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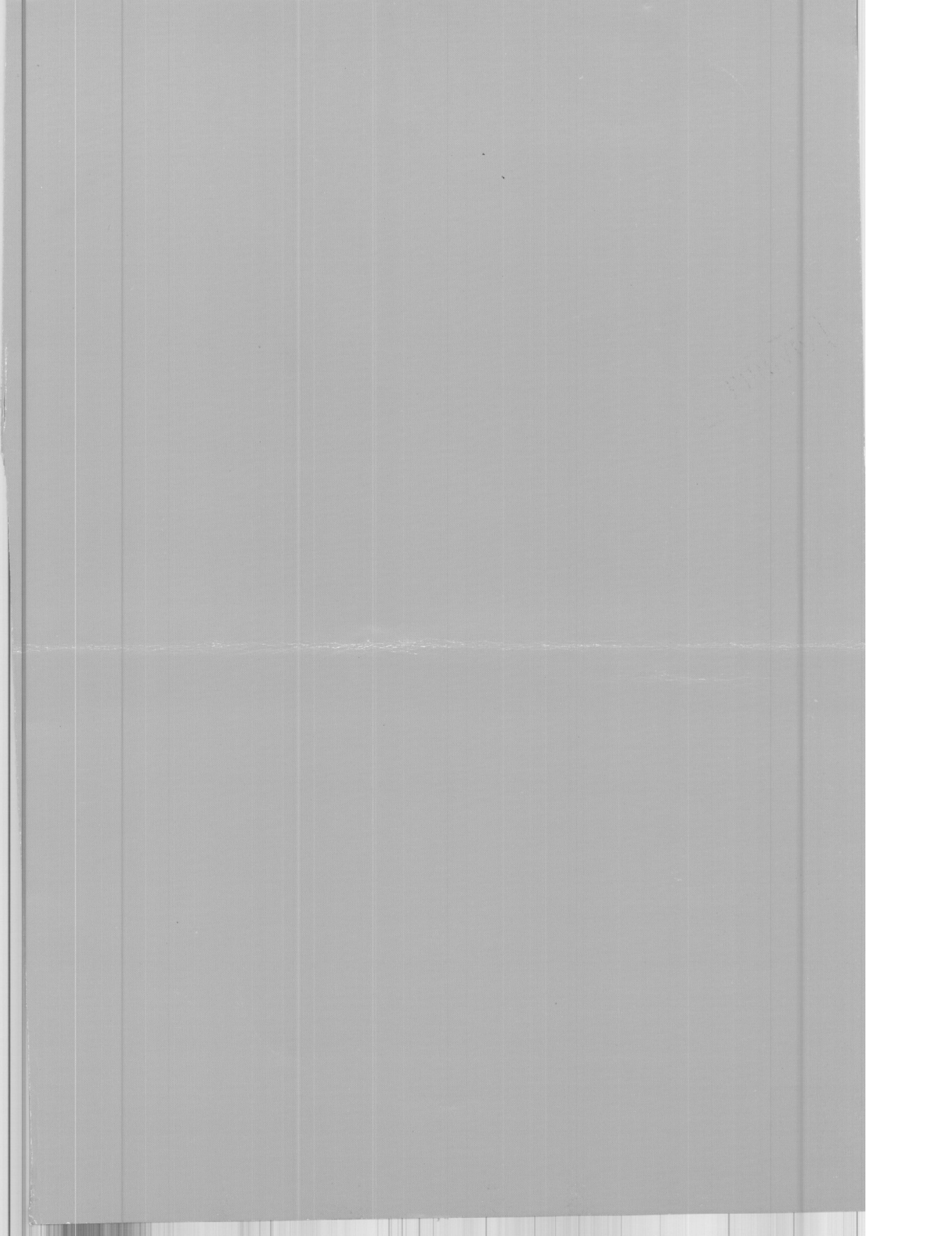
ANNUAL REPORT AND ACCOUNTS 1999

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KenGen
Energy for the nation.

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1. Kengen -- Periodical
2. Electric Utilities -- Kenya -- Periodical

Board of Directors



Jonathan Mturi



Edwin Wasunna



Mwanyengela Ngali



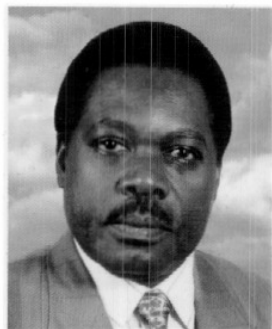
Martin Oduor-Otieno



Joshua Mwendwa



Edward Cheruiyot



Edward Ambeva



Joseph M Mugwe



Noor Ali



Michael R Maina



Nelson Kimani



Oreste W Ndirangu

2007/0955

Corporate Information

Directors	J D Mturi	Chairman
	E D Wasunna	Managing Director
	M Ngali	
	M Oduor Otieno	
	J M Mugwe, SS	
	J Mwendwa	
	Dr E Ambeva	
	N Ali	
	M R Maina	
	E K Cheruiyot	

O W Ndirangu	Alternate to M Ngali
N W Kimani	Alternate to M Oduor-Otieno

Secretary	A H Ali
-----------	---------

Registered Office	Stima Plaza Kolobot Road P. O. Box 47936 Nairobi
-------------------	---

Bankers	Standard Chartered Bank (Kenya) Limited Harambee Avenue Branch P.O. Box 30003 Nairobi
---------	--

Co-operative Bank of Kenya Limited Stima Plaza Kolobot Road P.O. Box 48231 Nairobi

Auditors	Deloitte and Touche "Kirungii", Ring Road Westlands P.O. Box 40092 Nairobi
----------	--



KenGen's Registered Office:

*Stima Plaza
Kolobot Road
Parklands
Nairobi.*

Management



Mesco Power Station, one of the old Mini-hydros set during pre-colonial period, but still generating electricity.

