

2003

Directore

Titus Mbathi

Fdward Njoroge

Chairman - Managing Director & CEO

Joseph Kinyua Patrick Nyoike Saran Wainaina Musa Ndeto George Njagi Dorcas Kombo Henry M'Narobi Hedrick Omanwa Peter Muriithi Solomon Kitungu

- Alternate to Joseph Kinyua Alternate to Patrick Nyoike,

Don Riaron

Aifred Odawa

(appointed on 22.03.2008) Alternate to Patrick Nyoike, (retired on 22.03.2008)

Secretary

Rebecca Miano

Stima Plaza, Kolobot Road PO Box 47936 - 00100 GPO

NAIROBL

Registered Office and Principal Place of Business

Stima Plaza

Kolobot Road, Parklands PO Box 47936 - 00100 GPO

NAIROBI

Registre

image Registrars

Barkers

Commercial Bank of Africa Limited The Co operative Bank of Kenya Limited Standard Chartered Bank Kenya Limited National Industrial Credit Bank Limited

CFC Stanbic Bank Limited Kenya Commercial Bank Limited Barclays Bank of Kenya Limited

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Ernst & Young

Kenya-Re Towers, Upperhill

Off Ragati Road

PO Box 44286 - 00100 GPO

NAIROBL

Anniversary Towers PO Box 30084 - 00100 GPO

NAIROBI

On behalf of:
Controller and Auditor-General
Anniversary Toward

NOTICE IS HEREBY GIVEN THAT THE FIFTY-SIXTH ANNUAL GENERAL MEETING of the Shareholders of the Company will be held at the Kasarani Gymnasium, Thika Road, Nairobi on Thursday, 18th December 2008 at 11.00 a.m. for the following business:-

- To table the proxies and note the presence of a quorum.
- 2. To read the Notice convening the meeting.
- To consider and if approved, adopt the Company's audited financial statements for the year ended 30th June 2008, together with the Chairman's, Directors' and Auditors' Reports thereon.
- 4. To approve the payment of a final dividend of 36% or KShs 0.90 per ordinary share of KShs 2.50, subject to withholding tax where applicable, in respect of the financial year ended 30th June 2008.
- 5. To elect Directors:
 - (i) Mr Joseph Kinyua, the Permanent Secretary-Treasury, who retires by rotation 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) Mrs Dorcas Kombo who retires by rotation under Article 104 of the Company's Articles of Association and being eligible offers herself for re-election as a Director of the Company.
 - (iii) Mr George Njagi who retires by rotation under Article 104 of the Company's Articles of Association and being eligible offers himself for re-election as a Director of the Company.
- 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 2 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.
- 9. Special Business:

In view of the growing demand for electric power, the Government of Kenya has decided to set up a separate company. Geothermal Development Company (GDC) to focus on and accelerate the development of geothermal resources in Kenya. KenGen has been offered a 30% equity

participation in the GDC. The Company has also been offered an opportunity to participate in a possible Coal Plant in Mombasa.

There may be other projects that may come up which will require a quick decision by the Board.

The Members are therefore requested to consider and if thought fit to pass the following resolutions as Ordinary Resolutions:-

- That the Company participates as an equity partner with the Government of Kenya in the new Geothermal Development Company.
- ii) That the Company participates as an equity partner with a private investor in the proposed Coal Plant being developed in Mombasa.
- iii) That the Company may, subject to all statutory approvals, participate as an equity partner in any other project within the mandate of the Company and which the Board of Directors in their sole discretion prudently resolve would be of strategic importance to the Company.

By Order of the Board



Rebecca Miano

Company Secretary

14 October 2008

NOTE:

I. 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 Proxy Form attached to this Annual Report must be duly completed by a member and must either be ladged at the registered offices of the Company's shares registrar, image Registrars. Transnational Plaza 8th Floor, Maina Ngina Street, PO Box 9287, 00100 GPO, Noirobi or be posted, so as to reach Image Registrars not later than Tuesday, 16th December 2008 at 11.00 a.m.



HEDRICK OMANWA

Mr Omanwa, aged 43 years, holds a BCom degree and MBA from University of Nairobi. He is a member of both institute of Certified Public Accountants and the Institute of Certified Public Secretaries of Kenya. He is the Managing Partner of Omanwa & Associates, an Audit and Consultancy firm. He is currently a member of the Board's Audit Committee.



HENRY M'NAROBI

Mn MiNarobi, aged 63 years, holds a BA (Hons) degree from University of Nairobi. He has held senior positions in both the government and international organisations. He served the African Development Bank in Abidjan for 14 years. He is a director of the Presbyterian Foundation and chairman/member of the Boards 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 Dilvoire.



PETER MURRITHI

Rev Muriithi, aged 60 years, graduated with honours in BA (Phil) from University of London,UK, Masters in Religious Education, Trinity Western University, Canada, Bacheior of Theology, Masters in Counselling & Leadership and Doctor of Christian Education from the Freeland Bible College & Seminary, USA. He is a PHD student at Kenyatta University.



SOLOMON KITUNGU

Mr Kitungu, aged 47 years, holds a BA (Hons) Fconomics degree from the University of Nairobi and MA in Economics from the University of Manchester, UK. He is the alternate director to the Permanent Secretary, Treasury and is currently the Director of Reforms in the Department of Government Investments and Public Enterprises in the Ministry of Finance.



ALFRED ODAWA

Mr Odawa, aged 56 years, holds a BSc (Geology) from University of Poona, India, Post-Graduate Diploma (Remote Sensing) from University College of London, UK and MSc (Remote Sensing) from University of London, UK. He is the Senior Superintending Geologist, Ministry of Energy and is in charge of Petroleum, Geothermal and Coal energy exploration and products in Kenya. He is the alternate director to the Permanent Secretary, Ministry of Energy.



REBECCA MIANO

Mrs Miano, aged 40 years, is the Company Secretary/Legal & Corporate Affairs Director of the Company. She holds an LLB (Hons) from University of Nairobi. Diploma in Law from Kenya School of Law 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.



- Managing Director & **CEO**
- **Edward Njoroge**
- Business Development & Strategy Director
 - Albert Mugo
- Company Sagrasumy Legal & Corporate Affairs Director **Rebecca Miano** 3
- Operations Directors Richard M Nderitu
- Firence a Commential Director
- John Mudany
- Human Respirates & Administration Director
- Beatrice M Soy
- Regulation, within Director
- Simon Ngure





This was a momentous year for KenGen as we marked the 10th anniversary since our formal separation from KPLC.

Financial Performance

The Profit after Tax rose from KShs 2,446 million to KShs 4,809 million, an increase of 97%. This was largely due to a tax credit of KShs 3,181 million from capitalization of Sondu Miriu Power station. Increased generation led to an 11% increase of the revenue from electricity sales from KShs 14,552 million to KShs 16,092 million. Unit sales rose marginally from 4,599 Gwhs to 4,818 Gwhs during the year under review. Due to increased thermal generation, the fuel revenue increased from KShs 3,411 million to KShs 4,543 million and operating expenses also increased by 10% to KShs 12,557 million.

Share Performance

KenGen attained a stock market capitalisation of KShs 53.86 billion as at the close of this financial year. We are proud to inform you that in July 2007, KenGen was included as an index-linked company and one of the constituent companies in the NSE 20-Share Index on the Nairobi Stock Exchange(NSE). This was in recognition of KenGen's large market capitalisation and sustained liquidity since our listing in May 2006.

Economic and Sector Performance Overview

The Government reforms initiated in the last few years created positive signals which led to expansion of the country's real gross domestic product by 6.5% in 2007 as compared to 6.1% in 2006. This growth momentum continued during the year under review despite the political setback experienced at the beginning of 2008.

To further steer the country's development agenda, the Government launched Vision 2030, which envisages the rate of growth of the economy to rise from 6.1% achieved in 2006 to 10% by 2012/13 and to sustain that growth thereafter.

In tandem with the increased economic growth, the total energy purchased from KenGen increased from 4,599 GWh in 2006/07 to 4,818 GWh in 2007/08 representing a growth of 4.8%. Further, the peak power demand increased from 987MW in 2006/07 to 1,050 MW in the year 2007/08, whereas the dependable capacity increased to 1,263 MW which included 60MW from Sondu Miriu

power plant and 46MW of emergency power. With the ongoing power system reinforcement and the accelerated customer connection strategy by KPLC, the demand is projected to rise at an average of 200 MW per year.

By the end of the year the Company experienced low water levels at our main reservoir; which led to increased generation from the thermal power plants. This thermal generation has unfortunately increased the fuel pass-through costs to the retail consumers, and has further been exacerbated by the increased global fuel prices.

Strategia Forus

KenGen remains focused on guaranteeing the security of electric power supply in the country as enshrined in our vision and strategy. We are fully committed to the delivery of the national Vision 2030 through supply of affordable electric power to drive economic growth.

To augment this, KenGen completed and adopted the Good to Great (G2G) organisational transformation plan, to enable us meet the power needs of the Kenyan economy and beyond, while creating value for the shareholders, employees, customers and a tizens. The major highlights of the plan include the stabilization of the power situation in Kenya by adding 500MW within the next five(5) years in the first phase of the transformation and subsequently an additional 1,500MW over the next ten (10) years in the second phase of the transformation.

The development of the strategic plan takes a critical stage in which the domand for electric power continues to outstrip the supply, as the Kenyan economy continues to grow at an unprecedented pace. The (G2G) transformation plan therefore provides KenGen with a blueprint for change to enhance its capacity as a robust local and regional power generating Company.

Jargorace Sovial Responsibility

KenGen prioritizes the environmental conservation by investing in technologies which minimise adverse environmental impact of our operations and products. We also take seriously our obligations to all our stakeholders, as we believe that excellence in Corporate Social Responsibility delivers competitive advantage and long term success.

The Company's community activities were far ranging and involved active participation and generosity of our employees. This was notably true of our response following the 2007 national elections when Kenya underwent a very sac chapter in its history married by the post-elections violence. In February 2008, KenGen staff made personal contributions in addition to the Company's donations, to assist the Internally Displaced Persons.

Illiaena pia paek

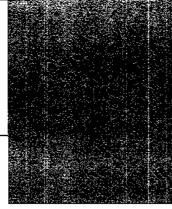
The Board recommends a final dividend payment of KShs 0.90 per ordinary shares. This total ordinary dividend of KShs 1.98 billion for the year is 12.5% above the ordinary dividend of KShs 1.76 billion which was paid out in the previous financial year.

I would like to thank the management and all our employees for another successful year. Their performance has been outstanding. I also wish to thank my fellow directors for their contribution in steering KenGen towards the best corporate practices.

Looking forward, the Company's objective is to lay the foundations for long-term success and value creation in a growing economy. Expect the Company to maintain its growth projectile in 2008, as the returns from past investments grow while we continue to invest in new power plants.

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Mwaka huu ulikuwa wa ufanisi kwa KenGen. Mnamo Septemba 2007, KenGen iliadhimisha miaka kumi tangu itenganishwe rasmi na KPLC.

Matokeo ya Kifedha

Faida baada ya Ushuru iliongezeka kutoka Sh 2,446 milioni hadi Sh 4,809 milioni, nyongeza ya asilimia 97. Hii ilitokana na nafuu ya ushuru ya Sh 3,181 milioni kutokana na ujenzi wa kiwanda cha umeme cha Sondu Miriu. Nyongeza ya uzalishaji iliimarisha mapato kwa asilimia 11 kutokana na mauzo ya umeme kutoka Sh 14,552 milioni hadi Sh 16,092 milioni. Mauzo ya vipimo yaliongezeka kwa kiwango kidogo kutoka 4,599Gwh hadi 4,818Gwh kwa saa, wakati wa kipindi tunachokitathmini. Kutokana na kuongezeka kwa uzalishaji wa umeme kutokana na mitambo ya kutumia dizeli, gharama za mafuta ziliongeza kutoka Sh 3,411 millioni hadi Sh 4,543 millioni. Gharama zingine za utoaji huduma zilipanda kwa asilimia 10 hadi Sh 12,557 millioni.

Matokeo ya Hisa

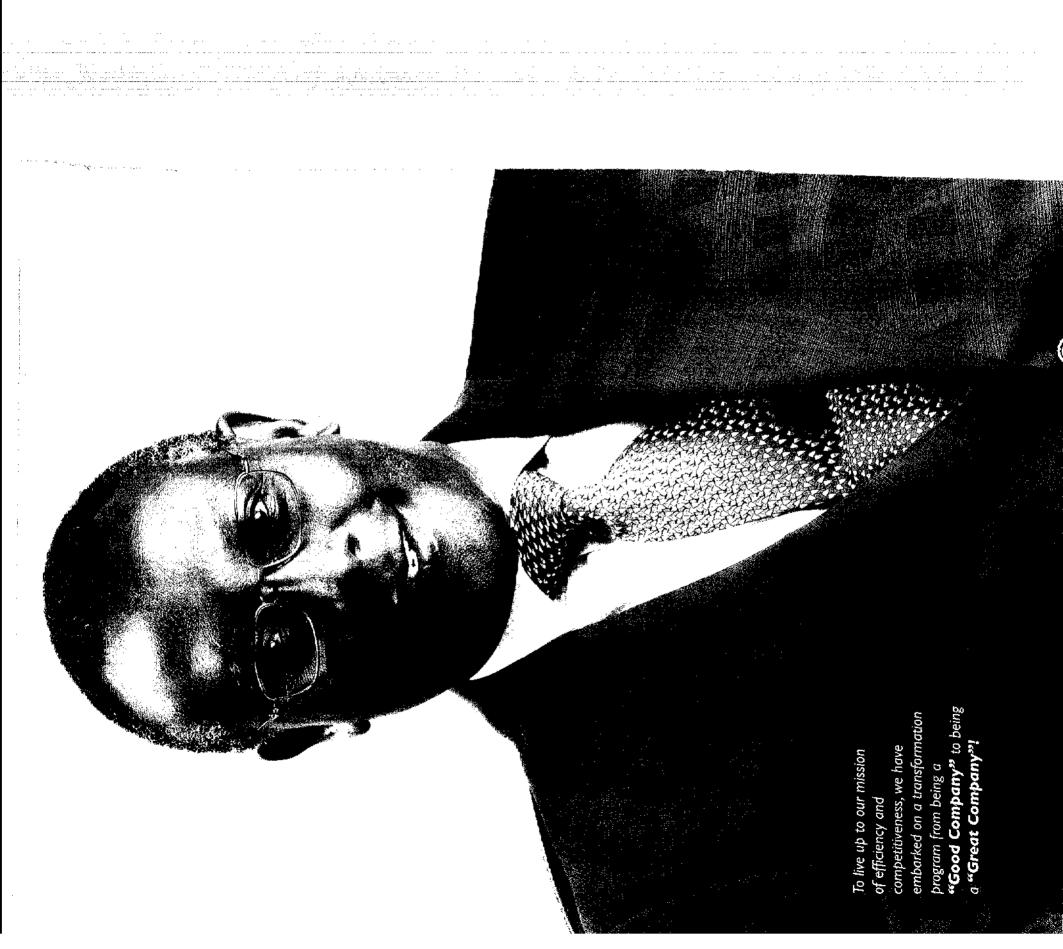
KenGen ilifikia mtaji kwenye Soko la Hisa wa Sh 53.86 bilioni kufikia mwisho wa kipindi hiki cha matumizi ya fedha. Tuna fahari kuwafahamisha kuwa mnamo Julai 2007, KenGen iliorodheshwa miongoni mwa kampuni ishirini bora ambazo hisa zao zinatumika kama kigezo katika Soko la I lisa la Nairobi. Hii inafuatia mtaji mkubwa wa KenGen na mauzo tangu kuzinduliwa kwetu mnamo Mei 2006.

Tathmini ya Kiuchumi na Sekta

Marekebisho yaliyoanzishwa na serikali miaka michache iliyopita yaliashiria kuimarika kwa jumla ya mapato ya nchi kwa asilimia 6.5 mnamo 2007, ikilinganishwa na asilimia 6.1 mnamo 2006. Kiwango hiki cha ukuaji kiliendelea wakati wa kipindi tunachotathmini licha ya mtafaruko wa kisiasa ulioibuka mwanzoni mwa 2008.

Ili kuendeleza zaidi ajenda ya maendeleo ya nchi, serikali ilizindua ruwaza ya 2030, ambayo inakadiria ukuaji wa uchumi kutoka kiwango cha asilimia 6.1 kilichoafikiwa mnamo 2006, hadi asilimia 10 kufikia 2012/13 na kudumisha ukuaji huo hadi siku sijazo.

Sambamba na kuimarika kwa uchumi, kiwango cha jumia cha kawi kilichonunuliwa kiliongezeka kutoka 4,599GWh mnamo 2006/7 hadi 4,818GWh mnamo 2007/2008, yaani ukuaji wa asilimia 4,8. Isitoshe, mahitaji ya umeme nyakati



YANACKE DRESTORS REPORT

Once more, we ended the financial year with an impressive performance of 4,818 million units from our existing installations, 5% up from last year. The new 60MW Sondu Miriu hydro power plant that we commissioned in February 2008 added 150 million units. The total output distribution comprised 72% hydro, 20% geothermal and 8% thermal signifying our continued commitment to providing clean and renewable energy to the Kenyan economy and her people. An additional output of 500 million units was generated from Emergency Power Plant which we are managing on behalf of the Government of Kenya (GoK). This total contribution to the national grid of 5,318 million units was approximately 85% of national electricity consumption over the year.

The dry spell in the second half of the year affected water levels in our major hydro plants and as a result we had to increase the more expensive thermal generation in the months of May and June 2008. The oil prices continued to be high and volatile at a time when the country's economic growth also declined due to effects of the country's post-clection events. The combined effect of these factors greatly eroded our gains of the first six months of the year.

Financial Performance

The Operating Profit increased marginally, driven by the increase in unit sales and improved operational efficiency. Finance Costs increased to KShs 1.4 billion due to unrealized foreign exchange losses. The Company holds several low interest 20-to-30-year Japanese Yen long-term loans which have funded Kipevu Diesel, Sondu Miriu and the Sang'oro projects. These concessionary foreign borrowings are critical to our strategic plan due to good grace periods and low interest rates. During the first half of the year, the shilling was strong against the Yen, but experienced sudden dips in the latter part of the year. This dip at the close of the year eroded the Company's exchange gains drastically.

This year, the tax losses have been carried forward giving rise to a credit of KShs 3.18 billion in the Profit and Loss Account due to the tax allowances earned from the capitalization of Sondu Miriu hydro power project.

Josef da Fræsk frakkrikerskipp

KenGen is a good company facing dynamic challenges in its business environment ranging from shareholder expectations, rising power demand, regionalization of the sector and emerging regulatory issues. To live up to our mission of efficiency and competitiveness, we have embarked on a transformation program from being a "Good company" to a "Great company".

Achieving this transformation will revitalize KenGen into a worldwide champion in power generation that also compares favourably to other leading industries that employ best practices. The Good to Great (G2G) Transformation focuses on the future of KenGen and must outlast all of us, who need to own it and be responsible for making it a true success for the benefit of Kenyans today and for that of many generations to como. We therefore termed the transformation effort as G2G Transformation to symbolise two critical themes of moving from a "Good" to a "Great" company and through creating sustainable value from one "Generation" to the next "Generation" of Kenyans.

The G2G Transformation Plan is the next big step after the Initial Public Offering (IPO) in which KenGen became one of Kenya's key public companies. It will take years of dedication, requiring the entire company to rally around the G2G transformation plan and dedicate itself to successfully achieving it.

This Plan which was approved by the Board in November 2007, is anchored by three pillars of capital planning and execution, regulatory management and operational excellence which are all supported by an effective organization. It seeks to add 2,000MW primarily from "geothermal by 2018 to meet the power needs of our national Vision 2030.

Fifteen focus areas were identified within the pillars which will outline the targets and key performance indicators of the Company. To track drive and facilitate the achievement of transformation initiatives, a Transformation Monitoring Office has been setup to ensure the Company remains focused on these critical success areas.

Talasylve Bydsnelet Hodiamans

We have set ambilious targets in the G2G Transformation Plan which spreads in three clear strategic horizons through which KenGer must enhance to attain the capacity goal of 2,000 MW by 2018. Achievement of these targets will require us to use "business unusual approach" in the way through which we finance and implement our projects.

Horizon I (2008-2012) seeks to add 500MW of capacity to stabilise the precarious power situation in Kenya today.

Horizon II (2013-2018) socks to add 1,500MW of capacity primarily through geothermal renewable sources in order to create a base-load and sustainable power supply in Kenya.

Honzon III (beyond 2018) deals with exploration of opportunities beyond Kenya in view of the fact that KenGen will have established its presence in Kenya with a dependable capacity of about 3,000MW.

Our Horizon I, committed projects include 175MW of geothermal comprising Olkaria II 3rd unit (35 MW) and Olkaria IV (140MVV) - drilling for Olkaria IV is ongoing; I20MW of thermal generation alongside 76MW of hydroland 5MW of wind at Ngiong An additional 50MW of emergency power was commissioned to stabilize demand in the short-run.

We have already commenced activities to drive Horizon II projects.

Geothernal I englapment **Compeny**

In order to achieve the anticipated expansion in geothermal capacity in our Horizon II, the GoK is setting up Geothermal Development Company (GDC), which will focus and accelerate the expansion, it will also be

able to attract the necessary concessionary funding critical for the upstream drilling risk. The Government has offered KenGen a 30% equity participation and the management of the Company until such time as it is able to operate independently.

Financing Strategy

To meet the capacity expansion as envisaged in Horizon I, the total finances required would be approximately US\$ I billion rising to approximately US\$ 5 billion for Horizon II and an estimated US\$ 20 billion for Horizon III.

KenGen depends and will continue to depend on both internal and external sources of financing to provide working capital and fund the capital investment requirements. The Company has traditionally funded its capital expenditure with internally generated funds, equity contributions from the Government and debt financing. A significant part of the external funding has been foreign currency loans from multilateral agencies such as the World Bank, Japanese Bank of International Cooperation (JBIC) and the European Investment Bank (EIB) with loans being guaranteed or onlent by the Government.

The mode of financing the G2G programme is envisaged to change dramatically if we have to acquire these huge capital resources. We will need to shift from government-sponsored debt financing to corporate-sponsored borrowing. The change will have two distinct dimensions. First, the need for a commercialization agenda aimed at developing KenGen into an efficient and autonomous entity, fully responsive to market forces. Second, the need for the Company to shift reliance from the traditional sources to private sources of finance and even from bank loans to bond markets.

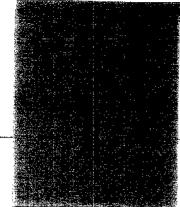
KenGen has engaged the services of a Financial Advisor/Arranger to assist in the identification, design and execution of a suitable financing strategy.

Regulatory Affairs

The ability to deliver on our vision strongly depends on our capacity to create the right regulatory environment that favours generation growth. Moreover, as a listed company on the Nairobi Stock Exchange, KenGen has an obligation to maximise the shareholders value. As a result, regulatory management is a key pillar of the G2G Transformation strategy through establishment of a strong management team within the Company to drive regulatory affairs. Other than the GDC, several changes are taking place in the industry. A separate transmission Company is being established to expand the national transmission infrastructure and Rural Electrification Authority has been setup to accelerate electricity access to the Kenyan people. With these changes, the newly established Regulatory Affairs Division will examine the effects, that these arrangements would have on our business and influence decisions that favour generation growth.

On environmental and energy efficiency initiatives, the Company is a member of the Kenya Energy Sector Environment Programme (KEEP), whose main aim is to promote environmental conservation and efficient energy use in Kenya, Pursuant to our renewable energy strategy led by geothermal, we have established a Clean Development Mechanism (CDM) Centre to tap the proceeds from carbon credits which will form a significant capital for investment in the long term. Presently, three of our projects – Tana, Kiambere and Olkaria II 3rd Unit, will start earning carbon credits once completed.

Technological innovation presents opportunities for KenGen in provision of quality and adequate electricity. Consequently, we have established a Research and Development (R&D) function to promote new and efficient ways of plant development and operations.





Kwa mara nyingine, tulikamilisha kipindi kinachomalizika cha matumizi ya fedha na matokeo bora kwa kuzalisha vipimo 4.818 milioni kutoka kwa mitambo yetu ya sasa, asilimia 5 zaidi ya ilivyokuwa mwaka jana. Kiwanda kipya kilichozinduliwa Februari 2008 cha Sondu Miriu kiliongeza vipimo 150 milioni. Asilimia 72 ya jumla ya umeme tuliozalisha ulitokana na maji, asilimia 20 umememvuke na asilimia 8 kutokana na umemejoto, na hivyo kudhihirisha kujitolea kwetu kutoa umeme safi na kwa njia za kudumu kwa uchumi wa Kenya na raia wake. Vipimo milioni 500 vya ziada vilizalishwa kutoka kwa kiwanda cha Dharura cha Umeme ambacho tunasimamia kwa niaba ya serikali ya Kenya. Mchango wetu wa jumla wa umeme ulikuwa vipimo milioni 5,318 ambao ni sawa na takribani asilimia 85 ya kiwango cha stima kinachotumika kote nchini kwa mwaka.

Ukosefu wa mvua ulioshuhudiwa katika kipindi cha pili cha mwaka tunachokitathmini ilisababisha kiangazi na hivyo kupunguza viwango vya maji kwenye mabawa yetu na hivyo kuongeza uzalishaji umeme wa dizeli katika miezi ya Mei na Juni 2008. Bei ya mafuta ilizidi kupanda huku uchumi wa nchi ukizorota kutokana na vurugu za uchaguzi mapema mwaka huu. Yote haya yameangamiza ufanisi wetu wa miezi sita ya kwanza mwaka huu.

Matokeo ya Kifedha

Faida Jiongezeka kwa asilimia ndogo ya 4.5 kutokana na mauzo ya vipimo zaidi na kupunguza gharama za kuendesha shughuii zetu. Gharama za fedha zi liongezeka kutokana na hasara ya ubadiishanaji fodha za kigeni ya Sh. 1.4 bilioni. KenGen ina mikopo ya muda mrefu ya miaka 20 hadi 30 Jiyochukuliwa kwa Yeni za Japan ambayo ilifadhili ujenzi wa viwanda vya uzalishaji umeme vya Kipevu, Sondu Miriu na Sang'oro. Mikopo hii ya kigeni ni nguzo muhimu katika mikakati ya ukuaji wa KenGen, kwa vile uwekezaji, bila shaka, hudhibiti hali ya kifedha ya kampuni. Kutokana na kumanika kwa Yeni kufikia mwisho wa mwaka, nafuu iliyotokana na kiwango cha chini cha ubadilishaji ilididimia maradufu. Hii ni licha ya kiwango cha chini cha riba kilichotozwa mikopo hiyo.

Mwaka huu, hasara za ushuru zimesukumwa mbele na hivyo kutuwezesha kupata. Sh 3,1 bilioni katika akaunti ya faida na hasara kutokana na marupurupu ya ushuru tuliopokea kutokana na uzindulizi wa Sondu Miriu.

Mpango wa Nzuri Hadi Bora Zaidi(G2G)

KenGen ni kampuni nzuri ambayo inakabiliwa na changamoto za kila aina katika shughuli zake za kibiashara yakiwemo matarajio ya wenyehisa, mahitaji ya umeme yanayozidi kuongezeka, ugawanaji wa sekta hiyo kimaeneo na masuala ibuka ya usimamizi. Ili kutosheleza ya mahitaji haya KenGen ilianzisha Mpango wa mageuzi ambao utaigeuza kutoka "Kampuni Nzuri" hadi "Kampuni Bora Zaidi."

Kufanikisha mageuzi haya kutamaanisha kuifanya KenGen kuwa mzalishaji wa kimataifa wa umeme sambamba na sekta zingine zinazotumia maongozi bora. Mpango wa G2G unahusisha hali ya baadaye ya KenGen, na hivyo tunapasa kuumiliki na kuwajibika kuhakikisha unafaulu kwa manufaa ya Wakenya wa leo na vizazi vijavyo. Jitihada hizo za mageuzi zinarejelewa kama G2G kuashiria malengo mawili makuu yanayoongoza mradi huu, ambayo ni kugeuza "Kampuni Nzuri hadi Kampuni Bora Zaidi" kupitia kuunda thamani ya kudumu kutoka "Kizazi Kimoja hadi Kingine."

Huu ndio utakuwa mpango mwingine mkubwa wa mageuzi baada ya ule wa kuuza hisa za Kampuni kwa Umma (IPO) ambapo KenGen imefana katika Soko la Hisa.Itahitaji sisi kama Kampuni kujitolea kiuwakfu kutekeleza Mpango huu wa G2G.

Mpango huu wa mabadiliko, ulipitishwa na Bodi mnamo Novemba 2007 na una nguzo tatu kuu ambazo ni Mpango na Utekelezaji wa Mtaji, Maongozi Yafaayo na Utendaji Kazi Bora. Msingi wa mkakati wetu ni ufanisi wa mipangilio. Mojawapo ya vipengele vya mkakati huo wa magcuzi ni kuongeza 2,000MW kutumia nguvu za mvuke ilikuafikia malengo ya ruwaza ya 2030.

Tulitambua sehemu kumi na tano za kuzingatia zaidi kwenye nguzo hizi ambazo zitaongoza malengo na vigezo vya utendaji kazi wa Kampuni.Tumebuni Afisi ya Uchunguzi wa Mabadiliko hayo ambayo inahusika na kufuatia vigezo hivyo vyote kuhakikisha tumo kwenye mkondo wa nyanja hizi muhimu.

Upanuzi wa Uzalishaji Wetu

Tumetenga malengo makuu katika Mpango wa G2G ilioenezwa katika mikakati mitatu maalumu zitakazowezesha KenGen kutimiza maazimio yake ya kuongeza 2,000MW kufikia mwaka wa 2018.Kutekeleza hizi azimio tutahitajika njia nadra za kuzinduwa mipango yetu.

Awamu ya I (2008-2017) inalenga kuongeza 500MW za uzalishaji ili kudhibiti hali duni ya umeme iliyopo Kenya. Awamu ya II (2013-2018) inakusudia kuongeza uwezo wa uzalishaji wa 1,500MW hasa kupitia vyanzo vya umememvuke ili kutosholeza mahitaji ya muda mrefu ya umeme Kenya.

Awamu ya III (2018 na zaidi) inalenga kupanua nafasi zaidi za kibiashara nje ya Kenya kwa kuwa Kampuni itakuwa imetosheleza mahitaji ya umeme Kenya kupitia uzalishaji wa 3,000MW.

Katika Awamu letu ia I, miradi ya uzalishaji umeme ni pamoja na 175MW kutoka Olkaria IV kituo cha tatu (35MW) na Olkaria IV(140MW)-kuchimba visima wa Olkaria IV unaendelea, mradi wa mvuke(120MW) pamoja na mradi wa maji(76MW) na ule wa upepo(5MW) Ng'ong. Kiwanda kingine cha ziada kitakachozalisha 50MW za dharura kimcanzishwa ili kutosheleza mahitaji kwa muda mfupi.

Tayari, tumeanzisha shughuli za kutekeleza miradi kwenye Awamu ya II.

Kampuni ya Kuzalisha Umememvuke

lli kufikia malengo ya upanuzi unaokusudiwa wa uzalishaji umememvuke kwenye Awamu ya pili, serikali iliamua kuunda kampuni tofauti, Kampuni ya Kuzalisha Umememvuke (GDC) ambayo sasa itaangazia zaidi na kuharakisha upanuzi wa uzalishaji wa umememvuke. Pia itaweza pia kuvutia wa wekezaji katika sekta hiyo. Serikali imei patia Ken Gen umiliki wa asilimia 30 wa kampuni hiyo pamoja na usimamizi wake hadi wakati ule itaweza kujisimamia yenyewe.



Ili kutimiza malengo ya upanuzi kama yalivyoelezwa kwenye Awamu T, kiasi kinachohitajika kinakadiriwa kuwa Dola T bilioni na kuongozeka nadi. Dola 5bilioni kwa Awamu 2.

KenGer inategemea na raendelea kutegemea vyanzo vya kifodha ndani na nje ya nchi ili kupata mtaji na pia fedha za kufadhili manitaji yotu ya uwokozaji wa muda mrefu. Kwa xawaida, Kampuni imekuwa ikifadhili miradi yake mikubwa kutokana na akiba zetu, ruzuku kutoka kwa serikali na mikopo. Na kiasi kikubwa cha ufadhili kutoka nje kimekuwa mikopo kutoka kwa mashirika kama vile Benki ya Dunia, JBIC na European Investment Bank huku mikopo hiyo ikichaminiwa na serikali.

Mbinu za kufadhir minadi ya uwekezaji wa stima nchini hazina budi kubadilishwa kama tutawoza kutosheleza mahitaji makubwa ya nasimali. Tunapasa kubadili mkondo kutoka kwa mikopo inayodhaminiwa na serikali na kuegemea ile mikopo kutoka kwa mashirika binafsi. Mabadiliko hayo yatakuwa na malengo mawili. Kwanza, ile haja ya kupanua viwanda vya umeme ili viimarike, vijitegemee na kujitosheleza kifedha, na hivyo kukabiliana na changamoto zozote za kibiashara. Pili, haja kwetu kutotogemea sana vyanzo asili vya kifedha na badala yake, vyanzo vya kibinafsi vya ufadnili na hata kutoka mikopo ya benki hadi masoko ya dhamana.

Kutokana na malengo makuu ya upanuzi wa uzalishaji chini ya mpango huu wa mageuzi, KenGen imeteua mshauri kuisaidia kutambua, kuunda na kutekeleza mpango ufaao wa kifedha utakaosaidia katika upanuzi wa uwezo wetu wa uzalishaji.

Meswals wall sincernial

Uwezo wetu wa kufanikisha malengo yetu unategemea zaidi kujitolea kwetu katika kubuni mazingira ya usimamizi yafaayo ambayo yanakuza uzalishaji. Kwenye mshirika mkuu katika sekta inayodhibitiwa vikali ya umeme sambamba na Sheria ya Kawi 2006, hatuwozi kufanikiwa kivyotu badala yako tunapasa kuhakikisha sekta hili inaongozwa na kusimamiwa vyema ili kuleta ufanisi mkubwa kwa manufaa ya washika dau wote.

Isitoshe, kama kampuni iliyoonodheshwa kwenye Soko la Hisa la Nairobi, KenGen ina wajibu wa ongeza dhamana ya wenyehisa wetu. Na hivyo, usimamizi bora ni nguzo muhimu katika mkakati ule wa Nizuri hadi Bora Zaidi kupitia kuunda na kukuza kundi thabiti la usimamizi katika kampuni kutekeleza azma hiyo. Mbali na mpango ule wa GDC tulitoelezea hapo mbeleni, kuna mabadiliko kadha yanayoendelea kwenye sekta hii. Kampuni huru ya kusaidia katika usambazaji umeme inabuniwa. Mamlaka ya Kusambaza Umeme katika Sehemu za Mashambani tayari imeanzishwa ili kuharakisha mpango wa kusambaza umeme katika sehemu za mashambani. Kutokana na haya na mabadiliko mengine, kitengo kipya kilichoteuliwa cha usimamizi kinatarajiwa kuchunguza athari yoyote, kama itakuwepe ambayo mpangilio huu utakuwa katika biashara yetu na kushinikiza maamuzi yatakayounga mkono uzalishaji zaici.

Kuhusu mazingira, Kampun ni mwanachama wa mpango wa kitaifa wa sekta ya kawi nchini kuhusu mazingira (KEEP), ambayo lengo ni utimiaji wa kawi kwa njia ambazo hazitaathiri mazingira. Tumeanzisha kituo cha Utaratibu wa Ustawishaji Safi (CDM) kama kitengo cha kupokea fedha za kupunguza viwango vya kaboni hewani. Kwa sasa, tuna miradi tatu ya Tana. Kiambere, kituo cha tatau cha Olkaria II, ambazo zitaanza kupokea hizi fedha zitakapokamilishwa.

Uzinduzi wa teknolojia zimepea KenGen nafasi ya kutumia vigezo bora vya kampunikwa usambazaji wa umeme. Tumeanzisha kitengo cha Utafiti na Ustawi cha kuendeleza na kuzindua mikondo mipya ya utendaji kazi wa miradi ya umeme.

Wastelf a con lib locali con Nguva za Gmeme (PPA).

Mkataba wa Muda wa Uhuhuzi wa Nguvu za Umeme (IPPA) ulitiwa sahihi kati ya KenGen na KPLC mnamo. 1999 kwa ada ya kiasi kikubwa cha umeme ya Sh 2.36 kwa kilowati kwa saa, Mkataba wa Pili Mdogo uliafikiwa

mnamo Julai 1,2004 ambao ulipunguza ada hiyo hadi Sh 1,76 kwa kilowati kwa saa kwa kipindi cha miaka mitatu na kumalizika mnamo Juni 30, 2006.

Kufuatia hali hiyo, tulirejeloa ile ada ya awali ya Sh 2.36 kwa kila kilowati kwa saa kuanzia Julai 1, 2006 kama ilivyofafanuliwa kwenye Mkataba wa Tatu wa Muda uliotiwa sahihi Januari 18, 2006. Kampuni itaendelea kutoza KPLC Sh 2.36 kwa kilowati moja kwa saa hadi Mikataba ya Muda Mrefu wa Ununuzi wa Nguvu za Umeme itafikiwa kati ya KPLC na KenGen baada ya kuidhinishwa na Tume ya Usimamizi wa Kawi (ERC).

Wafanya Kazi Wetu

Sambamba na mkakati mpya na mageuzi katika Kampuni yetu, mpangilio mpya wa Kampuni uliidhinishwa na Bodi mnamo Novemba 2007. Nina furaha kuwafahamisha kuwa mnamo Aprili 2008, KenGen ilizindua utaratibu wa kuajiri wakurugenzi wa ngazi za juu ambao watakuwa kundi la usimamizi litakaloongoza kampuni yenu kwenye safari hii ya mageuzi.

Kampuni inatambua kuwa wafanya kazi wetu wanatekeleza wajibu muhimu katika kuafikia malengo yetu ya kibiashara. Kwa mintaarafu hii, ufahamu, vipawa na mitazamo ya wafanya kazi wetu ni muhimu katika kuafikia malengo ya shirika letu. Miradi kadha ya kutoa mafunzo ilitekelezwa mwaka huu ikiwemo ile ya kuangazia ukuzaji wa vipawa, uongozi, mshikamano wa wafanya kazi, uhamasishaji kuhusu HIV/Ukimwi na Kuzuia Ufisadi. Tulihifadhi watumishi 1,514 waliohitimu na kujitolea mwaka huu unaomalizika. Ili kuendesha mkakati wetu mpya wa kibiashara wa G2G, mfumo wa kutathmini utenda kazi umo njiani ili kukuza na kutathmini utendaji kazi wa wahudumu; kuhakikisha kuwa wafanya kazi wenye vipawa wanatambuliwa, kusimamiwa vyema na utenda kazi wa kila mfanya kazi unatambuliwa na kutuzwa.

Mabadiliko Mapya

Mnamo Juni 2008, KenGen iliandaa Kongamano la kumi na sita la Chama cha Wazalishaji, Wasambazaji na Wasafirishaji Umeme Afrika (UPDEA) ambalo mada yake kuu ilikuwa usimamizi bora wa sekta za kitaifa za kawi kama kipengele muhimu katika kufanikisha kupatikana kwa umeme na watu wote Afrika. UPDEA inalenga kuimarisha matumizi ya pamoja ya mitambo ya umeme, kutumia pamoja nguvu za umeme kwenye maeneo yaliyo karibu, kutoa mafunzo na jukwaa kwa washirika wa kawi kubadilishana mawazo. Zaidi ya wanachama mia nne walihudhuria Kongamano hilo na Kampuni ilitunukiwa urais wa UPDEA kwa kipindi cha miaka mitatu.

Mwaka Ujao

Uzingatiaji wa mkakati wetu unatupa imani kuwa KenGen itaendelea kukuwa, kupata faida na kuzalisha zaidi mnamo 2008. Lengo letu kuu mwaka ujao litakuwa kupata fedha zinazohitajika kutekeleza mpango wetu mkuu wa uwekezaji ambao umefafanuliwa kwa kina kwenye mkakati wetu. Lengo letu la pili litakuwa kutekeleza miradi yote kwa wakati ufaao na pia kwa fedha zilizotengwa. Hatua hizo zitaimarisha KenGen na kuiwezesha kukabiliana na changamoto zilizopo na kupanua shughuli za kibiashara.

Tuna mpangilio unaobadilika na wakati, tunaongoza kwenye soko hili na pia nafasi ipo ya kupanua uzalishaji wetu ili kutosheleza mahitaji ya umeme yanayozidi kuongezeka. Kutokana na sababu hizo, tuna matumaini katika mwaka ujao na uhakika wa kupiga hatua zaidi katika kufikia malengo yetu ya muda mrefu ya kifedha.

Ningependa kuwashukuru wenzangu katika Bodi, wasimamizi na kwa kila mmoja wa wafanya kazi wetu kwa mchango wao muhimu kwa ufanisi tuliopata mwaka uliopita. K wa kufanya kazi pamoja kama KenGen Moja, nina uhakika kuwa tutapata ufanisi hata zaidi 2008.

Ynjing

Edward Njoroge, Mkurugenzi Mkuu & CEO

The members of the Board have pledged to dedicate themselves to the service of KenGen and uphold the tenets of good corporate governance by being accountable, efficient, effective, persons of integrity, responsible, transparent and exercise fairness in all their dealings.

Burera Correct

This Board Charter is a commitment by the Directors to discharge the mandates of KenGen. It outlines the rules that guide them and does not in any way purport to replace or supersede any laws and regulations that guide KenGen.

The Beard,

KenGen is headed by an effective Board which offers strategic guidance to lead and control the Company and is accountable to its shareholders, Faithful discharge of the mandates of KenGen requires persons of high integrity, commitment, dedication and foresignt at both, the board and management level.

The Board consists of ten non-executive Directors and an executive Managing Director. The full Board of Directors held 3 regular and 7 special meetings during the year. Dates of the meetings are scheduled annually whereas special Board meetings are called when necessary.

Boses Reage (ein liber

KenGen's Board independence from the Company's corporate management is ensured by the separation of the function of the Chairman and Managing Director and a clear definition of their responsibilities. This helps in achieving an appropriate balance of power, increases accountability and improves the Board's capacity for decision making independent of the management. The Board is accountable to the shareholders and has been assigned a clear mandate and ultimate responsibility for the Company's performance.

The Board takes on the primary responsibility of determining the Company's vision, mission and values; deciding its strategic objectives and key elements of the governance processes underpinning the operation of the Company. The Board provides the leadership and vision of the Company in a way that maximises shareholder value and ensures long-term sustainable development and growth of the Company.

it rotains full and effective control over the Company by monitoring the management in implementing Board plans and strategies, review of management accounts and major capital expenditure; strives to act above and beyond the minimum requirements and benchmark performance against international best practices; delegates other matters with the necessary written authority to management and institutes effective mechanisms that ensure Board responsibility for management performance of its functions.

The Board reviews and adopts ousiness plans, specific financial and non-financial objectives and policies proposed by management, reviews processes for the identification and management of business risk and processes for compliance with key regulatory and legal areas; delegates authority for capital expenditure and reviewing investment, capital and funding proposals reserved for Board approval. The Board also reviews the Company's succession planning for the management team and endorses senior executive appointments, organizational changes and remuneration issues; evaluates the Company's performance and provides oversight of reporting to stakeholders on the direction, governance and performance of the Company as well as other processes that need reporting and other disclosure requirements.

The Board of Directors exercises diligence in carrying out their role, with the emphasis on strategic issues and policy. On a quarterly basis, the Board considers an operational report from the Managing Director; management accounts for the past quarter; reports from each Board Committee; specific proposals for capital expenditure and acquisitions; and major issues and strategic opportunities for the Company.

Board Committees

Board Committees have been established with formal written terms of reference and observe the same rules of conduct and procedures as the Board.

The Board has set up three main Committees and two adhoc Committees

Strategy Committee

It comprises of Sarah Wainaina (Chairperson), Alfred Odawa, Musa Ndeto, Solomon Kitungu and Edward Njoroge.

This Committee reviews, monitors and evaluates the company's strategy and investment policies and makes recommendations to the Board on issues of strategy adjustment; the progress of the Company's strategy execution plans through identification of priority areas; the overall operational performance and organizational health.

It held 4 regular meetings in the year.

Audit Committee

It comprises of Dorcas Kombo (Chairperson), Solomon Kitungu, Hedrick Omanwa, and Edward Njoroge.

Its functions are to assess and advise on the integrity of the Company's financial statements, financial plans and budgets, review the scope and effectiveness of the internal controls and management systems which manage and monitor financial and non-financial risks; receive the internal audit reports, review independence, objectivity and effectiveness of the external auditors and monitor compliance with the Code of Conduct and Ethics.

It held 4 regular and 2 special meetings in the year.

Staff Committee

It comprises of George Njagi (Chairperson), Dorcas Kombo, Alfred Odawa, Peter Muriithi and Edward Njoroge.

The Committee scrutinizes and advises the Board on the organizational structure, core functions and staff establishment; human resource policies, the adequacy of the performance management system, the staff welfare policy and also make recommendations for broad guidelines that promote operational efficiency and capacity enhancement.

It held 5 regular and 2 special meetings in the year.

Procurement Oversight Committee (adhoc)

It comprises of Musa Ndeto (Chairperson), Sarah Wainaina, Titus Mbathi and Edward Njoroge.

The Committee oversees major procurement works which have a strategic impact in the Company. It held 8 meetings in the year.

G2G Steering Committee (adhoc)

It comprises of Musa Ndeto (Chairperson), George Njagi, Henry M'Narobi, Sarah Wainaina and Edward Njoroge.

The Committee sprearheads the G2G Transformation Programme by providing overall guidance on major organisational roadblocks and mobilising resources necessary to achieve the transformational targets, it held 3 meetings in the year:

Basad, Topas Comusaine Aftendance

The following table gives the record of attendance of the KenGen Board and its Committee meetings for the year ended 30th lune 2008:

	FULL Board	SPECIAL Board	STAFF COMMITTEE	AUDIT Committee	STRATEGY COMMITTEE	PROCUREMENT OVERSIGHT COMMITTEE	G2G STEERING COMMITTEE
NO. OF MEETINGS HELD	3	7	7	6	4	8	1 1 1 1
	_		MELTIN	IGS AT	TENDED		
Titus Mbathi	3	7	 			8	
Edward Njoroge	3	7	7	6	4	8	<u> </u>
Sarah Wainaina	3	7	-		4	8	1
Musa Ndeto	2	7			4	8	ļ <u> </u>
George Njagi	3	1	7				<u> </u>
Dorcas Kombo	2	6	7	6			·
Hedrick Omanwa	3	7		6			
Henry M'Narobi	3	7					
Peter Muriithi	3	7	7				
PS-Treasury	3	6		6	2		
PS-Energy	3	7	7		4	·	

iloariza Remanariza, po

Following guidelines as provided under the State Corporations Action directors' remuneration, non-executive directors are paid Directors' fees annually after approval is given during the Annual General Meeting. The directors are also paid taxable sitting allowance for every meeting attended, as well as travel and accommodation allowance while on company duty. The Chairman is paid a monthly honorarium. KenGen does not grant personal loans or guarantees to its Directors.

Business Katha

Our core values of integrity professionalism, team spirit and safety culture, steer the Company's organizational nealth and decision making processes. Our business is conducted in compliance with high ethical standards of business practice and in compliance with legal principles. We apply these standards in all our dealings with employees, customers, suppliers and other stakeholders. The Company has developed a Service Charter that outlines our customer service committeents.

The Company also ascribes to the ethical standards prescribed by the Public Officer Ethics Act.

Communication in the Engreholders

We are committed to provide regular and timely information to our shareholders. The Company publishes its half year and annual results in the local newspapers. The Annual Report & Accounts are posted to all shareholders on an annual basis at least 21 days before the Annual General Meeting (AGM) to ensure that all the shareholders are promptly notified of the AGM.

The Company's revamped website also gives the shareholders quick access to our corporate information.

Shareholding

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

List Of Ten Largest Shareholders As At 30 June 2008

	The second secon	Number of Shares	 %
i.	Permanent Secretary, Treasury		
2.	National Social Security Fund	1,538,853,019	70.00%
3.	Barclays (K) Nominees Limited- A/C 9230	17,334,800	0.79%
4.	Barclays (K) Nominees Limited- A/C 1853	9,255,300	0.42%
5.	Kenya Commercial Bank Nominees Limited A/C 769G	8,899,831	0.41%
6.	Alfaways Limited	7,667,592	0.35%
7.	Jennid Trading Limited	6,436,121	0.29%
8.	Lancaster Investment Limited	5,455,794	0.25%
9.	Sandhurst Investments Limited	4,502,106	0.20%
10.	Kensington Developers Limited	4,501,294	0.20%
	The single in the second person in the second perso	4,148,427	0.19%
	220,089 other shareholders	1,607,054,284	73.10%
	Traines on the Billion and Indian	591,307,172	26.90%
	Total	2,198,361,456	100.00%

Distribution Of Shareholders

Range	No. of Shareholders	Shares	% Shareholding
1 - 500 501 - 1,000 1,001 - 5,000 5,001 - 10,000 10,0001 - 50,000 50,001 - 100,000 100,001 - 500,000 500,001 - 1,000,000 Above 1,000,000	89,659 48,142 55,427 22,554 3,647 296 273	25,707,294 38,278,549 119,116,785 147,374,696 70,436,847 20,464,079 58,405,824 38,059,138	1.17 1.74 5.42 6.70 3.20 0.93 2.66
Total	48 220,099	1,680,518,244 2,198,361,456	76.45

KenGen continued to enhance its Corporate Social Responsibility programmes during the year under review utilizing an equivalent of one per cent of its net profits to fund the activities. The CSR programmes are aimed at bonding the Company's relationship with host communities around its diverse installations across the country and uplifting the lives of these communities through provision of better education, health, water supply, electricity and cleaner environment among other necessary needs.

Driven by the CSR policy developed four years ago, the Company has managed to fund education, enhance school and health facilities as well as provision of water and electricity which have made a difference for many communities in diverse areas.

Controlleration to Education

The Company's scholarship programme continued to expand with 14 more secondary students benefiting from the programme during the year under review. A total of 64 secondary school and 24 university students had been corolled in the programme by the close of the year

The scholarship programme also attained a land mark in the year with the first group of students, who pioneered the programme in 2005 preparing themselves to sit for the Kenya Certificate of Secondary Education later in November, 2008. The scholarship programme aims at enabling students, most from marginalized areas to attain good education and join mainstream employment. The Company also engages in other education initiatives including construction of classrooms and other school facilities.

Jechales of these Beach

The Company continued with its initiative of assisting local communities to have access to clean water by extending pipelines and constructing storage tanks and water klosks.

During the year under review, the Narasha Eseneto Water project at Olkaria was completed as well as construction of five water kiesks at Musumaa area at Kaewa near Masinga. The Company also completed seven water points along Songu Miriu power station outlet channel and handed them over to the community. The Company also continued to supply neighbouring communities living near its installation with free water.

Resultantero Canalità Fato

The Company continued to manage tree nurseries at Kiambere, Olkaria and Sondu Miriu from where seedlings were issued to the communities during rainy seasons. KenGen also played a key role in the official launch of the Kenya Energy Sector Environmental Programme (KEEP) which is a major effort by energy industry players in support of the country's environment conservation efforts. The feasibility studies for Tana Re-development Conservation program is on-going with a view of running a pilot project next year.

The Company remained active in support of sporting activities sponsoring several international and local events within the financial year. Among other events, the Company was the main sponsor for Africa Canoe Kayak championships held in Masinga Dam in February, 2008, Coming soon after the post elections violence, the continental championships went a long way to illustrate that Konya had gone back to normalcy and all was well.

The Company once again sponsored the annual KenGen/Parklands Open International Squash tournament which attracted over 00 local and international players. The Company has sponsored this tournament for the last four years. Other sponsorships included the 2008 Kenya Open Golf Championship and other charity golf events whose proceeds go to help the needy in the society.

Health Initiatives

The Company continued to offer treatment to host communities in its clinics at subsidized rates or for free in cases of emergency. Nationally, Company employees participated in major events championing health causes such as the Dettol Heart Run, Diabetes Walk, among other health initiatives. KenGen also supported other worthy courses such as charitable donations to Nyeri and Mombasa hospices.

