KenGen
Energy for the nation

Firing up the Economy

KENYA ELECTRICITY GENERATING COMPANY LIMITED ANNUAL REPORT & ACCOUNTS 2009

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 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.

Inside....


Olkaria II Geothermal Power Station

Corporate Information 4

Corporate Information

Directors	Titus Mbathi	- Chairman
	Edward Njoroge	- Managing Director
	Joseph Kinyua	- Re-appointed on 18 December 2008
	Patrick Nyoike	
	Sarah Wainaina	
	Musa Ndeto	
	George Njagi	- Re-appointed on 18 December 2008
	Dorcas Kombo	- Re-appointed on 18 December 2008
	Henry M'Nairobi	
	Peter Muriithi	
	Hedrick Omanwa	
	Humphrey Muhu	- Alternate to Joseph Kinyua (appointed on 18 May 2009)
	Solomon Kitungu	- Alternate to Joseph Kinyua (resigned on 18 May 2009)
	John Omenge	- Alternate to Patrick Nyoike (appointed 19 December 2008)
	Alfred Odawa	- Alternate to Patrick Nyoike (resigned on 19 December 2008)

Secretary

Rebecca Miano
Stima Plaza, Kolobot Road
P.O. Box 47936 - 00100 GPO
NAIROBI

Registrar

Image Registrars Limited

Registered Office and Principal Place of Business

Stima Plaza
Kolobot Road, Parklands
P.O. Box 47936 - 00100 GPO
NAIROBI

Bankers

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
Citibank N A

Auditors

Ernst & Young
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286 - 00100 GPO
NAIROBI
On behalf of:
Controller and Auditor-General
Anniversary Towers
P.O. Box 30084 - 00100 GPO
NAIROBI

KenGen Headquarters


Tana Power Station: Merira Barrage

Chairman's Review

Dear Shareholders,

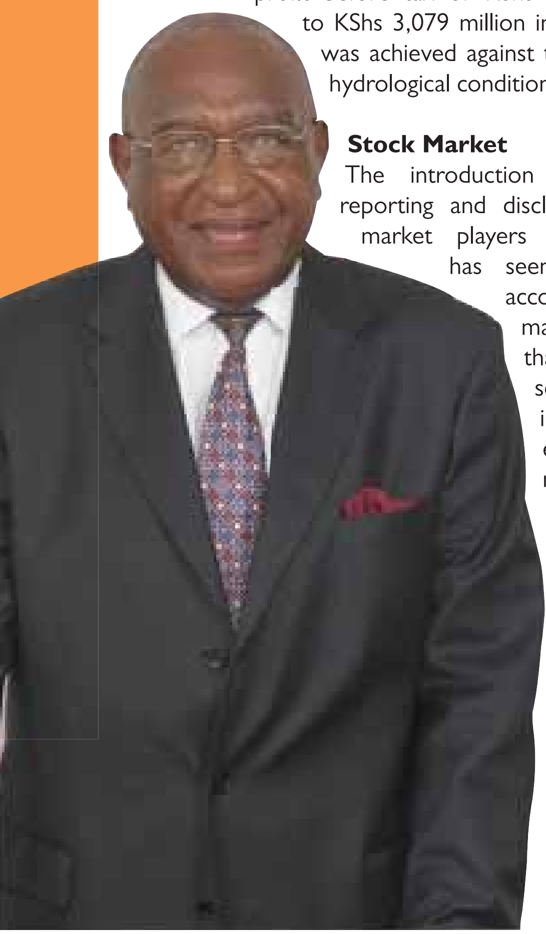
This has been a challenging year on many facets as economic conditions continued to deteriorate both in the local and international utility industries due to the global economic downturn.

Unfavourable weather conditions culminated in the lowest inflows ever experienced in the Tana River during the last 60 years. This adversely affected our generation capacity, resulting in the shut-down of the Masinga power station in June this year. The Dam which is the uppermost in the Seven Forks cascade serves as a water storage facility (main reservoir) for the downstream dams. Due to the water levels being insufficient for generation, its water was released to boost generation at the other power stations on the cascade. The Masinga power station will re-open once sufficient rains have been received as expected later in the year.

Despite all these challenging conditions KenGen has a sound financial base backed by strong risk management policy, robust governance procedures and a committed management team which observes prudent and best practice in all our corporate processes.

Financial Highlights

For the period under review, the Company has posted a profit before tax of KShs 4,556 million compared to KShs 3,079 million in the previous year. This was achieved against the backdrop of adverse hydrological conditions.



Stock Market

The introduction of stringent financial reporting and disclosure requirements for market players including stockbrokers, has seen a renewed era of accountability in the stock market. We are encouraged that this will enhance the security of your individual investments and enable each one of you to realise maximum return on your investments.

Business Environment

The overall twelve-month inflation decreased to 18% at year-end compared to 29% at the same period last year. During the third quarter of the financial year, the economy grew at 3.9%. This growth was attributed to a rebound in activity levels in all sectors and a steady drop in fuel prices as compared to the same period in the previous financial year.

However, we did not realise increased energy sales as expected due to poor hydrological conditions. The unit sales dropped by 10% from 4,818 Gwh in 2007/2008 to 4,339 Gwh in 2008/2009.

Strategic Focus

The vital role played by the energy sector in the economic growth of our country has been underscored this year by the effect of poor hydrology on generation. To wean ourselves from heavy dependence on hydro-generation and to spur sustainable electric power delivery in Kenya, KenGen has been executing strategies towards continually growing our geothermal generation capacity to meet current and future demand. In particular, we have developed a road map anchored on effective capital planning and execution to mobilise funds for increased organisational effectiveness.

We welcome the measures taken by the Government of Kenya to stimulate the energy sector by the establishment of two new entrants namely the Geothermal Development Company and the Kenya Electricity Transmission Company into the market and look forward to a vibrant and fruitful partnership with them.

Dividends

Dividends of KShs 0.50 per share totalling to KShs 1,099 million is recommended by the Board of Directors to be paid to the shareholders. If approved, this final dividend will be paid out on or about 1 February 2010 to members who appear on the Register of Members as at close of business on 20 November 2009.

Recognition

I call upon you to join me in congratulating our Managing Director for being elected as the Chairman of the Nairobi Stock Exchange. This is a clear acknowledgement of his outstanding leadership.

Titus Mbathi, Chairman

Taarifa ya Mwenyekiti

Wenyehisa Wapendwa,

Huu umekuwa mwaka wenye changamoto nyingi katika nyanja tofauti huku hali ya kiuchumi ikiendelea kuzorota katika viwanda vya utoaji huduma kitaifa na kimataifa kutokana na kudidimia kwa uchumi kimataifa.

Kutokana na hali mbaya ya hewa, kulikuwa na viwango vya chini zaidi vya maji katika Mto Tana katika kipindi cha miaka 60 iliyopita. Hii iliathiri vibaya uwezo wetu wa uzalishaji wa umeme na kupelekea kufungwa kwa kituo cha umeme cha Masinga mnamo Juni mwaka huu. Bwawa la Masinga ndilo la kwanza kwenye mabwawa yale saba yaani Seven Forks huwa ni kama bwawa la kuhifadhi maji kwa yale mabwawa yanayofuata katika mkondo wa mto. Kutokana na viwango vya chini vya maji ambavyo havingetosha kwa uzalishaji umeme, maji kwenye bwawa hilo yalifunguliwa kuenda kwenye mabwawa mengine. Kituo cha uzalishaji umeme cha Masinga kitafunguliwa pindi tu kiasi cha kutosha cha mvua kitakaponyesha kama inavyotarajiwa baadaye mwaka huu.

Licha ya changamoto hizi zote, KenGen iko imara kifedha kutokana na sera madhubuti ya kudhibiti hatari zozote, taratibu mahsusi za usimamizi na kundi thabiti la wasimamizi ambao huzingatia uangalifu na kufanya maamuzi yaafayo katika shughuli zetu zote kama Kampuni.

Maelezo ya Kifedha

Katika kipindi tunachotathmini, Kampuni ilipata faida kabla ya ushuru ya Sh.4,556 milioni, ikilinganishwa na Sh.3,079 milioni mwaka uliopita. Ufanisi huu uliafikiwa katika hali ya upungufu mkubwa wa maji.

Soko la Hisa

Kuanzishwa kwa mfumo mkali wa kutangaza matokeo ya kifedha, na mahitaji ya wahusika kwenye masoko ya hisa kutangaza faida, hasara na mtaji wao, wakiwemo mawakala wa hisa, kumeibua enzi mpya ya uwajibikaji katika soko la hisa. Tunaamini kwamba hii itaimarisha usalama wa vitega uchumi vyenu kibinafsi na kuwezesha kila mmoja wenu kupata thamani mwafaka ya fedha zake.

Mazingira ya Kibiashara

Kiwango cha jumla cha mfumko wa bei za bidhaa katika kipindi cha miezi 12 kilipungua hadi asilimia 18 mwishoni mwa mwaka, ikilinganishwa na asilimia 29 katika kipindi hicho mwaka jana. Katika miezi mitatu ya mwisho mwaka uliomalizika, uchumi wa nchi ulikua kwa asilimia 3.9. Ustawi huu ulitokana na nyongeza ya shughuli katika sekta zote na kupungua kwa kiwango kikubwa kwa bei ya mafuta ikilinganishwa na kipindi hicho mwaka uliopita.

Hata hivyo, hatukufanikiwa kupata nyongeza ya mauzo ya kawi kama ilivyotarajiwa kutokana na kupungua kwa kiwango cha maji. Mauzo ya vipimo yalipungua kwa asilimia 10 kutoka Gwh 4,818 hadi Gwh 4,339.

Mikakati Muhimu

Wajibu muhimu unaotekelezwa na sekta ya kawi katika ustawi wa kiuchumi wa nchi umetiliwa uzito na athari ya uzalishaji umeme duni kutokana na maji. Ili kusitisha utegemeaji wetu wa uzalishaji kutokana na maji, na kuzalisha umeme wa kutegemewa kwa siku sijazo nchini, KenGen imekuwa ikitekeleza mikakati inayonuia kupanua uzalishaji wa umememvuke ili kutosheleza mahitaji ya sasa na ya siku sijazo. Hasa, tumetayarisha mwongozo unaojikita katika mipangilio ifaayo ya matumizi ya raslimali na utekelezaji ili kutafuta fedha kwa matumizi yafaayo.

Tunafurahia hatua zilizochukuliwa na Serikali ya Kenya kuipiga jeki sekta ya kawi kufuatia kuanzishwa kwa mashirika mawili mapya yaani Geothermal Development Company na Kenya Electricity Transmission Company na tunatazamia ushirikiano ufaao na maridhawa na wao.

Mgao wa Faida

Mgao wa faida wa Sh 0.50 kwa kila hisa wa jumla ya Sh 1,099 milioni unapendekezwa na Halmashauri ya Wakurugenzi kulipwa kwa wenyehisa. Iwapo utaidhinishwa, mgao huu wa mwisho utalipwa mnamo Februari 1, 2010 kwa wanachama waliomo kwenye Rejista ya Wanachama kufikia mwisho wa Novemba 20, 2009.

Utambuzi

Ninawaomba mjumuike nami katika kumpongeza Mkurugenzi Mkuu wetu kwa kuchaguliwa kama Mwenyekiti wa Soko la Hisa la Nairobi. Hili bila shaka ni thibitisho kwamba wanatambua uongozi wake wa kipekee.

Titus Mbathi, Mwenyekiti

Managing Director's Letter to Shareholders

Dear Shareholders,

KenGen continues to be the market leader in the provision of electric energy in Kenya supplying over 75% of the national requirement. We are set and prepared to expand this market share.

Creating the future requires the ability to deliver in the face of challenging and ever changing environment. This is why we have continued to achieve success by maintaining focus on our twin "Good to Great" or G2G Transformation Philosophy of:

- Moving KenGen from a "Good Company" to a "Great Company" that creates value for all stakeholders; and
- Focusing on achieving sustainability in value creation from "One Generation" of Kenyans to the "Next Generation".

We understand today's environment, and we are continuously planning for it. In 2007, after an in-depth evaluation of ourselves, we set out short-term, medium-term, and long-term goals to install an additional 500MW by 2012 and a further 1500MW by 2018 to meet our national demand. We are making significant progress with project implementation timelines remaining on track.

The electricity sub-sector is evolving and as part of the ongoing reforms in line with the Sessional Paper No.4 of 2004 on Energy, two players were established by the Government within the year. The Geothermal Development Company (GDC) will accelerate geothermal resource assessment and Kenya Electricity Transmission Company (KETRACO) will accelerate the construction of transmission infrastructure. In pursuit of our goals, we will endeavour to build relationships and draw synergy with these two players.

To position KenGen for the future, we will continue to act decisively and transform the Company from a Good Company it is today to a Great Company that consistently provides adequate and affordable power to Kenyans.

Challenging Times

The just ended financial year was without doubt a challenging one for the industry and the economy, characterized by the global economic turndown, effects of post-election violence and adverse effects of climate change. Our hydro generation which constitutes about 73% of our installed portfolio was reduced significantly. The consequence was 10% reduction in unit sales from 4,818 million units in 2007/2008 to 4,339 million units in 2008/2009.

However, revenues increased by 10% from KShs 11,548 million in 2007/2008 to KShs 12,652 million in 2008/2009. As a result, our pretax profit rose by 48%. The negotiation of Power Purchase Agreement (PPA) with KPLC and subsequent approval by Energy Regulatory Commission (ERC) was a major milestone for us in 2009. Under this new agreement, we will be paid in line with international practice, a capacity charge to cover our fixed costs and a variable charge to cover our variable costs. This departure from the previous regime where we used to be paid only a variable charge.

To mitigate poor hydrology, we undertook to procure an additional 140MW emergency power on behalf of the Government to cushion the economy from power rationing. The contract will be executed in the first quarter of next financial year. Our hope is to receive above normal rains by December 2009 to reduce reliance on the more expensive thermal generation.

Traditionally, we have always relied heavily on Developement Financial Institutions (DFIs) despite the inherent risks of foreign exchange fluctuations and delays in releasing funds for our projects. During the year, we set out to issue a KShs 15 Billion Public Infrastructure Bond Offer (PIBO), with a green shoe option of upto KShs 10 billion - the largest bond in corporate sector in Kenya. This was a tough decision at a time when world financial markets were on a downturn. We received the Capital Markets Authority approval and we are optimistic to conclude the offer in the second quarter of next financial year.

All through these challenging times, we remained resilient by maintaining a disciplined focus on our G2G Strategy. We strengthened our strategic intent on controlling costs, optimally managed our assets to enhance reliability and performance, and focused on the development of new capacity.

During the year, we took significant steps to improve our operational excellence and conducted a review of our budget and identified company-wide cost reduction initiatives estimated at over KShs 200 million that we plan to implement in the coming year.

Generation Capacity Expansion

The projects in our Horizon I (2008 – 2012) are all on course. In the redevelopment of Tana 20MW hydro, 82% of the work is done and the project will be completed by April 2010. In Olkaria II 3rd Unit 35MW geothermal, installation of the generator is ongoing and project completion is expected in

May 2010. Ngong Wind 5.1MW will be completed ahead of time in October 2009. Sang'oro 21MW hydro, 20% of the work is done and completion is expected in November 2011. The contract for Eburru 2.5MW geothermal has been signed, Kipevu III 120MW thermal will be completed in December 2010. Ngong Wind Phase II 15MW is at initial stages of implementation. Olkaria 280MW geothermal preparatory works kicked off in earnest within the year and we are hoping to implement these two plants by 2012/2013. In the coming year, we plan to procure a Joint Venture partner to develop 600MW coal plant expected to be commissioned by 2013/2014.

Quality Standards and Environment

To drive and embed quality in our operations, we successfully attained the world-class ISO 14001:2004 Environmental Management System certification. We also upgraded our ISO 9000:2008 Quality Management System to the current ISO 9001:2008. At the same time, we continued to implement the Clean Development Mechanism (CDM). Three projects are at validation stage. These projects are earmarked to reduce approximately 200,000 tonnes of CO2 per year, contributing to the reduction of the global carbon footprint, as well as earn the company additional revenue from carbon credits.

Concern on the conservation of water catchment areas and water towers is on top of both the national and KenGen's environmental conservation agenda. Through Kenya Energy Sector Environment Programme (KEEP) we are supporting government in reforestation and control of soil erosion. Meeting growing electricity needs in an environmental conscious way is a major part our "Good to Great" Transformation Strategy. Our current focus is to transform KenGen to a geothermal base-load power generator by 2018 by tapping the huge indigenous and renewable geothermal potential in Kenyan Rift Valley estimated at over 3,000MW.

Our Communities

KenGen has a strong tradition of partnering with communities in implementing community led sustainable development initiatives. The company's engagement with communities around its operations not only helps to improve the quality of life for the local people but instills a sense of ownership, shared goals and responsibility. In 2009, we partnered through our corporate social responsibility programmes in scholarships, water projects, charitable organizations, blood donation and relief food initiatives.

Focus on Performance Culture

The foundation of our Good to Great transformation journey is underpinned by ensuring a healthy organization. This determines the ability of staff to meet and overcome great challenges, find innovative solutions and achieve excellent results consistently. In 2009, we embarked on a process of aligning our organization structure to the strategy and then put people who are best able to meet our long-term goals. Our focus was on clear span of control for senior and middle management. We identified critical skills and sourced for them both internally and externally. We engaged an additional 100 employees to support our geothermal development programme. Through training, we enhanced the skills of over 1,000 employees out of the total 1,500 in diverse fields - technical, managerial and leadership. We continue to reinforce our human resource processes so that performance is aligned with our goals and individual career advancement.

To tap employee innovation we have instituted a "Quick Win" programme where we reward innovations that save costs or increase revenues. We are emphasizing on teamwork and continuous improvement, both critical to the achievement of our long term objectives. In the past year, we have distributed performance boards to all our departments, where every team comes together to coordinate and prioritize their goals and activities, in an inclusive manner.

We have a bright future ahead as we continue to foster an environment that nurtures innovation, performance, teamwork and growth among our people.

Road Ahead

KenGen's momentum towards a Great Company that provides energy for the nation and that consistently creates shareholder value in the long term is now on track. But to sustain the momentum, we need over KShs. 100 billion in the next five years for our growth programme. In the coming year, we are set to invest over KShs. 25 billion for our capital projects and I am confident that with your support, we will deliver.

I wish to thank the Board for its steady guidance and direction in all aspects of our business. I also wish to express my appreciation to the entire staff for their dedication, commitment and hard work that has seen us achieve good results in the face of the prevailing harsh economic circumstances. I also wish to thank all customers and stakeholders for their unrelenting support to KenGen.

I am optimistic that together, we shall overcome the prevailing challenges and post even better results in the future. As we look ahead to year 2010 and beyond, we are inspired by the immense potential of our country and are proud to be providing energy for the nation and creating investment and job opportunities for our people.

Edward Njoroge, Managing Director & CEO

Waraka wa Mkurugenzi Mkuu kwa Wenyehisa

Wapendwa Wenyehisa,

KenGen inaendelea kuongoza katika utoaji wa nguvu za umeme nchini Kenya huku ikizalisha zaidi ya asilimia 75 ya mahitaji yote ya kitaifa. Tuko tayari na tumejiandaa kupanua soko hili.

Kujiandaa kwa siku za baadaye kunahitaji kutosheleza mahitaji kwenye mazingira yaliyojaa changamoto. Hii ndio maana tumeendelea kuafikia ufanisi kwa kusisitiza falsafa zetu za (Bora hadi Bora zaidi au mpango wa mageuzi wa G2G ambao unahusisha;

- Kuinua KenGen kutoka 'Kampuni Nzuri' hadi "Kampuni Bora Zaidi" inayounda thamani kwa washika dau wote; na
- Kuafikia ufanisi endelevu katika kuunda thamani kutoka "Kizazi Kimoja' cha Wakenya "hadi Kizazi Kijacho."

