

Area Offices

Olkaria I Geothermal Power Station

P O Box 785 - 20117 Naivasha
Tel: 050 - 20233/4 050 - 50916/7
Fax: 050 - 50634

Olkaria II Geothermal Power Station

P O Box 785 - 20117 Naivasha
Tel: 050 - 50628 - 41
Fax: 050 - 50634

Sondu Miriu

P O Box 875 - 40100 Kisumu
Tel: 057 - 2023800
Fax: 057 - 2023855

Seven Forks Hydro Power Stations

P O Box 205 - 60100 Embu
Tel: 068 - 343870
Mobile: 0722509400
Telefax (Kamburu): 020-251007

Wanjii Power Station

P O Box 45 - 10200 Murang'a
Tel: 020 - 2055182-3
Fax: 020 - 2055184
Mobile: 0724255558

Turkwel Power Station

P O Box 698 - 30200 Kitale
Mobile: 0733600691
Fax: 054 - 30099

Tana Power Station

P O Box 230 - 10200 Murang'a
Tel: 060 - 30603/4
Fax: 060 - 30602

Gogo Power Station

P O Box 1058 - 40400 Suna-Migori
Mobile: 0723901055/0733600676

Sagana Power Station

P O Box 339 - 10100 Nyandarua
Mobile: 0724255554

Kipevu Thermal Power Station

P O Box 80801 - 80100 Mombasa
Tel: 041 - 3435000/1
Fax: 041 - 3435431
Mobile: 0722653900/0734600377

Ndula Power Station

P O Box 6142 - 01000 Thika
Mobile: 0724255557

Lamu Power Station

P O Box 72-80500 Lamu
Telefax: 042 - 633066
Mobile: 0724255110/0736100190

Sosiani Power Station

P O Box 308 - 30100 Eldoret
Mobile: 0724663651

Garissa Power Station

P O Box 9 - 70100 Garissa
Tel: 046 - 2028/3158
Fax: 046 - 3150
Mobile: 0733600678

Fomu ya Uwakilishi

Nambari Ya Mwenyehisa _____

Katibu Wa Kampuni

Kenya Electricity Generating Company Limited

Stima Plaza, Kolobot Road

S L P 47936-00100 Nairobi

UWAKILISHI

*Mimi/sisi _____ wa _____ nikiwa/tukiwa

*Mwanachama/Wanachama wa kampuni iliyotajwa hapo juu, namteua

_____ wa _____ au
akikosa _____ wa _____ kama mwakilishi

*wangu/wetu kupiga kura kwa niaba *yangu/yetu katika Mkutano Mkuu wa Kila Mwaka Wa Kampuni utakaofanyika mnamo Novemba 22, 2007 na kwenye tarehe nyingine ile iwapo utaahirishwa.

*(Ondoa inavyopasa)

Sahihi _____

Angalia maelezo 2,3,4 chini

Ilitiwa sahihi siku _____ ya _____ (mwezi) 2007.

Maelezo

1. Anuani ni lazima iwe ile kwenye rejista ya wanachama.
2. Iwapo mwanachama ni shirika, fomu hii ya uwakilishi itawekwa muhuri, au kutiwa sahihi na wakili au afisa yeyote atakaye idhinishwa na shirika.
3. Mtu anayeteuliwa kama mwakilishi si lazima awe mwanachama wa kampuni.
4. Endapo ni wanachama wa ushirika, sahihi ya mmoja wao inatosha, lakini majina ya wanachama wote lazima yatajwe.

Barua ya ruhusa ya kuingia ya mwenyehisa

Tafadhali jaza fomu hii na kumbuka kwamba lazima itolewe katika Mkutano Mkuu wa Kila Mwaka (AGM) na wewe au mwakilishi wako ili kuruhusiwa kuhudhuria. Tafadhali kumbuka kwamba ni wenyehisa waliosajiliwa au wawakilishi wao waliojulishwa kwa Kampuni angalau saa 48 kabla ya mkutano wataweza kuruhusiwa kuhudhuria mkutano.

Jina: _____ Sahihi: _____

Mkutano Mkuu wa kila Mwaka wa Kenya Electricity Generating Company Limited utakaofanyika katika Kasarani Gymnasium, Thika Road, Nairobi mnamo Alhamisi Novemba 22, 2007 saa tano asubuhi.

Proxy Form

Shareholder's Member No. _____

The Company Secretary
Kenya Electricity Generating Company Limited
Stima Plaza, Kolobot Road
P.O. Box 47936-00100 Nairobi

PROXY

I/We _____ of _____ being
a *Member/Members of the above named Company, hereby appoint:
_____ of _____ or failing
him _____ of _____ as

*my/our proxy to vote for *me/us on *my/our our behalf at the Annual General Meeting of the
Company to be held on 22nd November 2007 and at any adjournment thereof.

*(Strike out as appropriate)

Signature(s) _____

See notes 2,3,4 below

Signed this _____ day of _____ (month) 2007.

Notes

1. The address should be the address shown in the register of members.
2. In the case of a member being a corporation, this form of proxy must be executed either under its common seal or signed on its behalf by an attorney or officer of the corporation duly authorized.
3. A person appointed to act as a proxy need not be a member of the Company.
4. In case of joint holders, the signature of any one holder will be sufficient but names of all joint holders should be stated.

Shareholder's admission letter

Please complete this form and note that it must be produced at the Annual General Meeting by you or your proxy in order to record attendance. Kindly note that only the registered shareholders or their proxy notified to the Company at least 48 hours before the meeting will be admitted to the meeting.

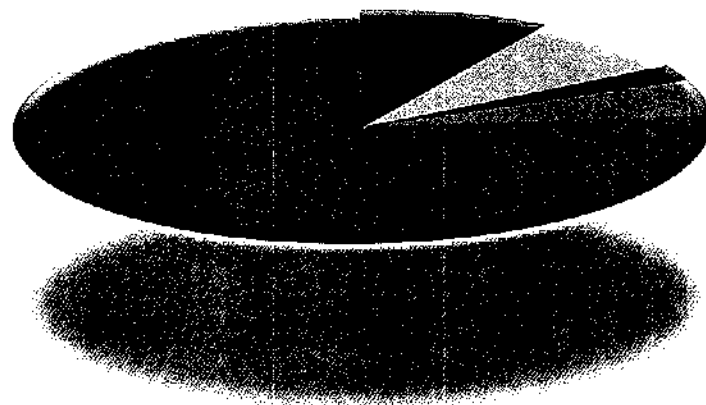
Name: _____ Signature: _____

Annual General Meeting of Kenya Electricity Generating Company Limited to be held at the Kasarani
Gymnasium, Thika Road, Nairobi on Thursday 22nd November, 2007 at 11.00 a.m.

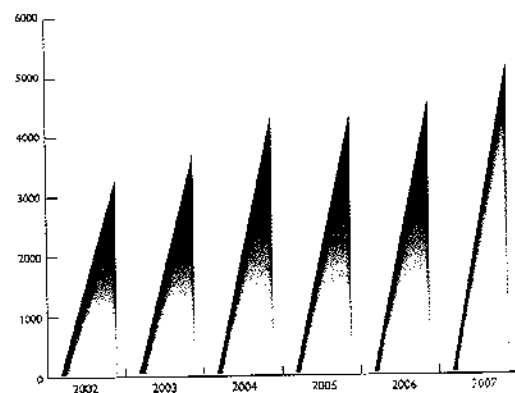
Selected Performance Indicators

Sales Market Share

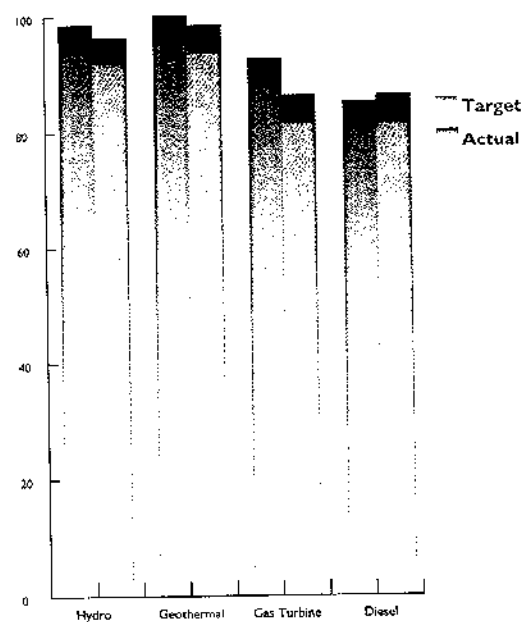
KenGen	75%
Aggreko	9%
Orpower	2%
IberAfrica	5%
Tesco	8%
Others	<1%



Sales Performance (million units)



Plant Availability (%)



Plant Performance

For the Last Five Years

2003/2004		2004/2005		2006/2007	
Availability	Load Factor	Availability	Load Factor	Availability	Load Factor
%	%	%	%	%	%
76.47	60.53	77.46	61.73	90.82	74.83
50.64	66.05	40.83	35.03	61.29	56.71
91.12	51.07	89.87	48.71	96.40	56.59
96.01	40.24	96.50	40.36	85.69	49.95
74.11	66.04	87.43	54.77	78.98	61.73
65.62	71.93	50.14	31.30	70.18	33.80
75.44	70.83	95.32	53.94	96.44	82.32
98.13	85.63	94.80	79.00	53.91	53.06
51.45	34.99	43.86	17.70	49.67	42.72
87.71	64.84	90.07	59.55	79.09	61.09
96.71	50.16	97.15	49.07	97.03	52.58
89.57	72.48	96.20	68.25	95.51	77.90
96.75	52.23	97.01	55.03	96.38	40.66
16.23	53.50	-	-	-	-
71.03	73.98	90.34	74.74	79.69	37.85
97.00	98.20	83.93	85.80	94.47	95.47
96.20	94.16	97.73	97.12	97.72	93.21
55.50	5.09	53.00	15.64	73.14	3.73
51.27	36.93	77.03	37.59	79.76	14.57
83.05	43.12	75.32	32.65	85.89	36.46
73.27	47.11	94.78	37.60	82.70	36.31
63.00	23.71	43.00	20.60	50.00	13.45

Plant Performance

For the Last Five Years

Power Station	2001/2002		2002/2003	
	Availability	Load Factor	Availability	Load Factor
		%		%
Hydro				
Tana	77.23	51.78	63.75	52.26
Wanjii	91.23	79.12	60.52	53.34
Kamburu	90.25	58.09	90.57	57.34
Gitaru	96.78	47.93	95.69	47.88
Kindaruma	91.75	64.39	91.62	63.60
Gogo	54.80	34.40	41.78	33.50
Selby	67.80	47.80	70.56	53.51
Mesco	62.86	52.42	97.74	84.49
Ndula	79.06	39.42	93.46	44.01
Sagana	99.13	64.62	98.55	75.88
Masinga	88.35	58.85	95.41	66.28
Kiambere	95.44	79.71	96.97	80.83
Turkwel	92.00	14.90	97.44	28.80
Thermal				
Kipevu Steam	27.32	13.08	21.07	11.33
Kipevu Diesel	70.12	20.68	60.77	44.82
Geothermal				
Olkaria 1	71.76	73.26	77.08	70.44
Olkaria 2	-	-	82.90	71.97
Gas Turbine				
Fiat-Nairobi South	67.42	0.15	-	79.51
JBE-Kipevu	62.78	3.60	50.00	-
Isolated Diesels				
Garissa	69.12	35.67	91.00	39.49
Lamu	53.39	30.27	68.89	31.18
Wind Turbine				
Ngong Wind	63.73	13.24	77.98	13.81

Electricity Units Sold from the Power Stations For the Last Five Years

Power Station	Capacity (MW) as at 30.06.2007		2002/03	2003/04	2004/05	2005/06	2006/07
	Installed	Effective	Gwh	Gwh	Gwh	Gwh	Gwh
Gas Turbine							
Fiat-Nairobi South	13.5	10	-	-	3	18	4
JBE-Kipevu	63	60	20	4	97	194	75
TOTAL	76.5	70	20	4	100	212	79
Isolated Diesels							
Garissa						9	10
Lamu						6	9
TOTAL	4.2	3.5	12	13	13	15	19
Wind Turbine							
Ngong Wind	0.35	0.35	-	-	-	-	-
TOTAL SENT OUT	1,011.83	933.3	3659	4300	4280	4,538	4,599
Units Consumed			38	54	80	66	61
System Losses			17	23	23	22	24
GRAND TOTAL GENERATED			3,713	4,376	4,383	4,626	4,684
Sales % of units Generated			98.54%	98.26%	97.65%	98.10%	98.19%
Consumption as % of units Generated			1.01%	1.22%	1.82%	1.43%	1.30%
Losses as % of units Generated			0.45%	0.52%	0.53%	0.48%	0.51%
Growth in unit sales			11%	18%	0%	6%	1%

Electricity Units Sold from the Power Stations

For the Last Five Years

Power Station	Capacity (MW) as at 30.06.2007		2002/03	2003/04	2004/05	2005/06	2006/07
	Installed	Effective	Gwh	Gwh	Gwh	Gwh	Gwh
Hydro							
Tana	14.4	12.6	65	66	58	56	68
Wanjii	7.4	7.4	51	34	21	22	36
Kamburu	94.2	88	470	470	381	399	464
Gitaru	225.0	216.0	945	938	757	795	945
Kindaruma	40.0	40	224	221	170	190	215
Gogo	2	2	6	6	8	5	5
Sosiani	0.4	0.4	2	2	2	2	3
Mesco	0.38	0.38	2	3	3	3	2
Ndula	0.62	0.62	7	7	3	3	4
Sagana	1.5	1.5	8	10	7	8	8
Masinga	40	40	206	230	169	170	183
Kiambere	144	132.0	999	1,010	814	852	973
Turkwel	106.0	102.0	136	264	476	520	372
UEB Imports	30	-	-	-	-	-	-
TOTAL	677.3	632.9	3,121	3,261	2,869	3,025	3,277
Thermal							
Kipevu Steam	60.0	36.6	83	62	48	-	-
Kipevu Diesel	73.5	70.0	146	278	330	399	326
TOTAL	133.5	106.6	229	340	378	399	326
Geothermal							
Olkaria 1	45.0	45.0	277	265	371	324	360
Olkaria 2	70.0	70.0	-	417	549	562	540
TOTAL	115	115	277	682	920	886	900

5 Year Financial and Statistical Records

2005	2006	2007
Kwh	Kwh	KWh
4,280	4,538	4,599
2.57	3.15	3.16
2.05	2.55	2.41
KShs'000	KShs'000	KShs'000
11,011,576	14,300,060	14,531,767
1,753,152	3,768,933	2,445,666
1,753,152	3,768,933	2,445,666
2,024,976	2,000,212	3,446,354
29	29	29
(636,580)	(589,070)	(1,419,974)
3,141,577	6,358,244	4,472,075
50,605,503	50,662,367	87,357,082
1,561	1,533	1,504
-	-	-
4,838,281	2,447,488	3,941,294
-	-	215,664
2,387,865	3,290,167	5,810,956
2,478,141	3,314,108	(2,593,828)
72,571,510	59,715,663	94,732,672
10,535,722	10,535,722	10,535,722
22,893,036	25,962,941	53,117,467
15,784,584	-	-
5,898,623	5,850,228	15,038,788
17,410,138	17,366,772	16,040,695
49,406	-	-
72,571,510	59,715,663	94,732,672
1,880,223	2,057,076	5,356,989
2.46%	5.70%	3.23%
7%	7%	7%
4%	6%	3%
2%	4%	1%
2.6	2.3	2.0
3.1	3.3	5.4
60%	55%	40%