The company also contributed KShs. I,500,000 to the Kenya Red Cross Society and MAP International for health care and other necessities for the Internally Displaced Persons occasioned by the post elections violence.

Fower Supply

KonGen partnered with the Ministry of Energy to supply Kainuk township near Turkwel with electricity at a cost of KShs.32 million.

Through its CSR policy guidelines, the Company will continue to engage in various activities that benefit host communities and the country at large as a way of saying thank you to all those who contribute to its success in one way or other.



REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2008

The directors submit their abbual report and the audited financial statements for the year ended 30 June 2008, which show the state of the company's affairs.

PRINCIPAL ACTIVITIES

The principal activity of the company is to generate and sell electricity to the authorised distributor, Kenya Power and Lighting Company Limited (KPLC).

And the property of the state o

	KShs'million
Profit before taxation	1,629
Taxation	3,180
Net profit for the year transferred to revenue reserve	4.809

Subject to the approval of the sharcholders, the directors recommend the payment of a final and total dividend of KShs 1.978 million (KShs 2007; 1.758 million) for the year representing KShs 0.90 (2007; KShs 0.80) per issued oroinary share.

a. Geberate

The reserves of the company are set out on pages 42 and 66 note 24.

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The directors who served during the year and to the date of this report are as shown on page 1.

The Controller and Auditor-General is responsible for the statutory audit of the company's books of account in accordance with Section 4 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Controller and Auditor-General to appoint other auditors to carry out the audit on her behalf.

Accordingly, Ernst & Young were appointed to carry out the audit for the year ended 30 June 2008.

By Order of the Board

Holians

Rebecca Miano Company Secretary

14 October 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records, which disclose with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

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

Director

Director

Director

14 October 2008

REMOVED THE CONTROLLER AND AUDITOR-GENERAL

FOR THEYEAR ENDED 30 JUNE 2008

The financial statements of Kenya Electricity Generating Company Limited, set out on pages 40 to 73, which comprise the balance short as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes have been audited on my bonalf by Ernst & Young, auditors appointed under section 39 of the Public Audit Act 2003. The auditors have only 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 boilof, were necessary for the purpose of the audit were obtained.

L RESTURE RELATERED 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 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 fraudior error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RUSPOR A SILL IN A POWER CORTINOLLER 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 international Standards on Auditing. Those standards require compliance with othical requirements and that the 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 on error, in making those risk assessments, the auditor considers internal controls relevant to the entity's proparation and fair presentation of the financial statements in order to design audit procedures that were 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 user and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. The level that the audit provides a reasonable basis for my opinion.

医石金属

In my comion proper cooks of accounts 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 2008 and of its profit and cash flows for the year then enced in accordance with international Financial Reporting Standards and the Kenyan Companies Act. Cap 486 of the Laws of Konya.

Philoma

PN.KOMORA, CBS

CONTROLLER AND AUDITOR GENERAL

Na robi

14 October 2008

हिंगित्रेncial Statements 30^{की} June 2008

INCOME STATEMENT FOR THEYEAR ENDED 30 JUNE 2008

		Note	2008 KShs'000	2007 KShs'000
ELECTRICH Y S FUEL REVEN UL	AlusS - Nort Fa e l Historiagn	3	11,548.176 4,543,387	11,141,219 3,410,548
			16,091,563	14,551,767
OPERA ING EX	KPENISCS .	4	(12,557,479)	(i 1.409,594)
GROSS PROFT			3,534,084	3,142,173
INTERES I INCO	DM-		275,773	593,091
OTHER INCOM	· ·	5	58,278	<u> 117.74</u> 7
OPERATING PR	OPT		3,868,075	3,853.011
FINANCE COS	ि । ि शंका exchange adjustments	6 (a)	(1.441,148)	1,419,974
	Ower	6(b)	<u>(798.073)</u>	(553.706)
PROFFI BEFORE	:Ax	7	1.628.854	4,719,279
MC.TAXAT	- Comparation - Deferred	8(a) 8(a)	3.180,591	(1,465,943) (807,670)
NET PROFIT	FORTHEYEAR		4,809,445	2.445.666
Earnings per share	e - basic and diluted (Kshs.)	9 .	2.19	-
Dividends per sha	ırc - (Kshs.)	25	0.90	0.80

BALANCE SHEET AS AT 30 JUNE 2008

ASSETS	Note	2008 KShs'000	2007 KShs'000
ON-CURRENT ASSETS			
roperty, plant and equipment	10	91,822,390	87,357,082
repaid leases on land	Ιį	1,475	1,504
ntangible assets	12	303,721	215,664
Amount due from KPLC - deferred debt	16(b)	701,704	627,072
	13	_3,50 <u>9,123</u>	3,941,294
reasury bonds		96,338,413	92,142,616
CURRENT ASSETS		005.013	1,036,841
nventories	ì 4	985,013	
rade and other receivables	15	735,912	1,618,707
Amount due from KPLC	16(a)	4,677.895	4,129,247
fax recoverable	8(b)		73,190
freasury bonds	13	4 27,2 97	1,200,327
Geothermal development funds	20	25,551	-
	17	30,926	89,794
Term deposits Bank and cash balances	18(b)	<u>3,699.354</u>	1,749,334
Sank and cash balances	, ,	10,655,138	9,824,245
CURRENT LIABILITIES		450.114	1,023,189
Borrowings due within one year	19(a)	1,531,116	•
Trade and other payables	21	5,649,563	3,444,905
Leave pay provision		119,252	120,095
Amount due to KPLC	16(c)	7,471	2.433
Geothermal development funds	20	"	1,443,030
Prepaid operating lease	22(b)	2,000	2,000
Dividend payable		615,542	
Tax payable	(ú)8		1,198.537
ax payable		7,924,94 4	7,234,189
NET CURRENT ASSETS		<u>2,730,194</u>	2,590,056
NET ASSETS		99,068,607	94,732,672
SHAREHOLDERS' FUNDS AND LIAB	!LITIE\$		
CAPITAL AND RESERVES	23	5,495,904	5,495,904
Share capital	23 24	60,650,745	57,262,942
Reserves	25	1,978,52 <u>5</u>	879,343
Proposed dividends	ليك	68,125,174	63,638,189
TOTAL EQUITY		00,12011	
NON-CURRENT LIABILITIES	19(a)	19,466,078	16,040.695
Borrowings	22(5)	13,000	15,000
Prepaid operating lease	26	1,464,355	15,038,788
Deferred tax	20	30,943,433	31,094,483
		99,068,607	94,732,672
The Board of Directors approved the financial	statements on 14 Oct	ober 2008 and were sign	ned on its behalf by:
	Thom		-t- Worke deller
() (() (1 () () () () () () () () (
/·····································			Director

	Share capital	Share premium	Capita Reserve
	KShs'000	KShs'000	KShs'000
At I July 2006	5,495,904	5,039,818	0.570.700
Surplus on revaluation	a, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	5,057,010	8,579,722
Transfer of excess depreciation		-	-
Deferred tax on revaluation surplus	-	-	-
Net profit for the year			
Treasury bonds fair value adjustments	•	-	-
Dividends:		•	-
2006 - Final approved			
2007 - Interim pale	•	-	-
2007 - Final proposed		-	-
At 30 June 2007	5,495,904	5,039,818	8,579,722
At ! July 2007			
Transfer of excess depreciation	5,495,904	5,039,818	8,579,722
Deferred tex on revaluation surplus	· -	-	· -
Net profit for the year	-	-	
Treasury bonds fair value adjustments			:
Dividends:	-	-	; - ·
2007 - Final approved			
2008 - Proposed	_	-	; - !
At 30 June 2008	5,495,904	5,039,818	8,579,722

		Property,		
Financial instruments		plant and equipment		
revaluation	Retained	revaluation	Proposed	Takal
reserve	earnings	reserve	Dividends	Total
KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
(17,212)	16,191,362	_	i,209,0 9 9	36,498,663
(17,212)	-	35,159,874	-	35,159,874
-	1,636,314	(1,636,314)	-	(0.700.000)
-	-	(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
(13,924)	18,514,656	25,142,670	879,343	63,638,189
-	1,575,373	(1,575,373)	-	- 393,843
-	-	393,843	-	373,043
-	4,809,445	~		4,809,445
163,040	-	-	-	163,040
100,010				(A 7 0 0.43)
-	-	-	(879,343)	(879,343)
-	(1,978,525)	-	1,978,525	-
149,116	22,920,949	23,961,140	1,978,525	68,125,174

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

_		2008	2007
The office of compose wing soffeties	Note	KShs'000	KShs'000
Clash generated from operations	18(a)	7,952,79 !	6,090,015
Corporation taxes paid		(1,271,727)	(78,120)
Interest paid		<u>(2</u> 69,209)	
Net cash flows generated from operating activities		6,411,853	5,321,852
West to region to the reading explicities			3,54 1,052
Burchase of property plant and equipment		(7,896,5 : 2)	(5,356,989)
Purchase of intengible assets		(88.057)	(215,664)
Proceeds from disposal of property, plant and equipment		29.050	9,466
interest received:		427,702	
Proceeds on sale of treasury bonds		177,702	658,321
Proceeds on recompuon of treasury bonds on maturity		1,238,700	1,505,026
Purchase of treatury ponds		1,236,700	972,500
Net rash flows used in investing activities			(3,444,926)
Paur Spirit fra filosopi i glaptikisles		(6,289,117)	(5,872,266)
epayment of annicum ant bearswings		/	
roceeds from non-current operpwings		(482,084)	(871,203)
xchange gain capital sod		2,514,299	2.197,783
			(1,226,142)
ividends paid		(263,801)	(2,088,442)
et cash flows used in Thancing activities		1,768,414	(1.988,004)
creaso/(decrease) in cash and cash equivalents		1,891,152	(2,535,418)
ash and cash equivalents at the beginning of the year		1.839,128	4,406,845
ci foreign exchange adjustment			(32,299)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

GENERAL INFORMATION

Kenya Electricity Generating Company Limited (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.

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) Adoption of new and revised International Financial Reporting Standards (IFRS)

In 2007, new and revised standards and interpretations became effective for the first time and have been adopted by the company where relevant to its operations. This only resulted in changes in presentation and disclosures as follows:

IFRS 7 Financial instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where necessary. These new disclosures are shown in note 30.

1AS | Presentation of financial statements

This amendment requires the company to make new disclosures to enable users of the financial statements to evaluate the company's objectives, policies and processes for managing capital. These new disclosures are shown in note 31.

The following amendments to an existing standard and new standard and interpretations will be mandatory for the accounting periods beginning on or after 1 January 2008, but which the company has not early adopted, and is reviewing their relevance to its operations:

Standards, amendments and interpretations effective in 2008 but not relevant

The following standards, amendments and interpretations are mandatory but are not relevant to the company's operations:

- IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective from 1 March 2007).
- IFRIC 12, Service Concession Agreements (effective from 1 January 2008).
- IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008).

Standards, amendments and interpretations that have been issued and are not yet effective for the company's

The following standards and interpretations were in issue but not yet effective for the company's operations:

- IFRS 2, Amendments to IFRS 2 Share-based Payment Vesting Conditions and Cancellations (effective | January 2009)
- IFRS 3, Business Combinations (effective from 1 July 2009)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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DET - CONTROL STOLLES (Continue)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

Standards, amendments and interpretations that have been issued and are not yet effective for the company's operations (Comprised)

- IFRS 8 Operating Segments (effective from 1 January 2009)
- IAS T. Preson action of Financial Statements amendment (effective from 1 January 2009)
- IAS 23 (revised) Borrowing Costs (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (effective 1 July 2009)
- * IAS 32. Amendments to IAS 32 Financial instruments: Presentation and IAS / Presentation of Financia Statements - Putlable Financial Instruments and Obligations Arising on Liquidation (effective I January 2009)
- * PRICE 3, Customer Loyalty Programmes (effective from 1 July 2008)

The directors and opate that the adoption of these standards will have no material effect on the financial statements of the company.

b) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations of those Standards as adopted by the International Accounting Standards Board. The financial statements are presented in the functional currency, Kenya Shillings, rounded to the hearest thousand (KShs' 000) and prepared under the historical cost basis of accounting except certain property plant and equipment that have been carried at revaluation amounts and avulable for sale financial instruments that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires directors to exercise judgement in the process of applying the company's accounting policies. Aithough these estimates are based on the directors' pest knowledge of current events and actions, actual results may differ from those estimates. Accounting policies T(c) and T(d) below on critical accounting estimates and assumptions and critical accounting judgements' high ight the areas that involve a higher level of judgement, or where the estimates or assumptions used are significant to the financial statements.

c) Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on managements' expensence and other factors, including expectations of future events that are believed to be reasonable under the circumstances, However actual outcomes can differ from these estimates. Such estimates and assumptions, that have a significant, lisk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

Properly, Pioni, and equipment

Annually, directors make estimates in determining the depreciation rates for property, plant and equipment using internal technical expentise. The rates used are set out in the accounting policy for property, plant and equipment.

Those estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and assumptions (Continued) c)

Impairment of available-for-sale financial assets

The company classifies certain assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in income statement.

Impairment of non-financial assets

The company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Nonfinancial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Critical accounting judgements

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

Allowance for obsolete inventories

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

Allowance for doubtful receivables

The company reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable especially debts incurred by staff in relation to medical expenses. The amount of impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate.

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:

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. Revenue includes amounts invoiced for power supply, fuel recoveries and foreign exchange adjustments.

Interest income is recognised on a time proportion basis using the effective interest rate method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(iii) Rental income

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

Foreign currency transactions

The financial statements are presented in Kenya Shillings, which is the company's functional and reporting currency. Transactions during the year are converted into Kenya Shiflings 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. The 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.

FORTH FUER PLENDED 30 JUNE 2008

EVERYOR RETAINED INTING FOLICIES (Continued)

f) Foreign currency transactions (Continued)

KenGed does not have any foreign operations.

g) Taxation

Income tax expense represents the sum of current tax payable and deferred tax provided for during the year Current tax is provided for on the basis of the results for the year as shown in the financial statements, in accordance with tax legislation. Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extensity that it is proposed 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) Allowance for credit losses

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists the company estimates the asset's recoverable amount. As asset's recoverable amount is higher of an asset's fair value less costs to self and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds it's recoverable amount, one asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

i) 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 accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and for qualifying assets corrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset Residual value and usoful life is reviewed at least annually at the balance sheet date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and theated as changes in accounting estimates.

On revaluation surplus is credited to the property plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the property, plant and equipment revaluation reserve.

Freehold and is too 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% Transmission lines 2.5 20%

Plant and machinery.

Gootinermal wells 5.66% - Intake and tunne's 1% 15% Total vehicles 25% Furniture, equipment and fittings 2.25%

An item of property, thank and equipment is de recognised upon disposal on 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. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Property, plant, equipment and depreciation (Continued)

The carrying values of the property, plant and equipment are assessed annually and adjusted for impairment where it is considered necessary.

j) Capitalisation of geothermal assets

All productive wells are capitalized in property, plant and equipment 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.

k) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are substantially ready for their intended use of commercial production. Where funds are borrowed specifically to finance a project, the amounts capitalised represents the actual borrowing costs incurred.

Capitalised costs include interest charges and foreign currency exchange differences on borrowings for projects under construction to the extent that they are regarded as adjustments to interest rates. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be finite.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in income statement when the asset is derecognised.

m) 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. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of realisation. Obsolete and defective inventories are fully written off.

n) Financial instruments

Financial instruments within the scope of IAS 39 are classified as either, loans and receivables, held to maturity investments, held for trading or available for sale as appropriate. 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. The company determines the classification of financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year.

Trade receivables

Trade receivables are recognised at fair value and subsequently at amortised cost using the effective interest rate method less provision for impairment 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.

BORNHEYER I NORO BOYUN**E 2008**

n) Financial instruments

Tiride payables

Trade payables are stated as the mominal value/cost which approximates fair value due to the short term nature thereof.

Held-to-morbidly investments

Heid-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 subsequency measured at amortised cost, using the offective interest rate method, less any impairment loss recognised to not extrinscoverable amounts.

The annual amort sation 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 analog from changes in fair value are recorded directly into equity until the investments are derecognised at which time the currolative gain or loss previously recognised in equity is recognised in the income statement.

Available-for sale investments

investment securius intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest hates, 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 gooted 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 are recognised in the income statement. Interest earned which thoding available—for sale financial investments is reported as interest income using the effective interest rate. The losses arising from impairment of such investments are recognised in the income statement and removed from the reserves.

investments at fair value through profer and lass

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

Impairment of Andreid lossets

The company assesses at each palance sneet date whether a financial asset on group of financial assets is impaired.

Assets carried at amortised cust

Ithere is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (reline effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in income statement.

SIGNIFICANT ACCOUNTING POLICIES (Continued) 2.

Financial instruments (Continued) n)

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sole financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in income statement, is transferred from equity to income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in income statement. Reversals of impairment losses on debt instruments are reversed through income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in income statement.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short term deposits which are readily convertible to known amounts of cash with an original malurity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents include short term deposits, net off advances from banks repayable within three months from date of disbursement or date of confirmation of the advance.

Derecognition of financial assets and liabilities

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.

FOR THEYBAR ENDED 30 JUNE 2008

L RIGHER CART RECOUNTING POLICIES (Continued)

q) 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.

r) 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.

s) Employees' benefits

Reurement sene/us ooligations

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 baild to retiring staff in accordance with the scheme's rules. The pension costs are assessed using the attained age method, the service fives of employees in accordance with the advice of actuaries. Actuarial deficits are recognised over the average remaining service lives of employees.

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.

Other entitlements

The monotary penefits for employees accrued annual leave entitlement at the balance sheet date are recognised as an expense accrual.

t) Accounting for leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is based on the use of a specific asset or assets, and the arrangement conveys a right to use the asset. 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 compriny as lesse:

Amounts due from lessees under finance loases 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 pass over the torm 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.

Assets acquired under linance loases 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 losson is included in the balance shoet 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, not

SIGNIFICANT ACCOUNTING POLICIES (Continued) 2.

Accounting for leases (Continued)

The company as lessor (Continued)

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.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from reserves when approved by the company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the company.

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

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.

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.

ELECTRICITY SALES - NON FUEL

3.	ELECTRICITY SALES - NON FUEL	2008 KShs'000	2 0 0 7 K\$hs'000
	Electricity sales Foreign exchange adjustments Income from Emergency Power Project (EPP) Units sold (GWh)	11,371,532 81,034 95,610 11,548,176 4,818	10,852,766 192,322 96,131 11,141,219 4,599
4.	OPERATING EXPENSES Fuel costs – pass-through* Staff costs [see note 7(b)] Depreciation Plant operation and maintenance Insurance Catchments preservation and dam maintenance Staff welfare and training Cyther costs	4,541,572 2,222,280 3,404,308 1,199,340 222,939 107,000 297,512 562,528	3,398,133 2,044,432 3,446,354 1,079,728 228,100 1,07,031 241,854 488,949

FOR THEYEAR ENDED 30 JUNE 2008

DPERATING EXPENSES (Continued)

impairment loss on revaluation 375.013 12,557,479 11,409,594

*Fuel costs bass - Briough represent costs reimbursed by KPLC to the company. Of the costs disclosed above, KShs 4,543,387,079 (2007: KShs 3.4+0,548,+20) has been recognised as revenue on the basis of the Interim Power Purchase Agreement.

CTHER INCOME

losurance compensation		
Miscell/neous income	1,620	73.446
	56,598	44 ,301
	58,218	117,747

E NAMOS COSTS

ন) Foreign exchange assustments

The company's foreign loans are denominated in Japanese Yen. US dollar and Euro. The following exchange rates for the main transaction currencies were applicable at the end of the last three financial years, resulting in losses or gains recorded iru che particular years.

LW S. a	2008	2007	2006
US Doilse Euro	64.80	66.60	
	102		73.90
japanese Yes	0.61	89	94
	5.01	0.54	0.64
a Sinar		2008	2007
interest on long-term corrowings		KShs'000	KShs'000
Interest on bank overcraft		687,856	553,706
And the same of the same control of the same c		_ 110.217	2.55,700
		798,073	-
PROFIT SEFORE TAXATION		, -	553,706
(4) Profit before taxation is arrived at after charging: Depreciation			
Amor tisation of prepaid loaves on load (note 1.0)		3,404,308	3,446,354
argu 2727 (1010 VIDI)		29	2 9
Directors' empluments - Ages		2.222,280	2,044,432
- Other		3.600	3,450
Auditors' remaineration		19,687	18,325
Operating lease rentals		3.520	3,200
Net exchange loss		43,166	38,606
Interest on non-current parrowings		1,441,148	
And after crediting:		687,856	553,706
Net exchange gains			
Interest income		- 275,773	1,419,974
/ov 5-5# wew		4/4/1/3	593,091
(a) Staff costs Splanter and manual			
Salaries and wages		J.884,635	1.400.00-
Leave pay allowance		80.891	1,690,987
		50,071	/20,095

7. PROFIT BEFORE TAXATION (Continued)

(b) Staff costs (Continued)

	(b) Staff costs (Continued) Pension costs -Defined benefits scheme -National Social Security Fund	2008 K5hs'000 752.091 4,663 2,222,280 No.	2007 KShs'000 229,204 4,146 2,044,432 No.
	The average number of employees during the year was:	1,508	1,532
8.	Permanent employees TAXATION	2008 KShs'000	2007 KShs'000
	a) INCOME STATEMENT Current tax at 25% on the taxable profit for the year Compensating tax Deferred tax (credit)/charge for the year	- (3,180,591) (3,180,591)	1,363,772 102,171 807,670 2,273,613
	Tax reconciliation Accounting profit before taxation Tax applicable rate of 25% Tax effects on items not deducted for tax Originating and reversing temporary differences Tax losses carried forward Compensating tax Deferred tax Tax (credit)/charge for the year	1,628,854 407,214 62,857 (3,001,011) 2,530,940 (3,180,591) (3,180,591)	4,719,279 1,179,820 (3,654) 187,606 102,171 807,670 2,273,613
b	BALANCE SHEET Balance as at 1 July 2007 Charge for the year Paid during the year Balance as at 30 June 2008	(1,198.537) - 1,271.727 73,190	189,286 (1,465,943) 78,120 (1,198,537)

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares. There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

The following reflects the income and the share data used in the basic and diluted earnings per share computations: 2007 2008

Company	2008	2007
Net profit attributable to ordinary shareholders for basic earnings (in	4,809,445	2,445,666
KShs:000) Number of ordinary shares in issue during the year used in the calculation Earnings per share (in KShs.)	2,198,361 2,19	2,1 98 ,361

FOR THE YEAR ENDED 30 JUNE 2008

IC. PROPERTY, PLANT AND EQUIPMENT

NET BOOK VALUE At 30 June 2008	12,434,610	77,900	12,274,143
At 30 June 2008	3,419,620	1,161	15,574,143
DIPRECIATION At 1 July 2007 Charge for the year Disposals	3,058,714 360.906 -	1.663 1.498 -	12,646,166 2,927,977
At 30 June 2008	i5,854,230	81,061	84,900,279
Cost Revaluation	!5,854,230	81,061	49,740,405 35,159,874
At 30 June 2008	15,854,230	81,061	84,900,279
Work in-progress Disposal	7,096,212 (26,896)	66,407 -	9,816,527
At 1 July 2007 Additions Transfers from	8,784,914	1 4 ,654 -	75,083.752
a) 30 June 2008 СОSТ	Freehold land and Buildings KShs'000	Transmission lines KShs'000	Plant an machiner KShs'000

Motor vehicles KShs'000	Furniture, equipment and fittings KShs'000	Work- in- progress KShs'000	Total KShs'000
293,233	1,820,660 -	18,560,933 7,896,512	104,558.146 7,896,512
101,182	209,345	(17,289,673)	- (26.896)
394,415	2,030,005	9,167,772	112,427,762
394,415	2,030,005	9,167,772	77,267,888 35,159,874
394,415	2,030,005	9,167,772	112,427,762
172,707 46,057	1,321,814 67,870	- - -	17,201,064 3,404,308 -
218,764	1,389,684	-	20,605,372
175,651	640,32i	9,167,772	91,822,390

FORTHEYEAR ENDED 30 JUNE 2008

IC. PROPERTY, PLANT AND EQUIPMENT

ie) - 30 june 2008	Freehold land and Buildings KShs'000	Transmission lines KShs'000	Plant and machinery
COST			KShs'000
At 1,69 2006	8,532,736	7.387	
Additions		1407	40,913,000
Transfers from	-	-	
Work-in-progress	1,292	7.267	-
Reciassifications	250,886		15,268
Revaluation surplus	7 30,008		-
Transference less au	_		_
Impairment loss on revaluation Dispositis	-	-	35,159,874 (375,013)
At 30 June 2007	_	-	(4,195)
	8,784,914	14,654	75,083,752
Cost			:
Revaluation	8,784.914	14,654	39,923,878
At 30 June 2007		_	35,159,874
	8,784,914	14.654	75,083,752
DEPRECIATION			75,003,732
At 1 July 2006			
Reclassifications	2,875,661	743	A
Charge for the year	(279,698)		9,637,175
Disposals	402,75;	920	018,16
		-	2,951,166
∆t 30 june 2007	3,058,714		(3,985)
NET BOOKVALUE	5,006,714	1,663	12,646,166
At 30 June 2007			
	5,726,200	12,991	62,437,586

Motor vehicles KShs'000	Furniture, equipment and fittings KShs'000	Work- in- progress KShs'000	Total KShs'000
251,082	1,437.336	i 3,284,659	64,426,200
-	-	5,356,989	5,356,989
4 7,860	9,028	(80,715)	-
(625,182)	_		374,296
- (5,709)	- -	- - -	35,159,874 (375,013) (9,904)
293,233	1,820,660	18,560,933	104,558,146
293,233	1,820,660 -	18,560,933	69,398,272 35,159,874
293,233	1,820,660	18,560,933	104,558,146
150,386	1,099,868 157,888	-	13,763,833
- 27,459	64,058	-	3,446,354 (9,123)
(5,138)	-	•	·
172,707	1,321,814		17,201,064
120,526	498,846	18,560,933	87,357,082

PORTHEMEAR ENDED 30 JUNE 2008

CONTRACTOR SUSKTAND EQUIPMENT

included in property plant and equipment are motor vehicles, familture, equipment and fittings are assets with a cost of KShs 6,375,419,599 (2007 - KShs 4,843,956,934), which were fully depreciated and still in use. The normal annual depreciation charge on these assets would have been KShs 76,290,964 (2007 - KShs 163,762,942). Capital works-in-progress relates to construction works of electricity generation plants and other related activities. Further, additions to property, plant and equipment are the assets of Sondu Miriu power plant which was capitalised on 31 March 2008. The revaluation of plant and machinery was carried out by CB Richard Ellis International valuers, whose report was issued on 21 May 2007. The revaluation amounts were adopted by the Board and incorporated in the financial statements for the year ended 30 June 2007.

PREPART LEAVES ON LAND

COST	2008 KShs'000	2007 KShs'000
As at July 1, 2007 AMORTISATION	1,768	1,768
As at July 1, 2007 Charge for the year As at 30 June NET BOOKVALUE	264 29 293	235 29 264
As at 30 June	1,475	1,50 <i>4</i> :
SATANDA LE ABBETA		

a. Pritarara le lesses

As at 30 June	303,721	215,664

intangible assets relate to costs incurred towards the installation of the Scada software at the power stations. No amortisation has been charged on these assets since they have not been put to use.

3. TREASURY 25/2008

Treasury bonds are dobt securities issued by the Government of Kenya and are classified as available-for-sale. The fair value of treasury bonds is determined by reference to published price quotations in an active market. The maturity profile for the Government treasury bonds is as follows:

	3,509,123	3,941,294
Within one year	3,936,420 (427,297)	5,141,616 (1,200,322)
After five years	_139,278	_834,795
After two years but within five years	1,761,778	2,663,583
After one year but within two years	427,297 1,608,067	1,200,322 442.916
Within one year		

At 30 June 2008 no impairment losses have been recognised on available-for-sale assets (2007; Nil). The carrying amount of available-for-sale assets was KShs 3,936,419,819 (2007; KShs 5,141,616,494).

	985,013	1.036.841
	2	
- 9 9 9 1 1 1 1 2 1 3 1 3 1 2 1	14,766	!9,797
Goods-in-transit		424,523
Machinery spares	462,993	•
	57,322	58.407
General stores	449,937	534,114
Fuel	449.023	
18 1 Mark 1 Mark 10 1 Mark 10 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		

TRADE AND OTHER RECEIVABLES 15.

Receivable from staff Other receivables and prepayments Advance payments to contractors VAT claim	2008 KShs'000 - 150.031 345,491 303,592 - 799.114	2007 KShs'000 114,385 140,905 371,982 1,054,637 1,681,909
Less: Provisions for impairment loss on Receivables from staff	(63,202)	(63,202)
	735,912	1,618,707

Advance payments to contractors relate to installation of wind power at Ngong Hills.

As at 30 June, the ageing analysis of other receivables and prepayments is as follows:

2008 KShs'000	2007 KShs'000
345, 4 93	140.905
252,112	164,554
23,119	11,473
5,560	6,242
64,702	21,581
245 467	203,850
4221.205	4,129,247
	-
4,677,895	4,129,247
1.058,294	627,072
(356,590)	•
701,704	627,072
	XShs'000 345,493 252,112 23,119 5,560 64,702 345,493 4,321,305 356,590 4,677,895

The deferred debt from KPLC relates to project costs for land, other costs, transmission lines and substations on Sondu Miriu project implemented by the company on behalf of KPLC under a management agreement. These assets will be transferred to KPLC on execution of the agreement. The debt is payable over a duration of 30 years.

c) Amount due to KPLC

Electricity purchases and others

7,471

2,433

FOR THE YEAR ENDED 30 JUNE 2008

16. RELATED PARTY TRANSACTIONS (Continued)

d) 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:

(i) Electricity sales to KPLC (ii) Electricity purchases from KPLC (iii) Government of Kenya;	2008 KShs'000 /5,995,953 78,860	2007 KShs'000 14,455,636 9,256
Funds received for Geothermal Resources Assessment		
	28,000	2,000
interesi expense on project barrowings	689,577	140,436
Geothermal Resource Assessment assets Other details relating to transactions with the Govern	1,496,581 ment of Kenya are disclosed in no	4/1,123 tes 19,20 and 28
(v) Staffadvances		
Key mar egement Other staff	2008 KShs'000 /58 Fl9,477	2007 KShs'000 422 89,388
	120,235	89,810

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

(v) Key management compensation:

	2008 KShs'000	2007 KShs'000
Salaries and wages Pension scheme contributions Other allowances	49.631 10,088 31,719 91,438	46,852 8,668 27,3†9 82,839 ₁

IT. TERM DEPOSITS

The deposits are held by Housing Finance Company Limited as security against current house loans by members of staff under the discontinued staff housing scheme.

18. NOTES TO THE CASH FLOW STATEMENT

(a)	RECONCILIATION OF PROFIT BEFORE TAX TO CASH	2008	2007
(=)	GENERATED FROM OPERATIONS	KShs'000	KShs'000
	Profit before tax	1,628,85 4	4,719,279
	Adjustments for: Depreciation	3,404,308	3,446,354
	Impairment on revaluation		375,013
	Amortisation of prepaid operating leases on land	29	29
	Gain on disposal of property, plant and equipment.	(2,154)	(8,684)
	Interest income	(275:773)	(593,091)
	Interest expense	687,856	553,706
	Exchange gains on loans	-	(1,452,274)
	Exchange losses	1,441,148	32,299
	Net loss / (gains) on redemption of treasury bonds	18,908	(19,476)
	Operating profit before working capital changes	6.903,176	7,053,155
	Decrease in inventories	51,828	11,065
	Increase in amounts due from KPLC	(623,280)	(2,520,789)
	Decrease in trade and other receivables	882,795	519,184
	Increase in trade and other payables	2,204,658	1,431,434
	(Decrease)/Increase in leave pay provision	(843)	9,634
	Decrease in prepaid lease	(2,000)	(2,000)
	Increase/(decrease) in amounts due to KPLC	5,038	(2,545)
	Decrease in research funds	(1,468.581)	(409,123)
	Cash flows generated from operations	7,952,791	6,090,015
(b)	BALANCES OF CASH AND CASH EQUIVALENTS		
	Bank and cash balances	4,968,800	1,749,334
	Bank overdraft	(1,269,446)	-
		3,699,354	1,749,334
	Term deposits	30,926	89,794
	Balance at 30 june	3,730,280	1,839,128

The overdraft facilities are with Commercial Bank of Africa Limited and Co-operative Bank of Kenya Limited, secured by letters of negative pledge from the company.

FOR THEIREAR ENDED 30 JUNE 2008

÷	(4) BORROW, NGS		
		2008	2007
	C	KShs'000	K\$hs'000
	Government of Konya Guaranteed		
	2.6% Japan Bank for International Cooperation		
	No. KE P20 2007/7025 (PY 7,230,372,000)	4,416,470	4,128,100
	2.3% Japan Benk for International Cooperation		
	KE P2 I 2008/2027 (JPY 6,425,686,000)	3,924,950	3,636,768
	0.75% Japan Bank for International Cooperation		
	KI 1773 2014/2044 (JPY 9,991,104,024)	6,102,786	3.629,590
	2.3% Japan Bank for International Coloperation KE P24		
	(Approved JPY 5,620,000,000; disbursed JPY 93,036,864)	56,829	•
	On Lent		
	7.7% International Development Association		
	7003/2018 (US\$ 80.268,775)	5,192,940	5,343,043
	7.7% Kreditanstalt Fun Wiederaufbau 2004/2019		
	(Approved Euro 11,918,975; disbursed Euro 1,113,423,29)	1/3,744	109,157
	4.5% International Development Association (Note 27)		
	Credit IDA 3958, 2009/2027 (Approved US\$ 26,907,930;		
	disbursedUS\$ 4.866.263.75)	314,820	100.226
	4.5% KBC Bank loan (Belgium) Ngong Wind Power		
	(Approved Euro 11.314.682; disbursed Euro 3,000,000)	306,471	-
	Total loans	20,429.010	16,946,884
	Accrued interest	568.184	17,000
	Total borrowings	20,997,194	17,063,884
	Less: Amounts due within one year	(1,531,116)	(1,023,189)
	Non current borrowings	19,466,078	16,040,695
	(b) Maturity of non-current borrowings		
	Due between 1 and 2 years	1,531.116	1,023,189
	Due between 2 and 5 years	1,593,347	3,069,566
	Due after 5 years	13,341,615	11,917,940
	,	1990111010	11,2117,240
		19,466,078	16,040,695

(c) Analysis of loans by currency

	Borrowings in US\$ KShs'000	Borrowings in JPY KShs'000	Borrowings in EUR KShs'000	Total borrowings KShs'000
Loans (KShs) 2,008	5,507,760	14,501,036	420,215	20,429,011
Loans (KShs) 2007	5.443.268	11,394,459	109,157	16,946,884

20.	GEOTHERMAL DEVELOPMENT FUNDS	2008 KShs'000	2007 KShs'000
	As at july I Received during the year Expenditure during the year	1,443,030 28,000 (1,496,581)	1,852,153 2,000 (411,123)
	As at 30 June	(25,551)	1,443,030

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. The overspent amount is recoverable from the Ministry.

21. TRADE AND OTHER PAYABLES

	2008	2007
	KShs'000	K\$hs'000
Trade payables	2,206,498	829,360
Contract payables and retention money	1,633,619	2,064,179
Sundry payables	415,512	386,208
Emergency Power Project	1,029,457	-
VAT payable	364,477	165,158
	5,649,563	3,444,905

22. OPERATING LEASE COMMITMENTS

(a) AS LESSEE

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

,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	2008 KShs'000	2007 KShs'000
Within I year After I year bul not later than 5 years	6,834 8,41 l	6,834 15,245
	15,245	22,079

(b) AS LESSOR

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

	2008 KShs'000	2007 KShs'000
Within I year	2,000	2,000
After 1 year but not later than 5 years After 5 years	8,000 5,000	8,000 7,000
	13,000	15,000

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.

FOR THEYBAR ENDED 30 JUNE 2008

SHARE CAPITAL

Authorised:	2008 KShs'000	2007 KShs'000
2.2 : 5.927.528 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

24.

尼巴西西南沙芒等		
Share premium	5,039.818	5,039,818
Capital reserve	8,579,722	8.579.722
Financial instruments revaluation reservo	149,116	(13.924)
Retained earnings	22,920,949	18,514,656
Revaiuation reserve - property plant and lequipment	23,961,140	25,142,670

i) 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 in 2000. The capitalisation of the related excess was in the form of share capital issued at a premium.

60,650,745

57,262,942

- ii) 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.
- iii) Financial instruments revaluation reserve arises from fair value changes on treasury bonds. These bonds are classified as available-for-sale. On disposal the cumulative changes in fair value are recognised to the income
- iv). The revaluation reserve on property, plant and equipment arose on the revaluation of plant and machinery adopted in 2007. The revaluation reserve is used to record movements in the fair value of plant and machinery as measured against the carrying amount of the related assets.

35. DIVIDENCE

	2008 KShs'000	2007 KShs'000
Interim dividenc Proposed final dividend	1,978,525	879,343 879,343
	1,978,525	1,758,686

Dividend par some is calculated based on the amount of the dividend for the year and on the number of ordinary shares in issue at the respective balance sheet dates.

26. DEFERRED TAX

Deferred tax is calculated on all temporary differences under the liability method using the applicable rate, currently at 25%. The net deferred tax liability at year-end is computed on the basis of the following:

ionowing.	2008	2007
	K\$hs'000	KShs'000
Deferred tax assets:		
Tax losses	(2,530,940)	-
Tax effects on items not deductible for tax	(163,887)	(153,003)
	2,694,827)	(153,003)
Deferred tax liabilities:		
Unrealised exchange gains	277,407	362,230
On revaluation surplus	7,987.047	8,380,890
Accelerated capital allowances	5,894,728	6 ,4 4 8,67 !
	14,159,182	15,191,791
Net deferred tax liability	11,464,355	15,038,788
Movement on the deferred tax account is as follows:		
At the beginning of the year	15,038,788	5,850,228
Deferred tax (credit)/charge - Income statement	(3,180,591)	807,670
Equity	(393,842)	8,380,890
At 30 June	11,464,355	15,038,788

27. WORLD BANK FINANCING CREDIT LINE IDA 3958

(a) The company receives financial support from the World Bank through Credit Line IDA 3958 dated 4 August 2004 to support implementation of the Linergy Sector Recovery Project, K5hs 314,820,050 (US\$ 4,866,263.75) has been disbursed under this credit line to date. A portion of this, is disbursed directly into a Special Account operated by the company and summary information on transactions during the year is as follows:

	2008 KShs'000	2007 KShs'000
Balance at the beginning of the year Amounts received during the year Net interest income Expenditure during the year	11,637 73,934 9,790 (55,634)	24,035 - 447 (12,845)
Balance at the end of the year	39,727	11,637

The closing balance shown above is included in cash and cash equivalents and is held in Account No. 0154003517 at Commercial Bank of Africa Limited.

(b) The disbursements to the Special Account have been expended in accordance with the intended purpose as specified in the Loan Agreement.



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	2008 KShs'000	2007 KShs'000
As the beginning of the year Dispursements from the Ministry of Energy	881,799	3,473,697
·	5,950,975	-
Receipts from KPLC	8,580,881	7,555,845
Net interest income	49,582	103.739
Expenditure during the period	(15.807,073)	(10.251,482)
As at the end of the year	(343,836)	881,799

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 2007. 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. Over expenditure is recoverable from the Ministry.

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. Districte of the contassessment

The Konya Revenue Authority (KRA) issued an additional tax assessment of KShs. 3,423,505,245 inclusive of ponalties 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 2007, 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 2008. 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.

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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 KSns 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.

Letters of credit signifies commitment by the company to make payments to third parties for contracts entereding generally relating to foreign payments. Outstanding letters of credit as at 30 June 2008 amounted to KShs. 8,657,239,292 (2007; KShs. 1,609,073,229).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES 30.

The company's principal financial assets are treasury bonds, tradereceivables and cash and short term deposits which arise the company is principal financial assets are treasury bonds, tradereceivables and cash and short term deposits which arise the company is principal financial assets are treasury bonds, tradereceivables and cash and short term deposits which arise the company is principal financial assets are treasury bonds, tradereceivables and cash and short term deposits which arise the company is principal financial assets are treasured by the company is principal financial assets are treasured by the company is principal financial assets are treasured by the company is principal financial assets are treasured by the company is principal financial assets are treasured by the company is principal financial assets are treasured by the company is principal financial assets are treasured by the company is principal financial assets are treasured by the company is principal financial assets and the company is principal financial assets and the company is principal financial assets and the company is principal financial assets are treatured by the company is principal financial assets and the company is principal financial assets and the company is principal financial assets are treatured by the company is principal financial assets and the company is principal financial assedirectly from its operations. The company has various financial liabilities comprising loans and overdraft and trade payables.

The company has exposure to the following risks:

- Market risk
- Interest rate risk
- · Foreign currency risk
- Credit risk
- Liquidity risk
- Operational risk

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the company's risk management framework. The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in economic conditions and the $company's \ activities. The \ company, through its training \ and \ management \ standards \ and \ procedures, aims \ to \ develop \ a$ disciplined and constructive control environment in which all employees understand their roles and obligations. The Managing Director oversees how management monitors compliance with the company's risk management policies and the company strick management policies and $procedures and {\it reviews} the {\it adequacy} of the {\it risk} management framework in {\it relation} to the {\it risks} faced by the company.$

Market risk

Market risk is the risk that changes in market prices such as interest rate and foreign exchange rates will affect company's income on the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The company exposure to interest rate risk is with regards to fluctuation in banks interest rates in the market which affects the borrowings by the company. The company's variable-rate of borrowings is exposed to a risk of change in cash flows due to changes in foreign exchange rates. The company's non current borrowings are at fixed rates thus minimising the exposure to the interest rate risk. The effect of fluctuation of overdraft floating interest rate would not be significant. The interest earning financial assets that the company holds include investments in government securities and short term deposits whose interest returns are not subject to fluctuations.

Foreign currency risk

The company has transactional currency exposures. Such exposure arises when borrowings are revalued at the end of the year and also through purchases of goods and services that are done in currencies other than the local currency. The company has seven types of loans from multilateral donors, which are denominated in currencies other than the functional local currency. Loans payments are done by using the prevailing exchange rate as there is no forward currency contracts to eliminate the currency exposures. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. It is not the company's policy to enter into forward contracts before any transactional commitment.

FOR THEYEAR ENDED 30 JUNE 2008

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

However it is the company policy to negotiate for a favourable exchange rate to maximize hedge effectiveness, when paying for the loan instalments and foreign purchases.

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.

Assets in foneign currencies	2008 KShs '000s	2007 K\$hs '000s
Trade and other receivables Amounts due from related companies Cash and Bank palances	302,371 249,905 55.805	13,408 252,674 105,098
L'abilities in foreign cumencies	608,081	371,180
Trade and other Payables Borrowings	848,698 20,997	1,170,052 17,064
	869.695	1,187,116
Net foreign currency liability	(261,614)	(815,936)

The following exchange races existed at the one of the year for the following significant currencies:

US Dollar	2008	2007
- Galborgi - Euro	64.7	66.6
	102	89
Japanese Yer	0,61	0.54

The following table demonstrates the effect on the company's income statement on applying the sensitivity for a reasonable possible change in the exchange rate of the caree main transaction currencies, with all other variables held constant.

	Increase/Decrease in foreign exchange rate	Effect on income statement
USD		Profit/(loss)
-		K\$hs'000
2007	÷7%	1,136,677
2008	-2%	(64,492)
YEN		
2007	+0.11%	99,739
2008	-! 2%	(3,106,577)
EURO		
2007	4.5%	15,479
2008	-12%	(311,057

Inis is the risk that the tariffinate will decline in the future leading to loss of revenues. The company's exposure to this kind of risk is alignly regulated by the Power Purchase Agreement, which is a product of discussion by KPICL as the authorised distributor, and the company.

⁽iii) Price risk

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The company's main input for thermal energy generation is fuel and is a significant cost component which is eventually recovered from KPLC.

b) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

The company sells generated power to KPLC the only authorised power distributor and therefore minimizes the credit risk exposure. Both companies have a contract that stipulates a two-month credit period. In addition, receivable balances from company staff are recovered on payment of salaries. There is no exposure with respect to credit risk arising from the other financial assets, which comprise of cash and cash equivalents and available-for-sale financial investments. The maximum exposure is the carrying amount due from KPLC as disclosed in Note 16.

c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. Typically the company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonablybe predicted, such as natural disasters and political violence. The company monitors its risk to short age of funding a recurring liquidity planning tool. This tool considers the accounts receivables from KPLC and development funding from the Ministry of Energy and maturity of financial instruments, together with projected cash flows from operations. The company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and other borrowings.

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of overall company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- compliance with regulatory and other legal requirements
- · documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy
 of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards

FOR THE YEAR ENDED 30 JUNE 2008

IL FINENCIAL ASA HARAGEMENT OBJECTIVES AND POLICIES (Continued)

Compliance with company's standards is supported by a programme of periodic reviews undertaken by Internal Audit and Risk Management Department. The results of Internal Audit reports are discussed with the management of the business unit to which they relate. The reports are tabled to the Audit Committee of the Board for further review.

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Capital Management policy as approved by the Board is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the roturn on capital, which the company defines as net operating income divided by total shareholders' equity. The Board also monitors the level of dividences to ordinary shareholders.

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders return capital to shareholders or issue new shares as circumstances would dictate. There were no changes in the company's approach to capital management as regards the objectives, policies or processes during the year.

The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The company's target is to keep the self-financing ratios greater than 25%. The company includes within net debt, interest bearing pairs and borrowings, trace and other payables, less cash equivalents. Capital includes 30% ordinary shares attributable to the public and 70% ordinary shares attributable to the Government of Kenya and distributable reserves.

	2008 KShs '000	2007 KShs '000
Bolimowings Trace and other payables Less cash and short-term deposits Net debt	19.466,078 1,739.358 (4,999,726) 19.205,710	16.040,695 3,565,000 (1,839,128) 17.766,567
Equity	65,166,282	63,638,189

12. CARTEL COMMITMENTS

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

	2008	2007
	KShs'000	K\$hs'000
Authorised but not contracted for	5,114,133	10,415,576
Contracted for	25,176,296	14,734,676
	30,290,429	25,150,252

33. RETIREMENT BENEFITS

Up to 31 December 2000, the company operated a joint defined benefit scheme with KPI C, 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 Afexander Forbes Financial Services (E.A.) Limited. AIG Global Investment Company (EA.) Limited and Stanbic Investment Management Services (EA.) Limited jointly manage the funds.

The scheme's actuaries, Alexander Forbes Financial Services (E.A) 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 principal actuarial assumptions were:	% p.a.
lovestments return	10
Rale of salary escalation	8
Rate of pension increases	3

The company continues to contribute 25% and employees 5% towards the scheme, as recommended by the Actuaries. A provision of KShs 339 million was made against the deficit of KShs 1,155 million identified by the Actuaries. Part of the deficit, amounting to KShs 826 million, is a claim from KPLC which is a subject of ongoing discussions with the company on a platform of arbitration, provided for by an agreement for transfer of schemes assets and liabilities executed by all the parties in 2001. Clause 7.1 of the agreement provides for arbitration as the first option in dispute resolution. The company has agreed to invoke this provision in order to facilitate the outcome of acceptable compensation principles that will be satisfactory to all parties concerned.

34. INTERIM POWER PURCHASE AGREEMENT

An Interim Power Purchase Agreement (IPPA) was signed between KenGen and KPLC on 13 July 1999, at an agreed price of KShs. 2.36 per kWh. By mutual consent, the Second Supplementary Agreement to the IPPA was entered into on 1 July 2004 that reduced the bulk tariff to KShs. 1.76 per kWh for three years, and 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. On 30 June 2008, Energy Regulatory Commission approved a new Bulk Tariff based on capacity charge plus fixed Operations & Maintenance and variable Operation & Maintenance. The company has disputed this new tariff as it gives a lower yield than KShs. 2.36 per kWh. The company has since taken the issue to the Energy Tribunal for ruling as per the Finergy Act 2006 provisions. In the meantime, the company has continued to bill KPLC using the tariff as per the IPPA which is still in force until such time that a full term PPA is signed by both KenGen and KPLC.

