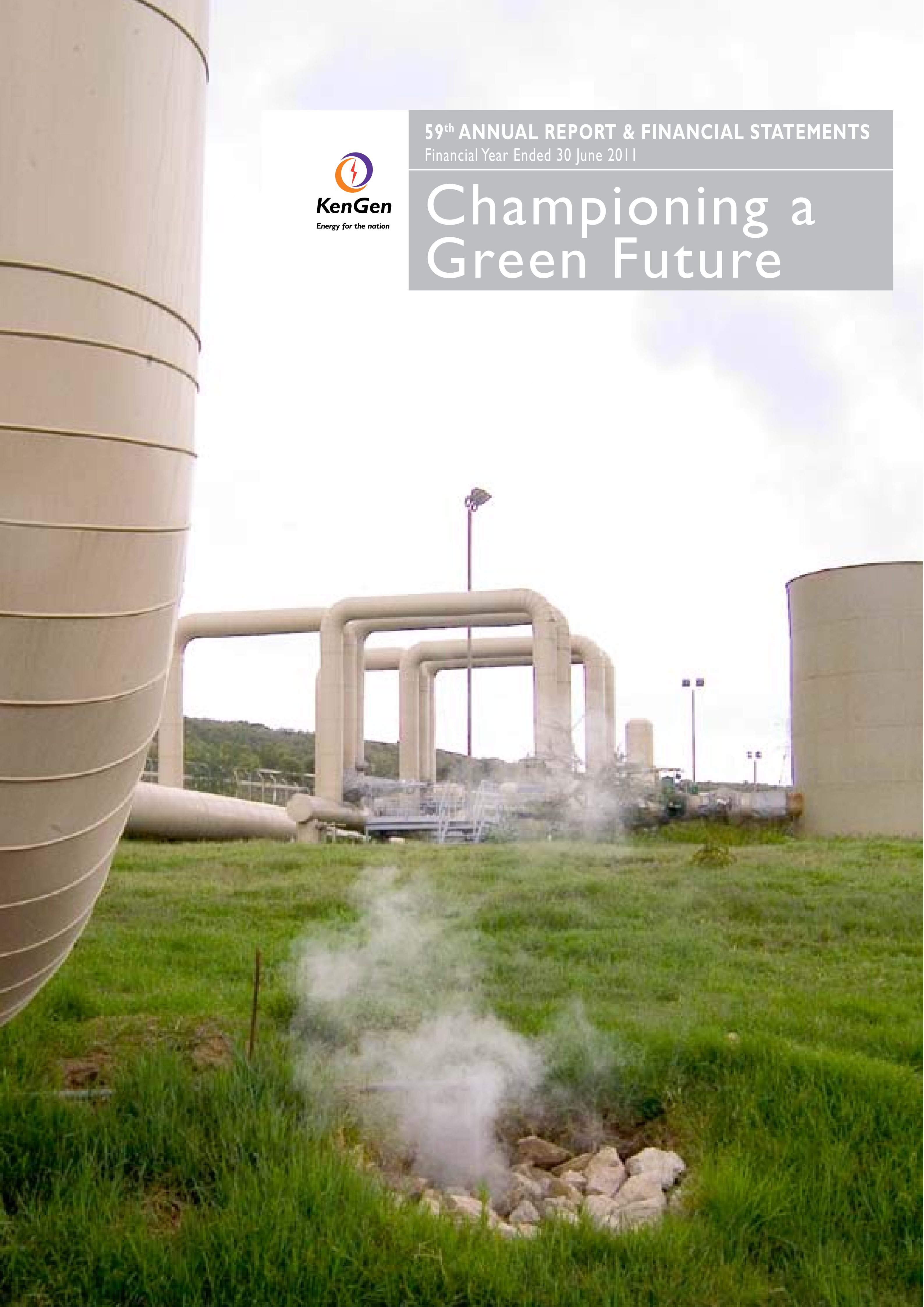
59th ANNUAL REPORT & FINANCIAL STATEMENTS
Financial Year Ended 30 June 2011

KenGen
Energy for the nation

Championing a Green Future



Corporate Information

Directors

Titus Kitili Mbathi	- Chairman
Edward Njoroge	- Managing Director & CEO
Joseph Kinyua	
Patrick Nyoike	
Sarah W. Wainaina	
Musa Ndeto	
George M. Njagi	
Dorcas F. Kombo	
Henry Nyamu M'Narobi	
Hedrick Masaki Omanwa	
Mary Goima Michieka	
Humphrey Muhu	- Alternate to Joseph Kinyua
John Omenge	- Alternate to Patrick Nyoike