5 Year Financial and Statistical Records

	2003 Kwh	2004 Kwh
Units sold (millions)	3,659	4,300
Average Revenue per units sold (KShs)	2.72	2.04
Average cost per units sold (KShs)	1.58	1.39
	KShs'000	KShs'000
Revenue from electricity sold	9,934,542	8,754,447
Net income for the year	2,519,879	1,620,573
Funds generated from operations		
Net income for the year	2,519,879	1,620,573
Depreciation	1,464,061	1,740,396
Amortisation of operating lease	29	29
Currency realignment	(772,108)	1,106,749
	4,232,143	4,461,747
Capital employed		
Fixed assets less depreciation	49,250,958	50,778,851
Operating lease payments	1,620	1,591
Funds awaiting allotments of shares in KPLC	12,260,159	12,260,159
Treasury Bonds	-	-
Intangible Assets	-	-
The Kenya Power & Lighting Co. Ltd	2,188,874	2,913,467
Net current Assets/(liabilities)	2,311,254	3,700,802
	66,012,865	69,954,870
Financed by		
Share capital	10,535,722	10,535,722
Reserves	19,818,394	21,494,735
Funds awaiting allotment of shares	15,784,584	15,784,584
Deferred Tax	4,246,399	4,988,500
Loan capital	15,533,055	16,801,923
Grants	94,711	49,406
	66,012,865	69,954,870
Capital Expenditure	4,896,044	3,268,289
Income for the year as a percentage of average capital employed	4.08%	2.48%
Profit before tax, dividend and exceptional item/net fixed assets in service	18%	6%
Return on Total Assets	6%	4%
Profit after tax and dividend (less exceptional items)/capital employed	5%	2%
Current ratio	2.4	3.0
Debt Service Coverage ratio	4.4	6.0
Self Financing ratio	96%	96%

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

33. RETIREMENT BENEFITS (continued)

The principal actuarial assumptions were:

	2007 %pa	2006 %pa
Investments return	10	10
Rate of salary escalation	8	8
Rate of pension increases	3	3

A provision of KShs 339 million was made in 2004, which was higher than actuarial losses of KShs. 248 million that should have been charged to date to income statement. KShs 82.7 million was chargeable per year as per 2006 actuarial report. Part of the balance of the deficit amounting to KShs 826 million, is a claim from KPLC, on the basis of understanding of the principles stipulated in an agreement executed in February 2004. Both the company and KPLC have entered into a way forward discussion framework ostensibly to firm up the modalities for eliminating the deficit to the satisfaction of all parties.

The company will continue paying contributions to the scheme at the rate of 5% by employees and 25% by the employer as recommended by the Actuaries. The total contribution rate is higher than the standard future service contributions rate. This will eliminate the deficit over future working lifetime of the existing members.

34. INTERIM POWER PURCHASE AGREEMENT

The Second Supplemental Agreement to the Interim Power Purchase Agreement (IPPA) which was entered into in 2004, that set out the bulk tariff at KShs 1.76 per kWh, expired on 30 June 2006. Subsequently, the bulk tariff reverted to the initial rate of KShs 2.36 per kWh with effect from 1 July 2006 as stipulated in the Third Supplemental Agreement to the IPPA signed on 18 January 2006. This agreement continues to apply until a new tariff is agreed between KPLC and the company. The company is presently engaged in negotiations with KPLC with a view to coming up with a new tariff and Power Purchase Agreement that reflect the results of the tariff study commissioned by Energy Regulatory Commission.

35. COMPARATIVES

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

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

32. CAPITAL COMMITMENTS

Capital commitments relate to projected expenditure for completion of on-going projects and already identified new projects. Capital commitments at the year-end for which no provision has been made in these financial statements are:

	2007 KShs'000	2006 KShs'000
Authorised but not contracted for	10,415,576	7,069,035
Contracted for	<u>14,734,676</u>	<u>10,373,852</u>
	25,150,252	17,442,887

Olkaria II Power Station

The company has, after year end, entered into a contract with a consortium of Mitsubishi Heavy Industries and Mitsubishi Corporation of Japan for the installation 35 MW geothermal power generation plant at Olkaria II Power Station at a cost of KShs 5,743,923,158 (Japanese Yen 3,466,000,000 and US \$58,214,100).

33. RETIREMENT BENEFITS

Up to 31 December 2000, the company operated a joint defined benefit scheme with KPLC, which was funded by contributions from both the company and employees.

The company registered its own defined benefits scheme in 2000 and commenced making contributions to the scheme, alongside employees' contributions, with effect from 1 January 2001. The scheme is administered independently by Alexander Forbes Financial Services (EA) Limited. AIG Global Investment Company (EA) Ltd and Stanbic Investment Management Services (EA) Ltd jointly manage the funds.

The scheme's actuaries, Alexander Forbes Financial Services (EA) Limited, carried out an actuarial valuation as at 31 December 2006. The actuarial valuation method adopted entailed the comparison of the value of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The results of the valuation show that there is a past service actuarial deficit of KShs 1,155 million. The level of funding (the ratio of the value of the assets to the past service liability) is 68.9%.

The following information summarises the scheme's deficit amount and the actuarial assumptions made:

	2007 KShs'000	2006 KShs'000
Past service pension liabilities	(3,715,800)	(3,155,500)
Fair value of scheme's assets	<u>2,560,500</u>	<u>1,913,600</u>
	(1,155,300)	(1,241,900)

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

31. RISK MANAGEMENT POLICIES

The company's financial risk management objectives and policies are as outlined below:

Credit risk

The company's credit risk is primarily attributable to its trade receivables and bank deposits. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit risk on trade receivables is limited as the company is in the generation of electricity and has one customer.

The credit risk on liquid funds with financial institutions is also low, because the institutions are banks with high credit ratings.

Interest rate risk

The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings. To manage the interest rate risk, management has endeavoured to only sign and obtain borrowings from institutions that offer contracts with fixed interest rates. At year-end, borrowings with variable interest rates were minimal.

Liquidity risk

The risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments has been and continues to be addressed by management through debt swap, joint venture arrangements and renegotiating with the energy transmitter for tariff increases.

Currency risk

The foreign currency risk arises due to changes in exchange rates. Exposure due to foreign currency risk is mitigated by the terms of the Interim Power Purchase Agreement that allows the company to compute and recover a Foreign Exchange Adjustment charge each month from KPLC.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

30. CONTINGENT LIABILITIES

	2007 KShs'000	2006 KShs'000
Disputed income tax assessment	1,638,754	1,638,754
Disputed tax penalties	31,043	31,043
Disputed contracts	-	800,000
	1,669,797	2,469,797

i) Disputed income tax assessment

The Kenya Revenue Authority (KRA) issued an additional tax assessment of KShs. 3,423,505,245 inclusive of penalties and interest in respect of the years of income 1999 and 2000. This resulted from the withdrawal of investment deduction and wear and tear allowances claimed by the company on assets acquired from the Regional Authorities during the Energy Sector Reform Program and subsequent assets separation exercise. The company applied for waiver of tax, and in response the Minister for Finance granted the company full waiver of penalties and interest as at 31 October 2006, amounting to KShs. 2,337,271,818. The company appealed to the Local Committee on the principal tax assessment of KShs. 1,638,754,626. The Local Committee ruled in favour of the company on 11 January 2007. KRA has appealed to the High Court against the ruling by the Local Committee. The directors are of the opinion that the liability will not crystallize.

ii) Disputed tax penalties

On 12 August 2002, the KRA issued an assessment of KShs 22,203,989 on excise duty arising from electricity imported from Uganda between 1998 and 2001. The principal tax has since been settled in full except for penalties amounting to KShs 31,043,671. The company has petitioned the Ministry of Finance for a waiver of the penalties and, in the opinion of the directors, no provision is required in the financial statements.

iii) Letters of Credit

Letters of credit signifies commitment by the company to make payments to third parties for contracts entered into, generally relating to foreign payments. Outstanding letters of credit as at 30 June 2007 amounted to KShs. 1,609,073,229.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

28. WORLD BANK FINANCING

(a) The company received financial support from the World Bank through Credit No. 3958-KE dated 4 August 2004 to support implementation of the Energy Sector Recovery Project. Summary information on transactions during the year are as follows:

(i) Special Account B

	2007 KShs'000	2006 KShs'000
Balance at the beginning of the year	24,035	46,500
Amounts received during the year	-	38,966
Net interest income	447	3,590
Expenditure during the year	(12,845)	(65,121)
Balance at the end of the year	11,637	24,035

(b) The closing balances shown above are included in cash and cash equivalents and represent balances outstanding on the World Bank funded Special Account No. 0154003517 held at the Commercial Bank of Africa Ltd. Included in the long term liabilities is also an amount of KShs 100,225,377 (US\$ 1,496,669.59) in respect of the amounts disbursed under the loan to date.

(c) The proceeds of the World Bank loan have been expended in accordance with the intended purpose as specified in the Loan Agreement.

29. EMERGENCY POWER PROJECT

	2007 KShs'000	2006 KShs'000
As the beginning of the year	3,473,697	-
Disbursements from the Ministry of Energy	-	3,699,267
Receipts from KPLC	7,555,845	-
Net interest income	103,739	13,135
Expenditure during the period	(10,251,482)	(238,705)
	881,799	3,473,697

Funds from the Ministry of Energy were disbursed to the company for the purpose of procuring 180Mw of emergency power supply capacity through an Emergency Power Project during the year 2006. The project commenced in March 2006 and has been on for more than 15 months. According to the relationship agreement, in which the company is an implementing commission agent, the Ministry of Energy may extend the agreement period for another one year or more through a written notice to the company. These funds are held in an escrow bank account at the Commercial Bank of Africa.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

26. DIVIDEND

	2007 KShs'000	2006 KShs'000
Interim – paid	879,343	-
Proposed final	879,343	1,209,099
	1,758,686	1,209,099

Dividend per share is calculated based on the amount of the proposed dividend and on the number of ordinary shares in issue at the respective balance sheet dates.

27. DEFERRED TAX

Deferred tax is calculated on all temporary differences under the liability method using the enacted rate, currently at 25%. The net deferred tax liability at year-end is attributable to the following items:

	2007 KShs'000	2006 KShs'000
Deferred tax assets:		
Tax losses	-	(759,965)
Tax effects on items not deductible for tax	(153,003)	(150,594)
	(153,003)	(910,559)
Deferred tax liabilities:		
Unrealised exchange gains	362,230	151,728
On revaluation surplus	8,380,890	-
Accelerated capital allowances	6,448,671	6,609,059
	15,038,788	5,850,228

Movement on the deferred tax account is as follows:

At the beginning of the year	5,850,228	5,898,623
Deferred tax charge	9,188,560	934,709
Deferred tax credit resulting from reduction in tax rate	-	(983,104)
At 30 June	15,038,788	5,850,228

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

(b) AS LESSOR

The future minimum lease payments under non-cancellable operating leases are as shown below:

	2007 KShs'000	2006 KShs'000
Within 1 year	2,000	2,000
After 1 year but not later than 5 years	8,000	3,000
After 5 years	7,000	9,000
	15,000	17,000

The company leased geothermal wells OW 101 and OW 306 to Oserian Development Company for a period of 15 years at a cost of KShs. 15,000,000 per well payable in advance. This amount is accounted for in the income statement annually on straight line basis over the remaining life of the lease.

24. SHARE CAPITAL

	2007 KShs'000	2006 KShs'000
Authorised:		
2,215,927,528 ordinary shares of KShs 2.50 each	5,539,819	5,539,819
Issued and fully paid:		
2,198,361,456 ordinary shares of KShs 2.50 each	5,495,904	5,495,904

25. RESERVES

	2007 KShs'000	2006 KShs'000
Share premium	5,039,818	5,039,818
Capital reserve	8,579,722	8,579,722
Financial instruments revaluation reserve	(13,924)	(17,242)
Revenue reserve	18,514,656	16,191,362
Revaluation reserve – property, plant and equipment	25,142,670	-
	57,262,942	29,793,660

- The share premium arose as a result of the company taking over more assets than liabilities from the Government during the Power Sector Reform Program 2000. The capitalisation of the related excess was in the form of share capital issued at a premium.
- The capital reserve relates to development surcharge received from KPLC for financing the development of certain power projects for the period 1997 and prior years.
- Financial Instruments revaluation reserve arises from fair value changes on treasury bonds. These bonds are classified as available-for-sale. In 2006, the treasury bonds were classified as held-to-maturity and stated at amortised cost.
- The revaluation reserve on property, plant and equipment arose on the revaluation of plant and machinery as shown under note 11.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

21. GEOTHERMAL DEVELOPMENT FUNDS

	2007 KShs'000	2006 KShs'000
At the beginning of the year	1,852,153	1,229,450
Received during the year	2,000	963,193
Expenditure during the year	(411,123)	(340,490)
As 30 June	1,443,030	1,852,153

Funds from the Ministry of Energy were disbursed to the company for the purpose of exploration, exploitation and development of geothermal resources in the country.

22. TRADE AND OTHER PAYABLES

	2007 KShs'000	2006 KShs'000
Trade payables	829,360	1,427,003
Contract payables and retention money	2,064,179	79,622
Sundry payables	386,208	406,562
Leave pay provision	120,095	110,461
VAT payable	165,158	100,284
	3,565,000	2,123,932

23. OPERATING LEASE COMMITMENTS

(a) AS LESSEE

The future rental payments under operating leases are as shown below:

	2007 KShs'000	2006 KShs'000
Within 1 year	6,834	6,834
After 1 year but not later than 5 years	15,245	22,079
	22,079	28,913

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

20. (a) BORROWINGS

	2007 KShs'000	2006 KShs'000
2.6% Japan Bank for International Cooperation No. KE P20 2006/2025 (JPY 7,655,688,000)	4,128,100	5,203,611
2.3% Japan Bank for International Cooperation KE P21 2007/2027 (JPY 6,744,498,358)	3,636,768	4,232,011
7.7% International Development Association 2003/2018 (US\$ 80,268,775)	5,343,043	5,469,372
7.7% Kreditanstalt Fur Wiederaufbau 2004/2019 (Euro 1,219,463)	109,157	124,577
0.75% Japan Bank for International Cooperation KE P23 2014/2044 (JPY 6,731,186,241)	3,629,590	7,151,576
4.5% International Development Association 2009/2027 (US\$ 1,496,669)	100,226	10,574
Total loans	16,946,884	18,298,721
Accrued interest	117,000	138,567
Total borrowings	17,063,884	18,437,288
Less: Amounts due within one year	(1,023,189)	(1,070,516)
Non current borrowings	16,040,695	17,366,772

(b) Analysis of borrowings by currency

	Borrowings in US\$ KShs'000	Borrowings in JPY KShs'000	Borrowings in EUR KShs'000	Total borrowings KShs'000
2007				
Loans (KShs)	5,443,268	11,394,459	109,157	16,946,884
2006				
Loans (KShs)	6,579,946	11,594,198	124,577	18,298,721

	2007 KShs'000	2006 KShs'000
(c) Maturity of non-current borrowings		
Due between 1 and 2 years	1,023,189	1,070,516
Due between 2 and 5 years	3,069,566	3,211,547
Due after 5 years	11,947,940	13,084,709

16,040,695 17,366,772

The Government of Kenya guarantees all the company's term loans. The overdraft facilities with Commercial Bank of Africa Limited and Co-operative Bank of Kenya Limited are secured by a letter of negative pledge from the company. The company did not utilise the overdraft facilities during the year.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

19. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations	2007	2006
	KShs'000	KShs'000
Operating profit	4,719,279	3,720,538
Adjustments for:		
Depreciation	3,446,354	2,000,212
Deficit on revaluation	375,013	-
Amortisation of prepaid operating leases on land	29	29
Gain on disposal of fixed assets	(8,686)	-
Interest income	(593,091)	(829,569)
Interest expense	553,707	644,976
Exchange gains on loans	(1,452,274)	(614,316)
Exchange losses	32,299	(589,070)
Net discounts on amortisation of treasury bonds	(22,794)	(96,363)
Amortisation of gain/losses on treasury bonds	3,319	(199,030)
Operating profit before working capital changes	7,053,155	4,037,407
Decrease/(increase) in inventories	11,065	(289,873)
Increase in amounts due from KPLC	(2,520,789)	(901,438)
Decrease in trade and other receivables	519,184	1,765,673
Increase in trade and other payables	1,441,068	858,160
Decrease in amount due to KPLC	(2,545)	-
Decrease in prepaid lease	(2,000)	(2,000)
UNEP grants	-	(49,406)
(Decrease)/increase in research funds	(409,123)	622,703
Cash flows generated from operations	6,090,015	6,041,226
(b) Analysis of changes in borrowings during the year		
Balance at 1 July	18,298,719	18,801,411
New loans received	2,197,783	1,362,550
Repayments of amounts borrowed	(871,203)	(888,132)
Foreign exchange gains expensed	(1,452,274)	(614,316)
Foreign exchange gains capitalised	(1,226,142)	(362,794)
Balance at 30 June	16,946,883	18,298,719
(c) Analysis of balances of cash and cash equivalents		
Bank and cash balances	1,749,334	4,321,368
Term deposits	89,794	85,477
Balance at 30 June	1,839,128	4,406,845

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

17. RELATED PARTY TRANSACTIONS (continued)

	2007 KShs'000	2006 KShs'000
(iv) Staff		
Key management staff advances	422	896
Other staff	89,388	87,552
	89,810	88,458

The company, through the welfare and benefits scheme, provides staff with financial support.