Managing Director	E. D. WASUNNA, BSc. (Eng.), R. Eng.
Deputy Managing Director	I. K. BONDET, BSc. (Eng.) (Hons.)
Corporate Planning Manager and Personal Assistant to Managing Director	L. K. KARIUKI, BSc. (Hons.)
Chief Generation Manager	N. K. GICHUKI, BSc. (Hons.), R. Eng., M.I.E.K.
Chief Projects Development Manager	J. N. NG'ANG'A, BSc. (Hons.) R. Eng., M.I.E.K.
Company Secretary	A. H. ALI, LL.B (Hons.)
Finance Manager	W. F. TEMESI, BCom. (Hons.) CPA (K)
Human Resources & Administration Manager	B. M. SOY (MRS.), BEd (Hons.) MEd (Mgt)
Information Technology Manager	J. O. OMBONGI, BSc. Electronics, MSc. Computer Science.
Communications Manager	M. NJERU, B.A. (Hons.), Dip. Mass Com.
Procurement Manager	G. W. MUGA, BSc. (Eng.)



Notice of Meeting

Notice is hereby given that the forty-seventh

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, 23rd February 2000, at 12:00 noon to transact the Ordinary Business of the Company.

By Order of the Board.

A H ALI
Company Secretary,
Nairobi, Kenya
2nd February, 2000

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/her. 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, 21st February 2000.

Chairman's Review

For the Year Ended 30th June 1999



Jonathan Mturi, Chairman

"Despite the depressed economy as detailed below in my general overview of the Kenyan Economy, 1999 results reflect steady progress in building the value of the Government's investment in KenGen."

I am pleased to submit KenGen's Annual Report, covering the financial year ended 30th June 1999.

Despite the depressed economy as detailed below in my general overview of the Kenyan Economy, 1999 results reflect steady progress in building the value of the Government's investment in KenGen.

General Overview of the Kenyan Economy

The period under review was characterised by a further slow-down in economic activities and stagnation in investment. Agriculture registered a marginal growth of 1.5% while Manufacturing, Financial, Trade and Tourism sectors were adversely affected by the state of the economy.

Investment decisions were held in abeyance as a result of budgetary cuts, poor infrastructure, and reduced donor funding.

Annual inflation declined from 7.4% at the beginning of the fiscal year to 2.1% in June 1999, due to improvement in supply of basic food items and prudent monetary expansion policies by Central Bank of Kenya.

The shilling exchange rate averaged Shs. 60 to the US dollar in the first half of the year and weakened in the second half, against all the major hard currencies, to close at Shs.73 to the US dollar.

The depreciation of the shilling was due to the decline in export receipts from tourism, horticulture, tea and coffee in addition to withdrawal of short-term capital following the decline in interest rates on financial instruments involving treasury bills and bonds.

In spite of the depressed growth in the economy, the demand for power continued to grow. However, the generation system continued to experience energy and capacity shortfall.

Financial Results

Revenue

Revenue representing the total ascertained cost for the year increased from Shs 3,510 million to Shs 7,408 million. The rise

Chairman's Review

For the Year Ended 30th June 1999

in revenue is attributed to increased operations after KenGen took over management of Kipevu and Turkwel Power Stations previously under The Kenya Power and Lighting Company Limited (KPLC).

The ascertained cost principle requires that KPLC reimburses KenGen for all costs incurred during the year. These costs include recurrent expenses, capital expenditure, debt service and other obligations. This is the last time we are preparing accounts under this principle as the Company is expected to establish a commercial relationship with KPLC under an Interim Power Purchase Agreement.

Operating Costs

Operating costs increased from Shs 2,774 million to Shs 6,362 million primarily due to expenditure, in respect of fuel cost for Kipevu thermal plant and energy purchases from Turkwel, previously not incurred by KenGen.

Foreign Exchanges Expenses

The foreign exchange losses for the year amounted to Shs 679 million compared to a gain of Shs 75 million, the previous year. The increase of Shs 754 million in losses was attributed to the weakening of the shilling against the major foreign currencies in which most of our loan capital is denominated.

Interest payable on long term loans fell from Shs 227 million to Shs.178 million due to a reduction in principal loan balances.

Net income before tax for the year fell from Shs 657 million to Shs 270 million mainly due to the foreign exchange losses incurred.

Taxation

Exemption from Corporation Tax was revoked with effect from 1st January 1999, as per Legal Notice No. 73 of 1998.

Corporation Taxation computed for the six months was Shs 56 million.

After provision for Corporation Tax, the retained profit of Shs 214 million will be transferred to reserves.

During the year the Company paid to the Government a sum of Shs. 838 million in respect of various taxes and duties.



*Masinga Power
Station Intake.*

Chairman's Review

For the Year Ended 30th June 1999



Gitaru Power Station intake: A 80 MW third unit has been commissioned bringing the station's installed capacity to 225 MW, the largest in Eastern Africa Region.

Cash flow

Net cash in-flow from operating activities was Shs 5,298 million compared to Shs 1,361 million the previous year. The increase of Shs 3,937 million was mainly due to increased receipts from KPLC for Development Surcharge and increase in creditors balance due to increased activity on capital projects. Net cash inflow from financing activities, on the other hand, was Shs 1,516 million compared to Shs 519 million the previous year, an increase of Shs 997 million. The increase was a result of more disbursements from various multi-lateral and bilateral funding agencies for the on-going major projects at Olkaria II, Kipevu I and Sondu Miriu.

Net cash outflow on investment was Shs 6,617 million compared to Shs 665 million the previous year, an increase of Shs 5,952 million. This is due to increased activity on capital projects.