Tunafahamu mazingira ya sasa, na tunaendelea kujiandaa kwayo. Mnamo 2007, baada ya kujitathimini kwa kina, tulijiwekea malengo ya muda mfupi na muda mrefu ya kuongeza MW 500 kufikia 2012, na MW 1500 zingine zaidi kufikia 2018, ili kutosheleza mahitaji ya kitaifa. Tumepiga hatua mahsusi katika utekelezaji wa mradi huo na tunazingatia kwa dhati mpangilio wa utekelezaji wake.

Sekta ya umeme inaendelea kukubadilika na sambamba na nakala ya Mswada Nambari 4 ya 2004 kuhusu Kawi, mashirika mengine mawili ya uzalishaji yalianzishwa na Serikali mwaka uliomalizika. Kampuni ya Geothermal Development Company itaharakisha ustawi wa umememvuke na Kenya Electricity Transmission Company itaharakisha ujenzi wa miundomsingi ya usambazaji umeme. Katika kutimiza malengo yetu, tutahakikisha kuwa na ushirikiano wa karibu na kuwa na uwiano baina ya washirika hao wawili.

Ili kuandaa KenGen kwa siku za baadaye, tutaendelea kuchukua hatua madhubuti na kuigeuza Kampuni kutoka Kampuni Nzuri iliyo sasa hadi Kampuni Bora Zaidi ambayo inazalisha umeme wa kutegemewa na nafuu kwa Wakenya.

Mabadiliko ya Nyakati

Mwaka uliomalizika hivi punde wa matumizi ya fedha bila shaka ulikuwa na changamoto tele kwa sekta ya kawi na uchumi. Uchumi wa kimataifa ulizorota, kulikuwa na athari za machafuko baada ya uchaguzi na athari za mabadiliko ya hali ya anga. Uzalishaji wetu wa umeme kutokana na maji ambao ni jumla ya asilimia 73 ya uwezo wetu wa utoaji umeme ulipungua kwa kiwango kikubwa. Matokeo yake ni kwamba, mauzo ya vipimo vya umeme yalipungua kutoka 4,818 milioni mnamo 2007/2008 hadi vipimo 4,339 milioni mnamo 2008/2009.

Hata hivyo, mapato yaliongezeka kwa asilimia 10 kutoka Sh 11,548 milioni mnamo 2007/2008 hadi Sh 12,652 milioni mnamo 2008/2009 kutokana na utekelezaji wa mkataba mpya wa Ununuzi wa Umeme ambao una orodha nzuri ya ushuru. Kuhitimisha Mkataba huu na kupokea idhini kutoka kwa Tume ya Kusimamia Kawi kwa nyongeza ya asilimia 2.5 kwa kiwango cha wastani cha ununuzi wa kawi kutoka Sh 2.36/kWh hadi Sh 2.42/kWh, ulikuwa ufanisi mkubwa kwetu mnamo 2009. Kutokana na hilo, faida yetu kabla ya ushuru iliongezeka kwa asilimia 48.

Ili kupunguza makali ya kupungua kwa kiwango cha maji, tulinunua megawati 140 za ziada kwa niaba ya Serikali ili kuusitiri uchumi kutokana na utoaji umeme kwa vipimo. Kandarasi hiyo itatekelezwa katika miezi mitatu ya kwanza katika kipindi kijacho cha matumizi ya fedha. Matumaini yetu ni kupokea kiasi kikubwa cha mvua kufikia Desemba 2009 ili kupunguza utegemeaji wa umemejoto ambao ni ghali.

Tumekuwa tukitegemea kwa kiwango kikubwa Taasisi za Kifedha za Maendeleo licha ya hatari zilizopo za kupungua kwa kiwango cha ubadilishaji pesa na kucheleweshwa katika utoaji wa fedha kwa miradi yetu. Tumefanya maamuzi mazito wakati ambapo masoko ya kifedha kimataifa yanadorora na kutangaza Hati ya Dhamana kwa Umma ya Sh 15bilioni kustawisha miundo msingi, na toleo badala la hadi ya Sh 10 bilioni ambayo ni dhamana kubwa zaidi katika historia ya mashirika nchini. Tulipokea idhini ya Halmashauri inayosimamia Masoko ya Hisa na tunatarajia kuhitimisha toleo hilo katikati mwa mwaka ujao wa matumizi ya fedha.

Muda huu wote, katika hali hii ngumu, tulijizatiti na kuangazia ufanisi katika utendaji kazi. Tuliimarisha udhibiti wa gharama, kutumia raslimali zetu vyema ili ziwe za kutegemewa kila wakati na kuchangia katika ustawi wa miundo msingi mipya. Ama kweli, tulichukua hatua kabambe kuimarisha utendaji kazi wetu na kupiga msasa bajeti yetu na kutambua mikakati ya kupunguza gharama Kampuni nzima itakayookoa zaidi ya Sh 200milioni ambayo tunapanga kutekeleza mwaka ujao.

Upanuzi wa Uwezo wa Uzalishaji

Miradi katika Awamu I (2008 – 2012) ingali inaendelea. Katika ukarabati wa kituo cha uzalishaji MW 20 cha Tana, asilimia 82 ya kazi imekamilika na mradi unatarajiwa kumalizika kufikia Aprili 2010. Katika kituo cha tatu cha uzalishaji MW 35 cha Umememvuke cha Olkaria, ujenzi wa jenereta unaendelea na mradi huo unatarajiwa kumalizika Mei 2010. Kituo cha kutumia upepo cha Ngong cha MW 5.1 kitamalizika Oktoba 2009. Kile cha kutumia maji cha Sangoro cha kuzalisha MW 21, asilimia 20 ya ujenzi imemalizika na mradi unatarajiwa kumalizika mnamo Novemba 2011. Ule wa uzalishaji wa MW 2.5 za umememvuke wa Eburru, kandarasi imetiwa sahihi, ule wa kuzalisha MW 120 za umemejoto wa Kipevu III utamalizika Desemba 2010. Awamu ya pili ya mradi wa Ngong utakaozalisha MW 15 umo katika awamu za mwanzo mwanzo za utekelezaji. Ujenzi wa awali wa kituo cha uzalishaji MW 280 wa umememvuke cha Olkaria ulianza mwaka uliomalizika. Katika mwaka ujao, tunapanga kutafuta mshirika wa pamoja kustawisha kiwanda cha makaa cha kuzalisha MW600 kinachotarajiwa kuzinduliwa kufikia 2013/14.

Viwango vya Ubora na Mazingira

Ili kuzingatia na kudumisha viwango vya juu katika shughuli zetu, tulifanikiwa kupata Hati ya viwango vya kimataifa vya ISO 9001:2008 Mfumo wa Usimamizi wa Hali ya Juu na Hati ya ISO 14001:2004 Katika Usimamizi Bora wa Kimazingira. Wakati huo huo, tuliendelea kutekeleza Mfumo wa Ustawi Safi. Miradi mitatu imo kwenye awamu ya kuthibitishwa. Miradi hii inanuiwa kupunguza takribani tani 200,000 za kaboni dioksidi kwa mwaka, na hivyo kupungua kiwango cha kaboni kimataifa, pamoja na kuipatia Kampuni mapato ya ziada.

Wasiwasi kuhusu utunzaji wa maeneo ya chemichemi za maji ni mojawapo ya kipengele cha kwanza kwenye ajenda ya kitaifa na mpango wa utunzaji mazingira wa KenGen. Kupitia kwa Mpango wa Mazingira wa Sekta ya Kawi Kenya, tunaunga mkono Serikali katika upanzi wa miti na kudhibiti mmomonyoko wa udongo. Kutosheleza mahitaji yanayoongezeka ya umeme katika hali ya kutunza mazingira ni mojawapo ya mikakati yetu mikuu ya kugeuza KenGen kutoka "Kampuni Bora" hadi "Kampuni Bora Zaidi." Azimio letu la sasa ni kugeuza KenGen hadi mzalishaji mkubwa wa umememvuke kufikia 2018 kwa kutumia raslimali kubwa ya umememvuke katika eneo la Rift Valley ili kuzalisha MW3,000.

Jamii Zetu

KenGen ina utamaduni thabiti wa kushirikiana na jamii katika utekelezaji wa miradi ya maendeleo ya kijamii. Ushirikiano huu baina ya Kampuni na jamii zilizo karibu huimarisha sio tu hali ya maisha ya wakazi, bali huwafanya wakazi kujihisi wamiliki wa Kampuni na kuwajibika. Mnamo 2009, tulishirikiana kupitia kwa miradi ya uwajibikaji wetu kwa jamii katika ufadhili wa masomo, miradi ya maji, mashirika ya kutoa misaada, utoaji damu na utoaji chakula cha misaada.

Kuangazia Asasi za Utendaji Kazi

Msingi wa mabadiliko yetu kutoka Bora hadi Bora zaidi yameegemezwa katika kuhakikisha tuna taasisi imara. Hii inawezesha wafanya kazi kukumbana na kukabiliana na changamoto kuu, kutafuta suluhisho lifaalo na kuafikia matokeo bora zaidi kila wakati. Mnamo 2009, tulianzisha utaratibu wa kupiga msasa mpangilio wa usimamizi na mahitaji yetu ya wafanya kazi watakaotuwezesha kuafikia malengo yetu ya siku za baadaye. Lengo letu lilikuwa kuangazia wasimamizi wa juu na wa kiwango cha kadiri. Tulitambua waliojaliwa vipawa muhimu kutoka nje na ndani ya Kampuni. Tuliajiri wafanya kazi 100 zaidi kusaidia mpango wetu wa kustawisha umememvuke. Kupitia mafunzo, tuliimarisha ujuzi wa wafanya kazi 1,000 kati ya 1500 katika nyanja tofauti – kiufundi, usimamizi na uongozi. Tunaendelea kuthibiti taratibu zetu za usimamizi wa wafanya kazi ili utenda kazi uwe sambamba na malengo yetu na kigezo cha kupanda ngazi kwa kila mfanya kazi.

Ili kutia shime wafanya kazi kuwa wabunifu, tumeanzisha mpango wa "Shinda Haraka" ambapo tutatuza taratibu zinazopunguza gharama na kuongeza mapato. Tunasisitiza katika ushirikiano na kuendelea kujiimarisha, ambavyo ni viungo muhimu katika kuafikia malengo yetu ya siku sijazo. Katika mwaka uliopita, tumesambaza kwa idara zetu zote ubao, ambapo kila kundi linajumuika pamoja kushirikiana na kutanguliza malengo na shughuli zao.

Siku sijazo ni angavu kwetu huku tukiendelea kuunda mazingira safi ya utenda kazi yanayolea ubunifu, utenda kazi, ushirikiano na ustawi miongoni mwa watu wetu.

Mwelekeo wa Siku Zijazo

Tunahitaji zaidi ya Ksh 100 bilioni katika miaka mitano ijayo kwa mpango wetu wa ukuaji. Katika mwaka unaokuja, tunajiandaa kuwekeza zaidi ya Sh25bilioni katika miradi mikubwa. Nina imani kwamba kwa kutuunga mkono, azima ya KenGen kuelekea kuwa Kampuni Bora Zaidi ambayo inatoa kawi kwa taifa na kuunda thamani kwa washika dau itadumishwa.

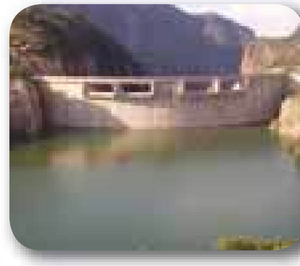
Ningependa kushukuru Bodi kwa mwongozo na mwelekeo thabiti katika fani zote za biashara zetu. Pia ningependa kutoa shukrani zangu kwa wafanya kazi wote kwa kujitolea na kufanya kazi kwa dhati hali iliyotuwezesha kupata matokeo bora katika hali ngumu ya kiuchumi. Pia, ningependa kuwashukuru wateja wote na washikadau kwa kuunga mkono KenGen kwa dhati.

Nina matumaini kwamba pamoja, tutashinda changamoto za sasa na kupata matokeo bora hata zaidi. Huku tukiangazia mwaka 2010 na zaidi, tunatiwa moyo na uwezo wa taifa letu kufanya vyema hata zaidi na tuna furaha kutoa kawi kwa taifa na kubuni nafasi za uwekezaji na kazi kwa watu wetu.

Edward Njoroge, Mkurugenzi Mkuu & Afisa Mkuu Mtendaji

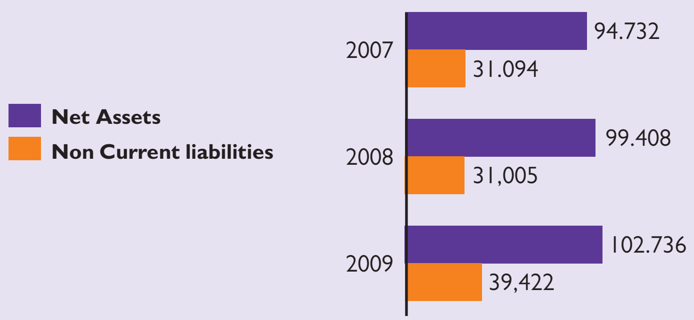
Operating & Financial Review

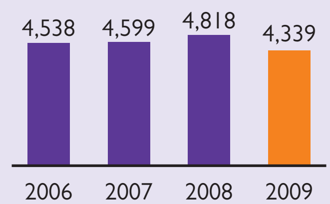


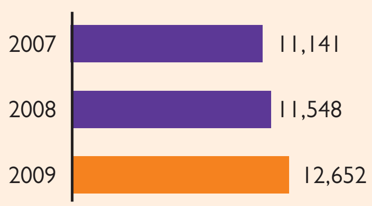
Corporate Highlights

Net Assets and Non Current Liabilities

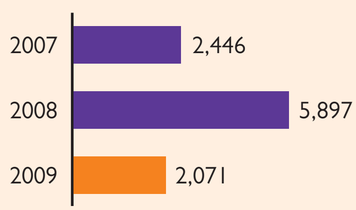




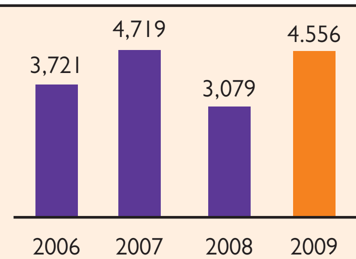
Unit Sales (kwh)



Energy Sales



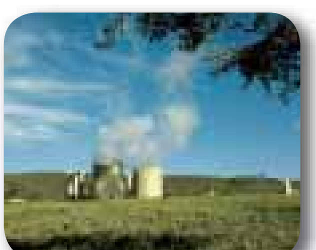
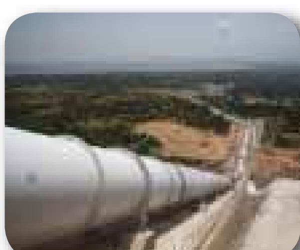
Net Profit

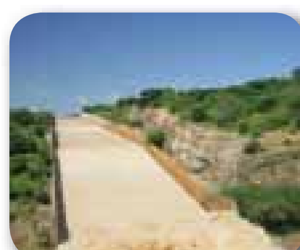


Profit Before Tax

NB: all units are in "KShs millions"

Dividend per Share

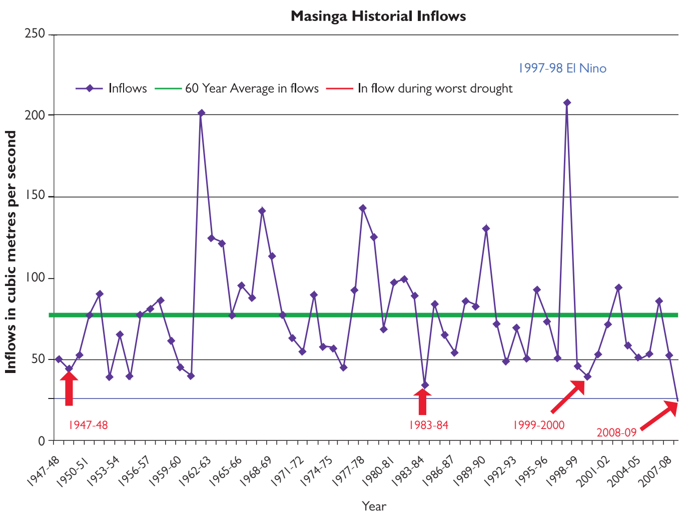


During the year, we delivered another set of favourable results that are a reflection of our commitment to achieve our mandate despite the constraints. Although we were faced with adverse hydrological conditions for most part of the year, we have had significant developments that reflect a healthy business that is confident of facing the challenges of the future. It would be prudent for us however, to expound a little on the background of the business environment within which we were operating during the period under review.

Generation Background

Historically, KenGen's primary mode of generation has been hydro-based, a situation that has caused fluctuations in generation capacity especially during times of less than optimal rainfall. Having five power stations situated on the Tana River cascade has affected our capacity to effectively supply our market with the necessary power more so when faced with periods of prolonged dry spells.

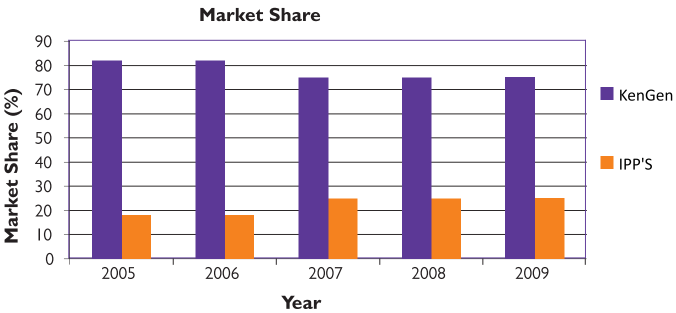
As depicted in the table below, the 2008/09 season has experienced the worst inflows since the start of Tana River inflow records in 1947.



The rains in the Tana catchment have been poor for four successive seasons – from the short rains of 2007 upto the expected long rains of 2009. The Masinga reservoir, even with good water management practice was gradually drawn down culminating in the shut down of Masinga Power Station on 26 June 2009 when the water levels were below the minimum operating level for the station. Since then, release of water for downstream generation has been through the low level outlet.

In an effort to mitigate against an anticipated power shortfall and subsequent rationing, An additional 140MW would be procured in the next fiscal year to cushion the worsening dry hydrology.

Although, the Company continued to generate power from the Thermal and Geothermal plants, the loss of generation from the main hydro plants affected the overall output and revenue streams. Our market share remained intact at 75% as depicted by the graph:



However we anticipate the situation to revert to normal with the onset of the expected heavy rains later in the year.

Financial Performance

Units Sold compared to last year - 10%

Unit sales declined marginally from 4,818 Gwhrs to 4,339 Gwhrs during the year under review due to poor hydrological conditions as a result of failure of the long rains. Hydro-generation dropped by 639 Gwhrs or 22% due to poor hydrology. However, thermal generation increased by 180 Gwhs or 32% due to increased use of thermal power plants to mitigate against the effects of poor hydrology.

As a result of the above constraints, Hydro unit sales decreased from 3,488 million Kilowatt-hours the previous year to 2,849 million Kilowatt-hours, a decline of 18%. There was an increase in thermal generation by 44% from 408 million Kilowatt-hours the previous year to 587 million Kilowatt-hours to compensate for the lost hydro generation. Geothermal generation averaged 903 million Kilowatt-hours during the period.