	2007 KShs'000	2006 KShs'000
(v) Key management compensation		
Salaries and wages	46,852	46,491
Pension scheme contributions	8,771	8,716
Other allowances	27,319	22,618
	82,942	77,825

18. TERM DEPOSITS

The deposits constitute a revolving fund facility with Housing Finance Limited to facilitate purchase of houses by staff members under the company's staff housing scheme.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

17. RELATED PARTY TRANSACTIONS

	2007 KShs'000	2006 KShs'000
a) Amount due from KPLC		
Electricity sales	5,183,884	2,960,287
Sondu Miriu project receivables	<u>627,072</u>	<u>329,880</u>
	5,810,956	3,290,167

b) Amount due to KPLC

Electricity purchases	2,433	4,978
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The Sondu Miriu project receivables relate to project costs for land, transmission lines and substations being implemented by the company on behalf of KPLC under a management agreement. These assets will be transferred to KPLC on completion of the project.

c) Related party transactions

Parties are considered to be related if there is common shareholding and/or one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions.

During the year the following transactions were carried out with related parties:

	2007 KShs'000	2006 KShs'000
(i) Electricity sales to KPLC	14,455,636	14,300,060
(ii) Electricity purchases from KPLC	59,256	52,905
iii) Government of Kenya:		
Funds received for Geothermal Resources Assessment	2,000	963,193
Project borrowings received	-	200,838
Interest expense on project borrowings	440,436	499,093
Geothermal Resource Assessment assets	411,123	340,490

Other details relating to transactions with the Government of Kenya are disclosed in notes 20, 21 and 29.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

Motor vehicles KShs'000	Furniture, Equipment and fittings KShs'000	Work- in- progress KShs'000	Total KShs'000
206,193	1,372,753	11,540,932	62,369,124
-	-	2,057,076	2,057,076
44,889	64,583	(313,349)	-
251,082	1,437,336	13,284,659	64,426,200
133,530	1,038,437	-	11,763,621
16,856	61,431	-	2,000,212
150,386	1,099,868	-	13,763,833
100,696	337,468	13,284,659	50,662,367

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

11. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) 30 June 2006

	Freehold land and buildings KShs'000	Transmission lines KShs'000	Plant and machinery KShs'000
Cost			
At 1 July 2005	8,510,589	610	40,738,047
Additions	-	-	-
Transfers from work-in-progress	22,147	6,777	174,953
At 30 June 2006	8,532,736	7,387	40,913,000
Depreciation			
At 1 July 2005	2,470,750	93	8,120,811
Charge for the year	404,911	650	1,516,364
At 30 June 2006	2,875,661	743	9,637,175
Net Book Value			
At 30 June 2006	5,657,075	6,644	31,275,825

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

	2007 KSh's'000	2006 KSh's'000
3. (a) ELECTRICITY SALES – NON FUEL		
Electricity sales	10,852,766	7,986,968
Foreign exchange adjustments	192,322	235,740
Income from Emergency Power Project (EPP)	96,131	-
	11,141,219	8,222,708
3. (b) FUEL REVENUE - PASS - THROUGH		
	3,410,548	6,077,352
	14,551,767	14,300,060
Units sold (GWh)	4,599	4,538
4. OPERATING EXPENSES		
Fuel costs – pass-through	3,410,548	6,077,352
Staff costs [see note 8(b)]	2,084,429	1,728,937
Depreciation	3,446,354	2,000,212
Plant operation and maintenance	1,067,313	937,614
Insurance	228,100	226,375
Catchments preservation and dam maintenance	107,031	111,850
Welfare and training	241,854	194,454
Other costs	488,949	368,067
	11,074,578	11,564,881
5. OTHER INCOME		
Interest income	593,091	829,569
United National Environmental Programme grants	-	49,406
Insurance compensation	73,446	17,358
Miscellaneous income	84,298	42,932
	750,835	1,041,265
6. FINANCE (INCOME)/COSTS		
Interest on long-term borrowings	553,706	544,976
Net exchange gains	(1,419,974)	(589,070)
	(866,268)	55,906
7. IMPAIRMENT OF FIXED ASSETS ON REVALUATION		
As at 30 June	375,013	-

This relates to the deficit arising on the revaluation of plant and machinery (see note 11).

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Accounting for leases (continued)

The company as lessee

Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the accounting policy on borrowing costs. Property, plant and equipment acquired under finance leases are depreciated over their estimated useful lives.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

s) Dividends

Dividends are charged to reserves in the year to which they relate. Proposed dividends are disclosed as a separate component of equity until approved.

t) Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Revenue grant

Grants received to compensate expenses or for the purpose of giving immediate support to the company with no future related costs are dealt with in the income statement in the year of receipt and/or commencement of the project for which they were intended.

Capital grant

Where a grant is related to an asset, the asset amount is presented in the balance sheet by deducting the related grant in arriving at the carrying amount of the asset.

u) Computer software development costs

Costs associated with the maintenance of computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over the useful life.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

q) Employees' benefits

i) Retirement benefits obligations

The company operates a defined benefits pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and employees. Benefits are paid to retiring staff in accordance with the scheme's rules. The company and all its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme. The company's obligation under the scheme is limited to specific contributions legislated from time to time and are currently limited to a maximum of KShs. 200 per month per employee.

The company's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate.

For the defined benefits scheme, the pension costs are assessed using the attained age method. Under this method the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of actuaries. Actuarial deficits are recognised over the average remaining service lives of employees.

ii) Other entitlements

The monetary benefits for employees' accrued annual leave entitlement at the balance sheet date are recognised as an expense accrual.

r) Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

The company as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Impairment of assets

The company reviews, at each balance sheet date, the carrying amounts of its financial assets, tangible and intangible assets, to determine whether there is any indication that those 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 income statement whenever the carrying amount of the asset exceeds its recoverable amount.

o) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has not transferred substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of asset, the asset is recognised to the extent of the company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial instruments (continued)

Held-to-maturity investments

Held-to-maturity financial investments are those which carry fixed or determinable payments and fixed maturities which the company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost, using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

The annual amortisation cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Gains and losses arising from changes in fair value are recorded directly into equity until the investments are derecognised at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Available-for-sale investments

Investment securities intended to be held for an indefinite period of time which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates are classified as available-for-sale and are initially recognised at cost. Available for sale investments are subsequently measured at fair value, based on quoted bid prices.

Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity until the asset is derecognised, at which time the cumulative gains or losses previously recognised in equity shall be recognised in the income statement.

Investments held for trading

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Investments held for trading are initially recognised at cost and subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the income statement. Interest earned whilst holding held for trading investments is reported as interest income.

m) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from date of disbursement or date of confirmation of the advance.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Capitalisation of geothermal assets

All productive wells are capitalized when connected and are depreciated over their useful lives. The useful life is currently estimated to be fifteen years from the date of commencement of commercial operation. The cost of unproductive wells is transferred to the income statement in the year in which they are certified complete but unproductive. Where a well ceases to be productive before the end of its expected useful life, the net book value of the well is charged to the income statement in the year it ceases to be productive.

j) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use are capitalised as part of the cost of the assets, until such time as the assets are substantially ready for their intended use. Capitalised costs include interest charges and foreign currency exchange differences on borrowings for projects under construction.

k) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs and labour. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation. Provision is made for obsolete, slow moving and defective stocks.

l) Financial instruments

Financial assets and liabilities are recognised on the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are recognised and carried at original invoice amounts less allowances for any uncollectible amounts.

Borrowings

Interest-bearing loans and overdrafts are initially recorded at cost, being the fair value of consideration received, net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost, and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

Trade payables

Trade payables are stated at their nominal value.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

g) Taxation

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

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

h) Property, Plant, Equipment and Depreciation

Property, plant and equipment are stated at cost or valuation, excluding the costs of day to day servicing, less accumulated depreciation and any impairment losses.

Changes in the expected useful life are accounted for by changing the amortisation period as appropriate, and treated as changes in accounting estimates.

Freehold land is not depreciated.

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:

Buildings	2.85%
Geothermal wells	6.66%
Transmission lines	2.5-20%
Intake and tunnels	1%
Plant and machinery	1- 6.66%
Motor vehicles	25%
Furniture, equipment and fittings	12½%

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised.

Notes to the Financial Statements (continued)

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Significant accounting judgements and estimates (Continued)

Provisions for debtors

The company assesses whether debtors are impaired on an annual basis. This requires an estimation of the amounts that are irrecoverable especially debts incurred by staff in relation to medical expenses.

Useful lives of assets

Due to the technical nature of the company's assets, the directors assess the assets useful lives at the end of the year using internal technical expertise.

Valuation of financial instruments

The company carries its investments in treasury bonds as available for sale. The determination of fair value requires estimation of treasury bonds prices in the market.

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

i) **Sale of electricity**

Revenue is recognised, excluding Value Added Tax and other Government levies, on the basis of net units of energy generated and sent out to the authorised distributor's transmission systems and invoiced to the authorised distributor, KPLC. Revenue includes amounts invoiced for power supply, fuel recoveries and foreign exchange adjustments.

ii) **Interest**

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) **Rental income**

Rental income is accounted for on a straight-line basis over the lease term.

e) Foreign currency transactions

Transactions during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. All resulting differences from conversion and translation of foreign currencies are dealt with in the income statement with the exception of those differences relating to the foreign currency borrowings that are used to fund construction of on-going projects. These are capitalized as part of project costs.

Notes to the Financial Statements

For the Year ended 30 June 2007

1. GENERAL INFORMATION

Kenya Electricity Generating Company (KenGen) is incorporated and domiciled in Kenya under the Kenyan Companies Act. The company was incorporated in 1954 as Kenya Power Company Limited (KPC) and renamed KenGen in 1997 following the implementation of the reforms in the energy sector. The core business is to develop, manage and operate power generation plants to supply electric power to the Kenyan market. The shares of the company are listed on the Nairobi Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards. The financial statements are presented in the functional currency, Kenya Shillings, and rounded to the nearest thousand and prepared under the historical cost basis of accounting as modified by the revaluation of certain fixed assets and financial instruments.

b) Change in accounting estimates

The accounting policies adopted are consistent with those of the previous financial year except that the company has adopted those revised International Financial Reporting Standards mandatory for financial years beginning on or after 1 January 2006.

The company adopted the revised IAS 16, property, plant and equipment with respect to the depreciation of components of plant and machinery with significant costs in relation to the total cost of the item separately.

c) Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In the process of applying the company's policies, the directors have made the following judgements apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Provisions for obsolete stocks

The company holds most of its spare parts for strategic reasons, so that power generation is not interrupted by breakdowns. Most of the stock items of this nature are generally slow-moving but not obsolete. The provision made excludes the slow-moving stocks that the directors consider to be held as strategic spares.

Cash Flow Statement

For the Year ended 30 June 2007

		2007	2006
	Note	KShs'000	KShs'000
Cash flows from operating activities			
Cash generated from operations	19(a)	6,090,015	6,041,226
Corporation tax paid		(78,120)	(91,174)
Interest paid		(687,043)	(2,030,008)
Net cash flows generated from operating activities		5,324,852	3,920,044
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,356,989)	(2,057,076)
Purchase of intangible assets		(215,664)	-
Proceeds from sale of assets		9,466	-
Interest received		658,321	763,811
Proceeds on sale of treasury bonds		1,505,026	3,200,393
Proceeds on redemption of treasury bonds on maturity		972,500	920,750
Purchase of treasury bonds		(3,444,926)	(1,822,111)
Net cash flows (used in)/generated from investing activities		(5,872,266)	1,005,767
Cash flows from financing activities			
Payment of long-term borrowings	19(b)	(871,203)	(888,132)
Proceeds from long-term borrowings	19(b)	2,197,783	1,362,550
Exchange gain capitalised	19(b)	(1,226,142)	-
Payment of funds awaiting allotment of shares		-	(3,524,425)
Dividends paid		(2,088,442)	(500,000)
Net cash flows used in financing activities		(1,988,004)	(3,550,007)
(Decrease)/increase in cash and cash equivalents		(2,535,418)	1,375,804
Cash and cash equivalents at the beginning of the year		4,406,845	2,441,971
Net foreign exchange adjustment		(32,299)	589,070
Cash and cash equivalents at the end of the year	19(c)	1,839,128	4,406,845

Statement of Changes in Equity

For the Year ended 30 June 2007

Financial instruments revaluation reserve KShs'000	Revenue reserve KShs'000	Fixed asset revaluation reserve KShs'000	Proposed Dividends KShs'000	Total KShs'000
181,788	13,631,528	-	500,000	33,428,760
-	3,768,933	-	-	3,768,933
(199,030)	-	-	-	(199,030)
-	-	-	(500,000)	(500,000)
-	(1,209,099)	-	1,209,099	-
(17,242)	16,191,362	-	1,209,099	36,498,663
(17,242)	16,191,362	-	1,209,099	36,498,663
-	-	35,159,874	-	35,159,874
-	1,636,314	(1,636,314)	-	-
-	-	(8,380,890)	-	(8,380,890)
-	2,445,666	-	-	2,445,666
3,318	-	-	-	3,318
-	-	-	(1,209,099)	(1,209,099)
-	(879,343)	-	-	(879,343)
-	(879,343)	-	879,343	-
(13,924)	18,514,656	25,142,670	879,343	63,638,189

Statement of Changes in Equity

For the Year ended 30 June 2007

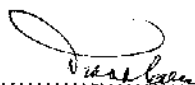
	Share capital KShs'000	Share premium KShs'000	Capital reserve KShs'000
At 1 July 2005	5,495,904	5,039,818	8,579,722
Net profit for the year	-	-	-
Amortization of treasury bonds fair value adjustments	-	-	-
Dividends:			
2005- Final paid	-	-	-
2006- Proposed	-	-	-
At 30 June 2006	5,495,904	5,039,818	8,579,722
At 1 July 2006	5,495,904	5,039,818	8,579,722
Surplus on revaluation	-	-	-
Transfer of excess depreciation	-	-	-
Deferred tax on revaluation surplus	-	-	-
Net profit for the year	-	-	-
Amortization of treasury bonds fair value adjustments	-	-	-
Dividends:			
2006 - Final paid	-	-	-
2007 - Interim paid	-	-	-
2007 - Final proposed	-	-	-
At 30 June 2007	5,495,904	5,039,818	8,579,722