Capital Investment

The Capital expenditure for the year was Shs 6,617 million incurred on the following projects: Kipevu I Diesel Plant - Shs 4,402 million, Gitaru 3rd Unit - Shs 767 million, Sondu Miriu Hydro Power- Shs 611 million, Olkaria II- Shs 184 million, Ewaso Ngiro Hydro Power- Shs 27 million and others including Geothermal Resource Assessment- Shs 626 million. This brings the total cumulative capital investment of the Company to 16,819 million.

Restructuring of the power sector

The restructuring of the power sector continued during the year.

Asset Separation Study

Messrs. Price WaterhouseCoopers of UK submitted the Asset Separation Report in May 1999 with the values denominated in June 1997 prices.

The report recommended the formation of a Management Implementation Team (MIT) to oversee the transfer. Consequently, MIT was formed with representatives from the Ministry of Energy, Treasury, Ministry of Rural Development, Attorney General's Chambers, Electricity Regulatory Board (ERB), Tana and Athi River Development Authority (TARDA), Kerio Valley Development Authority (KVDA), KenGen and KPLC.

Chairman's Review

For the Year Ended 30th June 1999

MIT, co-ordinated by the Ministry of Energy, is updating the asset values to June 1999 prices to accommodate foreign exchange fluctuations, depreciation for the expired period, and any movements to date. The final amount due to Government of Kenya resulting from KenGen taking over more assets than liabilities is expected to be converted into Share Capital. The transfer is likely to be finalised in 1999/2000.

Tariff Study

Messrs. Merz and McLellan of UK were appointed as consultants by the Government to update the 1993 Tariff Study and recommend appropriate tariffs applicable to the restructured power industry. The consultant submitted the final report in April 1999. Thereafter an interim Power Purchase Agreement (PPA) between KPLC and KenGen was negotiated and submitted to ERB for approval. The PPA was expected to be operational from 1st August 1999 following the approval by ERB.

In the meantime, procurement process to select a consultant to develop a fully termed PPA between KenGen and KPLC will commence in the fiscal year 1999/2000.

Institutional Strengthening Project (ISP)

During the year KenGen completed the set-up of its computer centre. The process of setting up Wide Area Networking (WAN), which will allow power stations to access the computer centre on-line, commenced during the year. Implementation of the major systems like Integrated Financial Systems, Integrated Logistic Systems, and Integrated Human Resources Systems was finalised.

Year 2000 Readiness

The implementation of the Millennium Bug Project continued during the year. A complete inventory of all equipment and systems that process date related data was compiled. Areas covered include embedded systems in the power plants, telecommunication equipment, application servers, desktop personal computers, application software and data and networks.

The compiled inventory was checked for year 2000 related problems and certified to be compliant.

KenGen also checked on its main suppliers of equipment and services to ensure they were addressing the year 2000 bug problem. KenGen and KPLC also worked to ensure compliance



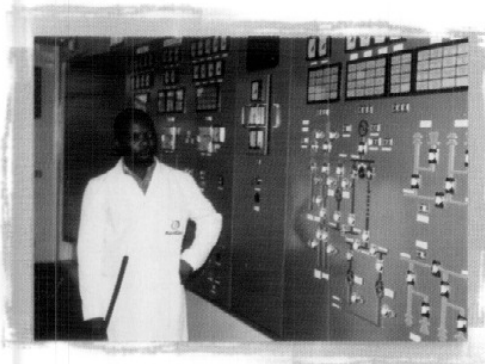
*Mr. E. Wasunna (left),
I. Bondet (centre),
and W. Temesi
during the opening of
OG 103 and
OG 105 Tenders.*

Chairman's Review

For the Year Ended 30th June 1999

of the power industry. KenGen has now embarked on developing emergency preparedness plans to be put in place on the roll-over date of 31st December 1999.

Operations



Control panels of Turkwel Power Station in West Pokot. The station has an installed capacity of 106 MW.

Hydro Stations

The year was a dry one but due to the effects of the El Nino, experienced in the previous year, it did not materially affect hydropower output, which registered a marginal increase from 3,258 million units in 1997/98 to 3,275 million units in 1998/99. The increase is attributed to improved plant availability.

Kindaruma

Unit 1 runner blade seals are due for replacement to normalise the consumption of governor oil.

Gitaru

Unit 3 was overhauled during the year while a replacement transformer for unit 2 was commissioned in March 1999.

Kamburu

The inspection of the tailrace tunnel in December 1998 uncovered major falls and obstruction in the tunnel, occasioning the de-rating of the station to 60 MW. The fallen debris were removed pending permanent remedial repairs scheduled for January 2000. During the outage, unit 1 was overhauled. Annual inspection of other machines and regeneration of oil in Generator Transformer no. 1 was completed.

Masinga

Generator Transformer No.1 was replaced. Replacement of unit 1 obsolete excitation system and faulty control system is planned to be undertaken in the coming year.

Kiambere

Rotor pole repairs on unit 1 were undertaken in April 1999.

Turkwel

Plans are in progress to replace the faulty 11 kV breakers with higher rated ones.

Mini Hydros

Overhauls and other major repairs were undertaken in various stations.

Geothermal

Olkaria

Output of Olkaria geothermal plant increased from 366 million units generated in 1997/98 to close the year at 390 million units. The increase was due to improved plant availability.

A contract to raise steam pipes at the seal pit area was awarded and work was in progress, at the close of the year. The contract for connecting two make up wells OW-32 and OW-34 was signed and the construction is expected to commence in the second quarter of 1999/2000.

