED	30 June 1991	30 June 1992	30 June 1993	30 June 1994	30 June 1995	30 June 1996	30 June 1997	30 June 1998
Units generated (millions)								
Tana	80	72	75	64	78	97	84	75
Wajir	44	42	62	30	27	51	48	50
Olkaria	298	272	272	261	290	390	393	366
U.E.B (imports)	128	240	274	263	187	149	133	132
Kindaruma	-	-	-	-	-	-	-	198
Gitaru	-	-	-	-	-	-	-	818
Masinga	-	-	-	-	-	-	-	204
Kiambere	-	-	-	-	-	-	-	1,028
Kamburu	-	-	-	-	-	-	-	480
	550	626	683	618	582	687	658	3,351
Units sold (millions)	596	614	668	605	569	671	642	3,333
Average cost of units sold (cents)	123	128	177	216	648	588	338	105
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	sh'000
Revenue from electricity sold	661,711	782,768	1,182,865	1,307,107	3,688,696	3,925,887	2,136,719	3,790,645
Net income / (loss) for the year	63,962	(60,111)	(1,103,617)	938,002	2,994,964	3,211,802	1,862,486	736,511
Funds generated from operations								
Net income / (loss) for the year	63,962	(60,111)	(1,103,617)	938,002	2,994,964	3,211,802	1,862,486	455,511
Depreciation	71,329	104,608	103,725	110,394	106,243	179,229	193,942	231,554
Currency realignment	460,425	448,836	1,802,735	233,922	(96,390)	66,737	199,123	75,464
Amortisation of currency realignment	3,212	3,212	1,606	-	-	-	-	-
	598,928	496,545	804,449	1,282,318	3,004,817	3,457,768	2,255,551	762,529
Capital employed								
Fixed assets less depreciation	3,554,272	4,033,361	5,736,051	6,528,148	6,243,051	6,421,530	6,457,969	7,789,320
Deferred debt	11,243	8,031	1,606	-	-	-	-	-
The Kenya Power & Lighting Co. Ltd	314,082	425,272	537,789	753,738	3,126,044	5,960,942	6,428,835	8,789,318
Net current liabilities	(440,118)	(618,267)	(863,289)	(1,365,288)	(1,222,572)	(1,653,256)	(934,907)	(4,482,486)
	3,439,479	3,848,397	5,412,157	5,916,598	8,146,523	10,729,216	11,951,897	12,096,152
Financed by								
Share capital	152,662	152,662	152,662	152,662	152,662	152,662	152,662	456,085
Reserves	574,874	514,763	(588,854)	349,148	3,344,112	6,555,914	8,418,400	8,800,060
Deferred credit	335,861	307,230	530,978	-	-	-	-	-
Loan capital	2,376,082	2,873,742	5,317,371	5,414,788	4,649,749	4,020,640	3,380,836	2,840,007
	3,439,479	3,848,397	5,412,157	5,916,598	8,146,523	10,729,216	11,951,898	12,096,152
Capital Expenditure	818,071	583,697	1,806,415	902,490	(178,854)	357,707	230,391	665,348
Income for the year as a percentage of average capital employed (%)	0.15	(1.65)	(23.83)	16.56	42.59	34.05	16.42	3.80

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Kiambere (TARDA)	144.0	144.0	872	885	889	993	1028	1025	1020
Turkwell (KVDA)	106.0	106.0	166	273	369	376	296	351	383
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<b>GAS TURBINE</b>									
Fiat-Nairobi South (KPLC)	13.5	12.0	3	2	2	15	58	6	0
JBE-Kipevu (KPLC)	30.0	30.0	0	0	0	30	107	165	178
<b>UNITS SENT OUT</b>	<b>792.5</b>	<b>729.2</b>	<b>3126.0</b>	<b>3553</b>	<b>3679</b>	<b>3804</b>	<b>4050</b>	<b>4224</b>	<b>4117</b>

Kenya Electricity Generating Company Limited.