Balance Sheet

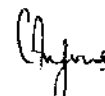
As at 30 June 2007

		2007	2006
ASSETS	Note	KShs'000	KShs'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	87,357,082	50,662,367
Prepaid leases on land	12	1,504	1,533
Intangible assets	13	215,664	-
Treasury bonds	14	3,941,294	2,447,488
		<u>91,515,544</u>	<u>53,111,388</u>
CURRENT ASSETS			
Inventories	15	1,036,841	1,047,906
Trade and other receivables	16	564,070	1,083,254
Amount due from KPLC	17(a)	5,810,956	3,290,167
Tax recoverable	9(b)	-	189,286
Treasury bonds	14	1,200,322	1,657,396
Term deposits	18	89,794	85,477
Bank and cash balances	19(c)	1,749,334	4,321,368
		<u>10,451,317</u>	<u>11,674,854</u>
CURRENT LIABILITIES			
Borrowings due within one year	20	1,023,189	1,070,316
Geothermal development funds	21	1,443,030	1,852,153
Trade and other payables	22	3,565,000	2,123,932
Amount due to KPLC	17(b)	2,433	4,978
Prepaid operating lease	23	2,000	2,000
Tax payable	9(b)	1,198,537	-
		<u>7,234,189</u>	<u>5,053,579</u>
NET CURRENT ASSETS		<u>3,217,128</u>	<u>6,621,275</u>
NET ASSETS		94,732,672	59,732,663
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	24	5,495,904	5,495,904
Reserves	25	57,262,942	29,793,660
Proposed dividends	26	879,343	1,209,099
		<u>63,638,189</u>	<u>36,498,663</u>
NON-CURRENT LIABILITIES			
Borrowings	20	16,040,695	17,366,772
Prepaid operating lease	23	15,000	17,000
Deferred tax	27	15,038,788	5,950,228
		<u>31,094,483</u>	<u>23,234,000</u>
		94,732,672	59,732,663

The Board of Directors approved the financial statements on 17 September 2007 and were signed on its behalf by:



Director



Director



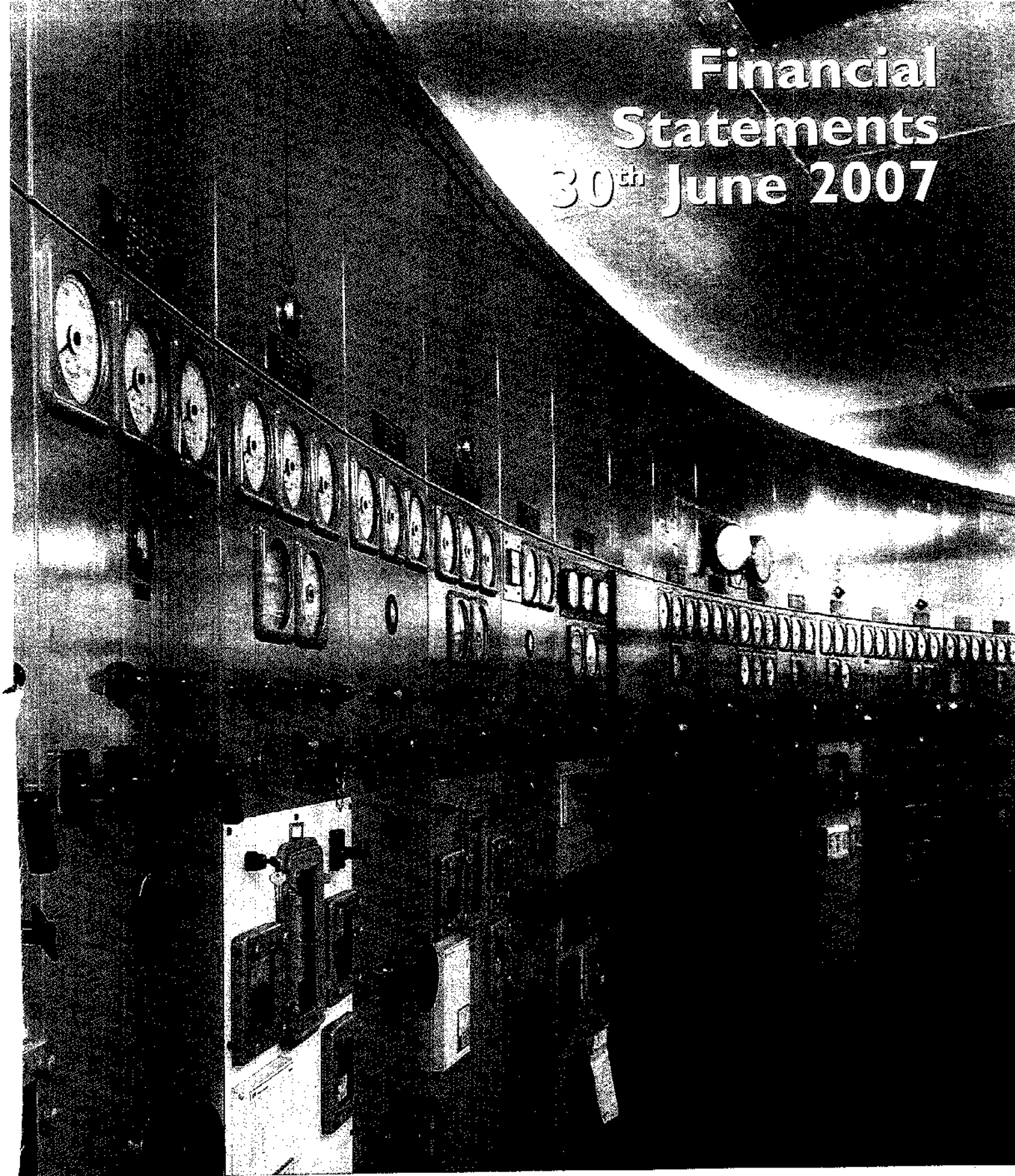
Director

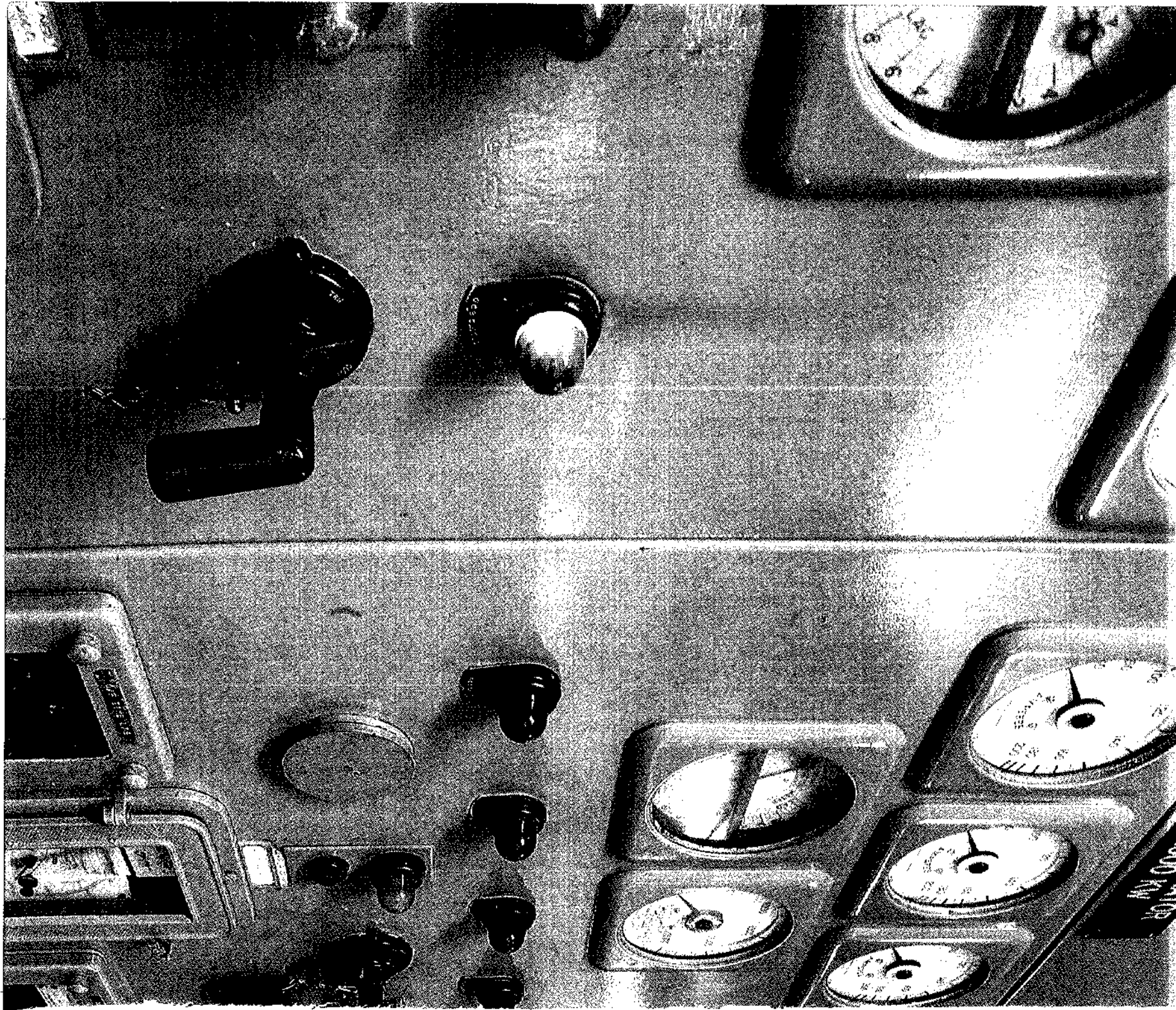
Income Statement

For the Year ended 30 June 2007

	Note	2007 KShs'000	2006 KShs'000
ELECTRICITY SALES – NON FUEL	3(a)	11,141,219	8,222,708
FUEL REVENUE – PASS-THROUGH	3(b)	3,410,548	6,077,352
		14,551,767	14,300,060
OPERATING EXPENSES	4	(11,074,578)	(11,564,881)
GROSS PROFIT		3,477,189	2,735,179
OTHER INCOME	5	750,835	1,041,265
OPERATING PROFIT		4,228,024	3,776,444
NET FINANCE INCOME/(COSTS)	6	866,268	(55,906)
IMPAIRMENT OF FIXED ASSETS ON REVALUATION	7	(375,013)	-
PROFIT BEFORE TAXATION	8	4,719,279	3,720,538
TAXATION - Corporate tax	9(a)	(1,465,943)	-
- Deferred tax	9(a)	(807,670)	48,395
NET PROFIT FOR THE YEAR		2,445,666	3,768,933
Earnings per share - Basic and diluted (KShs.)	10	1.11	1.71
Dividends per share - (KShs.)		0.80	0.55

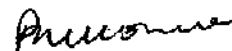
Financial Statements 30th June 2007





OPINION

In my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Company as at 30 June 2007 and of its profit and cashflows for the year then ended in accordance with the International Financial Reporting Standards and the Kenya Companies Act, Cap 486 of the Laws of Kenya.



P.N. Komora

Controller and Auditor General, Nairobi
17 September 2007

Report of the Controller and Auditor-General on the Financial Statements of Kenya Electricity Generating Company Limited for the year ended 30 June 2007

The financial statements of the Kenya Electricity Generating Company Limited set out on pages 36 to 69 which comprise the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes have been audited on my behalf by Ernst & Young, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements which give a true and fair view of the Company's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITIES OF THE CONTROLLER AND AUDITOR GENERAL

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Environmental Improvement

The company continued to be a key partner in the Aberdare Forest fencing project and donated Shs 3 million towards the effort. At the same time, staff joined the Kedowa community in Kipkelion District in planting over 10,000 tree seedlings in the Mau Forest.

During the year, the Company donated over 70,000 tree seedlings to host communities and institutions. The Company is also among the founder members of the Kenya Energy Sector Environment Programme (KEEP) whose vision is to transform the Kenyan economy through energy efficiency and environmental conservation and restoration.

Sports

The annual KenGen Parklands Open International Squash Tournament (2006) attracted a field of 120 local and international players. The event, which KenGen has supported for the last three years, is now the biggest squash tournament in the region and is unleashing new squash talent in the country. The company also supported football and golf tournaments.

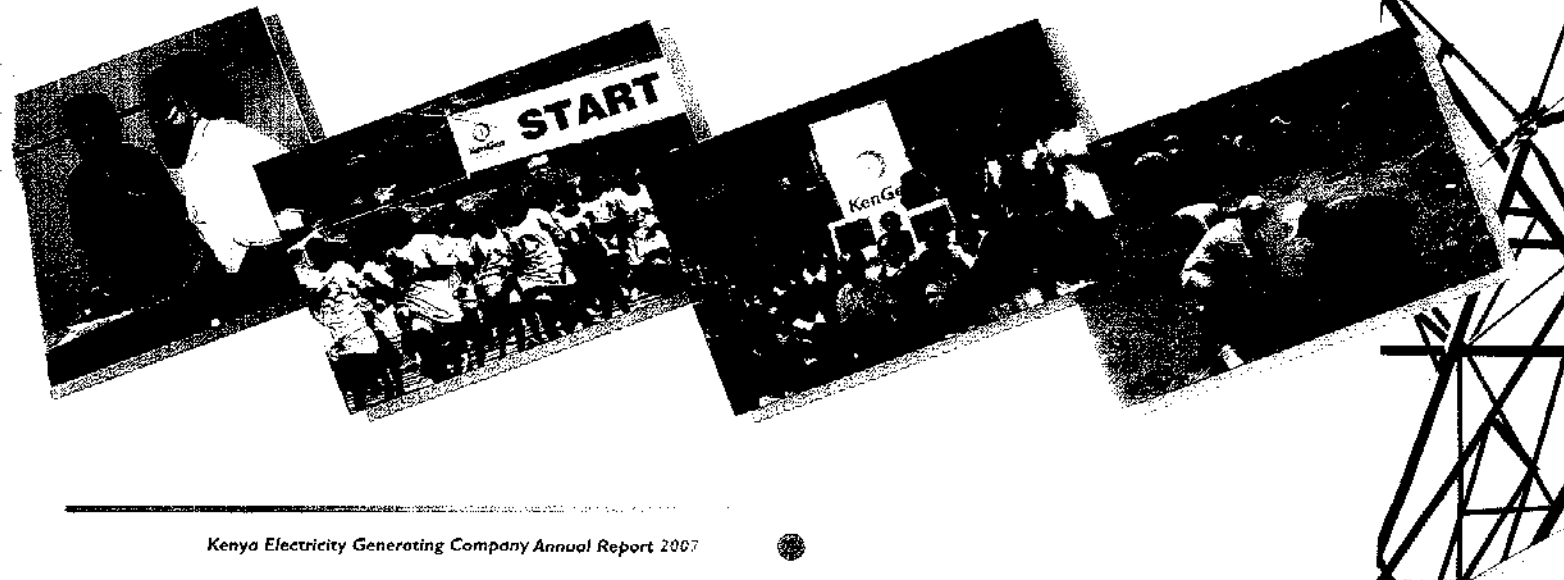
Health

The Company offers host communities treatment in its clinics at subsidized rates. In 2006, the Company also supported medical camps and facilities including the Diabetes Run, Nyandarua Epilepsy Community, Heart to Heart Foundation, Turkwel Dispensary beds, Kusa Dispensary and Nyeri Hospice.