Electricity Sales - 10%

Despite the drop in unit sales, Company revenue increased by 10% from KShs 11,548 million to KShs 12,652 million. Operating surplus increased from KShs 3,537 million the previous year to KShs 4,405 million during the year under review, whereas the pre-tax profit increased by 48% to KShs 4,556 million this year compared to KShs 3,079 million last financial year attributable to the effect of the new Power Purchase Agreements which have a higher yield compared to the previous agreement.

Operating Expenses - 3%

Throughout the year, KenGen implemented initiatives to improve cost competitiveness by conducting a review of operating expenditures including an assessment of corporate and business unit support provided to generating stations. We took steps to streamline our business processes to enable greater focus on core operations. We enhanced our review

Operating & Financial Review

and control processes over operating and capital expenditures resulting in a modest increment in operating costs by 3% to KShs 8,247 million this year compared to KShs 8,012 million the previous year. This slight increment was occasioned by the increased depreciation costs arising from Sondu Miriu Hydro Power station which was completed in March 2008. In a view of achieving better comparability, pass-through fuel revenue and fuel cost have been offset and the net effect taken into account in the income statement.

Finance Cost - ↓ 5%

Finance cost declined from KShs 798 million to KShs 756 million, a decrease of KShs 41 million or 5% mainly due to decrease in overdraft interest of KShs 71 million arising from less usage of the overdraft facilities. However, interest payable on borrowings increased by KShs 30 million as a result of Sondu Miriu loans.

Profit Before Tax - ↑ 48%

This increased by 48% from KShs 3,079 million to KShs 4,556 million. In the same period, interest income increased by KShs 157 million attributable to cash deposits and treasury bonds. Other revenues increased by KShs 242 million as a result of gains on sale/redemption of treasury bonds, provision of consultancy services to Rwanda and M/S Iberdrola Limited for geophysics survey and the implementation of SCADA project respectively. Pass-through foreign exchange recoveries increased by KShs 893 million.

Profit for the year - ↓ 65%

Profit after tax dropped from KShs 5,897 million to KShs 2,071 million, a decrease of KShs 3,826 million or 65% mainly due to increase in corporation tax amount. During the last financial year, there was a tax gain of KShs 2.8 billion arising from capital allowances from capitalization of Sondu Miriu project.

Current Assets - ↑ 20%

Current assets increased from KShs 10,655 million to KShs 12,749 million, an increase of KShs 2,094 million or 20% mainly due to increase in cash and bank balances of KShs 492 million. Treasury bonds increased by KShs 1.2 billion as majority of them became current. There was also an increase in KPLC debtors by KShs 517 million due to adjustments from the new PPA. Inventories went down by KShs 232 million due to increased usage of fuel for generation.

Current liabilities - ↓ 23%

Current liabilities declined by KShs 1,717 million from KShs 7,585 million to KShs 5,868 million mainly due to a decline in trade and other payables of KShs 2,374 million as a result of reduction in payments to Sondu Miriu contractors. Borrowings due within one year increased by KShs 131 million due to Sondu Miriu loan which became payable.

Capital and Reserves - ↓ 7%

Capital and reserves declined from KShs 68,402 million to KShs 63,313 million, a decrease of KShs 5,089 million or 7% mainly due to foreign currency revaluation loss of KShs 5,450 million arising from change of accounting policy for the treatment of unrealized exchange gains or losses from translation of foreign currency denominated borrowings.

Non Current Liabilities - ↑ 27%

Non current liabilities rose from KShs 31,005 million to KShs 39,423 million, an increase of KShs 8,418 million mainly due to receipts of new borrowings of KShs 2,422 million, unrealized exchange loss from revaluation of borrowings of KShs 5,450 million and deferred tax liability of KShs 1,815 million. The above was offset by repayment of loans amounting to KShs 1,630 million.

Cash Flow

Net cash generated from the Company's operating activities during the year declined to KShs 4,620 million compared to KShs 6,412 million the previous year mainly due to settlement of Sondu Miriu contractors of KShs 2,374 million. Cash and cash equivalents amount increased from KShs 3,730 million to KShs 4,222 million, an increase of KShs 492 million mainly due to a gain from revaluation of Yen deposited as lien for Olkaria II 3rd unit letters of credit of KShs 358 million.

Capital Expenditure

Due to the completion of Sondu Miriu Hydro Power Project, capital expenditure declined from KShs 7,897 million the previous year to KShs 4,744 million this year.

As a result of the ongoing poor weather conditions, it is expected that the first half of the next financial year will be quite challenging due to low revenue streams. However, it is anticipated that the proceeds of the forthcoming Public Infrastructure Bond Offer will facilitate some of the Horizon I projects. The completion of the projects will cushion the Company from the current challenges and provides us with the flexibility, strength, resilience and reliability to better respond to market requirements now and in the future.

Significant Developments

2009 was in a number of respects noteworthy, in terms of events that occurred during the period which encouraged the Company in its quest to capture opportunities for growth.

The first of these events was the successful signing of new Power Purchase Agreements (PPAs') with the Kenya Power and Lighting Company (KPLC). These agreements have revised the purchase tariff from the previous KShs 2.36/Kwh to an average of KShs 2.42/Kwh. Other provisions of the new PPAs include a "pass - through cost" facility which entitles KenGen to recover from KPLC fuel costs incurred during generation. Since the Company is protected by the PPAs from realised foreign exchange fluctuations on foreign currency dealings, the Company has changed its policy on the treatment of unrealised foreign currency fluctuations arising from the translation of foreign currency dominated borrowings and will now recognize such fluctuations under the statement of changes in equity.

Secondly, KenGen arranged to launch an Infrastructure Bond to raise capital for financing projects identified in Horizon I of our strategy. Therefore, in conjunction with the management team, a team of Transaction Advisors was engaged to execute an Infrastructure Bond of KShs 15 billion with a Greenshoe option of upto KShs 10 billion that is expected to assist the Company in developing and strengthening our mix of generation and reduce our heavy dependence on hydro generation.

Risk Management

The Company has adopted various initiatives to manage perceived risks. These include the successful negotiation of capacity - based PPAs, the proposed launch of the Public Infrastructure Bond to finance capital expansion, implementation of SCADA for efficient condition-based maintenance of our plants and the review of accounting policies and procedures.

Growing our Power Generation Capacity

As part of its expansion program, KenGen continued to revamp and upgrade its power plants in order to optimise their output. In addition the company began the construction of new projects that had previously earmarked for implementation.

The following table outlines the status of the on-going projects:

Project	Type	Capacity	Commissioning Dates
Sondu Miriu Unit 1 & 2	Hydro	60MW	Unit 1 - Dec 2008, Unit 2 - March 2009
Kiambere Unit 1 & 2	Hydro	Each Unit upgraded from 72MW to 85MW	Unit 1 - Oct 2009, Unit 2 - March 2009
Ngong Wind	Wind	5.1MW	Oct 2009
Tana Power Station	Hydro	Upgraded to 20MW	April 2010
Olkaria II 3rd Unit	Geothermal	35MW	May 2010
Sang'oro Power Plant	Hydro	21MW	Nov 2011
Kipevu III	Thermal	120MW	Dec 2010
Kindaruma 3rd Unit	Hydro	24MW	Feb 2012
Upgrade of Kindaruma Unit 1 & 2	Hydro	8MW	Unit 1 - Aug 2012, Unit 2 - Feb 2013
Eburru	Geothermal	2.5MW	April 2012
Olkaria IV	Geothermal	140MV	Dec 2012
Olkaria 1 Unit 4 & 5	Geothermal	140MV	Dec 2012

The SCADA Project

The installation of the SCADA system was completed within the year; and all the major hydro stations at the Seven Forks and Turkwel are now being monitored and controlled from Kamburu Control. This technological innovation has enabled the Company to efficiently use its resources.

The Geothermal Program

Olkaria I & IV

The feasibility study for the implementation of Olkaria IV and Olkaria I Unit 4 & 5, as well as the proposed rehabilitation of Olkaria I was concluded. Procurement of engineering services was started and will be completed in the coming year.

Drilling in Olkaria Domes & Olkaria East Field

Drilling of fifteen (15) production wells commenced on 19 August 2008 and is scheduled to be completed by December 2009. During the year, seven (7) production wells were drilled at Olkaria Domes field while four (4) production wells were drilled at Olkaria east field.

Menengai Geothermal Project

The construction of access roads to the proposed project site was completed during the year while the preparation for the drilling of water has commenced.

The Hydro Program

Raising of Masinga Reservoir

The Consultant, Norplan AS, undertook a feasibility study on the possibility of raising the Masinga reservoir wall in order to increase its water storage capacity to boost power generation. The final report is expected in the first quarter of the 2009/2010 financial year.

Karura Hydro Power Project

The procurement for a consultant to carry out the feasibility study has been completed, and the feasibility study is scheduled to commence in November 2009.

Wind Initiatives

Twelve prospective sites with potential wind capacity for a power plant have been identified around the Country, in which wind masts and data loggers have been installed. Data collection and analysis is on-going at all the sites. Over the coming year, a consultant will be procured to carryout a feasibility study once the most viable sites have been identified.

600 MW Coal Fired Power Plant Project

The procurement of a joint venture partner to develop and operate a 600MW Coal Fired Power Plant with KenGen commenced during the year and will be completed during the first half of the coming year.

Masinga Dam Reservoir

Board of Directors

TITUS MBATHI

Hon Mbathi, Chairman of the Board, aged 80 years, holds a BA (Economics) from Madras University, India and an MA in Economics from New York University, USA. He has previously been a Minister of Labour and Permanent Secretary in various ministries and served on several boards. Hon Mbathi is currently a director of Athi River Mining Ltd and Platinum Credit Ltd.

EDWARD NJOROGE

Mr Njoroge, aged 56 years, a holder of BSc (Hons) Chemistry from Makerere University, has been the Managing Director since 2003. He holds other directorships in CFC Stanbic Bank Kenya, Real Insurance Company Limited, Proctor & Allan (EA) Limited and Access Kenya Limited and other leading enterprises in Eastern Africa. He is a director of Tana Athi River Development Authority (TARDA) and Kerio Valley Development Authority (KVDA). Mr Njoroge is also the current Chairman of the Nairobi Stock Exchange (NSE) and the President of the Union of Producers, Distributors and Transporters of Electric Power in Africa (UPDEA).

JOSEPH KINYUA

Mr Kinyua, aged 58 years, is the Permanent Secretary. Ministry of Finance and holds BA (Econ) & MA (Econ) from the University of Nairobi. He has previously held senior positions in the Central Bank of Kenya, International Monetary Fund and various government ministries. He has served as Permanent Secretary in the Ministries of Planning and National Development and Agriculture. He is a director of several State Corporation Boards and is an Alternate Governor on the World Bank Board of Governors. Mr Kinyua, is currently the Chairman of the East African Development Bank.

PATRICK NYOIKE

Mr Nyoike, aged 61 years, is currently the Permanent Secretary, Ministry of Energy and holds a BSc (Hons) in Mathematics and Physics from the University of Ghana and a BPhil (Econ) from the University of Nairobi. He has previously held senior positions in various ministries including Finance and Energy. He is a Director of several State Corporation Boards. Mr Nyoike has written several papers on energy some of which have been published in the course of his long civil service career.

Board of Directors

Ms Wainana, aged 67 years, holds a Bachelor of Arts degree from Morningside College, Iowa, USA and postgraduate studies in Anti-trust Law, Micro Economics and Development Policy from Harvard University. She was previously a Commissioner of Monopolies and Prices. She is a member of the Board of Governors of Kirangari High School. Ms Wainana is the Chairperson of the Board Strategy Committee.

SARAH WAINAINA

Mr Ndeto, aged 57 years, holds a BSc (Hons) in Electrical Engineering from the University of Nairobi and is a Member of Electrical Engineers of United Kingdom (MIEE). He is also a Director of Kenya Commercial Bank and is currently in private practice. Mr Ndeto is the Chairman of both the Board G2G Steering and Procurement Oversight Committees.

MUSA NDETO

Mr Njagi, aged 62 years, is a former Deputy Secretary, Ministry of Transport and Communications with a wealth of experience in civil aviation and air transport. He has also served as an alternate director of Kenya Airport Authority. His qualifications include certificates in basic and advanced training in air traffic control from the East African School of Aviation and Copenhagen, Denmark among other specialised training in Luxembourg, Canada and UK. Mr Njagi is the Chairman of the Staff Committee of the Board.

GEORGE NJAGI

DORCAS KOMBO

Mrs Kombo, aged 55 years, 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 Management Consultant and has extensive experience in restructuring both public and private organizations across Africa. She is a director of Metis Consulting and Eleven Ninety One Coffee Estates Limited. Mrs Kombo is the Chairperson the Board Audit Committee.

HEDRICK OMANWA

Mr Omanwa, aged 44 years, holds a. B.Com degree and MBA from 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 the Managing Partner of Omanwa & Associates, an audit and consultancy firm. Mr Omanwa is currently a member of the Board Audit and Procurement Oversight Committees.

HENRY M'NAROBI

Mr M'Narobi, aged 63 years, holds a BA (Hons) degree from University of Nairobi. He has held senior positions in both the government and international organisations and 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 D'Ivoire. Mr M'Narobi is a member of the Board Strategy and G2G Steering Committees.

Board of Directors

PETER MURIITHI

Rev Muriithi, aged 60 years, graduated with honours in BA (Phil) from the 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 is a PHD student at Kenyatta University. Rev Muriith is a member of the Board Staff and G2G Steering Committees.

JOHN OMENGE

Mr. Omenge, aged 48 years, holds a BSc degree in Geology from University of Poona, India and MSc Mineral Exploration and Mining Geology from the Leicester University UK. He is the alternate director to the Permanent Secretary, Ministry of Energy and is currently the Chief Geologist at the Ministry of Energy. He is a Professional Member of the Geological Society of Kenya and Registered Geologist by the Geologists Registration Board of Kenya. Mr Omenge has worked for 25 years as a Geologist for the Government of Kenya.

HUMPHREY MUHU

Mr Muhu, aged 44 years, holds a BSc (Mathematics & Statistics) from Kenyatta University, B Phil (Economics) degree from the University of Nairobi and MA in Economics from the University of Nairobi. He is the alternate director to the Permanent Secretary, Treasury. Mr Muhu is an Economist with 17 years experience in various government ministries and departments.

Management Team

Seated L-R:
Edward Njoroge Managing Director & CEO **Rebecca Miano** Company Secretary/Legal & Corporate Affairs Director **Beatrice Soy** Human Resources & Administrator Director **Richard Nderitu** Operations Director

Standing L-R:
John Mudany Finance & Commercial Director **Albert Mugo** Business Development & Strategy Director
Simon Ngure Regulatory Affairs Director

Statement of Corporate Governance

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

Board Charter

The Board Charter is a commitment by the members of the Board to discharge the mandates of KenGen. It seeks to ensure the effectiveness of each director's contribution in the governance of the company by facilitating full and free exercise of independent judgement and professional competencies. It outlines the rules that guide the Board and does not in any way purport to replace or supersede any laws and regulations that govern the Company.

The Board

The Board consists of ten non-executive members and an executive Managing Director. The full Board of Directors held 5 regular and 5 special meetings during the year. Dates of the meetings are scheduled annually whereas special Board meetings are called as and when necessary.

Name	Attendance
Titus Mbathi	10
Edward Njoroge	10
PS-Treasury	10
PS-Energy	10
Sarah Wainaina	9
Musa Ndeto	8
George Njagi	10
Dorcas Kombo	8
Hedrick Omanwa	10
Henry M'Narobi	10
Peter Muriithi	10

The biographies of the Directors are published on page 20-24. These Directors possess a broad range of skills, qualifications and experiences required to direct the affairs of the Company.

Board Responsibilities

The independence of KenGen's' Board from the Company's corporate management is ensured by the separation of the functions of the Chairman and Managing Director and a clear definition of their responsibilities. This helps in achieving an appropriate balance of power, increased accountability and improved capacity for decision making, independent of the management. The Board is accountable to the shareholders, has been assigned a clear mandate and retains 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 KenGen.
It retains full and effective control over the Company by monitoring the management in its implementation of Board plans and strategies, review of management accounts and major capital expenditure. The Board strives to act above and beyond the minimum requirements and benchmarks Company performance against international best practice. It delegates other matters with the necessary written authority to management and institutes effective mechanisms that ensure implementation of its directives by the management.

The Board reviews and adopts business plans, specific financial and non-financial objectives and policies proposed by management. It reviews processes for the identification and management of business risk as well as those concerning compliance with key regulatory and legal areas. It delegates authority for capital expenditure and reviews investment, capital and funding proposals reserved for its approval. The Board also reviews the Company's succession plans for the management team and endorses senior executive appointments, organizational changes and remuneration matters. Further to this, the Board not only evaluates the Company's performance but also oversees the direction, governance and performance reporting processes as well as other disclosure requirements.

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

In accordance with mode practices and to keep abreast with developments in corporate governance, the members of Board undertook training programs under the auspices of the Centre for Corporate Governance and a program on The Effective Director at the Strathmore Business School during the year.

Board Committees

The Board Committees facilitate decision-making to assist the Board in the execution of its duties, powers and authority, however delegation of authority to the Committees does not in any way mitigate or dissipate the discharge by the Board of its duties and responsibilities.

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 five Committees. In February 2009, in accordance with the Board Charter and tenets of good governance, the Board approved the review of the membership of all the Board Committees.

Strategy Committee

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 and the overall operational performance and organizational health.

It comprises Sarah Wainaina as the Chairperson, with Henry M'Narobi, Musa Ndeto, Humphrey Muhu and Edward Njoroge as members.

It held 4 regular meetings in the year.

Name	Attendance
Sarah Wainaina	4
PS-Treasury	3
PS-Energy	2
Musa Ndeto	2
Henry M'Narobi	1
Edward Njoroge	4

Audit Committee

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

It comprises Dorcas Kombo as the Chairperson, with Humphrey Muhu, John Omenge, Hedrick Omanwa, and Edward Njoroge as members.

It held 6 regular and 6 special meetings in the year.

Name	Attendance
Dorcas Kombo	12
PS-Treasury	12
PS-Energy	6
Hedrick Omanwa	12
Edward Njoroge	12

Staff Committee

The Committee scrutinizes and advises the Board on the organizational structure, core functions and staff establishment. It provides guidance on human resource policies, and also makes recommendations that promote operational efficiency and capacity enhancement.

It comprises George Njagi as the Chairperson, while Dorcas Kombo, John Omenge, Peter Muriithi and Edward Njoroge are members.

It held 4 regular meetings in the year.

Name	Attendance
George Njagi	4
Dorcas Kombo	4
PS-Energy	4
Peter Muriithi	4
Edward Njoroge	4

Statement of Corporate Governance

Procurement Oversight Committee

This committee considers and endorses all the annual procurement plans for submission to the Board. It receives and discusses all the quarterly procurement reports before they are submitted to the Board. It reviews proposals from the Tender Committees for major procurement works which have a strategic impact on the Company. It solves procurement issues that may arise from time to time and reviews on an annual basis its own performance, constitution and terms of reference, recommending any subsequent changes to the Board for approval.

It comprises Musa Ndeto as Chairperson, while Sarah Wainaina, Titus Mbathi, Hedrick Omanwa, Edward Njoroge are members

It held 10 meetings in the year.

Name	Attendance
Musa Ndeto	10
Titus Mbathi	10
Sarah Wainaina	8
Hedrick Omanwa	4
Edward Njoroge	10

G2G Steering Committee

This committee spearheaded the G2G transformation programme, provides guidance on major organisational roadblocks and mobilise s resources to achieve the transformation targets.

It comprises Musa Ndeto as the Chairperson, while George Njagi, Sarah Wainaina, Henry M'Narobi, Peter Muriithi and Edward Njoroge are members.

It held 2 regular meetings in the year.