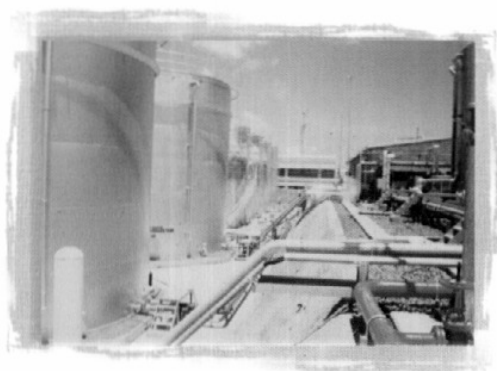
Thermal

Kipevu

Kipevu steam posted 141 million units compared to 201 million units in the year ended June 30th 1998. The decline is due to the overhaul work undertaken, for the better part of the year, on the various turbines and boilers. Turbine 6 was also retired. The Gas Turbines at Kipevu generated 191 million units compared to 139 million units in the previous year. The improved output was due to the commissioning of the Gas Turbine 2 in February 1999.

Turbine 4 underwent major overhaul, completed in April 1999. Boilers 6 and 7 and Turbine 7 were also overhauled.

Gas Turbine No. 2 that was under refurbishment was commissioned in February 1999, taken through reliability test runs and handed over to KenGen in March 1999.



Sparkling Kipevu I diesel plant fuel tanks and pipeline system. This new station is now generating up to 73 MW.

Development

The implementation of generation expansion projects in the 5-year rolling investment plan continued during the year.

Kipevu I - 75 MW Diesel Project

At the close of the year, all the diesel/generator sets and their associated auxiliary equipment, piping connection and electrical installations were almost complete and pre-commissioning tests had started. Full commissioning tests are scheduled to start in August 1999 with full commercial operation in October 1999.

Chairman's Review

For the Year Ended 30th June 1999

Gitaru 3rd Unit-80 MW

This unit will provide additional peaking capacity from Gitaru and flexibility of maintenance for other units in this station and Kiambere. Installation work, awarded to Siemen-Voith of Germany, progressed well during the year. Manufacture and delivery of major equipment was completed in June 1999 while manufacture and delivery of other auxiliary equipment was in progress. Installation of the turbine, generator, transformer and the 220kv-transmission line from Gitaru to Kamburu was also in progress. The project is expected to be commissioned in December 1999.



*New Project
to boost power
generation:
60 MW Sondu Miriu
HEP Project
now under
construction.*

Olkaria II-64 MW Power Project

Engineering Consultancy for the implementation of the project was awarded to Kingston Morrison on 11th September 1998.

Tender documents for substation, transmission line and steam field contracts were finalised and issued to pre-qualified bidders. Tender documents for civil works and electro-mechanical contracts will be issued to pre-qualified bidders and the contracts awarded in the next fiscal year.

The main financiers of the project are International Development Association (IDA), European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW).

The project is expected to be on line by March 2002.

Geothermal Resources Assessment

Three exploration wells in Olkaria Domes geothermal area were successfully drilled to about 2200m each. Initial tests indicated that two of the wells are viable with a geothermal resource similar to Olkaria I. Flow tests are in progress.

Flow testing of well OW-308 was completed. Scientific exploration of geothermal resource at Longonot was concluded and siting of exploration wells undertaken. Drilling will commence immediately funds are secured.

KenGen was contracted to test four wells for an Independent Power Producer (IPP) developing Olkaria III.

Sondu/Miriu Hydro Power Project

Konoike-Veidekke-Murray and Roberts Joint Venture signed a contract with KenGen for Civil Works Lot I-1 on 15th December 1998.

Chairman's Review

For the Year Ended 30th June 1999

Resettlement works, civil works (Lot I-1) and engineering services are in progress.

The procurement process for phase II (civil works, electro-mechanical works, substation and transmission works), currently at tender pre-qualification stages, is expected to commence in the fiscal year 1999/2000 once the funding arrangements are finalised with Japanese Bank for International Co-operation (JBIC), formerly OECF.

The project is expected to be on line in October 2003.

180 MW Ewaso Ng'iro Multipurpose Project

In July 1998, the funding for the project was revived. Thereafter, disbursement and consultancy work resumed on further site investigations to facilitate detailed design.

The drilling contract to establish geological and geotechnical conditions for underground structures such as powerhouse caverns and tunnels was awarded to Soiltech of South Africa, in April 1999.

Further Environmental Impact Assessment also progressed during the year under review.

Raising of Masinga Dam

Further works require finalisation of asset separation exercise and identification of funding modalities.

Mutonga/Low Grand Falls

Sourcing of funding for additional environmental impact assessment in the lower reaches of River Tana continued during the year.

Human Resources and Training

The Company considers its human resources as central to the attainment of its corporate objectives and therefore strives to develop and maintain its staff. By the close of the year staff capacity was 1488.

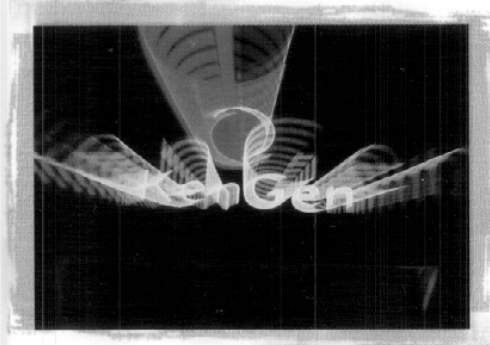
The Company continued to focus on enhanced training and development and the creation of a conducive working environment in order to derive the best performance from its staff. In this respect, the Company trained 617 staff, some locally and others internationally.



*H. Ali (standing)
KenGen's Company
Secretary.
E. Wasunna
(MD, KenGen) and
J. Schwartzman
(MD, H Young & Co.
Ltd.) during the
signing of the tender
for connection of
make-up wells.*

Consistent with the need to create a favourable working environment, KenGen signed a recognition agreement with Kenya Electrical Trade and Allied Workers Union (KETAWU). A new collective bargaining agreement, setting out new salary structure for the period 1999 to 2000, was also signed. During the year, the Company enjoyed cordial relations, which resulted in improved productivity.

Public Relations



*The sparkling
KenGen Colours:
Camera effects on the
roof top neon sign at
Stima Plaza.*

In October 1998, the Company launched its new corporate identity, which it has continued to enhance to establish its own distinct identity as an independent corporate citizen.