Power Supply

The Company donated Shs 3 million to connect power supply to Kolweny Market in Sondu Miriu as part of its CSR initiative. Power supply was also connected to Holo Secondary School.

We will continue to plough back part of the profits to the communities in various social investment activities around the country to achieve our CSR objectives.



Corporate Social Responsibility (CSR)

KenGen believes in adding value to the community it serves and sets aside one percent of the net profits to uplift the standards of various communities and the country at large. During the year under review, the quest for greater participation in the welfare of the society was carried on. Emphasis was given to promotion of education, health, environmental improvement, water supply, peace initiatives, transport and sports.

The Corporate Social Responsibility (CSR) policy developed two years ago guides our decisions in CSR programmes and activities. The CSR policy ensures transparency and integrity in management of the CSR programmes.

Education

The Company continued to support bright and needy children access secondary and university education. To date, the scholarship programme is supporting tuition and boarding fees for 42 secondary students and 21 university students studying in various institutions around the country.

This CSR initiative is helping to improve the quality and standard of education in primary and secondary schools in areas where the Company operates. The Company plans to invest Kshs. 5 million each year to support the scholarship programme and contribute towards the country's manpower development. Other initiatives to boost education included construction of classrooms at Gogo Primary School, Kuja Primary School, Rurii Primary School, Ngiliri Primary School and Machang'a Secondary School.

Peace Initiatives – Turkwel Peace Race

KenGen is a key stakeholder in West Pokot and Turkana South Districts, which share boundaries with the Turkwel Power Station. The region has over the years experienced intermittent clashes and pronounced hostilities between local communities. This conflict has undermined economic growth and living standards of the area and sometimes affected operations at Turkwel Power Station. In this regard, the company partnered with the Tegla Lourope Peace Foundation and Project Cabesi to organize the first edition of a Peace Race and Beauty Pageant on September 23, 2006 in Turkwel. The event attracted over 1,000 community participants from Turkana, West Pokot, Keliyo Marakwet, Baringo, Samburu and Karamoja in Uganda. The initiative has borne fruits and tensions amongst among warring communities in Turkwel have eased. In coming years, the event will be used to raise funds to support community development projects in the area.

Water Supply

To contribute towards alleviation of inadequate water supply, the Company partnered with host communities in Turkwel, Seven Forks, Mini Hydros, Kipevu and Olkaria to build tanks and lay pipes for clean water supply. The Kambirwa-Mirira Water Project in Mini Hydros was assisted in purchasing a community water pump while the Narasha Eseneto Water Project in Olkaria and Asembo water project received donations to complete their water project. Water supply around the Seven Forks was boosted with construction of six water kiosks. This is in addition to regular water supply that communities receive from Company installations.

LIST OF TEN LARGEST SHAREHOLDERS AS AT 30 JUNE 2007

	Number of Shares	%
1. Permanent Secretary, Treasury	1,538,853,019	70.00
2. Nomura Nominees Limited A/C NSSF	10,899,800	0.50
3. Alfaways Limited	6,436,121	0.29
4. National Social Security Fund	5,990,131	0.27
5. Barclays (K) Nominees Limited A/C 9230	5,557,200	0.25
6. Jennid Trading Limited	5,455,794	0.25
7. Lancaster Investment Limited	4,502,106	0.20
8. Sandhurst Investments Limited	4,501,294	0.20
9. Kensington Developers Limited	4,148,427	0.19
10. Kenya Commercial Bank Nominees Limited A/C 769G	3,557,692	0.16
	1,589,901,584	72.31
233,160 other shareholders	608,459,872	27.69
Total	2,198,361,456	100.00

DISTRIBUTION OF SHAREHOLDERS

Range	No. of Shareholders	Shares	% Shareholding
1 - 500	82,395	27,987,690	1.27
501 - 1,000	54,365	43,185,114	1.96
1,001 - 5,000	63,645	137,219,077	6.24
5,001 - 10,000	27,973	182,433,783	8.30
10,001 - 50,000	4,150	80,311,649	3.65
50,001 - 100,000	326	22,390,416	1.02
100,001 - 500,000	244	51,437,355	2.34
500,001 - 1,000,000	39	25,221,545	1.15
Above 1,000,000	33	1,628,174,827	74.06
Total	233,170	2,198,361,456	100.00

Statement of Corporate Governance (continued)

Strategy Committee

Sarah Wainaina is the Chairperson, while Musa Ndeto, Solomon Kitungu, Henry M'Narobi, Don Riaroh and Edward Njoroge are members of the Committee.

This Committee assists the Board in discharging its oversight duties with respect to the overall strategic direction of the Company, operational performance and organizational health.

The Committee held 2 regular meetings in the year under review.

Audit Committee

This Committee comprises of Dorcas Kombo as Chairperson, while Solomon Kitungu, Musa Ndeto, George Njagi, Hedrick Omanwa and Edward Njoroge are members.

Its main duties are to review, advise and make recommendations regarding KenGen's financial information, financial plans, budgets and risk management; receive the internal audit reports; assess the independence and performance of external auditors; assess management's design and implementation of internal controls and monitor compliance with the Code of Conduct and Ethics.

This committee held 4 regular and 4 special meetings in the year under review.

Staff Committee

George Njagi is the Chairman, while Dorcas Kombo, Don Riaroh, Sarah Wainaina, Peter Muriithi and Edward Njoroge are members.

The Committee reviews and approves human resource policies and strategies; advises the Board on areas such as compensation, succession planning and labour relations; and monitors the ethical conduct of the employees.

It held 4 regular and one special meeting in the year under review.

Directors Remuneration

Following the Government guidelines as provided by the State Corporations Act on directors' remuneration, non-executive directors are paid annually after approval is given at the Annual General Meeting (AGM). The directors are also paid sitting allowance for every meeting attended as well as travel and accommodation allowance while on company duty. The Chairman is paid a monthly honorarium.

Communication with the Shareholders

We believe in regular and timely communication with our shareholders to keep them fully informed of all major developments that have an impact on the Company. The Company publishes its half-year and annual results in the local press.

Shareholders are encouraged to attend the AGM to stay informed of the Company's strategy and goals. Notice of the AGM is dispatched to all shareholders at least 21 days before the meeting.

Shareholding*

The company files monthly returns to meet continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Stock Exchange.

*shareholding data appears on page 27

Statement of Corporate Governance

The Board of Directors recognises the importance of good corporate governance in the Company's performance, capital formation and maximization of shareholders value. Accordingly, the Board is committed to maintaining a high standard of corporate governance.

Board of Directors

The Board consists of 10 non-executive Directors and an executive Managing Director. The Directors possess broad range of expertise and experience required to direct KenGen. The Board holds meetings on a regular basis and a calendar of meetings is prepared annually, while special meetings are called when circumstances require. The Board held 4 regular and 4 special meetings during the year.

Board Responsibilities

The roles of the Chairman and Managing Director are separate and their responsibilities clearly defined.

The Board defines the Company's strategic intent, objectives and values and ensures that procedures and practices are in place, to protect the Company's assets and reputation. It is responsible for the stewardship of the Company and assumes responsibility for retaining full and effective control over the Company. The Board also controls, supervises and administers the assets of KenGen; determines the provisions to be made for capital and recurrent expenditure and for reserves of KenGen; enters into association with other bodies or organizations within or outside Kenya as the Board may consider desirable or appropriate; authorise the opening of banking accounts and acts responsibly towards the Company's stakeholders.

The conduct of Board members is consistent with their duties and responsibilities to the Company and they must always act within the limitations imposed by the Board.

In order to ensure that the Board is able to discharge its responsibilities, the management is required to provide adequate and timely information on the Company's policies. It also considers an operational report from the Managing Director; management accounts for each quarter; reports from each Board Committee; specific proposals for capital expenditure and acquisitions; and major issues and strategic opportunities for the Company.

The Company Secretary advises the Board on all corporate governance matters and statutory requirements as well as attends all the Board meetings and Committee meetings.

The Company also provides continuous training on Board processes. During the year, new Directors attended a course on Corporate Governance Principles and Practices for Directors.

Board Committees

Board Committees have been set up with written terms of reference to facilitate efficient decision-making of the Board in the execution of its duties, powers and authorities. Delegation of authority to Board Committees or management does not in any way mitigate or dissipate the discharge by the Board of its duties and responsibilities. The Board has set up three Committees.




Ripoti ya Mkurugenzi Mkuu

mkakati uliowekwa. Mpango huo wa mabadiliko utakuwa tayari kufikia katikati mwa Novemba 2007.

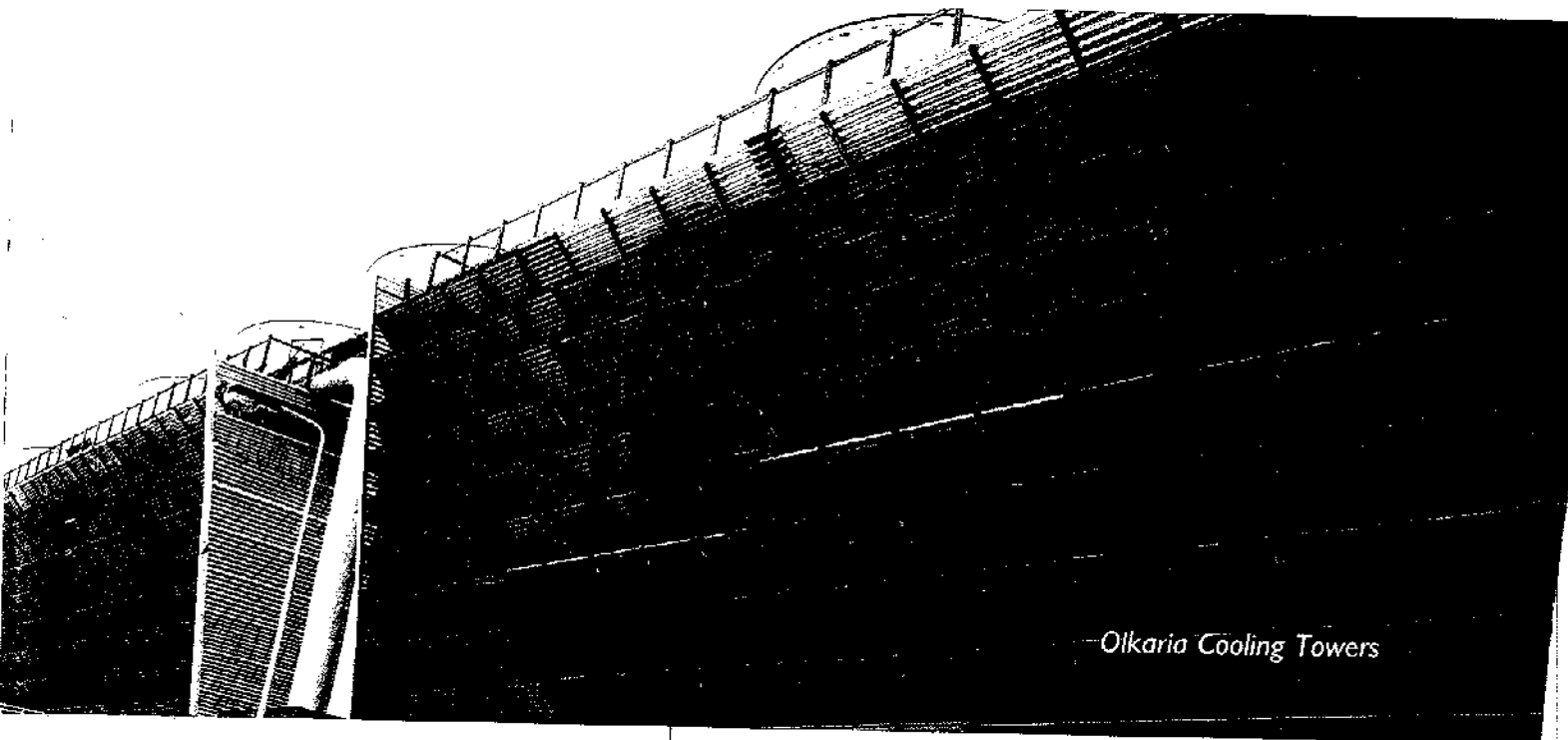
Mpango huo wa "Nzuri hadi bora Zaidi" (G2G) una mada mbili:— (i) kutoka kwa "Kampuni Bora hadi "Kampuni Bora Zaidi" ambayo inatoa thamani kwa washika dau wote (wenyehisa, wateja, wafanya kazi na wananchi kwa jumla) na (ii) kuzingatia kuendeleza thamani kutoka "Kizazi kimoja cha Wakenya" hadi "Kizazi Kingine." Azima yetu ni kuendesha uchumi wa Kenya kwa majadi yajayo.

Shukrani

Ningependa kuishukuru, Wizara ya Fedha, Wizara ya Kawi, Tume ya Kusimamia Kawi, Halmashauri ya Wakurugenzi wa KenGen na wafanyakazi wetu kwa ushirikiano wao mwaka uliopita. Ningependa pia kuwashukuru washirika wetu wa kimaendeleo kwa kutuunga mkono katika mipango yetu ya upanuzi. Tunapoendelea na maongozo bora ya kampuni kulingana na mamlaka tuliyotunukiwa, nina imani kwamba kama timu, tutahakikisha uthabiti wa usambazaji umeme kwa taifa letu na kuwezesha ustawi wa uchumi wetu.



Edward Njoroge
Mkurugenzi Mkuu



Olkaria Cooling Towers

viwanda vyetu vya uzalishaji vinatumia rasimili inayoweza kutumika tena. Na asilimilia 75 ya vile tunavyoendelea kujenga vinatumia rasimili hiyo hiyo. Tuna sera inayoelezea na kuongoza shughuli zetu zote za kimazingira. Ukaguzi na tathmini zinafanywa, na ripoti kuwasilishwa kwa Halmashauri ya Kitaifa inayosimamia Mazingira (NEMA) kama inavyohitajika. Tunajitolea kwa utunzaji wa mazingira kote nchini na tuko katika mpango wa kitaifa wa sekta ya Kawi nchini kuhusu Mazingira (KEEP). Ili kukita falsafa yetu ya utunzaji mazingira, tunatekeleza mfumo wa kusimamia mazingira wa ISO 14001:2004 (EMS) na tunatarajia kupata cheti rasmi kufikia mwaka ujao.

Utaratibu wa Ustawi Safi (CDM)

Tisho la kuongezeka kwa viwango vya joto lipo ndiposa Kenya ilitia sahihi Mwafaka wa Kyoto mnamo 2005. Ni kutokana na mpangilio huu ambapo tunaendelea kutenga fedha za kupunguza viwango vya kaboni hewani. Tuna miradi sita inayokadiriwa kupunguza kaboni dioksidi (CO₂e) kufikia hadi tani 600,000 milioni katika kipindi cha hadi 2012.

Isitoshe, tutakuwa tunapokea dola zaidi kwa kila tani ya CO₂e kwenye miradi maalumu ambazo zitatumika kwa ustawi wa kijamii. Benki ya Dunia ni mshirika katika mradi huu. Ili kuwezesha nchi hii kutumia malighafi hiyo kikamilifu, tunajiandaa kuanzisha kituo cha CDM kuhudumia eneo hii na kufanikisha kuidhinishwa kwa miradi ya CDM na Umoja wa Mataifa.

Wafanya kazi wetu

Tumekuwa na jumla ya wafanya kazi 1,500 kwa miaka mingi. Takribani asilimilia 65 kati yao ni wa kiufundi, hali inayothibitisha uwezo wetu wa kuafikia malengo yetu. Usalama katika utendaji kazi (OHS) ni nguzo muhimu katika huduma zetu na tumejitahidi kuhakikisha usalama nyakati zote. Yavazi ya usalama, uhamasishaji kuhusu HIV/Ukimwi, mazingira safi ya utendaji kazi ni miongoni mwa sera zetu za kuhakikishia wahudumu wetu usalama, hali ambayo imetuwzesha kufanya kazi bila visa vyovyote vya kuhatarisha maisha.