Name	Attendance
Musa Ndeto	2
George Njagi	2
Henry M'Narobi	2
Sarah Wainaina	2
Peter Muriithi	-
Edward Njoroge	2

Directors Remuneration

In accordance with guidelines provided in the State Corporations Act and following approval given during the Annual General Meeting, the directors are paid taxable sitting allowance for every meeting attended, as well as travel and accommodation allowance while on company duty. The Chairman is also paid a monthly honorarium. KenGen does not grant personal loans or guarantees to its Directors.

Business Ethics

Our core values of integrity, professionalism, team spirit and emphasis on safety culture steer our Company's organizational health and decision-making processes. Our business is conducted in compliance with relevant legal principles and high ethical standards of business practice. We apply these standards in all dealings with employees, customers, suppliers and other stakeholders. The Company also ascribes to the ethical standards prescribed by the Public Officer Ethics Act.

Engagement with Shareholders

We are committed to providing regular and timely information to our shareholders. The Company publishes its half-year and annual results in the local daily newspapers. The Annual Report & Accounts are available to all shareholders on an annual basis at least 21 days before the Annual General Meeting (AGM) to ensure that all the shareholders are encouraged to attend the AGM. The Company's website also gives shareholders quick access to 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 2009

	Number of Shares	%
1. Permanent Secretary, Treasury	1,538,853,019	70.00
2. National Social Security Fund	17,334,800	0.79
3. Barclays (K) Nominees Limited A/C 9230	10,175,300	0.46
4. Prime Capital Holdings Limited	9,000,000	0.41
5. Kenya Commercial Bank Nominees Limited A/C 769G	6,878,392	0.31
6. Jennid Trading Limited	5,455,794	0.25
7. Barclays (K) Nominees Limited A/C 1853	5,046,204	0.23
8. Kensington Developers Limited	4,148,427	0.19
9. Barclays (K) Nominees Limited A/C 9187	4,052,002	0.18
10. Kenya Commercial Bank Nominees Limited A/C 744B	4,021,900	0.18
	1,604,965,838	**73.00**
216,718 other shareholders	593,395,618	27.00
Total	**2,198,361,456**	**100.00**

Distribution of Shareholders

Range	No. of Shareholders	Shares	% Shareholding
1 - 500	90,885	24,926,229	1.13
501 - 1,000	46,355	36,927,367	1.68
1,001 - 5,000	53,516	115,306,339	5.25
5,001 - 10,000	21,460	140,649,127	6.40
10,001 - 50,000	3,799	72,862,885	3.31
50,001 - 100,000	313	21,553,938	0.98
100,001 - 500,000	299	65,742,996	2.99
500,001 - 1,000,000	47	34,845,186	1.59
Above 1,000,000	54	1,685,547,389	76.67
Total	**216,728**	**2,198,361,456**	**100.00**

Touching the Lives of Kenyans through Corporate Social Responsibility

KenGen continued to dedicate part of its profit to social responsibility activities aimed at enhancing the livelihoods of those living close to our installations and all Kenyans in general.

During the year under review, the Company focused on activities aimed at making a positive impact on various communities while creating a cordial relationship and raising the Company's profile. Areas of focus included education, provision of water, environmental conservation, support to sporting activities and health care provision.

Water Provision

Today, Kenya is classified as a water-stressed country. Like in many African countries, lack of safe drinking water is the cause of socio-economic problems including starvation and disease. The challenge is even more pronounced in rural areas where women and children walk long distances daily in search of water, which is sometimes polluted. Waterborne diseases are still a concern as many people succumb to them annually. One of KenGen's CSR programme areas of focus is the provision of water to communities through the establishment of water collection points, support to water distribution infrastructure, and construction of sand dams for water storage.

During the last financial year, related projects included the supply of water to Iseneto school and community in Kajiado District, 20 kilometers from Olkaria Geothermal Project; and the construction of three sand dams around Kamburu Dam catchment area. The Company also supported Kithambangi water project in Kitui.

Education

With a focus on education as part of its corporate social responsibility, the Company continued to offer scholarships for both secondary and university students from schools near its Power Plants. The scholarship programme continued to provide bright, disadvantaged children with an opportunity to change their destiny, enabling them to access education by meeting all tuition and boarding fees. Last year, 37 students benefitted from the programme: 22 in secondary schools and 15 in public universities.

Environmental Conservation

In Kenya, the effects of climate change and other environmental challenges are having an enormous impact not only on human life, but also on businesses. The pressure on natural resources and the environment in general is huge and calls for concerted efforts to alleviate the situation. For its part, KenGen has actively participated in environmental conservation initiatives aimed at conserving catchment areas and other delicate ecosystems. Last year, environmental initiatives which benefitted from the Company's support included a KShs 1 million sponsorship of the event, "To Hell's Gate on a Wheelbarrow" an initiative of Kenya Wildlife Service to conserve Hell's Gate National Park; Lake Naivasha Half Marathon, and the World Environment day activities in Lamu and Olkaria in Naivasha. The Company also participated in tree planting activities and distributed free seedlings in various parts of the country.

Sports

Sporting activities are known to provide physical and emotional benefits and KenGen has continued to support sports in the country through the sponsorship of several events. During the year, KenGen provided support to Public Relations Society of Kenya's Golf Challenge, Parklands Sports Club Annual Golf tournament, the Kenya Open Squash Championship and the Tusker Kenya Open Golf Championship among other activities.

Health

Developing countries, including Kenya, are faced with the daunting task of providing health services to an ever increasing population in the face of limited resources. As a result, available health services are often overstretched. In areas of its operation, KenGen continued to offer subsidized health services to local communities through its dispensaries, while supporting other health initiatives aimed at improving the well-being of vulnerable groups, including medical camps and health walks addressing various types of diseases. KenGen also supported three hospices in Nairobi, Mombasa and Nyeri; Gertrude's Children's Hospital, Save a Child's Heart Charity, Mater Heart Run and the Kenya Paraplegic Society.

Disaster Response

During the year, the country experienced a number of disasters – both natural and man-made. KenGen joined hands with the government and other institutions to alleviate the suffering occasioned by the calamities. Among disaster relief efforts supported by the Company included the famine relief in Kilifi, Masinga and Mbeere districts where food was distributed through contributions from the Company and its employees. KenGen employees also donated blood in support of the Sachang'wan fire disaster survivors.

Support to Other Initiatives

The Company also provided support to cultural and tourism initiatives which included the Lamu Cultural Week, Kenya Tourism Week and Nyakach Cultural Day. In addition, the Company sponsored the National Energy Conference and the Energy Awards organized by the Kenya Association of Manufacturers.

Way Forward

As a way forward, KenGen hopes to increase its collaboration with communities in the planning, implementing and monitoring of CSR activities. This will not only enhance the impact of the Company's CSR programme, but empower communities to take charge of their destiny and own the projects even after KenGen has stopped providing support. This approach is based on the premise that communities have a wealth of knowledge and experience that can greatly contribute to environmental, social and economic improvements. All they need is support!
Already, the Company has established linkages with various communities to strengthen partnerships and collaboration. The Company community liaison unit is playing an invaluable role in building bridges between the Company and communities, thereby enabling community members to provide feedback on various issues affecting them and related to the Company.

Alleviating Suffering

KenGen Staff based in Kipevu, Mombasa contributed money in May to buy and distribute food to vulnerable groups in Coast Province.

At the time, Bamba Location in Kilifi District was the beneficiary. For three years, the location had had no rain, and food and water shortages had become the norm, with residents depending on donations from NGOs and government for survival. "Given the extent of vulnerability in the area, it was only natural for KenGen to choose Bamba as the beneficiary of our food distribution this year," said Thermal Operations Manager Abel Rotich when he paid a courtesy call on Kilifi District Commissioner, Katee Mwanza, before accompanying his team to the distribution site at Kirimani Primary School.

KenGen staff used the food distribution as an opportunity to encourage the residents to send their children to school, especially girls, who are trailing in enrolment rates. "Education may be the only escape route out of poverty and you should send your children to school," KenGen's Lucas Kitsao told the parents.

The Kipevu staff donated maize meal and beans. Kenya Red Cross Mombasa branch donated cooking oil.

For his part, Eastern Hydro Manager, Engineer Joe Ngugi, set aside a day to serve the neighboring communities as his staff split into seven groups on 23 April 2009, to simultaneously distribute 350 bales of maize flour in seven centers neighboring the stations. The centres are Mukusu, Kivaa, Makima, Mavuria, Kabuguri and Bore Pit.

Putting Spinal Injury Patients Back on their Feet

KenGen recently donated money in support of the Kenya Paraplegic Organization's golf tournament aimed at raising money to build a rehabilitation centre for people with spinal injuries.

According to the Kenya Paraplegic Chairman, Mr. Tim Wanyonyi, about 70% of people with spinal injuries die three years after leaving hospital due to lack of rehabilitation services. "The situation is compounded by the fact that Kenya and indeed East and Central Africa does not have a standard rehabilitation centre," he said.

Construction of a rehabilitation centre in the country, he said, would give hope to spinal injury patients.

Water Project Makes a Difference

The benefits of Sondu Miriu Water Points are now visible! These water points were a well-thought-out CSR Project to meet the desire of the local people to draw water from the river as it meanders back through Sangoro to Lake Victoria.

For starters, Sondu Project created an artificial 7-kilometre river that cuts across the community, where none existed.

It was envisaged that with this river, the local communities would naturally want to draw its water, their safety notwithstanding. Safety required that the outlet channel be fenced.

The recent long dry spell offered the greatest opportunity for the locals to appreciate the benefits. Ordinarily during the dry period of the year, they would trek 7 kilometers in search of the precious commodity both for their domestic use and their livestock.

It is like a dream come true as women often engage in passionate talk about the project at the drawing points.

The project was handed over to local women's groups to manage in a ceremony graced by Nyando DC and KenGen's Projects Manager, Mr. Sospeter Mbogo, and other KenGen Officers.

KenGen was to maintain minimum flow at the channel throughout to ensure continuous water flow. This has been done even in the period when there is no power generation.

Touching the Lives of Kenyans through Corporate Social Responsibility

Racing to Conserve Hell's Gate

On the morning of 6 June 2009, more than 100 people gathered with their wheelbarrows in Naivasha under the scorching sun. They were preparing to take part in a grueling 5-kilometre race for a worthy cause: raise money to conserve one of Kenya's unique treasures: Hell's Gate National Park.

Challenges facing the Park include increasing illegal game meat trade, human encroachment and loss of habitat, conflict in land use, land sub-division and fencing and human-wildlife conflict. "Hells Gate National Park is unique because at least 90 per cent of wildlife in Naivasha live on people's private land and ranches. It is vital that KWS work with the surrounding communities whose land is critical to the survival of wildlife," said the Park's Senior Warden, Nelly Palmeris.

Sponsored by KenGen to the tune of KShs I million, the race dubbed "To Hell's Gate on a Wheelbarrow" attracted many people who came to cheer and give moral support to the participants. It was flagged off by KWS Board of Trustees Chairman, Hon. David Mwiraria who was accompanied by the Director, Dr. Julius Kipngetich. KenGen was represented by Operations Director, Mr. Richard Nderitu.

Mr. Nderitu said KenGen took conservation of Hell's Gate seriously as it is home to its geothermal operations. "While we carry out our power generation activities in Hell's Gate, we intend to leave the environment the way we found it," he said.

The exciting race, which consisted of two people – one pushing the wheelbarrow and another sitting on it – was won by Cherop and Ngokai of Kijabe Farm Limited. Fourteen KenGen staff from Olkaria Power Station and the Central Office took part in the race, which raised about KShs 4 million to be used to equip a conservation centre that will aid in community outreach programs aimed at reducing human-wildlife conflict.

Dr. Kipngetich thanked KenGen for the support, adding that he looked forward to greater partnership in the future.

Our People

Today, the strength of any business is measured in the context of its people. KenGen believes in building a sustainable organisation by strengthening our talent pool through timely and appropriate competency enhancement initiatives. During the year, our focus has been to align our training needs to our business strategy to ensure that our people have the requisite skills to deliver on their performance targets. Consequently, more than 1,000 employees were trained in diverse fields through formal courses, conferences, seminars and workshops.

As is our custom, KenGen continued to invest in the growth and development of future generations by offering internship opportunities in key areas particularly engineering, information & communication technology, finance and human resources management.

In line with our principle of attracting and retaining a highly skilled workforce to enhance our ability to deliver on our strategy, the company recruited 114 new employees in various positions.

In Kenya like many other African countries, HIV/AIDs has a huge impact on the workforce. In some cases, this has been compounded by Drug & Substance abuse. In the last financial year, KenGen carried out a HIV/AIDs behaviour change survey and Staff Sensitisation to identify awareness gaps and map out mitigation strategies. Based on the outcome of the survey, the Company developed intervention measures to be implemented in the next financial year.

Likewise, the Company engaged the National Campaign Against Drug Abuse Authority (NACADAA) to sensitise employees about the dangers of drug and substance abuse in all our areas of operation.

To enchance holistic work-life balance, our staff are encouraged to participate in sporting activities which include ladies and men football, squash, darts, netball and other team building sports. This culminated in an annual sports day for staff held in December 2008.

organisation by strengthening our talent

Report of the Directors

For The Year Ended 30 June 2009

The Directors have pleasure in presenting their report and the audited financial statements for the year ended 30 June 2009 which show the state of affairs of the company.

1. 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).

2. RESULTS

	KShs'000
Profit before tax	4,556,281
Tax	(2,485,368)
Profit for the year	2,070,913

3. DIVIDENDS

Subject to the approval of the shareholders, the Directors recommend the payment of a final and total dividend of KShs 1.099 billion (2008: KShs1.978 billion) for the year representing KShs 0.50 (2008: KShs 0.90) per issued ordinary share.

4. RESERVES

The reserves of the company are set out on pages 41 and 64, note 30.

5. DIRECTORS

The Directors who served during the year and to the date of this report are as shown on page 4.

6. AUDITORS

The Controller and Auditor-General is responsible for the statutory audit of the Company's books of account in accordance with Section 14 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 his behalf.

Accordingly, Ernst & Young were appointed to carry out the audit for the year ended 30 June 2009.

By Order of the Board.

Rebecca Miano
Company Secretary

15 October 2009

Statement of Directors' Responsibilities on the Financial Statements

For The Year Ended 30 June 2009

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 have approved a change in accounting policy on treatment of unrealised exchange gains and losses arising from translations of foreign currency denominated borrowings. Previously, all the exchange differences arising from translation of foreign currency denominated assets and liabilities were dealt with in the income statement in accordance with International Accounting Standard (IAS) No. 21. This change is based on the foreign exchange fluctuation compensation arrangements stipulated in the Power Purchase Agreements (PPAs) gazetted on 11 July 2008. This provides a cushion to the company against foreign currency fluctuations arising from translation of foreign currency denominated borrowings. In the opinion of the directors, therefore, the change in the accounting policy allows for fair presentation of the financial statements as relates to understandability, comparability and identifying of operational trends in the company's financial position and performance over time.

Foreign currency denominated borrowings are translated at rates ruling at the balance sheet date. The resulting exchange differences are recognised in Foreign Currency Revaluation Reserve in the Statement of Changes in Equity. This is not in accordance with International Accounting Standard (IAS) No. 21 -The Effect of Changes in Foreign Exchange Rates, which requires that exchange differences arising from translation of monetary liabilities be dealt with in the income statement. Had the company complied with the requirements of IAS 21, the loss before tax would have been KShs 894.627 million.

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.

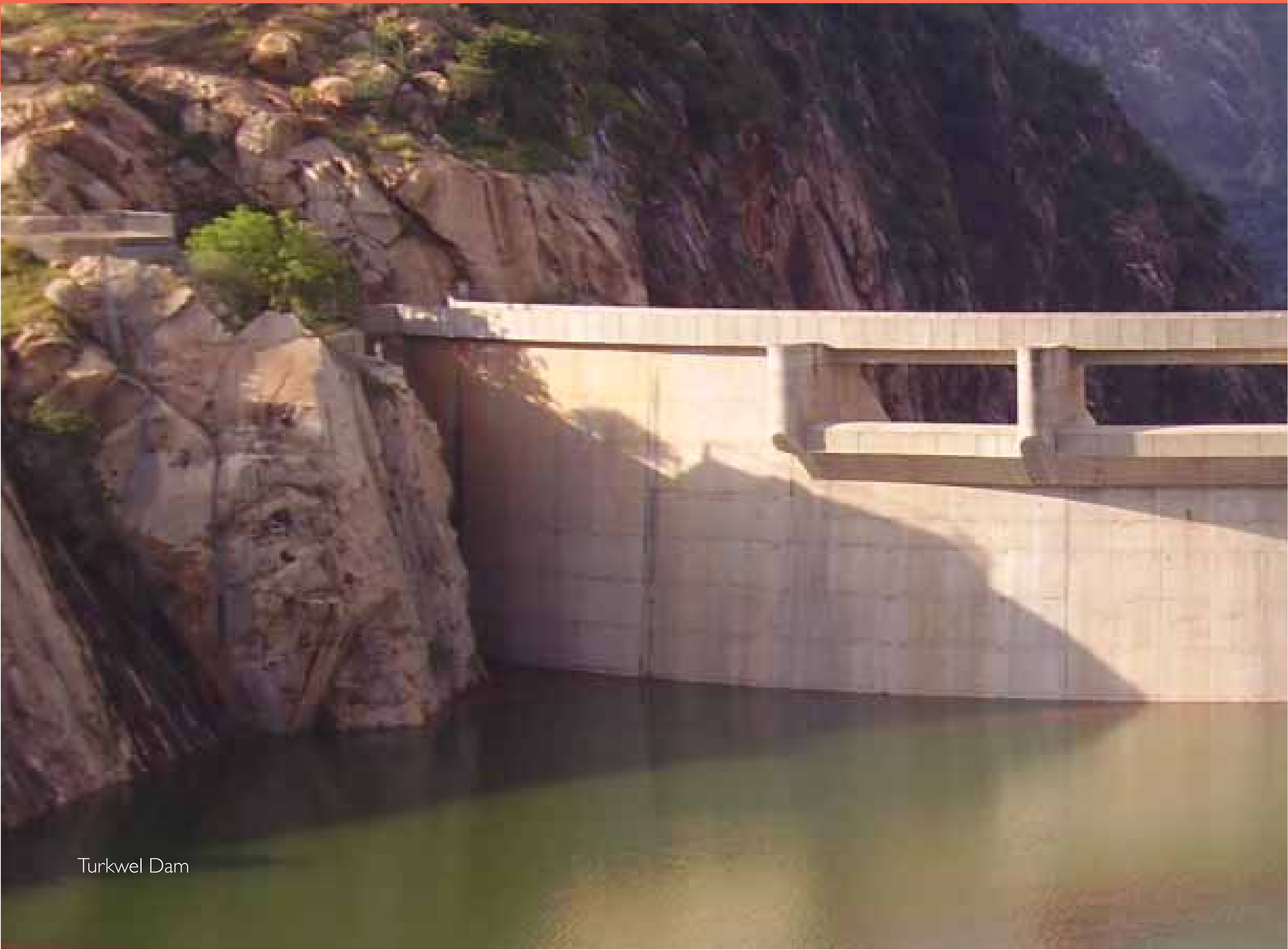
Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Director

Director

Director

15 October 2009



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Report to the Controller & Auditor-General on the Financial Statements

Report on the Financial Statements

We have audited the accompanying financial statements of Kenya Electricity Generating Company Limited, set out on pages 39 to 72, which comprise the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditor's Responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 depended on our professional 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, we considered the internal controls relevant to the company's preparation 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As stated in Note 4 of the financial statements, the directors have approved a change in accounting policy as affects the accounting treatment of unrealised exchange gains and losses relating to foreign currency denominated borrowings. Foreign currency denominated borrowings are translated at rates ruling at the balance sheet date. The resulting exchange differences are recognised in Foreign Currency Revaluation Reserve in the Statement of Changes in Equity. This is not in accordance with International Accounting Standard (IAS) No. 21 -The Effect of Changes in Foreign Exchange Rates, which requires that exchange differences arising from translation of monetary liabilities be dealt with in the income statement. Had the company complied with the requirements of IAS 21, the arising unrealised exchange losses would have led to a loss before tax of KShs 894.627 million. The foreign exchange fluctuation compensation arrangements are stipulated in the Power Purchase Agreements (PPAs). The detailed application and mechanisms were gazetted on 11 July 2008. The exchange rate benchmarks spelt out in the PPAs provide a compensation framework at the point of conversion of foreign currency. This provides a cushion to the company against foreign currency fluctuations arising from translation of foreign currency denominated borrowings. In the opinion of the directors, therefore, the change in accounting policy allows for fair presentation of the financial statements as relates to understandability, comparability and identifying of operational trends in the company's financial position and performance over time.