35. COMPARATIVES

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

5 Year Financial and Statistical Records

	2004
Units sold (millions)	4,300
Average tariff (Kshs/kWh)	1.76
Revenue from electricity sold (Including fuel)	Kshs'000 8,754,447
Net income for the year	i,620,573
Funds generated from operations	1,020,575
Net income for the year	1,620,573
Depreciation	1,740,396
Amortisation of operating leases	29
Currency realignment	1,106,749
Currency reangiment	4,467,747
Capital employed	
Fixed assets less depreciation	50,778,851
Operating lease Payments	1,591
Funds awaiting allotments of shares in KPLC	12,260,159
Treasury Bonds	12,200,100
Intangible assets	7
KPLC-deferred debt	-
The Kenya Power & Lighting Co. Ltd	2,913,467
Net current Assets/(liabilities)	3,700,802
100 24.7 5.11.7 65555 (1.46.118155)	69,654,870
Financed by	
Share capital	10,535,722
Reserves	21,494,735
Funds awaiting allotments of shares	15,784,584
Deferred Tax	4,988,500
Propaid operating lease	-
Loan capital	16,801,923
Grants	49,406
	69,654,870
Income for the year as a percentage of average capital employed	2.48%
Profit before tax, dividend and exceptional item/net fixed assets in service	6%
Return on total Assets	4%
Profit after tax, dividend (less exceptional items)/capital employed	. 2%
current ratio	3
Debt Service Coverage ratio	6
Self financing ratio	96%

2005	2006	2007	2008
	4,538	4,599	4,818
4,280 1.76	1.76	2.06	2.36
			Kshs'000
Kshs'000	Kshs'000	Kshs'000	16,091,563
1,011,576	14,300,060	14,551,767	4,809,445
1,753,152	3,768,933	2,445,666	4,007,140
	3,768,933	2,445,666	4,809,445
1,753,152	2,000,212	3,446,354	3,404,308
2,024,976	29	29	29
29	(589,070)	(1,419,974)	1,441,148
(636,580) 3,141, 57 7	5,180,104	4,472,075	9,654,930
3,(41,377	_,,		
50,605,503	50,662,367	87,357,082	91,822,390
1,561	1,533	!,504	1,475
12,260,159	•	-	2 500 133
4,838,281	2,447,488	3,941,294	3,509,123
.,	-	215,664	303,721
-	-	-	701,704
2,387.865	3,290,167	5,810,956	4,677,895
2,478,141	3,314,108	(2,593,828)	(1,947,699)
72,571,510	59,715,663	94,732,672	99,068,609
	4. 4. 5. 500	5,495,904	5,495,904
10,535,722	(0,535,722	58,142,285	62,629,272
22,893,036	25,962,941	Ju, 172,203	-
15,784,584	- 050 000	15,038,788	11,464,355
5,8 9 8,623	5,850,228	15,000	13,000
•	- 17,366,772	16,040,695	19,466,078
17,410,138	17,560,772	-	
49,406	- 59,715,663	94,732,672	99,068,609
72,571,509	5.70%	3.23%	4.96%
2.46%	5.70% 7%	7%	1.649
7%	6%	3%	0.919
4%	4%	1%	4%
2%	2.3	2	
2.6	3.3	5.4	4,9
3.1	5.5 55%	40%	749
60%	33%		

	2003	/ 2004	2004	1/2005
POWER STATION	Availability	Load Factor	Availability	Load Facto
Hydro Tana			· ····································	FOAG FACTO
	63,75	52.26	76,47	(0.53
Wanjii	60.52	53.34	50.64	60.53
Kamburu	90.57	57.34	91.12	66.05 51.07
Gitaru Kinak	95.69	47.88	96.01	51.07
Kindaruma	91.62	63.60	74.11	40.24
Gogo	41.78	33.50	65.62	66,04 71,03
Selby	70.56	53.51	75.44	71.93
Mesco	97.74	84.49	98.13	70.83
Ndula	93.46	44.01	51.45	85.63
Sagana	98.55	75.88	37.7s	34, 9 9
Masinga	95.41	66,28	96,7f	64.84
Kiambere	96.97	80.83		50.16
Turkwei	97.44	28.80	89.57	72.48
Sondu Miriu	-	-	96.75	52.23
WAF- Hydro	94.21	64.55	91.76	53.63
Thermal				
Kipevu Steam	21.07	11.55		
WAF - Steam	21.07	11. 33	16.23 1 6.23	53.50 53.50
Kipevu Diesel				
WAF - Diesel	60.77	44.82	71.03	73.98
	60.77	44.82	71.03	73.98
Geothermal				
Olkaria (77.08	70.44		
Olkaria 2	82.90		97.00	98.20
WAF - Geothermal	80.62	71.97 71.37	96.20 96.5 l	94.16 95.74
Gas Turbines				73.74
Fiat-Nairobi South	0.00	* **		
JBE-Kipevu	50.00	79.51	55.50	5.09
WAF - GT's	40.82	0.00	51.27	36.93
	70.02	14.60	52.05	80.18
Isolated Diesels				
Garissa	91.00	39.49	05.05	
Lamu	68.89	39.49 31.18	83.05	43.12
WAF - Isolated Diesels	84.37	36.99	73,27 80,12	47.11 44.32
Wind Turbine			- · · - <u>-</u>	77.32
Ngong Wind	77.98	120.		
WAF - Wind		13.81	63.00	23.71
	77.98	13.81	63.00	23.71

2005	2005/2006 2006/2007			2007 /	Load Factor
2005) Availability	Load Factor	Availability	Load Factor	Availability	Load Factor
			74.83	96.39	51.33%
77.46	61.73	90.82		70.31	58.35%
40.83	35.03	61.29	56.71	86.69	59.32%
89.87	48.71	96.40	56.59	94.39	49.58%
96.50	40.36	85.69	49.95	96.63	68.85%
87.43	54.77	78.98	61.73	63.43	28.56%
50.14	31.30	70.18	33.80	96.60	51.74%
95.32	53.94	96. 44	82.32	91.78	84.06%
94.80	79.00	53.91	53.06	76.54	31.21%
43.86	17.70	49.67	42.72	82.67	59.02%
90.07	59 .55	79.09	61.09		66.14%
97.15	49.07	97.03	5 2.58	98.80	75.01%
96.20	68.25	95.51	<i>7</i> 7. 9 0	86.57	37.22%
97.01	55.03	96.38	40.66	91.21	28.67%
	-	-	-	95.60	54.42%
93.93	51.63	91.02	56.80	91.49	34.41/0
					0.00
	0.00	0.00	0.00	0.00	0.00
0.00	•	-	-	-	-
	74.74	79.69	5 7.85	88.16	11.74%
90.34	74.74	79.69	57.85	88.16	11.74%
90.34	74.74	11147			
		04.47	95,47	96,41	94.45%
83.93	85.80	94.47	93.21	99.68	96.81%
97.73	97.12 92.69	97.72 96.45	94.09	98.40	95.88%
92.33	72.07				
			3.73	88.10	6.46%
53.00	15.64	73.14	3.73 14.57	95.35	16.33%
77.03	37.59	79.76	14.57	94.02	14.5%
72.62	33.56	78.54	17.38	,	
		-	57.47	93.51	32.09%
7 5.32	32.65	85.89	36.46	61.88	38.96%
94.78	37.60	82.70	36.31	84.02	34.159
81.16	34.14	84.93	36.42	02	
				42.91	11.64%
43.00	20.60	50.00	13.45	42.91	11.649
43.00	20.60	50.00	13.45	44.71	

Weighted Factors (%)

POWER STATION	_		/ 2004	2004	1/2005
Hydro	Effective	Availability	Load Factor	Availability	Load Factor
Tana				- williasiney	LOAD FACTO
Wanjii	10.4	63.7 5	52.26	76.47	60.53
Kamburu	7.4	60.52	53.34	50,64	
Gitaru	94.2	90.57	57.34	91.12	66.05
Kindaruma	216.0	95.69	47.88	96.01	51.07
Gogo	40.0	91.62	63.60	74.11	40.24
Selby	1.8	41.78	33,50	65.62	66.04
Mesco	0.4	70.56	53.5!	75.44	71.93
Ndula	0.35	97.74	84.49	98.13	70.83
	1.0	93.46	44.01	51.45	85.63
Sagana	1.5	98.5 5	75.88	87.71	34.99
Masinga Klass I	40.0	95.41	66.28	96.71	64.84
Kiambere	144.0	96.97	80.83	89.57	50.16
Turkwei	106.0	97. 44	28.80		72.48
Sondu Miriu	60.0	_	20.00	96.75	52.23
Total Effective Capacity	723.05		•	-	-
Weighted Factors - Hydros		94.21	64.55	91.76	F2 /2
Thermal					53.63
Kipevu Steam (upto 2004_2005)	34.40				
Weighted Factors - Steam	36.60	21.07	11.33	16.23	53.50
o Ocea(I)		21.07	11.33	16.23	53.50
Kipevu Diesel	63.00	40			-
Weighted Factors - Diesel	63.00	60.77	44.82	71.03	73.98
		60.77	44.82	71.03	73.98
Geothermal					
Olkaria !	45.0	77.08	70		
Ołkaria 2	70.0	82.90	70.44	97.00	98.20
Total Effective Capacity	115.0	62.70	71.97	96.20	94.16
Weighted Factors - Geotherm	al	80.62	-		
		00.02	71.37	96.51	95.74
Gas Turbines					
Fiat-Nairobi South	13.5	0.00	70.51		
JBE-Kipevu	60.0	50.00	79.51	55.50	5.09
Total Effective Capacity	73.5	30,00	0.00	51.27	36.93
Weighted Factors - GT's		40.82	14.60		
		70.02	14.60	52.05	80.18
solated Diesels					
Garissa	3.29	91.00	20.40		
amu	1.410	68.89	39.49	83.05	43.12
Total Effective Capacity	4.700	50.07	31.18	73.27	47.11
Weighted Factors - Isolated		84.37	36.99	80.10	
Vind Turbine				80.12	44.32
Vgong Wind					
otal Effective Capacity	0.35	77.98	13.81	63.00	22.71
Enecuse Capacity	0.35			-4.00	23.71
Weighted Factors - Ngong'		77.98			

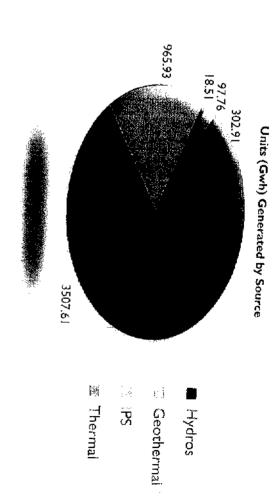
		2006	2006/2007 2007 / 2008		/ 2008
	/2006	Availability	Load Factor	Availability	Load Factor
Availability	Load Factor	Availability	LOZU I ACIO.	2 2 7 44 1 1 1 1	
77 A/	61.73	90.82	74.83	96.39	51.33%
77.46	35.03	61.29	56.71	70.31	58.35%
40.83	48.71	96.40	56.59	86.69	59.32%
89.87	40.36	85.69	49.95	94.39	49.58%
96.50		78.98	61.73	96.63	68.85%
87.43	54.77	70.18	33.80	63.43	28.56%
50.14	31.30	96.44	82.32	96.60	51,74%
95.32	53.94	53.91	53.06	91.78	84.06%
94.80	79.00	49.67	42.72	76.54	31.21%
43.86	17.70	79.09	61.09	82.67	59.02%
90.07	59.55	97.03	52.58	98.80	66.14%
97.15	49.07	95.51	77.90	86.57	75.01%
96.20	68.25	96.38	40.66	91.21	37.22%
97 .01	55.03		10.00	95.60	28.67%
•	• -	-			
		91.02	56.80	91.49	54.42%
93.93	51.63	91.02	30.00		
		0.00	0.00	0.00	0.00
0.00	0.00	0,00	-	-	
-		•			
	74.74	79.69	57.85	88.16	11.74%
90.34	74.74 74.74	79.69	57.85	88.16	11.74%
90.34	74.74				
83.93	85.80	94.47	95.47	96.41	94.45%
97. 7 3	97.12	97.72	93.21	99.68	96.81%
97.73	77.12				
02.27	92.69	96.45	94.09	98.40	95.88%
92.33	,2.0,				
53.00	15.64	73.14	3.73	88.10	6.46%
77.03	37.59	79.76	14.57	95.35	16.33%
77.03	37.37				
72.62	33.56	78.54	12.58	94.02	14.52%
12.02	50.55				
					** ***
75.32	32.65	85.89	36.46	93.51	32.09%
94,78	37.60	82.70	36.31	61.88	38. 9 6%
,4,,0	2				
81.16	34.14	84.93	36.42	84.02	34.15%
31					
					(1.240/
43.00	20.60	50.00	13.45	42.91	11.64%
					11 2 40/
43.00	20.60	50.00	13.45	42.91	11.64%

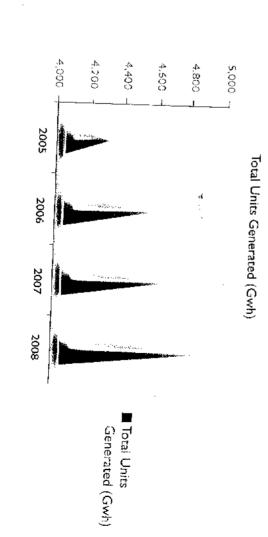
			2002/03	t (≣aşira) 2003/04	2004/05	2005/04	2001-	
POWER STATION	Installed	Effective		Gwh	2004/05 Gwh	2005/06 Gwh	2006/07 Gwh	2007/0 Gwh
HYDRO								
Tana	14.4	10.4	65	65	58	56		
Wanjii	7.4	7.4	5	34	21		68	64
Kamburu	94.2	94.2	470	470	381	22	36	37
Gitaru	225.0	216.0	945	938	757	399 705	464	489
Kindaruma	40,0	40.0	224	221	170	795	945	977
Gogo	2.0	1.8	6	6	8	190	215	239
Sosiani	0.4	0.4	2	2	2	5 2	5	5
Mesco	0.38	0.4	2	3	3		3	2
Ndula	2.00	1.0	7	7	3	3	2	3
Sagana	1.5	1,5	8	10	3 7	3	4	5
Masinga	40.0	40.0	206	230		8	8	3
Kiambere	144.0	144.0	999		169	170	183	230
Turkwel	106.0	106.0	136	1010	814	852	97 3	938
Sondu Miriu	60.0	60.0	130	263	476	520	372	341
Total Hydro Sent out	737.3	723.1	3121	3260	2869	- 3026	- 3278	150 3488.6
THERMAL					-		3270	3400.0
Kipevu Steam								
Kipevu Diesel	- 73 F	-	83	56	4 8	-	-	-
Nipero Diesei	73.5	63.0	146	279	330	399	326	295
	73.5	63.0	228.7	335.2	378.0	399.0	325.9	295
GEOTHERMAL								
Olkaria I	45.0	45.0	277	266	371	324	360	350
Olkaria 2	70.0	70.0	-	417	549	562	540	359
•	115.0	115.0	277.0	683.1	920.0	886.1	900.4	563 922
GASTURBINE								
iat - Nairobi South	13.5	10.0	_		_			
BE - Kipevu	60.0	60.0	- 20	-	3	18	4	7
	73.5	70.0	20.0	4	97	₹94	75	88
		70.0	20.0	4. [0.001	212.3	79.4	95
solated Diesels								
amu and Garissa	5.2	4.6	12	13	13	15	16	18
Vind Turbine								
lgong Wind	0.4	0.4	0.3	0.4	0.4	0.4	0.2	0.2
UNITS SENT OUT	1005	976	3659	4295	4280	4538	4500	
Inits Generated I	ov Source			7-7-	7200	4330	4599	4818
		05	2	006	20	007		
Hydros	2869	.18		5.32	3277			80(
Geothermal	919			16.18			3507	
łPS		.32		5.14),44		5.93
Thermal	148			2.39		5.55		3.5 1
Diesel	329			2.3 <i>9</i> 9.01		9.4		.76
Total	4280.		37	·.U1	32	5.9	302	G.F

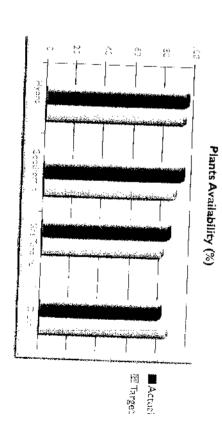
Units Generated (In Millio	0003104	2004/05	2005/06	2006/07	2007/08
HYDRO	2003/04 66	58	56	68	64
Tana	34	2!	23	37	38
Wanjii	470	381	399	4 67	489
Kamburu	938	757	795	945	9 <i>7</i> 7
Gitaru	221	170	190	216	241
Kindaruma	6	8	5	5	5
Gogo	2	2	2	3	2
Sosiani	3	3	3	2	3
Mesco	7	3	3	4	5
Ndula	10	7	8	8	8
Sagana	230	169	170	184	232
Masinga	1,010	8!4	852	9 83	946
Kiambere	264	476	520	378	346
Turkwel	_		-	-	151
Sondu Miriu	3,261	2,871	3,026	3,299	3,508
TOTAL HYDROS	3,2 4 ·	·			
THERMAL		48.25	_	_	-
Kipevu Steam	62.50	330,00	399.00	334.43	302.91
Kipevu Diesel	278.00	330,00	377.00		
GEOTHERMAL		371,00	324.00	376.36	372.31
Olkaria I	265.00	549.00	562.00	568.81	593.62
Olkaria II	416.66	347.00	302.00		
GASTURBINE		2.22	18.48	4.42	7.63
Fiat - Nairobi South	0.00	3.33	194.00	76.58	90.13
JBE - Kipevu	4.20	97.00	174.00	. •	
ISOLATED DIESELS		7.00	9.84	10.86	12.37
Garissa	8.30	7.89	5.71	5.73	6.14
Lamu	4.83	5.41	3.71	, <u>-</u>	:
WINDTURBINE			0.38	0.18	0.17
Ngong Wind	0.42	0.45	0.50		
:	4,300.55	4,283.74	4,539.19	4,676.85	4,892.90
TOTAL KENGEN	4,200.33	.,	·	!	
Units Generated Trend					
	2005 200	6 2007	2008		
Total Units Generated (Gwh)	4,280 4,53	38 4,599	4,818		

Plants Availability (%)

	Hydro	Geothermal	Gas Turbine	Diesel
Actual	97.75	98.3	93,69	82.79
Target	95	97	85	85







		Shareholder's Memb	oer No
Keny Stima	Company Secretary ya Electricity Generating Co Plaza, Kolobot Road ox 47936-00100 Nairobi	ompany Limited	
PRC	XY		
I/We		of	being
		named Company, hereby appoint:	
		of	
him _		of	2S
	our proxy to vote for *me/us o eld on 18th December 2008 and	n *my/our our behalf at the Annual Ge d at any adjournment thereof.	eneral Meeting of the Company to
*(Str	ike out as appropriate)		
Signa	ture(s)		
See r	notes 2,3,4 below	^+s _e ₹	
Signe	ed this	day of	(month) 2008.
Not	es		11
۱.	• •	d to Image Registrars not later than no m failing which it will be invalid.	t later than Tuesday, 16th
2.		ing a corporation, this form of proxy m its behalf by an attorney or officer of th	
3.	A person appointed to act.	as a proxy need not be a member of ti	he Company.
4.	In case of joint holders, the holders should be stated.	signature of any one holder will be suff	icient but names of all joint
Shai	reholder's admission lett	er	
Pleas	e complete this form and note	that it must be produced at the Annua	al General Meeting by you or your
, ,		. Kindly note that only the registered shefore the meeting will be admitted to the	
Nam	e:	Signature:	
Ann	in Canami Masting of Kanya Ela	ctricity Generating Company Limited to	he held at the Kacamani Cymnacium
	o ,	th December, 2008 at 11.00 a.m.	DE HEIO AL DIE NASAFAITI CYFIITASIUFII,
1 UIKS	r Noag, Narroor on Thursday 181	IL DECEMBER, 2000 ALT LOV ALM.	

FOMU YA UWAKILISHI

	enyehisa
ny Limited	
wa	nikiwa/tukivza
iyotajwa hapo juu, namteua	
wa	<u> </u>
wa	kama mwakilishi
	'rewezi) 2008
ie I 6 Decemba 2008, na isipof nu hii ya uwakilishi itawekwa n i shirika. i si lazima awe mwanachama i	va Hisa, Image Regisurans kabia ya saa ika wakati huo, haitakuwa halali. muhuni, au kutiwa sanihi na wakili au wa kampuni. na, iakini majina ya wanachama wote
uhudhuria.Tafadhaii kumbuka I	tano Mkuu wa kila Mwaka (AGM) na kwamba ni wenyehisa wa osajiliwa au ano wataweza kuruhuswa kuhudhuria
	wa yotajwa hapo juu, namteua wa

Gymnasium, Thika Road, Nairobi mnamo Alhamisi Decemba 18, 2008 saa tano asubuhi.

AREA OFFICES

Olkaria 1 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 E mbu Tel: 068 – 343870 Mobile: 0722509400 Fax (Kamburu): 020 – 251007

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

Tana Power Station
P O Box 698 -30200 Murang'a
Mobile: 073360069 I
Fax: 054 - 30099

Gogo Power Station P O Box 1058 – 40400 Suna - Migori Mobile: 0723901055/073360676 Sagana Power Station P O Box 339 – 10100 Nyeri Mobile: 0724255554

Kipevu 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

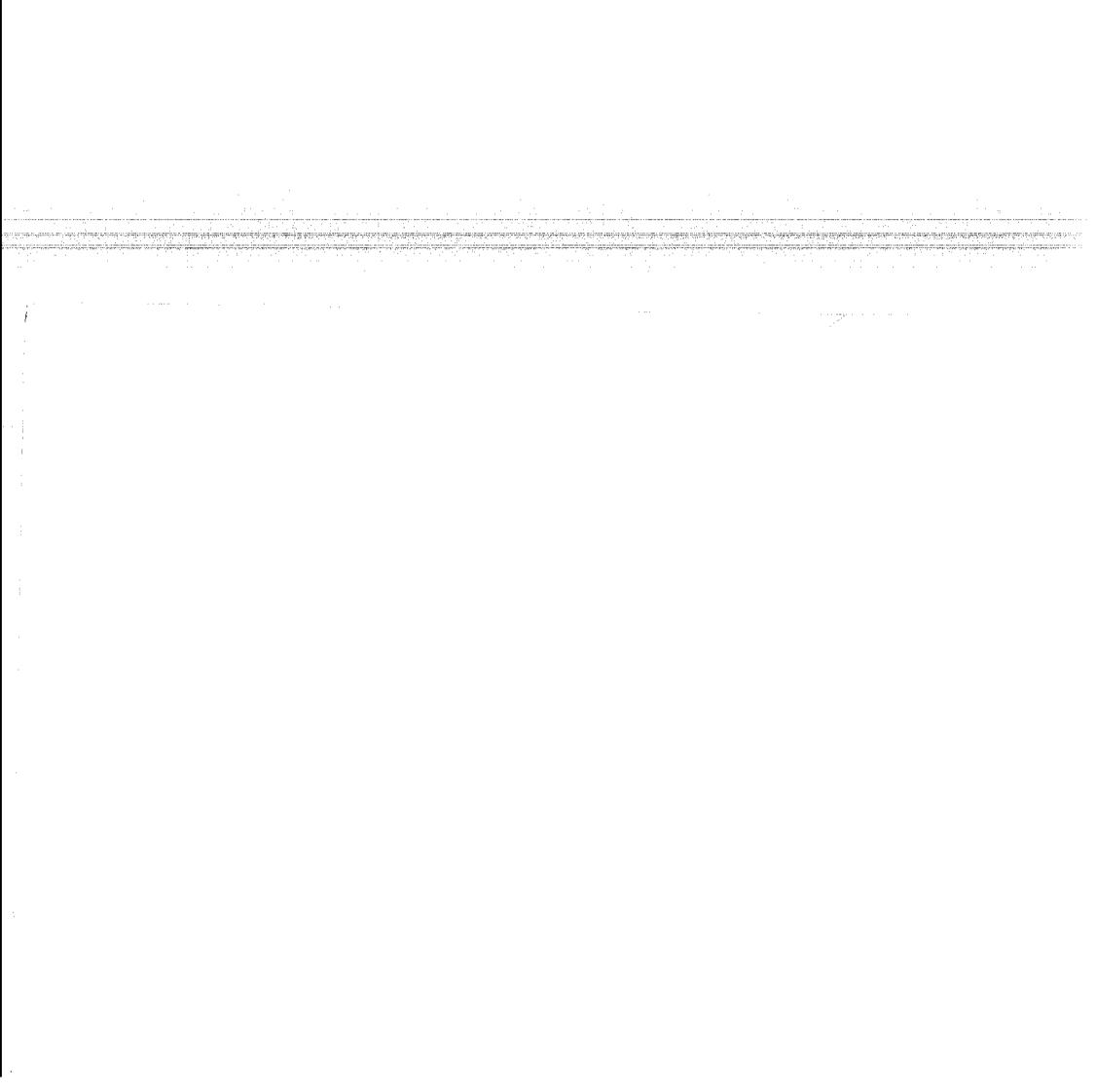


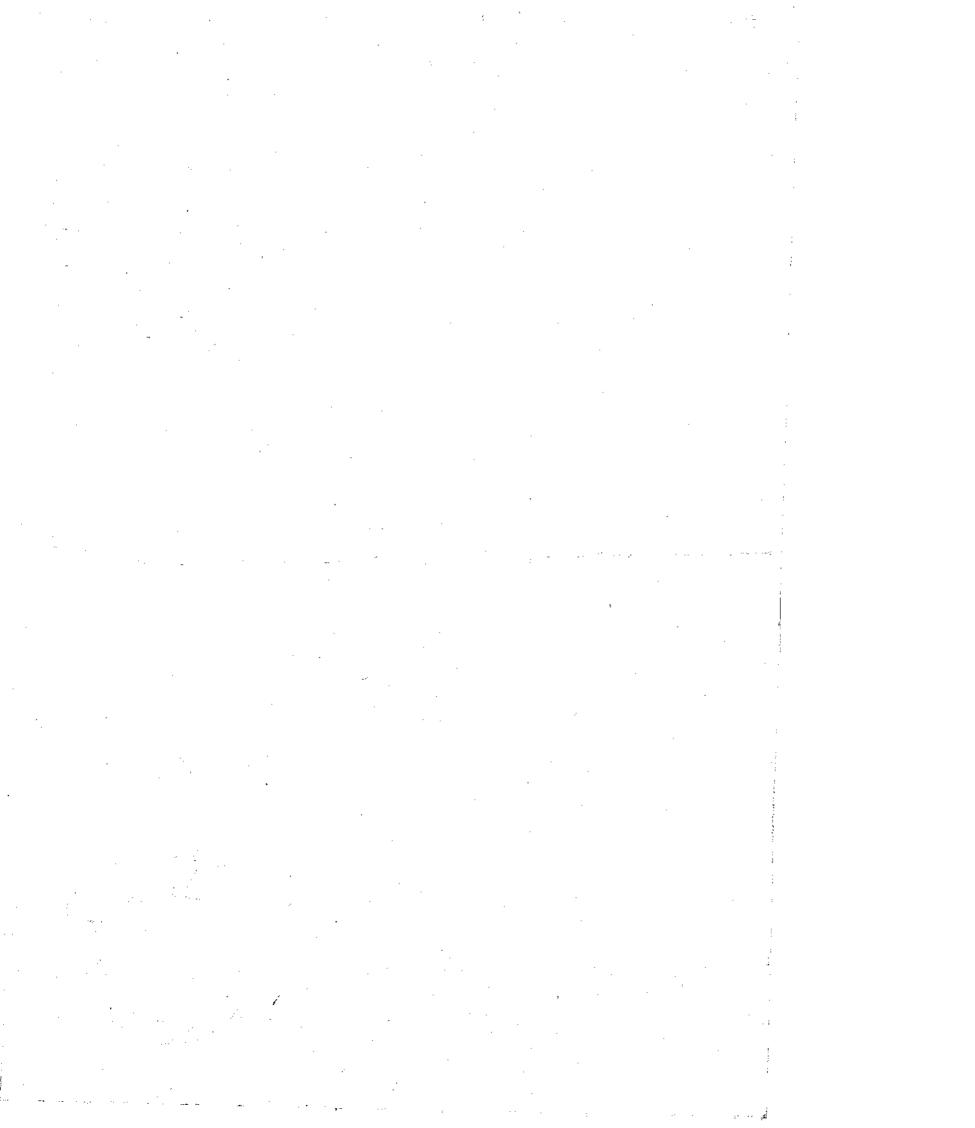
KenGen Energy for the nation

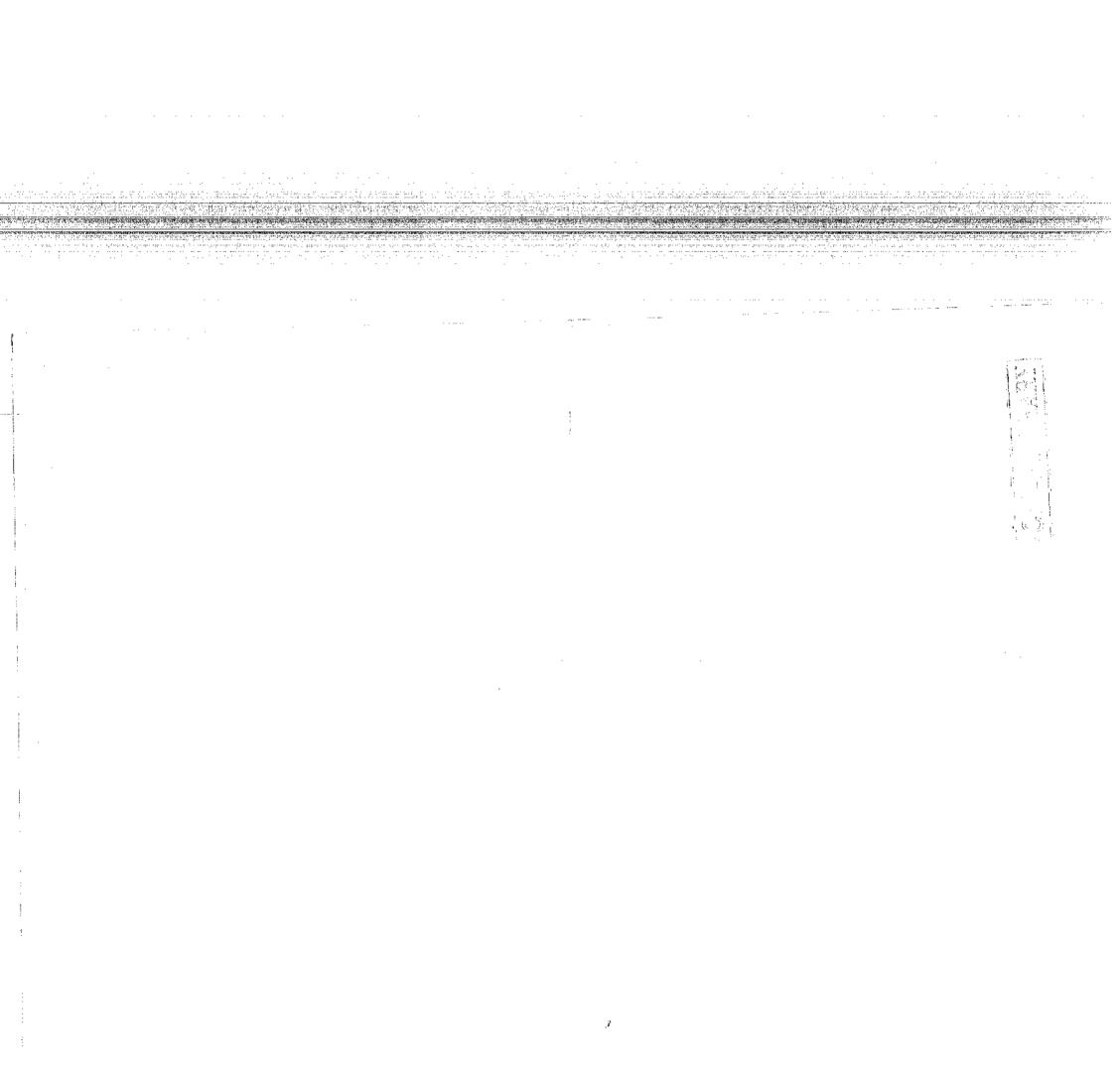
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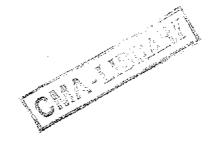
Company Brief

Kenya Electricity Generating
Company Limited,
KenGen is the leading electric
power generation company
in Kenya, producing about 80
percent of electricity consumed
in the country.

The company utilises various sources to generate electricity ranging from hydro, geothermal, thermal and wind. Hydro is the leading source, with an installed capacity of 677.3 MW, which is 72.3 percent of the company's installed capacity.

KenGen is in direct competition with four Independent Power Producers who between them produce about 18 percent of the country's electric power.

With its wealth of experience, established corporate base and a clear vision, the company intent to maintain leadership in the liberalised electric energy sub-sector in Kenya and the Eastern Africa Region.



Our Environmental Policy

Kenya Electricity Generating
Company Limited;
KenGen, is committed to establishing implementing and maintaining a sound environmental management system to ensure that its activities are environmentally acceptable and sustainable.

We shall:

- Prevent or minimize adverse environmental impacts resulting from our operations.
- Comply with relevant environmental legislation and regulations.
- Educate, train and motivate our employees on all relevant environmental issues while encouranging open communication with our stakeholders.
 - Promote the use of eco-friendly and efficient technologies in our present and future expansion activities.
- Audit and review our environmental performance for continued improvement.

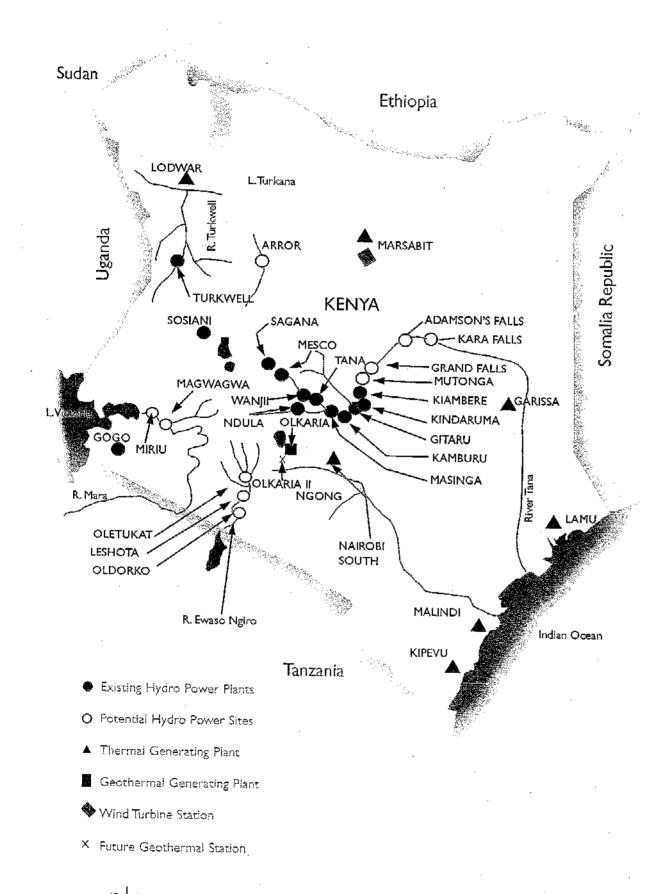


KENYA ELECTRICITY GENERATING COMPANY LIMITED P.O. Box 47936, Nairobi

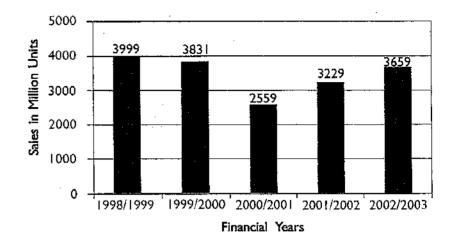
Form of Proxy for Annual General Meeting

1) BLOCK
) CAP!TALS
) PLEASE
being a member of the-named Company, HER	EBY APPOINT	
•		
of P.O. Box		
•		
		t. 17
or failing him/her the Chairman of the Meeting	g as my proxy to vote for and on my be	hair at the ANNUAL
or failing him/her the Chairman of the Meeting GENERAL MEETING of the Company to be h	g as my proxy to vote for and on my be neld on Wednesday 28th April 2004 and	nair at the ANNUAL any adjounment thereo
GENERAL MEETING of the Company to be h	neld on Wednesday 28th April 2004 and	nair at the ANNOAL any adjounment therec
or failing him/her the Chairman of the Meeting GENERAL MEETING of the Company to be homeometric by the My proxy is to vote in favour of / against the F	neld on Wednesday 28th April 2004 and	nair at the ANNOAL any adjournment thereo
GENERAL MEETING of the Company to be home of	neld on Wednesday 28th April 2004 and	nair at the ANNOAL any adjounment thereo
GENERAL MEETING of the Company to be h	neld on Wednesday 28th April 2004 and	nair at the ANNOAL any adjounment thereo For Against
GENERAL MEETING of the Company to be home by the My proxy is to vote in favour of / against the Following Business	neld on Wednesday 28th April 2004 and	any adjounment thereo
GENERAL MEETING of the Company to be home of	neld on Wednesday 28th April 2004 and	any adjounment therec
GENERAL MEETING of the Company to be home of	neld on Wednesday 28th April 2004 and	any adjounment therec
GENERAL MEETING of the Company to be home of	neld on Wednesday 28th April 2004 and	any adjounment therec
GENERAL MEETING of the Company to be home of	neld on Wednesday 28th April 2004 and	any adjounment therec
GENERAL MEETING of the Company to be home of	neld on Wednesday 28th April 2004 and	any adjounment therec
My proxy is to vote in favour of / against the F Item Business I. To transact the Ordinary Bu	neld on Wednesday 28th April 2004 and	any adjounment therec

KENYA ELECTRICITY GENERATING COMPANY LIMITED KenGen's existing and proposed generation stations

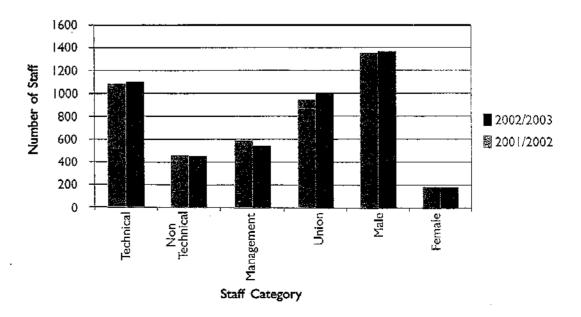


1997/1998	3983
1998/1999	3999
1999/2000	3831
2000/2001	2559
2001/2002	3229
2002/2003	3659

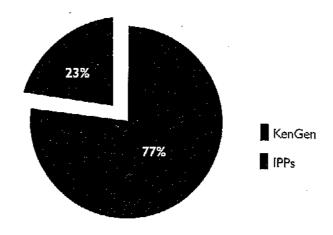


staff analysis

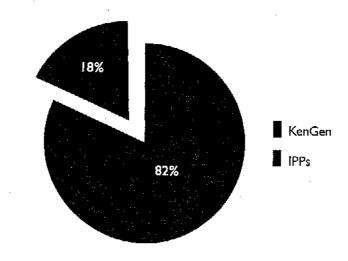
	2002/2003	2001/2002	Variance %
Technical	1078	1096	-2%
Non Technical	454	4 52	0%
Management	589	540	9%
Union	938	1008	-7%
Male	1350	1365	-1%
Female	182	183	-1%
Total	1532	1548	-1%



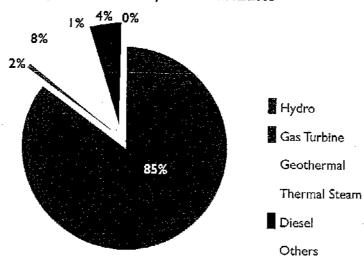
Market Share by Sales - 2002/2003



Market share by Installed Capacity - 2002/2003



Electricity Units Sent Out by source - 2002/2003



KENYA ELECTRICITY GENERATING COMPANY LIMITED table 3: plant performance

					erfomance i			
DOMES OTATION		/ 2000		/ 2001		/ 2002	2002	
POWER STATION	Availability	Load Factor						
Hydro	0.71	50.40	00.67	50.57	00.00	00.00	77.00	E4 70
Tana	84.74	50.48	82.97	56.57	88.02	60.68	77.23	51.78
Wanjii	96.18	71.37	95.59	73.31	92.52	80.69	91.23	79.12
Kamburu	66.40	30.09	79.20	22.11	89.02	40.33	90.25	58.09
Gitaru	85.28	37.31	67.89	18.50	87.72	33.84	96.79	47.93
Kindaruma	65.60	45.01	77.86	23.32	- 84.59	46.48	91.75	64.39
Gogo	86.11	41.39	50.39	29.31	59.37	38.54	54.80	34.40
Selby	74.36	28.61	78.59	58.87	51.94	38.10	67.80	47.80
Mesco	49.82	34.34	60.89	43.53	85.10	68,61	62.86	52.42
Ndula	46.75	22.83	60.99	22.06	75.54	24.58	79.06	39.42
Sagana	75.53	44.72	89.84	58.10	88.91	66.62	99.13	64.62
Masinga	86.67	40.53	71.12	8.04	80.40	36.52	88.35	58.85
Kiambere	96.76	64.61	80.41	23.35	92.89	56.32	95.44	79.71
Turkwei	99.36	23.41	98.68	26.32	92.46	28.87	92.00	14.90
Thermal								
Kipevu Steam	85.56	37.96	55.61	25.99	37.37	18.87	27.32	13.08
Kipevu Diesel	93.58	61.16	83.37	71.07	73.85	43.04	70.12	20.68
Geothermal								
Olkaria I	98.24	99.81	88.78	89.62	97.96	99.80	71.76	73.26
Gas Turbines								
Fiat-Nairobi South	97.47	26.18	99.76	29.73	24.05	0.00	67.42	0.15
JBE-Kipevu	93.27	74.50	75.77	53.61	64.27	14.93	62.78	3.60
Isolated Diesels						<u> </u>		
Garissa	76.25	30.05	74.20	30.95	60.78	37.70	69.12	35.67
Lamu	73.44	30.52	70.38	30.52	62.59	27.66	53.39	30.27
Wind Turbine								
Ngong Wind	25.08	2.75	25.08	4.87	33.41	2.37	63.73	13.24

<u> </u>	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
POWER STATION	:		<u></u>		20022003
Hydro					
Tana	0.23	0.44	0.43	0.75	0.40
Wanjii	0.22	0.16	0.16	0.52	0.08
Kamburu	1.26	1.19	0.99	2.76	1.23
Gitaru	1.54	1.46	0.92	1.87	1,45
Kindaruma	0.59	0.55	0.45	1.34	0.59
Gogo	80,0	0.09	0.11	0.19	0.08
Sossian	0.02	0.03	0.02	0.04	0.02
Mesco	0.01	0.05	0.07	0.02	0.01
Ndula	0.02	0.02	0.02	0.03	0.02
Sagana	0.04	0.03	0.07	01.0	0.08
Masinga	0.33	0.34	0.21	1.20	0.33
Kiambere	2.70	2.51	2.03	7.27	2.54
Turkwei	2.74	3.32	4.45	5.00	1.84
Total Hydro	9.78	10.20	9.95	21.09	8.66
Thermal					
Kipevu Steam	2.04	10.18	1000		
Kipevu Diesel	2.04]	16.96	9.67	9.98
Total Thermal	2.04	1.14	8.54	9.24	6.94
7.10111121	2.01	11.32	25.50	18.91	16.92
Geothermal					
Olkaria I	14	13			
Total Geothermal	14	13	13	16	
			13	16	11
Gas Turbines		İ			
Fiat- Nairobi South	0.63	0.68	0.52		
Kipevu GT	3.63	8.01	7.88	0.07	0.03
Total Gas Turbines	3.63	8.01	7.88	1.42	0.44
<u></u> _		0.01	7.00	1.42	0.44
Isolated Diesels					
Garissa	0.56	0.52	0.54	0.54	
<u>Lamu</u>	0.01	0.02	0.34	0.54	0.48
Total Isolated	0.58	0.53	0.58	0.09	0.01
		0.55		0.62	0.49
Wind Turbine		<u>.</u>			
Ngong Wind	0.00	0.00	0.00	0.00	0.00
Total Wind	0.00	0.00	0.00	0.00	0.00
Total KenGen	30.28	42.73	57. 4 0	58.51	37.52

KENYA ELECTRICITY GENERATING COMPANY LIMITED table I: electricity units (in millions) sent out

	Installed	Effective	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
HYDRO	MW	MW				i ! ! !	:	ļ
Tana .	14.4	12.6	75	82	63	7 1	76	65
Wanjii	7.4	7.4	50	36	46	47	52	51
Kamburu	94.2	88.0	479	409	247	181	330	470
Gitaru	225.0	216.0	816	788	734	364	665	945
Kindaruma	40.0	40.0	198	239	157	81	162	224
Small Hydros	6.28	4.9	25	20	19	20	23	25
Masinga	40.0	30.0	204	223	142	28	127	206
Kiambere	144.0	132.0	1020	1034	8 1 3	293	703	999
Turkwe!	106.0	102.0	383	433	214	240	263	136
UEB (Imports)	30.0	0.0	146	140	151	198	0	0
TOTAL HYDRO SENT OUT	r							
EXCLUDING IMPORTS	677.3	632.9	3250.4	3264.8	2434.8	1325	2,400	3,121
THERMAL						· · · · · · · · · · · · · · · · · · ·		
Kipevu Steam	60.0	36.6	189	141	199	126	94	83
Kipevu Diesel	73.5	70.0			392	449	268	146
GEOTHERMAL			» ·- » · · · · · · · · · · · · · · · · ·				!	
Olkaria	45.0	45.0	353	378	382	340	377	277
GAS TURBINE								
Fiat - Nairobi South	13.5	10.0	0	15	29	35	1	0
JBE - Kipevu	63.0	60.0	178	188	384	274	77	20
Isolated Diesels								
Lamu and Garissa	4.2	3.5	11,	11	10	. 10	11	12
Wind Turbine							<u>!</u> !	
Ngong Wind	0.35	0.35	1	0	0.5	0	0	0.3
UNITS SENT OUT	936.83	858.3	3,983	3,999	3,831	2,559	3,229	3,659

KENYA ELECTRICITY GENERATING COMPANY LIMITED 5 year financial statistical record for the year ended 30 june 2003

	30 June 1999 Kwh	30 June 2000 Kwh	30 June 2001 Kwh	30 June 2002 Kwh	30 June 2003 Kwh
Units sold (millions)	4,139	3,982	2,757	3,284	3,659
Average cost of units sold (shs)	1.79	2.67	4.08	2.05	y: 58 .
,	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Revenue from electricity sold	7,407,949	15,574,463	13,488,013	10,098,493	9,934,542
Net income for the year	213,910	4,029,959	1,702,787	2,280,397	2,519,875
Funds generated from operations Net income for the year Depreciation Amortisisation of operating lease	213,910 219,094	4,029,959 1,361,389	1,702,787 1,499,444	2,280,397 1,490,347	2,519,879 -1,464,061
Currency realignment	678,691	527,562	(327,153)	29 250,113	29 (772:108)
	1,111,695	5,918,910	2,875,078	4,020,886	3,211,861
Capital employed Fixed assets less depreciation Operating lease payments Investment in KPLC	14,186,838	38,964,332	41,794,564	46,314, 9 84 1,649	49,250,958 1,620
Deferred debt The Kenya Power & Lighting Co. Ltd Net current Assets/(liabilities)	5,537 ,662 (4,451,362)	9,268,609 (6,158,552)	152,053 11,395,027 (6,095,658)	13, 87 1,688 (2,727,478)	12,260,159 2,188,874 2,216,543
	15,273,138	42,074,389	47,093,933	57,460,843	65,918,154
Financed by Share capital Reserves Deferred credit Loan capital	456,085 9,012,970 - 5,804,083	456,085 13,109,257 1,165,475 17,263,935	10,535,722 14,812,044 1,937,911 19,808,256	11,195,722 17,092,441 2,957,577 26,215,103	26,320,306 19,818,394 4,246,399 15,533,055
	15,273,138	42,074,389	47,093,933	57,460,843	65,918,154
Capital Expenditure	6,616,612	4,534,332	4,329,676	5,938,569	4,896,044
Income for the year as a percentage of average capital employed(%)	1.56	14.05	3.82	4.36	4:08

KENYA ELECTRICITY GENERATING COMPANY LIMITED detailed income statement for the year ended 30 june 2003

	API	PENDIX I
	2003	2002
REVENUE	Sh'000	Sh'000
Electricity sales	9,934,542	10,098,493
Miscellaneous income	174,254	153,615
	10,108.796	10,252,108
ODED ATINIC EVDENICES		
OPERATING EXPENSES	74 74 74 74	
Purchase of energy	100,000	428,219
Fuel cost	1,269,019	1,962,762
Consumables	-2574,857	539,220
Staff costs	1,207,629	1,218,374
Welfare and benefits	155,737	155,091
Travelling	253,055	62,142
Training	61,884	39,947
Depreciation	1(464,061	1,490,347
Amortisation of prepaid operating lease	<u>, 2</u> 9	29
Directors fees	[020	1,000
Transport	10(7)75	66,450
Licences and local taxes	. \$44,737	2,562
Consultancy and other charges	. 5 4.895	16 4 ,758
External services	289,214	280,675
Office expenses	85,081	82,547
Legal expenses	750	223
Insurance	289,365	183,363
Advertising and public relations	8457	10,350
Inventories written off		36,255
Bank charges	26,265	15,073
Bad debts expense		3,767
		_
	5,788,230	6,743,154
		2,1 = 1 = 1
		2 500 054
	4,320,566	3,508,954
Exceptional item-Interest due from KPLC w/off	(4,182,340)	-
OPERATING PROFIT	3,138,226	3,508,954
OLEMATING (NOTE)	234,30,220	3,500,754
Interest receivable	751,631	1,190,177
Interest payable	(853,264)	(1,148,955)
Exchange gains /(losses)	<i>7</i> 72,108	(250,113)
CONCETT DECORE TAXATION	2 000 70 1	3 300 073
PROFIT BEFORE TAXATION	3,808,701	3,300,063

The scheme is valued by independent actuaries every three years under the rules of the scheme, the income tax (Retirement Benefits) rules 1994 and the Retirement Benefits Act 1997. The actuaries, Hymans Robertson, Consulting Actuaries, carried out the last actuarial valuation as at I August 2000. 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 principal actuarial assumptions were:

Investment return 10% per annum Rate of salary escalation 8% per annum Rate of pension increases 3%

The actuarial valuation revealed that there was a past service actuarial deficit of Sh 1,666,800,000. It is not possible to ascertain whether the KenGen Retirement Benefits Scheme will be required to take up any proportion of this deficit until the process of splitting the scheme's assets is completed. The consulting Actuaries are in the process of finalising their report on how the joint scheme's assets and liabilities will be split between KPLC and KenGen Schemes and a complete separation of the Schemes is expected to be achieved during the financial year ending on 30 June 2004. However, in the opinion of the directors, the proportion of the deficit that will be taken up by KenGen Retirement Benefit Scheme, if any, is unlikely to be material, hence no provision has been made in these financial statements.

23. RETIREMENT BENEFITS

- (ii) 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 new scheme will take up the assets and liabilities arising from the split of the assets and liabilities of the joint scheme once the separation exercise is completed.
- (iii) The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and were restricted to Sh 200 per employee per month :

24. COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act.

25. CURRENCY

These financial statements are presented in Kenya Shillings (Sh'000)

20. RELATED PARTY TRANSACTIONS

(c) Transactions with KPLC are at arm's length and in the normal course of business.

		2003	2002
21.	CONTINGENT LIABILITIES	SH*000	Sh'000
	Disputed VAT assessments		258,417
	Pending litigation against the company	105,651	7,721
	Tax penalties disputed by the company	30,699	30,699
	Disputed duty claim on imported power	31,043	1,610,912
		[67,393	1,907,749

On:12 August 2002, the customs department issued an assessment for customs and VAT arrears on imported electricity from Uganda relating to the period 1998-2001 for Ksh. 1,610,912,000. Against this assessment, the company paid Ksh. 22,203,989 and disputed the balance of Ksh. 1,588,708,011. The principal tax was finally assessed at Kshs. 141 million and additional tax of Kshs. 31,043,671. The company has fully paid the principal tax and appealed for remission of the additional tax, the outcome of which is still awaited.

22. CAPITAL COMMITMENTS

Capital commitments at the year end for which no provision has been made in these financial statements.

		2003 Sh/000	2002 Sh'000
	t not contracted for it not provided for	7.743,260 9,639,500	8,379,102 13,454,152
·.	•	17,382,760	21,833,254

23. RETIREMENT BENEFITS

(i) The Company operated a joint defined benefit scheme with The Kenya Power and Lighting Company (KPLC) Limited up to 31 December 2000, when it established its own scheme following the separation of the two companies.

The scheme was funded by contributions from both the Company and employees up to 31 December 2000. The scheme is administered independently by Aon Minet Insurance Brokers Limited and the funds are jointly managed by Barclay Trust Investment Services Limited and Co-operative Merchant Bank Limited.

		2003 Shi000	2002 Sh'000
19.	FUTURE RENTAL PAYMENTS UNDER OPERATING LEASES		
	Amounts payable in the next year in respect of obligations under operating leases expiring:		
	Within one year In one to five years	2](355 3,849	31,833 37,721
		25:204	69,554

RELATED PARTY TRANSACTIONS 20.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The company is wholly owned by the Government of Kenya and is related to The Kenya Power and Lighting Company Limited through common ownership.

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

(a) The Kenya & Lighting Company Limited (KPLC):	2003 Sh'000	2002 Sh'000
(a) The Kenya & Eighting Company Emiliary		10,000,402
Electricity sales Interest charged on delayed payments	9,934,542 652,000	10,098,493
	10,586,542	11,280,833
Amounts not settled as at the balance sheet date are disclosed in note	8. 2003 Sh'000	2002 Sh'000
(b) Government of Kenya:		
Additional financing received on the Olkaria II Project Grant for Geothermal Resources Assessment	90,000	660,000
Project borrowings received	2,293,588	2,601,698
Interest expense paid on project borrowings	1,254,290	1,015,498

Other details relating to transactions with the Government of Kenya are disclosed in note 15.

		2003 Sh'000	2002 Sh'000
[8.	NOTES TO THE CASH FLOW STATEMENT		
	(a) Reconciliation of operating profit		
	to cash generated from/(used in) operations Operating profit	4,320,566	3,508,954
	Adjustments:		
	Depreciation	1,464,061	1,490,347
	Amortisation of prepaid operating lease Exchange gains)/ losses on loans capitalised	29 (254,617)	29 328,426
	Exchange gains expensed	147,307	150,195
	Revaluation Reserve on Treasury Bonds	(206,074)	130,173
	Interest from KPLC written off	(1, 82, 340)	<u>.</u>
	Operating profit before working capital changes	4,288,932	5,477,951
	Decrease in inventories Decrease/(Increase) in amounts due from	59,811	154,794
	The Kenya Power & Lighting Company Limited	11,682,814	(3,186,187)
	(Increase/)decrease in trade and other receivables	104,461	(175,450)
	Increase/(Decrease) in trade and other payables	130,472	(711,502)
	Cash generated from/(used in) operations	16,26 <u>6</u> ,490	1,559,606
	·		
i	(b) Analysis of changes in borrowings during the year		
	Balance at 1 July	29,250,674	23,934,336
	New loans received	2,601,990	4,096,384
	Repayments of amounts borrowed	(833,131)	(741,518)
	Foreign exchange (gains)/ losses expensed	(625,000)	400,308
	Foreign exchange (gains) losses capitalised	(254,617)	328,426
	Interest on Government deferred loans capitalised	147,390	1,232,738
	Converted to Equity	(14,225,920)	
	Balance at 30 June	16,061,386	29,250,674
	(c) Analysis of balances of cash and cash equivalents		
	Bank and cash balances	2,545,727	1,038,560
	Bank overdrafts	(1,519)	(58,000)
	Fixed deposits	626,543	793,034
	Treasury Bonds	1,325,542	-
	Balance at 30 June	4,496,293	1,773,594

16. DEFERRED TAXATION

Deferred taxation is calculated on all temporary differences under the liability method using the effective tax rate of 30%.