8 YEAR FINANCIAL AND  
STATISTICAL RECORD

FOR THE YEARS ENDED	30 June 1991	30 June 1992	30 June 1993	30 June 1994	30 June 1995	30 June 1996	30 June 1997	30 June 1998
Units generated (millions)								
Tana	80	72	75	64	78	97	84	75
Wajir	44	42	62	30	27	51	48	50
Olkaria	298	272	272	261	290	390	393	366
U.E.B (imports)	128	240	274	263	187	149	133	132
Kindaruma	-	-	-	-	-	-	-	198
Gitaru	-	-	-	-	-	-	-	818
Masinga	-	-	-	-	-	-	-	204
Kiambere	-	-	-	-	-	-	-	1,028
Kamburu	-	-	-	-	-	-	-	480
	550	626	683	618	582	687	658	3,351
Units sold (millions)	596	614	668	605	569	671	642	3,333
Average cost of units sold (cents)	123	128	177	216	648	588	338	105
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	sh'000
Revenue from electricity sold	661,711	782,768	1,182,865	1,307,107	3,688,696	3,925,887	2,136,719	3,790,645
Net income / (loss) for the year	63,962	(60,111)	(1,103,617)	938,002	2,994,964	3,211,802	1,862,486	736,511
Funds generated from operations								
Net income / (loss) for the year	63,692	(60,111)	(1,103,617)	938,002	2,994,964	3,211,802	1,862,486	455,511
Depreciation	71,329	104,608	103,725	110,394	106,243	179,229	193,942	231,554
Currency realignment	460,425	448,836	1,802,735	233,922	(96,390)	66,737	199,123	75,464
Amortisation of currency realignment	3,212	3,212	1,606	-	-	-	-	-
	598,928	496,545	804,449	1,282,318	3,004,817	3,457,768	2,255,551	762,529
Capital employed								
Fixed assets less depreciation	3,554,272	4,033,361	5,736,051	6,528,148	6,243,051	6,421,530	6,457,969	7,789,320
Deferred debt	11,243	8,031	1,606	-	-	-	-	-
The Kenya Power & Lighting Co. Ltd	314,082	425,272	537,789	753,738	3,126,044	5,960,942	6,428,835	8,789,318
Net current liabilities	(440,118)	(618,267)	(863,289)	(1,365,288)	(1,222,572)	(1,653,256)	(934,907)	(4,482,486)
	3,439,479	3,848,397	5,412,157	5,916,598	8,146,523	10,729,216	11,951,897	12,096,152
Financed by								
Share capital	152,662	152,662	152,662	152,662	152,662	152,662	152,662	456,085
Reserves	574,874	514,763	(588,854)	349,148	3,344,112	6,555,914	8,418,400	8,800,060
Deferred credit	335,861	307,230	530,978	-	-	-	-	-
Loan capital	2,376,082	2,873,742	5,317,371	5,414,788	4,649,749	4,020,640	3,380,836	2,840,007
	3,439,479	3,848,397	5,412,157	5,916,598	8,146,523	10,729,216	11,951,898	12,096,152
Capital Expenditure	818,071	583,697	1,806,415	902,490	(178,854)	357,707	230,391	665,348
Income for the year as a percentage of average capital employed (%)	0.15	(1.65)	(23.83)	16.56	42.59	34.05	16.42	3.80



# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 1998

## 14 DEVELOPMENT SURCHARGE

According to the terms of the financing plan of the Olkaria Geothermal Project, The Kenya Power & Lighting Company Limited has agreed to finance part of phase one to three and exploratory drilling of the project by way of a development surcharge. The estimated total amount required was Sh8,608,522 which was achieved on 30.06.97, hence no development surcharge was provided for 1998.

	1998 Sh'000	1997 Sh'000
Total estimated development surcharge	<u>8,608,522</u>	<u>8,608,522</u>
Incurred at 1 July	8,608,522	7,379,646
Incurred during the year	<u>                    </u>	<u>1,228,876</u>
Incurred at 30 June	<u>8,608,522</u>	<u>8,608,522</u>

## 15 CAPITAL COMMITMENTS

	1998 Sh'000	1997 Sh'000
Authorised but not contracted for	33,881,873	26,033,775
Contracted but not provided for in the accounts	<u>2,691,983</u>	<u>31,589</u>
	<u>36,573,856</u>	<u>26,065,364</u>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 1998