The Company is preparing an Internet web site to give information of its activities to both local and international associates.

A limited corporate advertising campaign was carried out in the press, augmenting the Company's effort to identify itself as a power generator. An in-house publication has also disseminated information internally and externally while most of the Company activities received fair media coverage.

Future Prospects

The commissioning of 80 MW unit 3 at Gitaru and the 75 MW diesel plant at Kipevu during 1999 will add 155 MW to the national grid and enhance power production. This, together with other efficiency improvement measures the Company is pursuing, are expected to result in improved trading for the Company.

Acknowledgement

I wish to thank my fellow Board members, management of KenGen and staff for having demonstrated unprecedented commitment to their work. This commitment has enabled the Company to register improved performance in its operations.

May I also thank the Government of Kenya and its agencies, our financiers of projects and development partners for having shared in and contributed to KenGen's development. We look forward to their continued assistance.

J D MTURI
CHAIRMAN

Report of The Directors

For the Year Ended 30th June 1999

The directors hereby present their report together with the audited financial statements for the year ended 30 June 1999.

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 electricity from the Uganda Electricity Board to supplement its production.

RESULTS	Sh'000
Income before taxation	269,910
Taxation	56,000
Income after taxation transferred to reserves	213,910

Dividends

The directors do not recommend the payment of a dividend.

Directors

The present members of the Board of Directors are shown on page (2).

Mr. C.N. Mutitu and Ms. M. K. Chemeng'ich ceased to be directors on their departure from the Ministry of Energy and Treasury respectively. The Board wishes to record their invaluable contribution as directors of the Board during their tenure.

Mr. M. Ngali and Mr. Martin Oduor-Otieno joined the Board in July 1999 following their appointments as Permanent Secretary in the Ministry of Energy and Treasury respectively. The Board congratulates them for their appointments.

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

A H Ali

Secretary

Nairobi

24 November 1999

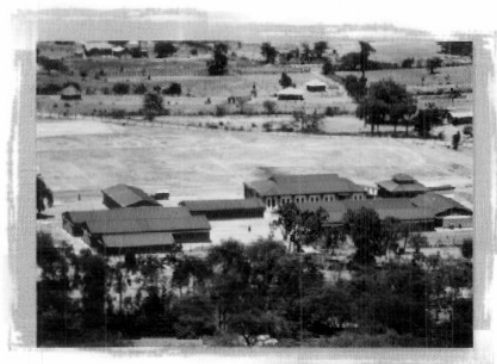


Mr. Ngumbane of Everest Systems Solutions presents a Y2K ready certificate to KenGen's Deputy MD, Isaac Bondet.

Statement of Directors' Responsibilities in respect of the Financial Statements

Company law requires the directors to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to comply with the Companies Act Cap 486. They are also responsible for safeguarding the assets of the Company. In addition the directors confirm that the accounts comply with the above requirements.



*Community
Service: The new
ultra-modern
Thurdibuoro
Secondary
School
constructed by
KenGen at
Nyakach.*

Report of Auditors to the Members of Kenya Electricity Generating Company Ltd.

For the Year Ended 30th June 1999

We have audited the financial statements on pages 18 to 27 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 at 30 June 1999 and of its net income and cash flows for the year ended on that date.

DELOITTE & TOUCHE
30 November 1999



*KenGen
recognises and
rewards
employees who
have exhibited
long and
dedicated service
to the company.*

Kenya Electricity Generating Company Ltd.**Revenue Account**

For the Year Ended 30th June 1999

	Note	1999 Sh'000	1998 Sh'000
REVENUE	2	7,407,949	3,509,645
OPERATING EXPENSES		6,362,497	2,774,134
OPERATING INCOME	3	1,045,452	735,511
EXCHANGE (LOSSES)/GAINS		(678,691)	75,464
INTEREST RECEIVABLE	4	81,589	73,623
INTEREST PAYABLE	4	(178,440)	(227,433)
INCOME BEFORE TAXATION		269,910	657,165
TAXATION	5	56,000	-
NET INCOME FOR THE YEAR	11	213,910	657,165

Kenya Electricity Generating Company Ltd.

Balance Sheet

As at 30th June 1999

	Note	1999 Sh'000	1998 Sh'000
FIXED ASSETS	6	14,186,838	7,789,320
CURRENT ASSETS			
Stocks		862,393	518,031
Debtors	7	240,316	462,919
The Kenya Power & Lighting Company Limited		5,537,662	8,508,318
Bank and cash balances		100,198	4,180
		6,740,569	9,493,448
CURRENT LIABILITIES			
Treasury creditors	8	2,271,363	2,886,442
Contract creditors		1,601,812	73,962
Other creditors	9	620,836	922,583
Loan instalments due within 12 months	12	1,104,258	1,304,629
Taxation payable		56,000	-
		5,654,269	5,187,616
NET CURRENT ASSETS		1,086,300	4,305,832
		15,273,138	12,095,152
Financed by:			
SHARE CAPITAL	10	456,085	456,085
RESERVES	11	9,012,970	8,799,060
SHAREHOLDERS' FUNDS		9,469,055	9,255,145
LONG TERM LOANS	12	5,804,083	2,840,007
		15,273,138	12,095,152

The financial statements on pages 18 to 27 were approved by the Board of Directors on 24th November 1999 and were signed on its behalf by:

J D MTURI)
) Directors
 E D WASUNNA)

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Kenya Electricity Generating Company Ltd.