The deferred tax liability at 30 June is attributable to the following items:	2003 Sh'000	2002 Sh'000
Accelerated capital allowances Tax losses Unrealised exchange (losses)/gain Leave pay provision General inventories provision Gratuity provision	5,409,381 (1;324,190) 187,500 (25,910)	5,511,943 (2,413,099) (106,960) (26,073) (7,934) (300)
	4,246,399	2,957,577
Movement on the deferred tax account is as follows:		·
At I July Income statement charge	2:95 <i>7-577</i> 1:330:699	1,937,911 1,019,666
At 30 June	4,288,276	2,957,577
17. TRADE AND OTHER PAYABLES	4	
Accrued interest Trade payables Contract payables and retention money Sundry payables Leave pay provision	1,205,469 6 5,757 5670188 69,1301 86,367	1,281,079 334,095 573,577 240,961 86,907
	2,643,741	2,516,619

BORROWINGS (continued)

(c) CONVERSION TO EQUITY

In September 2003, the Government of Kenya through a Cabinet resolution approved the conversion of Ksh. 2,865 million and Ksh. 12,260 million out of the total debt of Ksh. 22,574 million owed to it by KenGen as at 30th June 2003 into additional Government Equity in the Company. This included the above rescheduled amounts. The amounts are disclosed in the Balance sheet as funds awaiting allotment of shares pending finalisation of the necessary formalities.

(d) Analysis of borrowings by currency

	Borrowings in US\$'000	Borrowings in JPY'000	Borrowings in SEK'000	Borrowings in EUR'000	Borrowings in KshSh'000	Total borrowings Sh'000
2003 Loans Bank overdrafts	75;924 -	I 4,4 51,999		l'6,977 -	18,341 1,519	16,061,386 1,519
Total borrowings	75,924	14,451,999		[6,977	19,860	16,062,905
2002		-				
Loans Bank overdrafts	164,383	13,976,558	115,725	26,926 -	4,015,703 58,000	29,250,674 58,000
Total borrowings	164,383	13,976,558	115,725	26,926	4,073,703	29,308,674
	ty of non-current be	_	2003 Sh'000 1,226,446		2002 Sh'000	
Due be	etween 2 and 5 years ter 5 years		4,877,355 9,429,254		2,331,789 9,767,004 14,116,310	
			15,533,055		26,215,103	

Details of securities for project loans and overdrafts

All company loans are guaranteed by the Government of Kenya. The overdraft facilities with Commercial Bank of Africa Limited and Co-operative Bank of Kenya Limited are secured by corporate guarantees.

The average interest rate paid on bank overdrafts was 13.5% (2002- 14.5%).

15. BORROWINGS (continued)

(b) Rescheduled borrowings

	Total balances due 30.06.02	Repaid	Interest charged in the year and Capitalised	Amount converted To Equity In the year	Total balances due 30.06.03
•	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
10% International Development Association Subsidiary					
Credit 2001/2009	374,861	_	33,075	(407,936)	-
7.59% International Development Association 2001/200	9 468,195	-	33,029	(501,224)	_
8.5% Government of Kenya/Gitaru 2001/2009	5,246	(442)	375	(5,178)	_
3% Government of Kenya/Masinga Ioan 2001/2009	125,285	•	3,597	(128,881)	-
12% Government of Kenya/ODA 2001/2009	64,375	-	6,836	(71,212)	_
10% Government of Kenya/SAUDI 2001/2009	83,229		12,172	(95,401)	-
5% Government of Kenya/SIDA 2001/2009	11,507	-	546	(12,054	-
5% Government of Kenya/ADB 2001/2009	173,156	· .	8,213	(181,369)	_
5% Government of Kenya/KFW 2001/2009	70,219	_	3,331	(73,550)	_
5% Government of Kenya/SEB 2001/2009	291,198	-	13,812	(305,009)	_
5% Government of Kenya/CIDA 2001/2009	83,034		3,938	(86,971)	_
7.5% Government of Kenya/Turkwell 2001/2009	1,324,250	-	28,466	(1,352,716)	•
	3,074,555	(442)	147,390	(3221,503)	-

On 21 December 2001, an agreement was signed between the Government of Kenya and the company whereby the Government agreed to reschedule the repayment of Sh 2,762,000,000 arrears owed to it by the company with effect from 1 July 2001.

The main provisions of this agreement were that:

- (i) Interest accrued and outstanding upto 30 June 2004 computed at the rates specified in the agreement shall be capitalised.
- (ii) The outstanding amount of the rescheduled amounts and the capitalised interest on 30 June 2004 shall be repaid in ten equal consecutive semi-annual instalments commencing on 1 July 2004.

l 5 .	(a)	BORROWINGS	2003 Sh'000	2002 Sh'000	
	` '	10% International Development Association Subsidiary Credit 1994/2004		585,119	
		7.59% International Development Association 1996/2008	1,244,965	-	
		2.6% Overseas Economic Co-operation Fund No. KE P20 2005/2025 (JPY 8,719,021,762)	5,412,769	5,741,476	
		2.3% Overseas Economic Co-operation Fund No KE P21 2007/2027 (JPY 5,732,977,677)	3,559,033	3,462,088	
		7.7% International Development Association 2003/2027 (US\$ 68,386,212)	5,070,845	3,979,701	
		8% Yugoslav Ioan 1989/2003 (US\$ 359,837)	26,682	113,420	
		3% Government of Kenya/Masinga loan 1989/2012	[8,34]	429,209	
		10.08% 2359 ke International Bank for Reconstruction and Development 1988/2004(US\$ 6,970,635)	516,873	965,849	
		12% Government of Kenya/ODA 1989/2009		104,212	
		10% Government of Kenya/SAUDI 1989/2009 (US\$ 208,468.81)	15,458	246,410	
		5% Government of Kenya/SIDA 1989/2009		28,478	
		5% Government of Kenya/ADB 1989/2009		557,255	
		5% Government of Kenya/KFW 1989/2009		173,769	
		5% Government of Kenya/SEB 1989/2009		988,037	
		5% Government of Kenya/CIDA 1989/2009		205,479	
		7.5% Government of Kenya/Turkwel 1999/2015		4,495,616	
		6.125% Kenya Government/Belgium WindPower Ioan 1996-2006	28,862	-	
		10.21% East African Development Bank 2001/2006 (EUR 2,316,300)	196,658	231,154	
		7.7% Kreditanstalt Fur Wiederaufbau 2004/2019		692,014	
		7.5% International Development Association 2003/2006		665,065	
		7.7% European Investment Bank 2005/2020 (EUR 14,660,794)	1,244,728	1,137,941	
		7.7% European Investment Bank 2005/2020 -OG 102		<u>-</u>	
			16,061,386	26,176,119	
		Rescheduled borrowings [Note [4(b)]		3,074,555	
			Total loans Bank overdraft	16,061,386 1,519	29,250,674 58,000
		Total borrowings	16,062,905	29,308,674	
		Less: instalments due within 12 months	(529,850)	(3,093,571)	
		Non current borrowings	15,533,055	26,215,103	

10. INVENTORIES

Fuel General stores Machinery spares Goods in transit

Less: Provision for obsolescence

11. TRADE AND OTHER RECEIVABLES

VAT receivable Staff receivables Other receivables

2003 Sh'000	2002 Sh'000
. 265 1283 37 <i>8</i> 7, 5 5	322,722 62,739
•748 ; 45l≥	719,503
4,[4]0	10,111
-53 A 6 6 6 6 6	
1-055/265	1,115,075
(348793)	(348,793)
706470±	766,282
57.681 80.924 39.0521	181,865 73,185 27,180
(7 <i>)</i> 769	282,230

12. TREASURY BONDS

The Treasury Bonds, which are held as short-term investments, are stated at fair values as at 30 th June 2003 in compliance with International Accounting Standard (IAS) No. 39. The resultant capital gains of Ksh. 206 million have been transferred to a revaluation reserve account.

13. FIXED DEPOSITS

The effective interest rate on fixed deposits was 2% (2002-7%).

14. SHARE CAPITAL

Authorised: 276,990,941 (2002 - 276,990,941) ordinary shares of Shs 20 each

Issued and fully paid: 274,795,182(2002 - 274,795,182) ordinary shares of Shs 20 each '

9.849	5,539,819
-5,495,904	5,495,904

OPERATING LEASE PREPAYMENTS

		Leasehold Land 2003	Leasehold Iand 2002
	COST	Sh'000	Sh'000
	As at 1 st.July 2002	1.768	1,768
	As at 30 June 2003	1,768	
	AMORTISATION		
	As at 1st July 2002 Amortisation for the year	1119 29	90 29
	At 30 June 2003	148	119
	NET BOOK VALUE		
	At 30 June 2003	ઢ ી 62 0	1,649
9.	THE KENYA POWER & LIGHTING COMPANY LIMITED	2003 Shi 900	2002 Sh'000
	Amount due on the current account: Power purchases Development surcharge Accrued interest Sale of Kipevi land Gitari I transmission lines	14,043,647 1,045,786 541,940	11,397,407 2,045,786 428,495
	Investment in shares Interest Written Off Balance due within 12 months	15,631,373 (12,260,159) (1,182,340) (2,188,874)	!3,871,688 - - (12,825,902)
	Balance due after 12 months		1,045,786

The effective interest rate on the current account above was 7% (2002 - 17%).

In September, 2003, the Government of Kenya through a Cabinet resolution approved the conversion of Ksh. 12,260 million out of the total debt of Ksh. 15,631 million owed by KPLC as at 30th June 2003 into Equity in the form of preference shares in KPLC. This amount has accordingly been transferred out of KPLC debtors account and is disclosed in the Balance sheet under non-current assets as investment funds, pending formal issue and allotment of the preference shares to KenGen by KPLC.

(b)	RECONCILIATION OF TAX CHARGE TO THE EXPECTED TAX BASED ON ACCOUNTING PROFIT	2003 \$h'000	2002 Sh'000
	Accounting profit before taxation	3,808,701	3,300,063
	Tax at the applicable rate of 30% Tax effect of expenses not deductible for tax	1,142,610 146,212	990,019 29,647
7. PROPERTY, I	PLANT AND EQUIPMENT	1,288,822	1,019,666

COST	Land and Buildings Sh'000	Transmission lines Sh'000	Plant and machinery Sh'000	Motor vehicles Sh'000	Furniture, Equipment and fittings Sh'000	Work, in-	Tota Sh'000
At I July 2002 -	6,568, 3 71	403,828	27,172,940	140,006	1,258,835	17,462,6 7 7	F2 004 4 F
Additions	- '	-	-	_	,		53,004,657
Transfers Disposal s		146,622 (541,940)	-	(1,692)	40,041	4,896,045 (186,663)	4,896,045 - (543,632)
At 30 June 2003	6,568,371	8,510	27,172,940	138,314	1,298,876	22,172,059	57,359,070
DEPRECIATION	—— -						
-At I July 2002	1,462,316	34,301	4,401,527	88,229	705,300		
Charge for the year Disposals	267,247	16,651 (49,415)	1,033,692	31,469 (1,276)	118,071	- -	6,691,673 1,467,130 (50,691)
At 30 June 2003	1,729,563	1,537	5,435,219	118,422	823,371		8,108,112
NET BOOK VALUE							
At 30 June 2003	4,838,808	6,973	21,737,721	19,892	475,5 05	22,172,059	49,250,958
t 30 June 2002	5,106,055	369,527	22,771,413	51,777	553,535	17,462,677	46,314,984

Included in additions, is capitalised loan interest on ongoing projects borrowings amounting to Sh 655,899,996 (2002 - Sh 299,159,000) and capitalised loan foreign exchange gains amounting to Sh 254,618,231 on ongoing projects (2002-Sh 328,426,000 Loss).

Included in plant and machinery, motor vehicles, furniture, equipment and fittings are assets with a cost of Sh505,570,894 (2002 - Sh 510,168,000) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh57,074,291 (2002 - Sh 57,217,000).

	•		
3.	STAFF COSTS	2003 SH 900	2002 Sh'000
	Salaries and wages Pension costs – defined contribution scheme – National Social Security Fund Leave pay provision	13081 951 2123 129 -3 149	1,035,346 175,223 2,392 5,413
		1,207,629	1,218,374
	The average number of employees during the year wa	s 1,534 (2002 – 1,568).	
4.	NET FINANCE (COSTS)/INCOME		
	Interest receivable:		
	On late payments by KPI C		

On late payments by KPLC Other	652,000 1,182,340 29.63 ! 7,837
Interest payable:	751.631 1,190,177
On long-term borrowings On bank overdrafts On staff loans	(83[182) (1,098,173) (1,66]9) (46,269) (4,513)
	(853,264). (1,148,955)
Net interest (payable)/receivable Net exchange gains /(losses)	(101,633) 41,222 772,108 (250,113)
	670,474 (208,891)

EXCEPTIONAL ITEM

The exceptional item represents debt waiver to KPLC of Ksh. 1,182,340,090 arising from interest charged by KenGen for late payment of invoices in the financial year 2001/2002. The interest waiver was approved by the Cabinet in September 2003.

6. (a) TAXATION CHARGE

Current taxation based on the taxable profit for the year at 30% Deferred taxation charge

1,288,822	1,019,666
1,288,822	1,019,666

I. ACCOUNTING POLICIES (Continued)

Capitalisation of geothermal assets

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

The cost of unproductive wells is transferred to the 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 the well ceases to be productive.

Provisions for liabilities and charges

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates of exchange ruling on the dates of the transactions. During the period of construction of a project, gains and losses on foreign currency loan realignments are capitalised as part of the cost of the project. Other exchange gains and losses are dealt with in the income statement.

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 the tax legislation.

Deferred taxation is provided for, using the liability method, for all temporary differences arising between the tax bases of assets and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Retirement benefits obligations

The company's obligations to staff retirement benefit plans are charged to the income statement as they fall 2003 2002

		Sh'000	Sh'000
2.	OPERATING PROFIT		
<i>-</i>	The operating profit is arrived at after charging:		·
	Electricity purchased from Uganda Electricity Board		328,219
	·	1.464.061	1,490,347
	Depreciation (nate 7)	12209	29
	Amortisation of operating lease prepayments (note 7)	1207,439	1,218,374
	Staff costs (Note 3)	1,207,027	1,210,511
	Directors' emoluments:	620	1,000
	- Fees	55005	3,710
	- Other		1,659
	Auditors' remuneration		•
	Operating lease rentals	31,49/	37,945

KENYA ELECTRICITY GENERATING COMPANY LIMITED notes to the financial statements for the year ended 30th june 2003

ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Accounting Standards. The principal accounting policies adopted are set out below:

Basis of accounting

The financial statements are prepared under the historical cost basis of accounting.

Revenue

Revenue is recognised, excluding value added tax, based on the net units of energy transmitted and invoiced to the authorised distributor, The Kenya Power & Lighting Company Limited.

Interest payable

Loan interest accruing during the period of construction of a project is capitalised as part of the cost of the project.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Depreciation

Freehold land is not depreciated.

Depreciation on other property, plant and equipment is calculated on the straight line basis to write off their cost over the expected useful lives. The rates used are:

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

Operating lease prepayments

Leasehold land payments are recognised as an expense in the income statement on straight line basis over the period of lease in compliance with International Accounting Standard (IAS) No. 17.

Inventories

Inventories are valued at average purchase cost less provision for obsolescence.

KENYA ELECTRICITY GENERATING COMPANY LIMITED cash flow statement for the year ended 30th june 2003

	Note	2003 Sh'000	2002 Sh'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	[8(a)	16,266,490	1,559,606
Interest paid Interest received		(539.064) 3.99.631 4.05.63	(417,910) 1,895,850
Net cash generated from/(used in) operating activities		IS 827,057	3,037,546
INVESTING ACTIVITIES			
Additions to property, plant and equipment Investment funds in KPLC Disposal of transmission lines to KPLC Disposal of motor vehicles		(4,203,837.) (12,260,159) 541,940 2,784	(5,713,286) - -
Net cash used in investing activities		(15919272)	(5,713,286)
FINANCING ACTIVITIES			
Payment of long-term borrowings GOK Loans converted to Equity Proceeds from long-term borrowings Additional financing from the Government of Kenya	18(b) 18(b)	(45;059;050); 15;124,584 2,60],990;	(741,518) - 4,096,384 660,000
Interest capitalised on rescheduled GOK loans	18(b)	147,390	-
Net cash generated from financing activities		2.8 [4.9].4	4,014,866
INCREASE IN CASH AND CASH EQUIVALENTS		2,722,699	1,339,126
CASH AND CASH EQUIVALENTS AT 1 JULY		1,773.594	434,468
CASH AND CASH EQUIVALENTS AT 30 JUNE	18(c)	4.496,793	1,773,594

KENYA ELECTRICITY GENERATING COMPANY LIMITED statement of changes in equity for the year ended 30th june 2003

	Share Capital	Share Premium	Funds Awaiting Allotment of shares	Capital Reserves	Revaluation Reserve	Revenue Reserve	Total
·	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 July 2002 Gok On Hent loans Reserve arising on	5,495,904	5,039,818	660,000 15,124,584	8,579,722	-	8,512,719	28,288,163 15,124,584
revaluation of Treasury Bonds	-	-	-		206,074	0.540.070	206,074
Net Profit for the year At 30 June 2003	5,495,904	5,039,818	15,784,584	8,579,722	206,074	2,519,879 11,032,598	2,519,879 46,138,700

- (a) Last year, the company received Sh 660,000,000 from the Government of Kenya being support financing for the Olkaria il project. This amount will be converted into additional equity shares to the Government upon completion of the necessary formalities. The directors expect the process of issuing the new shares to be completed during the financial year ending 30 June 2004.
- (b) The capital reserve represents various amounts originating from 1997 and prior years in respect of development surcharge received from the Kenya Power & Lighting Company Limited for the purpose of financing the development of certain Power Projects.

KENYA ELECTRICITY GENERATING COMPANY LIMITED balance sheet as at 30th june 2003

	Note	2003 Sh'000	2002 Sh'000
ASSETS	Note	311 400	30 000
Non current assets Property, plant and equipment Operating lease prepayments Due from The Kenya Power & Lighting Company Limited Investment funds in KPLC	7 8 9 9	49.250,958 620 12.260,159	46,314,984 1,649 1,045,786
•		61,512,737	47,362,419
Current assets Inventories Trade and other receivables Due from The Kenya Power & Lighting Company Limited Taxation recoverable Treasury Bonds	10 11 9	706/471 777/69 2,188/674 8,082 1,328,542	766,282 282,230 12,825,902 2,606
Fixed deposits Bank and cash balances	13	626,543 2,545,727	793,034 1,038,560
·		7,579,008	15,708,614
Total assets		69,091,745	63,071,033
EQUITY AND LIABILITIES	•		
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revaluation Reserve Revenue reserve	14	5 495 904 5 039 818 15 784 584 8 579 722 206 074 1 1:032 598	5,495,904 5,039,818 660,000 8,579,722 8,512,719 28,288,163
Non current liabilities Borrowings Deferred tax liability	[5(a) [6	(5,533,055 4,246,399	26,215,103 2,957,577
		19,779,454	29,172,680
Current liabilities Trade and other payables Borrowings	17 15(a)	2,643,741 529,850	2,516,619 3,093,571
		3, 17 3,591	5,610,190
Total equity and liabilities		69,091,745	63,071,033

The financial statements on pages 6 to 24 were approved by the board of directors on 28th January, 2004 and were signed on its behalf by: $\frac{1}{2}$

Directors

Titus Mbathi - (Chairman) Edward Njoroge - (Managing Director)

KENYA ELECTRICITY GENERATING COMPANY LIMITED income statement for the year ended 30th june 2003

	Note	2003 Sh'000	2002 Sh'000
REVENUE		10,108,796	10,252,108
OPERATING EXPENSES		(5,788,229)	(6,743,154)
OPERATING PROFIT	2 .	4,320,567	3,508,954
NET FINANCE INCOME /(COSTS)	4	670,474	(208,891)
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS		4,991,041	3,300,063
EXCEPTIONAL ITEM	5	(1,182,340)	-
PROFIT BEFORE TAXATION		3,808,701	3,300,063
TAXATION CHARGE	6	(1,288,822)	(1,019,666)
NET PROFIT FOR THE YEAR	-	2,519,879	2,280,397

report of the controller and auditor general on the financial statements of the Kenya Electricity Generating Company Limited for the year ended 30th june 2003

financial evaluation reports. Further, other Insurance companies which did not appear in the financial evaluation reports were also awarded tenders. Furthermore, an Insurance Broker who had been disqualified during the tender evaluations stages for brokerage services was contracted. The Company was, therefore, in breach of rules and regulations. Additionally the negotiations, as stipulated in the Insurance Tender Documents, between the KenGen Insurance Tender Committee and the qualified insurance brokers to fine-tune the proposals and the contract before signing were not done. Under the foregoing circumstances, it was not possible to confirm propriety of the insurance expenditure amounting to Kshs.303,523,946.

LOSS OF USD100,000

On 8 August 2001, KenGen Ltd. Instructed the Co-operative Bank of Kenya to transfer a sum of US\$ 2 million to the World Bank for repayment of a World Bank Loan. However, a fraudulent instruction using forged KenGen Ltd. Letterhead was also issued to the Co-operative Bank instructing them to transfer the US\$ 2 million to a foreign account in Washington State, USA. Out of the US\$ 2.0 million, US\$ 100,000 was fraudulently withdrawn. The fraud was, however, discovered before the accomplice could withdraw the balance of US\$ 1.9 million which sum has since been credited to the Company's account at the Co-operative Bank of Kenya. Although three officers from KenGen Ltd. and three from the Bank were charged with the fraud under criminal case number 1869/2001, and subsequently acquitted for lack of evidence, the Bank through which the forged documents were facilitated should have accepted the responsibility and credited KenGen Ltd. with the US\$ 100,000 that was fraudulently transferred. No such recovery from the Bank has been received and the outcome of negotiations for recovery has not been seen.

D. G. NJOROGE **CONTROLLER & AUDITOR GENERAL**

Nairobi 20 January, 2004 report of the controller and auditor general on the financial statements of the Kenya Electricity Generating Company Limited for the year ended 30th june 2003

I have examined the financial statements of the Kenya Electricity Generating Company Limited for the year ended 30 June 2003 in accordance with the provisions of Section 29 of the Exchequer and Audit Act (Cap 412). I have obtained all the information and explanations required for the purpose of the audit. Proper books of accounts have been kept and the financial statements, which have been prepared under the historical cost convention, are in agreement therewith and comply with the Companies Act.

Except for the reservations set out here below, in my opinion the financial statements when read together with the notes thereon present a true and fair view of the financial state of affairs of the Company as at 30 June 2003 and of its surplus and cash flow for the year then ended.

CONVERSION OF AMOUNT DUE FROM KPLC INTO EQUITY

As stated in note 9 to the financial statements in September 2003, Government, through a Cabinet Resolution approved the conversion of Kshs.12,260,000,000 out of a total debt of Kshs.15,631,000,000 owed by KPŁC to KenGen as at 30 June 2003 into equity in the form of Preference Shares in KPLC. Consequently this amount was transferred out of the debtors account and disclosed in the Balance sheet under non-current assets as investment funds pending formal issue and allotment of the Preference shares to KenGen by KPLC. It is also observed that loans lent to KenGen by Government of Kenya totalling Kshs.15,784,584,000 were also to be converted into Government Equity in KenGen. The circumstances under which KPLC accumulated the debt of Kshs.15,631,000,000 even though it actually sold the power to its customers but failed to pay KenGen thereby adversely affecting the operations of KenGen have not been explained. However, Parliamentary approval for these transactions has not been seen.

INSURANCE PREMIUMS

During the year under review, the Company incurred a total of Kshs.303,523,946 on insurance Premiums, an increase of Kshs.101,221,760.00 or 50% compared to the Kshs.202,302,186.00 paid in the previous year. The very substantial increase could be attributed to the Company's failure to evaluate its insurance with a view to minimizing its cost through such measures as self insurance for policies with low incidence rankings, reduce benefits on the Group Life Policy, and increased deductibles on the large risk programs. Irregularities were observed during the audit in the awarding of the Insurance Tenders in that Insurance companies which did not meet the mandatory requirements as per the tendering procedures were awarded tenders. Cases in point were Companies declared technically insolvent in the

Proper books of accounts have been kept and the financial statements. which have been prepared under the historical cost convention, are in agreement therewith and comply with the Companies Act.

KENYA ELECTRICITY GENERATING COMPANY LIMITED statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the

Companies Act.

The directors



One of the wells feeding the new Olkaria II Geothermal Power Station.

report of the directors

The Controller and Auditor General was appointed the Company's auditor in accordance with sections 29,30 and 31 of the Exchequer and Audit Act (cap 412) and section 159(2) of the Companies Act. $\,\mathrm{M}/$ S Deloitte & Touche, the Company's previous auditors, retired from office during the year.

BY ORDER OF THE BOARD

Secretary Nairobi, 2003



Part of Masinga Dam with Kitui water project intake in foreground.

KENYA ELECTRICITY GENERATING COMPANY LIMITED report of the directors

The directors present their report together with the audited financial statements for the year ended 30 June 2003.

ACTIVITIES

The principal activity of the company is the generation and sale of electricity to the authorised distributor, The Kenya Power and Lighting Company Limited.

RESULTS	Sh'000
Profit before taxation .	3,808,701
Taxation charge	1,288,822
Net profit for the year transferred to revenue reserve	2,519,879

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year.

DIRECTORS

The current members of the board of directors are as shown on page

Gen (Rtd) M Mohamed resigned on 25 March 2003 and was replaced by T.K. Mbathi

Eng. 1 K Bondet resigned on 25 March 2003 and was replaced by

J. Kinyua and Prof. W.M. Mwangi resigned on 25 March 2003 and were replaced by, J. Magari and P. Nyoike.

M.M. Karanja, J. K. Nyukuri, and Eng. J.C. Chemitei, resigned on 25 March 2003 and were replaced by, F. H. Abass, Lt. Gen (Rtd) A. Cheruiyot, G. M. Njagi and Ms S.W.Wainaina.

30th June, 2003. The Controller and Auditor general made three reservations to the Company's Financial Statement, namely

- Conversion of Amount due from KPLC into Equity
- ii. Insurance Premiums
- iii. Loss of US\$ 100,000

It is the Company's considered opinion that the reservations made by the Controller and Auditor General do not constitute major commission or omission in the management of the affairs of the Company. Nevertheless, I would like to assure the shareholders, stakeholders and office of the Controller and Auditor General that we have taken note of his comments and observations and shall address them.

Future Prospects

Continued support by the Government and the development partners coupled with the ongoing business processes re-engineering activities, including the proposed opening up of shareholding to the Kenyan public will enhance the contribution of the company to the domestic as well as the regional economy.

Acknowledgement

I wish to thank my Board colleagues, staff, the Government and its agencies, and our development partners for their continued support to the Company.

Hon, Titus Kitili Mbathi Chairman

I wish to thank my Board colleagues, staff, the Government and its agencies, and our development partners for their continued support to the Company.



The President plants a commemorative Podo tree in front of Olkaria II Power Station.

Kipevu Combined Cycle Project

The update of the feasibility study for the project is expected to be done in the fiscal year 2003/2004.

Public Relations

The company continued to enhance its image through participation in social corporate responsibility activities including various charitable programmes. These included both cash donations as well as physical participation by members of staff.

One of the major contributions within the year was a donation of Kshs 1,000,000 towards the Aberdare Fence Project.

We also participated in several annual charity events including Heart Run and made cash donations to support, among others the National Physically Handicapped Games held in Mombasa.

The company also participated in re-forestation efforts in Mau Forest apart from donating seedlings to various communities from its social re-forestation nurseries at Olkaria, Gitaru and Sondu Miriu project.

Within the period, the company's Annual Report was voted 2nd best overall in the country by the Public Relations Society of Kenya (PRSK).

The company maintained cordial relations with the media and received fair coverage as a major player in the Energy Sector.

Human Resources

The staff capacity remained virtually the same as the previous year at 1532. Industrial harmony also prevailed. Staff were trained locally and abroad and their morale was generally high during the period. The vision and mission statements of the company were faunched in the same period. The company hosted the geothermal conference in April 2003 during which a number of staff members presented papers on various aspects of geothermal power.

Statement of Controller and Auditor General

Following the amendment of the State Corporations Act, the office of the Controller and Auditor General audited our books of accounts and submitted its report certifying that the financial statements present a true and fair view of the financial state of affairs of the Company as at

The company hosted the geothermal conference in April 2003 during which a number of staff members presented papers on various aspects of geothermal power.

Gitaru

Turbine defects on Unit I were cleared.

Kiambere

A study to determine the cost effective and efficient arrangement to optimise the station output was done and its recommendations are under consideration for implementation. The study recommends the upgrading of the station capacity by between 14 MW $-\,20$ MW.

Geothermal Station

Cooling tower of Olkaria I Unit 3 and a number of wells were overhauled.

Developments

64 MW Olkaria II Geothermal Power Project

With the previous financing problems having been settled, the overall progress of the project was on schedule for commissioning of Unit $\,\mathrm{I}\,$ on 30th September and Unit 2 on 24th November 2003. The only outstanding problem was the Wayleaves for Nairobi North to Dandora 220kV line.

Geothermal Resource Assessment

Minimal drilling activities were undertaken in the year with budgetary support from the Government. Further funding is awaited from Kreditanstalt fur Wiederaufbau (KfW) of Germany.

60 MW Sondu/Miriu Hydro Power Project

Phase I tunnel civil works were due for completion in August 2003. The contract for operation of site amenities ended on 9th May 2003 and KenGen took over the operations of these facilities. Phase 2 Loan by Japanese Government was still awaited. The project is behind schedule by over three years and the earliest commissioning date is now December 2006 if the funding is in place by January 2004.

Raising of Masinga Dam

Logistical handicaps to the implementation of the project are being considered.

Capital Investment

The capital expenditure for the year was Kshs 4,896 million incurred on Olkaria II and Sondu Miriu power projects.

Restructuring of the Electric Power Sub-Sector

Equity debt swap was undertaken involving KPLC, KenGen and the Government to enable KPLC improve its balance sheet and aid its recovery. This arrangement entailed, inter alia, KenGen converting Ksh. 12,260 million owed by KPLC into preference shares in the latter. GoK taking up additional shares amounting to Ksh. 15,124 million in KenGen and reducing the on-lent loans to KenGen by the same amount, Issuance of the preference shares by KPLC to KenGen and ordinary shares by the latter to GoK is expected in 2003/2004.

Electricity Tariff

In addition to the equity debt swap, KenGen ceded Ksh. $0.60~{\rm per}$ Kwh thereby reducing its bulk tariff to KPLC from Ksh2.36 per to Ksh. 1.76 per Kwh to further aid the recovery of KPLC.

Information, Communication and Technology

Automation of routine business process under Warehouse Management, Purchasing Cycle and within the Finance Division was done in the year. Printing of Local Purchase Order was also automated. Interfacing of the Plant Maintenance Management System to Stores Management System was done thereby further improving management of spares for the Plants, resulting in high availability. The Wide Area Network was also extended to cover Sondu Miriu Power Project and Wanjii Power Station.

Operations

Some major works were undertaken in various Plants during the year to enhance their performance. They include the following:

Hydro Stations

Kamburu

Replacement of new runners of Units 1 and 2.

The Wide Area Network was also extended to cover Sondu Miriu and Wanjii Power Stations.

Expenditure

Operating cost for the year declined by Ksh. 954 million from Shs. 6,743 million to Shs. 5,789 million, also mainly due to a decline in fuel expenses by Ksh. 692 million.

Finance Costs

Finance cost declined by Kshs. 880 million to a net income of Kshs. 671 million from the previous year's net loss of Ksh. 208 million. The decline in interest rates and appreciation of the domestic currency against both the Japanese Yen and the United States of America Dollar resulted in the favourable position.

Trading Results

The profit before taxation for the year increased by 4% to Shs.3, 809 million spurred by decline in operating cost and favourable foreign exchange regime. The amount is to be used to meet local counterpart funding for the projects, principal loan service and any dividend payment to the shareholder.

Taxation

As a result of the tax losses brought forward from the previous year amounting to Ksh. 2,413 million, the Company did not pay any corporation tax for the year. The tax loss carried forward in the year was Ksh. 940 million and is expected to increase in the next three years with the commissioning of Olkaria II and Sondu Miriu power projects. However, in compliance with requirements of International Accounting Standards, provisions in the form of deferred tax of Ksh. 1,289 million for the year was made.

Cash Flow

Net cash flow from operations and financing activities was Ksh. 18,642 million compared to Ksh. 7,051 million the previous year. Ksh. 15,919 million was spent on implementation of Olkaria II and Sondu Miriu power projects and acquisition of preference shares in KPLC and other assets. The cash balance for the year was Ksh. 4,496 million including the balance brought forward from the previous year.

The profit before taxation for the year increased by 4% to Shs.3, 808 million spurred by decline in operating cost and favourable foreign exchange regime.



Titus Mbath

Gradual gains in the macroeconomic environment mainly favourable interest rates and weather conditions contributed to the positive results.

I am delighted to report the performance of the Company for the financial year ended 30th June 2003. The Company continued to better its performance relative to the preceding year. Gradual gains in the macroeconomic environment mainly favourable interest rates and weather conditions contributed to the positive results.

Overview of the Kenyan Economy

The gross domestic product growth was I.4% partly supported by increased lending to the private sector by about 4.9%. Most sectors of the economy posted positive performance, though marginal. The average inflation level was 6.6% down from 9.6% experienced in the earlier year attributable partly to the appreciation of the Kenya Shilling against the Japanese Yen and United States of America Dollar. The 91-day interest rate averaged about 3%.

The Government commissioned an Economic Recovery Plan premised on Job Creation and Poverty Reduction. The Plan gives priority to increased investments in infrastructure, agriculture, manufacturing, tourism, trade and industry. The economic agenda also includes enhanced access to quality education and health care, zero tolerance to corruption and promotion of good governance.

These actions are anticipated to spur investor confidence and support from development partners in jumpstarting the economy. The overall effect is target real growth rate of 2% in 2003, which may lead to increased energy sales due to enhanced demand.

Financial Results

Sales

The unit sales for the year were 3,659 million compared to 3,284 million units the previous year. Favourable hydrology leading to improved hydropower generation was mainly responsible for 11% sales increase.

Revenue

Revenue earned in the year was Shs.10,108 million being Kshs. 8,834 million and Kshs. 1,274 million for unit sales and fuel respectively. This compares unfavourably with Ksh. 10,252 million earned the previous year and attributable to reduction in fuel revenue arising from enhanced hydropower generation.

notice of meeting

NOTICE IS HEREBY GIVEN that the FIFTY FIRST Annual General Meeting of Members will be held at the Registered Office of the Company, Stima Plaza, Phase III, Kolobot Road, Nairobi, on 28th April 2004, at 12:00 noon to transact the Ordinary Business of the Company.

By Order of the Board.

A.H.ALI Company Secretary,

Nairobi, Kenya 7th April 2004

A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company. To be valid, the form of proxy must be duly completed and must be lodged at the Registered Office of the Company or posted in time to reach there not later than 12:00 noon on 27th April, 2004.



President Kibaki unveils the plaque commemorating the official inauguration of Olkaria Il Power Station.

management

Managing Director

E. NJÖROGE, BSc. (Hons.),

Deputy Managing Director and Head of Business Development J. N. NG'ANG'A, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K.

Ag. Manager, Corporate Planning & Strategy J. K. Wahogo, BSc. (Eng.) (Hons.), R.Eng.

Chief Generation Manager (Hydros) N. K. GICHUKI, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K.

Generation Manager (Thermal)
A. Nyagetuba, BSc (Eng.), R. Eng., M.I.E.K.

Company Secretary A. H. ALI, LLB (Hons.)

Chief Manager, Finance W. E.TEMESI, BCom. (Hons.), FCPA (K)

Chief Manager, Human Resources & Administration B. M. SOY (Mrs.), BEd (Hons.), Med. (Mgt.)

Manager, Information Technology
J. O. OMBONGI, BSc. Electronics, MSc. Computer Science.

Manager, Public Relations and Communications
M. NJERU, B.A. (Hons.), Dip. Mass Com., FPRSK, M.IPRA

Manager, Procurement G.W. MUGA, BSc. (Eng.) (Hons), Dip. Geo. Tech., M.I.E.K., AMCIPS

corportate information

Directors

Titus Kitili Mbathi

Chairman

Edward Njoroge

Managing Director

Joseph Magari Patrick Nyoike Ms Sarah W. Wainaina

Musa Ndeto

Faisal Abdirahman Haji Abass

George M. Njagi

Gen. (Rtd) Augustine Cheruiyot

Dr R O Arunga

Solomon Kitungu

Alternate to Joseph Magari

D. R. Ogalloh-Riaroh -

Alternate to Patrick Nyoike

Secretary

AHAli Stima Plaza

Kolobot Road P.O. Box 47936

Nairobi

Registered office

Stima Plaza

Kolobot Road P.O. Box 47936

Nairobi

Bankers

Commercial Bank of Africa Limited

Wabera Street P.O. Box 30437

Nairobi

The Co-operative Bank of Kenya Limited

Stima Plaza Kolobot Road P.O. Box 48231 Nairobi

Standard Chartered Bank (Kenya) Limited

Harambee Avenue P.O. Box 30003

Nairobi

Auditors

Controller and Auditor General

Kencom House P.O. Box 49384 Nairobi.

board of directors



Titus Kitili Mbathi







Ms. Sarah Wainaina





Dr. R. O. Arunga







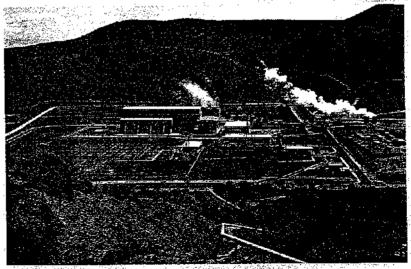
D. R. Ogalloh-Riaroh



2009/1643

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Cover picture: The newly commissioned Olkaria II Geothermal Pours-



Annual Report for the Year Ended 30TH June 2003

Paris Services					Andrew Marrier and Transport a
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P.O. Box 47936, Nairobi.

Form of Proxy for Annual General Meeting

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			System of the second of the se	CAPITALS
being a member of the-na	med Company HE	PERV ADDOLUT		PLEASE
	Over some any conserve.	APPOINT		
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of P.O. Box			CA SELECTE AND ENGINEERS	

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

GENERAL MEETING of the company to be held on Thursday 20th February 2003 and any adjournment thereof.

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

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

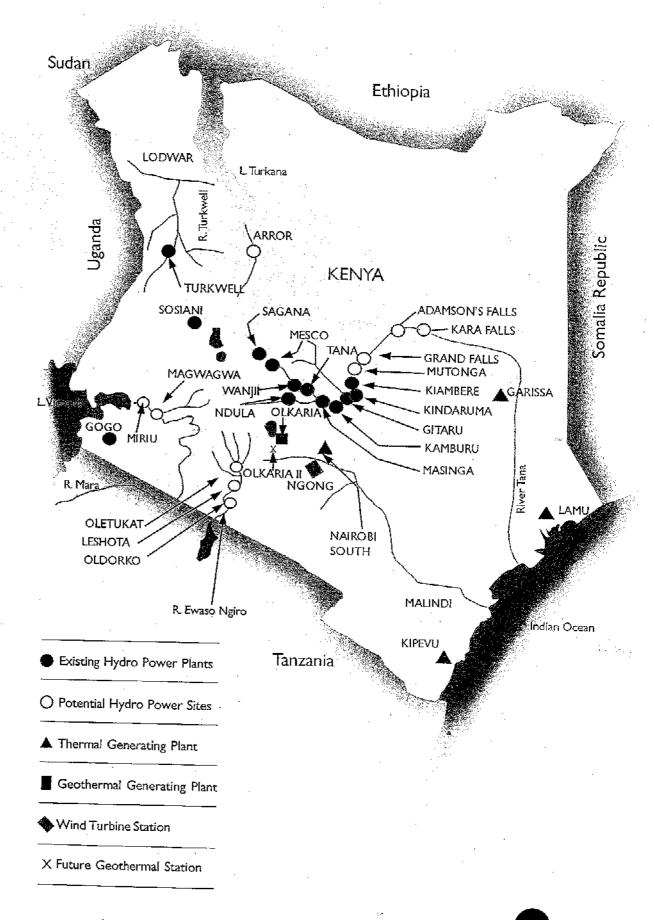
Signature

Dated this

day of

2003

Existing and Proposed Generation Stations



2001-2002 annual report and accounts

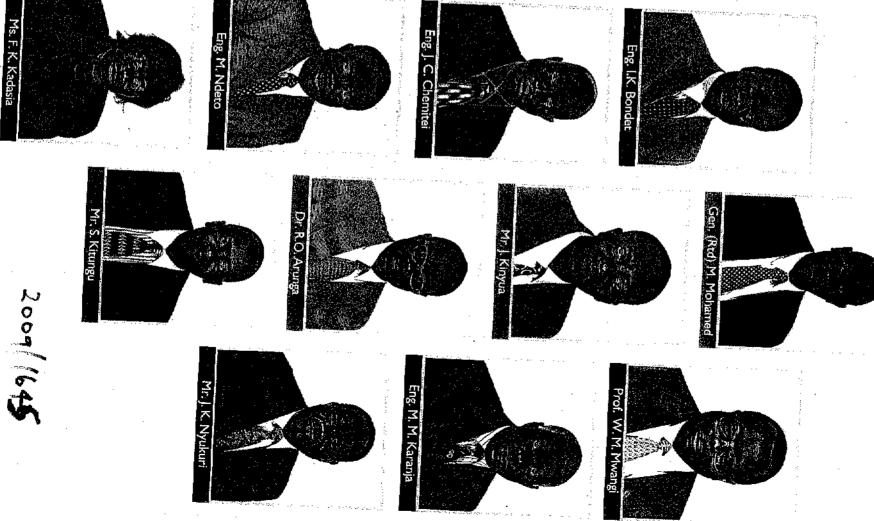
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to who





Corporate Information

Directors

Gen. (Rtd) M. Mohamed

Eng. I.K. Bondet

-

Chairman

Managing Director

Mr. J. Kinyua

Prof. W. M. Mwangi

Eng. M. M. Karanja

Eng. M. Ndeto

Mr. J. K. Nyukuri Dr. R.O. Arunga

Eng. J. C. Chemitei

Mr. S. Kitungu

Alternate to J. Kinyua

Ms. F. K. Kadasia

Alternate to

Prof. W. M. Mwangi

Secretary

A. H. Ali

Registered office

Stima Plaza, Phase III

Kolobot Road

P. O Box 47936

Nairobi.

Bankers

Commercial Bank of Africa Limited

Wabera Street

P. O Box 30437

Nairobi.

The Co-operative Bank of Kenya Limited

Stima Plaza

Kolobot Road

P. O Box 48231

Nairobi.

Standard Chartered Bank (Kenya) Limited

Harambee Avenue

P. O Box 30003

Nairobi.

Auditors

Deloitte & Touche

"Kirungii" Ring Road

Westlands

P. O Box 40092

Nairobi.

Management

Managing Director

' I. K. BONDET, BSc. (Eng.) (Hons.), R.Eng.

Deputy Managing Director and Head of Business Development J. N. NG'ANG'A, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K.

Chief Manager, Corporate Planning & Strategy and Personal Assistant to Managing Director L. K. KARIUKI, BSc. (Eng.) (Hons.), R.Eng.

Chief Generation Manager (Hydros)

N. K. GICHUKI, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K.

Chief Manager, Generation (Thermal and Geothermal) S. S. IMU, MSc (Eng.), R. Eng., M.I.E.K.

Company Secretary A. H. ALI, LL.B (Hons.)

Chief Manager, Finance W. F. TEMESI, BCom. (Hons.), FCPA (K)

Chief Manager, Human Resources & Administration B. M. SOY (Mrs.), BEd (Hons.), MEd. (Mgt.)

Information Technology Manager J. O. OMBONGI, BSc. Electronics, MSc. Computer Science.

Public Relations and Communications Manager M. NJERU, B.A. (Hons.), Dip. Mass Com., FPRSK, M.IPRA

Procurement Manager G. W. MUGA, BSc. (Eng.) (Hons), Dip. Geo. Tech., M.I.E.K., AMCIPS

Notice of Meeting

NOTICE IS HEREBY GIVEN that the FIFTIETH Annual General Meeting of Members will be held at the Registered Office of the Company, Stima Plaza, Phase III, Kolobot Road, Nairobi, on 20 February 2003, at 12:00 noon to transact the Ordinary Business of the Company.

By Order of the Board.

A. H. ALI

Company Secretary,

Nairobi, Kenya 30 January 2003

A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company. To be valid, the form of proxy must be duly completed and must be lodged at the Registered Office of the Company or posted in time to reach there not later than 12:00 noon on 18 February 2003.

Kenya Electricity Generating Company Limited



Chairman's Review for the Year Ended 30 June 2002

i am pleased to release the Annual Report of the Company for the financial year ended 30th June 2002. The Company performed better in the year under review relative to the previous year. The improved performance is attributable to the marginal gains in the macroeconomic environment.

General Overview of the Kenyan Economy

The domestic economy reversed the negative performance registered in the previous year. The Gross Domestic Product (GDP) increased to 1.2% in 2001 from a negative growth of 0.2% in 2000. Favourable weather that spurred agricultural production and generation of hydropower, growth in the communication industry and expansion in export outlets contributed to the positive growth.

Poor infrastructure, high cost of funds, low prices of tea and coffee in the world market hampered full recovery of the economy in the year under review. The mean inflation level was 0.8% while the Kenya Shilling depreciated against the US Dollar to exchange at 78.66.

The Economic Survey 2002 projects the economy to grow at a rate of 2% while inflation is projected to rise to 2% owing to the general elections and constitutional review related expenditures. However, the outcome of the impending general elections and resumption of donor funding may play a critical role in attaining the projected growth rate.

Financial Results

Sales

3,229 million units were sold in the year under review compared to 2,559 million units the previous year. The increase of 26% was mainly attributed to improved hydro sales from 1,325 million units to 2,400 million units.

Revenue

Revenue for the year was Shs.10,252 million made up of Shs. 9,289 million and Shs. 1,963 million for unit sales and fuel respectively. Revenue from hydro and geothermal sales rose from Shs. 3,365 million and Shs. 837 million to Shs. 5,927 million and Shs. 931 million respectively. Revenue from thermal sales declined from Shs. 2,199 million to Shs. 1,112 million. Shs. 153 million was earned from other sources of revenue including consultancy services in information technology and geothermal resources development provided to third parties.

The above revenue compares unfavourably with the previous year's revenue of Shs. 13,488 million consisting of Shs. 7,649 million and Shs. 5,839 million for unit sales and fuel respectively. Thus, the substantial decline in fuel revenue due to improved hydro sales contributed to the overall decrease in the revenue for the year.

Expenditure

Operating expenses declined from Shs. 11,241 million to Shs. 6,743 million. The decline of about 40% is mainly due to reduced expenditure on fuel for thermal generation as well as cost optimisation measures instituted in the year.

Chairman's Review for the Year Ended 30 June 2002 (Continued)

Finance Costs

Finance cost for the year was Shs. 208 million compared to a net income of Shs. 228 million the previous year. The decline is due to increased interest costs and net exchange loss of Shs. 250 million occasioned by adverse exchange regime of the Kenya shilling against the US Dollar and the Japanese Yen.

Trading Results

Profit before taxation for the year was Shs.3,300 million compared to Shs.2,475 million, an increase of 33%, mainly attributed to improved unit sales.

Taxation

The Company paid taxes amounting to Shs. 1,333 million to the Government during the year. Value Added Tax, Pay As You Earn and Custom & Excise accounted for 79%, 19% and 2% respectively. Deferred taxation charge for the year was Shs. 1,019 million compared to Shs. 772 million in the previous year. The increase is due to improved performance in the year.

Cash Flow

Net cash flow from operations was an inflow of Shs. 1,560 million compared to an outflow of Shs. 150 million the previous year. This is mainly attributed to improved operating profit.

Net cash inflow from financing activities was Shs. 4,015 million compared to Shs. 5,526 million the previous year. The decline arose mainly from reduced disbursements for the ongoing Olkaria II and Sondu Miriu power projects.

Net cash outflow on investment activities was Shs.5,713 million compared to Shs 4,166 million the previous year, an increase of 37% attributed to increased work in progress for the Olkaria II project.

Capital Investment

The capital expenditure for the year increased by 37% to Shs 5,939 million from Shs 4,330 million, mainly as a result of the ongoing works at Olkaria II project.

Business Plan

The Board of Directors approved the Company Vision and Mission Statements and Core Values in June 2001. Thereafter work on the development of the Five-Year Business Plan commenced and was substantially complete by June 2002. The Plan is anticipated to be finalised and implemented in the fiscal year 2002/2003. Also developed and approved in the year was the Environmental Policy Statement of the Company.

Restructuring of the Electric Power Sub-Sector

The Power Market Design and Pre-Privatisation Study undertaken by the Government to determine a suitable power market structure for Kenya including modalities for enhanced private sector participation in generation and anticipated liberalisation of transmission and distribution continued in the year.

Chairman's Review for the Year Ended 30 June 2002 (Continued)

Electricity Tariff

PB Power of United Kingdom continued with the update of the 1998 Study on Electricity Tariffs in Kenya. The update is meant to facilitate negotiations of a new Power Purchase Agreement between KenGen and KPLC.

Electricity Regulatory Board commissioned separate studies on the electricity tariff policy for Kenya as well as the rationalisation of operational and capital expenditure of the industry. These studies are almost complete and their implementation may affect the structure and levels of electricity tariffs in Kenya.

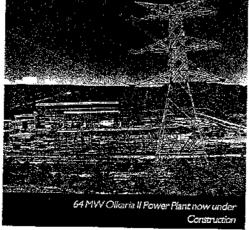
State Corporations Act

The Government vide legal Notice number 23 of 1997 exempted KenGen from the provisions of the State Corporations Act to facilitate operational autonomy in the liberalised business environment. In June 2002, the Act was amended thereby restricting autonomy on key areas of the operations of the Company.

Institutional Strengthening Project (ISP)

A number of systems were implemented in the year to enhance operational efficiency. Among them are the following water management, fuel management, business workflow and documents management. Water management system was developed and tested and will be implemented after the procurement of interfacing equipment. Fuel management system was implemented for the Kipevu power station complex while business workflow was implemented in Finance and Procurement divisions. Documents management system was finalised in Central Office and will be rolled-out to the areas in the new financial year.

The human resources system was enhanced to take care of staff career progression and leave management. Wide Area Network was expanded to include Central workshop, Wanjii, Tana, Garissa and Lamu Power Stations. Several studies on environment management system were also carried out.



Operations

A number of operation and maintenance activities were carried out in various plants during the year to improve their performance. The major ones include the following:

Hydro Stations

Kamburu

Re-alignment of Unit 2 was successfully completed.

Gitaru

Gitaru Unit 1 turbine efficiency tests were carried out.

Kiambere

Rehabilitation of Unit 1 shaft seal was undertaken.

Chairman's Review for the Year Ended 30 June 2002 (Continued)

Mini Hydros

Major overhauls were carried out on Tana Unit 2, Sagana Unit 2, and Gogo Unit 2. Two transformers were changed at Tana Power Station.

Thermal Stations

Lamu Power Station

Two new 400 kW Diesel Generators were installed and commissioned at the Station. This greatly improved the power supply to the Lamu Island.

Kipevu Steam Plant

A new 37MVA Transformer was installed and commissioned for No.6 Generator.

Kipevu Diesel Plant

Major service was carried out on all the engines on attaining 12,000 hours of service.

Nairobi Fiat Gas Turbine

Major inspection was carried out.

Technical Services

The Mombasa Road Electrical plant workshop was set up while remote monitoring system for bulk energy meters for Olkaria was tested successfully.