	1998 Sh'000	1997 Sh'000
<b>13</b>	<b>NOTES TO THE CASH FLOW STATEMENT</b>	
(a)	Reconciliation of operating income to net cash inflow from operating activities	
Operating income	735,511	2,136,756
Depreciation	231,554	246,033
Increase in stocks	(190,979)	(171,922)
Decrease/(Increase) in amounts due from The Kenya Power & Lighting Company Limited	756,073	(518,206)
Increase/(decrease) in debtors	(384,418)	20,099
Increase/(decrease) in contract creditors	70,190	(20,591)
Decrease in other creditors	(43,723)	(349,576)
Increase in treasury creditors	223,419	
Exchange gain capitalised	(36,692)	(879)
	<u>1,360,935</u>	<u>1,341,714</u>
Net cash inflow from operating activities		
(b)	Analysis of changes in cash and cash equivalents	
Balance at the end of the year	4,180	(85,737)
Balance at the beginning of the year	(85,737)	(66,345)
	<u>89,917</u>	<u>(19,392)</u>
Increase/(decrease) in cash and cash equivalent		



# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 1998

## 14 DEVELOPMENT SURCHARGE

According to the terms of the financing plan of the Olkaria Geothermal Project, The Kenya Power & Lighting Company Limited has agreed to finance part of phase one to three and exploratory drilling of the project by way of a development surcharge. The estimated total amount required was Sh8,608,522 which was achieved on 30.06.97, hence no development surcharge was provided for 1998.

	1998 Sh'000	1997 Sh'000
Total estimated development surcharge	<u>8,608,522</u>	<u>8,608,522</u>
Incurred at 1 July	8,608,522	7,379,646
Incurred during the year	<u>                    </u>	<u>1,228,876</u>
Incurred at 30 June	<u>8,608,522</u>	<u>8,608,522</u>

## 15 CAPITAL COMMITMENTS

	1998 Sh'000	1997 Sh'000
Authorised but not contracted for	33,881,873	26,033,775
Contracted but not provided for in the accounts	<u>2,691,983</u>	<u>31,589</u>
	<u>36,573,856</u>	<u>26,065,364</u>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 1998

	1998 Sh'000	1997 Sh'000
<b>13</b>	<b>NOTES TO THE CASH FLOW STATEMENT</b>	
(a)	Reconciliation of operating income to net cash inflow from operating activities	
	Operating income	2,136,756
	Depreciation	246,033
	Increase in stocks	(171,922)
	Decrease/(Increase) in amounts due from The Kenya Power & Lighting Company Limited	(518,206)
	Increase/(decrease) in debtors	20,099
	Increase/(decrease) in contract creditors	(20,591)
	Decrease in other creditors	(349,576)
	Increase in treasury creditors	(879)
	Exchange gain capitalised	
	Net cash inflow from operating activities	1,341,714
(b)	Analysis of changes in cash and cash equivalents	
	Balance at the end of the year	(85,737)
	Balance at the beginning of the year	(66,345)
	Increase/(decrease) in cash and cash equivalent	(19,392)

NOTES TO THE FINANCIAL  
STATEMENTS (continued)

for the year ended 30 June 1998

## 11 RESERVES

	Capital Sh'000	Reserve and equalisation fund Sh'000	Loan capital redemption fund Sh'000	Total Sh'000
At 1 July 1997	8,579,722	216,356	(377,678)	8,418,400
TRDC Reserves		(396,507)		(396,507)
At 1 July 1997 - as restated	8,579,722	(180,151)	(377,678)	8,021,893
Write back of 1994 and 1995 excess set off against ascertained costs		(33,790)		(33,790)
Interest for the year		73,623		73,623
Excess of redemption over depreciation for the year			633,400	633,400
Gain on exchange			75,464	75,464
TRDC'S share capital		120,002		120,002
Loss for the year		(91,532)		(91,532)
At 30 June 1998	8,579,722	(111,848)	331,186	8,799,060