Opinion

In our opinion, except for the matter discussed in the preceding paragraph, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 30 June 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's balance sheet and income statement are in agreement with the books of account.

A.S.M. Gatumbu
Controller & Auditor-General

Nairobi
15 October 2009

Income Statement

For The Year Ended 30 June 2009

	Note	2009 KShs'000	2008 KShs'000
REVENUE			
Energy Related Income	5	12,652,388	11,548,176
Interest Income	6	433,069	275,773
Other Income	7	298,073	55,728
Foreign Exchange Gain	8	176,069	8,763
		13,559,599	11,888,440
EXPENSES			
Operating Expenses	9	(8,246,999)	(8,011,602)
Finance Cost	10	(756,319)	(798,073)
PROFIT BEFORE TAX	11	4,556,281	3,078,765
TAX	12(a)	(2,485,368)	2,818,114
PROFIT FOR THE YEAR		2,070,913	5,896,879
Earnings per share - Basic and diluted (KShs)	13	0.94	2.68
Dividends per share-(KShs)	28	0.50	0.90

Balance Sheet

As at 30 June 2009

	Note	2009 KShs'000	2008 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	92,699,405	91,822,390
Prepaid leases on land	15	1,446	1,475
Intangible assets	16	543,893	303,721
Amount due from KPLC-Deferred debt	17(b)	1,064,696	701,704
Treasury bonds-Available for sale	18	1,545,680	3,509,123
		95,855,120	96,338,413
CURRENT ASSETS			
Inventories	19	752,767	985,013
0ther receivables	20	522,366	735,912
Amount due from KPLC	17(a)	5,195,179	4,677,895
Tax recoverable	12 (b)	141,383	73,190
Treasury bonds-Available for sale	18	1,631,485	427,297
Geothermal development funds	21	283,589	25,551
Term deposits	22	32,499	30,926
Bank and cash balances	23(b)	4,189,491	3,699,354
		12,748,759	10,655,138
CURRENT LIABILITIES			
Borrowings due within one year	24(a)	1,399,880	1,531,116
Trade and other payables	25	2,935,273	5,310,135
Leave pay provision	26	137,585	119,252
Amount due to KPLC	17(c)	8,037	7,471
Prepaid operating lease	27(b)	2,000	2,000
Dividends payable	28	1,384,968	615,542
		5,867,743	7,585,516
NET CURRENT ASSET		6,881,016	3,069,622
TOTAL ASSETS		102,736,136	99,408,035
EQUITY AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	29	5,495,904	5,495,904
Reserves- Foreign currency revaluation reserve	30	(4,341,281)	1,109,627
- Other reserves	30	61,059,424	59,818,525
		56,718,143	60,928,152
Proposed dividends	28	1,099,181	1,978,525
		63,313,228	68,402,581
NON-CURRENT LIABILITIES			
Borrowings	24(a)	25,793,197	19,466,078
Prepaid operating lease	27(b)	11,000	13,000
Retirement benefits liability	31	339,428	339,428
Deferred tax	32	13,279,283	11,186,948
		39,422,908	31,005,454
TOTAL EQUITY AND LIABILITIES		102,736,136	99,408,035

The Board of Directors approved the financial statements on 15 October 2009 and were signed on its behalf by:

Director　　Director　　Director

Statement Of Changes In Equity

For The Year Ended 30 June 2009

	Share Capital KShs'000	Share Premium KShs'000	Capital Reserve KShs'000	Financial Instruments Revaluation Reserve KShs'000	Retained Earnings KShs'000	Property, plant & equipment Revaluation Reserve KShs'000	Proposed Dividends KShs'000	Foreign Currency Revaluation Reserve [Note 4 (a)] KShs'000	Total KShs'000
At 1 July 2007	5,495,904	5,039,818	8,579,722	(13,924)	18,514,656	25,142,670	879,343	-	63,638,189
Prior year adjustment-unrealised gain on translation of borrowings (note 4 and 36)	-	-	-	-	(2,559,539)	-	-	2,559,539	-
Prior year adjustment-deferred tax on unrealised gain on translation of borrowings (note 36)	-	-	-	-	639,885	-	-	-	639,885
As restated	5,495,904	5,039,818	8,579,722	(13,924)	16,595,002	25,142,670	879,343	2,559,539	64,278,074
Transfer of excess depreciation	-	-	-	-	1,575,373	(1,575,373)	-	-	-
Deferred tax on revaluation surplus	-	-	-	-	-	393,843	-	-	393,843
Profit for the year	-	-	-	-	5,896,879	-	-	-	5,896,879
Treasury bonds fair value adjustment	-	-	-	163,040	-	-	-	-	163,040
Unrealised exchange difference on translation of borrowings	-	-	-	-	-	-	-	(1,449,912)	(1,449,912)
Dividends:									
2007-Final approved	-	-	-	-	-	-	(879,343)	-	(879,343)
2008- Proposed	-	-	-	-	(1,978,525)	-	1,978,525	-	-
At 30 June 2008	5,495,904	5,039,818	8,579,722	149,116	22,088,729	23,961,140	1,978,525	1,109,627	68,402,581
At 1 July 2008	5,495,904	5,039,818	8,579,722	149,116	22,088,729	23,961,140	1,978,525	1,109,627	68,402,581
Transfer of excess depreciation	-	-	-	-	1,575,373	(1,575,373)	-	-	-
Adjustment of revaluation	-	-	-	-	-	3,240	-	-	3,240
Deferred tax on revaluation surplus	-	-	-	-	-	393,033	-	-	393,033
Profit for the year	-	-	-	-	2,070,913	-	-	-	2,070,913
Dividend payable	-		-	-	-	-	(1,978,525)	-	(1,978,525)
Treasury bonds fair value adjustment	-	-	-	(127,106)	-	-	-	-	(127,106)
Unrealised exchange difference on translation of borrowings								(5,450,908)	(5,450,908)
2009-Proposed dividends	-	-	-	-	(1,099,181)	-	1,099,181	-	-
At 30 June 2009	5,495,904	5,039,818	8,579,722	22,010	24,635,834	22,782,040	1,099,181	(4,341,281)	63,313,228

Cashflow Statement

As at 30 June 2009

	Note	2009 KShs '000	2008 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows generated from operations	23(a)	5,821,835	7,952,791
Income tax paid		(68,193)	(1,271,727)
Interest paid		(1,134,110)	(269,209)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		4,619,532	6,411,855
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(4,731,066)	(7,896,512)
Purchase of intangible assets		(240,172)	(88,057)
Proceeds from disposal of property, plant and equipment		18,641	29,050
Interest received		425,209	427,702
Proceeds on sale/redemption of treasury bonds on maturity		815,886	1,238,700
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(3,711,502)	(6,289,117)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,629,811)	(482,084)
Proceeds from borrowings		2,422,590	2,514,299
Dividends Paid		(1,209,099)	(263,801)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(416,320)	1,768,414
INCREASE IN CASH AND CASH EQUIVALENTS		491,710	1,891,152
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		3,730,280	1,839,128
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23(b)	4,221,990	3,730,280

1. GENERAL INFORMATION

The company 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 Kenya Electricity Generating Company Limited (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. BASIS OF PREPARATION

The financial statements are presented in the functional currency, Kenya Shillings, rounded to the nearest 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 available 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. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates. Accounting policies 4(d) and 4(e) below on 'critical accounting estimates and assumptions' and 'critical accounting judgements' highlight the areas that involve a higher level of judgement, or where the estimates or assumptions used are significant to the financial statements.

3. STATEMENT OF COMPLIANCE

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations of those Standards.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently except as mentioned in paragraph 4 (a) and 4 (b) and unless otherwise stated.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Change in accounting policy-Foreign Currency Translations

The directors have approved a change in the company's accounting policy on the treatment of the unrealised gains/ losses arising from foreign currency translations of borrowings. At the balance sheet date, the assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. Previously, all the exchange differences arising from translation of foreign currency denominated assets and liabilities were dealt with in the income statement in accordance with International Accounting Standard (IAS) No. 21.

Unrealised exchange differences arising from translations of foreign currency denominated borrowings in the current year, have been dealt with in the Statement of Changes in Equity as Foreign Currency Revaluation Reserve. The new accounting policy on treatment of unrealised gains/losses departs from the requirements of IAS 21. In the opinion of the directors, applying IAS 21 would be misleading because of the nature of projects financed by foreign borrowings and the compensation mechanisms on foreign exchange fluctuations as provided for by the Power Purchase Agreement.

The Government of Kenya (GoK) through the Electricity Regulatory Commission (ERC) in recognition of the fact that the investments in power projects are procured in foreign currency has designed a tariff policy that aims to protect the company against foreign exchange exposures. However, considering that the company bills its revenues in local currency, the company would be exposed to foreign exchange movements and therefore volatility of its earnings. In response to this risk, ERC has designed a tariff revenue calculation mechanism whose objective is to create a cushion to the company against movements on foreign currency translations. The latest policy legislation which governs the foreign exchange adjustment mechanism was published on 11 July 2008 under Gazette Notice Number 1718. This prescribes the base currency exchange rates for various currencies used to procure borrowings and services. The table below compares the closing exchange rates of the major currencies at the end of the year and the gazetted base rates.

Currency	30 June 2009	Gazetted base rate
	KShs	KShs
US$	77.1578	64.9242
Yen	0.80658	0.6404
Euro	109.0613	100.793

SIGNIFICANT ACCOUNTING POLICIES (cont'd)
a) Change in accounting policy-Foreign Currency Translations (cont'd)

This notice provides that any cost incurred as a result of foreign exchange rate fluctuations above the gazetted base rates shall be a recoverable cost by the producer from the consumer through KPLC and vice versa.

The financial statements as presented provide undestandability, comparability and also provide an avenue for identifying operational trends in the company's financial position and performance over time.

b) Departure from the requirements of IAS 21 -The Effect of Changes in Foreign Exchange Rates (IAS 21)

To achieve a fair presentation of the financial statements, the directors have concluded that a departure from IAS 21 is necessary. In view of this, the resulting foreign exchange loss arising from the translation of the foreign denominated borrowings was recognised in the Foreign Currency Revaluation Reserve in the Statement of Changes in Equity.

The impact of this departure on the income statement is as shown below.

	In compliance with IAS 21		Departure from IAS 21	
	2009	**2008**	**2009**	**2008**
	KShs' 000	**KShs' 000**	**KShs' 000**	**KShs' 000**
OPERATING PROFIT	5,136,531	3,868,075	5,136,531	3,868,075
Foreign exchange (loss)/gain	(5,274,839)	(1,441,148)	176,069	8,763
Finance Costs	(756,319)	(798,073)	(756,319)	(798,073)
	(6,031,158)	(2,239,221)	(580,250)	(789,310)
(LOSS)/PROFIT BEFORE TAX	(894,627)	1,628,854	4,556,281	3,078,765

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

Standards, Amendments and Interpretations Effective in 2008

The following amendment to standard and interpretation is mandatory though not relevant to the company. The effective date of the amendment to standard and interpretation is 1 July 2008.

• Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures-Reclassification of financial assets. The amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for the purpose of being sold or repurchased in the near term.

Financial assets that would be eligible for classification as loans and receivables (ie those assets which, apart from not being held with the intent of sale in the near term, have fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its initial investment except through credit deterioration) may be transferred from 'Held-for-trading' to 'Loans and receivables', if the entity has the intention and the ability to hold them for the foreseeable future.

Financial assets that are not eligible for classification as loans and receivables, may be transferred from 'Held-for-trading' to 'Available-for-sale' or to 'Held-to-maturity', only in rare circumstances. The amendment requires detailed disclosures relating to such reclassifications. The effective date of the amendment is 1 July 2008 and reclassifications before that date are not permitted.

• IFRIC 13, Customer Loyalty Programmes – The IFRIC issued IFRIC 13 in June 2007. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to award credits.

Standards, amendments and interpretations effective in 2008 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the company's operations:

• Amendment to IFRS 7 Financial Instruments: Disclosures (effective from 1 January 2009). The amendment requires disclosure of the level of the fair value hierarchy into which fair value measurements are categorised based on a three level value hierarchy for financial instruments, a detailed reconciliation from beginning to ending balances for those instruments where significant unobservable inputs or valuation techniques have been used in their valuation, and a movement analysis between the different levels of the fair value hierarchy and the reasons for those movements. In addition, the amendment provides further clarification around liquidity risk disclosures and additional quantitative disclosures based on liquidity risk of financial liabilities.

• IFRIC 12, Service Concession Agreements -The IFRIC issued IFRIC 12 in November 2006. (effective from 1 January 2008). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

• IFRIC 14, IAS 19 - (effective from 1 January 2009). The limit on a defined benefit asset, minimum funding requirements and their interaction -IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits.

Standards, Amendments and Interpretations that have been issued and are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective for the company's operations and which the company has not early adopted:
• IFRS 2, Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective from 1 January 2009). The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

• IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements (effective 1 July 2009)-The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.

• IFRS 8 Operating Segments-(effective from 1 January 2009). This standard requires disclosure of information about the company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the company. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon effective date.

• IAS 1 (Revised 2007) Presentation of Financial Statements. The standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements.

• IAS 23 Borrowing Costs (effective from 1 January 2009)-The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

• IAS 32, Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial

SIGNIFICANT ACCOUNTING POLICIES (cont'd)
Standards, Amendments and Interpretations that have been issued and are not yet effective (cont'd)

Instruments and Obligations Arising on Liquidation -These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features.

- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item.

- IFRIC 15 Agreement for the Construction of Real Estate IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

- IFRIC 17-Distribution of Non-Cash Assets to Owners-effective for periods beginning on or after 1 July 2009-This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

- IFRIC 18-Transfers of Assets from Customers effective for periods beginning on or after 1 July 2009-This interpretation provides guidance on how to account for items of property, plant and equipment received from customers,or cash that is received and used to acquire or construct specific assets. This interpretation only applies to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both.

- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39). The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. IAS 39 is also amended to state that, if the fair value of the embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid (combined) contract must remain classified as at fair value through profit or loss. An entity shall apply the amendments for annual periods ending on or after 30 June 2009. The amendments have no impact on the consolidated financial statements, as the Group did not reclassify any hybrid financial assets during the period.

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

Improvements to IFRS's
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- IFRS 7 Financial Instruments: Disclosures: Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 1 Presentation of Financial Statements: assets and liabilities classified as 'held-for-trading' in accordance with IAS 39 Financial Instruments: recognition and measurement are not automatically classified as current in the balance sheet.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

- IAS 10 Events after the Reporting Period: Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment: Items of property, plant and equipment held for rental, are transferred to inventory when the rental ceases and they are held for sale.
- IAS 18 Revenue: Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits: Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:
- IAS 27 (Amended) Consolidated and Separate Financial Statements: this amendment requires that any subsidiaries held in accordance with IAS 39 continue to be treated at that value when they meet the definition of held for sale.
- IAS 28 Investment in Associates: if an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability to transfer funds to the entity in the form of cash or repayment of loan applies.
  An investment in an associate is a single asset for the purpose of conducting an impairment test. Therefore any impairment test is not separately allocated to the goodwill included in the investment balance.
- IAS 36 Impairment of assets: when discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the company either has the right to access the goods or has received the service.
- IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

d) 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' experience 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 risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

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

These 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.

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

e) 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:

Going concern
Management has made an assessment of the company's ability to continue as a going concern and is satisfied that the company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

SIGNIFICANT ACCOUNTING POLICIES (cont'd)
d) Critical accounting estimates and assumptions (cont'd)

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 excludes 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.

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. The company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. 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.

f) 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. Revenue includes amounts invoiced for power supply and foreign exchange adjustments.

(ii) Interest
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.

g) Taxes

(i) Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax
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 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) Impairment on non-financial assets

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 sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds recoverable amount, the 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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 in value. 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, borrowing 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 useful 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 treated 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.

An annual transfer from the asset revaluation reserve to retained earnings is made.

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%
Transmission lines	2.5-5%
Plant and machinery	
- Geothermal wells	6.66%v
- Intake and tunnels	1%
Motor vehicles	25%
Furniture, equipment and fittings	12½%

An item of 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. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

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

SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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.

l) Work –in-progress

Work-in-progress represents costs incurred in acquisition/installation of an item of property, plant and equipment which is not in use. Work-in-progress is not depreciated until the assets are completed and brought into use.

m) 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.

n) 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.

o) 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. Due to their short nature, the nominal value or cost are considered to approximate the fair value and as such stated at cost less impairment loss.

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.

Trade payables
Trade payables are stated at their nominal value/cost, which approximates fair value due to the short term nature thereof.

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

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

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

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

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

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 maturity of three months or less. Cash and cash equivalents are stated at the nominal of cash equivalent since the nominal value approximates the fair value due to the short-term nature thereof.

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

Investments at fair value through profit and loss
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 at fair value through profit and loss 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.

Impairment of financial assets
The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

SIGNIFICANT ACCOUNTING POLICIES (cont'd)
o) Financial instruments (cont'd)

Assets carried at amortised cost
If there 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 (ie the 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.

In relation to trade receivables, allowance 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-sale 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.

De-recognition of financial assets and liabilities

Financial assets

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

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

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition 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.

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 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.

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.

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

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 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.

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 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.

SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

5. REVENUE

	2009 KShs'000	2008 KShs'000
Energy Sales	11,518,156	11,371,532
Realised Foreign Exchange Adjustments	973,471	81,034
Income from Emergency Power Project (EPP)	160,761	95,610
	12,652,388	11,548,176

6. INTEREST INCOME

	2009 KShs'000	2008 KShs'000
Treasury bonds	294,742	210,699
Banks and other financial institutions	138,327	65,074
	433,069	275,773

7. OTHER INCOME

	2009 KShs'000	2008 KShs'000
(a) Gain on sale/redemption of bonds	175,877	-
Consultancy services	36,321	-
Miscellaneous income	50,381	50,139
Insurance compensation	21,407	1,620
Net fuel -pass through [Note 7 (b)]	5,642	1,815
Gain on disposal of property, plant and equipment	8,445	2,154
	298,073	55,728
(b) Net fuel pass-through		
Fuel pass-through	7,866,080	4,543,387
Fuel Costs	(7,860,438)	(4,541,572)
	5,642	1,815

In line with the provisions of the Power Purchase Agreement, the company is reimbursed by KPLC fuel costs incurred in the production of thermal electricity. The net fuel pass-through represents the fuel usage efficiency which varies with working condition of the thermal power generating plants.