Cash Flow Statement

For the Year Ended 30th June 1999

	Note	1999 Sh'000	1998 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	13(a)	5,298,102	1,360,935
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		-	73,623
Interest paid		(101,599)	(160,605)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(101,599)	(86,982)
INVESTING ACTIVITIES			
Additions to fixed assets		(6,616,612)	(665,348)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(1,420,109)	608,605
FINANCING ACTIVITIES			
Loans repaid		(1,407,175)	(864,955)
Loans advanced		2,923,302	346,267
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		1,516,127	(518,688)
INCREASE IN CASH AND CASH EQUIVALENTS	13(b)	96,018	89,917

Kenya Electricity Generating Company Ltd.

Notes to the Financial Statements

For the Year Ended 30th June 1999

1. 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 Licence 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

Freehold land is not depreciated.

Depreciation on other assets is calculated on the straight-line basis to write off the cost of assets over their expected useful lives. The rates used are:

Leasehold land	over the unexpired period of the lease
Geothermal wells	6.66%
Transmission lines	2.5 - 20%
Plant and machinery	1 - 6.66%
Motor vehicles	25%
Furniture, equipment and fittings	6.66 - 20%

FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates ruling at the balance sheet date. Transactions during the year are translated at the rates of exchange ruling at the dates of the transactions. 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. Other gains and losses are dealt with in the profit and loss account.

TAXATION

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is accounted for to the extent that it is probable that the relevant timing differences will reverse in the foreseeable future.

CAPITALISATION OF GEOTHERMAL ASSETS

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

Kenya Electricity Generating Company Ltd.

Notes to the Financial Statements (continued)

For the Year Ended 30th June 1999

2. REVENUE

Revenue represents the total ascertained cost for the year of 4,139,108,637 kilowatt-hours (1998 - 3,347,740,562 kilowatt-hours) supplied to the Authorised Distributor resulting in a cost of 1.79 cents per kilowatt-hour (1998 - 1.048 cents per kilowatt-hour) and comprises:

	1999 Sh.'000	1998 Sh.'000
Operating and administration expenses	5,746,978	1,865,791
Electricity purchased from Uganda Electricity Board	592,683	585,257
Interest, excluding interest on reserve and equalisation fund investments (Note 4)	178,440	227,433
Depreciation	219,094	231,554
Other charges	670,754	599,610
	7,407,949	3,509,645

3. OPERATING INCOME

The operating income is arrived at after charging:

Operating and administration expenses	5,746,978	1,863,014
Electricity purchased from Uganda Electricity Board	592,683	585,257
Depreciation	219,094	231,554
Directors' emoluments:		
- Fees	1,020	1,020
- Other	3,595	3,134
Auditors' remuneration	2,409	1,754

4. INTEREST

Receivable on reserve and equalisation fund investments	81,589	73,623
Payable on long-term borrowings	(178,440)	(227,433)

5. TAXATION

At 32.5% on income for the year as adjusted for taxation purposes

56,000 -

Taxation charge relates to taxable income for six months from 1 January 1999 to 30 June 1999, as the company was exempt from taxation up to 31 December 1998.

Kenya Electricity Generating Company Ltd.
Notes to the Financial Statements (continued)

For the Year Ended 30th June 1999

6. FIXED ASSETS

	Land and Buildings	Transmission lines	Plant and Machinery	Motor vehicles	Furniture equipment, and fittings	Work-in- progress	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
COST							
At 1 July 1998	1,572,526	332,229	2,638,789	-	877,605	4,781,189	10,202,338
Additions	-	-	-	1,705	2,735	6,612,172	6,616,612
Transfers	309	-	1,295	7,959	196,224	(205,787)	-
At 30 June 1999	1,572,835	332,229	2,640,084	9,664	1,076,564	11,187,574	16,818,950
DEPRECIATION							
At 1 July 1998	680,469	230,654	1,124,936	-	376,959	-	2,413,018
Charge for the year	44,186	10,708	105,367	32	58,801	-	219,094
At 30 June 1999	724,655	241,362	1,230,303	32	435,760	-	2,632,112
NET BOOK VALUE							
At 30 June 1999	848,180	90,867	1,409,781	9,632	640,804	11,187,574	14,186,838
At 30 June 1998	892,057	101,575	1,513,853	-	500,646	4,781,189	7,789,320

Kenya Electricity Generating Company Ltd.
Notes to the Financial Statements (continued)

For the Year Ended 30th June 1999

	1999 Sh'000	1998 Sh' 000
7. DEBTORS		
Ministry of Energy	-	78,501
Staff debtors	67,663	55,523
Advance contract deposits	134,536	328,895
Others	38,117	-
	<hr/> 240,316	<hr/> 462,919

8. TREASURY CREDITORS

This represents various loan repayment instalments due and payable to the Government of Kenya. The amount includes loans taken over by KenGen from Tana River Development Company (TRDC) as a result of the merger between Kenya Power Company (now KenGen) and TRDC in 1997.

	1999 Sh'000	1998 Sh'000
9. OTHER CREDITORS		
Interest accrued	12,181	716,349
Others	608,655	206,234
	<hr/> 620,836	<hr/> 922,583

10. SHARE CAPITAL

Authorised:		
25,000,000 ordinary shares of Shs 20 each	500,000	500,000
Issued and fully paid:		
22,804,241 ordinary shares of Shs 20 each	456,085	456,085

Kenya Electricity Generating Company Ltd.

Notes to the Financial Statements (continued)

For the Year Ended 30th June 1999

11. RESERVES

	Capital	Reserve and Equalisation fund	Loan capital redemption fund	Revenue reserve	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 July 1998	8,579,722	(111,848)	331,186	-	8,799,060
Transfers	-	111,848	(331,186)	219,338	
Net income for the year	-	-	-	213,910	213,910
At 30 June 1999	8,579,722	-	-	433,248	9,012,970

Prior to 1 July 1998, the company's income was allocated between the Reserve and Equalisation Fund and a Loan Capital Redemption Fund based on the provisions of the energy supply agreement between the company and the authorised distributor, The Kenya Power and Lighting Company Limited. Under this agreement, the Company derived its revenue from amounts billed to the authorised distributor based on a cost reimbursement principle. The balances in the reserve and equalisation and the loan capital redemption funds have now been transferred to the revenue reserve following the signing of a revised Power Purchase Agreement, which recognises the company as an independent commercial enterprise.