Secretary

Rebecca Miano
Certified Public Secretary (Kenya)
Stima Plaza
Kolobot Road, Parklands
P.O. Box 47936 - 00100 GPO
NAIROBI

Registrars

Image Registrars Limited
Transnational Plaza
Mama Ngina Street
P.O. Box 9287 - 00100 GPO
NAIROBI

Registered Office and Principal Place of Business

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

Auditors

Deloitte & Touché
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way
P.O. Box 40092 - 00100 GPO
NAIROBI

On behalf of:
The Auditor-General
Anniversary Towers
P.O. Box 30084 – 00100 GPO
NAIROBI

Bankers

Commercial Bank of Africa Limited
The Co-operative Bank of Kenya Limited
Standard Chartered Bank Kenya Limited
NIC Bank Limited

Citibank NA
Barclays Bank of Kenya Limited
CfCStanbic Bank Limited
Kenya Commercial Bank Limited

Contents

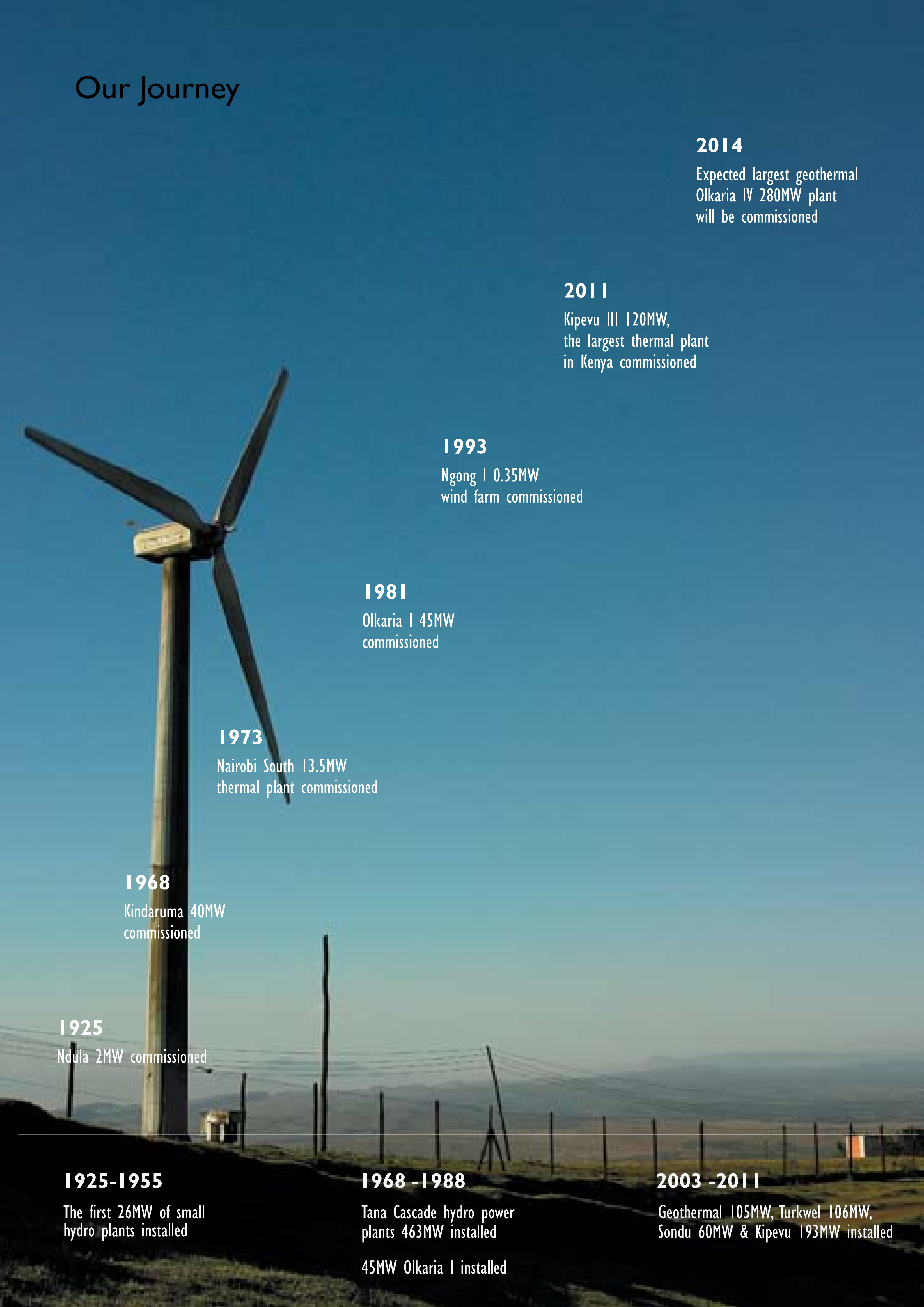
Go Green Now

In our endeavour to conserve the environment, KenGen has embraced the electronic delivery of information. This will minimise paper consumption to save trees and enable us realise substantial savings on printing and posting of Annual Reports & Accounts and other documents of your Company sent to Shareholders.