## 12 LOAN CAPITAL

	1998 Sh'000	1997 Sh'000
7.95% International Bank for Reconstruction and Development 1985 / 1999 (US\$ 5,028,788.55)	299,175	509,357
8.0% European Investment Bank 1987 / 97		39,995
10.93% International Bank for Reconstruction and Development 1987 / 1999 (US\$ 1,612,467.00)	95,987	142,501
3.0% The Kenya Power & Lighting Co. Ltd. 1990 / 99 (US\$2,717,010)	161,738	221,912
(1% & 10%) International Development Association Subsidiary Credit 1994 / 2004 (US\$ 13,922,556.77)	828,780	808,622
(7.5%) International Development Association 1996 / 2008 (US\$ 26,453,261.93)	1,574,707	2,148,422
2.6% Overseas Economic Cooperation Fund NO. P20KE 2005/2025(Jpy 717,337,331)	301,425	20,257
2.3%-Overseas Economic Cooperation Fund No KE P212005/20025(Jpy 67,603,632)	28,407	
8.0% International Bank for Reconstruction and Development 1979/2000	843,836	1,175,391
8.5% Government of Kenya Gitaru 1979/2000	10,581	12,446
	4,144,636	5,078,903
Less amount payable within one year	(1,304,629)	(873,802)
	2,840,007	4,205,101
All loans are guaranteed by the Government of Kenya		

NOTES TO THE FINANCIAL  
STATEMENTS (continued)

for the year ended 30 June 1998

	1998 Sh'000	1997 Sh'000
<b>7 DEBTORS</b>		
Ministry of Energy	78,501	78,501
Others	384,418	
	<u>462,919</u>	<u>78,501</u>
<b>8 TREASURY CREDITORS</b>		
This represents a loan previously due from TRDC to the Government of Kenya. The liability was assumed by KenGen as a result of the merger between KPC and TRDC.		
	1998 Sh'000	1997 Sh'000
<b>9 OTHER CREDITORS</b>		
Interest accrued	716,349	649,521
Others	206,234	249,957
	<u>922,583</u>	<u>899,478</u>

Included in the creditors is an amount of Sh 6,256,086 due to the income tax department being withholding tax in respect of withdrawals from various contractors in respect of the Eburru project. The amount is recoverable from the Government and is included in debtors.

	1998 Sh'000	1997 Sh'000
<b>10 SHARE CAPITAL</b>		
Authorised:		
25 000 000 (1997-7,800,100) ordinary shares of Sh 20 each	<u>500,000</u>	<u>156,002</u>
Issued and fully paid:		
22,804,241 (1997-7,633,100) ordinary shares of Sh 20 each	<u>456,085</u>	<u>272,664</u>

The authorised share capital of the company was increased during the year to Sh500,000,000 (1997-156,002,000)

Under the IDA credit agreement a portion of the loan amounting to US\$8,671,624 was to be made available for conversion as Kenya Government equity contribution in KPC.

An amount of Sh303,422,820 has been transferred to equity by issue of 15,171,141 ordinary shares of Sh20 each and the share certificate issued on 3rd August 1998. No additional share capital has been issued to the government in respect of shareholding in TRDC. An amount of Sh120,002,000, being TRDC share capital has been written back to the reserve and equalisation fund.



NOTES TO THE FINANCIAL  
STATEMENTS (continued)

for the year ended 30 June 1998

	1998 Sh'000	1997 Sh'000			
<b>4 OPERATING INCOME</b>					
The operating income is arrived at after charging:					
Operating and administration expenses	1,859,556	1,473,685			
Electricity purchased from Uganda Electricity Board	585,257	(66,038)			
Depreciation	231,554	246,033			
Directors' remuneration: fees	1,020	80			
Others	3,458	1,729			
Auditors' remuneration	1,754	1,800			
<b>5 INTEREST</b>	1998 Sh'000	1997 Sh'000			
Payable on long-term borrowings	(227,433)	(225,392)			
Receivable on reserve and equalisation fund investments	73,623	68,208			
<b>6 FIXED ASSETS</b>					
	Land and buildings Sh'000	Transmission lines Sh'000	Plant and machinery Sh'000	Furniture, equipment and others Sh'000	Total Sh'000
<b>COST</b>					
At 1 July 1997	1,572,526	332,229	2,638,789	877,605	5,421,149
At 30 June 1998	1,572,526	332,229	2,638,789	877,605	5,421,129
<b>DEPRECIATION</b>					
At 1 July 1997	633,908	223,098	1,015,989	308,469	2,181,464
Charge for the year	46,561	7,556	108,947	68,490	231,554
At 30 June 1998	680,469	230,654	1,124,936	376,959	2,413,018
<b>NET BOOK VALUE</b>					
At 30 June 1998	892,057	101,575	1,513,853	500,646	3,008,131
Work in progress					4,781,189
					7,789,320
30 June 1997	938,618	109,131	1,622,800	569,136	3,239,685
Work in progress					4,115,841
					7,355,526

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 1998

## 2 MERGER WITH TRDC

The operations of Tana River Development Company (TRDC) were merged with those of Kenya Power Company Limited (KPC) with effect from 1 July 1997 under the terms of an agreement executed on 20 January 1997. Both companies are wholly owned by the Government of Kenya.