8. FOREIGN EXCHANGE GAIN

	2009 KShs'000	2008 KShs'000
Foreign exchange gain on other monetary items excluding borrowings	176,069	8,763

9.OPERATING EXPENSES

	2009 KShs'000	2008 KShs'000
Staff costs	2,366,390	2,222,280
Depreciation	3,847,095	3,404,308
Amortisation	29	29
Plant operation and maintenance	859,901	1,199,340
Insurance	212,656	222,939
Catchment preservation and dam maintenance	107,000	107,000
Welfare and training	374,730	297,512
Loss on sale /redemption of bond	-	48,631
Other costs	479,198	509,563
	8,246,999	8,011,602

10. FINANCE COST

	2009 KShs'000	2008 KShs'000
Interest on borrowings	718,921	687,856
Interest on bank overdraft	37,398	110,217
	756,319	798,073

11. PROFIT BEFORE TAX

	2009 KShs'000	2008 KShs'000
a) Profit before tax is arrived at after charging		
Depreciation	3,847,095	3,404,308
Amortisation of prepaid lease	29	29
Staff costs	2,366,390	2,222,280
Directors' emoluments - Fees	3,600	3,600
- Others	14,879	19,687
Auditors remuneration	3,520	3,520
Operating lease rentals	58,319	43,166
Interest on non current borrowings	718,921	687,856
And after crediting		
Interest income	433,069	275,773
Exchange gain	176,069	8,763
(b) Staff costs		
Salaries and wages	1,999,630	1,884,635
Leave pay allowance	110,436	80,891
Pension cost- Defined benefit scheme	250,519	252,091
- National Social Security Fund	5,805	4,663
	2,366,390	2,222,280
	Number	Number
Permanent employees	1,581	1,532

12. TAX

	2009 KShs'000	2008 KShs'000
(a) INCOME STATEMENT		
Current tax at 25% on the taxable profit for the year	-	-
Deferred tax charge/(credit)	2,485,368	(2,818,114)
Accounting profit before tax	4,556,281	3,078,767
Tax applicable rate of 25%	1,139,070	769,692
Tax effects on items not deducted for tax	(2,674,902)	(299,621)
Originating and reversing temporary differences	755,667	(3,001,011)
Tax losses carried forward	780,165	2,530,940
Deferred tax charge/(credit) for the year	2,485,368	(2,818,114)
(b BALANCE SHEET		
Balance brought forward	73,190	(1,198,537)
Paid during the year	68,193	1,271,727
	141,383	73,190

13. EARNINGS PER SHARE

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:

	2009	2008
Profit attributable to ordinary shareholders for basic earnings (in KShs'000)	2,070,913	5,896,879
Number of ordinary shares in issue during the year used in the calculation	2,198,361,456	2,198,361,456
Basic and diluted earnings per share (in KShs)	0.94	2.68

14. PROPERTY, PLANT AND EQUIPMENT

30 June 2009

	Furniture, land and buildings KShs'000	**Transmission lines KShs'000**	**Plant and machinery KShs'000**	**Motor vehicles KShs'000**	**Freehold Equipment and fittings KShs'000**	**Work- in-progress KShs'000**	**Total KShs'000**
COST /VALUATION							
At 1 July 2008	15,854,230	81,061	84,900,279	394,415	2,030,005	9,167,772	112,427,762
Additions	-	-	-	-	-	4,744,243	4,744,243
Transfers from Work-in-progress	21,578	-	8,203	63,413	34,091	(127,285)	-
Disposal	(9,180)	-	-	(10,159)	-	-	(19,339)
Adjustments	(40,583)	-	2,949	(8,379)	-	36,076	(9,937)
At 30 June 2009	15,826,045	81,061	84,911,431	439,290	2,064,096	13,820,806	117,142,729
DEPRECIATION							
At 1 July 2008	3,419,620	3,161	15,574,143	218,764	1,389,684	-	20,605,372
Charge for the year	504,650	2,939	3,222,831	58,702	93,994	-	3,883,116
Disposal	-	-	-	(9,143)	-	-	(9,143)
Adjustment	-	(836)	(34,875)	(310)	-	-	(36,021)
At 30 June 2009	3,924,270	5,264	18,762,099	268,013	1,483,678	-	24,443,324
NET BOOK VALUE							
At 30 June 2009	11,901,775	75,797	66,149,332	171,277	580,418	13,820,806	92,699,405

The adjustments relate to the cost and depreciation amounts which were previously overstated but have now been reconciled to the property, plant and equipment register.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

30 June 2008

	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 /VALUATION							
At 1 July 2007	8,784,914	14,654	75,083,752	293,233	1,820,660	18,560,933	104,558,146
Additions	-	-	-	-	-	7,896,512	7,896,512
Transfers from Work-in-progress	7,096,212	66,407	9,816,527	101,182	209,345	(17,289,673)	-
Disposal	(26,896)	-	-	-	-	-	(26,896)
At 30 June 2008	15,854,230	81,061	84,900,279	394,415	2,030,005	9,167,772	112,427,762
DEPRECIATION							
At 1 July 2007	3,058,714	1,663	12,646,166	172,707	1,321,814	-	17,201,064
Charge for the year	360,906	1,498	2,927,977	46,057	67,870	-	3,404,308
Disposals	-	-	-	-	-	-	-
At 30 June 2008	3,419,620	3,161	15,574,143	218,764	1,389,684	-	20,605,372
NET BOOK VALUE							
At 30 June 2008	12,434,610	77,900	69,326,136	175,651	640,321	9,167,772	91,822,390

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 company's Board and incorporated in the financial statements for the year ended 30 June 2007.

15. PREPAID LEASES ON LEASEHOLD LAND

	2009 KShs'000	2008 KShs'000
COST		
At start of the year	1,768	1,768
AMORTISATION		
At start of the year	293	264
Amortisation for the year	29	29
At close of the year	322	293
NET BOOK VALUE		
At close of the year	1,446	1,475

16.INTANGIBLE ASSET

	2009 KShs'000	2008 KShs'000
COST		
At start of the year	303,721	215,664
Additions in the year	240,172	88,057
At close of the year	543,893	303,721

Intangible asset relates 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..

17. RELATED PARTY TRANSACTIONS

	2009 KShs'000	2008 KShs'000
a) Amount due from KPLC		
Energy sales	5,195,179	4,321,305
Current portion of deferred debt	-	356,590
	5,195,179	4,677,895
b) Amount due from KPLC-deferred debt		
Long term portion	1,064,696	1,058,294
Current portion	-	(356,590)
	1,064,696	701,704

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. The debt is payable over a duration of 30 years.

	2009 KShs'000	2008 KShs'000
c) Amount due to KPLC	8,037	7,471

d) 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.

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

	2009 KShs'000	2008 KShs'000
(i) Energy sales to KPLC	11,518,156	11,371,532
Realised foreign exchange adjustments	973,471	81,034
	12,491,627	11,452,566
Fuel pass-through	7,866,080	4,543,387
(ii) Electricity purchases from KPLC	129,484	78,860

Terms and conditions of transactions with related parties
The sales to KPLC are made in accordance with the signed Power Purchase Agreements whereas the purchases from KPLC are made at normal market prices. Outstanding balances at the year-end are unsecured and settlement occurs in cash.

	2009 KShs'000	2008 KShs'000
(iii) Government of Kenya:		
Funds received for Geothermal Resource Assessment	4,472,700	28,000
Interest expense on project borrowings	437,100	689,577
Geothermal Resource Assessment assets	4,730,738	1,496,581

Other details relating to transactions with the Government of Kenya are disclosed in notes 21, 24 and 34

	2009 KShs'000	2008 KShs'000
(iv) Staff advances		
Key management	453	758
Other staff	109,650	119,477
	110,103	120,235

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

17. RELATED PARTY TRANSACTIONS (continued)

d) Related party transactions (continued)

	2009 KShs'000	2008 KShs'000
(v Key management compensation		
Salaries and wages	66,374	49,631
Pension scheme contributions	188	10,088
Other allowances	36,000	31,719
	102,562	91,438

18. TREASURY BONDS

Treasury bonds are debt 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 are as follows:

	2009 KShs'000	2008 KShs'000
Within one year	1,631,485	427,297
After one year but within two years	79,292	1,608,067
After two years but within five years	1,466,388	1,761,778
After five years	-	139,278
	3,177,165	3,936,420
Current	(1,631,485)	(427,297)
Non-current	1,545,680	3,509,123

At 30 June 2009 no impairment losses have been recognised for available-for-sale assets (30 June 2008: Nil). The carrying amount of available for sale assets was KShs 3,177,164,842 (30 June 2008: KShs 3,936,419,819). Out of the total treasury bonds of KShs 3,177,164,842, KShs 2,345,000,000 are held under lien by Kenya Commercial Bank.

19. INVENTORIES

	2009 KShs'000	2008 KShs'000
Fuel	243,252	449,932
General stores	55,103	57,322
Machinery spares	376,218	462,993
Goods-in-transit	78,194	14,766
	752,767	985,013

20. OTHER RECEIVABLES

	2009 KShs'000	2008 KShs'000
Receivable from staff	67,430	86,829
Other receivables and prepayments	255,607	345,491
Advance payments – contractors	199,329	303,592
	522,366	735,912

Advance payments to contractors mainly relate to drilling of wells in Olkaria.

21. GEOTHERMAL DEVELOPMENT FUNDS

	2009 KShs'000	2008 KShs'000
As at July 1	(25,551)	1,443,030
Received during the year	4,472,700	28,000
Expenditure during the year	(4,730,738)	(1,496,581)
As at 30 June	(283,589)	(25,551)

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. TERM DEPOSIT

Term deposit	32,499	30,926

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.

23. NOTES TO THE CASH FLOWS STATEMENTS

a) Reconciliation of operating profit to cash generated from operations

	2009 KShs'000	2008 KShs'000
Profit before tax	4,556,281	3,078,765
Adjustments for:		
Depreciation	3,847,095	3,404,308
Amortisation of prepaid operating leases on land	29	29
Gain on disposal of property, plant and equipment	(8,445)	(2,154)
Interest income	(433,069)	(275,773)
Interest expense	718,921	687,856
Foreign exchange loss/(gains)	182,635	(8,763)
Net (gains)/ loss on redemption of treasury bond	(175,877)	18,908
Operating profit before working capital changes	8,687,570	6,903,176
Decrease in inventories	232,246	51,828
Increase in amounts due from KPLC	(695,526)	(623,280)
Decrease in trade and other receivables	213,546	882,795
(Decrease)/increase in trade and other payables	(2,374,862)	2,204,658
Increase/(decrease) in leave pay provision	18,333	(843)
Increase in amount due to KPLC	566	5,038
Increase in research funds	(258,038)	(1,468,581)
Decrease in prepaid lease	(2,000)	(2,000)
Cash generated from operations	5,821,835	7,952,791

b) Balances of cash and cash equivalents

	2009 KShs'000	2008 KShs'000
Bank and cash balances	4,189,491	4,968,800
Bank overdraft	-	(1,269,446)
Bank and cash balances	4,189,491	3,699,354
Term deposits	32,499	30,926
Year end balance	4,221,990	3,730,280

Cash at bank earns interest at floating rate based on daily bank deposit rates. Short term deposits are made for varying periods between one day and three months depending on the immediate cash requirement of the company and earn interest at the respective short term deposit rates.

24. (a) BORROWINGS

	Maturity Year	2009 KShs'000	2008 KShs'000
Government of Kenya Guaranteed			
2.6% Japan Bank for International Cooperation No. KE P20 2005/2025 (JPY 6,805,056,000)	2025	5,535,494	4,416,470
2.3% Japan Bank for International Cooperation KE P21 2007/2027 (JPY 6, 087, 492, 000)	2027	5,165,248	3,924,950
0.75% Japan Bank for International Cooperation KE P23 2014/2044 (JPY 10,550,437,561)	2044	8,509,772	6,102,786
0.75% Japan Bank for International Cooperation KE P24 (approved JPY 5,620,000,000), Disbursed JPY 1,105,902,689)	2047	891,999	56,829
On lent			
7.7% International Development Association 2003/2018(US$ 65,674,452.46)	2018	4,947,161	5,192,940
7.7% Kreditanstalt Fur Wiederaufbau 2004/2019 (Euro 1,007,382.97)	2038	110,766	113,744
4.5% International Development Association Credit IDA 3958, 2009/2027(USD 11,016,930.54)	2025	850,042	314,820
1.5% KBC Bank loan (Belgium) Ngong Wind Power (Euro 9,442,531.73)	2023	1,029,814	306,471
Total loans		27,040,296	20,429,010
Accrued interest		152,781	568,184
Total borrowings		27,193,077	20,997,194
Less: Amounts due within 12 months		(1,399,880)	(1,531,116)
Non-current borrowings		25,793,197	19,466,078

(b)Maturity of non-current borrowings

	2009 KShs'000	2008 KShs'000
Due between 1 and 2 years	1,247,099	1,531,116
Due between 2 and 5 years	3,741,297	4,593,347
Due after 5 years	20,804,801	13,341,615
	25,793,197	19,466,078

(c) Analysis of loans by currency

	Borrowings in US$ KShs'000	Borrowings in JPY KShs'000	Borrowings in EUR KShs'000
Loans (KShs) 30 June 2009	6,015,290	19,884,425	1,140,581
Loans (KShs) 30 June 2008	5,507,760	14,501,036	420,215
Loans (KShs) 30 June 2007	5,443,268	11,394,459	109,157

25. TRADE AND OTHER PAYABLES

	2009 KShs'000	2008 KShs'000
Trade payables	1,804,872	2,206,498
Contract payables and retention money	793,902	1,633,619
Sundry payables	118,994	76,084
Emergency Power Project	-	1,029,457
VAT payable	217,505	364,477
	2,935,273	5,310,135

Terms and conditions

Trade payables are non-interest bearing and are normally settled on a 60 day terms. Other payables are also non interest bearing and have an average term of six months.

26.LEAVE PAY PROVISION

	2009 KShs'000	2008 KShs'000
At beginning of the year	119,252	120,095
Charge to income statement	18,333	(843)
At close of the year	137,585	119,252

27. OPERATING LEASE COMMITMENTS

(a) AS LESSEE

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

	2009 KShs'000	2008 KShs'000
Within 1 year	11,378	6,834
After 1 year but not later than 5 years	42,044	8,411
	53,422	15,245

The company has entered into commercial leases on premises. These leases have an average life of between three and five years. There are no restrictions placed upon the lessee by entering into the leases.

(b) AS LESSOR

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

	2009 KShs'000	2008 KShs'000
Within 1 year	2,000	2,000
After 1 year but not later than 5 years	8,000	8,000
After 5 years	3,000	5,000
	11,000	13,000

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. his amount is accounted for in the income statement annually on a straight-line basis over the remaining life of the lease.

28. DIVIDENDS PAYABLE AND PROPOSED

	2009 KShs'000	2008 KShs'000
Dividend payable	1,384,968	615,542
Proposed for approval at annual general meeting (not recognised as a liability) Dividends on ordinary shares: Final dividend for 30 June 2009:KShs 0.50 (30 June 2008: KShs 0.90) per share	1,099,181	1,978,525

Dividend per share 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.

29. SHARE CAPITAL

	2009 KShs'000	2008 KShs'000
Authorised: 2,215,927,528 ordinary shares of KShs 2.50 each	5,539,819	5,539,819
Issued and fully paid: 2,198,361,456 ordinary shares of KShs 2.50 each	5,495,904	5,495,904

30. RESERVES

	KShs' 000	KShs' 000
Share premium	5,039,818	5,039,818
Capital reserves	8,579,722	8,579,722
Financial instruments revaluation	22,010	149,116
Retained earnings	24,635,834	22,088,729
Revaluation reserve-property, plant and equipment	22,782,040	23,961,140
	61,059,424	59,818,525
Foreign currency revaluation reserve	(4,341,281)	1,109,627
	56,718,143	60,928,152

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.

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 de-recognition, the cumulative changes in fair value are recognised through the income statement.

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.

v)The foreign currency revaluation reserve arises from translation of foreign currency denominated borrowings outstanding as at end of the year.

31. 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) 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.
Investments return	10
Rate 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 2004. Clause 7.1 of the agreement provides for arbitration as the first option in dispute resolution. Kengen and KPLC signed an agreement on 24 August 2009 for submission of the dispute relating to the actuarial deficit to Arbitration. The agreement provides that parties shall appoint Arbitrators within thirty days of the signing of the agreement. The final award by the Arbitral Tribunal shall be issued not later than sixty days from the final conclusion of the hearing or within such extended period as may be required not exceeding ninety days from the close of the hearing.

32. 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:

	2009 KShs'000	2008 KShs'000
Deferred tax assets:		
Tax losses	(780,165)	(2,530,940)
Tax effects on items not deductible for tax	(151,510)	(163,887)
	(931,675)	(2,694,827)
Deferred tax liabilities:		
Unrealised exchange gains on other items	89,745	-
Revaluation surplus	7,594,013	7,987,047
Accelerated capital allowances	6,527,200	5,894,728
	14,210,958	13,881,775
Net deferred tax liability	13,279,283	11,186,948
Movement on the deferred tax account is as follows:		
At the beginning of the year	11,186,948	15,038,788
Prior year adjustment	-	(639,885)
Deferred tax (credit)/charge - Income statement	2,485,368	(2,818,113)
- Equity	(393,033)	(393,842)
At 30 June	13,279,283	11,186,948

33. WORLD BANK FINANCING CREDIT LINE IDA 3958 KE

(a)The company receives financial support from the World Bank through Credit Line IDA 3958 dated 4 August 2004 to support implementation of the Energy Sector Recovery Project. KShs 850,042,123 (US$ 11,016,930.54) has been disbursed under this credit line to date. A portion of this is disbursed directly into a Special Account B operated by the company and summary information on transactions during the year is as follows:

	2009 KShs'000	2008 KShs'000
Balance at the beginning of the year	39,727	11,637
Amounts received during the year	69,573	73,934
Interest income	4,870	9,790
Expenditure during the year	(68,819)	(55,634)
Balance at the end of the year .	45,351	39,727

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.

(c) Direct payments were disbursed through the letter of credit from Special Commitment as below:

	2009 KShs'000	2008 KShs'000
Direct payments from letter of credit	415,436	-

34. EMERGENCY POWER PROJECT

At the beginning of the year	(343,836)	881,799
Disbursements from the Ministry of Energy	6,253,492	5,950,975
Receipts from KPLC and KenGen	18,349,396	8,580,881
Net interest income	56,729	49,582
Expenditure during the year	(20,980,746)	(15,807,073)
As at the end of the year	3,335,035	(343,836)

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 in 2008. 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.

35. CONTINGENT LIABILITIES

i) Disputed income tax assessment

The Income Tax Department 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 allowance for inventories and capital tax allowances claimed by the company on assets acquired from the Government and KPLC during the Energy Sector Reform Program and subsequent assets separation exercise. The company applied for waiver of penalties and interest, and in response the Minister for Finance granted full waiver of the same as at 31 October 2005, amounting to KShs 2,337,271,818. The company appealed to the Local Committee on the balance of KShs 1,638,754,000 and the decision of the Local Committee was in favour of the company that no tax liability was due. However, KRA has appealed to High Court against this decision and the company has filed a defense. The directors are of the opinion that the liability subject to the appeal will not materialise.

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 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 withholding tax on contractual fees

On 05 February 2009, the Commissioner of Domestic Taxes issued an assessment of KShs 289,957,877 inclusive of penalties and interest. The assessment was as a result of withholding tax on contractual fees paid to the contractors of Olkaria Geothermal Station between 2001 and 2004. The company has already appealed to the Local Committee and the case is yet to be heard. The directors are of the opinion that the liability subject to the appeal in the Local Committee will not materialize.

iv) Disputed Investment Deduction on Sondu Miriu

Kenya Revenue Authority (KRA) has sought to disallow cost amounting to KShs 1.1billion relating to Investment Deduction claimed on the Sondu Miriu Power Project in 2008 year of income. The issue is in dispute and has been contested against through various correspondences to KRA. In the opinion of the directors, no provision is required in the financial statements.

iv) 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 2009 amounted to KShs 8,603,887,236(30 June 2008 KShs 8,657,239,292).