Developments

64 MW Olkaria II Geothermal Power Project

The overall progress of the project was adversely affected by funding problems with some of the contracts. Between October 2001 and May 2002 construction works had reduced by about 70%. However, more funds were availed by the Government and the funding agencies to support the project. Delays in accessing donor funds impeded the opening of the letters of credit for the electromechanical contract. The project is envisaged for commissioning by September 2003.

Geothermal Resource Assessment

There were no drilling activities undertaken in the year. The funding sought from Kreditanstalt fur Wiederaufbau (KfW) of Germany for these activities was not released due to KenGen's inability to provide counterpart funds for Olkaria II. Efforts to provide the requisite funding were in progress at the time of preparing this report.

60 MW Sondu/Miriu Hydro Power Project

Phase I Civil works and environmental monitoring activities progressed well in the year and are expected to be complete by June 2003. Release of Phase II loan by the Japanese Government is awaited and therefore the associated contracts have not commenced. Consequently, these contracts are behind schedule by more than two years and the project is now scheduled for commissioning by mid 2006 assuming that funding is put in place by March 2003.



Kenya Electricity Generating Company Limited

Chairman's Review for the Year Ended 30 June 2002 (Continued)

20 MW Sondu/Miriu Additional Power Project

Detailed design and preparation of tender documents for the project were finalised in the year.

Raising of Masinga Dam

Project activities will commence by July 2003.

Wellhead Generation 10 MW Project

Sourcing of funds for the project will commence by March 2003.

Combined Cycle 70 MW Project

Sourcing of funds for the project will commence by January 2003.

Public Relations

During the year under review, the Company participated in various community assistance activities to enhance its social responsibility. These activities included donations, in cash and kind, to several schools as well as participating in Heart to Heart charity run.

Community activities initiated in Sondu Miriu Hydro Project area were sustained throughout the year, the highlight being a marathon, football and netball tournaments. In support to social afforestation and commitment to its environmental policy, the Company donated tree seedlings to Nakuru and Sondu Miriu area residents from its social afforestation nurseries in Gitaru and Olkaria.

Within the period, the Company's in-house magazine, KenGen News, was voted overall best newsletter in the Country by the Public Relations Society of Kenya.

The Company continued to maintain cordial relations with the media and received fair coverage on its activities.

Human Resources

At the close of the financial year, the staff capacity stood at 1548. During this period the company enjoyed peaceful industrial relations and put in place strategies to enable it achieve its corporate goals.

The organisational structure was rationalised leading to the merger of the Hydro, Thermal, Geothermal and Technical Divisions to form the Operations Division. Legal Affairs, Public Relations, Internal Audit and Security Services were placed under the Managing Director's Office bringing the number of Divisions down from eleven to seven plus the Managing Director's Office.

In an effort to ensure that the Company workforce was equipped with skills needed to attain its vision and mission, a total of 808 employees attended courses locally and internationally.

As we continue to motivate, empower and retain staff for better performance, we have focused on addressing the challenges posed by HIV and AIDS in our organisation. The company has also joined hands with other stakeholders in the Energy sector to form the



Chairman's Review for the Year Ended 30 June 2002 (Continued)

Energy Sector Aids Control Unit (ACU) whose mission is to provide a model in the prevention, intervention and mitigation for all those within the sector affected and infected by the pandemic. Similarly regional Aids Control units have been formed in most of our operational areas working as an arm of the Energy sector ACU.

During this year, the KenGen Technical Seminar, a professional forum that enhances sharing of ideas through presentation of papers from various fields of our business was launched.

Future Prospects

The investments and the business processes re-engineering activities being implemented are anticipated to enhance value to the shareholders and position the Company as a leading power producer in the Eastern Africa Region. However, this would require continued favourable hydrological and economic conditions.

Acknowledgement

I wish to thank my fellow Board members, management and staff for their continued invaluable service to the Company.

May I also thank the Government and its agencies and our development partners for having shared in and contributed to the development of KenGen. We look forward to their continued support.

General (Rtd) Mohamoud Mohamed

Chairman

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 30 June 2002.

Activities

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

RESULTS	Sh'000
Profit before taxation Taxation charge	3,300,063
- exactor charge	1,019,666
Net profit for the year transferred to revenue reserve	2,280,397

The directors do not recommend the payment of a dividend in respect of the year.

Directorship

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

J. D. Mturi resigned on 26 July 2002 and was replaced by Gen (Rtd) M. Mohamed.

E. D. Wasunna resigned on 23 May 2002 and was replaced by I. K. Bondet.

J. Mwachoff resigned on 30 August 2002 and was replaced by J. Kinyua.

J. M. Mugwe (S.S), Dr E. E. Ambeva, M. N. Ali, and M R. Maina resigned on 30 April 2002 and were replaced by M. M. Karanja, M. Ndeto, J. K. Nyúkuri, Eng. J. C. Chemitei and Dr R.O.

Director J. M. Mwendwa passed away on 26 February 2002. May the Almighty God rest his soul in eternal peace.

Auditors

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

BY ORDER OF THE BOARD

Secretary Nairobi 2002

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- · State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Kenya Electricity Generating Company Limited

Report of the Auditors to the Members of Kenya Electricity Generating Company Limited

We have audited the financial statements on pages 15 to 32 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 4, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As indicated in note 8, no adjustments have been made to these financial statements regarding the waiver of interest charged to KPLC for late settlement of KenGen invoices by KPLC amounting to Sh. 1,182 million and the rescheduling of part of the amount due from KPLC under current assets amounting to Sh. 10,839 million.

These arrangements have been agreed in principle but the directors are awaiting formal approval from the Government.

Opinion

In our opinion, except for the matter referred to in paragraph 4 above, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 30 June 2002 and of its profit and cash flows for the year then ended in accordance with International Accounting Standards and comply with the Companies Act.

Deloitte & Touche 22 November 2002



Income Statement for the Year Ended 30 June 2002

Note	2002 Sh'000	2001 Sh'000
REVENUE	10,252,108	13,488,013
OPERATING EXPENSES	(6,743,154)	(11,241,277)
OPERATING PROFIT 2	3,508,954	2,246,736
NET FINANCE (COSTS)/INCOME 4	.(208,8 91)	228,487
PROFIT BEFORE TAXATION	3,300,063	2,475,223
TAXATION CHARGE 5	(1,019,666)	(772,436)
NET PROFIT FOR THE YEAR	2,280,397	1,702,787

Balance Sheet as at 30 June 2002

•		2002	200
	Note	Sh'000	Restated
ASSETS	NOLE	3h 000	Sh'00(
•			•
Non current assets		Harvey and the	
Property, plant and equipment	-6	46,314,984	41,792,886
Operating lease prepayments	7	1,649	1,678
Due from The Kenya Power			
& Lighting Company Limited	. 8	. 1,045.786	961,808
	·	47,362,419	42,756,372
Current assets			
Inventories	9 .	42766,282	921,076
Trade and other receivables	10	7,282,230	102,927
Due from The Kenya Power			•
& Lighting Company Limited	8	12,825,902	10,433,219
Taxation recoverable		2,606	2,606
Fixed deposits		793,034	_
Bank and cash balances		1,038,560	860,374
<u></u>		15,708,614	12,320,202
			12,320,202
Total assets		63,071,033	55,076,574
EQUITY AND LIABILITIES			
Capital and reserves			
Capital and reserves Share capital	12	5,495,904	5,495,904
Capital and reserves Share capital Share premium	12	5,495,904 5,039,818	5,495,904 5,039,818
Capital and reserves Share capital Share premium Funds awaiting allotment of shares	12;		
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves	12:	5,039,818 660,000 8,579,722	
Capital and reserves Share capital Share premium Funds awaiting allotment of shares	12	5,039,818 660,000	5,039,818
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves	12	5,039,818 660,000 8,579,722	5,039,818 - 8,579,722 6,232,322
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve	12	5,039,818 660,000 8,579,722 8,512,719	5,039,818 - 8,579,722
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve		5,039,818 660,000 8,579,722 8,512,719 28,288,163	5,039,818 - 8,579,722 6,232,322
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings	13(a)	5,039,818 660,000 8,579,722 8,512,719 28,288,163	5,039,818 - 8,579,722 6,232,322
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve		5,039,818 660,000 8,579,722 8,512,719 28,288,163	5,039,818 8,579,722 6,232,322 25,347,766
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings	13(a)	5,039,818 660,000 8,579,722 8,512,719 28,288,163 26,215,103 2,957,577	5,039,818 8,579,722 6,232,322 25,347,766 19,808,256 1,937,911
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings Deferred tax liability	13(a)	5,039,818 660,000 8,579,722 8,512,719 28,288,163	5,039,818 8,579,722 6,232,322 25,347,766
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings Deferred tax liability Current liabilities	13(a)	5,039,818 660,000 8,579,722 8,512,719 28,288,163 26,215,103 2,957,577	5,039,818 8,579,722 6,232,322 25,347,766 19,808,256 1,937,911
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings Deferred tax liability Current liabilities Trade and other payables	13(a)	5,039,818 660,000 8,579,722 8,512,719 28,288,163 26,215,103 2,957,577 29,172,680	5,039,818 8,579,722 6,232,322 25,347,766 19,808,256 1,937,911 21,746,167
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings Deferred tax liability Current liabilities Trade and other payables	13(a) 14	5,039,818 660,000 8,579,722 8,512,719 28,288,163 26,215,103 2,957,577 29,172,680	5,039,818 8,579,722 6,232,322 25,347,766 19,808,256 1,937,911 21,746,167 3,430,655
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings	3(a) 14	5,039,818 660,000 8,579,722 8,512,719 28,288,163 26,215,103 2,957,577 29,172,680	5,039,818 8,579,722 6,232,322 25,347,766 19,808,256 1,937,911 21,746,167
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings Deferred tax liability Current liabilities Trade and other payables	13(a) 14	5,039,818 660,000 8,579,722 8,512,719 28,288,163 26,215,103 2,957,577 29,172,680	5,039,818 8,579,722 6,232,322 25,347,766 19,808,256 1,937,911 21,746,167 3,430,655 4,551,986
Capital and reserves Share capital Share premium Funds awaiting allotment of shares Capital reserves Revenue reserve Non current liabilities Borrowings Deferred tax liability Current liabilities Trade and other payables	13(a) 14	5,039,818 660,000 8,579,722 8,512,719 28,288,163 26,215,103 2,957,577 29,172,680 2,516,619 3,093,571	5,039,818 8,579,722 6,232,322 25,347,766 19,808,256 1,937,911 21,746,167 3,430,655

The financial statements on pages 15 to 32 were approved by the board of directors on 21 November 2002 and were signed on its behalf by:

General (Rtd) M. Mohamed. Shywer)
Isaac Bondet.) Directors

Statement of Changes in Equity for the Year Ended 30 June 2002

	capital Sh'000	Share premium Sh'000	Funds awaiting Share of shares Sh'000	allotment reserve Sh'000	Capital reserve Sh'000	Revenue Total Sh'000
At I July 2000	456,085		10,079,637	8,579,722	4,529,535	23,644,979
Shares issued in the year	5,039,81 9	5,039,818	(10,079,637)			
Net profit for the year					1,702,787	1,702,787
At 30 June 2001	5,495,904	5,039,818		8,579,722	6,232,322	25,347,766
At I July 2001	5,495,904	5,039,818		8,579,722	6,232,322	25,347,766
Received from the Government of Kenya (a)			660,000			660,000
Net profit for the year					2,280,397	2,280,397
At-30 June 2002	5,495,904	5,039,818	660,000	8.579,722	8,512,719	-28,288 [63

a)During the year, the company received Sh 660,000,000 from the Government of Kenya being support financing for the Olkaria II project. This amount will be converted into additional equity shares to the Government upon completion of the necessary formalities. The directors expect the process of issuing the new shares to be completed during the financial year ending 30 June 2003.

b) The capital reserve represents various amounts originating from 1997 and prior years in respect of development surcharge received from the Kenya Power & Lighting Company Limited for the purpose of financing the development of certain Power Projects.

Kenya Electricity Generating Company Limited

Cash Flow Statement for the Year Ended 30 June 2002

Note	2002 Sh'000	2001 Sh'000
6(a)	1,559,606	(150,013
	(417,910) 1,895,850 -	(370,524 17,318 (2,606
	3,037,546	(505,825)
	(5,71 3 ,286)	(4,166,497)
	(5,713,286)	(4,166,497)
(b) (b)	(741,518) 4,096,384 660,000	(538,056) 6,063,561
	4,014,866	5,525,505
, <u>-</u> :	1,339,126	853,183
	434,468	(418,715)
c)	1,773,594	434,468
-	(b) (b)	Sh'000 (6(a) 1,559,606 (417,910) 1,895,850 (5,713,286) (5,713,286) (5,713,286) (5,713,286) (4,096,384 (60,000) 4,014,866 1,339,126 434,468

Notes to the Financial Statements for the Year Ended 30 June 2002

I ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Accounting Standards. The principal accounting policies adopted are set out below:

Basis of accounting

The financial statements are prepared under the historical cost basis of accounting.

Revenue

Revenue is recognised, excluding value added tax, based on the net units of energy transmitted and invoiced to the authorised distributor, The Kenya Power & Lighting Company Limited.

Interest payable

Loan interest accruing during the period of construction of a project is capitalised as part of the cost of the project.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Depreciation

Freehold land is not depreciated.

Depreciation on other property, plant and equipment is calculated on the straight-line basis to write off their cost over the expected useful lives. The rates used are:

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

Operating lease prepayments

Leasehold land payments are recognised as an expense in the income statement on straight-line basis over the period of lease. This represents a change in accounting policy to comply with International Accounting Standard (IAS) No. 17. The change in policy has been applied retrospectively and comparative figures restated accordingly.

Inventories

Inventories are valued at average purchase cost less provision for obsolescence.

Capitalisation of geothermal assets

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

The cost of unproductive wells is transferred to the 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 the well ceases to be productive.

Provisions for liabilities and charges

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates of exchange ruling on the dates of the transactions. During the period of construction of a project, gains and losses on foreign currency loan realignments are capitalised as part of the cost of the project. Other exchange gains and losses are dealt with in the income statement.

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 the tax legislation.

Deferred taxation is provided for, using the liability method, for all temporary differences arising between the tax bases of assets and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Retirement benefits obligations

The company's obligations to staff retirement benefit plans are charged to the income statement as they fall due.

		2002 Sh'000	200 l Sh'000
2	OPERATING PROFIT		
	The operating profit is arrived at after		
	charging:		
	Electricity purchased from Uganda Electricity Board	34,328,219	1,086,658
	Depreciation	2490847	1,499,415
	Amortisation of operating lease prepayments (note 7)	29	29
	Staff costs (Note 3)	1,218,374	1,249,392
	Directors' emoluments:		
	- Fees	1.000	1,090
	- Other	2740	3,720
	Auditors' remuneration	[7659]	1,580
	Operating lease rentals	37/945	30,458
3	STAFF COSTS		
	Salaries and wages	1,035,346	1,138,029
	Pension costs - defined contribution scheme	175,223	146,449
	 National Social Security Fund 	2,392	1,306
	Leave pay provision	5,413	(36,392)
		1,218,374	1,249,392

The average number of employees during the year was 1,568 (2001 - 1,552).

4 NET FINANCE (COSTS)/INCOME	2002 Sh'000	200 Sh'00
Incerest receivable:		
On late payments by KPLC Other	1,182,340 7,837	911,830 17,318
Interest payable:	1, 190, 177	929,148
On long-term borrowings On bank overdrafts On staff loans On late payment to supplier	(1,098,173) (46,269) (4,513)	(959,918 (63,178 (3,637) (1,081
1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1	(1,148,955)	(1,027,814)
Net interest receivable/(payable)	41,222	(98,666)
Net exchange (losses)/gains	(250,113)	327,153
	(208,891)	228,487
(a) TAXATION CHARGE		
Current taxation based on the taxable profit for the year at 30%		
Deferred taxation charge	1,019,666	772,436
	1,019,666	772,436
(b) RECONCILIATION OF TAX CHARGE TO THE EXPECTED TAX BASED ON ACCOUNTING PROPERTY OF TAX BASED ON ACCO	HE ROFIT	
Accounting profit before taxation	3,300,063	2,475,223
Tax at the applicable rate of 30% Tax effect of expenses not deductible for tax	990,019 29,647	742,567 29,869

6 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Transmis- sion lines	Plant and machinery	Motor vehicles	Furniture, equipment and fittings	Work- in- Progress	Total
COST	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At I July 2001 - As previously reported - Reclassification	6,496,263 (1,768)	403,219 	27,163,900	140,006 -	1,217,292	11,575,300	46,995,980 (1,768)
- As restated - Additions	6,494,495 73,876	403,219	27,163,900	140,006	1,217,292	11,575,300	46,994,212
Transfers	-	609	9,040	- -	41,543	5,938,569 (51,192)	6,012,445
At 30 June 2002	6,568,371	403,828	27,172,940	140,006	1,258,835	17,462,677	53,006,657
DEPRECIATION					· .		
At I July 2001 - As previously reported - Reclassification	1,219,647 (90)	20,741 -	3,309,425	56,728 -	594,875	<u>.</u> .	5,201,416 (90)
- As restated Charge for the year	1,219,557 242,759	20,741 13,560	3,309,425 1,092,102	56,728 31,501	594,875 110,425	-	5,201,326 1,490,347
At 30 June 2002	I,462,316	34,301	4,401,527	88,229	705,300	. <u>-</u>	6,691,673
NET BOOK VALUE						· · · · · ·	
At 30 June 2002	5 ,106,055	369,527	22,771,413	51,777	553,535	17,462,677	46,314,984
Restated as at 30 June 2001	5,274,938	382,478	23,854,475	83,278	622,417	11,575,300	41,792,886

Included in additions, is capitalised loan interest on ongoing projects borrowings amounting to Sh 299, 159,000 (2001 – Sh 163, 179,000) and capitalised loan foreign exchange losses amounting to Sh 328,426,000 on ongoing projects (2001-Sh 1,214,435,000 gain).

included in plant and machinery, motor vehicles, furniture, equipment and fittings are assets with a cost of Sh 510,168,000 (2001 - Sh 503,443,000) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 57,217,000 (2001 - Sh 56,013,000).

The reclassification is in respect of cost of leasehold land now transferred to operating lease prepayments (note 7) in accordance with International Accounting Standard No. 17.

7 OPERATING LEASE PREPAYMENTS

Salance due within 12 months Salance due after 12 months	(12,825,902 <u>)</u> ————————————————————————————————————	(10,433,219)
dalance duo wiekin 12 manuk	13,871,688	11,395,027
Accrued interest	2,045,786 428,495	1,858,818 1,138,021
Power purchases Development surcharge	11,397,407	8,398,188
Amount due on the current account:		
THE KENYA POWER & LIGHTING COMPANY LIMITED		
	Sh'000	Sh'000
	2002	2001
Total Control of the	1,678	
Restated as at 30 June 2001		
At 30 June 2002	1,649	
NET BOOK VALUE		
At 30 June 2002	119	
Restated as at 30 June 2001 Amortisation for the year	90 29	
Reclassification from property, plant and equipment (No	ote 6) 90	
AMORTISATION		
Restated as at 31 June 2001 and at 30 June 2002	1,768	
Reclassification from property, plant and equipment (No	ote 6) 1,768	
COST	Sh'000	
	Leasehold land	

13 (b) RESCHEDULED BORROWINGS

		Amounts resch	neduled	Interest charged in	To
10% International Development	Principal Sh'000	Interest Sh'000	Total Sh'000	the year and capitalised Sh'000	balances (30.06 Sh'0
Association Subsidiary Credit 2001/2009	297,015	33,745	330,760	44,101	374,8
7.59% International Development					
Association 2001/2009	337,046	98,120	435,166	33,02 9	468,1
8.5% Government of Kenya/Gitaru 2001/2009	4,499	289	4,788	458	5,2
3% Government of Kenya/Masinga loan 2001/2009	83,887	36,003	119,890	5,395	125,28
12% Government of Kenya/ODA 2001/2009	27,790	29,179	56,9 69	7,406	64,37
10% Government of Kenya/SAUDI 2001/2009	66,710	12,242	78,952	4,277	83,22
% Government of Kenya/SIDA 2001/2009	7,594	3,322	10,916	591	11,50
% Government of Kenya/ADB 2001/2009	150,864	13,395	164,259	8,897	173,15
% Government of Kenya/KFW 2001/2009	46,338	20,273	66,61	3,608	70,21
% Government of Kenya/SEB 2001/2009	246,880	29,355	276,235	14,963	291,198
% Government of Kenya/CIDA 2001/2009	54,794	23,973	78,7 67	4 ,267	83,034
5% Government of Kenya/Turkwel 2001/2009	518,400	620,729	1,139,129	185,121	1,324,250
	1,841,817	920,625	2,762,442	312,113	3,074,555

On 21 December 2001, an agreement was signed between the Government of Kenya and the company whereby the Government agreed to reschedule the repayment of Sh 2,762,442,000 arrears owed to it by the company with effect from 1 July 2001.

The main provisions of this agreement are that:

(i) Interest accrued and outstanding upto 30 June 2004 computed at the rates specified in the agreement shall be capitalised. (ii) The outstanding amount of the rescheduled amounts and the capitalised interest on 30 June 2004 shall be repaid in ten equal consecutive semi-annual instalments commencing on 1 July 2004.

On 30 October 2002, the Treasury proposed to convert Sh 2.8 billion of the Government loans to equity, after the necessary

13 (c) ANALYSIS OF BORROWINGS BY CURRENCY

Total borrowings	164,925	12,225,978	146,585	6,477	9,933	15,000	1,619,955	24,360,242
Loans Bank overdrafts	164,925 	12,225,978	46,585 -	6,477 -	9,933	15 ,000 -	1,194,049 425,906	23,934,336 425,906
2001								· .
Total borrowing	s 164,383	13,976,558	115,725		26,926	<u>.</u>	4,073,703	29,308,674
Loans Bank overdrafts	164,383	13,976,558		-	26,926	· · · · · · · · · · · · · · · · · · ·	4,015,703 58,000	29,250,674 58,000
2002	Borrowings in US\$'000	in	Borrowings in SEK'000	Borrowings in DEM'000	Borrowings In EUR'000	Borrowings in BEF'000	Borrowings in Ksh'000	Total Borrowings In Sh'000

13 (d) MATURITY OF NON-CURRENT BORROWINGS

	2002	2001
5	Sh'000	· Sh'000
Due between 1 and 2 years Due between 2 and 5 years	2,331,789 9,767,004	1,060,556 4,242,223
Due after 5 years	[4,1,6,3]0	14,505,477
	26,215,103	19,808,256

Details of securities for project loans and overdrafts

The Government of Kenya guarantees all the Company loans. The overdraft facilities with Commercial Bank of Africa Limited and Co-operative Bank of Kenya Limited are secured by corporate guarantees.

The average interest rate paid on bank overdrafts was 14.5% (2001- 15%).

14 DEFERRED TAXATION

Deferred taxation is calculated on all temporary differences under the liability method using the effective tax rate of 30%.

		2002 Sh'000	2001 Sh'000
The deferred tax liabil to the following items:	ity at 30 June is attributable		
Accelerated capital allo	owances	5,511,943	5,552,210
Tax losses		(2,413,099)	(3,652,667
Unrealised exchange (losses)/gain	(106,960)	63,370
Leave pay provision		(26,073)	(24,629
General inventories pr	ovision	(7,934)	-
Gratuity provision		(300)	(373
			·
		2,957,577	1,937,911
Movement on the defe	erred tax account is as follow	rs:	•
At I July		1,937,911	1,165,475
Income statement char	rge	1,019,666	772,436
At 30 June		2,957,577	1,937,911
		建筑 第	
TRADE AND OTHE	R PAYABLES	e de la companya de l	
Accrued interest		1,281,079	1,483,613
Trade payables		334,095	623,815
Contract payables and	retention money	573,577	843,290
Sundry payables		240,961	366,812
			31,029
VAT payable			21.047
		86,907	82,096
VAT payable		86,907	

16 NOTES TO THE CASH FLOW STATEMENT

) Popperitude of	2002 Sh'000	200 Sh'000
Reconciliation of operating profit		,
to cash generated from/(used in) operations		
Operating profit	3,508,954	2,246,736
		2,270,730
Adjustments:		
Depreciation	1,490,347	1 400 415
Amortisation of prepaid operating lease	29	1,499,415
Exchange losses/(gains) on loans capitalised	328,426	29
Exchange gains expensed	12000000000000000000000000000000000000	(1,214,435
	¥ J50,195	118,011
Operating profit before working capital changes		<u>.</u>
reality of the belone working capital changes	-5,477.951	2,642,556
Decrease in inventories		
	154,794	60,158
Increase in amounts due from		
The Kenya Power & Lighting Company Limited	(3,186,187)	(1,214,588)
Increase in trade and other receivables	(175,450)	
Decrease in trade and other payables	(711,502)	(4,582)
		(1,633,557)
Cash generated from/(used in) operations	1 550 404	
	1,559,606	(150,013)
Analysis of changes in hammel		
Analysis of changes in borrowings during the year		
Balance at 1 July	22 024 222	
Balance at 1 July	23,934,336	19,839,608
Balance at 1 July New loans received	4,096,384	6,063,561
Balance at 1 July New loans received Repayments of amounts borrowed	4,096,384 (741,518)	6,063,561
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed	4,096,384 (741,518) 400,308	6,063,561
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised	4,096,384 (741,518) 400,308 328,426	6,063,561 (538,056)
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed	4,096,384 (741,518) 400,308	6,063,561 (538,056) (216,342)
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised	4,096,384 (741,518) 400,308 328,426	6,063,561 (538,056) (216,342)
Balance at I July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised	4,096,384 (741,518) 400,308 328,426	6,063,561 (538,056) (216,342)
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised	4,096,384 (741,518) 400,308 328,426 1,232,738	6,063,561 (538,056) (216,342) (1,214,435)
Balance at I July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised	4,096,384 (741,518) 400,308 328,426	6,063,561 (538,056) (216,342)
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June	4,096,384 (741,518) 400,308 328,426 1,232,738	6,063,561 (538,056) (216,342) (1,214,435)
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June	4,096,384 (741,518) 400,308 328,426 1,232,738	6,063,561 (538,056) (216,342) (1,214,435)
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June Analysis of balances of cash and cash equivalents	4,096,384 (741,518) 400,308 328,426 1,232,738	6,063,561 (538,056) (216,342) (1,214,435)
Balance at I July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June Analysis of balances of cash and cash equivalents Bank and cash balances	4,096,384 (741,518) 400,308 328,426 1,232,738 29,250,674	6,063,561 (538,056) (216,342) (1,214,435) 23,934,336
Balance at 1 July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June Analysis of balances of cash and cash equivalents	4,096,384 (741,518) 400,308 328,426 1,232,738 29,250,674	6,063,561 (538,056) (216,342) (1,214,435) 23,934,336
Balance at I July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June Analysis of balances of cash and cash equivalents Bank and cash balances	4,096,384 (741,518) 400,308 328,426 1,232,738 29,250,674	6,063,561 (538,056) (216,342) (1,214,435) 23,934,336
Balance at I July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June Analysis of balances of cash and cash equivalents Bank and cash balances Bank overdrafts	4,096,384 (741,518) 400,308 328,426 1,232,738 29,250,674	6,063,561 (538,056) (216,342) (1,214,435) 23,934,336
Balance at I July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June Analysis of balances of cash and cash equivalents Bank and cash balances Bank overdrafts	4,096,384 (741,518) 400,308 328,426 1,232,738 29,250,674	6,063,561 (538,056) (216,342) (1,214,435) 23,934,336
Balance at I July New loans received Repayments of amounts borrowed Foreign exchange losses/(gains) expensed Foreign exchange losses/(gains) capitalised Interest on Government deferred loans capitalised Balance at 30 June Analysis of balances of cash and cash equivalents Bank and cash balances Bank overdrafts	4,096,384 (741,518) 400,308 328,426 1,232,738 29,250,674	6,063,561 (538,056) (216,342) (1,214,435) 23,934,336

FUTURE RENTAL PAYMENTS UNDER OPERATING LEASES	2002 Sh'000	200 Sh'00
Amounts payable in the next year in respect of obligations under operating leases expiring:		
Within one year In one to five years	31,833 37,721	2 9,91 67,38
	269;554	97,30

18 RELATED PARTY TRANSACTIONS

17

Parties are considered to be related if one party has the ability to control the other part or exercise significant influence over the other party in making financial or operation decisions. The company is wholly owned by the Government of Kenya and is related to T Kenya Power and Lighting Company Limited through common ownership.

During the year, the following transaction were carried out with related parties:

	2002	200
	Sh'000	Sh'00
(a) The Kenya Power & Lighting Company Limited (KPLC):	.·	
Electricity sales	10,098,493	13,337,82
Interest income received on delayed payments	1,182,340	911,83
		, <u></u>
·	11,280,833	14,249,65

Amounts not settled as at the balance sheet date are disclosed in note 8.

(b) Government of Kenya:

Additional financing received on the Olkaria II Project	660,000	
Project borrowings received	2,601,698	2,870,43 [,]
Interest expense paid on project borrowings	I,0[5,4 9 8	790,88

Other details relating to transactions with the Government of Kenya are disclosed in no 13.

(c) Transactions with KPLC are at arm's length and in the normal course of business.

CONTINGENT LIABILITIES	2002 Sh'000	2001 Sh'000
Disputed VAT assessments Pending litigation by customer Tax penalties disputed by the company Disputed duty claim on imported power	258,417 7,721 30,699 -1610912	5,000 30,699
	S_[\907,749	35,699

On I November 2001 and II January 2002, the VAT department issued an assessment for VAT arrears on imported services of Sh 168,409,865 and Sh 93,402,642 respectively. Against this assessment, the company paid Sh 3,395,753 and disputed the balance Sh 258,416,754. The outcome of these disputed assessments is still unknown.

20 CAPITAL COMMITMENTS

19

Capital commitments at the year end for which no provision has been made in these financial statements.

	2002 Sh'000	200 l Sh'000
Authorised but not contracted for Contracted but not provided for	8,379,102 13,454,152	8,322,969 20,984, 87 5
	24/833/254	29,307,844

21 RETIREMENT BENEFITS

(i) The Company operated a joint defined benefit scheme with The Kenya Power and Lighting Company (KPLC) Limited up to 31 December 2000, when it established its own scheme following the separation of the two companies.

The scheme was funded by contributions from both the Company and employees up to 31 December 2000. The scheme is administered independently by Aon Minet Insurance Brokers Limited and the funds are jointly managed by Barclay Trust Investment Services Limited and Co-operative Merchant Bank Limited.

The scheme is valued by independent actuaries every three years under the rules of the scheme, the income tax (Retirement Benefits) rules 1994 and the Retirement Benefits Act 1997. The actuaries, Hymans Robertson, Consulting Actuaries, carried out the last actuarial valuation as at I August 2000. 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 principal actuarial assumptions were:

Investment return 10% per annum Rate of salary escalation 8% per annum Rate of pension increases 3%

The actuarial valuation revealed that there was a past service actuarial deficit of \$1,666,800,000. It is not possible to ascertain whether the KenGen Retirement Benefit Scheme will be required to take up any proportion of this deficit until the process capiliting the scheme's assets is completed. The consulting Actuaries are in the process capiliting their report on how the joint scheme's assets and liabilities will be split betwee KPLC and KenGen Schemes and a complete separation of the Schemes is expected to be achieved during the financial year ending on 30 June 2003. However, in the opinion of the directors, the proportion of the deficit that will be taken up by KenGen Retirement Benef Scheme, if any, is unlikely to be material, hence no provision has been made in these financial statements.

- (ii) The company registered its own defined benefits scheme in 2000 and commenced makin contributions to the scheme, alongside employees' contributions, with effect from I Januar 2001. The new scheme will take up the assets and liabilities arising from the split of the assets and liabilities of the joint scheme once the separation exercise is completed.
- (iii) The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and were restricted to Sh 80 per employee per month upto 30 November 2001 but revised to Sh 200 per employee per month from December 2001.

22 COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act.

23 CURRENCY

These financial statements are presented in Kenya Shillings (Sh'000).

Detailed Income Statement for the Year Ended 30 June 2002

2001 Sh'000	2002 Sh'000	REVENUE
	10.000 (00	Electricity sales
13,337,829 150,184	10,098,493 153,615	Miscelianeous income
13,488,013	10,252,108	
		OPERATING EXPENSES
	420.210	Purchase of energy
1,186,658	428,219	Fuel cost
5,838,827	1,962,762	Consumables
436,832	539,220	Staff costs
1,249,392	1,218,374	Welfare and benefits
119,993	155,091	Travelling
55,853	62,142	Training
23,399	39,947	Depreciation
1,499,415	1,490,347	
29	29	Amortisation of prepaid operating lease Directors fees
1,090	1,000	
45,303	66,450	Transport
7,836	2,562	Licences and local taxes
109,230	164,758	Consultancy and other charges
363,186	280,675	External services
65,900	82,547	Office expenses
6,626	223	Legal expenses
139,363	[83,363	Insurance //
13,176	10,350	Advertising and public relations
46,601	36,255	nventories written off
12,073	15,073	Bank charges
20,495	3,767	Bad debts expense
11,241,277	6,743,154	
2,246,736	3,508,954	OPERATING PROFIT
929,148	1,190,177	nterest receivable
(1,027,814)	(1,148,955)	nterest payable
327,153	(250,113)	xchange (losses)/gains
2,475,223	3,300,063	PROFIT BEFORE TAXATION

5 Year Financial and Statistical Record

FOR THE YEARS ENDED		<i>31.</i> G			
	30 June	30 June	30 June	30 June	30 June
	1998	1999	2000	2001	2002
	· kWh	kWh	kWh	Kwh	Kwh
Units sold (millions)	4,129	4,139	3,982	2, 7 57	3,284
Average cost of units sold (shs)	0.85	1.79	2.67	4.08	2.05
	Sh'000	Sh'000	Sh'000	SL1000	CLIOO
			311 000	Sh'000	Sh'000
Revenue from electricity sold	3,509,645	7,407,949	15,574,463	13,488,013	10,252,108
Net income for the year	657,165	213,910	4,029,959	1,702,787	2,280,397
Funds generated from operations					
Net income for the year.	657,165	213,910	4,029,959	1,702,787	2,280,397
Depreciation	231,554	219,094	1,361,389		1,490,347
Amortisation of prepaid	•	•	1,001,00,		1, 120,3 17
operating lease	-		_		29
Currency realignment	75,464	678,691	527,562	(327,153)	250,113
	964,183	1,111,695	5,918,910	2,875,078	4,020,886
Capital employed				<u></u>	
Fixed assets less depreciation	7,789,320	14,186,838	38,964,332	41,794,564	46,314,984
Operating Lease payments	-	-	-		1,649
Deferred debt	-	-	152,053	-	-
The Kenya Power					
& Lighting Co. Ltd	8,508,318	5,537,662	9,268,609	11,395,027	3,871,688
Net current liabilities	(4,202,486)	(4,451,362)	(6,158,552)	(6,095,658)	(2,727,478)
·	12,095,152	15,273,138	42,074,389	47,093,933	57,460,843
Financed by				····	
Share capital	456,085	456,085	10,535,722	10,535,722	11,195,722
Reserves Deferred credit	8,799,060	9,012,970	13,109,257	14,812,044	17,092,441
Loan capital	2 040 007	-	1,165,475	1,937,911	2 ,9 57 ,57 7
	2,840,007	5,804,083	17,263,935	19,808,256	26,215,103
	12,095,152	15,273,138	42,074,389	47,093,933	57,460,843
Capital Expenditure	665,348	6,616,612	4,534,332	4,329,676	5,938,569
Income for the year as a percentage		······································	<u></u>	en en militer en enge	
of average capital employed(%)	5. 46	1.56	14.05	3.82	4.36

Table 1: Electricity Units (in Millions) Sent out

POWER STATION	G	ing (file) (file)	/) to <u>2</u> 1770.	3.20002			
	Installed	effective	1997/98	1998/99	1999/00	2000/01	2001/02
HYDRO			:				
Tana	14.4	12.6	: : 75	82	63	· 71	50
Wanjii	7.4	7.4	50	36	46	47	//07
Kamburu	94.2	88.0	479	409	247	181	- <u> </u>
Gitaru	225.0	216.0	816	788	734	364	200
Kindaruma	40.0	40.0	198	239	157	30 1 81	000)
Small Hydros	6.28	4.9	25	20	19	20	1024 30
Masinga	40.0	30.0	204	223	142	28	57
Kiambere	144.0	132.0	1020	1034	813	293	7/028
Turkwel	106.0	102.0	383	433	214	240	9
UEB(Imports)	30.0	0.0	146	140	151	198	0
	day maday dayd			er en gelegen en e	vieti i en aktoelij.	e. Distribute and presently, states of	
TOTAL HYDRO SEN	r						
OUT EXCLUDING							
IMPORTS	677.3	632.9	3250.4	3264.8	2434.8	1325	2≱100i
	P. (1. (1. (1. 1.))			· · · · · · · · · · · · · · · · · · ·	e. John Harrick (1947) (1947)		
THERMAL							
Kipevu Steam	60.0	36.6	189	141	199	126	920
Kipevu Diesel	73.5	70.0	- :	-	392	449	268
garanta da la companya da la company		grifin radio			r . To the state of the state o	ļ.	
GEOTHERMAL	Andrew State (1997) Programme State (1997)	٠.	:			· ·	
Olkaria	45.0	45.0	353	378	382	340	377
CAC TIMES	ta to the later and the later			1 1 1 1 1 1 1 1 1 1 1 1	ma terretaria (e Kompana (K.K.) solo	
GAS TURBINE							
Flat-Nairobi South JBE-Kipevu	13.5	10.0	0	15	29	35	F (E
loc-whead	63.0	60.0	178	188	384	274	777
ISOLATED DIESELS	:					. •	
Lamu and Garissa	4.2	3.5		, , , ,			
	7.2	3.3	H	11	10	10	- T.L
WIND TURBINE		:					
Ngong wind	0.35	0.35	[·	0	0.5	0	O IE
				_		,	
TOTAL INSTALLED/	· ·	:		٠ .			
EFFECTIVE IN MW	936.83	858.3	-	₩	-		
		-	Harana (1				
TOTALUNITS							
SENT OUT	÷	2.7	3,983	3,999	3,831	2,559	
· · · · · · · · · · · · · · · · · · ·		8.7.7	وأعصف		أكتنا		

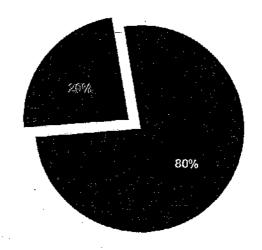
Table 2: Auxilliary Consumption in Million Units

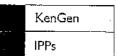
POWER STATION	1998/1999	1999/2000	2000/2001	2001/2002
Hydro		10-697-297-38 (Alberta		West to the second of the
Tana				
wanjii	0.23 0.22	0.44	0.43	0.75
Kamburu		0.16	0.16	0.52
Gitaru	1,26	1,19	0.99	2.76
Kindaruma	1.54 0.59	1.46	0.92	1.87
Gogo		0.55	0.45	1.34
Sossian	0.08	0.09	0.1]l	0.19
oossian Mesco	0.02	0.03	0.02	0.04
niesco Ndula	0.01	0.05	0.07	0.02
EWBERT LINE OF THE COLUMN	0.02	0.02	0.02	0.03
Sagana Masaa	0.04	0.03	0.07	0.10
Masinga Kiambere	0.33	0.34	0.21	1.20
SAMANASA TALAH MEMBER MERENTAN BERANDAN SAMANASA PERBERANDAN SAMANASA PERBERANDAN SAMANASA PERBERANDAN SAMANAS	2.70	2.51	2.03	7.27
Turkwel	2.74	3,32	4.45	5.00
Totał Hydro	9.78	10.20	9.95	21.09
Thermal				
Kipevu Steam	2.04	10.18	16.96	9.67
Kipevu Diesel		1,14	8.54	9.24
Total Thermal	2.04	11.32	25.50	18.91
Geothermal				
Olkaria I	14	13/19/20	<u>1</u> . i 1. j.	16
Total Geothermal	4		[3	15
			and the second of the second o	
Gas Turbines				
fiat- Nairobi South	0.63	0.68	0.52	0.07
Sipevu GT	3.63	8.01	7.88	1. 42
Total Gas Turbines	3.63	8.01	7.88	1.42
solated Diesels				· .
Gārissa	0.56	0.52	0.54	0.54
amu	10.0	0.02	0.04	0.09
Total Isolated	0.58	0.53	0.58	0.62
Wind Turbine				194 1 - 1 - 1 - 1 - 1 - 1 - 1
Ngong Wind	0.00	0.00	0.00	0.00
otal Wind	0.00	0.00	0.00	0.00

Table 3: Plant Perfomance

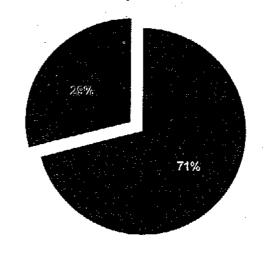
POWER		V	Pla	ınt Perform	ance in %			
STATION	10.5	37. H 9. 50		9.0 <u>20</u> 000	200	0 /: 7400/i	2000	11/240(0)24
Hydro	Availability		r Availability	Load Facto	Availabilie		ae Availabiil	sy sLoad (Green)
Tana	86.56	64.99	0474					
Wanjii	60.82	55.09	84.74	50.48	82,97	56.57	88.02	60.68
Kamburu	79.06	49.89	96.18	71.37	95.59	73.31	92.52	80.69
Gitaru	83.43	40.12	66.40	30.09	79.20	22.11.	89.02	40.33
Kindaruma	97.83	1	85.28	37.31	67.89	18.50	87.72	33.84
Gogo	77.22	68.55	65.60	45.01	77.86	23.32	84.59	46.48
Selby	45.70	32.91	86.11	41.39	50.39	29.31	59.37	38.54
Mesco	35.64	15.78	74.36	28.61	78.59	58.87	51.94	38.10
Ndula	47.16	28.95	49.82	34.34	60.89	43.53	85.10	68.61
Sagana	63.96	32.47	46.75	22.83	60.99	22.06	75.54	1
Masinga	1.	59.31	75.53	44.72	89.84	58.10	19.88	66.62
Kiambere	94.03	63.79	86.67	40.53	71.12	8.04	80.40	36.52
Turkwei	94.47	82.43 _	96.76	64.61	80.41	23.35	92.89	ì
rurwei	97.70	47.28	99.36	23.4	98.68	26.32	92.46	28.87
Thermal								
Kipevu Steam								
	82.90	25.98	85.56	37.96	55.61	25.99	37.37	18.87
Kipevu Diesel	0.00	0.00	93.58	61.16	83.37	71.07	73.85	43.04
C4	gy i i y j	14.70						10.01
Geothermal	***							
Olkaria (98.37	102.64	98.24	99.81	88.78	89.62	97.96	99.80
						A Comment		,,,,,,
Gas Turbines				4				
Fiat-Nairobi South	99.01	12.81	97.47	26.18	99.76	29.73	24.05	0.00
JBE-Kipevu	96.18	37.10	93.27	74.50	75.77	53.61	64.27	. [4.93
solated Diesels		No.						
Garissa	69.19	35.46	76.25	30.05	74.20	30.95	60.78	37.70
_amu	58.30	33.62	73.44	30.52	70.38	30.52	62.59	27.66
							52.57	47.00
Wind Turbine		San Control			i depart s		47.0	Province
Vgong Wind	25.08	12.20	25.08	2.75	25.08	4.87	33.41	2.37
	• .	E		ļ	1			2.37

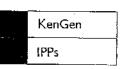
Market Share by Installed Capacity - 2001/2002



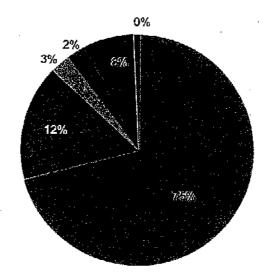


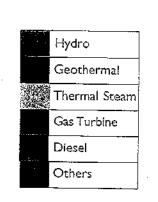
Market Share by Sales - 2001/2002





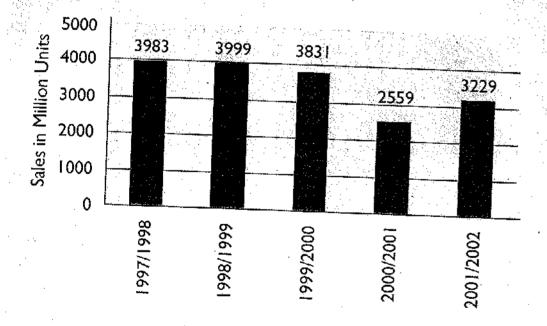
Electricity Units Sent out by Source - 2001/2002





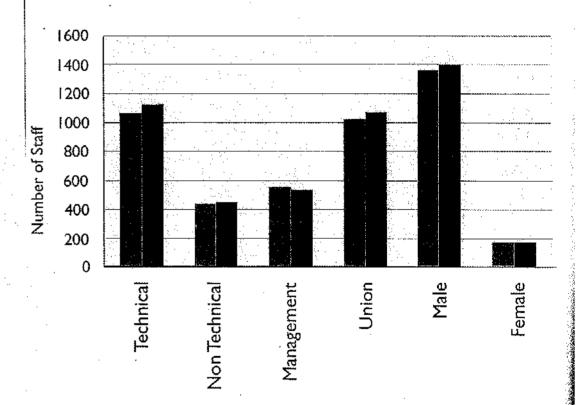
Historical Sales in Million Units

1997/1998	3983
1998/1999	399 9
1999/2000	3831
2000/2001	2559
2001/2002	3229



Staff Analysis

	2001/2002	2000/2001	Variance%	
Technical	1096	11 29	-3%	
Non Technical	452	458	-1%	
Management	- 540	531	2%.	
Union	1008	1056	-5%	
Male :	[365	[403	-3%	
Female :	183]84	-1%	
Total	1548	1587	-2%	



Our Vision

To be the market leader in the provision of Reliable, Safe, Quality and Competitively Priced electric energy in the Eastern Africa region.

Our Mission

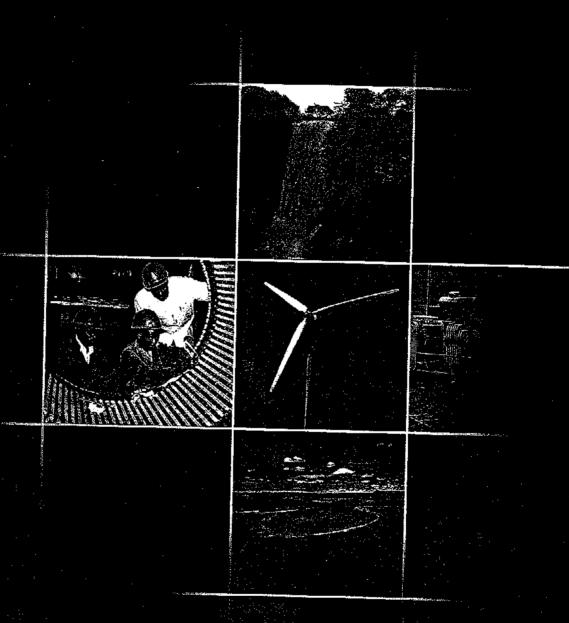
To efficiently generate competitively priced electrical energy using state of the art technology, skilled and motivated human resource to ensure financial success.

We shall achieve market leadership by undertaking least cost, environmentally friendly capacity expansion.

Consistent with our corporate culture, our core values will be adhered to in all our operations.

2001-2002

ANNUAL REPORT AND ACCOUNTS

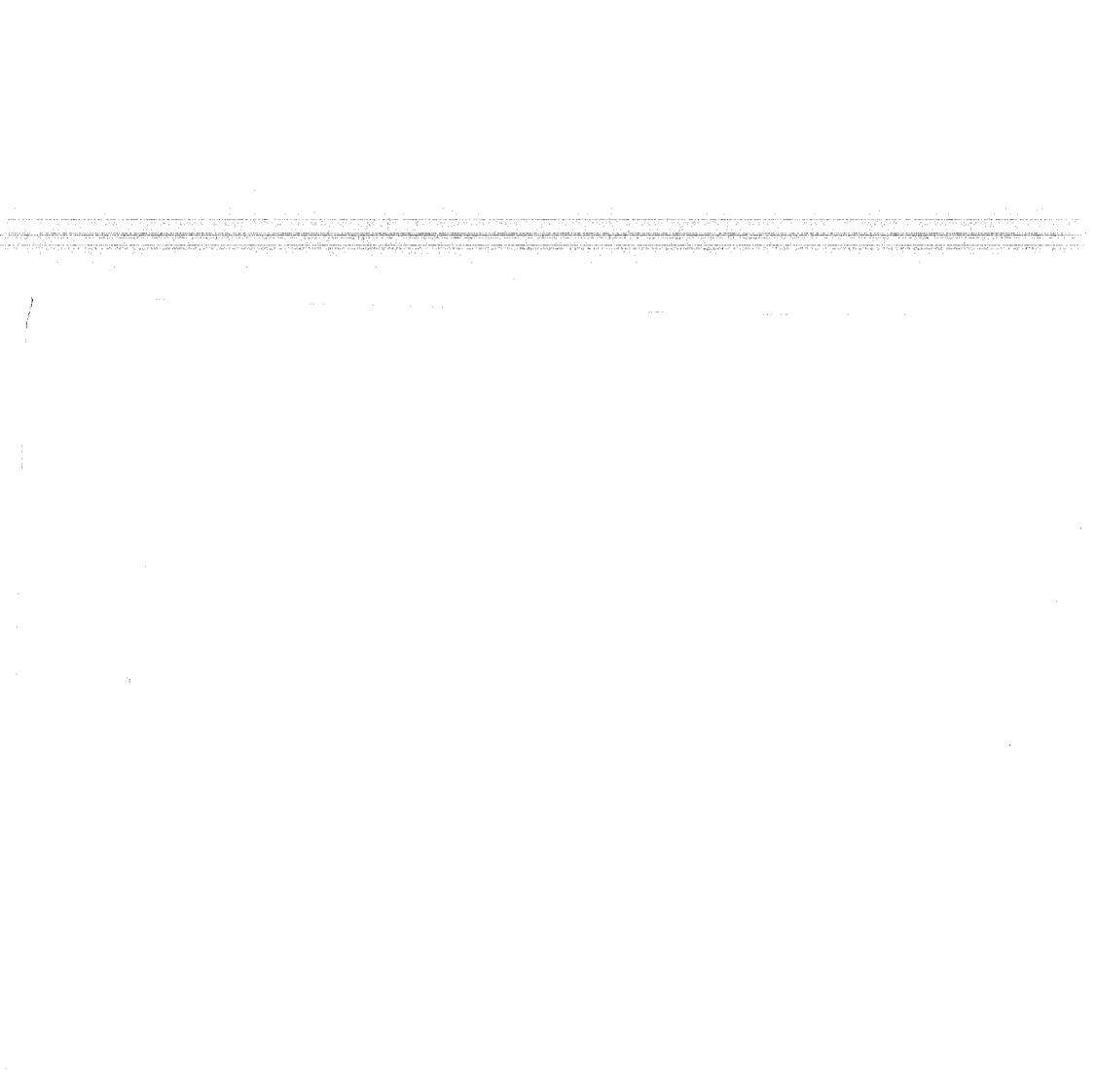


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KENYA ELECTRICITY GENERATING COMPANY LIMITED

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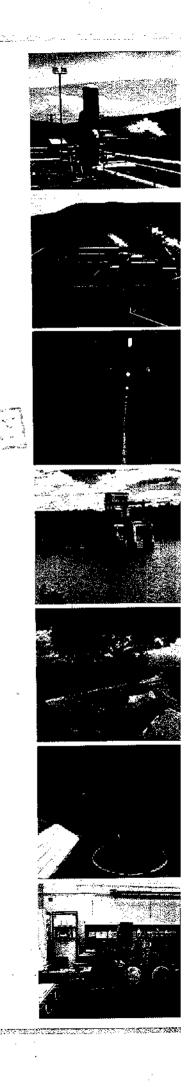




ANNUAL REPORT

and Financial Statements 30th June 2004

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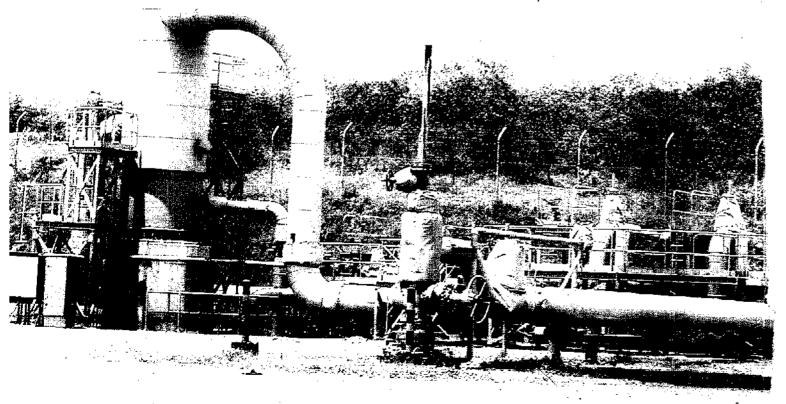


Our Vision

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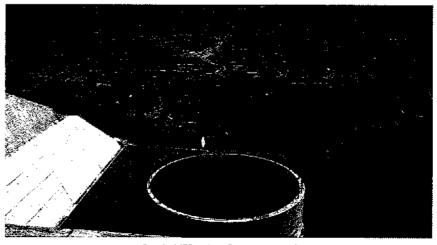


Kenya Electricity Generating Company Limited

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Sondu HPP - view from surge tank.