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Kenya Electricity Generating Company Ltd.
Notes to the Financial Statements (continued)

For the Year Ended 30th June 1999

	1999 Sh'000	1998 Sh'000
12. LONG TERM LOANS		
7.95 % International Bank for Reconstruction and Development 1985 / 1999 (US \$ 1,697,814)	123,602	299,175
10.93 % International Bank for Reconstruction and Development 1987 / 1999 (US \$ 855,647)	62,380	95,987
3.0 % The Kenya Power & Lighting Co. Ltd. 1990 / 99 (US \$ 1,358, 502.18)	99,040	161,738
(1 % & 10 %) International Development Association Subsidiary Credit 1994 / 2004 (US \$ 11,138,045.40)	812,008	828,780
(7.59 %) International Development Association 1996 / 2008 (US \$ 20,012,133.34)	1,458,965	1,574,707
2.6 % Overseas Economic Co-operation Fund No. P20KE 2005/2025 (JP ¥ 4,988,761,651)	3,007,225	301,425
2.3 % Overseas Economic Co-operation Fund No. KE P21 2007/2027 (JP ¥ 1,147,985,339)	692,006	28,407
8.0 % International Bank for Reconstruction and Development 1979/2000 (US \$ 7,236,601)	525,827	843,836
7.7 % International Development Association 2003 / 2017 (US \$ 1,684,271.33)	122,790	--
8.5 % Government of Kenya Gitaru 1979/2000	4,498	10,581
	6,908,341	4,144,636
Less: instalments due within 12 months	(1,104,258)	(1,304,629)
	5,804,083	2,840,007

The Government of Kenya guarantees all the loans.

Kenya Electricity Generating Company Ltd.

Notes to the Financial Statements

For the Year Ended 30th June 1999

	1999 Sh'000	1998 Sh'000
13. NOTES TO THE CASH FLOW STATEMENT		
(a) Reconciliation of operating income to net cash inflow from operating activities		
Operating income	1,045,452	735,511
Depreciation	219,094	231,554
Increase in stocks	(344,362)	(190,979)
Decrease/(increase) in amounts due from The Kenya Power & Lighting Company Limited	2,558,710	756,073
Decrease/(increase) in debtors	222,603	(384,418)
Increase/(decrease) in contract creditors	1,527,850	70,190
Decrease in other creditors	402,421	(43,723)
Decrease in treasury creditors	(984,142)	223,419
Interest receivable	81,589	-
Exchange gain/(loss) capitalised	568,887	(36,692)
Net cash inflow from operating activities	5,298,102	1,360,935
(b) Analysis of changes in cash and cash equivalents		
Balance at 1 July	4,180	(85,737)
Increase in cash and cash equivalents	96,018	89,917
Balance at 30 June	100,198	4,180
14. CAPITAL COMMITMENTS		
Authorised but not contracted for	32,468,962	33,881,873
Contracted but not provided for	643,013	2,691,983
	33,111,975	36,573,856

Kenya Electricity Generating Company Ltd.

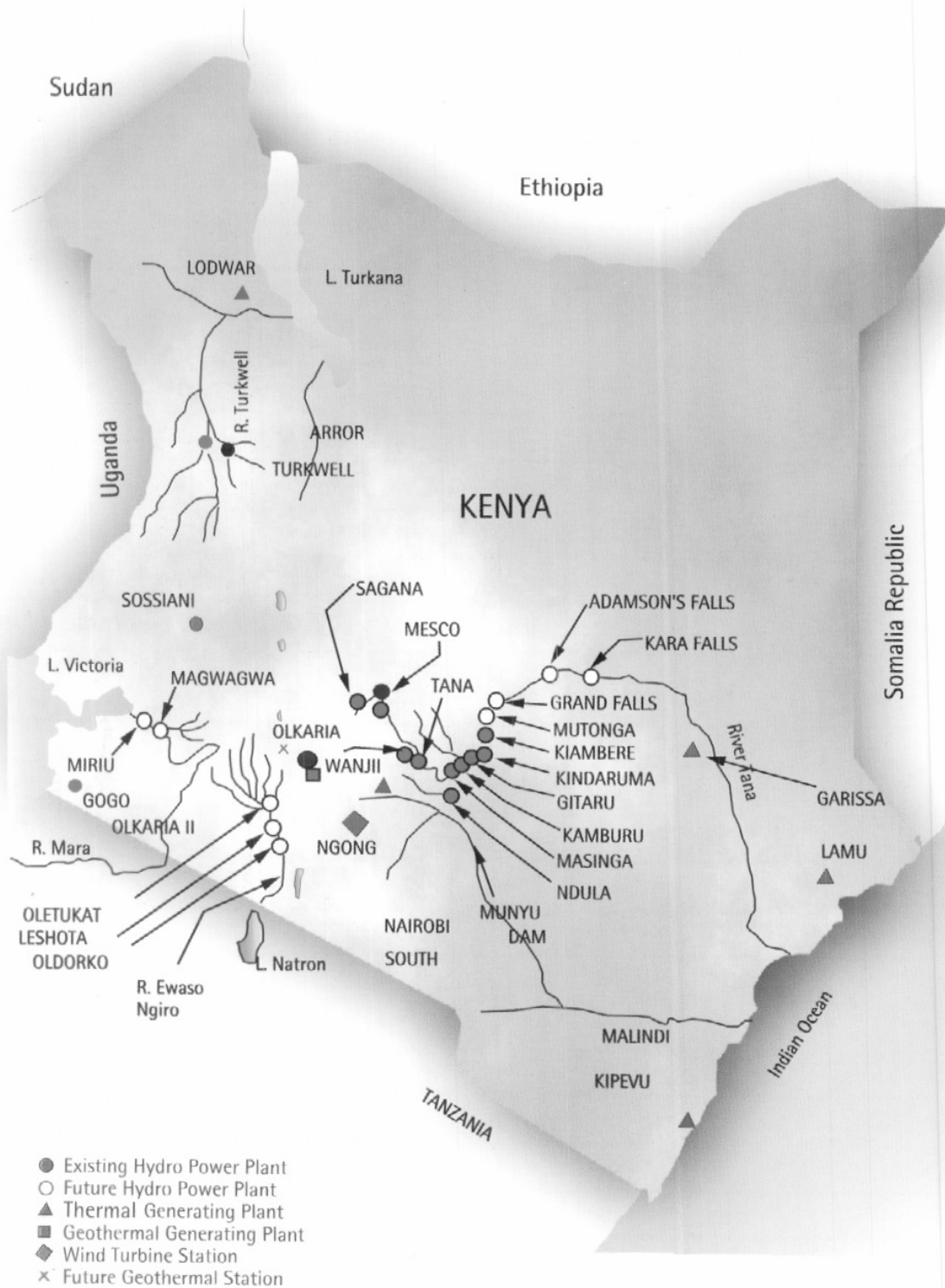
Five Year Financial and Statistical Record