36. PRIOR YEAR ADJUSTMENT (FOREIGN CURRENCY REVALUATION RESERVE)

In line with the change in accounting policy discussed in note 4(a), a prior year adjustment of KShs 2,559,539,000 has been passed to recognise the unrealised foreign currency exchange gain on translation of foreign denominated borrowings previously recognised in the income statement for the years 2003, 2004, 2005, 2006 and 2007. This is to restate the opening balance of retained earnings and foreign currency revaluation reserve. A prior year adjustment of KShs 639,885,000 relating to deferred tax on unrealised exchange differences on translation of borrowings for the years 2003, 2004, 2005, 2006 and 2007 has also been passed.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's principal financial assets are treasury bonds, trade receivables and cash and short term deposits which arise directly 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 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 procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

a) 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 or 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.

(i) 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 rates of return are predetermined.

(ii) 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. Loan payments are made 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.

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. The following table demonstrates the sensitivity to a reasonably possible change in the US dollar, Japanese Yen and Euro exchange rate with all other variables held constant, of the company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the company's equity.

Exposure due to foreign currency risk is mitigated by the terms of the Power Purchase Agreement that allows the company to compute and recover a foreign exchange adjustment charge each month from KPLC.

	2009 KShs '000	2008 KShs '000
Assets in foreign currencies		
Other receivables	196,966	302,371
Amounts due from related companies	1,064,696	249,905
Cash and bank balances	2,283,910	55,805
	3,545,572	608,081
Liabilities in foreign currencies		
Trade and other payables	742,639	848,698
Borrowings	27,193,077	20,997,194
	27,935,716	21,845,892
Net foreign currency liability	(24,390,144)	(21,237,811)

The following are the gazetted base rate and the exchange rates that existed at the various dates for the following significant currencies:

	Gazetted base rate KShs	2009 KShs	2008 KShs	2007 KShs
US$	64.9242	77.16	64.70	66.60
Yen	0.6404	0.81	0.61	0.54
Euro	100.793	109.06	102.00	89.00

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 three main transaction currencies, with all other variables held constant.

	Increase/decrease in foreign exchange rate	Effect of foreign currency fluctuation on profit/loss and/or equity KShs' 000
USD		
2007	+7.00%	1,136,677
2008	-2.00%	(64,492)
2009	**-19.00%**	**(1,142,628)**
YEN		
2007	+0.11%	99,739
2008	-12.00%	(3,106,577)
2009	**-32.00%**	**(5,564,629)**
EURO		
2007	+4.50%	15,419
2008	-12.00%	(311,057)
2009	**-7.00%**	**(78,797)**

(iii) Price risk

This is the risk that the rate of the tariff will decline in the future. It is the risk of losing energy revenues due to a fall in the tariff. The company's exposure to this kind of risk is highly regulated by the Power Purchase Agreement, which is a product of discussion by KPLC and the company, with Electricity Regulatory Commission as a moderator. The company's main input for thermal energy generation is fuel which is a significant cost component. The company is in an arrangement to pass this cost to the customer, 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 only sells generated energy to KPLC and this 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 comprises cash and cash equivalents and available-for-sale financial investments. The maximum exposure is the carrying amount due from KPLC as disclosed below and in Note 17.

	Neither past due nor impaired	Past due but not impaired		Totals
	Current	Over 60 days	Over 365 days	
	KShs '000	KShs '000	KShs '000	KShs '000
2009	4,644,460	-	550,719	5,195,179
2008	3,770,586	550,719	-	4,677,895

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 reasonably be predicted, such as natural disasters and political violence. The company monitors its risk to shortage of funds using a recurring liquidity planning tool. This tool considers the account receivables from KPLC and 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

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 reviews 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.

38.FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Set out below is a comparison by class of the carrying amounts and fair values of the companies financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Financial Assets				
Treasury bonds-Available for sale	3,177,165	3,936,420	3,177,165	3,936,420
0ther receivables	522,366	735,912	522,366	735,912
Amount due from KPLC	5,195,179	4,677,895	5,195,179	4,677,895
Tax recoverable	141,383	73,190	141,383	73,190
Geothermal development funds	283,589	25,551	283,589	25,551
Term deposits	32,499	30,926	32,499	30,926
Bank and cash balances	4,189,491	3,699,354	4,189,491	3,699,354
Financial Liabilities				
Fixed interest borrowings	27,193,077	20,997,194	16,382,437	15,621,807
Trade and other payables	2,935,273	5,310,135	2,935,273	5,310,135
Amount due to KPLC	8,037	7,471	8,037	7,471
Dividends payable	1,384,968	615,542	1,384,968	615,542

Fair values of treasury bonds –available for sale financial assets are based on price quotations at the balance date.

Other receivables and amounts due from KPLC are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 30 June 2009, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances, tax recoverable, geothermal development funds, dividends payable, trade and other payables and amount due to KPLC approximates their carrying amounts largely due to the short term maturities of these instruments.

The fair value of fixed interest borrowings has been calculated by discounting the expected future cash flows at current rates applicable for items with similar terms and risk characteristics. This valuation requires the company to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. The carrying amount of the fixed interest borrowings has not been adjusted to reflect the fair value due to the uncertainty of the estimates used in computing the fair value.

39.CAPITAL MANAGEMENT

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 of Directors (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 return on capital, which the company defines as net operating income divided by total shareholders' equity. The Board also monitors the level of dividends 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 loans and borrowings, trade 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.

	2009 KShs'000	**2008 KShs'000**
Borrowings	25,793,197	19,466,078
Trade and other payables	2,935,273	5,310,135
Less cash and short-term deposits	(4,221,990)	(3,730,280)
Net debt	24,506,480	21,045,933
Equity	63,313,228	68,402,581

40. CAPITAL COMMITMENTS

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

	30 June 2009 KShs'000	**30 June 2008 KShs'000**
Authorised but not contracted for	76,012,995	5,114,133
Contracted but not provided for	21,656,123	25,176,296
	97,669,118	30,290,429

41. POWER PURCHASE AGREEMENTS

On 4 June 2009, KenGen and KPLC entered into five long term Power Purchase Agreements (PPAs) for the supply of capacity and energy from KenGen's Power Stations applicable retrospectively from 1 July 2008. In the PPAs, KPLC is required to purchase and pay for the electrical energy delivered to KPLC as well as the available capacity in respect of the Power Plants. The final payments for capacity and energy are computed as per the various formulae provided in the individual PPAs. It is noted that the PPAs for the isolated power stations and mini-hydros is based on an energy regime meaning that KPLC only pays for the energy supplied from these Power Stations.

42. POST BALANCE SHEET EVENT

Subsequent to the year end, the company offered for sale a ten year fixed rate Public Infrastructure Bond in the amount of KShs 15 billion whose final maturity is 2019 subject to early redemption. The issue is also subject to increase up to KShs 25 billion pursuant to a Greenshoe Option for up to KShs 10 billion.

43. COMPARATIVES

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

Olkaria II: Vent Station


Sondu Miriu: Penstock

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Statistics

5 Year Financial and Statistical Records

	2005	2006	2007	2008	2009
Units Sold(Gwh'Millions)	4,280	4,538	4,599	4,818	4,339
Average tariff(KShs/Kwh)	1.76	1.76	2.36	2.36	2.42
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Electricity Sales	7,479,601	7,986,968	10,852,766	11,371,532	11,518,156
Other revenue	312,664	235,740	288,453	176,644	1,134,231
	7,792,265	**8,222,708**	**11,141,219**	**11,548,176**	**12,652,388**
Operating expenses	(5,419,089)	(5,609,681)	(8,071,329)	(8,011,602)	(8,246,999)
	2,373,176	**2,613,027**	**3,069,890**	**3,536,574**	**4,405,388**
Other income	1,144,542	1,752,415	2,203,096	340,264	907,212
	3,517,718	**4,365,442**	**5,272,986**	**3,876,838**	**5,312,600**
Finance costs	(898,914)	(644,904)	(553,707)	(798,073)	(756,319)
Profit before tax	**2,618,804**	**3,720,538**	**4,719,279**	**3,078,765**	**4,556,281**
Taxation	**(865,652)**	**48,395**	**(2,273,613)**	**2,818,114**	**(2,485,368)**
	1,753,152	**3,768,933**	**2,445,666**	**5,896,879**	**2,070,913**
Funds Generated from Operations					
Net income for the year	1,753,152	3,768,933	2,445,666	5,896,880	2,070,913
Depreciation	2,024,976	2,000,212	3,446,354	3,404,308	3,843,226
Amortization of operating lease	29	29	29	29	29
Currency realignment	(636,580)	(589,070)	(1,419,974)	(8,763)	(176,069)
	3,141,577	**5,180,104**	**4,472,076**	**9,292,454**	**5,738,099**
Capital employed					
Fixed assets less depreciation	50,605,503	50,662,366	87,357,083	91,822,390	92,699,408
Operating lease payment	1,562	1,533	1,503	1,475	1,446
Funds awaiting allotment of shares in KPLC	12,260,159	0	0	0	0
Treasury Bonds	4,838,281	2,447,488	3,941,294	3,509,123	1,545,680
Intangible assets	-	-	215,664	303,721	543,893
KPLC deferred debt	-	-	627,072	701,704	1,064,696
The Kenya power & lighting Co. Ltd	2,387,865	3,290,167	4,129,246	4,677,895	5,195,179
Net current assets	2,836,568	3,670,566	(1,199,200)	(1,608,273)	1,685,834
	72,929,938	**60,072,120**	**95,072,662**	**99,408,035**	**102,736,136**
Financed by					
Share capital	10,535,722	10,535,722	5,495,904	5,495,904	5,495,904
Reserves	22,393,037	24,753,842	57,262,941	60,928,152	56,718,143
Proposed Dividend	500,000	1,209,099	879,345	1,978,525	1,099,181
Funds awaiting allotment of shares	15,784,584	-	-	-	-
Deferred tax	5,898,623	5,850,228	15,038,788	11,186,948	13,279,283
Prepaid lease	19,000	17,000	15,000	13,000	11,000
Retirement Benefits Scheme	339,428	339,428	339,428	339,428	339,428
Loan capital	17,410,137	17,366,772	16,040,696	19,466,078	25,793,197
Grants	49,406	-	-	-	-
	72,929,938	**60,072,120**	**95,072,662**	**99,408,035**	**102,736,136**
Capital expenditure	1,880,223	2,057,076	5,356,989	7,896,512	4,744,243

Electricity Units Sent Out

Energy Units Sent Out in Gwh as at 30th June 2009

Power Station	Installed	Effective	2004/05 GWh	2005/06 GWh	2006/07 GWh	2007/08 GWh	2008/09 GWh
Hydro							
Tana	14.4	10.4	58	56	68	64	44
Wanjii	7.4	7.4	21	22	36	37	28
Kamburu	94.2	94.2	381	399	464	489	348
Gitaru	225	216.0	757	795	945	977	655
Kindaruma	40	40.0	170	190	215	239	157
Gogo	2	1.8	8	5	5	5	6
Sosiani	0.4	0.4	2	2	3	2	2
Mesco	0.38	0.35	3	3	2	3	3
Ndula	2	2.0	3	3	4	5	2
Sagana	1.5	1.5	7	8	8	8	6
Masinga	40	40.0	169	170	183	230	128
Kiambere	156	156.0	814	852	973	937	614
Turkwel	106	106.0	476	520	372	341	524
Sondu Miriu	60	60.0				150	333
	749.28	**736.05**	**2869**	**3026**	**3278**	**3488.6**	**2849**
Thermal							
Kipevu Steam	-	-	48	0	0	0	0
Kipevu Diesel	73.5	66	330	399	326	295	376
	73.5	**66**	**378.0**	**399.0**	**325.9**	**295**	**376**
Geothermal							
Olkaria I	45	45	371	324	360	359	368
Olkaria II	70	70	549	562	540	564	535
	115.00	**115.00**	**920.0**	**886.1**	**900.4**	**922**	**902**
Gas Turbine							
Fiat - Nairobi South	13.5	10	3	18	4	7	9
JBE - Kipevu	60	60	97	194	75	88	184
	73.50	**70.00**	**100.0**	**212.3**	**79.4**	**95**	**193**
Isolated Diesels							
Garissa	3.438	3.290	8	9	10	12	11
Lamu	2.889	2.139	5	6	6	6	6
	6.33	**5.43**	**13**	**15**	**16**	**18**	**17**
Wind Turbine							
Ngong Wind	**0.35**	**0.35**	**0.441**	**0.38**	**0.17**	**0.17**	**0.287**
Total Capacity	**1017.96**	**992.83**					
Units Sent Out			**4280**	**4538**	**4599**	**4818**	**4339**

Financial Ratios

	2005	2006	2007	2008	2009
Income for the year as % of Av. Capital employed	2.46%	5.70%	3.23%	3.63%	4.60%
Profit before tax, dividend & exeptional items/Net fixed assets in service	7.00%	7.00%	7.00%	3.35%	4.92%
Return on total assets	4.00%	6.00%	3.00%	3.52%	4.89%
Profit before tax, dividend(less exeptional items)/capital employed	2.00%	4.00%	1.00%	1.11%	3.37%
Current Ratio	2.60	2.30	2.00	1.40	2.17
Debt Service Coverage Ratio	3.10	3.30	5.40	4.99	3.90
Self Financing Ratio	50%	55%	40%	74%	97%

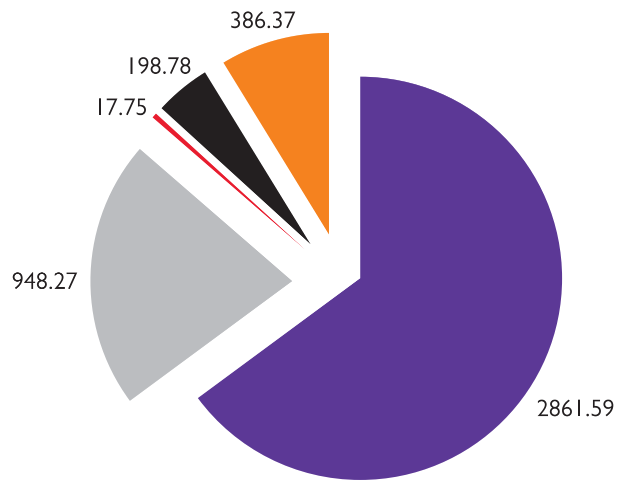
Statistics

Weight Factors (%)

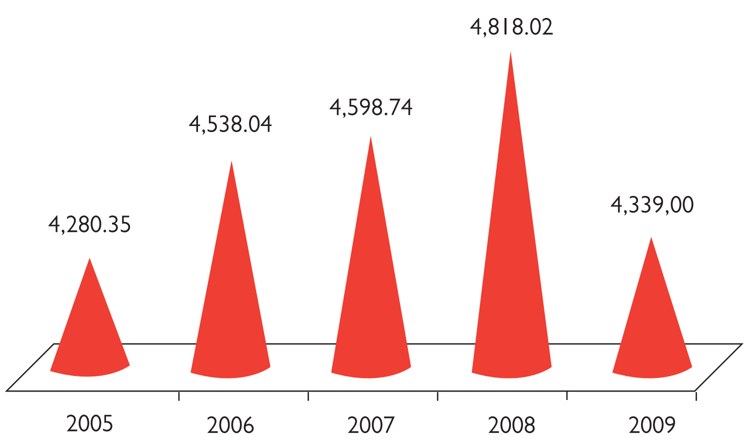
Power Station	Effective	2004/2005 Availability	2004/2005 Load Factor	2005/2006 Availability	2005/2006 Load Factor	2006/2007 Availability	2006/2007 Load Factor
Hydro							
Tana	10.4	76.47	60.53	77.46	61.73	90.82	74.83
Wanjii	7.4	50.64	66.05	40.83	35.03	61.29	56.71
Kamburu	94.2	91.12	51.07	89.87	48.71	96.40	56.59
Gitaru	216.0	96.01	40.24	96.50	40.36	85.69	49.95
Kindaruma	40.0	74.11	66.04	87.43	54.77	78.98	61.73
Gogo	1.8	65.62	71.93	50.14	31.30	70.18	33.80
Selby	0.4	75.44	70.83	95.32	53.94	96.44	82.32
Mesco	0.35	98.13	85.63	94.80	79.00	53.91	53.06
Ndula	2.0	51.45	34.99	43.86	17.70	49.67	42.72
Sagana	1.5	87.71	64.84	90.07	59.55	79.09	61.09
Masinga	40.0	96.71	50.16	97.15	49.07	97.03	52.58
Kiambere	156.0	89.57	72.48	96.20	68.25	95.51	77.90
Turkwel	106.0	96.75	52.23	97.01	55.03	96.38	40.66
Sondu Miriu	60.0	-	-	-	-	-	-
Total Effective Capacity	**736.05**						
Weighted Factors - Hydros		**91.66**	**53.94**	**93.89**	**51.88**	**91.04**	**57.16**
Thermal							
Kipevu Steam (upto 2004_2005)	-	16.23	53.50	0.00	0.00	0.00	0.00
Weighted Factors - Steam		**16.23**	**53.50**	**-**	**-**	**-**	**-**
Kipevu Diesel	66.00	71.03	73.98	90.34	74.74	79.69	57.85
Weighted Factors - Diesel		**71.03**	**73.98**	**90.34**	**74.74**	**79.69**	**57.85**
Geothermal							
Olkaria I	45.0	97.00	98.20	83.93	85.80	94.47	95.47
Olkaria 2	70.0	96.20	94.16	97.73	97.12	97.72	93.21
Total Effective Capacity	**115.0**						
Weighted Factors - Geothermal		**96.51**	**95.74**	**92.33**	**92.69**	**96.45**	**94.09**
Gas Turbines							
Fiat-Nairobi South	13.5	55.50	5.09	53.00	15.64	73.14	3.73
JBE-Kipevu	60.0	51.27	36.93	77.03	37.59	79.76	14.57
Total Effective Capacity	**73.5**						
Weighted Factors - GT's		**52.05**	**31.08**	**72.62**	**33.56**	**78.54**	**12.58**
Isolated Diesels							
Garissa	3.29	83.05	43.12	75.32	32.65	85.89	36.46
Lamu	2.139	73.27	47.11	94.78	37.60	82.70	36.31
Total Effective Capacity	**5.429**						
Weighted Factors - Isolated		**79.20**	**44.69**	**82.99**	**34.60**	**84.63**	**36.40**
Wind Turbine							
Ngong Wind	0.35	63.00	23.71	43.00	20.60	50.00	13.45
Total Effective Capacity	**0.35**						
Weighted Factors - Ngong'		**63.00**	**23.71**	**43.00**	**20.60**	**50.00**	**13.45**

2007 / 2008		2008 / 2009	
Availability	Load Factor	Availability	Load Factor
96.39	51.33	99.28	48.11
70.31	58.35	99.63	44.61
86.69	59.32	99.63	45.13
94.39	49.58	99.11	34.64
96.63	68.85	99.38	44.87
63.43	28.56	95.25	33.02
96.60	51.74	72.42	46.28
91.78	84.06	93.16	78.37
76.54	31.21	97.49	15.58
82.67	59.02	96.20	44.71
98.80	66.14	98.23	36.88
86.57	75.01	90.21	49.22
91.21	37.22	93.81	56.73
95.60	28.67	97.49	63.38
91.39	**54.73**	**96.33**	**45.56**
0.00	0.00	0.00	0.00
-	**-**	**-**	**-**
88.16	55.8	91.90	73.51
88.16	**55.8**	**91.90**	**73.51**
96.41	94.45	95.24	97.53
99.68	96.81	97.13	91.95
98.40	**95.88**	**96.39**	**94.13**
88.10	6.46	48.21	10.61
95.35	16.33	95.44	35.67
94.02	**14.52**	**86.76**	**31.07**
93.51	32.09	86.72	37.46
61.88	38.96	70.48	55.87
81.05	**34.79**	**80.32**	**44.72**
42.91	11.64	53.69	9.42
42.91	**11.64**	**53.69**	**9.42**