Kenya Electricity Generating Company Limited

Board of Directors 🗸





Titus Kitili Mbathi



Edward Njoroge



Patrick Nyoike



Joseph Kinyua



Gen. (Rtd) Augustine Cheruiyot



Ms. Sarah Wainana



Faisal Abdirahman Haji Abass



Dr. R. O. Arunga



Musa Ndeto



George M. Njagi



Solomon Kitungu - Alternate



D. R. Ogalloh-Riaroh - Alternate

Directors

Titus Kitili Mbathi

- Chairman

Edward Njoroge

- Managing Director

Joseph Kinyua Patrick Nyoike

Ms Sarah W. Wainaina

Musa Ndeto

Faisal Abdirahman Haji Abass

George M. Njagi

Gen. (Rtd) Augustine Cheruiyot

Dr R O Arunga

Solomon Kitungu

- Alternate to Joseph Kinyua

D.R. Ogalloh Riaroh - Alternate to Patrick Nyoike

|. Magari resigned on July 4, 2004 and was replaced by

Joseph Kinyua

Secretary

A H Ali

Stima Plaza

Kolobot Road

P O Box 47936-00100 GPO

NAIROBI

Registered Office

Stima Plaza and Principal Place Kolobot Road

of Business

P O Box 47936-00100 GPO

NAIROBI

Bankers

Kenya Commercial Bank Limited

Kencom House

Moi Avenue P O Box 48400

NAIROBI

Stanbic Bank Limited

P O Box 30550

NAIROBI

Commercial Bank of Africa Limited

Wabera Street

P O Box 30437-00100 GPO

NAIROBI

The Co-operative Bank of Kenya Limited

Stima Plaza

Kolobot Road

P O Box 48231-00100 GPO

NAIROBI

National Industrial Credit Bank Limited Standard Chartered Bank (Kenya) Limited

NIC House Branch

P O Box 44599

NAIROBI

Harambee Avenue

P O Box 30003-00100

GPO, NAIROBI

Auditors

Controller and Auditor General

KenCom House

P O Box 30084-00100 GPO

GPO NAIROBI.



Managing Director

E. NJOROGE, BSc. (Hons.)

Deputy Managing Director and **Head of Business Development**

J. N. NG'ANG'A, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K.

Company Secretary

A. H. ALI, LL.B (Hons.)

Chief Manager, Operations

R.M NDERITU, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K, MKIM.

Chief Manager, Finance

W. F. TEMESI, BCom. (Hons.), FCPA (K)

Chief Manager, Human Resources

B. M. SOY (Mrs.), BEd (Hons.), Med. (Mgt.)

Chief Manager, Procurement

D. MUTUNGA, BSc. (Eng.) (Hons), M.I.E.K.

Chief Manager, Olkaria

M. MWANGI, BSc (Hons), MSc

Chief Manager, Administration

J. OKOTO, B.Com

Manager, Corporate Planning & Strategy

J. K. WAHOGO, BSc. (Eng.) (Hons.), R.Eng.

Manager, Information Technology

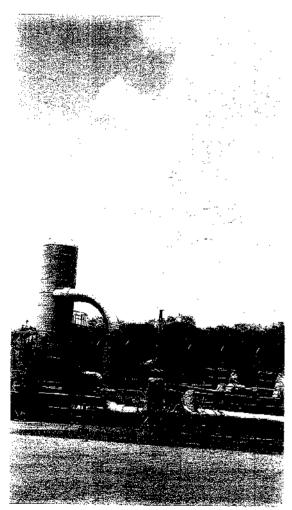
J. O. OMBONGI, BSc. Electronics,

MSc. Computer Science.

Manager, Public Relations and Communications

M. NJERU, B.A. (Hons.),

Dip. Mass Com., FPRSK, M.IPRA



One of the wills of Olkena it Power Station.

Notice of Meeting 🗸

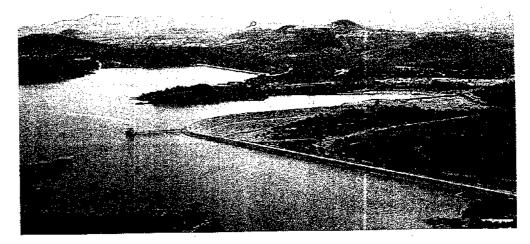
NOTICE IS HEREBY GIVEN that the FIFTY FIRST Annual General Meeting of Members will be held at the Registered Office of the Company, Stima Plaza, Phase III, Kolobot Road, Nairobi, on 27th October 2004, at 12:00 noon to transact the Ordinary Business of the Company.

By Order of the Board.

A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/ her. A proxy need not be a member of the Company. To be valid, the form of proxy must be duly completed and must be lodged at the Registered Office of the Company or posted in time to reach there not later than 12:00 noon on 26th October, 2004.

A. H. ALI Company Secretary,

Nairobi, Kenya 26th October, 2004



Part of Masinga Dam.

Chairman's Statement V





I am pleased to release our Annual Report and Financial Statements for the year ended 30th June 2004. The year was unique in the history of the Company due to the sector recovery measures supported by the Government. These included conversion of the debt owed by The Kenya Power and Lighting Company Ltd. (KPLC) amounting to about 12.3 billion into preference shares in our favour and a corresponding amount converted to ordinary shares in favour of the Government, as well as the ceding of about 25 percent (Kshs.0.6) of our bulk supply tariff to KPLC.

This affected our returns despite higher sales in comparison to the previous year.

OVERVIEW OF THE OPERATING ENVIRONMENT

The economy registered minimal recovery posting real gross domestic product (GDP) growth of 1.8 percent. In tandem with this economic gains, electricity consumption increased by 2 percent to 3,807 million units. Agriculture, Construction, and Government Services were the main drivers of this growth.

Overall inflation rose to 9.8 percent from 2 percent mainly due to food shortage and high prices of fossil fuels. Local lending rates reduced significantly courtesy of minimal Government borrowing from domestic sources in anticipation of resumption of foreign lending. The 91-day Treasury Bill

averaged 2.0 percent while the shilling depreciated against the major currencies.

RESULTS

As a result of the above factors, the Company made a pre-tax profit of Kshs 2,426 million, a 36 percent decline compared to the earnings of the previous

Despite the reduced earning, my Board recommended a dividend of Kshs 274 million to its shareholder, the Exchequer. The remaining funds will be applied to local counterpart funding for ongoing projects and debt servicing.

TAXATION

Following the tax losses brought forward from the previous year of Kshs. 4,246 million, the Company was shielded from paying any corporation tax for the year. The tax loss carried forward in the year was Ksh. 986 million.

Provision, in the form of deferred tax of Ksh. 742 million for the year was however made to comply with the requirements of International Accounting Standard No. 12.

CORPORATE GOVERNANCE

The Board of Directors adhered to sound corporate governance in directing the Company business through Audit, Staff and Tender committees. The Audit and Staff committees are responsible for

The year was unique in the history of the Company due to the sector recovery measures supported by the Government.

Chairman's Statement (Continued)

management decisions prior to submission to the main Board for consideration and approval.

The Tender committee on the other hand makes decisions in line with the Public Procurement Guidelines and briefs the Board. Most Board members attended a corporate governance course to enhance their efficiency.

INTERIM POWER PURCHASE **AGREEMENT**

The interim power purchase agreement with KPLC was under amendment during the year to reflect, inter alia, the changes in the bulk supply tariff. We expect further amendments to include establishment of plant specific PPA to take account of unique operational characteristics of the plants.

INITIAL PUBLIC OFFERING

The Cabinet has approved the sale of at least 30 percent of the stock of KenGen through initial public offering at Nairobi Stock Exchange. A sessional paper on the sale is before Parliament for further approval. Procurement of a transaction advisor for the sale will commence once parliamentary approval is obtained.

FUTURE PROSPECTS

In addition to efficiency and capacity improvement initiatives and the planned sale of shares already mentioned, we plan

thorough review of respective to sign performance contract with the Government and undertake job analysis to enhance efficiency in all Company operations. The management will continue to pursue ISO 2000 certification and execute other plans to ensure sustainable profitability and value creation.

ACKNOWLEDGEMENTS

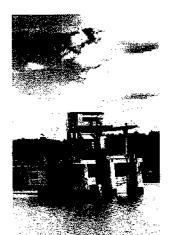
I wish to thank the Government and its agencies and the Development Partners for their continued support to our business.

I also wish to thank my Board Members for their stewardship of the Company, the staff for their dedication to excellent performance and KPLC for the continued cordial business relationship.

Hon, Titus Kitili Mbathi Chairman



A new road at Sondu project..



Kamburu power station intake.





The company

posted a pre-tax

profit of

KSh2,426, a 36

per cent decline

from the previous year.

BUSINESS PERFORMANCE

Favourable hydrology and the commissioning of Olkaria II Geothermal Station in the 2003/2004 financial year boosted sales by 15 per cent. Sales rose to 4,300 million units compared to 3,659 million units sold the previous year.

The increased sales however translated to a modest financial performance, mainly due to reduction in the unit price as part of sector recovery measures set in motion by the Government. The company posted a pre-tax profit of KSh2,426, a 36 per cent decline from the previous year.

Despite the drop in profits, the Directors recommended a final dividend of KSh | 74 million to the Treasury.

OPERATIONS

Hydro plant availability in the year under review was good, averaging 94.7 percent. Geothermal plants averaged 77 percent mainly due to non-availability of one unit at Olkaria I during part of the year. Thermal units performed poorly at below 60 percent in the year due to plant and auxilliary failures.

The Company however managed to meet dispatch demand and maintained some reserve capacity.

GEOTHERMAL

The 70 MW Olkaria II Geothermal Power

Plant was commissioned in November 2003 and increased the company's geothermal output to 115MW. Unit 1 of Olkaria I station was brought back to service during the year after a two-year outage following successful rewinding of its rotor. As a result, sales from geothermal units increased from 277 million units the previous year to 783 million units.

To utilize excess steam and optimize the output of the new station, plans for installation of a third 35MW unit at Olkaria II were put on course with commencement of feasibility studies.

There was accelerated activity in geothermal resource exploration in the Menengai and Suswa. The results, which will be ready in the next financial year will determine our next area for development.

Plans for the development of the appraisal wells at the Domes field continued. Hopefully, GoK and KfW will firm the funding to enable us drill the first six appraisal wells in the next financial year.

HYDRO POWER

As part of the ongoing modernization of Kamburu Power Station, a new digital turbine governor was installed on machine No.1. A similar governor had been installed in machine No.2 the previous year.

Routine maintenance of other plants was carried out as scheduled while our staff

Managing Director's Report (Continued)

attended to breakdowns fast and efficiently.

DIESELS

The procurement of a new IMW plant will boost power supply in Garissa Town. This will be installed before the end of the next financial year, bringing our total installed capacity at the station to 3.4MW. Prospects for a wind/diesel hybrid for Garissa are still being explored.

At Kipevu, preparations for the rectification of vibration defects at the diesel plant were started. This exercise is aimed at improving the plant's operational efficiency.

The company also put in place a committee to determine the process and procedure of relocating Lamu Power Station to the mainland. The development will solve the current limitations related to space and enable expansion of the station to serve the growing power demand of the island.

EFFICIENCY MONITORING

The company committed itself to the process of ISO 900 I quality programme to enhance its business practice and embrace best practices in its operations. The process was kicked off in the month of February, 2004 with the appointment of the certifying authority. At the end of the year under review, documentation had been done and the training of the auditors started.

We look forward to this accreditation as a guarantee of quality of our service and product and hope that we will be certified by the mid of the next financial year.

HUMAN RESOURCES

Towards the end of year under review, preparations were already at hand to commence negotiations for a three year Collective Bargaining Agreement between the management and the union. The CBA should be in place in the early part of the new financial year.

In its commitment to develop a motivated and competent staff, the company continued training all cadres of staff both locally and overseas to enhance their skills and empower them to manage their respective careers effectively.

On their part, the staff remained focused to their duties and maintained plant under their care and other services efficiently.

ENVIRONMENT

The company continued with several environmental programmes including joining other parties in reforestation of Mau and Aberdare forests. Through its social reforestation projects in Gitaru, Olkaria and Sondu Miriu, the Company issued seedlings to neighbouring communities, schools and other organisations during the planting season.

The company will remain committed to contribute towards better environment.



Signing of Sandu Miriu HPP phase Il contracts.

Kenya Electricity Generating Company Limited

Managing Director's Report (Continued)

CORPORATE RESPONSIBILITY

In other social projects, we involved participation of staff to make positive contribution to the livelihood of both the immediate communities within our facilities and the country at large.

Such activities included donation of computers to company sponsored and other schools, participation in various charitable activities including Operation Smile, the Heart Run and a cash donation towarads Nairobi Hospice.

HEALTH AND SAFETY

In recognition of the importance and value of its workers, the company remained committed to their safety and health by promoting safe practices at workplace. This was achieved through training staff on occupational safety and provision of necessary industrial wear.

The company also facilitated health campaigns and HIV/Aids awareness seminars in all our operational areas.

FUTURE FOCUS

With demand for electric power anticipated to continue rising in coming years as a result of growth in various sectors, the company as the major player in the industry will focus on implementing plans for new plants as well as optimizing on existing ones to improve their efficiency and upgrade their rating.

On the on-going projects, negotiations for the Phase II loan for Sondu Miriu hydro power project were successfully concluded and disbursement and work set to resume in the next financial year.

Other projects considered within the year under review include conversion of the gas turbine at Kipevu to a combined cycle, the raising of Masinga dam to increase energy storage at the Seven Forks and optimization of the existing hydro plants.

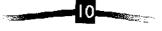
To enhance exploration of geothermal resource as the main area of focus in our future generation capacity expansion, the Government is considering setting up a special purpose Geothermal Development Company to foresee geothermal exploration. The proposed company will undertake exploration and development of geothermal fields and sell steam to the generators.

The company also continued to take interest in the development of renewable energy, mainly solar and wind.

APPRECIATION

I wish to thank our dedicated staff, the Chairman and his Board for their contribution and commitment during the year. I also thank the Government and the Development Partners for their support during the year.

Edward Njoroge Managing Director 26th October, 2004



Director's Report ∇

The directors submit their report and the audited financial statements for the year ended 30 June 2004, which show the state of the company's affairs.

I. PRINCIPAL ACTIVITIES

The principal activity of the company is to generate and sell electricity to the authorised distributor, The Kenya Power and Lighting Company Limited.

2. RESULTS

The results for the year are set out on page 14.

3. DIVIDENDS

The directors recommend the payment of a dividend of KShs. 274.795 million (2003 Nil) which represents 5% on the ordinary shares. An interim dividend of KShs.100 million was paid during the year.

4. RESERVES

The reserves of the company are set out on page 16.

5. DIRECTORS

The directors who served during the year and to the date of this report are as shown on page 2.

6. AUDITORS

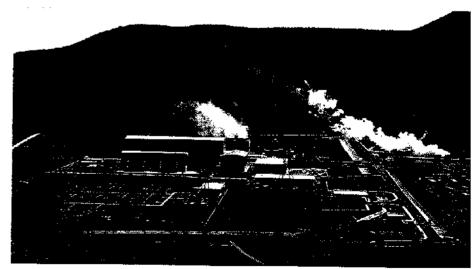
The Controller and Auditor General is responsible for the statutory audit of the

company's books of account in accordance with Section II of the State Corporations Act, as amended by the Statute Law (Miscellaneous Law Amendments Act), 2002. Section 39(I) of the Public Audit Act 2003 empowers the Controller and Auditor General to appoint other auditors to carry out the audit on his behalf.

Accordingly, Ernst & Young were appointed to carry out the audit for the year ended 30 June 2004.

By Order Of the Board

A.H. ALI Secretary Nairobi



The newly commissioned Olkaria II Geothermal Power Station.

Statement of Directors' Responsibilities V



The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further

accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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

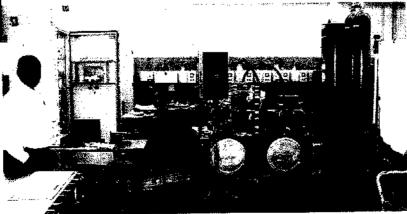
Edward Njoroge DIRECTOR

Titus Mbathi **DIRECTOR**

Robert Arunga DIRECTOR

6th October, 2004





The new digital governor.

Report of the Controller and Auditor General V



I have audited the financial statements on pages 14 to 31 for the year ended 30 June 2004, which have been prepared on the basis of the accounting policies set out on pages 18 to 20. I obtained all the information and explanations which I considered necessary for my audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE CONTROLLER AND AUDITOR **GENERAL**

As stated on page 12, the directors are responsible for the preparation of financial statements, which give a true and fair view of the state of the affairs of the company and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit and to report my opinion to you.

BASIS OF OPINION

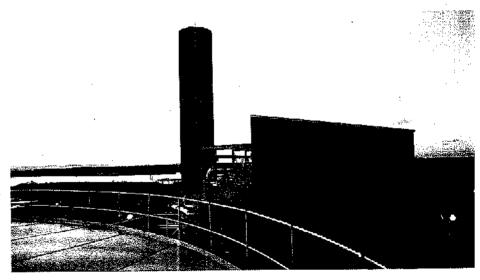
I conducted the audit in accordance with International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

OPINION

In my opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the company at 30 June 2004 and of the profit and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenya Companies Act.

Controller and Auditor General Nairobi

7th October, 2004



Kipevu I power station.

Kenya Electricity Generating Company Limited

Profit and Loss Account for the Year ended 30 June 2004

	Note	2004 KShe 000	2003 KShs'000
SALES	2	8,754,447	9,934 ,542
OPERATING EXPENSES	<u></u>	(5,959,183)	(5,788,229)
OPERATING PROFIT		2,795,264	4,146,313
OTHER INCOME	3	370,505	925,884
		3,165,769	5,072,197
NET FINANCE COSTS	4	(740,072)	(81,156)
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS		2,425,697	4,991,041
EXCEPTIONAL ITEM	5	<u> </u>	(1,182,340)
PROFIT BEFORE TAXATION	6	2,425,697	3,808,701
TAXATION	7	(742,101)	(1,288,822)
NET PROFIT FOR THE YEAR		1,683,596	2,519,879
Earnings per share		6.13	9.17

Balance Sheet as at 30 June 2004

		2004	2003
	Note	KShs'000	KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	50,778,851	49,250,958
Prepaid leases on leasedhold land	. 9	1,591	1,620
Investments	10	12,260,159	12,260,159
		63,040,601	61,512,737
CURRENT ASSETS			
Stocks	12	867,066	706, 4 71
Trade and other debtors	13	1,206,942	177,769
Amount due from KPLC	11	2,913,467	2,188,874
Tax reçoverable	7(b)	38,8 4 6	8,082
Treasury bonds	ÌÁ	4,786,604	1,325,542
Fixed deposits	15	290,839	626,543
Bank and cash balances		723,411	2,545,727
		10,827,175	7,579,008
	·	73,867,776	69,091,745
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES			
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital	ITIES	5,495,904	5,495,904
SHAREHOLDERS' FUNDS AND LIABIL			
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves		5,495, 9 04 26,359,758	5,495,904
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends		5,495,904 26,359,758 174,795	5,495,904 24,858,212 -
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves	16	5,495,904 26,359,758 174,795 32,030,457	5,495,904 24,858,212 - 30,354,116
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends	16	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES	16	5,495,904 26,359,758 174,795 32,030,457 15,784,584	5,495,904 24,858,212 - 30,354,116 15,784,584
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES Borrowings	16	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES	16 	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES Borrowings Deferred tax	16 17 18 19	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700 15,533,055 4,246,399
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES Borrowings Deferred tax	16 17 18 19	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041 16,801,923 4,988,500 323,517	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700 15,533,055 4,246,399 94,711 19,874,165
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES Borrowings Deferred tax Grants CURRENT LIABILITIES	16 17 18 19	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041 16,801,923 4,988,500 323,517 22,113,940	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700 15,533,055 4,246,399 94,711 19,874,165 2,549,030
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES Borrowings Deferred tax Grants	16 17 18 19 20	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041 16,801,923 4,988,500 323,517 22,113,940	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700 15,533,055 4,246,399 94,711 19,874,165
SHAREHOLDERS' FUNDS AND LIABIL CAPITAL AND RESERVES Share capital Reserves Proposed dividends Funds awaiting allotment of shares NON-CURRENT LIABILITIES Borrowings Deferred tax Grants CURRENT LIABILITIES Trade and other payables	16 17 18 19 20	5,495,904 26,359,758 174,795 32,030,457 15,784,584 47,815,041 16,801,923 4,988,500 323,517 22,113,940	5,495,904 24,858,212 - 30,354,116 15,784,584 46,138,700 15,533,055 4,246,399 94,711 19,874,165 2,549,030

The financial statements were approved by the board of directors on 6th October, 2004 and signed on its behalf by:

Directors



Kenya Electricity Generating Company Limited

Statement of Changes in Equity for the year ended 30 June 2004

	Share Capital KShs'000	Share Premium KShs'000	Capital Reserves KShs'000	Financial Instruments Revaluation Reserves KShs'000	Revenue Reserves KShs'000	Proposed Dividends KShs'000	Total KShs'000
At I July 2002	5,495,904	5,039,818	8,579,722	-	8,512,719	_	28,288,163
Revaluation of treasury bonds	- .	_	-	206,074	-	_	206,074
Net profit for the year	-	-	_		2,519,879	_	2,519,879
At 30 June 2003	5,495,904	5,039,818	8,579,722	206,074	11,032,598	-	30,354,116
At 1 July 2003	5,495,904	5,039,818	8,579,722	206,074	[1,032,598	_	30,354,116
Net profit for the year		-	-,,- <u></u>		1,683,596	_	1,683,596
Revaluation of treasury bonds Dividends:	-	-	-	92,745	-	-	92,745
Ínterim	-		_	_	(100,000)		(100,000)
Proposed		-	<u>-</u>	<u> </u>	(174,795)	174,795	(100,000)
At 30 June 2004	5,495,904	5,039,818	8,579,722	298,819	12,441,399,	174,795	32,030,457

⁽a) Capital reserve represents various amounts originating from 1997 and prior years in respect of development surcharge received from the Kenya Power & Lighting Company Limited for the purpose of financing the development of certain Power Projects.

b) Financial instruments revaluation reserve has arisen from stating the treasury bonds at their fair value.

Cash Flow Statement for the year ended 30 June 2004

		2004	2003 KShs'000
	Note	KShs'000	KShS'000
Cash flows from operating activities			
Cash generated from operations	22(a)	4,732,473	17,373,622
Interest paid		. •	(853,264)
Interest received		68,050	
Net cash generated from operating activities		4,800,523	16,520,358
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,268,289)	(4,896,045)
Investment funds in KPLC		- .	(12,260,159)
Disposal of transmission lines to KPLC		-	541,940
Disposal of motor vehicles		-	1,692
Purchase of treasury bonds		(3,461,062)	(1,325,542)
Net cash used in investing activities		(6,729,351)	(17,938,114)
Cash flows from financing activities			
Payment of long-term borrowings	22(b)	(688,752)	(15,059,051)
GOK Loans converted to equity	•	-	15,12 4,58 4
Proceeds from long-term borrowings	22(b)	561,07 9	2,601,990
Interest capitalised on rescheduled GOK loans	22(b)	-	147,390
Interim dividends paid		(100,000)	-
Net cash (used by)/from financing activities		(227,673)	2,814,913
(Decrease)/Increase in cash and cash equivalents		(2,156,501)	1,397,157
Cash and cash equivalents at the beginning of the year	ır	3,170,751	1,773,594
Cash and cash equivalents at the end of the year	22(c)	1,014,250	3,170,751

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are prepared on the historical cost basis of accounting.

(b) Revenue recognition

Revenue is recognised, excluding value added tax, on the basis of net units of energy transmitted and invoiced to the authorized distributor, The Kenya Power & Lighting Company Limited.

Other revenues earned by the company are recognised as follows:

Interest income - as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt;

(c) Property, Plant, Equipment and Depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation. 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%
Plant and machinery	-	I- 6.66%%
Motor vehicles	-	25%
Furniture, equipment and fittings	-	121/2%

(d) 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 profit and loss account 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 profit and loss account in the year.

(e) Borrowing costs

Borrowing costs during the period of construction of a project are capitalized as part of the cost of the project.

(f) Stocks

Stocks 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 the realisation. Provision is made for obsolete, slow moving and defective stocks.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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 currency are dealt with in the profit and loss account with the exception of the foreign currency borrowings that are used to fund construction of on-going projects. These are capitalized as part of the cost of the project.

(h) Retirement benefit costs

The company operates a defined benefit pension scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded both by the company and employees.

The company also contributes to a statutory defined benefit pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month.

The company's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

(i) 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.

(j) Employees entitlements

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

(k) 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 the 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, carry forward of 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.

(I) Leases on leasehold land

Leases on leasehold land are classified as operating leases. The costs incurred to acquire the land are included in the financial statements as long-term prepayments and amortised on a straight-line basis over the lease period.

(m) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial Instruments

All financial instruments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with them. After initial recognition, financial instruments which are classified as held for trading and available-for-sale are measured at fair value. Gains or losses on available-for-sale financial instruments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed off, or until the financial instrument is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

p) Grants

Government grants received to compensate expenses or for the purpose of giving immediate support are dealt with in the profit and loss account in the year of receipt and /or commencement of the project for which they were intended.

	2004 KShs'000	2003 KShs'000
R 8A,UES		
Electricity sales	8,754,447	9,934,542
5. OTHER !«COMB		
Interest income	272,185	751,631
Miscellaneous income	98,320	174,253
· · · · · · · · · · · · · · · · · · ·	370,505	925,884
4. NET FINANCE COSTS	·	
On long-term borrowings	205,397	831,182
On bank overdrafts	22	16,619
On staff loans	829	5,463
Interest write back on long-term borrowings	(274,298)	-
	(68,050)	853,264
Net exchange losses/(gains)	808,122	(772,108)
14er excusise 1033es (Earlis)	740,072	81,156
5. EXCEPTIONAL ITEM	<u>-</u>	1,182,340

This represents debt waiver to KPLC arising from interest charged by KenGen for late payment of invoices in the financial year 2001/2002. The interest waiver was approved by the Cabinet in September 2003.

PROFIT BEFORE TAXATION	2004 KShs:000	2003 KShs'000
(a) Profit before taxation is arrived at after charging:		
Depreciation	1,740,396	1,464,061
Amortisation of operating lease prepayments (note 9)	29	29
Staff costs (Note 6(b))	1,615,440	1,207,629
Directors' emoluments:		
- Fees	1,140	1,020
- Other	9,862	5, 9 05
Auditors' remuneration	1,700	1,659
Operating lease rentals	32,532	31, 49 7
Net exchange losses/(gains)	808,122	(772,108)
(b) Staff costs		
Salaries and wages	1,[14,990	1,081,891
Pension costs – Defined benefits scheme	158,757	123,129
 National Social Security Fund 	3,275	3,149
 Pension actuarial deficit accrual 	339,428	-
Leave pay provision	(1,010)	(540)
	1,615,440	1,207,629

The average number of employees during the year was 1,501 (2003 -1,534).

7. TAXATION

(a) PROFIT AND LOSS ACCOUNT

Current tax at 30% on the taxable profit for the year. Deferred tax	- 742,10 i	- 1,288,822
	742,101	1,288,822
b) BALANCE SHEET	· · · · · · · · · · · · · · · · · · ·	
Balance brought forward	8,082	2,606
Charge for the year	· <u>-</u>	
Paid during the year	30,764	5,476
	38,846	8,082

8. PROPERTIES, PLANT AND EQUIPMENT

	Freehold land and buildings KShs'000	Transmission lines KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, Equipment and fittings KShs'000	: Work- in- : Progress KShs'000	Total KShs'000
Cost							
At 1 July 2003 Additions	6,568,371	8,510	27,172,940	138,314	1,298,876 -	22,172,059 3,268,289	57,359,070 3,268,289
Transfers	1,942,218		13,692,577	24,023	66,694	(15,725,512)	
At 30 June 2004	8,510,589	8,510	40,865,517	162,337	1,365,570	9,714,836	60,627,359
Depreciation							
At 1 July 2003 Charge for the ye	1,729,563 ar 336.417	1,537 404	5,435,219 1,270,801	118,422 8,972	823,371 123,802	-	8,108,112 1,740,396
					123,002		1,/40,376
At 30 June 2004	2,065,980	1,941	6,706,020	127,394	947,173	-	9,848,508
Net Book Value			·				
At 30 June 2004	6,444,609	6,569	34,159,497	34,943	418,398	9,714,836	50,778,851
At 30 June 2003	4,838,837	6,972	21,737,721	19,892	475,505	22,172,059	49,250,958

Included in additions is capitalised loan interest on on-going projects borrowings amounting to KShs 640,867,853 (2003 – KShs 655,899,994) and capitalised loan foreign exchange losses amounting to KShs 1,243,757,422 on ongoing projects (2003 KShs 254,618,231).

Included in plant and machinery, motor vehicles, furniture, equipment and fittings are assets with a cost of Shs1,196,262,092 (2003 - KShs 505,570,894) which were fully depreciated. The normal annual depreciation charge on these assets would have been KShs 100,887,777 (2003 - KShs 57,074,291).

9. PREPAID LEASES ON LEASEHOLD LAND

COST	2004 2 KShs: 000 KShs'	000 000
As at ∃ July and 30 June	1,768 1,	768
amortisation		
As at IJuly	148	119
Amortisation for the year	29	29
At 30 June	177	148
NET BOOK VALUE		
At 30 june	1,591 1,	620

10.INVESTMENT

Funds awaiting allotment of shares	12,260,159	12,260,159

In September 2003, the Government of Kenya through a Cabinet resolution, approved the conversion of KShs.12.260 million out of the total debt of KShs. 15,631 million owed by KPLC as at 30th June 2003 into equity in the form of preference shares in KPLC.

11.AMOUNT DUE FROM KPLC

	The second secon	
Amount due within one year	2,913,467	2,188,874
Interest written off		(1,182,340)
Funds awaiting allotment of shares		(12,260,159)
	2,913,467	15,631,373
Sale of Kipevu I and Gitaru I transmission lines		541,940
Development Surcharge		1,045,786
Olkaria II Substations and Transmission lines	1,312.702	-
Power Purchase	1,600,765	14,043,647
Amount due on the current account:	CM Assibility	ESHS OUU
		KSh+000

The effective interest rate on the current account was Nil % (2003 - 7%).

	2004	2003
	KShs'000	KShs'000
2.STOCKS	:	
Fuel	346,973	265,128
General stores	40,786	37,575
Machinery spares	800,530	748,451
Goods-in-transit	27,570	4,110
	1,215,859	1,055,264
Less: Provision for obsolescence	(348,793)	(348,793)
	867,066	706,471
13.TRADE AND OTHER DEBTORS		
VAT receivable	1,006,707	57,681
Staff debtors	100,186	80,994
Other debtors	100,049	39 <u>,094</u>
	1,206,942	177,769

14.TREASURY BONDS

Treasury bonds, which are classified as available for sale financial instruments are stated at fair values. The resultant capital gains of KShs. 298 million have been transferred to a revaluation reserve account under equity.

15. FIXED DEPOSITS

The effective interest rate on fixed deposits is 2% (2003-2%).

SHARE CAPITAL Authorised:	2004 KShs'000	2003 KShs'000
276,990,941 (2002 - 276,990,941) ordinary shares of KShs 20 each	5,539,819	5,539,819
Issued and fully paid:		
274,795,182 (2002 - 274,795,182) ordinary		
shares of KShs 20 each	5,495,904	5,495,904

13. FUNDS AWAITING ALLOTMENT OF SHARES

In September 2003, the Government of Kenya, through a Cabinet resolution, approved the conversion of Government debt amounting to KShs. 15,784,584,000 into equity in KenGen. The directors expect the process of issuing new shares to the Government to be completed in the financial year to 30 June 2005.

18 (a) BORROWINGS

2.6% Overseas Economic Co-operation Fund No. KE P20		
2005/2025 (JPY 8,719,021,762)	6,402,378	5,412,769
2.3% Overseas Economic Co-operation Fund No KE P21 2007/2027 (JPY 5,882,352,940)	4,319,412	3,559,033
7.7% International Development Association 2003/2027 (US\$ 91,101,786.38)	7,251,710	5,070,845
8% Yugoslav loan 1989/2003	· -	26,682
3% Government of Kenya/Masinga loan 1989/2012	-	18,341
10.08% 2359 ke International Bank for Reconstruction and Development 1988/2004	-	516,873
10% Government of Kenya/SAUDI 1989/2009	•	15,458
10.21% East African Development Bank 2001/2006 (EUR 1,654,500)	159,565	196,658
7.7% Kreditanstalt Fur Wiederaufbau 2004/2019 (Euro 1,123,149.69)	108,320	-
7.7% European Investment Bank 2005/2020 (EUR 14,660,794)	· 	1,2 44 ,728
Total loans	18,241,385	16,061,386
Bank overdraft		1,519
Total borrowings	18,241,385	16,062,905
Less: Amounts due within 12 months	(1,439,462)	(529,850)
Non current borrowings	16,801,923	15,533,055

18.BORROWING\$ (continued)

(b) Analysis of borrowings by currency

	Borrowings in US\$'000	Borrowings in JPY'000	Borrowings in EUR'000	Borrowings in KShs KShs'000	Total borrowings KShs'000
2004					
Loans	91,102	14,601,375	2,777	-	18,241,385
Bank overdrafts	<u> </u>		<u> </u>		
Total borrowings	91,102	14,601,375	2,777	<u>-</u>	18,241,385
2003		-			
Loans	75,92 4	14,451,999	16, 9 77	18,341	16,061,386
Bank overdrafts	<u>~</u>		<u> </u>	1,519	1,519
Total borrowings	75,924	14,451,999	16,977	19,860	16,062,905
			•	2004	2003
	-			KShs'000	KShs'000
Maturity of non-	current borrowings				
Due between I a	ind 2 years			1,733,736	1,226,446
Due between 2 a				3, 44 9,076	4,877,355
Due after 5 years	•			11,619,111	9,429,254
<u></u>				16,801,923	15,533,055

All company term loans are guaranteed by the Government of Kenya. The overdraft facilities with Commercial Bank of Africa Limited and Co-operative Bank of Kenya Limited are secured by corporate guarantees.

The average interest rate paid on bank overdrafts was 7.5% (2003- 13.5%).

P. DEFERRED TAX

	···· · · · · · · · · · · · · · · · · ·	
	2004	2003
Provision for deferred tax comprises:	KShs'000	KShs'000
Accelerated capital allowances	7,7 78 ,8 9 9	5,409,381
Tax losses	(2,310,010)	(1,324,190
Unrealisec exchange (losses)/gain	(255,774)	187,500
Leave pay provision	(25,607)	(25,910
Actuarial deficit provision	(101,829)	(7,934
Gratuity provision	(475)	(382
General stocks provision	(96,704)	(502)
	4,988,500	4,246,399
At 1 July Income statement charge	4,246,399 742,101	2,959,577 1,288,822
At 30 june	4,988,500	
	· · ·	4,246,399
GRANTS		4,246,399
Ministry of Energy		
	274,111 49,406	4,246,399 90,000 4,711

Grants from the Ministry of Energy were awarded to KenGen for the purpose of exploration, exploitation and development of geothermal resources in the country. Those from UNEP are intended for geo-physical imaging methodology reservoir assessment. These projects have not yet commenced.

21. TRADE AND OTHER PAYABLES

Accrued interest	1,219,787	1,205,469
Trade payables	347,658	615.757
Contract payables and retention money	441,213	567,018
Sundry payables	405,318	74,419
Leave pay provision	85,357	86,367
· · · · · · · · · · · · · · · · · · ·		
	2,499,333	2,549,030

NOTES TO THE CASH FLOW STATEMENT	2904 KShs'000	2003 KShs'000
(a) Reconciliation of operating profit to cash		
generated from operations		
Operating profit	3,165,769	5,072,197
Adjustments for:		5,072,177
Depreciation	1,740,396	1,464,061
Amortisation of prepaid operating lease	29	29
Exchange losses/(gains) on loans	2,307,672	(879,617
Exchange (losses)/gains- unrealised	(852,580)	624,801
Exchange losses - realised	44,458	147,307
Revaluation reserve on treasury bonds	92,745	206,074
Interest from KPLC written off		(1,182,340
Gain on asset Disposal		(58,574
Operating profit before working capital changes	6,498,489	5,393,938
(Increase)/decrease in inventories	(160,595)	59,811
(Increase)/decrease in amounts due from KPLC	(724,593)	11,682,814
(Increase)/decrease in trade and other receivables	(1,029,173)	104,461
(Decrease)/increase in trade and other payables	(49,697)	32,411
Increase in grants	228,806	94,711
Tax Recoverable from KRA	(30,764)	5,476
Cash generated from operations	4,732,473	17,373,622
(h) Applyric of shapes in house, in a		
(b) Analysis of changes in borrowings during the year		
Balance at 1 July	16 061 306	20.250.474
New loans received	16,061,386 561,079	29,250,674
Repayments of amounts borrowed		2,601,990
Foreign exchange losses/ (gains) losses expensed	(688,752) 1,063,915	(833,131
Foreign exchange losses /(gains) losses capitalised	1,243,757	(625,000
TOTAL CACHAINE 105565 (Earlis) 105565 Capitalised	1,243,737	(254,617 147,390
	·	(14,225,920
Interest on Government deferred loans capitalised Converted to Equity	-	
Interest on Government deferred loans capitalised	18,241,385	16,061,386
Interest on Government deferred loans capitalised Converted to Equity Balance at 30 June	18,241,385	·
Interest on Government deferred loans capitalised Converted to Equity Balance at 30 June (c) Analysis of balances of cash and cash	18,241,385	-
Interest on Government deferred loans capitalised Converted to Equity Balance at 30 June (c) Analysis of balances of cash and cash equivalents		16,061,386
Interest on Government deferred loans capitalised Converted to Equity Balance at 30 June (c) Analysis of balances of cash and cash equivalents Bank and cash balances	723,411	16,061,386
Interest on Government deferred loans capitalised Converted to Equity Balance at 30 June (c) Analysis of balances of cash and cash equivalents		16,061,386

23.FUTURE RENTAL PAYMENTS UNDER OPERATING LEASES

Amounts payable in the next year in respect of obligations under operating leases expiring:
Within one year 5,315 21,355
In one to five years 17,784 3,849
23,099 25,204

24.RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions. The company is wholly owned by the Government of Kenya and is related to The Kenya Power and Lighting Company Limited through common ownership.

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

	2004 KShs'000	2003 KShs'000
(a) The Kenya & Lighting Company Limited (KPLC):		
(i) Sale of electricity	8,754,447	9,934,542
(ii) Interest charged on delayed payments	-	652,000
, and the second	8,754, 44 7	10,586,542
(iii) Purchase of electricity	91,693	60,779
(iv) Outstanding balances arising from sale / purchase of electricity	1,600,765	2,188,874
(v) Outstanding balance arising from substations and transmission lines development	1,312,702	-

Transactions with KPLC are at arm's length and in the normal course of business.

13. RELATED FARTH TRANSACTIONS (Continued)

(b) Government of Kenya:

Grant received for Geothermal Resources Assessment	184,111	90,000
Project borrowings received	1,872,200	2,293,588
Interest expense on project borrowings	251,423	1,254,290

Other details relating to transactions with the Government of Kenya are disclosed in note 15.

26. CONTINGENT LIABILITIES

Disputed income tax assessment Pending litigation against the company	3,423,505 -	- 105,651
Disputed tax penalties Disputed interest on Yugoslav Bank Loan	31,043 12,400	61,742
	3,466,948	167,393

(i) Disputed income tax assessment

On 6 July 2004, the Income Tax Department issued an assessment for income tax due of KShs 3,423,505,000 inclusive of penalties and interest in respect of the years of income 1999 and 2000. This arose after the Department disallowed investment deductions and wear & tear claims made by the company in respect of assets acquired from the Regional Authorities during the Energy Sector Reform Program and subsequent asset separation exercise. The company has disputed this assessment through its tax consultant and the case is still on-going. In light of this, it is the opinion of the directors that no provision for penalties and interest would be required in the financial statements.

(ii) Disputed tax penalties

On 12 August 2002, the Customs and Excise Department 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 to 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) Disputed interest on Yugoslav Bank Loan

This relates to penalties on delayed repayment of a loan advanced to KenGen by the Yugoslav Bank, through the Government of Kenya (GOK). The penalties were occasioned by the GOK's delay to pay the Bank, though KenGen had remitted the funds to GOK for onward remittance to the Yugoslav Bank. In the opinion of the directors, no accrual is required since the penalties should be paid by GOK.

(iv) Others

As at 30 June 2004, there was a contingent liability of about KShs. 500 million arising from a claim by a contractor engaged in one of the company's projects. The matter is the subject of arbitration with the International Chambers of Commerce in France, which has appointed a three-man tribunal sitting in Geneva. In light of expert advice given on the matter to this disputed claim, the directors are of the opinion that those contingent liability will not crystallise.

27. CAPITAL COMMITMENTS

Capital commitments at the year end for which no provision has been made in these financial statements are:

statements are:	2004 KShs*000	2003 KShs'000
Authorised but not contracted for Contracted but not provided for	8,577,061	7,743,260 9,639,500
Contracted Survey	8,577,061	17,382,760

5 Year Financial and Statistical Record

FOR THE YEARS ENDED

	30 June 2000 Kwh	30 june 200 l Kwh	30 June 2002 Kwh	30 June 2003 Kwh	
Units sold (millions)	3,982	2,757	3,284	3,659	
Average cost of units sold (KShs)	2.67	4.08	2.05	1.58	139
·	KShs'000	KShs'000	KShs'000		
Revenue from electricity sold	15,574,463	13,488,013	10,252,108	KSsh'000 9,934,542	KiShs 000 8,754,447
Net income for the year	4,029,959		2,280,397	2,519,879	
Funds generated from operations Net income for the year Depreciation Amortisisation of operating lease	4,029,959 1,361,389	1,702,787 1,499,444	2,280,397 1,490,347	2,519,879 1,464,061	34,683,596 31,683,596 31,740,396
Currency realignment	527,562	(327,153)	29 250,113	29 (772,108)	29 808, 22
Capital employed	5,918,910	2,875,078	4,020,886	3,172,806	4,232,143
ixed assets less depreciation Depreciating lease payments	3 8,9 64,332 -	41,794,564	46,314,984 1,649	49,250,958	50 ,7 78, 851
unds awaiting allotments of shares in Deferred debt	KPLC			1,620 260,159	1,591 12,260,159
The Kenya Power & Lighting Co. Ltd Net current Assets/(liabilities)	9,268,609 (6,158,552)	152,053 11,395,027 (6,095,658)	13,871,688 (2,727,478)	2,188,874 2,311,254	2,913,467 3,974,913
	42,074,389	47,093,933	57,460,843	66,012,865	69,928,981
inanced by hare capital eserves unds awaiting allotment of shares	456,085 13,109,257 -	10,535,722 14,812,044	[1,195,722 17,092,441	10,535,722 19,818,394	10,535,722 21,494,735
rants	1,165,475 17,263,935 -	1,937,911 19,808,256 -	2,957,577 26,215,103	15,7 8 4,584 4,246,399 15,533,055 94,711	15,784,584 4,988,500 16,801,923 323,517
_	42,074,389	47,093,933	57,460,843	66,012,865	69,928,981
apitai Expenditure	4,534,332	4,329,676	5,938,569	4,896,044	3,268,289
come for the year as a percentage average capital employed(%)	14.05	3.82	4.36	4.08	2.48

Table 1: Electricity Units (In Millions) Sent Out

	•					1			
POWER STATION	Capacity (MW)								
	as at 30		****	manus services					
	Installed	Effective	1999/00	2000/01	2001/02	2002/03			
LIVERA				Keepstander (1 <u>987)</u>	3 + 4]				
HYDRO Tana	14.4	12.6	63	71	76	65	- 65		
	7.4	7.4	46	47	52	51	34		
Wanjii	9 1 .2	88.0	247	181	330	470	470		
Kamburu	225.0	216.0	734	364	665	945	9 38		
Gitaru	40.0	40.0	157	81	162	22 4	221		
Kindaruma	6.28	4.9	19	20	23	25	28		
Small Hydros	40.0	30.0	142	28	127	206	230		
Masinga	144.0	132.0	813	293	703	999	1010		
Kiambere	194.0	102.0	214	240	263	136	263		
Turkwel	30.0	0.0	151	198	0	0 3	0		
UEB (Imports)	30.0			9-33-1 div	***************************************				
TOTAL HYDRO SENT OUT	677.3	632.9	2434.8	1325	2400	3121	3259		
EXCLUDING IMPORTS THERMAL	077.3	032.7	2-13-1.0		2.00	• • • • • • • • • • • • • • • • • • • •			
	60.0	36.6	199	126	94	83	56		
Kinger Dissel	73.5	70.0	392	449	268	146	279		
Kipevu Diesel		, 0.0		THE STATE OF THE S					
GEOTHERMAL									
Olkaria I	45.0	45.0	382	340	377	277	266		
Olkaria 2	70.0	70.0					417		
Ojkai ia 2				a magazanaga (Kalendara Alba			<u></u>		
GAS TURBINE									
Fiat - Nairobi South	13.5	10.0	29	35	1	0	0		
JBE - Kipevu	63.0	60.0	384	274	77	20	4		
				S PROPERTY OF STREET	I				
Isolated Diesels									
Lamu and Garissa	4.2	3.5	10	10	11	12	13		
	. 12-00	od oprojekt pa zareke	e empressiones (° 4)						
Wind Turbine									
Ngong Wind	0.35	0.35	0.5	0	0	0.3	0.4		
UNITS SENT OUT	1006.83	928.3	3,831	2,559	3,229	3,659	4,295		

Table 2: Auxiliary Consumption in Million Units

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
POWER STATION					
Hydro					- 19 A
Tana	0. 44	0.43	0.75	0.40	0 22
Wanjii	0.16	0.16	0.52	80.0	0.54
Kamburu	1.19	0.99	2.76	1.23	1.08
Gitaru	1.46	0.92	1.87	1.45	1.43
Kindaruma	0.55	0.45	1.34	0.59	0.63
Gogo	0.09	0.11	0.19	0.08	0.07
Sossian	0.03	0.02	0.04	0.02	0.02
Mesco	0.05	0.07	0.02	0.01	0.02
Ndula	0.02	0.02	0.03	0.02	0.02
Sagana	0.03	0.07	0.10	0.08	0.11
Masinga	0.34	0.21	1.20	0.33	0.33
Kiambere	2.51	2.03	7.27	2.54	2.58
Turkwel	3.32	4.45	5.00	1.84	2.33
Total Hydro	10.20	9.95	21.09	8.66	9.37
Thermal			· · · · · · · · · · · · · · · · · · ·		
Kipevu Steam	10.18	16.96	9.67	9.98	0.32
Kipevu Diesel	1.14	8.54	9.24	6.94	9.19
Total Thermal	11.32	25.50	18.91	16.92	9.51
Geothermal				S. ST. HELDE	
Olkaria I	13	13	16	1.1	
Olkaria 2	: 5	13	10	П	22.70
Total Geothermal	13	13	16	П	22.79 34
Gas Turbines					
Fiat- Nairobi South	0.68	0.52	0.07	0.00	
Kipevu GT	8.01	7.88	0.07 1.42	0.03	0.02
Total Gas Turbines	8.01	7.00 7.88	1.42 1.42	0.44	0.09
Turbines	0.01	7.00	1.42	0.44	0.11
solated Diesels				•	:
Garissa	0.52	0.54	0.54	0.48	0.57
_amu	0.02	0.04	0.09	0.01	0.31
Fotal Isolated	0.53	0.58	0.62	0.49	0.88
∀ ind Turbine					
Ngong Wind	0.00	0.00	0.00	0.00	0.00
Total Wind	0.00	0.00	0.00	0.00	0.00
Total KenGen	42.73	57 . 40	58.51	37.52	53.60

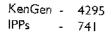
NB: The Auxilliary consumption is net of Transformer and Line losses.