Tunakuza wafanya kazi wetu kupitia kamati ya Utafiti na Ustawi ambayo inakusanya na kulinganisha mapendekezo kwa utekelezaji. Lengo letu ni kufanya kampuni kuwa mahali pa kukuza vipawa vya wafanya kazi na pia kuwatuza ipasavyo. Michezo na shughuli zingine hutuunganisha pamoja na inakuza moyo wa utangamano.

Kuchangia hali ya baadaye – Mabadiliko ya “Nzuri hadi bora Zaidi”

KenGen ni kampuni nzuri. Na hii inadhihirika katika udhibiti wa soko na pia jumla ya faida yetu sasa ya KSh 4.719 billioni. Swali ni je: Tutaendeleza hili?

Viwanda vya kampuni vinaendelea kuzeeka. Kuna changamoto mpya zaidi za usimamizi zinazobuka. Sheria ya Ununuzi, Sheria ya Kawi na ile ya Masoko ya Hisa miongoni mwa zingine. Wakenya wanahitaji umeme na mahitaji yanaendelea kuongezeka. Wenye hisa wanahitaji thamani ya fedha zao, ikiwemo Serikali. Kwa jumla, shinikizo mbali mbali zinaendelea kuongezeka. Masuala haya yametufanya kufikiria tena kuhusu hali yetu ya baadaye na tumeteua kampuni ya kimataifa inayotoa ushauri – McKinsey & Company kutusaidia kufanya mabadiliko katika nyanja nne kuu: (i) Kufanua upya mwekelezo wetu kama kampuni; (ii) Kuunda mpango wetu wa kusimamia mtaji na mkakati wa utekelezaji; (iii) kuzua mbinu za kupunguza gharama na utekelezaji wa hali ya juu na (iv) kuunda shirika linaloweza kutekeleza



Ripoti ya Mkurugenzi Mkuu

Matokeo kwa jumla

Ili kutosheleza mahitaji ya umeme yanayoendelea kuongezeka, tunaendelea kutumia kikamilifu mitambo iliyopo. Uzalishaji umeme kupitia kwa maji ulikuwa kwa asilimia 97, umeme mvuke 99, gesi 91 na mitambo ya kutumia dizeli 84. Ingawa hali hii inaashiria kazi safi katika utekelezaji na matengenezo, tunaamini bado kuna nafasi ya kuimarisha hata zaidi na kwa sasa, tunatumia vigezo vya kampuni bora zaidi katika sekta hii ili kufikia ufanisi mkubwa.

Mradi wa usimamizi, kudhibiti na kupokea data (SCADA) kupitia kwa kompyuta, unaendelea kama ilivyopangwa. Miongoni mwa manufaa mengine, mradi huu utasaidia kuelekea kwa matengenezo kulingana na hali ya mitambo, ambayo ni nafuu kuliko mfumo wa sasa wa kuratibu mipango ya matengenezo. Tumepiga hatua katika uendeshaji wa shughuli zetu kwa njia ya kompyuta na tayari, tumefikia asilimia 75 ya shughuli zetu zote.

Huku asilimia 60 ya uzalishaji ikitegemea maji, usimamizi bora wa maji ni muhimu katika operesheni zetu na mabwawa yetu makuu yana viwango vya kutosha vya kutuwezesha kuzalisha umeme katika siku za baadaye.

Mpango wetu wa kuendelea kuimarisha utendaji kazi unazingatia hati yetu ya ubora ya ISO 9001:2000 kuhusu sera bora, na pia, mfumo wa utendaji kazi unaojikita katika ule mfumo mwingine wa Kaplan & Norton Balanced Scorecard Management System model.

Miradi mipya kutosheleza mahitaji

Ili kutosheleza mahitaji haya, tunaendelea kutekeleza miradi tofauti ambayo itazinduliwa katika muda wa miaka miwili au mitatu ijayo. Hii ni pamoja na uzalishaji kupitia maji, mvuke, upepo na joto.

Miradi tunayotekeleza na upimo wake wa megawati (MW) ni Sang'oro 21MW, Kiambere 20MW, Tana 20MW, Kindaruma 20MW, Olkaria 35MW, kuchimba visima Olkaria, Eburru 2.5MW, Kipevu 30MW na Ngong 5MW.

Jambo njema ni kwamba, baada ya kusubiri kwa karibu miaka 22, hatimaye tutasherehekea kuzinduliwa kwa kiwanda cha Sondu Miriu kitakachozalisha megawati 60 mnamo Disemba 2007.

Tunatafuta pia washirika wengine kuanzisha miradi ya kuzalisha umeme kupitia kwa maji, upepo, kati ya mingine.

Mkakati wa kutafuta ufadhili

Tumekuwa tukitegemea mashirika na nchi wafadhili kutokana na viwango vya chini vya riba. Shughuli za kutafuta ufadhili kama huo zimekuwa zikichukua muda mrefu, na hivyo kuchelewesha miradi hiyo, mifano ikiwa Sondu Miriu na Olkaria II 3rd Unit. Hasara inayotokana na kucheleweshwa huko inashinda manufaa yanayotokana na ufadhili huo. Lengo letu ni kutafuta ufadhili zaidi kutoka kwa Masoko ya Hisa ili kuharakisha shughuli ya upanuzi wa miradi yetu.

Usimamizi wa Mazingira

Shabaha yetu ni kujenga viwanda vya uzalishaji ambavyo havitaathiri mazingira. Takribani asilimia 85 ya

Ripoti ya Mkurugenzi Mkuu



Mauzo yetu ya mwaka yameongezeka kwa zaidi ya asilimia 60, hadi vipimo 5.2 bilioni vya umeme kutoka mwaka wa 2003. Hii ni sawa na asilimia 85 ya umeme unaotumika nchini. Shabaha yetu ni kuendelea kuendesha uchumi, na vile vile kuunda thamani ya fedha za wawekezaji wetu.

Kuongezeka kwa mahitaji ya stima. Miaka mitano iliyopita, mahitaji ya juu ya stima yalikuwa takribani megawati 780. Wakati huo, uzalishaji wa umeme ulizidi mahitaji ya nchi. Mwaka huu, huku uchumi ukikua kwa asilimia 6.1, mahitaji ya stima yamegonga kiasi kikubwa zaidi cha megawati 1,010, na inaaminika hakijarithisha mahitaji ya nchi. Kiwango cha uzalishaji wakati huu hakiwezi kutosholeza mahitaji kutokana na mradi wa Serikali wa Vision 2030, mahitaji

ya stima yanakadiriwa kuongezeka kwa asilimia 8 kila mwaka. Mkondo huo unatuhakikishia nafasi njema ya kuongeza mauzo yetu na pia kupanua soko letu.

Mabadiliko ya sera za usimamizi

Kifungu cha sheria cha Nguvu za Umeme cha 1997 kilisababisha kubuniwa kwa Halmashauri ya Usimamizi wa Stima (ERB), na hatimaye kugawanya na kuunganishwa kwa shughuli za uzalishaji na ile ya kusambaza na kugawa umeme. Kifungu cha Sheria cha Kawi cha 2006 kimezua mabadiliko mapya katika sekta hii, huku ERB ikibadilishwa na kuwa Tume ya Kusimamia Kawi (ERC) na kupewa jukumu la kusimamia sekta nzima ya kawi, na pia kubuniwa kwa Mamlaka ya Kusambaza Umeme katika sehemu za Mashambani (REA). Chini ya sheria hii mpya, tunatarajia ushindani zaidi katika uzalishaji umeme. Hata hivyo, nafasi ya kuendelea ni nyingi, huku mahitaji yakiongezeka kutokana na hatua ya kuharakisha usambazaji umeme katika sehemu za mashambani na REA.

Tutaendelea kuunda mikakati kukabiliana na shinikizo zozote zinazotokana na sera mpya za usimamizi, zikiwemo sheria za ununuzi wa bidhaa za umma na pia ile ya Masoko ya Hisa na zinginezo.

Tangu mwaka wa 1999, tumekuwa tukihudumu chini ya mpangilio wa muda wa uuzaji wa umeme kati yetu na Kampuni ya Usambazaji Umeme nchini (KPLC) na hivyo, ili kuzalisha mapato yatakayotwezesha kutosholeza mahitaji yetu kifedha, tunafanya mazungumzo kuhusu Mapatano kamili ya Ununuzi wa Umeme (PPA), chini ya utaratibu wa mifumo miwili - Malipo ya Rasimaili ili kugharamia ununuzi wa vifaa vyetu na Malipo ya Umeme ambayo yatafadhili gharama za usimamizi.

Mashauriano na KPLC yangali yanaendelea. Ili kutumia vyema uzalishaji wa umeme mvuke, utafiti uliofadhiliwa na Benki ya Dunia unaendelea kubainisha njia bora za kupunguza changamoto zinazohusiana na utafiti kuhusu uzalishaji wa umeme mvuke.

Matokeo ya uchunguzi wa uwezekano wa kuanzishwa kwa kampuni ya uzalishaji umeme mvuke (GDC) yanatarajiwa mwaka ujao.

Managing Director's Report (continued)

planning and execution strategy; (iii) designing cost optimization and operational excellence processes and (iv) developing a robust organisation to deliver on the strategy.

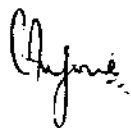
To assist us in developing this Transformational Plan, we have engaged an international management consulting firm - McKinsey & Company. The Plan will be ready by mid November 2007.

We have branded this transformation programme "Good to Great" or "G2G" with two themes embedded – (i) moving from a "Good Company" to a "Great Company" that creates value for all stakeholders (shareholders, end users, employees and citizens) and (ii) focusing on achieving sustainability in value creation from "One Generation" of Kenyans to the "Next Generation". Our purpose is to power the Kenyan economy and guarantee future sustainability.

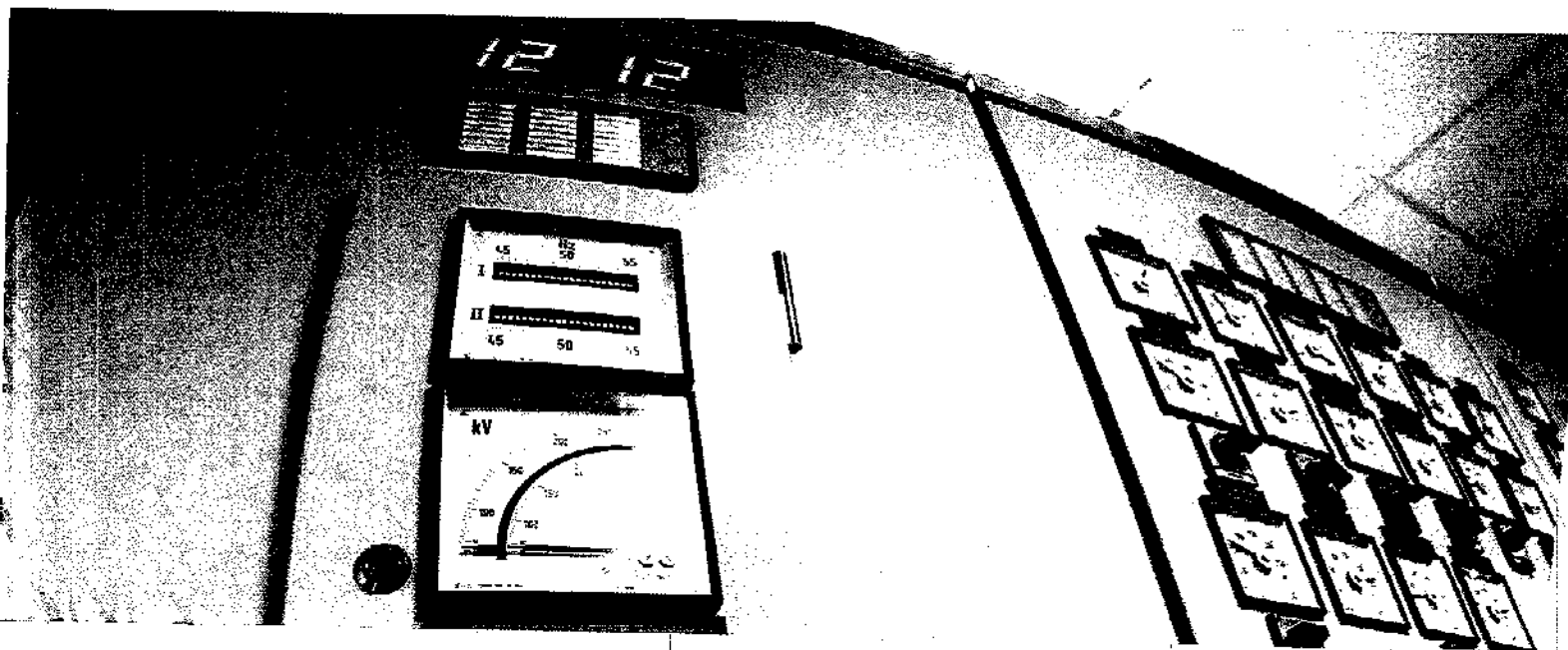
Gratitude

I would like to thank the Ministry of Finance, the Ministry of Energy, the Electricity Regulatory Commission, our customer – the Kenya Power and Lighting Company Ltd., all our suppliers, KenGen Board of Directors and our Staff who were all very instrumental in our success this year. Equally, I acknowledge the support from our development partners and all those who contributed to our success in various ways.

As we continue to embrace good corporate governance in the discharge of the mandate bestowed upon us, I am confident that we shall meet the challenges of ensuring security and reliability of electric power supply to the nation for economic prosperity.



Edward Njoroge
Managing Director



Environmental Management

Our goal is to implement and operate environmentally friendly capacity. Indeed, about 85% of our existing capacity is from renewable sources. Of the new capacity under implementation, 75% is from renewable sources. We also have an environmental policy in place that guides our activities. Audits and Assessments are carried out periodically as required and reports submitted to the National Environmental Management Authority. We are committed to national environmental management and are spearheading the establishment of the Kenya Energy Sector Environmental Programme (KEEP). In addition to hosting the secretariat, we are contributing to the initial KEEP budget estimates.

To anchor our environmental management philosophy, we are implementing ISO 14001:2004 Environmental Management System (EMS) and hope to be certified within the next financial year.

Clean Development Mechanism (CDM): The threat of global warming is real and Kenya has already ratified the Kyoto Protocol. It is on this framework that we are progressing carbon credits as an additional source of funds. We have six CDM projects estimated to reduce carbon dioxide equivalent (CO₂e) emissions by about 600 billion tonnes annually within the crediting period up to 2012.

Besides carbon credits, we will be receiving an extra dollar for a tonne of CO₂e on selected projects towards community development. The World Bank is our partner in this initiative. To help unlock the CDM potential in Kenya, we are in the process of establishing a regional CDM Centre to facilitate CDM project activities through our internal capacity.

Our People

We have maintained a stable and competent workforce of about 1,500 employees over the year. About 65% are technical supported by 35% non-technical. This reaffirms our capability in delivering on our mission and vision. Our Occupational Health and Safety (OHS) policy, protective clothing, safety and HIV/AIDS awareness, clean working environment have made us deliver without major incidents.

We believe innovation will ensure our business sustainability and are managing employee innovation through our Research and Development Committee which collects and collates ideas for implementation. Our goal is to make the Company an enterprising place to work where employee's talent is tapped and rewarded. Sports and other activities bond us together in our core value of team spirit.