These financial statements present the financial position and the results of the merged operations. The prior year comparatives in the balance sheet and the profit and loss account have been restated to include the combined results and financial position of the two companies.

The net assets of each company at the date of the merger and the prior year results are:

	KPC Sh'000	TRDC Sh'000
Net income/(loss) for the year ended 30 June 1997	1,862,486	589,227
Net assets(accumulated deficit) at 30 June 1998	8,975	(276,505)
Financed by:		
Share Capital	456	120,002
Reserves	8,519	(396,507)
	8,975	(276,505)

The balance of Sh 276,505,000 being the deficit on the value of net assets acquired on the merger with TRDC as represented by the deficit in TRDC's reserves as at 1 July 1997 has been written off to the reserve and equalisation fund.

## 3 REVENUE

Revenue represents the total ascertained cost for the year of 3,347,740,562 kilowatt-hours (1997 - 3,480,876,978 kilowatt- hours) supplied to the Authorised Distributor resulting in a cost of 1.048 cents per kilowatt- hour (1997 - 1.179 cents per kilowatt-hour) and comprises:

	1998 Sh'000	1997 Sh'000
Operating and administration expenses	1,865,791	1,787,905
Electricity purchased from Uganda Electricity Board	585,257	(66,038)
Interest, excluding interest on reserve and equalisation fund investments (Note 5)	227,433	225,392
Reserve and equalisation fund (Note 11)	(33,790)	(41,136)
Depreciation (Note 4)	231,554	246,033
Excess of debt redemption over depreciation (Note 11)	633,400	723,624
Development surcharge (Note 14)		1,228,876
	3,509,645	4,104,656

**NOTES TO THE FINANCIAL  
STATEMENTS (continued)**

for the year ended 30 June 1998

**I ACCOUNTING POLICIES (Continued)**

**TAXATION**

The Company is exempt from Kenya Corporation Tax.

**DEFERRED INCOME**

The Company provides for exchange differences that are recoverable in full from the Authorised Distributor when the differences are realised. The future recoveries are not included in the accounts until the repayments are made.

**GEOHERMAL ASSETS CAPITALISATION**

All productive wells are capitalised when connected and are depreciated over their estimated useful lives. This is presently estimated to be fifteen years from the date of commercial operation.

The cost of unproductive wells is transferred to the Revenue Account in the year in which they are certified complete but unproductive. Where a well ceases to be productive before the end of its estimated useful life, the net book value of the well is charged to the Revenue Account in the year the well ceases to be productive.

All other geothermal assets are depreciated in accordance with the rates set out in the Electric Power Act.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 1998

### I ACCOUNTING POLICIES

#### BASIS OF ACCOUNTING

The company prepares its financial statements on the historical cost basis of accounting.

#### REVENUE

Revenue represents the ascertained cost of electrical energy supplied to the Authorised Distributor computed in accordance with Nairobi and Western Kenya (Bulk Supply) Agreement and the Supply License No 2.

#### INTEREST

During the period of construction of a project, the related interest charges are capitalised as part of the cost of the project.

#### STOCKS

Consumable stocks are valued at average purchase cost less provision for obsolescence.

#### DEPRECIATION

According to the terms of the Bulk Supply License No 2, the company is not required to provide for depreciation but instead is required to set aside an amount each year to the Loan Capital Redemption Fund equal to the amount of loans and debentures repaid in the year. In order to represent the accounts on a conventional basis and to comply with the reporting requirements of the World Bank in respect of its loans to the company, depreciation is provided for but only the excess or deficit of debt redemption over depreciation charge for the year is transferred to Loan Capital Redemption Fund. The accumulated provision for depreciation and the balance on the Loan Capital Redemption Fund, therefore, represent the amounts required to be provided for under the terms of the Bulk Supply License No 2.

Depreciation is provided in accordance with the requirements of the Electric Power Act. This writes down the cost of the fixed assets to residual values by equal annual installments over their estimated useful lives.