Total Units Generated (Gwh)



Total Units Sold (Gwh)



Statistics

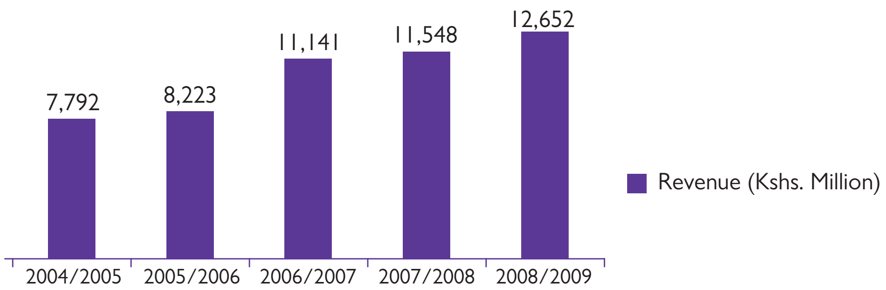
Generated Units (Millions) (Begins in July and ends In June)

Hydro	2004/05	2005/06	2006/07	2007/08	2008/09
Tana	58	56	68	65	44
Wanjii	21	23	37	38	29
Kamburu	381	399	467	489	348
Gitaru	757	795	945	977	655
Kindaruma	170	190	216	241	157
Gogo	8	5	5	5	6
Sosiani	2	2	3	2	2
Mesco	3	3	2	3	3
Ndula	3	3	4	5	2
Sagana	7	8	8	8	6
Masinga	169	170	184	232	129
Kiambere	814	852	983	946	621
Turkwel	476	520	378	346	527
Sondu Miriu	-	-	-	151	333
Thermal					
Kipevu Steam	48	0	0	0	0
Kipevu Diesel	330	399	334	303	386
Geothermal					
Olkaria I	371	324	376	372	384
Olkaria II	549	562	569	594	564
Gas Turbine					
Fiat - Nairobi South	3	18	4	8	9
JBE - Kipevu	97	194	77	90	187
Isolated Diesels					
Garissa	8	10	11	12	11
Lamu	5	6	6	6	6
Wind Turbine					
Ngong Wind	0.45	0.38	0.18	0.17	0.29

Total Units Generated (Gwh)

	2005	2006	2007	2008	2009
Hydro	2,869	3,025	3,277	3,508	2,862
Geothermal	920	886	900	966	948
IPS	13	15	16	19	18
GT's	149	212	79	98	197
Diesel	330	399	326	303	386
Total	**4,280**	**4,538**	**4,599**	**4,893**	**4,411**

Electricity Revenue (Kshs. Million)



Electricity Units Sent Out By Source


Masinga Dam Reservoir

Notice of the Annual General Meeting

To the Shareholders of Kenya Electricity Generating Company Limited

NOTICE IS HEREBY GIVEN THAT THE FIFTY-SEVENTH ANNUAL GENERAL MEETING of the Company will be held at the Kasarani Gymnasium, Thika Road, Nairobi on Thursday, 10th December 2009 at 11.00 a.m. for the following business:-

1. To table the proxies and note the presence of a quorum.
2. To read the Notice convening the meeting.
3. To consider and if approved, adopt the Company's audited financial statements for the year ended 30th June 2009, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To approve the payment of a final dividend of 20% or KShs 0.50 per ordinary share of KShs 2.50, subject to withholding tax where applicable, in respect of the financial year ended 30th June 2009.
5. To elect Directors:
   (i) Ms. Sarah Wainaina who retires on rotation under Article 104 of Company's Articles of Association and being eligible offers herself for re-election as a Director of the Company.
   (ii) Mr. Hedrick Omanwa who retires on 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.
   (iii) Mr. Henry M'Narobi who retires on 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 him in accordance with Section II of the State Corporations Act (as amended by the miscellaneous Law Amendment Act 2002) and Sections 14 and 39 (i) of the Audit Act 2003.
8. To authorise the Directors to fix the remuneration of the Auditors.
9. Special Business:
   To consider and if approved, pass the following Special Resolution:

   "That the Articles of Association of the Company be amended as follows:

Article 137

By inserting the following proviso at the end of the Article:

"The accounts may be sent or otherwise made available by electronic means and not by post. This Article shall not require a copy of the Accounts to be sent or otherwise made available by electronic means to any person of whose electronic or postal address the Company is not aware, nor to more than the first named of any joint holders of any shares or debentures. The Company may also send the Accounts to all persons entitled thereto by publishing the Accounts on the Company's official website provided that the Company shall send to every Member or publish a summary of the financial statements and Auditors Report in two daily newspapers with national circulation for two consecutive days drawing attention to the website on which the Accounts in full may be read, and the address to which a request for a printed copy of the Accounts may be submitted to the Company Secretary and upon any such publication the Accounts shall be deemed to have been sent to every Member or other person entitled to receive a copy of the Accounts.

Article 141

By inserting the following proviso at the end of the Article:

"Such notice may also be given by publishing a notice in at least two local daily newspapers with national circulation for at least two consecutive days."

Article 143

By inserting the following proviso at the end of the Article:

"Where a notice is published in a daily newspaper, it shall be deemed to be served on the day on which it is first published."

By Order of the Board

Rebecca Miano
Company Secretary

15 October 2009

NOTE:

1. *A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, the Proxy Form attached to this Annual Report & Accounts, must be duly completed by a member and must either be lodged at the registered offices of the Company's shares registrar, Image Registrars Limited, Transnational Plaza 8th Floor, Mama Ngina Street, P.O. Box 9287 - 00100 GPO, Nairobi or be posted, so as to reach Image Registrars not later than Tuesday, 8th December 2009 at 11.00 a.m.*
2. *A copy of the entire Annual Report & Accounts may be viewed on the Company's website at www.kengen.co.ke or a printed copy may be obtained from the Registered Office of the Company, Stima Plaza, Kolobot Road, Parklands, Nairobi, P.O. Box 47936 - 00100 GPO, Nairobi.*

Ilani ya Mkutano Mkuu wa Kila Mwaka

Kwa Wenyehisa wa Kampuni ya Kenya Electricity Generating Company Limited

ILANI INATOLEWA HAPA KWAMBA MKUTANO MKUU WA HAMSINI NA SABA utafanyika katika uwanja wa Kasarani Gymnasium, Thika Road, Nairobi, mnamo Alhamisi, Decemba 10, 2009 kuanzia saa tano kwa shughuli zifuatazo:

1. Kuorodhesha majina ya wakilishi na kujua idadi ya waliohudhuria mkutano.
2. Kusoma tangazo ya kuandaa mkutano.
3. Kuchunguza na kama itaidhinishwa, kukubali taarifa za kifedha zilizokaguliwa za mwaka uliomalizika Juni 30, 2009, pamoja na ripoti za Mwenyekiti,Wakurugenzi na Wakaguzi wa Hesabu.
4. Kuidhinisha malipo ya mgao wa mwisho wa asilimia 20 au Sh.0.50 kwa kila hisa ya kawaida ya Sh.2.50 ikitegemea kodi ya mapato ya Kampuni inavyopasa, kuhusiana na mwaka unaomalizika wa matumizi ya fedha Juni 30, 2009.
5. Kuchagua Wakurugenzi:
   (i) Bi. Sarah Wainaina ambaye anastaafu kwa zamu kulingana na Kifungu 104 cha Kanuni ya Kampuni, na kwa vile anaweza tena kuchaguliwa, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
   (ii) Bw. Hedrick Omanwa ambaye anastaafu kwa zamu kulingana na Kifungu 104 cha Kanuni ya Kampuni, na kwa vile anaweza tena kuchaguliwa, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
   (iii) Bw. Henry M'Narobi ambaye anastaafu kwa zamu kulingana na Kifungu 104 cha Kanuni ya Kampuni, na kwa vile anaweza tena kuchaguliwa, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
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 2 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.
9. Shughuli Maalumu:
   Kuthibitisha na ikikubaliwa, kupitisha mapendekezo yafuatayo:

   'Kwamba Kanuni za Kampuni zifanyiwe mabadiliko kama ifuatavyo;

Kifungu 137

Kuongeza maarifa yafuatayo kwa mwisho wa kifungu:

"Hesabu zinaweza kutumwa au labda kuwasilishwa kwa njia ya kimitambo na wala si kupitia kwa sanduku la posta. Kifungu hiki hakitahitaji nakala ya Hesabu kutumwa ama kuwasilishwa kwa njia ya kimitambo kwa mtu ambaye Kampuni haifahamu anwani yake, au zaidi ya Mwanachama wa kwanza kwa wanaoshikilia dhamana ya ushirika kwa pamoja. Kampuni pia inaweza kutuma Hesabu kwa wote wanaostahili kwa kutumia kila Mwanachama au kuchapisha Hesabu hizo kwenye tovuti rasmi ya Kampuni mradi tu Kampuni ichapishe mukhtasari wa hesabu ya mapato na matumizi yake pamoja na ripoti ya Wakaguzi wa Hesabu katika magazeti mawili makuu kwa siku mbili mfululizo na kurejelea tovuti ambapo Hesabu hizo zitaweza kusomwa kwa kina, na anwani ambapo ombi la nakala ya Hesabu hizo iliyochapishwa linaweza kutumwa kwa Katibu wa Kampuni, na kwa kuchapishwa huko, itachukuliwa kwamba Hesabu zimetumwa kwa kila Mwanachama au yeyote yule anayestahili kupokea nakala ya Hesabu hizo."

Kifungu 141

Kuongeza maarifa yafuatayo kwa mwisho wa kifungu:

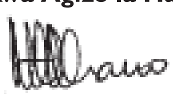
"Ilani kama hiyo itatosha ikitolewa pia kwa kuchapisha ilani yenyewe kwenye angalau magazeti mawili makuu ya humu nchini kwa siku mbili mfululizo."

Kifungu 143

Kuongeza maarifa yafuatayo kwa mwisho wa kifungu:

"Ikiwa ilani imechapishwa kwenye gazeti la humu nchini, itachukuliwa kuwasilishwa siku ile ambapo ilichapishwa kwa mara ya kwanza."

Kwa Agizo la Halmashauri

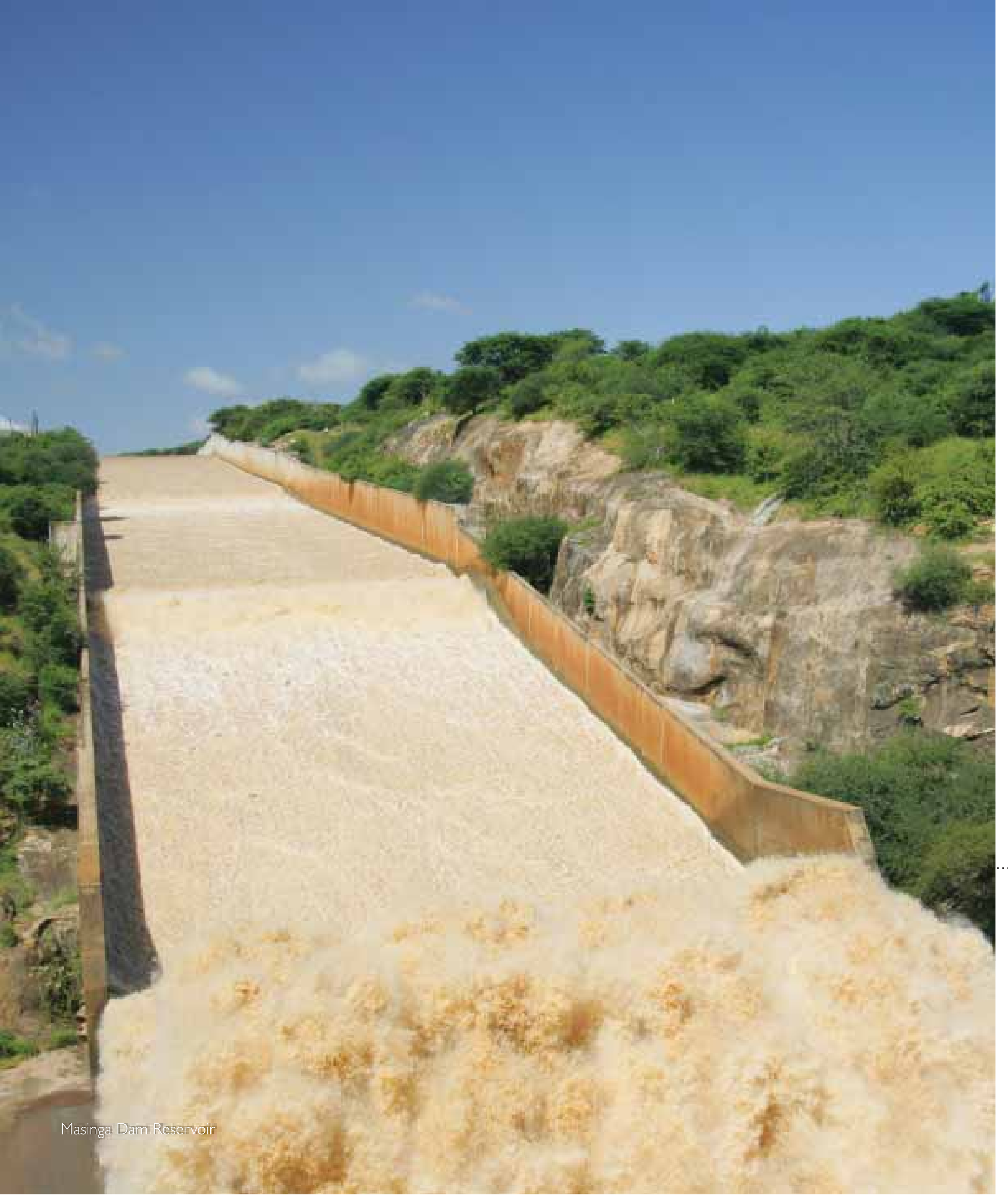


Rebecca Miano
Katibu wa Kampuni

Oktoba 15, 2009

MUKHTASARI:

1. *Mwanachama ana haki ya kuhudhuria na kupiga kura katika mkutano na yule ambaye hawezi kuhudhuria ana haki ya kumteua mwakilishi kuhudhuria na au kupiga kura kwa niaba yake. Mwakilishi si lazima awe mwanachama wa Kampuni. Ili kutambuliwa, Fomu ya Uwakilishi ambayo imeambatanishwa na Ripoti hii lazima ijazwe na kutiwa sahihi na mwanachama, na haina budi kuandikishwa katika afisi zinazotambuliwa za wasajili wa hisa wa Kampuni, Image Registrars, Transnational Plaza, Ghorofa ya Nane, Mama Ngina Street SLP 9287 - 00100 GPO Nairobi au itumwe kwa posta, ili iwafikie Image Registrars Kabla ya jumanne, Decemba 8, 2009 saa tano asubuhi.*
2. *Ripoti ya taarifa ya Kampuni inaweza kutazamwa kwa tovuti ya Kampuni www.kengen.co.ke au nakala ya Ripoti hii inaweza inapatikana katika afisi kuu ya Kampuni , Stima Plaza, Kolobot Road, Parklands, Nairobi, SLP 47936 - 00100 GPO, Nairobi*



Masinga Dam Reservoir

Proxy Form

Shareholder's Member No ....

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

PROXY

I/We ______________________________ of ______________________________ being

a *Shareholder/Shareholders of Kenya Electricity Generating Company Limited, hereby appoint:

______________________________ of ______________________________ or failing

him/her ______________________________ of ______________________________ as

*my/our proxy to vote for *me/us on *my/our our behalf at the Annual General Meeting of the Company to be held on 10th December 2009 and at any adjournment thereof.

*(Strike out as appropriate)

Signature(s) ______________________________

See notes 2,3,4 below

Signed this ______________________________ day of ______________________________ 2009.

Notes

1. This proxy is to be delivered to Image Registrars Limited not later than Tuesday, 8th December 2009 at 11.00 a.m failing which it will be invalid.
2. In the case of a Shareholder being a corporation, this form of proxy must be executed either under its common seal or signed on its behalf by an attorney or officer of the corporation duly authorized.
3. A person appointed to act as a proxy need not be a Shareholder of the Company.
4. In case of joint holders, the signature of any one holder will be sufficient but names of all joint holders should be stated.

Shareholder's admission letter

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

Name: ______________________________ Signature: ______________________________

Annual General Meeting of Kenya Electricity Generating Company Limited to be held at the Kasarani Gymnasium, Thika Road, Nairobi on Thursday 10th December, 2009 at 11.00 a.m.

Fomu ya Uwakilishi

Nambari ya Mwenyehisa ....

Katibu wa Kampuni
Kenya Electricity Generating Company Limited
Stima Plaza, Kolobot Road
SLP 47936 - 00100 Nairobi

UWAKILISHI

*Mimi/sisi____wa ______________________________nikiwa/tukiwa

*Mwenyehisa/Wenyehisa wa Kampuni ya Kenya Electricity Generating Company Limited, namteua

____ wa _____________________________________ au

akikosa____ wa ____________________________kama mwakilishi

*wangu/wetu kupiga kura kwa niaba *yangu/yetu katika Mkutano Mkuu wa Kila Mwaka wa Kampuni utakaofanyika mnamo Decemba 10, 2009 na kwenye tarehe nyingine ile iwapo utaahirishwa,

*Ondoa inavyopasa

Sahihi ____

Angalia maelezo 2,3,4 chini

Ilitiwa sahihi siku____________________________________ ya ____________________________________ 2009.

Maelezo

1. Ni lazima fomu hii ya uwakilishi ifikishwe kwa Ofisi za Msajili wa Hisa, Image Registrars kabla ya saa tano za asubuhi ya Jumanne, tarehe 8 Decemba 2009, na isipofika wakati huo, haitakuwa halali.
2. Iwapo Mwenyehisa ni shirika, fomu hii ya uwakilishi itawekwa muhuri, au kutiwa sahihi na wakili au afisa yeyote atakaye idhinishwa na shirika.
3. Mtu anayeteuliwa kama mwakilishi si lazima awe Mwenyehisa wa Kampuni.
4. Endapo ni wanachama wa ushirika, sahihi ya mmoja wao inatosha, lakini majina ya wanachama wote lazima yatajwe.

....

Barua ya ruhusa ya kuingia ya mwenyehisa

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

Jina: ____ Sahihi: ______________________________________

Mkutano Mkuu wa kila Mwaka wa Kenya Electricity Generating Company Limited utakaofanyika katika Kasarani Gymnasium, Thika Road, Nairobi mnamo Alhamisi Decemba 10, 2009 saa tano asubuhi.

Addresses of Stations

Olkaria I Geothermal Power Station
P O BOX 785 - 20117, Naivasha
Tel: 050 – 20233/4, 050 – 50916/7
Fax: 050 - 50634

Garissa Power Station
P O Box 9 - 70100, Garissa
Tel: 046 – 2028, 3158
Fax: 046 – 3150
Mobile: 0733600678

Olkaria II Geothermal Power Station
P O Box 785 - 20117, Naivasha
Tel: 050 – 50628 – 41
Fax: 050 - 50634

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

Seven Forks Hydro Power Stations
P O Box 205 - 60100, Embu
Tel: 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, Nyeri
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

KenGen
Energy for the nation

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