Shaping the Future – “Good to Great” Transformation

Our sales market share and the current gross profitability of KShs 4.7 billion is evidence that we are a Good Company. The question is: Is it sustainable?

An aging fleet of plants, regulatory pressures, rising power demand, expectations of a fair return by shareholders, regionalization of the power sector, delayed project delivery are among the strategic issues that have led us to rethink our future. In this regard we have identified four key transformational areas:- (i) redefining our overall strategic direction; (ii) developing our capital



Managing Director's Report (continued)

Operational Performance

To meet the rising power demand, we are maximizing on our existing capacity by ensuring the highest levels of plant availability. Hydro availability averaged 97% over the year, Geothermal 99%, Gas Turbines 91% and Thermal Diesel 84%. While this illustrates excellent work in operations and maintenance, we believe there is room for improvement and are currently benchmarking with the best practices in the industry to attain world class status.

The Supervisory, Control and Data Acquisition (SCADA) automation project is on track. Amongst the many benefits, it will help us move to condition-based maintenance which is more cost efficient than the current plan-based maintenance. We are also making significant progress in the implementation of our Information Communications Technology (ICT) strategy and have automated about 75% of our key business processes.

With a 60% hydro-dependent generation system, water management is central to our operations and our main reservoirs, Masinga and Turkwel have adequate storage to sustain generation in the foreseeable future.

Our continual improvement programme is anchored on the ISO 9001:2000 Quality Management System, while the Performance Management System is anchored on the Kaplan and Norton Balanced Scorecard Performance Management Model.

New Builds to Meet Demand

We are implementing various projects that will be commissioned within the next two to three years and include a combination of hydro, geothermal, thermal and wind.

The committed projects include Sang'oro 21MW, Upgrading Kiambere Hydro 20MW, Redevelopment of Tana Hydro 20MW, Kindaruma Hydro 20MW, Olkaria Appraisal Drilling, Olkaria 3rd Unit 35MW, Eburru Geothermal 2.5MW, Kipevu Combined Cycle 30MW and Ngong Wind 5MW.

Notably, after a long wait of nearly 22 years, we will be commissioning the Sondu Miriu Hydro 60MW plant in December 2007.

To consolidate our market share, we are also pursuing strategic partnerships in development of hydro, wind and cogeneration projects with other project developers.

Financing Strategy

Historically, we have been dependent on bilateral and multilateral development financial institutions due to their low interest rates. However, this financing has more often than not been lengthy in the approval processes leading to significant project delays. Sondu and Olkaria II 3rd Unit exemplify this dilemma. Total value lost due to delays exceeds the net benefits expected from these sources. Our aim is to obtain additional financing from other sources, including the Capital Markets to accelerate the capacity expansion programme.

Managing Director's Report



Our annual energy sales have grown by over 60% to about 5.2 billion units from year 2003 to date. This represents 85% of all the energy consumed in the country signifying the critical role that we play in national economic development. Our goal is to continue powering the economy and at the same time creating value for our investors.

Growth in Power Demand

Five years ago, the national peak demand was about 780MW. At the time, the national available capacity was well above this demand.

This year, as the economic growth accelerated to 6.1%, demand for power has reached a peak of 1,010MW which is still considered suppressed. The available capacity though meeting the current demand barely leaves any reserve. With the country's Vision 2030, the demand is projected to grow annually at over 8%. This trend offers an excellent opportunity to grow sales and expand our market share.

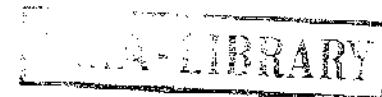
Dynamic Regulatory Environment

The Electric Power Act of 1997 established the Electricity Regulatory Board (ERB) and the subsequent consolidation of the generation function and its separation from transmission and distribution. The Energy Act 2006 has brought new dimensions within the sector, with ERB transforming into an Energy Regulatory Commission (ERC) to regulate the entire sector and the formation of the Rural Electrification Authority (REA). Under the new law, we envisage more competition in power generation. However, opportunities are enormous as demand levels edge up through the planned acceleration of rural electrification by the REA.

Since 1999, we have been operating under an Interim Power Purchase Arrangement with the off taker. To secure future revenues and meet our financing needs, we are negotiating a full term Power Purchase Agreement (PPA) on a two-tier model – Capacity Payments to meet fixed costs and Energy Payments to meet variable costs. Negotiations with the Kenya Power and Lighting Company are ongoing.

To unlock the geothermal potential, a study financed by the World Bank on the possible establishment of a Geothermal Development Company (GDC) is ongoing. The objective is to determine the best approach to mitigate the upstream risk of geothermal exploration and the outcome of the study is expected next year.

We will continue being proactive in our approach to emerging regulatory pressure including requirements of the Public Procurement and Disposal Act 2005 and the Capital Markets Authority Act among others.





Kiambere Spillway

Taarifa ya Mwenyekiti

Nina furaha kutangaza kuwa katika mwaka uliomalizika, kampuni ilitimiza malengo yake ya ukelezaji na kifedha kama yaliyoainishwa na Serikali katika kandarasi ya urendaji kazi. Kama kawaida, tutaendesha shughuli zetu huku tukizingatia faida kwa wenyehisa wetu. Hii itahakikisha tumefikia sio tu malengo yetu kama yaliyowekwa na Serikali, bali kuendelea kuongeza thamani ya fedha za wenyehisa wetu.

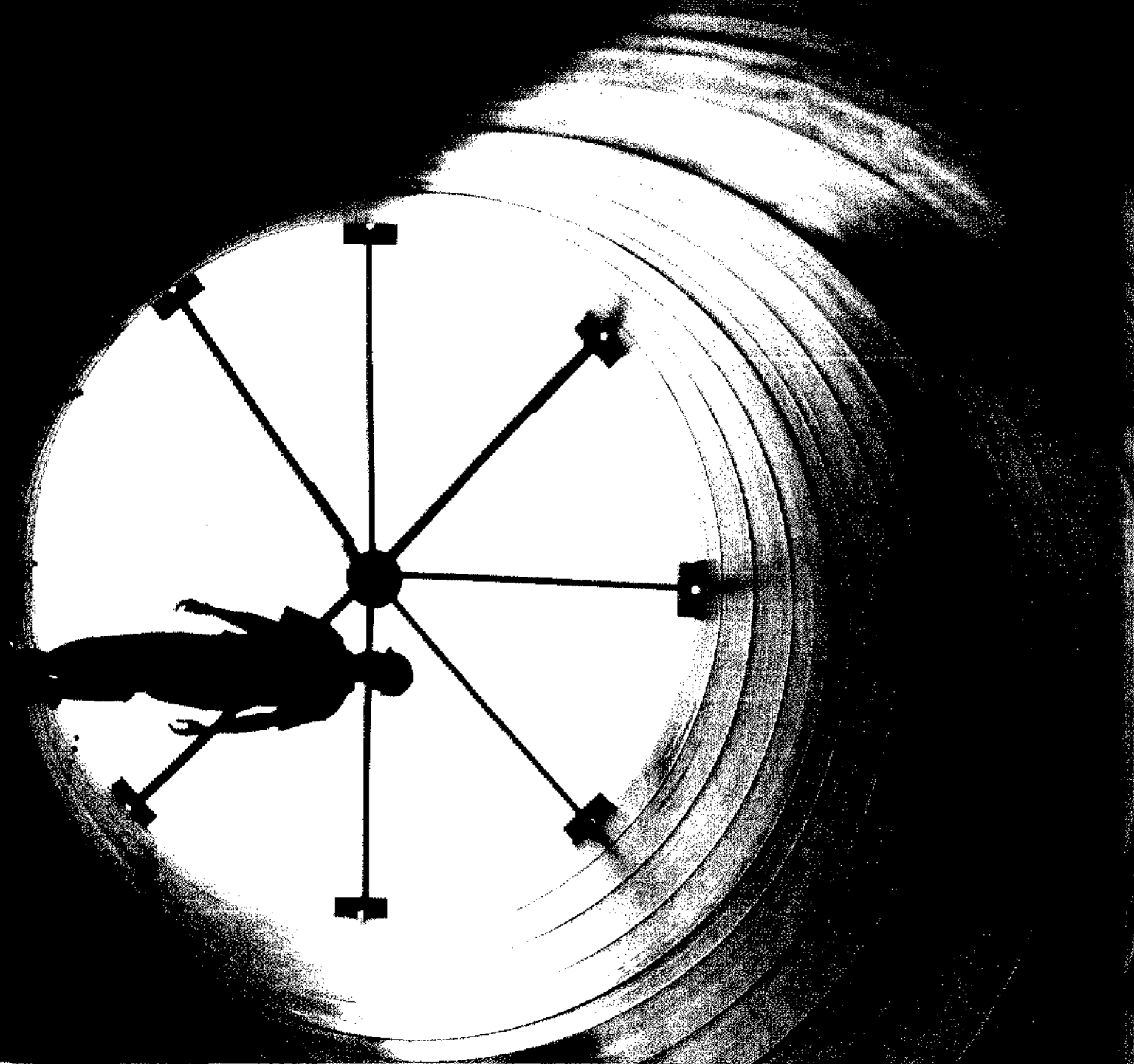
Nina furaha, kwa niaba ya Halmashauri ya Wakurugenzi, kupendekeza mgao wa mwisho wa faida wa KSh 0.40 kwa hisa, na hivyo kufikisha jumla ya mgao wetu kwa mwaka mzima kuwa KSh 0.80. Hii ni miongeza ya asilimia 45 kutoka KSh 0.55 kwa hisa mwaka jana.

Mwisho, ningependa kuwashukuru wenyehisa wote na kuwahakikishia tutaendelea kufanikisha rasimili yao. Ningependa kuwashukuru washirika, wateja wetu, wafanyakazi na wote tulioungana nao kufanikisha mwaka uliopita. Tunatarajia mtaendelea kutuunga mkono mwaka ujao.

Ahsanteni.

Waziri wa
Majimbo

Sondu Miriu Tunnel



Taarifa ya Mwenyekiti



Wenyehisa wetu,

Mwaka unaomalizika ulikuwa wetu wa kwanza kama kampuni ya umma iliyosajiliwa katika Soko la Hisa la Nairobi (NSE). Kufika mwisho wa mwaka tulikuwa na mtaji wa KSh 57,157 milioni na hivyo kufanya KenGen kampuni ya mwe yenye mtaji mkubwa zaidi katika Soko la Hisa la Nairobi.

Tangu kuorodheshwa kwa kampuni yetu katika Soko la Hisa, hisa za KenGen zimeorodheshwa miongoni mwa zile zinazouzwa na kununuliwa kwa wingi. Matokeo haya mazuri na uzazi mkubwa wa hisa, uliwezesha kampuni yetu kupandishwa ngazi na kuwa miongoni mwa kampuni 20 bora katika NSE ambazo hisa zao zinatunika kama vigezo.

Ukuwaji wa sekta yetu ulimarishwa na kuimarika kwa uchumi wa nchi kwa asilimia 6.1 ikilinganishwa na asilimia 5.8 mwaka uliopita na pia kutokana na hatua ya kuharakisha usambazaji umeme katika sehemu za masharubani. Mwaka huu, matunizi ya umeme yaliongezeka kwa asilimia 8 na inabainishwa kuwa nyongeza hii itaimarika katika siku za usoni.

Ili kutosheleza mahitaji ya nguvu za umeme yanayoendelea kuongezeka, uzalishaji nguvu za umeme pia uliongezeka kwa asilimia 14 kutokana na mauzo yetu na pia yale ya Serikali ya Umeme wa Dhatura (Emergency Power Project). Ongezeko hili liliwezesha na uzalishaji wa nguvu za umeme kwa maji ya kutosha katika mabwawa yetu yaliopata mvua nzuri mwaka huu.

Kwa mara nyingine, Kampuni yetu imepata matokeo bora ya kifedha, huku ikipata nyongeza ya mauzo ya stima ya asilimia 35 hadi KSh 1,141 milioni. Nyongeza ya mauzo ya stima mwaka uliopita ilitokana na kuongezeka kwa vipimo vya stima vilivyouzwa pamoja na kupanda kwa bei ya stima kutoa KSh 1.76/kWh mwaka jana hadi KSh 2.36/kWh. Mapato kabla ya kodi yaliongezeka kwa asilimia 27 hadi KSh 4,719 milioni kulinganishwa na KSh 3,769 milioni mwaka uliopita. Ushuru wa Kampuni uliongezeka kutoa kwa kiwango cha chini cha KSh 48 milioni hadi KSh 2,272 milioni mwaka huu na ikasababisha kupunguka kwa mapato baada ya ushuru hadi KSh 2,446 milioni mwaka huu. Katika mwaka unaomalizika, tulfanya upya tathmini ya wifa na rasimali zetu za uzalishaji, na kutokana na hali hiyo, thamani yao iliongezeka kutoa KSh 50,662 milioni mwaka jana, hadi KSh 87,357 milioni mwaka huu.

Mkakati wetu kibiasara ni kuangazia kwa makini nyongeza ya nguvu za umeme kutoka mbinu zingine za uzalishaji zikiwemo nguvu mvuke, umeme joto na upepo. Kufuata hayo, tunatarajia kuongeza utoaji wa Megawati 300 zaidi katika muda wa miaka mine au mitano ijayo.

Kampuni yetu iliendelea kuzingatia uwalibikaji kwa jamii na ilijaribu kuinua hali ya maisha kwa jamii mbali mbali. Mkazo ulicitiwa kuimarisha elimu, mazingira, kusambaza maji, kuunga mkono harakati za kuleta amani, michezo na usambazaji umeme.



Sondu Miriu Tunnel



Chairman's Statement (continued)

The Company has once again delivered strong financial results, recording increased electricity sales by 35% to Kshs 11,141 million. The growth in sales revenues is as a result of growth in units sold as well as tariff adjustment from Kshs 1.76/kWh to Kshs 2.36/kWh. Operating profit rose by 12% to Kshs 4,228 million while profit before tax increased by 27% to Kshs 4,719 million. Taxation increased from a tax credit of Kshs 48 million last year to a tax charge of Kshs 2,273 million this year, which led to a reduction in profit after tax from Kshs 3,769 million last year to Kshs 2,446 million this year. The Company maintained a healthy cash flow position throughout the year.

During the year, we carried out a revaluation of our generating assets as a result of which the value of our property, plant and equipment increased from Kshs 50,662 million last year to Kshs 87,357 million this year. This revaluation has enhanced the strength of our balance sheet.

Our strategic focus is to diversify generation sources including geothermal, thermal and wind to complement hydro. We plan to add over 300MW from these sources over the next four to five years to stabilize the growing power demand. We will continue with capacity expansion to sustain the power situation in the country in the medium and long term.

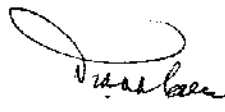
During the year, my board continued to pay attention to Corporate Social Responsibility (CSR) with a view of enhancing partnership between the Company, host communities and the general public. Our CSR activities focused primarily on education, water supply, environmental improvement, peace initiatives in the North Rift, sports and power supply.

I am also happy to report that during the year under review, the Company achieved financial and operational targets set by the Government in the Performance Contract for the year. We will continue to manage our business with shareholder value firmly at the top of our agenda. This will ensure that we achieve and exceed our performance targets as agreed with the Government.

On behalf of the Board, I am pleased to propose a final dividend of Kshs 0.40 per ordinary share, bringing the total dividend to Kshs 0.80 per share compared to Kshs 0.55 per share in 2006, representing a 45% increase.

Finally, let me take this opportunity to thank you most sincerely for entrusting us with your investment and assure you that we will always endeavour to give you a fair return. I appreciate our suppliers, customers and staff for the valuable contribution and support over the year and look forward to a stronger relationship in the coming year.

Thank you.