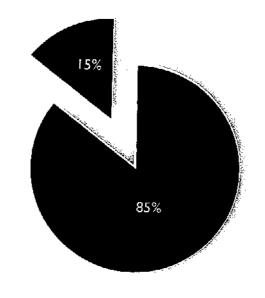
Kenya Electricity Generating Company Limited

Table 3: Plant	Performance in %
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	1999	2000	2000	/ 2001	2001	/ 2002		/ 2003)3 / 2004
POWER STATION	I Availability	Load Factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor
					,					1.
Hydro	2474	50.48	82.97	56.57	88.02	60.68	77.23	51.78	63.75	52.26
Tana	84.74	71,37	95.59	73.31	92.52	80.69	91.23	79.12	60.52	53.34
M anjii	96.18		79.20	22.11	89.02	40.33	90.25	58.09	90.57	57.34
(amburu	66.40	30.09	67.89	18.50	87.72	33.84	96.79	47.93	95.69	47.88
Gitaru	85.28	37.31	77. 8 6	23.32	84.59	46.48	91.75	64.39	91.62	63.60
Kindaruma	65.60	45.01		29.31	59.37	38.54	54.80	34.40	41.78	33.50
Gogo	86.11	41.39	50.39	58.87	51.94	38.10	67.80	47.80	70.56	53.51
Selby	74.36	28.61	78.59	43.53	85.10	68.61	62.86	52.42	97.74	84.49
Mesco	49.82	34.34	60.89	22.06	75.54	24.58	79.06	39.42	93.46	44.01
Ndula	46.75	22.83	60.99		88.91	66.62	99.13	64.62	98.55	75.8B
Sagana	75.53	44.72	89.84	58.10	80.40	36.52	88.35	58.85	95.41	66.28
Masinga	86.67	40.53	71.12	8.04	92.89	56.32	95.44	79.71	96.97	80.83
Kiambere	96.76	64.61	80.41	23.35	92.46	28.87	92.00	14.90	97.44	28.80
Turkwel	99.36	23.41	98.68	26.32				04 12332442043200		
Thermal			•				27.32	13.08	21.07	11.33
Kipeyu Steam	85.56	37.96	55.61	25. 9 9	37.37	18.87		20.68	60.77	44.82
Kipevu Steam Kipevu Diesel	93.58	61.16	83.37	71.07	73.85	43.04 11. spablested to	70.12 aakteen oo keesta 000000			
Geothermal Olkaria I	98.24	99.81	88.78	89.62	97.96	99.80	71.76	73.26		70.44 71.97
Olkaria 2					1	The following model of	1.4 Kristonickes Kist id ensitä	Voll Resolutions	Taga Agandalistik ya 119 a	K
Gas Turbines			-6.77	29.73	24.05	0.00	67.42	0.15	0.00	79.5 l
Fiat-Nairobi South	97.47	26.18	99.76	29.73 53.61	64.27	14.93	62.78	3.60	50.00	0.00
JBE-Kipevu	93.27	74.50	75.77	33.01		kas en a receptoras	en karaneraranar			بالتنسبب النافي إزاد
Isolated Diesels	l				40.70	27 70	69.12	35.67	91.00	39.49
Garissa	76.25	30.05	74.20	30.95	60.78	37.70 27.46	53.39	30.27	68.89	31.18
Lamu	73.44	30.52	70.38	30.52	62.59	27.66		MON EXPERIENCE		
Wind Turbine Ngong Wind	25.08	2.75	25.08	4.87	33.41	2.37	63.73	13.24	77.98	13.81

Market Share by Sales - 2003/2004

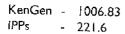


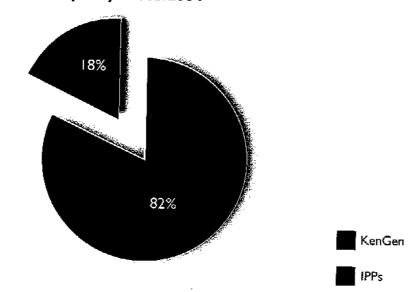


KenGen

IPPs

Market share by Installed Capacity - 2003/2004





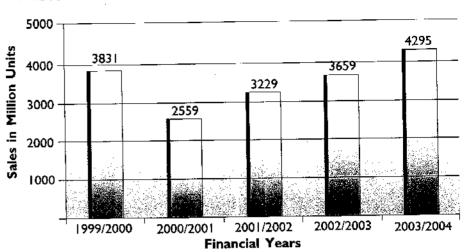
Electricity Units Sent Out by source - 2003/2004

KenGen

Hydro	3259	75.89%	_{7%} 0%
Gas Turbine	4	0.10%	1%
Geothermal	683	15.91%	16%
Thermal Steam	56	1.31%	0%
Diesel	292	6.79%	76% □ Hydro
Others	0.4	0.01%	Gas Turbine Geothermal
TOTAL	4295	100%	■ Thermal Steam ■ Diesel ■ Others
			22

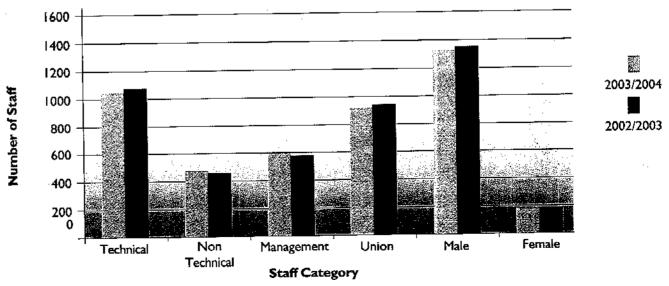
Historical Sales in Millions



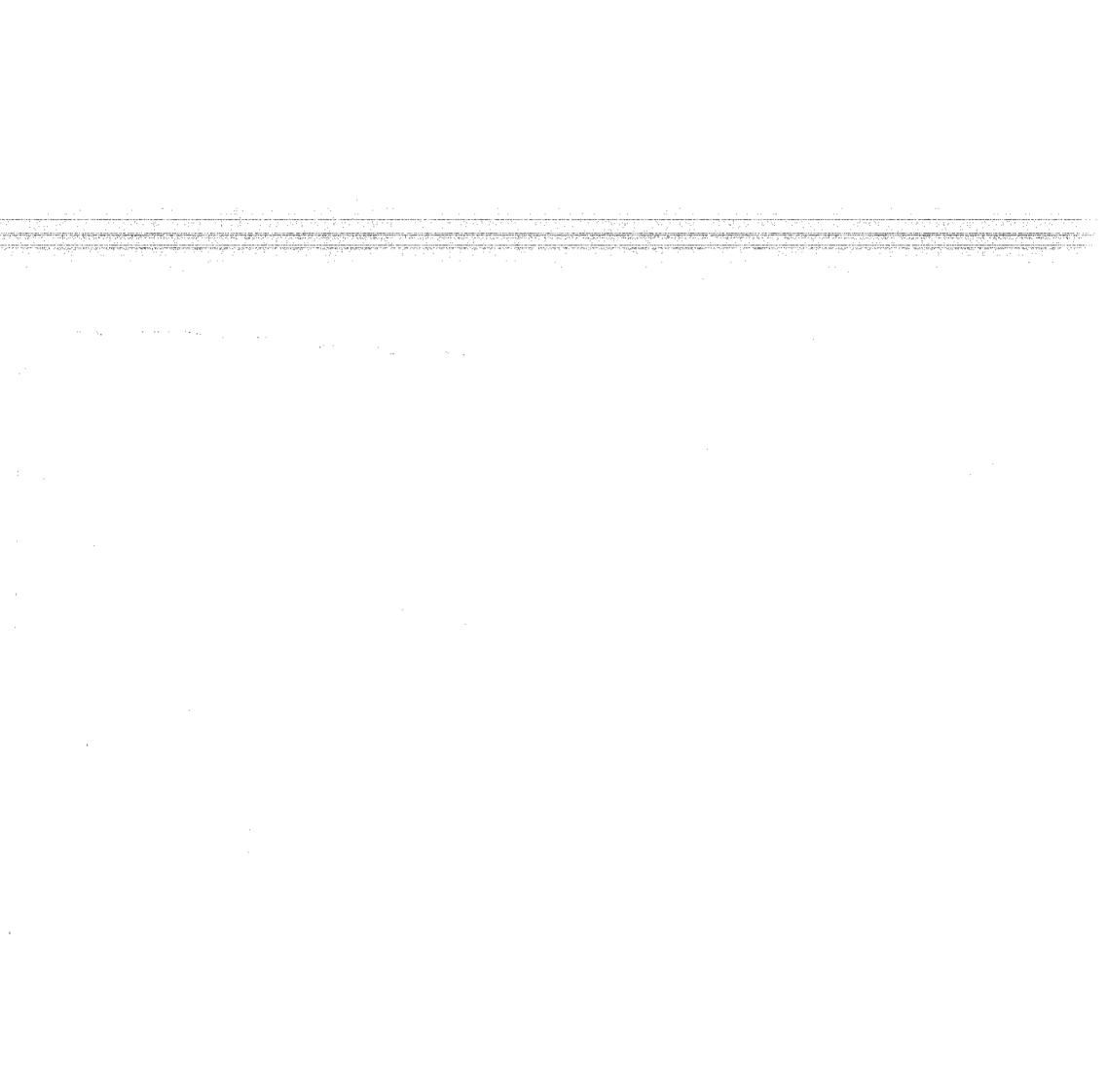


Staff Analysis

	2003/2004	2002/2003	Variance %	;	2003/2004	2002/2003	2001/2002	2000/2001
Technical	1042	1078	-3%	Technical	1042	1078	1096	1129
Non Technic	al 473	454	4%	Non Technica	I 473	454	452	458
Management	t 598	589	2%	Management	598	584	540	531
Union	917	938	-2%	Union	917	948	1008	1056
Male	1331	1350	-1%	Male	1331	1350	1365	1403
Female	184	182	1%	Female	184	182	183	184
Total	1515	1532	-1%					

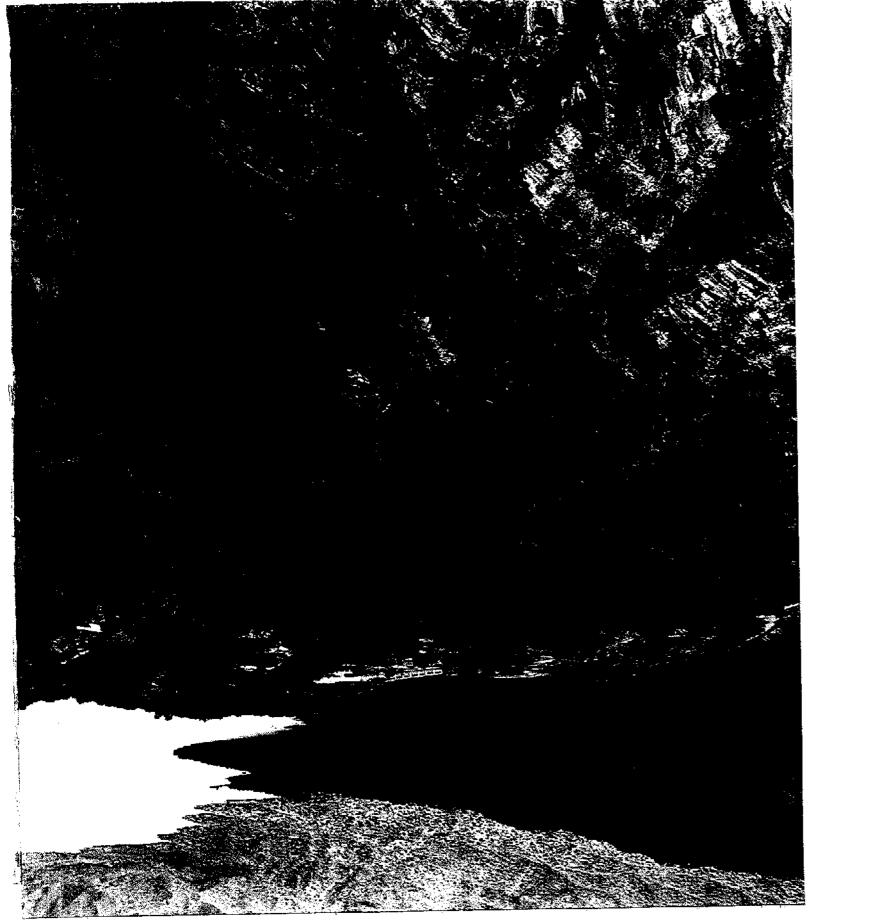












Area Offices

Olkaria ! Geothermal Power Station

P © Box 785 - 20:17 Naivasha Tel: 050 - 20233/4 050 - 50916/7 Fax: 050 - 50634

Olkaria [[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 - 2055 84 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 Nyeri Mobile: 0724255554

Kipevu Thermal Power Station

P O Box 80801 - 80100 Mombasa

Tel: 041 - 3435000/I 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

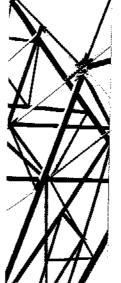
Mobile: 0724663651

Garissa Power Station

P O Box 9 - 70100 Garissa Tel: 046 - 2028/3158

Fax: 046 - 3150 Mobile: 0733600678





Fomu ya Uwakilishi

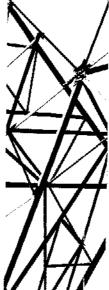
	Nambar	i Ya Mwenyehisa
Katibu Wa Kampuni Kenya Electricity Generating C Stima Plaza, Kolobot Road S L P 47936-00100 Nairobi	Company Limited	
*Mimi/sisi*Mwanachama/Wanachama wa kam	npuni iliyotajwa hapo juu, nam wa	nikiwa/tukiwa nteuaau kama mwakilishi
	a *yangu/yetu katika Mkutano	o Mkuu wa Kila Mwaka Wa Kampuni
SahihiAngalia maelezo 2,3,4 chini		4 N 2007
llitiwa sahihi siku	ya	(mwezi) 2007.
au afisa yeyote atakaye idhinis 3. Mtu anayeteuliwa kama mwak	, fomu hii ya uwakliishi itawek shwa na shirika. kilishi si lazima awe mwanacha	kwa muhuri, au kutiwa sahihi na wakili ama wa kampuni. Inatosha, lakini majina ya wanachama
(ACM) na wewe au mwakilishi i	ka kwamba lazima itolewe k wako ili kuruhusiwa kuhudh kilishi wao waliojulishwa kw	atika Mkutano Mkuu wa Kila Mwaka nuria. Tafadhali kumbuka kwamba ni va Kampuni angalau saa 48 kabla ya
Jina:	Sahihi:	
Mkutano Mkuu wa kila Mwaka wa Kasarani Gymnasium, Thika Road,	Kenya Electricity Generating , Nairobi mnamo Alhamisi No	Company Limited utakaofanyika katika ovemba 22, 2007 saa tano asubuhi.



Proxy Form

The Company Segmenary	Shareholder's Member No
Manya Slectricity Generating Company Limit	ed -
Stima Platta, Kolobot Road	
F.O Box 47934-00103 Natrobi	
PROXY	
Marian Wantan and Annie an	ofbeing
The investigation of the above named Company	, hereby appoint:
ater	\f
Stray/our proxy to vote for Sme/us on Smy/our ou Company to be held on 22nd November 2007 and a	r behalf at the Annual General Meeting of the stranger than adjournment thereof.
*(Strike out as appropriate)	
Signature(s)	
See notes 2.3,4 below	
Signed thisday of	(month) 2007.
Notes	
 The address should be the address shown in the in the case of a member being a corporation, this common seal or signed on its behalf by duly authorized. 	s form of proxy must be executed either under
3. A person appointed to act as a proxy need not4. In case of joint holders, the signature of any on holders should be stated.	be a member of the Company. e holder will be sufficient but names of all joint
Shareholder's admission tetter Please complete this form and note that it must be p or your proxy in order to record attendance. Kindly their proxy notified to the Company at least 48 hou meeting.	note that only the registered shareholders or
Name:S	ignature:
Annual General Meeting of Kenya Electricity Generati Gymnasium, Thika Road, Nairobi on Thursday 22nd N	ng Company Limited to be held at the Kasarani November, 2007 at 11.00 a.m.

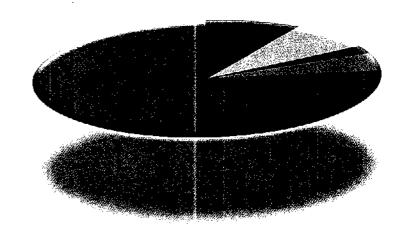




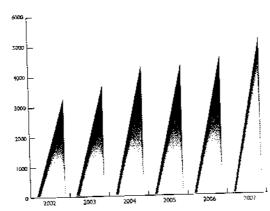
Selected Performance Indicators

Sales Market Share

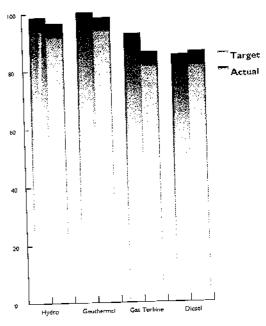
KenGen	75%
Aggreko	9 %
Orpower	2%
IberAfrica	5%
Tazva	8%
Others	<1%



Sales Performance (million units)



Plant Availability (%)



Plant Performance

For the Last Five Years

2003/		2004/2	2005	2006/	2004
Availabilisy	Load Fector	Availability	Load Factor	Availability	
	%	·	%	Availability	Load Factor %
7			•		76
76.47	60.53	77.46	61.73	90.82	74.83
50.64	56.05	40.83	35.03	61.29	74.83 56.71
91.12	51.07	89.87	48.71	96.40	
96.00	40.24	96.50	40,36	85.69	56.59 49.95
74.11	66.04	87.43	54.77	78.98	
63.62	71.93	50.14	31.30	70.18	61.73
75.44	7 0.8 3	95.32	53.94	96.44	33.80
98.13	85.53	94.80	79.00	19.53	82.32
51.45	34,99	43.86	17.70	49.67	53.06
87.7	64.84	90.07	59.55	79.09	42.72
96.71	50.16	97.15	49.07	97.03	61.09 F2.50
89.57	72.48	96.20	68.25	95.51	52.58
96,75	52,23	97.01	55.03	96.3 8	77.90
			40.05	70.38	40.66
16.23	<u> 53.50</u>	-			
71.03	73 .98	90.34	74,74	79.69	57. 85
					37. 03
97.00	9 8.20	83,93	85.80	D4 4**	
96 ,20	94.16	97.73	97.12	94.47	95.47
			77.12	97.72	93.21
55 .50	5.09	53.00	15.64		
51.27	3 6, 9 3	77.03	37.59	73.14	3.73
		77.03	37,37	79.76	14.57
83.03	43.17	75.32	72.45		
73. 27	47.11	94.78	32.65	85.89	36,46
		7 7 ./8	37.60	82.70	36.31
63.00	23.74	43.00	***		
		73.00	20.60	50.00	13.45

Plant Performance

For the Last Five Years

	2001/	2002	2002/2	
B Et-sian	Availability	Load Factor	Availability	Load Factor
Power Station	•	%		%
Hydro		F L 70	63.75	52.26
Tana	77.23	51.78	60.52	53.34
Wanjii	91.23	79.12	90.57	57.34
Kamburu	90.25	58.09	95.69	47.88
Gitaru	96.78	47.93	91.62	63.60
Kindaruma	91.75	64.39	41.78	33.50
Gogo	54.80	34.40	70.56	53,51
Selby	67.80	47.80	70.36 97.74	84.49
Mesco	62.86	52.42		44.01
Ndula	79.06	39.42	93.46	75.88
Sagana	99.13	64.62	98.55	66.28
Masinga	88.35	58.85	95.41	80.83
Kiambere	95.44	79.71	96.97	28.80
Turkwel	92.00	14.90	97.44	28.60
Thermal		12.00	21.07	11.33
Kipevu Steam	27.32	13.08	60.77	44.82
Kîpevu Diesel	70.12	20.68	60.77	71.02
Geothermal	_, _,	73.26	77.08	70.44
Olkaria I	71.76	/3.26	82.90	71.97
Olkaria 2	•	-	02.70	,
Gas Turbine	40	0.15	_	79.5
Fiat-Nairobi South	67.42	3.60	50.00	
JBE-Kipevu	62.78	3.50	50,00	
Isolated Diesels	40.10	35.67	91.00	39.4
Garissa	69.12	30.27	68.89	31.1
Lamu	53.39	30.27	00.07	3
Wind Turbine Ngong Wind	63,73	13.24	77.98	13.8

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

	Capacity at 30.06	(MW) as	2002/03	2003/04	2004/05	2025/04	******
Power Station	inst alled	Effective	Gwh	Gwh	2004/03 Gwh	2005/06 Gwh	2006/07 Gwh
Gas Turbine Flat-Nairobi South JBE-Kipevu T OTAL	3.5 63 76.5	10 60	20	- 4	3 97	18 194	4 75
Isolated Diesols Garissa	70.3	70	20	4	100	212	79
Lamu T OTAL	4.2	3.5	12	13	13	9 6 15	10 9 1 9
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 System Losses GRAND TOTAL GE Sales % of units General Consumption as % of units Losses as % of units Sales Growth in unit sales	ited niks Generati		38 17 3,713 98.54% 1.01% 0.45%	54 23 4,376 98.26% 1.22% 0.52% 18%	80 23 4,383 97.65% 1.82% 0.53% 0%	66 22 4,626 98.10% 1.43% 0.48% 6%	61 24 4,684 98.19% 1.30% 0.51%

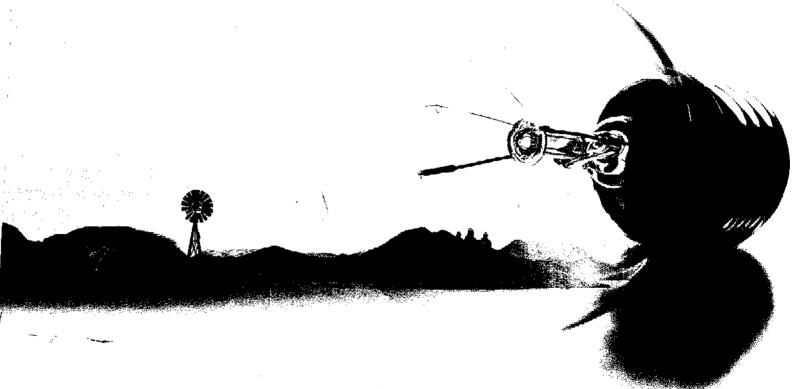
Electricity Units Sold from the Power Stations For the Last Five Years

	Capacity (Nat at 30.06.	1 W) as 2007	2002/03	2003/04	2004/05	2005/06 Gwh	2006/07 Gwh
Power Station	Installed	Effective	Gwh	Gwh	Gwh	Gwn	
Hydro			. =	66	58	56	68
Tana	14.4	12.6	65 51	34	21	22	36
Wanjii	7.4	7.4		470	381	399	464
Kamburu	94.2	88	470	938	757	795	945
Gitaru	225.0	216.0	945	221	170	190	215
Kindaruma	40.0	40	224	6	8	5	5
Gogo	2	2	6	2	2	2	3
Sosiani	0.4	0.4	2	3	3	3	2
Mesco	0.38	0.38	2	3 7	3	3	4
Ndula	0.62	0.62	7		7	8	8
Sagana	1.5	1.5	8	10	169	170	183
Masinga	40	40	206	230	814	852	973
Kiambere	1 4 4	132.0	999	1.010	476	520	372
Turkwel	106.0	102.0	136	264	470	-	-
UEB Imports	30	-	-		2,869	3,025	3,27
TOTAL	677.3	632.9	3,121	3,261	2,007	3,023	-,
Thermal		24.6	83	62	48	_	-
Kipevu Steam	60.0	36.6	146	278		399	326
Kipevu Diesel	73.5	70.0	229	340	378	399	326
TOTAL	133.5	106.6	217	240	·		
Geothermal		ar o	277	265	37!	32 4	360
Olkaria I	45.0	45.0	-	417		562	549
Olkaria 2	70.0	70.0	277	682		886	90
TOTAL	115	115	211	302			

5 Year Financial and Statistical Records

	2657	2005
2007	2006	Kwh
KWh	Kwh	
	4,538	4,280
4,599	₹,330 3.15	2.57
3.16		2.35
2. 4 1	2.55	
	KSsh'000	KShs'0a0
KShs'000	14,300,060	11,011,576
14,551,767	3,768,933	1,753,152
2,445,666	3,700,733	
	3,768,933	1,753,152
2,445,666	2,000,212	2, 024,976
3,446,354		29
29	29 (580.070)	(63 6,580)
(1,419,974)	(589,070)	3,141,577
4,472,075	6,358,244	
ŕ	E0 / / 2 2 / 2	50,605,503
87,357,082	50,662,367	
,		1,56
1,504	1,533	 .
-	2.4	4,838,281
3,941,294	2, 44 7,488	•
215,664		2,387,865
5,810,956	3,290,167	2,478,14
(2,593,828)	3,314,108	72,571,510
94,732,672	59,715,663)- · · · · · · · · · · · · · · · · · · ·
, , <u>-</u>	10	10,535,722
10,535,722	10,535,722	22,893,036
53,117,467	25,962,941	15,784,584
	-	5,898,623
15,038,788	5,850,228	17,410,138
16,040,695	17,366,772	49,406
		72,571,510
94,732,672	59,715,663	1,880,223
5,356,989	2,057,076	,,-25
-,0,.0,		2.46%
3.23%	5.70%	
3.2378		7%
7%	7%	4%
3%	6%	¬7/8
		2%
1%	4 %	2.6
2.0	2.3	3. i
5.4	3.3 55 %	60%





HS 9685 • A + 4 K + 46 K + 46+ 2007

Bringing Light

A ELECTRICITY GENERATING COMPANY LIMITED ANNUAL REPORT 2007

Vision

To be the market leader in provision of Reliable, Safe, Quality and Competitively priced electric energy in the Eastern Africa region.

Mission

To efficiently generate competitively priced electrical energy using the state of the art technology, skilled and motivated human resource to ensure financial success. We shall achieve market leadership by undertaking least cost, environmentally friendly capacity expansion. Consistent with our corporate culture, our core values will be adhered to in all our operations.

Values

To achieve our Vision and Mission, the following Core Values will be our guiding principles.

Integrity: We ascribe in totality to honesty, transparency and accountability.

Professionalism: We strive to attain the highest professional standards in everything we do through the application of professionally competent staff and embrace state-of-the-art technology. **Team Spirit:** We seek to pursue teamwork as a means of building understanding and co-operation in our internal and external relationships.

Safety Culture: We strive to create a safe working environment and to uphold environmentally friendly practices so as to have positive and healthy impacts in all our endeavours.

5 Year Financial and Statistical Records

	<u>, , , , , , , , , , , , , , , , , , , </u>	
• •	2003	2004
	ZUU3 Kwh	Kwh
	Kwn	
	3,659	4,300
Units sold (millions)	2.72	2.04
Average Revenue per units sold (KShs)	1.58	1.39
Average cost per units sold (KShs)	1,50	
	K\$hs'000	KShs'000
	9,934,542	8,754,447
Revenue from electricity sold	2,519,879	1,620,573
Net income for the year	2,2.2,4.	
Funds generated from operations	2,519,879	1,620,573
Net income for the year	1,464,061	1,740,396
Depreciation	29	29
Amortisisation of operating lease	(772,108)	1,106,749
Currency realignment	4,232,143	4,461,747
	-, ,	
Capital employed	49,250,958	50,778,851
Fixed assets less depreciation	,,	
	1,620	1,591
Operating lease payments	12,260,159	12,260,159
Funds awaiting allotments of shares in KPLC	,	
Treasury Bonds	_	-
Intangible Assets	2,188,874	2,913,467
The Kenya Power & Lighting Co. Ltd	2,311,254	3,700,802
Net current Assets/(liabilities)	66,012,865	69,954,870
- II.	,	
Financed by	10,535,722	10,535,722
Share capital	19,818,394	21,494,735
Reserves Funds awaiting allotment of shares	15,784,584	15,784,584
	4,246,399	4,988,500
Deferred Tax	15,533,055	16,801,923 49,406
Loan capital	94,7 \	
Grants	66,012,865	69,954,870 3,268,289
Capital Expenditure	4,896,044	3,200,207
Income for the year as a percentage		2.48%
of average capital employed	4.08%	Z.1070
Profit before tax, dividend and exceptional		6%
item/net fixed assets in service	18%	4%
Return on Total Assets	6%	∃/ 0
Profit after tax and dividend	,	2%
(less exceptional items)/capital employed	5%	3.0
Current ratio	2.4	6.0
Debt Service Coverage ratio	4.4	96%
Self Financing ratio	96%	70/0
Set Littleting 1995		



Notes to the Financial Statements (continued) For the Year ended 30 June 2007

Department STPE TO SEND HER Continued

The principal actuarial assumptions were:	2007 %pa	2006 %pa
investments return	10	10
Race of salary escalation	8	8
Race of pension increases	3	3

A provision of KSas 339 million was made in 2004, which was higher than actuarial losses of Ksas. 248 million that should have been charged to date to income statement. KSas 82.7 million was chargeable per year as per 2006 actuarial report. Part of the balance of the deficit, amounting to KSas 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 amployer 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.

EAR INSTERIOR TURNER PURCHASE AGREEMENT

The Second St opismental 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 corning up with a new tariff and Power Purchase Agreement that reflect the results of the tariff study commissioned by Energy Regulatory Commission.

93 - COMBARA 192:

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

For the Year ended 30 June 2007

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;

has been made in these mancial statements are,	2007 KShs'000	2006 KShs'000
Authorised but not contracted for Contracted for	10,415,576 14,734,676	7,069,035 10,373,852
	25,150,252	17,442,887

Olkaria li 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).

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 (E.A) Limited. AlG Global Investment Company (EA) Ltd and Stanbic Investment Management Services (EA) Ltd jointly manage the funds.

The scheme's actuaries, Alexander Forbes Financial Services (E.A) 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

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

assumptions made:	2007 KShs'000	2006 KShs'000
Past service pension liabilities Fair value of scheme's assets	(3,715,800) 2,560,500	(3,155,500) 1,913,600
Pair Value of Sesteme 9 223	(1,155,300)	(1,241,900)



Notes to the Financial Statements (continued) For the Year ended 30 lune 2007

Eller For Police Es

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 disk 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.

For the Year ended 30 June 2007

CONTINGENT LIABILITIES 2006 2007 KShs'000 KShs'000 1,638,754 1,638,754 Disputed income tax assessment 31,043 31,043 Disputed tax penalties

2,469,797 1,669,797

800,000

i) Disputed income tax assessment

Disputed contracts

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

THE WIND WASTNANGING

- (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 Amounts received during the year Net interest income Expenditure during the year	24,035 447 (12,845)	46,600 38,966 3,590 (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.

PARTENIA BUNGA PROB<mark>ot</mark>

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

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

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
2006

John Miles	2007 KShs'000	KShs'000
Deferred tax assets:	_	(759,965)
Tax losses 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
	8,380,890	-
On revaluation surplus Accelerated capital allowances	6,448,671	6,609,059
Accelerated a-Fran	15,038,788	5,850,228
Movement on the deferred tax account is as follows:		
	5,850,228	5,898,623
At the beginning of the year	9,188,560	934,709
Deferred tax charge 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

	2007 KShs'000	2006 KShs'000
2.6% Japan Bank for International Cooperation		
No. KE P20 2006/2025 (JPY 7,655,688,000) 2.3% japan Bank for International Cooperation	4,128,100	5,208,611
KE 921-2037/2027 (JPY 6.744.498.358) 7.7% International Development Association	3,636,768	4,232,011
2003/2016 (US\$ 80,248,775) 7.7% Kreditanstalt Fur Wiederaufbau 2004/2019	5,343,043	6,469,372
(Euro 1,219,463) 0.75% Japan Bank for international Cooperation	109,157	124,577
KE P23 20 4/2044 (JPY 6,731,186,241) 4.5% interrestional Development Association	3,629,590	2,153,576
2009/2027 (US\$ 1,496.669)	100,226	110,574
Total loads	16,946,884	18,298,721
Accrued interest	117,000	138,567
Total berrowings	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

- Putzikois or od moskings by cun ener

230%	Borrowings in US\$ KShs'000	Borrowings in JPY KShs'000	Borrowings in EUR KShs'000	Total borrowings KShs'000
Loans (KShs) 2006	5,443,268	11,394,459	109,157	16,946,884
Loans (KShs)	6,579,946	11,594,198	124,577	18,298,721
Maguifity of non-outries aborror Due between 1 and 2 years Due between 2 and 5 years Due after 5 years	∕.^ °2 \$		2007 KShs'000 1,023,189 3,069,566 11,947,940	2006 KShs'000 1,070,516 3,211,547 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 piedge from the company. The company did not utilise the overdraft facilities during the year.

Kenya Electricity Generating Company Annual Report 2007



and machinery as shown under note 11.

For the Year ended 30 June 2007

19. NOTES TO THE CASH FLOW STATEMENT

Balance at 30 June	1,839,128	4,406,845
Term deposits	89,794	
Bank and cash balances	1,749,334	4,321,368 85,477_
(c) Analysis of balances of cash and cash equivalents		4 22 L 249
Balance at 30 June		• -,
	16,946,883	18,298,719
Foreign exchange gains expensed Foreign exchange gains capitalised	(1,226,142)	(362,794)
Repayments of amounts borrowed	(1,452,274)	(614,316)
New loans received	(871,203)	(888,132)
Balance at 1 July	2,197,783	1,362,550
(b) Analysis of changes in borrowings during the year	10,270,11	18,801,411
Cash flows generated from operations	6,090,015	6,041,226
(Decrease)/increase in research funds		
UNEP grants	(409,123)	622,703
Decrease in prepaid lease	(2,000)	(49,406)
Decrease in amount due to KPLC	(2,000)	(2,000)
Increase in trade and other payables	(2,545)	-
Decrease in trade and other receivables	519,184 1,441,068	858,160
Increase in amounts due from KPLC	(2,520,789)	1,765,673
Decrease/(increase) in inventories	11,065	(901,438)
Operating profit before working capital changes	7,053,155	4,037,407 (289,873)
Amortisation of gain/losses on treasury bonds	3,319	(199,030)
Exchange losses Net discounts on amortisation of treasury bonds	(22,794)	(96,363)
Exchange gains on loans	32,299	(589,070)
Interest expense	(1,452,274)	(614,316)
Interest income	553,707	644,976
Gain on disposal of fixed assets	(593,091)	(829,569)
Amortisation of prepaid operating leases on land	(8,686)	•
Deficit on revaluation	29	29
Depreciation	375,013	-
Adjustments for:	3,446,354	2,000,212
Operating profit	4,719,279	3,720,538
generated from operations	KShs'000	
(a) Reconciliation of operating profit to cash	2007	K\$hs'000

Notes to the Financial Statements (continued) For the Year ended 30 June 2007

FIGURAL PROPERTY TRANSACTIONS (continued)

(iv) Staff	2007 KShs'000	2006 KShs'000
Key management staff advances Other staff	422 89,388	896 87,562
	89,810	88,458

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

(v) Key management compensation	2007 KShs'000	2006 KShs'000
Salaries and wages Pension scheme contributions Other allowances	46,852 8,771 27,319	46,491 8.716 22,618
	82,942	77,825

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.

For the Year ended 30 June 2007

17.

RELATED PARTY TRANSACTIONS	2007 KShs'000	2006 KShs'000
a) Amount due from KPLC		
Electricity sales Sondu Miriu project receivables	5,183,884 627,072	2,960,287 329,880
Solida i aira project i cossissi	5,810,956	3,290,167
b) Amount due to KPLC		
Electricity purchases	2,433	4,978

The Sondu Mirlu 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	! 4,455,636	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 KShri 500	Furniture, Equipment and fittings KShs'000	Work- in- progress KShs'000	Total KShs'000
206, 93 -	1,372, 753 -	11,540,932 2,057,076	62,3 69 ,124 2,057,076
44,689	64.583	_ (313,349)	-
251,082	1,437,336	13,284,659	64,426,200
:33,530 <u>:</u>	1,038,437 6;,431		11,763,621 2,000,212
150,336	1,099,868		13,763,833
190,696	337,468	13,284,659	50,662,367

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 Charge for the year	2,470,750 404,911	93 650	8,120,811 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

Total KShs'000	Work- in- progress K\$hs'000	Furniture, Equipment and fittings KShs'000	Motor vehicles KShs'000
64,426,200	13,284,659	3, 437,336	251,082
5,356,989	5 ,356,989	-	•
-	(80,715)	9,028 374,296	47.86 0
35,159,874	- -	-	-
(375,013)	-	-	(= TOP)
(9,904)		····	(5 <u>,709)</u> _
104,558,146	18,560,933	1,820,660	293,233
69,398,272	18,560,933	1,820,660	293,233
35,159,874	<u>-</u>		- <u>-</u> -
104,558,146	18,560,933	1,820,660	293,233
13,763,833	-	1,099,868	150,386
-1, 02,000	-	157,888	
3,446,354	-	6 4 ,058	27,459 (5.139)
(9,123)		·	(5,138)
17,201,064		1,321,814	172,707
87,357,082	18,560,933	498,846	120,526

For the Year ended 30 June 2007

11. PROPERTY, PLANT AND EQUIPMENT

(a) 30 June 2007	Freehold land and buildings KShs'000	Transmission lines KShs'000	Plant and machinery KShs'000
Cost			
At 1 July 2006	8,532,736	7,387	40,913,000
Additions	-	~	-
Transfers from	1.202	7,267	15,268
work-in-progress	1,292	1,201	(625,182)
Reclassifications	250,886	_	35,159,874
Revaluation surplus	-	- -	(375,013)
Revaluation deficit	-	-	(4,195)
Disposals	<u>-</u>		
At 30 June 2007	8,784,914	14,654	75,083,752
	0.704.014	14,654	39,923,878
Cost	8,784,914		35,159,874
Revaluation	.		
At 30 June 2007	8,784,914	14,654	75,083,752
Depreciation			
	2,875,661	743	9,637,175
At I July 2006	(219,698)	-	61,810
Reclassifications	402,751	920	2,951,166
Charge for the year Disposals	-	-	(3,985)
Dishosais	<u></u>		
At 30 June 2007	3,058,714	1,663	12,646,166
Net Book Value At 30 June 2007	5,726,200	12,991	62,437,586

Notes to the Financial Statements (continued) For the Year ended 30 June 2007

El Market Th

a) INCOME STATEMENT	2007 KShs'000	2006 KShs'000
Current tax at 25% on the taxable profit for the year Compensating tax	1,363,772 102,171	±
Under provision in prior years Deferred tax charge	-	18,552
Deferred tax credit resulting from reduction in tax rate	807,670	934,709
and the same resulting it of the reduction in tax rate	£	(983,104)
	2,273,613	(48,395)
Reconciliation of taxation expense to tax based on acco	ounting profit:	
	2007	2006
	KShs'000	KShs'000
Accounting profit before taxation	4,719,279	3,720,538
Tax applicable rate of 25%	1,179,820	1,116,161
Tax effects on items not deducted for tax	187,606	(1,075,539)
Originating and reversing temporary differences	(3,654)	(40,622)
Compensating tax	102,17	(.5,522)
Reduction in opening deferred taxes resulting		
from reduction in tex rate by 5%	-	(983,104)
Deferred tax	807,670	934,709
	2,273,613	(48,395)
b) BALANCE SHEET		
Balance brought forward	100.001	
Charge for the year	189,286	98,112
Paid during the year	(1,465,943) 78,120	Q1 174
. ,	76,120	91,174
	(1,198,537)	189,286

EARTONIO PEUS-USE

- a) Basic earnings per share are calculated on the profit after taxation of KShs 2,445,666,000 (2006; NShs 3,768,933,000) attributable to ordinary shareholders and on the average number of ordinary shares in issue during the year.
- b) Diluted earnings per share are calculated on the profit after taxation attributable to ordinary shareholders and on the average number of ordinary shares in issue during the year.
- c) Basic and diluted earnings per share are the same.

For the Year ended 30 June 2007

		2007 KShs'000	2006 KShs'000
PRO	FIT BEFORE TAXATION		
(a) f	Profit before taxation is arrived at after charging:		
Ī	Depreciation	3,446,354	2,000,212
	Amortisation of prepaid leases on land (note 12)	29	29
	Staff costs (note 8(b))	2,084,429	1,728,957
	Directors' emoluments:		
_	Fees	3,450	3,240
	Other	10,711	9,295
	Auditors' remuneration	3,000	2,300
	Operating lease rentals	38,606	37,430
	nterest on long-term borrowings	553,706	644,976
	And after crediting:		
	Net exchange gains	1,419,974	589,070
	Interest income	593,091	829,569
(b)	Staff costs		
	Salaries and wages	1,730,984	1,521,548
	Leave pay provision	120,095	(3,658)
	Pension costs - Defined benefits scheme	229,204	207,042
	- National Social Security Fund	4,146	4,025
		2,084,429	1,728,957
The	average number of employees during the year was:	No.	No
	manent employees	1,532	1,512

Notes to the Financial Statements (continued) For the Year ended 30 June 2007

		2007 KShs'000	2006 KShs'000
		KSIIS VVV	K5ns 000
	PESTA STITE SELECTION FUEL		
	Electricity sales	10,852,766	7,986,968
	Foreign exchange adjustments	192,322	235,740
	income from Emergency Power Project (EPP)	96,131	<u></u>
		11,141,219	8,222,708
3.75	FUE RETER LE PESSETHROUGH	3,410,548	6,077,352
		14,551,767	14,300,060
	Units sold (GWh)	4,599	4,538
ú,	OPERATION NAMES SES		
	Fuel costs - pass-through	3,410,548	6,077,352
	Staff costs (see note 8(5))	2,084,429	1,728,957
	Depreciation	3,446,354	2,000,212
	Plant operation and maintenance	1,067,313	857,614
	insurance	228,100	226,375
	Catchments proservation and dam maintenance	107,03 !	111,850
	Welfare and training	241,854	194,454
	Other costs	488,949	368,067
		11,074,578	11,564,881
<u>.</u>	CUTHER INCOME		
	Interest Income	593,091	829,569
	United National Environmental Programme grants	-	49,406
	insurance compensation	73, 446	119,358
	Miscellaneous income	84,298	42,932
		750,835	1,041,265
	FINANCH UNDOWBYCOSTS		
	Interest or long-term borrowings	553,706	644,976
	Net exchange gains	(1,419,974)	(589,070)
		(866,268)	55,906
".	MRARMING CONSIDER ASSETS ON REVALUA	TION	
	As at 30 june	375,013	-

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

For the Year ended 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 straightline 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.

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.

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.

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.



For the Year ended 30 June 2007

I CNURGAN 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 accuaries. Accuarial 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.

For the Year ended 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 'passthrough' 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.



For the Year ended 30 June 2007

STENDED AND ACCOUNTING POLICES (continued)

Financial instruments (continued)

His detrematurity investments

Heid-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.

For the Year ended 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalisation of geothermal assets i)

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.

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.

Inventories k)

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.

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

The state of the second control of the secon

Trade payables are stated at their nominal value.

44



For the Year ended 30 June 2007

IS GNATE, AT ATTOOUNTING 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%
Taran	0.00/6
Transmission lines	2.5-20%
Intake and sunnels	
	1%
Plant and machinery	- 6.66%
Motor vehicles	1. 0.00%
Proton vehicles	25%
Furniture, equipment and fittings	
. a. v. car et ederbinique and attings	122%

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.

For the Year ended 30 June 2007

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

SHEET LIFER HAT ON

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.

A SERVER OF THE CODUNTING 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 I 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

Cash flows from operating activities	Note	2007 KShs'000	2006 KShs'000
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 activi	ties	(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	r 19(c)	1,839,128	4,406,845

Statement of Changes in Equity For the Year ended 30 June 2007

Total KShs'000	Proposed Dividends KShs'000	Fixed asset revaluation reserve KShs'000	Revenue reserve KShs'000	Financial instruments revaluation reserve KShs'000
33,428,760	500,000	-	13,631,528	181,788
3,768,933	-	-	3.768,933	~
(199,030)	-	-		(199,030)
(500,000)	(500,000) 1,209,099	- -	(1.209,099)	
36,498,663	1,209,099	-	16,191,362	(17,242)
36,498,663	1,209,099		16,191,362	(17,242)
35,159,874	<u>.</u> -	35,159,874 (1.636,314)	- :,636 ,31 4	-
(8,380,890)	<u>.</u>	(8,380,890)	-	-
2,445,666	_	•	2.445,666	-
3,318	-	-	•	3,3 : 8
(1,209,099)	(1,209,099)	_	-	-
(879,343)	- 879,343	-	(879.343) (879.343)	<u>-</u>
63,638,189	879,343	25,142,670	8,514,656	(13,924)

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 I 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	8,579,72
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 adjus	tments -	-	
Dividends:			
2006 - Final paid	-	-	-
2007 - Interim paíd	-	-	-
2007 - Final proposed	ra		
At 30 June 2007	5,495,904	5,039,818	8,579,722

Balance Sheet

As at 30 June 2007

ASSETS	W. H.	2007	2006
NO NECLECTEN Y 1485 EVS	Note	KShs'000	KShs'000
Property, plant and equipment	11	87,357,082	E0 //0 3/7
Prepaid leases on land	12	1,504	50,662,367
Intangible assets	13	=	1,533
Treasury bonds	5 4	215,664	2 447 400
Terout y bonds] ~t	3,941,294 91,515,544	2,447,488
CURAINT AGSETS		71,313,344	53,111,388
nventories	15	1,036,841	1.047.007
Trace and other receivables	16	564,070	1,047,906
Amount due from KPLC			1,083,254
Tax recoverable	17(a)	5,810,956	3,290,167
	9(b)	- 1 200 222	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	<u>4,321,368</u>
441 48 A 77 4 Ma		10,451,317	11,674,854
ONFRANT LIMBILITIES			
Borrowings due within one year	20	1,023,189	1,070,516
Geothermal development funds	2 i	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 case	23	2,000	2,000
Tax payable	9(b)	1,198,537	-
		7,234,189	5,053,579
NET CURRENT ASSETS		3,217,128	6,621,275
NET ASSETS		94,732,672	59,732,663
SMARGMON PERSONANDS AND LIABILITIES			
CARITALI ANIDIA (SERVES			
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
		63,638,189	36,498,663
NON (CURRENT LIABIUTIES			
Borrowings	20	16,040,695	17,366,772
Propaid operating ease	23	15,000	17,000
Deferred tax	27	15,038,788	5,850,228
		31,094,483	23,234,000
		94,732,672	59,732,663

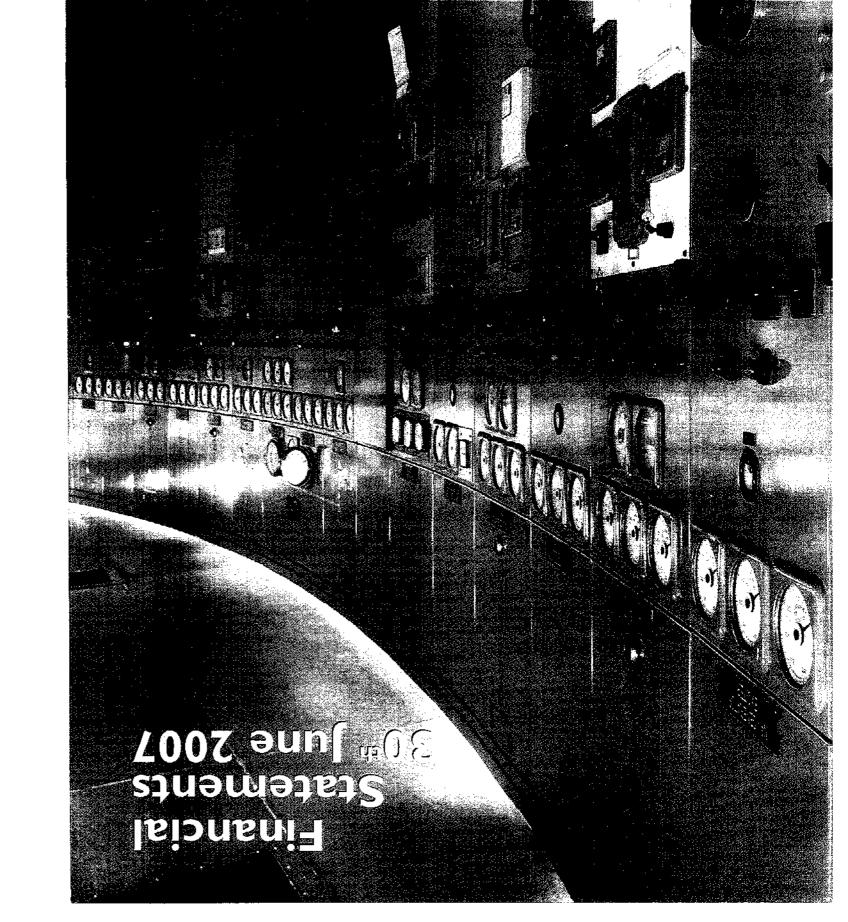
The Board of Directors approved the financial statements on 17 September 2007 and were signed on its behalf by:

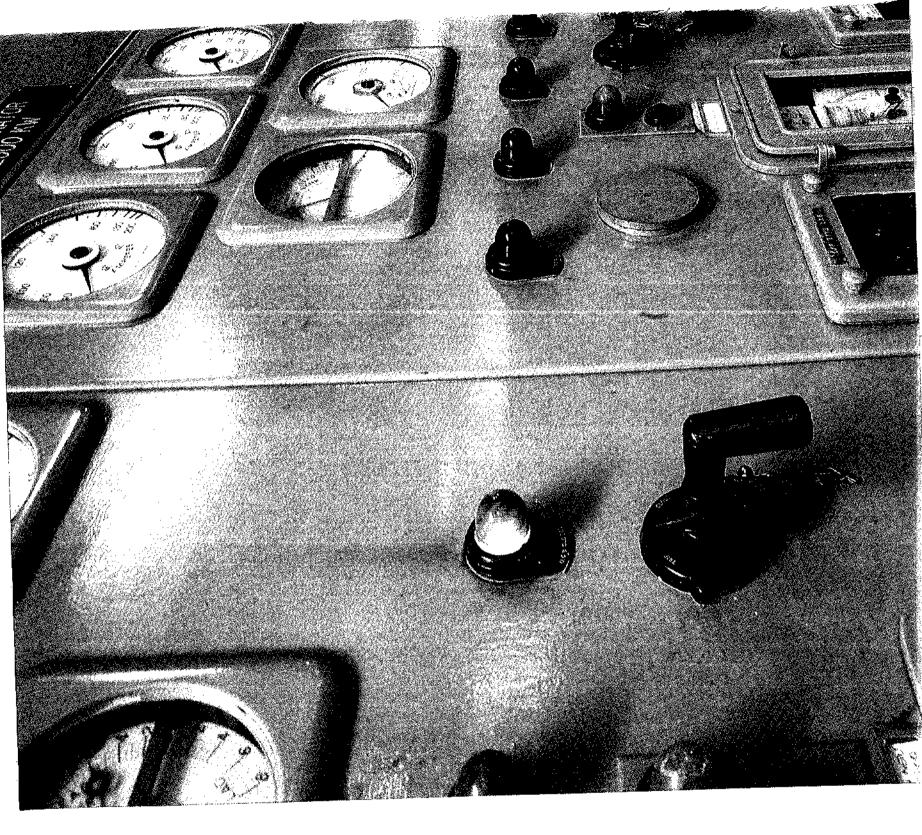
Director Director

Income Statement

For the Year ended 30 June 2007

	Note	2007 KShs'000	2006 KShs'000
ELECTRICITY SALES – NON FUEL FUEL REVENUE – PASS-THROUGH	3(a) 3(b)	11,141,219 3,410,548_	8,222,708 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 - Deferred tax	9(a) 9(a)	(1,465,943) (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





10 F N.C.

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.

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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 Parkiands 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.

Hizain.

The Company offers nost 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.

Powrain Sobbi.

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, Ngiiri 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, Keiyo 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.





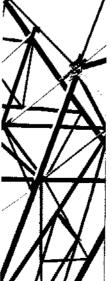
LISTI OR TEN DARGEST SHAREHOLDERS AS AT 30 JUNE 2007

	Numl	per of Shares	%	
Ī.	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	

TISTRIBUTIO - DES-AREHOLDERS

Range	No. of Shareholders	Shares	% Shareholding
I - 50 0	82,39 5	2 7.98 7.690	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
10,00! - 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
500,000 - 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 Diseases

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.

Souré Responsabilités

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.

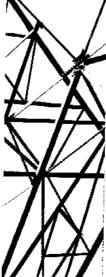
The Company Secretary advises the Board on all corporate governance matters and statutory requirements as well as attends all the Board meetings and Committee meetings.

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 Communication

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 raslimali inayoweza kutumika tena. Na asilimilia 75 ya vile tunavyoendelea kujenga vinatumia raslimali 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.

Large for the Massers register (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 (CO:e) kufikia hadi tani 600,000 milioni katika kipindi cha hadi 2012.

Isitoshe, tutakuwa tunapokea dola zaidi kwa kila tani ya CO:e 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.

Protesta kazineni

Tumekuwa na jumla ya wafanya kazi 1,500 kwa miaka mingi. Takribani asilimia 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. Mavazi ya usalama, uhamasishaji kuhusu HIV/Ukimwi, mazingira safi ya utendaji kazi ni miongoni mwa sera zetu za kuhakikishia wahudumu wetu usalama, hali ambayo imetuwezesha 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 tali ya pansayo – Mabadiliko ya "Nzuri badi bora Zaidi"

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

Viwanda vya kampuni vinaendelea kuzeeka. Kuna changamoto mpya zaidi za usimamizi zinazoibuka, Sheria ya Ununuzi, Sheria ya Kawi na ile ya Masoko ya Hisa miongoni mwa zingine. Wakenya wanahitaji umeme na mahitaji yanaendelea kuongezeka. Wenyehisa 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) Kufafanua upya mwekeleo 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.

Kuongezaka 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 kutosheleza 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.

Macasiliko na sera da usimamizi

Kifungu cha sheria cha Niguvu za Umeme cha 1997 kilisababisha kubuniwa kwa Halmashauri ya Usimamizi wa Stima (ERB), na hatimaye kugawanya na kuunganishwa kwa shughuli ya 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 yatakayotuwezesha kutosheleza mahitaji yetu kifedha, tunafanya mazungumzo kuhusu Mapatano kamili ya Ununuzi wa Umeme (PPA), chini ya utaratibu wa mifumo miwili - Malipo ya Raslimali 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.

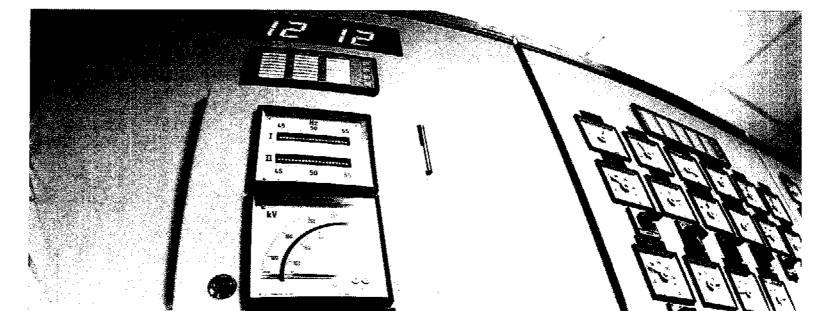
We have branded this transformation programme "Good to Great" or "G2G" with two themes embedded – (i) moving from a "Good Company" to a "Great Company" that creates value for all stakeholders (shareholders, end users, employees and citizens) and (ii) focusing on achieving sustainability in value creation 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



Endicannental Municipatauria

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 (COse) emissions by about 600 billion tonnes annually within the crediting period up to 2012.