	30 June 1994	30 June 1995	30 June 1996	30 June 1997	30 June 1998	30 June 1999
Units sold (millions)	3689	3815	4062	4236	4129	4139
Average cost of units sold (cents)	2.16	6.48	5.88	3.38	0.85	1.79
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	
Revenue from electricity sold	1,307,107	3,688,696	3,925,887	2,136,719	3,509,645	7,407,949
Net income / (loss) for the year	938,002	2,994,964	3,211,802	1,862,486	657,165	213,910
Funds generated from operations						
Net income / (loss) for the year	938,002	2,994,964	3,211,802	1,862,486	657,165	213,910
Depreciation	110,394	106,243	179,229	193,942	231,554	219,094
Currency realignment	233,922	(96,390)	66,737	199,123	75,464	678,691
Amortisation of currency realignment		-	-	-	-	-
	1,282,318	3,004,817	3,457,768	2,255,551	964,183	1,111,695
Capital employed						
Fixed assets less depreciation	6,528,148	6,243,051	6,421,530	6,457,969	7,789,320	14,186,838
Deferred debt		-	-	-	-	-
The Kenya Power & Lighting Co. Ltd	753,738	3,126,044	5,960,942	6,428,835	8,508,318	5,537,662
Net current liabilities	(1,365,288)	(1,222,572)	(1,653,256)	(934,907)	(4,202,486)	(4,451,362)
	5,916,598	8,146,523	10,729,216	11,951,897	12,095,152	15,273,138
Financed by						
Share capital	152,662	152,662	152,662	152,662	456,085	456,085
Reserves	349,148	3,344,112	6,555,914	8,418,400	8,799,060	9,012,970
Deferred credit		-	-	-	-	-
Loan capital	5,414,788	4,649,749	4,020,640	3,380,836	2,840,007	5,804,083
	5,916,598	8,146,523	10,729,216	11,951,898	12,095,152	15,273,138
Capital Expenditure	902,490	(178,854)	357,707	230,391	665,348	6,616,612
Income for the year as a percentage of average capital employed (%) 16.42	16.56	42.59	34.05	16.42	5.46	1.56

Electricity Units Sent Out From The Power Stations

POWER STATION	Capacity (MW) as at 30.6.99 Installed	Effective	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
HYDRO								
Tana	14.4	12.4	64	78	97	84	75	82
Wanjji	7.4	7.4	30	27	51	48	50	36
Kamburu	94.2	84.0	420	484	489	445	479	409
Gitaru	145.0	145.0	854	703	700	925	816	788
Kindaruma	44.0	40.0	216	212	238	230	198	239
Small Hydros	6.2	5.4	16	22	29	23	25	20
Masinga	40.0	40.0	180	200	225	214	204	223
Kiambera	144.0	144.0	889	993	1028	1025	1020	1034
Turkwel	106.0	106.0	369	376	296	351	383	433
UEB (Imports)	30.0	0.0	264	187	149	144	146	140
TOTAL HYDRO SENT OUT INCLUDING IMPORTS	631.2	584.2	3302	3282	3302	3489	3396	3404
THERMAL								
Kipevu	45.5	36.0	127	201	208	187	189	141
GEO THERMAL								
Olkaria	45.0	45.0	248	277	375	378	353	378
GAS TURBINE								
Fiat - Nairobi South	13.5	10.0	2	15	58	6	0	15
JBE - Kipevu	60.0	60.0	0	30	107	165	178	188
Isolated Diesels								
Lamu and Garissa	3.8	3.5	9	10	11	11	11	11
Wind Turbine								
Ngong Wind	0.4	0.4	1	1	1	1	1	0
UNITS SENT OUT	799.4	739.1	3689	3816	4062	4237	4128	4137

KenGen's Existing and Proposed Generation Stations



KENYA ELECTRICITY GENERATING COMPANY LIMITED

P O Box 47936, NAIROBI

Form of Proxy for Annual General Meeting

I) BLOCK
.....) CAPITALS
of) PLEASE

being a member of the above-named Company, HEREBY APPOINT

.....
of P.O. Box

or failing him/her the Chairman of the Meeting as my proxy to vote for and on my behalf at the

ANNUAL GENERAL MEETING of the Company to be held on Wednesday 23rd February 2000 and

any adjournment thereof.

My proxy is to vote in favour of/against the Resolution as indicated herebelow:

Item	Business	For	Against
1.	To transact the Ordinary Business of the Company		

Signature

Dated this..... day of, 2000