Titus Kitiili Mbathi
Chairman

Chairman's Statement



Dear Shareholders,

This year marks our first anniversary as a Company listed on the Nairobi Stock Exchange (NSE). At the closure of the year, our market capitalization was Kshs 57,157 million placing KenGen as the fourth largest capitalized Company at the NSE. Since the listing, KenGen shares have consistently been ranked among the most heavily traded counters. The high share turnover and stable performance has led to the inclusion of your Company in the NSE 20-Share Index.

Our industry growth opportunity is buoyed by the national economy which accelerated from 5.8% to 6.5% as well as the increased customer connections spearheaded by the Government and the Kenya Power & Lighting Company Ltd (KPLC). This year, electricity consumption grew by 8% and is expected to rise even higher in the medium term. The Government's increased contribution from the Electricity Levy to the Kenya Power & Lighting Company Ltd (KPLC) was a significant boost to the Government's revenue. The Government was able to meet its 7.5% adequate wheeling charges for the following year within the year.

Olkaria Geothermal

Directors



Titus Kitili Mbathi

Mr Mbathi, Chairman of the Board, holds a BA (Economics) from Madras University, India and an MA in Economics from New York University, USA. He has previously been Minister for Labour, a Permanent Secretary in various ministries, and served on several boards. He is a director of Athi River Mining and Platinum Credit Limited.

Edward Njoroge

Mr Njoroge, a holder of BSc (Hons) Chemistry from Makerere University is the Managing Director. His other directorships include Stanbic Bank Kenya, Real Insurance Company (EA) Ltd, Proctor & Allan (EA) Ltd, Nairobi Stock Exchange and Marshalls (EA) Ltd. He is also the 1st Vice President of the Union of Producers, Distributors and Transporters of Electric Power in Africa (UPDEA).



Joseph Kinyua - Permanent Secretary, Ministry of Finance
He holds a BA (Econ) & MA (Econ) from the University of Nairobi. He has previously held senior positions in the Central Bank of Kenya, International Monetary Fund, Ministry of Planning and National Development, Ministry of Agriculture and Ministry of Finance. He is a director on several boards of State Corporations. He is an Alternate Governor on the World Bank Board of Governors and Chairman of East African Development Bank.

Patrick Nyoike - Permanent Secretary, Ministry of Energy
He holds a BSc (Hons) in Mathematics and Physics from the University of Ghana and a degree in Economics from the University of Nairobi. He has previously held senior positions in various ministries. He is also a director of National Oil Corporation, Kenya Power & Lighting Company, Energy Regulatory Commission, Kenya Pipeline Company Ltd and Kenya Petroleum Refineries Ltd.



Directors (continued)



Sarah W Wainaina

She holds a Bachelor of Arts degree from Morningside College and Post Graduate studies in Anti-trust Law, Micro Economics and Development Policy from Harvard University. She was previously a Commissioner of Monopolies and Prices and is a member of the Board of Governors of Kirangari High School.

Victor J. J. J.

He holds a BSc (Hons) in Electrical Engineering from the University of Nairobi and is a member of the Institute of Electrical and Electronic Engineers (I.E.E.E.) of the United Kingdom. He is a director of Savings & Loans Ltd, a subsidiary of Kenya Commercial Bank. He is currently in private practice.



George M Njagi

He is a former Deputy Secretary, Ministry of Transport. His qualifications include certificates in basic and advanced training in air traffic control from East African School of Aviation and Copenhagen, Denmark. He is currently the Chairman of the Staff Committee of the Board.

Deborah F. K. K.

She is a Fellow, Chartered Association of Certified Accountants, an Associate, Institute of Certified Public Accountants of Kenya and a Member of the Institute of Certified Public Secretaries of Kenya. She is currently a Human Resource Consultant and has extensive experience in restructuring of both public and private organizations across Africa. She is a director of Metis Consulting and chairs the Audit Committee of the Board.



Hedrick M Omanwa

He holds a BCom degree and an MBA from the University of Nairobi. He is a member of both the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya. He is currently the Managing Partner of Omanwa & Associates, an Audit and Consultancy firm.



Henry M'Narobi

He holds a BA (Hons) degree from the University of Nairobi. He has held senior positions in both government and international organisations. He served the African Development Bank in Abidjan for 14 years. He is a member of the Board of Governors for various schools, colleges and hospitals in Kenya. He has also assisted in projects catering for the needs of the Liberian refugees in Cote d'Ivoire.

Peter Muriithi

He graduated with honours in BA (Phil) from University of London, UK, Masters in Religious Education, Trinity Western University, Canada, Bachelor of Theology, Masters in Counselling & Leadership and Doctor of Christian Education from the Freeland Bible College & Seminary, USA. He has been a head-teacher in various public institutions. He is the Pastor of F. Baptist Church, Nanyuki and Adjunct Lecturer at Kenya Baptist Theological College.



Solomon Kitungu

He holds a BA from the University of Nairobi and MA in Economics from University of Manchester, UK. He is the alternate director to the Permanent Secretary, Ministry of Finance and is currently the Director of Reforms in the Department of Government Investments and Public Enterprises in the Ministry of Finance.

Don O Riaroh

He holds a BSc degree from the University of Nairobi and an MSc from the University of Leicester, UK. He is the Chief Geologist, Ministry of Energy and is in charge of Petroleum, Geothermal, Coal and Nuclear Energy exploration and products in Kenya. He is the alternate director to the Permanent Secretary, Ministry of Energy.



Rebecca Miano

She is the Company Secretary and holds a Law degree from the University of Nairobi and Post Graduate studies in Comparative Law from University of Queensland, Australia. She is an advocate of the High Court of Kenya and a Certified Public Secretary. She has served the Company in various capacities before her appointment.

Management Team



1. Managing Director
Edward Njoroge, BSc (Hons)
2. Deputy Managing Director
Joseph N Ng'ang'a, BSc (Eng) (Hons),
MBA, R.Eng., MIEK
3. Company Secretary
Rebecca Miano (Mrs), LLB (Hons),
CPS (K)
4. Chief Manager, Operations
Richard M Nderitu, BSc (Eng) (Hons),
R.Eng., MIEK, MKIM
5. Chief Manager, Finance
Wycliffe F Temesi, BCom (Hons),
FCPA (K)
6. Chief Manager, Human Resources
Beatrice M Soy (Mrs), BEd (Hons),
MEd (Mgt)
7. Chief Manager, Procurement
Daniel Mutunga, BSc (Eng) (Hons), MIEK
8. Chief Manager, Administration
Joseph Okoto, BCom (Hons), MBA
9. Chief Manager, Geothermal Development
Martin Mwangi, MSc Geology
(Not in Photo)
10. Chief Manager, Technical Assurance
George Muga, BSc (Eng) (Hons), MIEK
11. Manager, Corporate Planning & Strategy
James K Wahogo, BSc (Eng) (Hons),
R.Eng., MBA
12. Manager, Information Technology
Joseph O Ombongi, BSc Electronics, MSc
Computer Science
13. Manager, Public Relations and Communication
Mike Njeru, BA (Hons) Dip Mass Com,
FPRSK, MIPRA

Notice of the Annual General Meeting

To the Members of Kenya Electricity Generating Company Limited (KenGen)

NOTICE IS HEREBY GIVEN THAT THE FIFTY-FIFTH ANNUAL GENERAL MEETING of the Company will be held at the Kasarani Gymnasium, Thika Road, Nairobi on Thursday 22nd November 2007 at 11.00 a.m. for the following business:-

1. To read the Notice convening the meeting.
2. To consider and if approved, adopt the Company's audited financial statements for the year ended 30th June 2007, together with the Chairman's, Directors' and Auditors' Reports thereon.
3. To confirm the payment of the interim dividend of 16% or KShs 0.40 per ordinary share of KShs 2.50 and to approve the payment of a final dividend of 16% or KShs 0.40 per ordinary share of KShs 2.50, subject to withholding tax where applicable, in respect of the financial year ended 30th June 2007.
4. To elect Directors:
 - (i) Mr Patrick Nyoike who retires under Article 104 of the Company's Articles of Association and being eligible offers himself for re-election as a Director of the Company.
 - (ii) Mr Musa Ndeti who retires under Article 104 of the Company's Articles of Association and being eligible offers himself for re-election as a Director of the Company.
 - (iii) Rev Peter Muriithi who retires under Article 105 of the Company's Articles of Association and being eligible offers himself for re-election as a Director of the Company.
5. To pass the following Ordinary Resolution:

Special Notice pursuant to Section 142 and 186 (5) of the Kenya Companies Act having been received by the Company, of the intention to move a resolution that Mr Titus K Mbathi continues in office as a Director of the Company for a period of one year notwithstanding his having attained the age of 70 years, to consider and if thought fit, pass the following resolution as an Ordinary resolution.

"That pursuant to Section 186 (5) of the Kenya Companies Act, Mr Titus K Mbathi who has attained the age of 70 years continues in office as a Director of the Company for a period of one year notwithstanding his having attained such age"
6. To approve the Directors' remuneration.
7. Auditors:

To note that the audit of the Company's books of accounts will continue to be undertaken by the Controller and Auditor-General or an audit firm appointed by her in accordance with Section II of the State Corporations Act (as amended by the miscellaneous Law Amendment Act 2002) and Sections 14 and 39 (i) of the Audit Act 2003.
8. To authorise the Directors to fix the remuneration of the Auditors.

By Order of the Board



Rebecca Miano

Company Secretary, Kenya Electricity Generating Company Ltd, P O Box 47936-00100, Nairobi
17 September 2007

NOTE:

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, the form of proxy attached to this annual report, must be duly completed by a member and must either be lodged at the registered offices of the Company's Share Registrar, Image Registrars, Transnational Plaza, 8th Floor, Mama Ngina Street, P O Box 9287-00100, Nairobi or be posted, so as to reach Image Registrars not later than Tuesday, 20th November 2007 at 11.00 a.m.

Tangazo la Mkutano Mkuu wa Kila Mwaka

Tangazo linatolewa hapa kwamba Mkutano Mkuu wa Hamsini na Tano wa Kila Mwaka wa Wanachama wa Kampuni utafanyika katika uwanja wa Kasarani Gymnasium, Thika Road, Nairobi mnamo Alhamisi, Novemba 22, 2007 kuanzia saa tano asubuhi kwa shughuli zifuatazo:-

1. Kusoma tangazo la kuandaa mkutano.
2. Kuchunguza na kama itaidhinishwa, kukubali taarifa za kifedha zilizokaguliwa za mwaka uliomalizika Juni 30, 2007, pamoja na ripoti za Mwenyekiti, Wakurugenzi na Wakaguzi wa Hesabu.
3. Kutibitisha malipo ya mgao wa asilimia 16 au KSh 0.40 kwa kila hisa ya kawaida ya KSh 2.50 na kuichinisha malipo ya mgao wa mwisho wa asilimia 16 au KSh 0.40 kwa kila hisa ya kawaida ya KSh 2.50 ikitegemea kodi ya mapato inavyopaswa, kuhusiana na mwaka unaomalizika wa matumizi ya fedha Juni 30, 2007.
4. Kuchagua wakurugenzi:
 - (i) Bw Patrick Nyoike ambaye anastaafu chini ya Kifungu 104 cha Kanuni ya Kampuni, na kwa vile anaweza tena kuchaguliwa, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
 - (ii) Bw Musa Nideto ambaye anastaafu chini ya Kifungu 104 cha Kanuni ya Kampuni, na kwa vile anaweza tena kuchaguliwa, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
 - (iii) Rev Peter Muriithi ambaye anastaafu chini ya Kifungu 105 cha Kanuni ya Kampuni, na kwa vile anaweza tena kuchaguliwa, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
5. Kupitisha Azimio la Kawaida lifuatalo:

Ilan mazimu kufuatia sehemu ya 142 na 186 (5) ya kifungu cha Sheria ya Kampuni za Kenya, na baada ya kupokelewa na Kampuni kuhusu dhamira ya kupitisha azimio kwamba Bw Titus K Mbathi aendelee kuhudumu kama Mkurugenzi wa Kampuni kwa muda wa mwaka mmoja, licha ya kutimiza umri wa miaka 70, kufikiria na iwapo itakubaliwa, kupitisha azimio lifuatalo kama Azimio la Kawaida.

"Kwa mujibu wa Schemu ya 186 (5) ya Sheria ya Kampuni za Kenya, Bw Titus K Mbathi ambaye amefikisha umri wa miaka 70 aendelee kuhudumu kama Mkurugenzi wa Kampuni kwa muda wa mwaka mmoja, licha ya kufikisha umri huo".
6. Kuidhinisha ujira wa Wakurugenzi.
7. Wakaguzi wa Hesabu:

Kutambua kwamba ukaguzi wa vitabu vya hesabu vya Kampuni utaendelea kutekelezwa na Mhasibu Mkuu au kampuni ya uhasibu ambayo ataiteua kwa mujibu wa sehemu ya 11 ya Sheria ya Mashirika ya Serikali (kama ilivyorekebisha 2002) na sehemu 14 and 39 (i) za Sheria ya Uhasibu wa Umma, 2003.
8. Kuidhinisha Wakurugenzi kuamua malipo ya Wahasibu.

Kwa Agizo la Halmashauri.



Reuben Njiru

Katibu wa Kampuni, Kenya Electricity Generating Company Ltd, S L P 47936-00100, Nairobi

Septemba 17, 2007

FOOTNOTES

1. Mwanachama ana haki ya kuhudhuria na kupiga kura katika mkutano na yule ambaye hawezi kuhudhuria ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwa njia yake. Mwakilishi si lazima awe mwanachama wa Kampuni. Ili kutambuliwa, fomu ya uwakilishi ambayo imeambatanishwa na ripoti ili lazima ijarwe na kutiwa sahihi na mwanachama, na haina budi kuondikishwa katika ofisi zinazatambuliwa za Msajili wa Hisa wa Kampuni, Image Registrars, Transnational Plaza, Ghorofa ya Nane, Mama Ngina Street, SLP 9287 - 00100 Nairobi, au itumwe kwa posta, ili wafikie Image Registrars kabla ya jumanne, Novemba 20, 2007 saa tano asubuhi.

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Corporate Information

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C Secretary
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Titus K Mbathi	- Chairman
Edward Njoroge	- Managing Director
Joseph Kinyua	
Patrick Nyoike	
Sarah W Wainaina	
Musa Ndeto	
George M Njagi	
Dorcas F Kombo	
Faisal Abdurahman Haji Abass	- Retired on 30 November 2006
Lt Gen Augustine Cheruiyot (Rtd)	- Retired on 30 November 2006
Henry N M'Narobi	- Appointed on 30 November 2006
Hedrick Omanwa	- Appointed on 30 November 2006
Peter Muriithi	- Appointed on 21 February 2007
Solomon Kitungu	- Alternate to Joseph Kinyua
Don O Riarioh	- Alternate to Patrick Nyoike

Secretary
Rebecca Miano
Hirsi Ali
Stima Plaza, Phase III, Kolobot Road
P O Box 47936 - 00100
NAIROBI
- Appointed on 1 September 2006
- Retired on 11 August 2006

Registered
Office
Principal Office
of Business
Stima Plaza, Phase III
Kolobot Road,
P O Box 47936 - 00100
NAIROBI

Registrars
Image Registrars

Bankers
Commercial Bank of Africa Limited
The Co-operative Bank of Kenya Limited
Standard Chartered Bank Kenya Limited
National Industrial Bank Limited
Stanbic Bank Limited
Kenya Commercial Bank Limited
Barclays Bank of Kenya Limited

Auditors
Ernst & Young
Kenya-Re Towers, Upperhill
P O Box 44286 - 00100
NAIROBI

On behalf of:
Controller and Auditor-General
Anniversary Towers, P O Box 30084 - 00100, NAIROBI

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