Besides carbon cradits, we will be receiving an extra dollar for a tonne of COze 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.

Cur Recale

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 - "Specifito 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:- (1) 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.

Indentia Resus on the comment

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 prought 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.

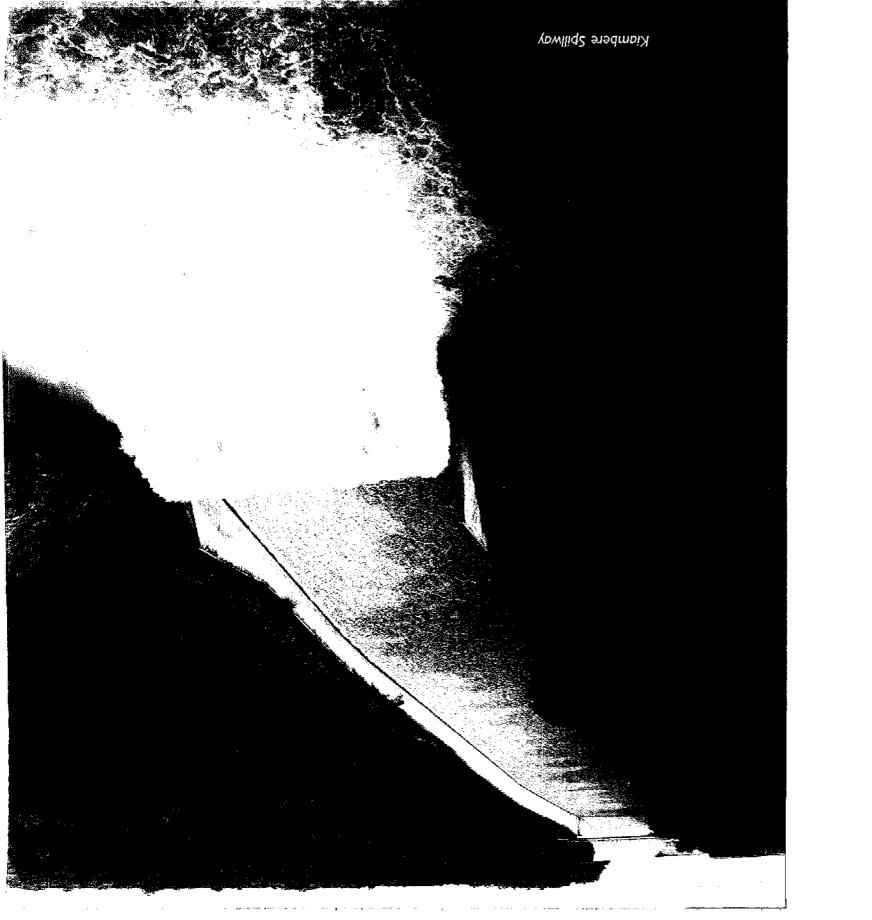
Since 1999, we have been operating under an Interim Power Purchase Arrangement with the off taker. To secure future revenues and meet our financing needs, we are negotiating a full term Power Purchase Agreement (PPA) on a two-tier model — Capacity Payments to meet fixed costs and Energy Payments to meet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







Taanifa ya Mwenyekiti

Nina furaha kutangaza kuwa katika mwaka ulionalizika, kampuni ilitimiza malengo yake ya utekelezaji na kifedha kama yalivyoainishwa na Serikali katika kandarasi ya utendaji kazi. Kama kawaida, tutaendesha shughuli zetu huku tukizingatia faida kwa wenyehisa wetu. Hii itahakikisha tumefikia sio tu malengo yetu kama yafivyowekwa 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 nyongeza ya asilimia 45 kutoka KSh 0.55 kwa hisa mwaka jana.

gwagiga bari ing kamailan gigagaan para ng gagara na ng makang gigag na kamalawa aran gaga bari na malaka na Tan man na malam na malambarang na aman na manang malambarang manang managarang ar malambarang malambarang mal

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

Ahsanteni

Taarifa ya Mwenyekiti



Wenyehisa wetu,

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

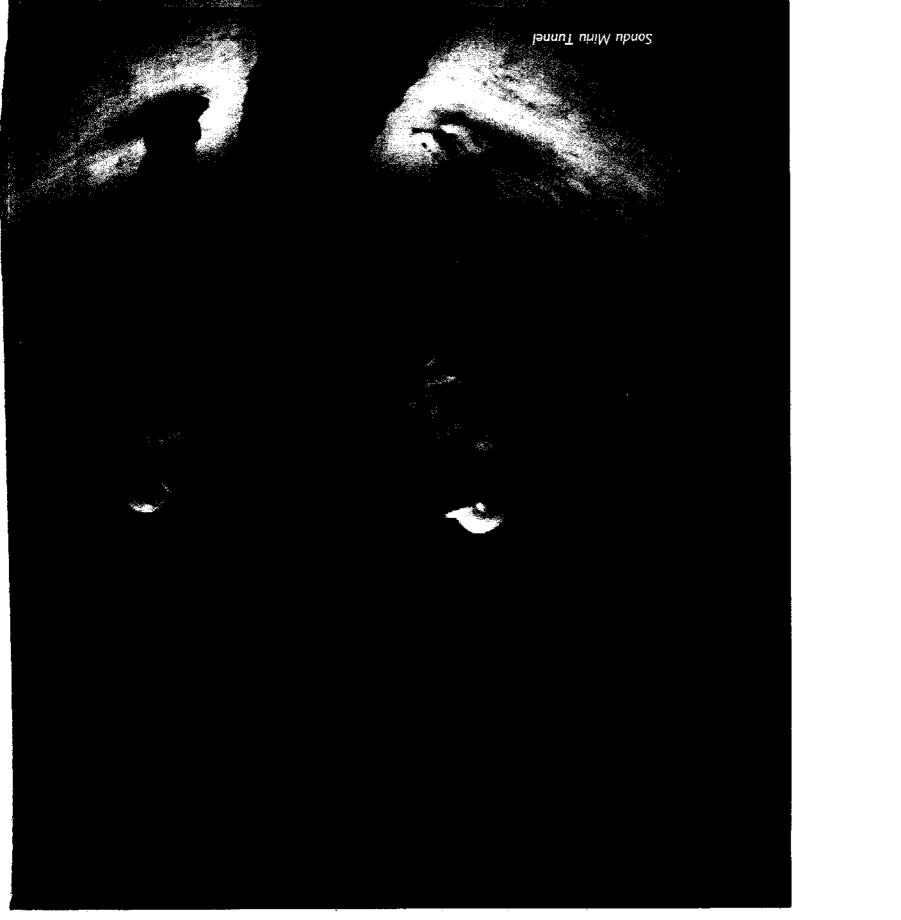
Tangu kuorodheshwa kwa kampuni yetu katika Soko la Hisa, hisa za KenGen zimeorodheshwa miongoni mwa zile zinazouzwa na kununuliwa kwa wingi. Matokeo haya mazuri na uuzaji mkubwa wa hisa, uliiwezesha kampuni yetu kupandishwa ngazi na kuwa miongoni mwa kampuni 20 bora katika NSE ambazo hisa zao zinatumika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

Ukuwaji wa sekta yetu uliimariishwa 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 mashambani. Mwaka huu, matumizi ya umeme yaliongezeka kwa asilimia 8 na inabainishwa kuwa nyongeza hii itaimarika katika siku za usoni.

lli 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 Serekali ya Umeme wa Dharura (Emergency Power Project). Ongezeko hili iliiwezeshwa 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 KSh11,141 milioni. Nyongeza ya mauzo ya stima mwaka uliopita ilitokana na kuongezeka kwa vipimo vya stima vilivyouzwa pamoja na kupanda kwa bei ya stima kutoka 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 kutoka kwa kiwango cha chini cha KSh 48 milioni mwaka uliopita. Ushuru wa Kampuni uliongezeka kutoka kwa mapato baada ya ushuru hadi KSh 2,446 milioni mwaka huu. Katika mwaka unaomalizika, tulifanya upya tathmini ya vifaa na raslimali zetu za uzalishaji, na kutokana na hali hiyo, thamani yao iliongezeka kutoka KSh 50,662 milioni mwaka jana, hadi KSh 87,357 milioni mwaka huu.

Mkakati wetu kibiashara ni kuangazia kwa makini nyongeza ya nguvu za umeme kutoka mbinu zingine za uzalishaji zikiwemo nguvu mvuke, umeme joto na upepo. Kufuatia hayo, tunatarajia kuongeza utoaji wa Megawati 300 zaidi katika muda wa miaka minne au mitano ijayo. Kampuni yetu iliendelea kuzingatia uwajibikaji kwa jamii na ilijaribu kuinua hali ya maisha kwa jamii mbali mbali. Mkazo ulitiliwa kuimarisha elimu, mazingira, kusambaza maji, kuunga mkono harakati za kuleta amani, michezo na usambazaji umeme.







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 Sodial 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 Kitili Mbathi Chairman

Chairman's Statement



ear Shareholders

This year marks our first anniversary as a Company liste 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 Congran at the NSE. Since the listing, KenGen shares have consistently been ranked among the most heavily trades 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 practical national economy which accelerated from 5.8% to 6.1% as as well as the increased customer connections spearheaded b Government and the Kenya Power & Lighting Company Ltd (KI This year, electricity consumption grew by 8% and is sentitived in the medium term Office.

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Olkaria II Geothermai 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 Nyert 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

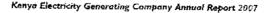
Mobile: 0724663651

Garissa Power Station

P O Box 9 - 70100 Garissa Tel: 046 - 2028/3158

Fax: 046 - 3150 Mobile: 0733600678





Fomu ya Uwakilishi

		Nambari Ya	Mwenyehisa
Kenya Stima i	Wa Kampuni a Electricity Generating Plaza, Kolobot Road 47936-00100 Nairobi	g Company Limited	
*Mimi/	KILISHI /sisi	wa	nikiwa/tukiwa
Mws	oochama/Wanachama wa k	kampuni iliyotajwa hapo juu, namteu wa wa	a
akíkos	a	wa	kama mwakilishi
utakac	ju/wetu kupiga kura kwa n ofanyika mnamo Novemba doa inavyopasa)	niaba *yangu/yetu katika Mkutano Ml n 22, 2007 na kwenye tarehe nyingin	kuu wa Kila Mwaka Wa Kampuni e ile iwapo utaahirishwa.
\$ahihi			
Angali	ia maelezo 2,3,4 chini		
llitiwa	ı sahihi siku	ya	(mwezi) 2007.
2. I 3. I 4. I	Anuani ni lazima iwe ile kw lwapo mwanachama ni shir au afisa yeyote atakaye idh Mtu anayeteuliwa kama my	wakilishi si lazima awe mwanachama . ushirika, sahìhi ya mmoja wao inat	wa kampuni.
Tafac (AGN weny	d) na wawa au mwakilis	ya mwenyehisa nbuka kwamba lazima itolewe katik shi wako ili kuruhusiwa kuhudhuri awakilishi wao waliojulishwa kwa h	a Mkutano Mkuu wa Kila Mwaka a. Tafadhali kumbuka kwamba ni
lina:		Sahihi:	
Mlan	tano Mkuri wa bila Mwaka :	wa Kenya Electricity Generating Co oad, Nairobi mnamo Alhamisi Nove	mpany Limited utakaofanyika katika

Proxy Form

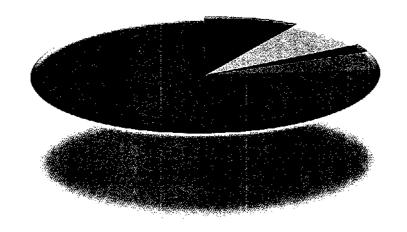
Shareholder's Member No The Company Secretary Kenya Electricity Generating Company Limited Stima Plaza, Kolobot Road P.O Box 47936-00100 Nairobi
PROXY /We
a Hember/Hembers of the above named Company, hereby appoint:
himof
*my/our proxy to vote for *me/us on *my/our our behalf at the Annual General Meeting 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 (monut) 2007.
 Notes The address should be the address shown in the register of members. 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. A person appointed to act as a proxy need not be a member of the Company. 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 snareholders 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.



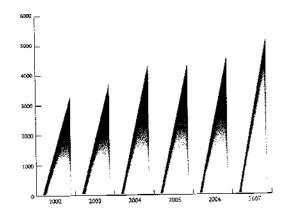
Selected Performance Indicators

Sales Market Share

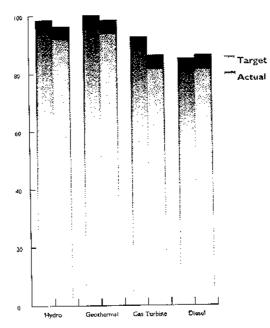
KenGen	75%
Aggreko	9%
Orpower	2%
IberAfrica	5%
ోడకుగర	3%
Others	<1%



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	Logs 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.C\$
51.45	34.99	43.86	17.70	49.67	42.72
87.71	64.84	90.07	59.55	79.09	6 .09
96.71	50.16	97.15	49.07	97.03	52.58
89.57	72.48	96.20	68.25	95.5	77.90
96.75	52.23	97.01	55.03	9 6.38	40.66
16.23	53.50		_	_	
71.03	73.98	90.34	74.74	79.69	3 7. 85
97.00	98.20	83.93	85.80	94.47	95,47
96.20	94.16	97.73	97.12	97.72	93.2
				77.72	23.2:
55.50	5.09	53.00	15.24		
51.27	36.93	77.03	15.64	73.14	3.73
31.27	30.73	77.03	37.59	79 .76	14.57
63.05	43.14				
83.05	43.12	75.32	32.65	85.89	36.46
73.27	47.11	94.78	37.60	82. 70	36.3 (
63.00	23.71	43.00	20.60	50 .00	13.45

Plant Performance

For the Last Five Years

	2001	/2002	2002/	2003
Power Station	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	53.5 i
Mesco	62.86	52.42	97.74	84.49
Nidula	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	97.4 4	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 I	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-Kîpeyu	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

•	Capacity (MW) as					
	at 30.06	.2007	2002/03	2003/04	2004/05	2005/06	2006/07
Power Station	Installed	Effective	Gwh	Gwh	Gwh	Gwa	Gwô
Gas Turbine							
Fiat-Nairobi South	13.5	10	<u>.</u>	_	3	! 8	4
JBE-Kipevu	63	60	20	4	97	194	75
TOTAL	76.5	70	20	4	100	217	79
Isolated Diesels							
Garissa						9	l C
Lamu						6	9
TOTAL	4.2	3.5	12	13	£ 1	í 5	15
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	<u> 56</u>	51
System Losses			17	23	23	22	24
GRAND TOTAL GE	NERATE)	3,713	4,376	4,383	4,626	4,584
Sales % of units Genera	ted		98.54%	98.26%	97.65%	98.10%	98.19%
Consumption as % of u	nits Genera	ted	1.01%	1.22%	1.82%	1.43%	1.30%
Losses as % of units Go	nerated		0.45%	0.52%	0.53%	0.48%	0.51%
Growth in unit sales			11%	18%	0%	5%	1%

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

	Capacity (at 30.06		2002/03	2003/04	2004/05	2005/06	2006/07
Power Station	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	44	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	1 4 6	278	330	39 9	326
TOTAL	133.5	106.6	229	340	378	399	326
Geothermal							
Olkaria I	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	KWE
		14.441.
4,280	4,538	4 599
2.57	3.15	3.15
2.05	2.55	
	2.00	2.41
KShs'000	KSsh'000	K5hs'000
11,011,576	14,300,060	
1,753,152	3,768,933	14,551,767
-,,	3,700,733	2,445,566
1,753,152	3,768,933	2,445,666
2,024,976	2,000,212	3,44 6,35 4
29	29	
(636,580)	(589,070)	29
3,141,577		(1,419,974)
.091719077	6,358,244	4,472,075
50,605,503	50,662,367	07 357 555
33,210,002	30,002,367	87,357,082
. 1,561	1,533	: =0.4
-,	1,000	1,504
4,838,281	2,447, 4 88	ስ መፈና የ ካ ለ
-	2, 117, 100	3,941,294
2,387,865	3,290,167	215,664
2,478,141		5,810,956
72,571,510	3,314,108	(2,593,828)
72,371,310	59,715,663	94,732,672
10,535,722	10,535,722	! O fac 700
22,893,036	25,962,941	10,535,722
15,784,584	23,702,751	53.117,467
5,898,623	- E 0E0 330	
17,410,138	5,850,228	15,038,788
49,406	17,366,772	16,040,695
72,571,510	- 	-
1,880,223	59,715,663	94,732,672
1,000,223	2,057,076	5,356,989
2.46%	E 70%/	
	5.70%	3.23%
7%	7%	"YO./
4%	6%	7%
•••	076	3%
2%	4%	10/
2.6	2.3	1%
3.1	3.3	2.0
60%	5.5 55%	5.4
	33/6	40%

5 Year Financial and Statistical Records

	2003	2004
	Kwh	Kwh
	Kivii	
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
Average cost per units sold (Kolls)		
	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
Amortisisation 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	-	2.013.447
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	10 525 722	10 E2E 722
Share capital	10,535,722	10,535,722 21,494,735
Reserves	19,818,394	15,784,584
Funds awaiting allotment of shares	15,784,584	4,988,500
Deferred Tax	4,246,399	16,801,923
Loan capital	15,533,0 55 94,711	49,406
Grants	66,012,865	69,954,870
	4,896,044	3,268,289
Capital Expenditure	4,070,044	3,200,200
Income for the year as a percentage	4.08%	2.48%
of average capital employed Profit before tax, dividend and exceptional	1.0070	
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%
Self i manong rado		

For the Year ended 30 June 2007

33. RETIREMENT BENEFITS (continued)

The principal actuarial assumptions were:	200 7 %pa	25 0\$ %th
Investments return Rate of salary escalation	10	10
Rate of pension increases	3	<u> </u>

A provision of KShs 339 million was made in 2004, which was higher than acquarial 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 temporary 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.



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:

	25,150,252	17,442,887
Contracted for	14,734,676	10,373,852
Authorised but not contracted for	10,415,576	7,069,035
	2007 KShs'000	2006 KShs'000
has been made in these illiancial statements are.		

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 (E.A) 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 (E.A) 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:

	(1,155,300)	(1,241,900)
Past service pension liabilities Fair value of scheme's assets	(3,715,800) 2,560,500	(3,155,500) 1,913,600
аззинрионз наче.	2007 K\$hs'000	2006 K\$hs'000



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.



For the Year ended 30 June 2007

CONTINGEN: L'ABILITIES	2007 KShs'000	2006 KShs'000
Disputed income tax assessment Disputed tax penalties Disputed contracts	1,638,754 31,043	1,638,754 31,043 800,000
	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 walver 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.

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 Amounts received during the year	24,035	46,500 3 8,9 66
Net interest income Expenditure during the year	447	3,590
Balance at the end of the year	(12,845)	(65,{2!) 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	2006
	KShs'000	KS hs'0 0 0
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	03,739	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.



For the Year ended 30 June 2007

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

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:

Tollowing training	2007	2006
	KShs'000	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	9 34,709
Deferred tax credit resulting from reduction in tax rate		(983,104)
At 30 June	15,038,788	5,850,228

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	200 8
	KShs'000	KShs'000
Within I year	2,000	2,096
After I year but not later than 5 years	8,000	3,000
After 5 years	7,000	9,000
	15,000	17,00C

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

	Authorised:	2007 KShs'000	1006 KShs/000
	2,215,927,528 ordinary shares of KShs 2.50 each issued and fully paid:	5,539,819	5.539,819
	2,198,361,456 ordinary shares of KShs 2.50 each	5,495,904	5,495,904
25.	RESERVES		
		2007	2006
		KShs'000	KShe'000
	Share premium	5,039,813	\$,039,818
	Capital reserve	8,579,722	8.579,722
	Financial instruments revaluation reserve	(13,924)	(17.242)
	Revenue reserve	18,514,656	6,191,362
	Revaluation reserve - property, plant and equipment	25,142,670	
		57,262,942	29.793.660

- i) 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 capital sation of the related excess was in the form of share capital issued at a premium.
- ii) 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.
- iii) 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.
- iv) 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

	Δs 30 lune	1,443,030	1,852,153
	Expenditure during the year	(411,123)	(340,490)
	Received during the year	2,000	963,193
	At the beginning of the year	1,852,153	1,229,450
		KShs'000	K\$hs'000
2!.	GEOTHERMAL DEVELOPMENT FUNDS	2007	2006

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	2006
	KShs'000	KShs'000
Trade payables	829,360	1,427,003
Contract payables and retention money	2,064,179	79,622
• •	386,208	406,562
	120,095	[10,46]
iundry payables .eave pay provision /AT 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:

The lacure Fernal payments under operating	2007	2006
	KShs'000	KShs'000
Within I year	6,834	6,834
After I year but not later than 5 years	15,245	22,079
	22,079	28,913

For the Year ended 30 June 2007

20. (a) BORROWINGS

	2007 K\$hs'000	20 06 KS/s'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	4,23 8,011
7.7% International Development Association		
2003/2018 (U\$\$ 80,268,775) 7.7% Kreditanstalt Fur Wiederaufbau 2004/2019	5,343,043	6,469,372
(Euro 1,219,463)	100 177	
0.75% Japan Bank for International Cooperation	109,157	124,577
KE P23 2014/2044 (JPY 6,731,186,241)	3,629,590	7.153, 576
4.5% International Development Association	0,022,070	پ رپہر د ۲۰
2009/2027 (US\$ 1,496,669)	100,226	10,574
The section of		
Total loans	16,946,884	18.298,721
Accrued interest		38,567
Total borrowings	17,063,884	10.3011000
Less: Amounts due within one year	(1,023,189)	18.437,288
	(1,023,109)	(1,070.516)
Non current borrowings	16,040,695	17,366,772

(b) Analysis of borrowings by currency

	2007	Borrowings in US\$ KShs'000	Borrowings in JPY KShs'000	Borrowings in EUR KShs'000	Total borrowings KShs'000	
:	Loans (KShs) 2006	5,443,268	[1,394,459	109,157	16.946,884	
	Loans (KShs)	6,579,946	11,594,198	124,577	18,298,72	
(c)	Maturity of non-current borro Due between 1 and 2 years Due between 2 and 5 years Due after 5 years	owings		2007 KShs '000 1,023,189 3,069,566 11,947,940	2008 KShs*000 1,070,516 3,211,547 3,084,709	

16,040,695 17,365,772

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.



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 KShs'000	2006 KShs'000
	generated it offi operations		
	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	(22,79 4)	(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		
(0)	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	<u>85,477</u>
	Balance at 30 June	1,839,128	4,406,845

For the Year ended 30 June 2007

17. RELATED PARTY TRANSACTIONS (continued)

(iv) Staff	2007 KShs'000	2 006 %Shs'000
Key management staff advances Other staff	422 89,388	896 87.562
	89,810	88.458

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

(v) Key management compensation	2007 KShs'000	2 006 % 5 hs'000
Salaries and wages	46,852	46.49!
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.



For the Year ended 30 June 2007

17.

b) Amount due to KPLC		
I/DI C	5,810,956	3,290,167
Sondu Miriu project receivables	627,072	329,880
Electricity sales	5,183,884	2,960,287
a) Amount due from KPLC		
	KShs'000	KShs'000
RELATED FART MARGACHORS	2007	2006
RELATED PARTY TRANSACTIONS	2007	200-

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 K S hs'000	2006 KShs'000
(i) Electricity sales to KPLC	14,455,636	14,300,060
(ii) Electricity purchases from KPLC	59,256	52, 9 05
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'086	Total KShs'900
206,193	1,372,753	11,540,932	/* 3 /* (0.4
-		2,057,076	62,3 6 9,124 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	·	:3,763,833
100,696	337,468	13,284,659	50,662,367

For the Year ended 30 June 2007

il. 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 I July 2005	8,510,589	610	40,738,047
Additions	-	.	~
Fransfers from work-in-progress	22,147	6,777	174,953
At 30 June 2006	8,532,736	7,387	40,913,000
epreciation			
r I July 2005	2,470,750	93	8,120,811
harge for the year	404,911	650	1,516,364
kt 30 June 2006	2,875,661	743	9,637,175
let Book Value			
At 30 June 2006	5,657,075	6,644	31,275,825

For the Year ended 30 June 2007

		2007 KShs'000	2 00 6 KShs'000
3. (a) ELECTRICITY SALES - NON FUEL		
(Electricity sales	10.000 744	77 50 4 5 4 5
	Foreign exchange adjustments	10,852,766	7,986,968
	Income from Emergency Power Project (EPP)	192,322	235,740
	mount in an among and y tower troject (EFF)	96,131	
		11,141,219	8,222,768
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		ŕ
٠,٠	Fuel costs — pass-through		
	Staff costs [see note 8(b)]	3,410,548	6.07T,3 52
	Depreciation	2,084,429	.728.957
	Plant operation and maintenance	3,446.354	2,000,212
	Insurance Insurance	1,067,313	8517,614
	Catchments preservation and dam maintenance	228,100	226, 37 5
	Welfare and training	107,031	11.850
	Other costs	241,854	. 94,4 5 4
	2 3.15. 33353	488,949	3 <u>68,067</u>
		11,074,578	11,564,881
5.	OTHER INCOME		
	Interest income	503 AG I	*** ********
	United National Environmental Programme grants	593,09!	829,569
	Insurance compensation	- 73,446	49,406
	Miscellaneous income	84,298	. 19.358
	·	750,835	42,932
		730,033	1,041,265
6.	FINANCE (INCOME)/COSTS		
	Interest on long-term borrowings	553,706	544.976
	Net exchange gains	(1,419,974)	
		(866,268)	(589,370) 55,906
7.	IMPAIRMENT OF FIXED ASSETS ON REVALUA		~~,566
		. 1 (
	As at 30 June	375,013	

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

For the Year ended 30 June 2007

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.



For the Year ended 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Provisions

Provisions are recognised when the company has a present obligation (logal 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 amployees. 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 endidement 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.



For the Year ended 30 June 2007

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.

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 'passthrough' 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.



For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 cirectly 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.



CONTROL OF THE PROPERTY OF THE

For the Year ended 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

For the Year ended 30 June 2007

2. SIGNIFICANT ACCOUNTING FOLICIES (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	6.65%
Transmission lines	2.5-20%
Intake and tunnels	1%
Plant and machinery	1- 6.66%
Motor vehicles	25%
Furniture, equipment and fittings	122%

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 not disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised.



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

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

Cash flows from operating activities	Note	2007 KShs'000	2006 KShs'000
Cash generated from operations Corporation tax paid Interest paid	19(a)	6,090,015 (78,120) (687,043)	6,041,226 (91,174) (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 Purchase of intangible assets Proceeds from sale of assets Interest received Proceeds on sale of treasury bonds Proceeds on redemption of treasury bonds on mature Purchase of treasury bonds	rity	(5,356,989) (215,664) 9,466 658,321 1,505,026 972,500 (3,444,926)	(2,057,076) - - 763,811 3,200,393 920,750 (1,822,111)
Net cash flows (used in)/generated from investing ac	tivities	(5,872,266)	1,005,767
Cash flows from financing activities			
Payment of long-term borrowings Proceeds from long-term borrowings Exchange gain capitalised Payment of funds awaiting allotment of shares Dividends paid	19(b) 19(b) 19(b)	(871,203) 2,197,783 (1,226,142) - (2,088,442)	(888,132) 1,362,550 - (3,524,425) (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 yea Net foreign exchange adjustment	ır	4,406,845 (32,299)	2,441,971 589,070
Cash and cash equivalents at the end of the ye	ar 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	Totzi KSas'000
	181,788	13,631,528		500,000	33.42 8,76 0
	-	3,768,933	-	-	3,768,933
	(199,030)		-		(199,030)
	<u>-</u>	(1,209,099)	-	(500,000) 1,209,099	(500,000)
	(17,242)	16,191,362	-	1,209,099	36,498,6 6 3
	(17,242)	16,191,362	-	1,209,099	36,4 98,56 3
	n -	1,636,314	35,159,874 (1,636,314) (8,380,890)	- -	35,139,874 - (8,380,890)
	3,318	2,445,666	-	- 	2, 44 5,666 3,318
/	- - -	(879,343) (879,343)	- •	(1,209.099) - 879,343	(1,209,099) (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
t July 2005	5,495,904	5,039,818	8,579,722
et profit for the year	м	-	-
nortization of treasury bonds fair			
lue adjustments	-	-	-
ividends:			
2005- Final paid	-	-	-
2006- Proposed			
30 June 2006	5,495,904	5,039,818	8,579,722
I July 2006	5,495,904	5,039,818	8,579,722
plus on revaluation	-		•
ansfer of excess depreciation	-	-	-
eferred tax on revaluation surplus		-	-
et profit for the year	•	-	-
mortization of treasury bonds fair value adjus	tments -	-	-
ividends:			
2006 - Final paid	-	-	-
2007 - Interim paid	-	-	-
2007 - Final proposed	-		
t 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	H	87,357,082	50,662,367
Prepaid leases on land	12	1,504	.,533
Intangible assets	î3	215,664	-
Treasury bonds	14	3,941,294	2.447,488
		91,515,544	53.111,388
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	,657,396
Term deposits	18	89,794	85,477
Bank and cash balances	19(c)	1,749,334	4,321,368
	()	10,451,317	674,854
CURRENT LIABILITIES			
Borrowings due within one year	20	1,023,189	070,516
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	2,000
• •	- (-)	7,234,189	5,053,579
NET CURRENT ASSETS		3,217,128	6,621,275
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
·		63.638,189	36.498.663
NON-CURRENT LIABILITIES			2013701005
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>	23.234,000
		31,073,403	43,437,000

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

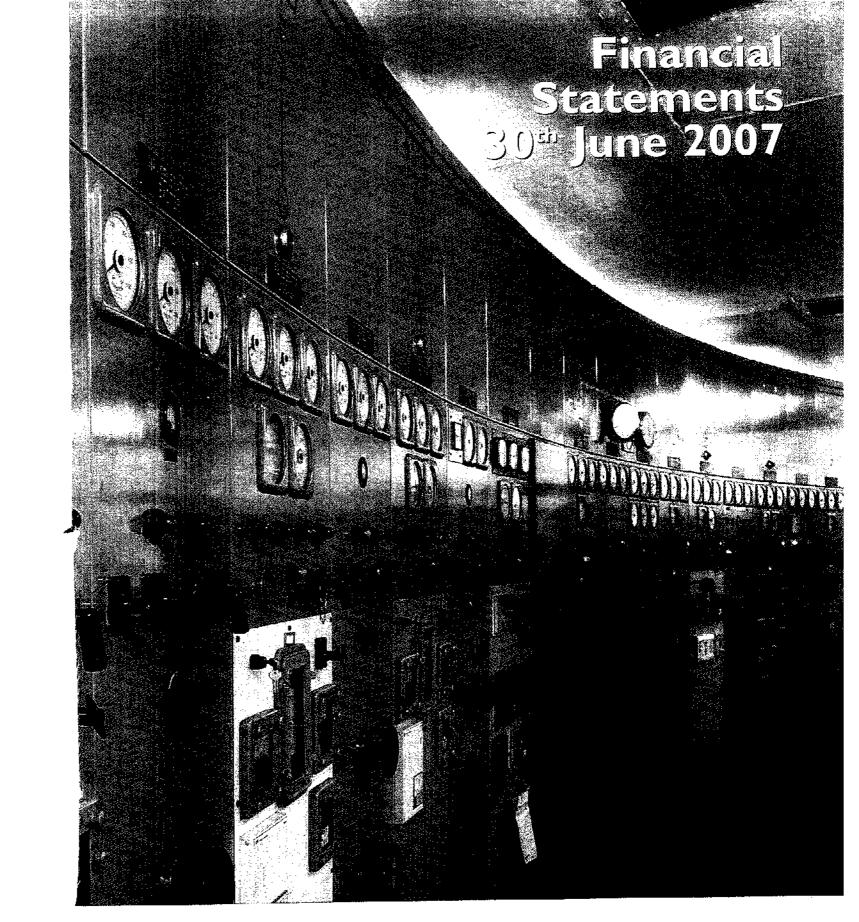
Director Director

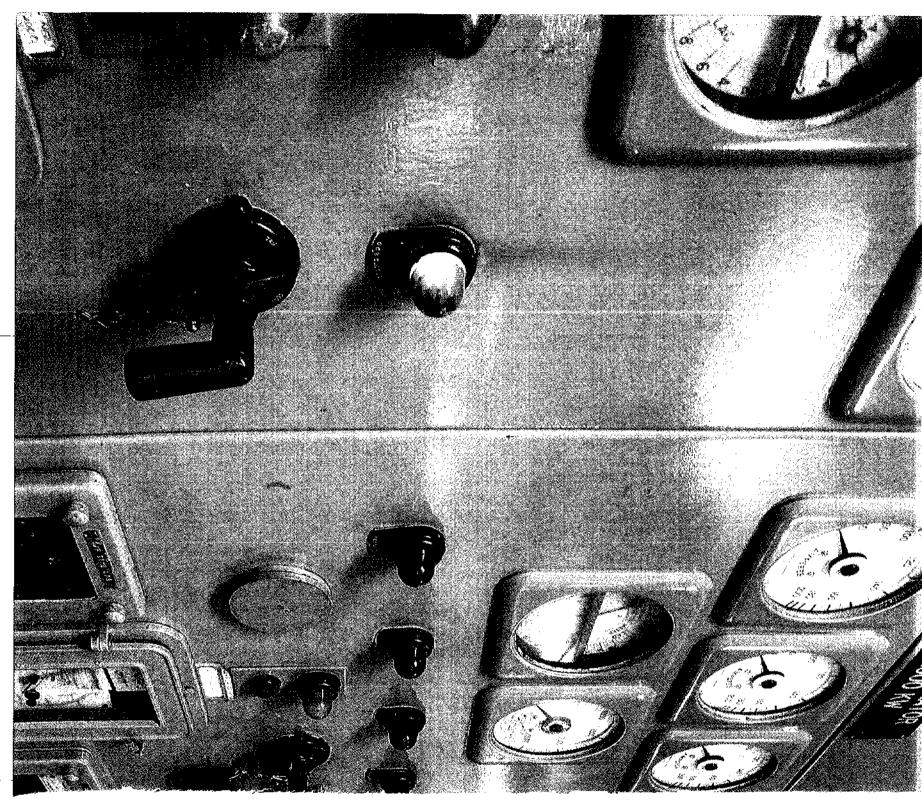
Director

Income Statement

For the Year ended 30 June 2007

	Note	2007 KShs'000	2006 K\$hs'000
ELECTRICITY SALES – NON FUEL FUEL REVENUE – PASS-THROUGH	3(a) 3(b)	11,141,219 3,410,548	8,222,708 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 - Deferred tax	9(a) 9(a)	(1,465,943) (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





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.

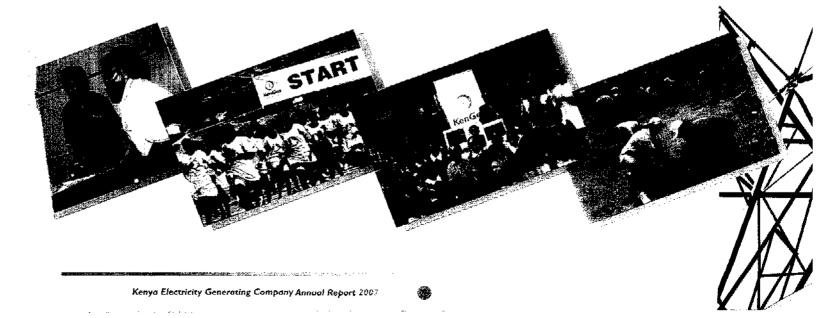
Health

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 Sonda 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, Ngiiri 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, Kelyo 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 klosks. 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. 2. 3. 4. 5. 6. 7. 8. 9.	Permanent Secretary, Treasury Nomura Nominees Limited A/C NSSF Alfaways Limited National Social Security Fund Barclays (K) Nominees Limited A/C 9230 Jennid Trading Limited Lancaster Investment Limited Sandhurst Investments Limited Kensington Developers Limited Kenya Commercial Bank Nominees Limited A/C 769G	1,538,853,019 10,899,800 6,436,121 5,990,131 5,557,200 5,455,794 4,502,106 4,501,294 4,148,427 3,557,692	70.00 0.50 0.29 0.27 0.25 0.25 0.20 0.19 0.16
	233,160 other shareholders Total	1,589,901,584 608,459,872 2,198,361,456	72.3 ! 27.69 100.00

DISTRIBUTION OF SHAREHOLDERS

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 3.02 100,001 - 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	. •	Range	No. of Shareholders	Shares	% Shareholding
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 3.02 100,001 - 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		I - 500	82,395	27,987,690	1.27
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 3.02 100,001 - 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			54,365	43,185,114	1,96
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 5.02 100,001 - 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			63,645	137,219,077	6.24
10,001 - 50,000 4,150 80,311,649 3.65 50,001 - 100,000 326 22,390,416 3.02 100,001 - 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			27,973	182,433,783	8.30
50,001 - 100,000 326 22,390,416 3.02 100,001 - 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 74.06 100,000 33 1,000,000 33 1,000,000			4,150	80,311,649	3.65
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 74.06 100,000 100,000 100,000 100,000			326	22,390,416	.02
500,001 - 1,000,000 39 25.221,545 1.15 Above 1,000,000 33 1,628,174,827 74.06		•	244	51,437,355	2.34
Above 1,000,000 33 1,628,174,827 74.06		· ·	39	25,221,545	1.15
70070 1,000,000			33	1,628,174,827	74.06
			233,170		00.00





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

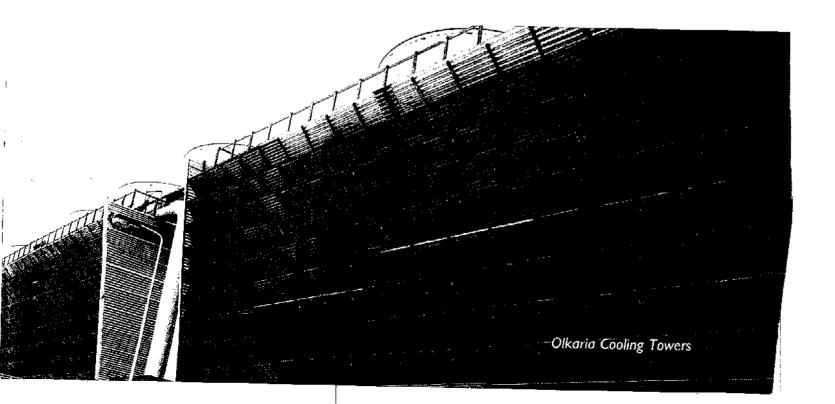
mkakati uliowekwa. Mpango huo wa mabadiliko utakuwa tayari kufikia katikati mwa Novemba 2007.

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



viwanda vyetu vya uzalishaji vinatumia raslimali inayoweza kutumika tena. Na asilimilia 75 ya vile tunavyoendelea kujenga vinatumia raslimali 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 ISC 14001:2004 (EMS) na tunatarajia kupata cheti rasmi kufikia mwaka ujao.

Utaratibu wa Ustawishaji 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 (CO:e) kufikia hadi tanì 600,000 milioni katika kipindi cha hadi 2012.

lsitoshe, tutakuwa tunapokea dola zaidi kwa kila tani ya CO2e kwenye miradi maalumti 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 asilimia 65 kazi 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 usałama, uhamasishaji kuhusu HIV/Ukimwi, mazingira safi ya utendaji kazi ni miongoni mwa sera zetu za kuhakikishia wahudumu wetu usalama, hali ambayo imetuwezesha 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 Zaici" 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 zinazoibuka, Sheria ya Ununuzi, Sheria ya Kawi na ile ya Masoko ya Hisa miongoni mwa zingine. Wakenya wanahitaji umeme na mahitaji yanaendelea kuongezeka. Wenyehisa 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) Kufafanua upya mwekeleo 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 siin a

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 kutosheleza mahitaji kutokana na mradi wa Serikali wa Vision 2030, manitaji

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 ya 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 yatakayotuwezesha kutosheleza mahitaji yetu kifedha, tunafanya mazungumzo kuhusu Mapatano kamili ya Ununuzi wa Umeme (PPA), chini ya utaratibu wa mifumo miwili - Malipo ya Rasiimali 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.

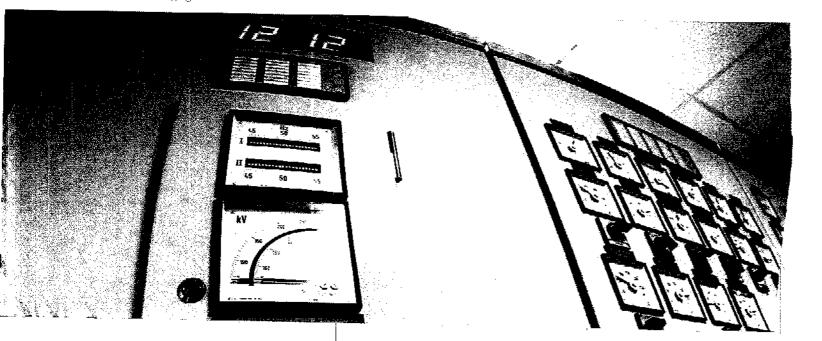
We have branded this transformation programme "Good to Great" or "G2G" with two themes embedded – (i) moving from a "Good Company" to a "Great Company" that creates value for all stakeholders (shareholders, end users, employees and citizens) and (ii) focusing on achieving sustainability in value creation 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 COse 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 60MVV 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.

Growin in Power Demant

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

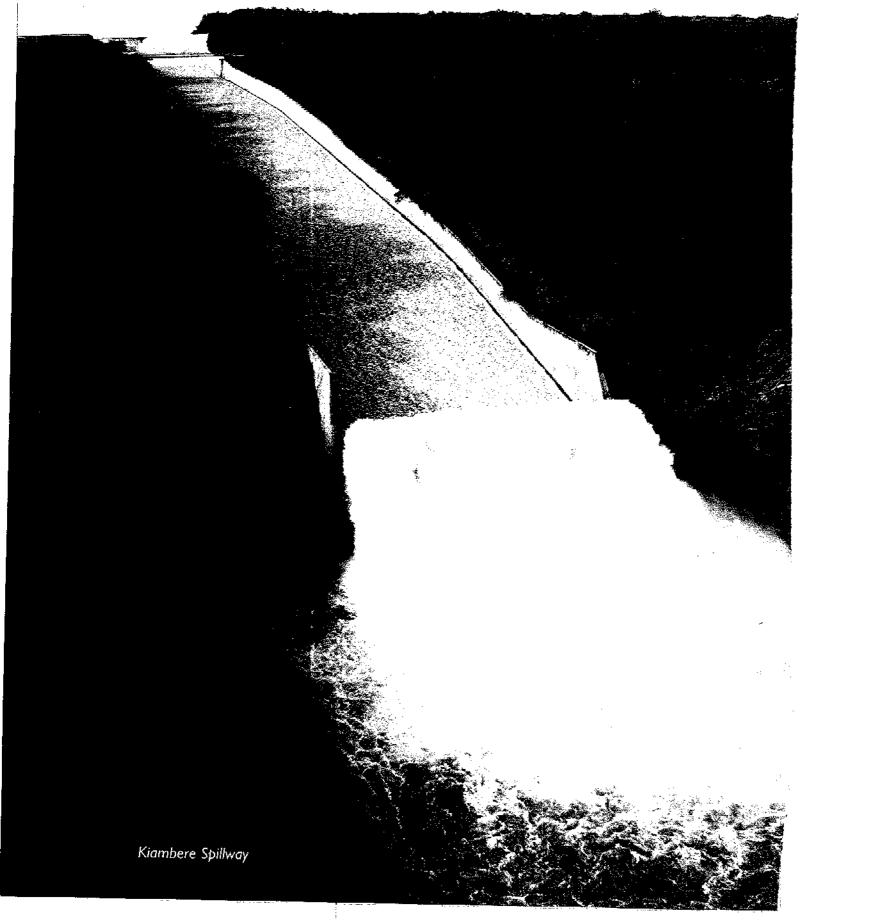
The Electric Power Act of 1997 established the Electricity Regulatory Board (ERB) and the subsequent consolidation of the generation function and its separation from transmission and distribution. The Energy Act 2006 has brought new dimensions within the sector, with ERB transforming into an Energy Regulatory 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.





⊤aarifa ya Mwenyekiti

Nima furaha kutangaza kuwa katika mwaka uliomalizika, kampuni ilitimiza malengo yake ya utekelezaji na kifedha kama yalivyoainishwa na Serikali katika kandarasi ya utendaji kazi. Kama kawaida, tutaendesha shughuli zetu huku tukizingatia faida kwa wenyehisa wetu. Hii itahakikisha tumefikla sio tu malengo yetu kama yalivyowekwa na Serikali, bali kuendelea kuongeza thamani ya fedha za wenyehisa wetu.

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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 nyongeza ya asilimia 45 kutoka KSh 0.55 kwa hisa mwaka jana.

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

nsanteni.

Taarifa ya Mwenyekiti



Wenyehisa wetu,

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

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

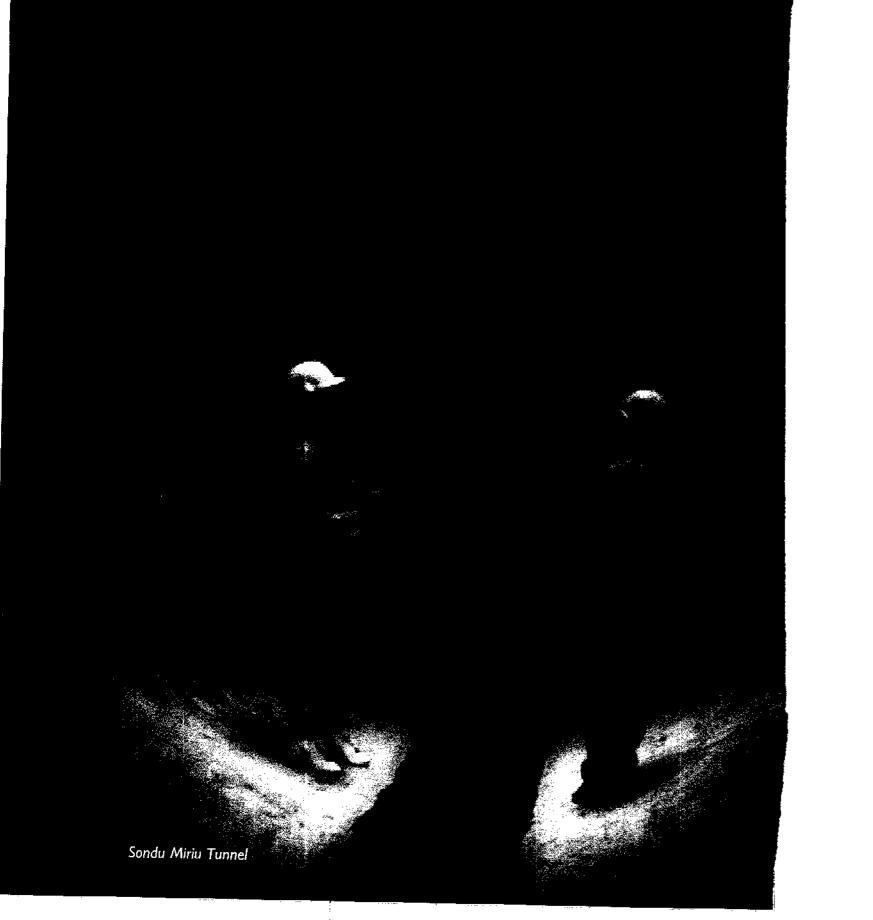
sehemu za mashambani. Mwaka huu, matumizi ya umeme yaliongezeka kwa asilimia 8 na inabainishwa na asilimia 5.8 mwaka uliopita na pia kutokana na hatua ya kuharakisha usambazaji umeme katika Ukuwaji wa sekta yetu uliimariishwa na kuimarika kwa uchumi wa nchi kwa asilimia 6.1 ikilinganishwa kuwa nyongeza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

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

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

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

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



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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. Taxatlon 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 Kitili 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 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 24 Share Index.

Our industry growth opportunity is buoyed in national economy which accelerated from a Social as well as the increased customer connections specificated by Government and the Kenya Power & Lighting Company Ltd (KB). This year, electricity consumption grew by \$50.00 rises even higher in the medium team.

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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.

Minist Danie.

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 Njag!

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.

Distribus 7 (Krieng),

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'Ivoiré.

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.



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 appoinment.

Management Team



- Managing Director
 Edward Njoroge, BSc (Hons)
- Deputy Managing Director Joseph N Ng'ang'a, BSc (Eng) (Hons), MBA, R.Eng., MIEK
- Company Secretary
 Rebecca Miano (Mrs), LLB (Hons),
 CPS (K)
- Chief Manager, Operations
 Richard M Nderitu, BSc (Eng) (Hons).

 R.Eng., MIEK. MKIM
- Chief Manager, Finance
 Wycliffe F Temesi, BCom (Hons),
 FCPA (K)
- Chief Manager, Human Resources
 Beatrice M Soy (Mrs), BEd (Hons), MEd (Mgt)
- 7. Chief Manager, Procurement

 Danie: Mutunga, BSc (Eng) (Hons), MIEK

- 8. Chief Manager, Administration Joseph Okoto, BCom (Hons), MBA
- Chief Manager, Geothermal Development Martin Mwangi, MSc Geology (Not in Photo)
- 10, Chief Manager, Technical Assurance George Muga, BSc (Eng) (Hons), MIEK
- II. 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
- Manager, Public Relations and Communication Mike Njeru, BA (Hons) Dip Mass Com, FPRSK, MIPPRA

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:-

- 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 Ndeto 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.
- 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"

- To approve the Directors' remuneration.
- 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.

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 beholf. 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, Transpational Plaza, 8th Floor, Mama Ngina Street, P O Bax 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 iinatolewa 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:-

- Kusoma tangazo la kuandaa mkutano.
- 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.
- Kuthibitisha 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 ikitegernea kodi ya mapato inavyopaswa, kuhusiana na mwaka unaomalizika wa matumizi ya fedha Juni 30, 2007.
- 4. Kuchagua wakurugenzi:
 - (i) 8w Patrick Nyolke ambaye anastaafu chini ya Kifungu 104 cha Kanuni ya Kampuni, na ƙwa vile anaweza tena kuchaguliwa, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
 - (ii) Bw Musa Ndeto 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 maaiumu 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 amofikisha umri wa miaka 70 aendelee kuhudumu kama Mkurugenzi wa Kampuni kwa muda wa mwaka mmoja. Iicha 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 ilivyorekebishwa 2002) na sehemu 14 and 39 (i) za Sheria ya Uhasibu wa Umma, 2003.

8. Kuidhinisha Wakurugenzi kuamua malipo ya Wahasibu.

Kwa Agizo la Haimashauri.



Rebenne Vision

Katibu wa Kampuni, Kenya Electricity Generating Company Ltd. S L P 47936-00100, Naîrobi Septemba : 7, 2007

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1 Mwanachamu ana haki ya kunudhuna na kupiga kura katika mkutano na yule ambaye hawezi kuhudhuria ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwe njebe yoke. Mwakilishi si lazima awe mwanachoma wa Kambuni. Ili kutambuliwa, famu ya uwakilishi ambayo imeambatanishwa na apati kili lazima ijazwe na kutiwa sahihi na mwanachoma, na haina budi kuandikishwa katika afisi zinazatambuliwa za Msajili wa Hisa wa Kampuni. Image Relistram, Transnational Pluza, Ghorofa ya Nane, Moma Ngina Street, SEP 9287 - 00100 Nnirobi, au itumwe kwa posta . Ili rwafikie Image Relistram, kabio ya umame, Novemba 20, 2007 soa tana asubuhi.

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Appiversary Towers, P.O. Box 30084 - 00100, NAIROBI

Controller and Auditor-General