#### FOREIGN CURRENCIES

All balances in foreign currencies at the Balance Sheet date are translated at the rates of exchange ruling on that date. During the period of construction of a project, gains and losses on foreign loan currency realignments are capitalised as part of the cost of the project. Gains and losses arising from the currency realignments of foreign loan capital relating to completed project are transferred to reserves and are recoverable from the Authorised Distributor as and when the loans are redeemed.

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## CASH FLOW STATEMENT

for the year ended 30 June 1998

	Note	1998 Sh'000	1997 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	13(a)	<u>1,360,935</u>	<u>1,341,714</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		73,623	68,208
Interest paid		<u>(160,605)</u>	<u>(246,320)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(86,982)</u>	<u>(178,112)</u>
INVESTING ACTIVITIES			
Additions to fixed assets - Work in Progress		<u>(665,348)</u>	<u>(247,625)</u>
NET CASH INFLOW BEFORE FINANCING		<u>608,605</u>	<u>915,977</u>
FINANCING ACTIVITIES			
Loans Repaid		(864,955)	(969,657)
Loans Advanced		<u>346,267</u>	<u>34,288</u>
NET CASH OUTFLOW FROM FINANCING		<u>(518,688)</u>	<u>(935,369)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13(b)	<u>89,917</u>	<u>(19,392)</u>

## Kenya Electricity Generating Company Limited.

## B A L A N C E S H E E T

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	Note	1998 Sh'000	1997 Sh'000
FIXED ASSETS	6	<u>7,789,320</u>	<u>7,355,526</u>
CURRENT ASSETS			
Stocks		518,031	327,052
Debtors	7	462,919	78,501
The Kenya Power & Lighting Company Limited		8,508,318	9,264,391
Bank and cash balances		<u>4,180</u>	<u>7</u>
		<u>9,493,448</u>	<u>9,669,951</u>
CURRENT LIABILITIES			
Treasury creditors	8	2,886,442	2,663,023
Contract creditors		73,962	3,772
Other creditors	9	922,583	899,478
Loans repayable within one year	12	1,304,629	873,802
Bank Overdraft		<u></u>	<u>85,744</u>
		<u>5,187,616</u>	<u>4,525,819</u>
NET CURRENT ASSETS		<u>4,305,832</u>	<u>5,144,132</u>
		<u>12,095,152</u>	<u>12,499,658</u>
Financed by:			
SHARE CAPITAL	10	<u>456,085</u>	<u>272,664</u>
RESERVES	11	<u>8,799,060</u>	<u>8,021,893</u>
SHAREHOLDERS' FUNDS		<u>9,255,145</u>	<u>8,294,557</u>
LOANS	12	<u>2,840,007</u>	<u>4,205,101</u>
		<u>12,095,152</u>	<u>12,499,658</u>

The financial statements on pages 16 to 26 were approved by the board of directors on 26th November 1998 and were signed on its behalf by:

J D Mturi            )  
E D Wasunna        )     Directors

## REVENUE ACCOUNT

for the year ended 30 June 1998

	Note	1998 Sh'000	1997 Sh'000
REVENUE	3	3,509,645	4,104,656
OPERATING EXPENSES	4	<u>2,774,134</u>	<u>1,967,900</u>
OPERATING INCOME		735,511	2,136,756
EXCHANGE GAINS/(LOSSES)	11	75,464	472,141
INTEREST RECEIVABLE	5	73,623	68,208
INTEREST PAYABLE	5	<u>(227,433)</u>	<u>(225,392)</u>
NET INCOME FOR THE YEAR		<u>657,165</u>	<u>2,451,713</u>
Transfer to reserves:			
CAPITAL RESERVE	11		1,228,876
RESERVE AND EQUALISATION FUND	11	(51,699)	27,072
LOAN CAPITAL REDEMPTION FUND	11	<u>708,864</u>	<u>1,195,765</u>
		<u>657,165</u>	<u>2,451,713</u>

Kenya Electricity Generating Company Limited.

**REPORT OF THE AUDITORS TO THE  
MEMBERS OF THE KENYA ELECTRICITY  
GENERATING COMPANY LIMITED**

**for the year ended 30 June 1998**

We have audited the financial statements on pages 16 to 26 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation.

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, comply with the Companies Act and give a true and fair view of the company's state of affairs as at 30 June 1998 and of its net income and cash flows for the year ended on that date.

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