Shareholders are requested to support this endeavour by providing their email addresses and telephone contacts to their stockbrokers, in the case of electronic CDS account-holders; or registering their email addresses and telephone contacts with the Company Shares Registrar, in the case of certificate account-holders.

Support our noble cause and help save the planet for future generations.

Our Journey



2014

Expected largest geothermal Olkaria IV 280MW plant will be commissioned

2011

Kipevu III 120MW, the largest thermal plant in Kenya commissioned

1993

Ngong I 0.35MW wind farm commissioned

1981

Olkaria I 45MW commissioned

1973

Nairobi South 13.5MW thermal plant commissioned

1968

Kindaruma 40MW commissioned

1925

Ndula 2MW commissioned

1925-1955

The first 26MW of small hydro plants installed

1968 -1988

Tana Cascade hydro power plants 463MW installed

45MW Olkaria I installed

2003 -2011

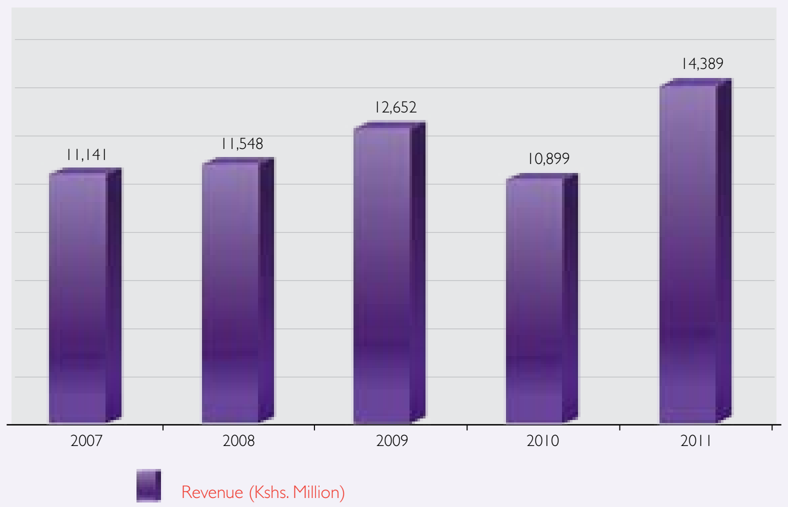
Geothermal 105MW, Turkwel 106MW, Sondu 60MW & Kipevu 193MW installed

Key Facts

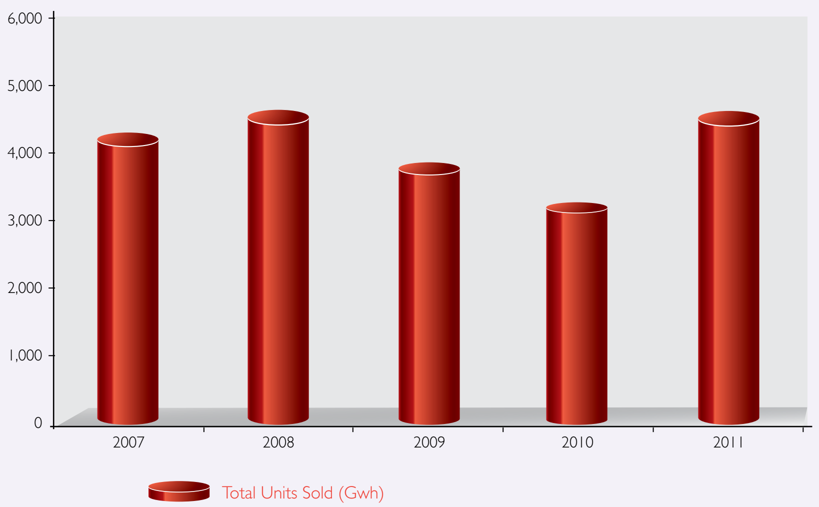
- First Company to earn the global Carbon Credit funds in Africa
- The Leading Power Generator in Kenya
- First Company to float largest Infrastructure Bond in East & Central Africa
- New 120MW Kipevu III Thermal Power Station commissioned in a record of 14 months
- Among top 10 Geothermal producers in the world
- Provides Geothermal Consultancy Services to Rwanda, Zambia & Ethiopia
- Performance - based (Capacity & Energy) Power Purchase Agreement (PPA) signed
- Geothermal 35MW Olkaria II Third Unit constructed in a record of 12 months
- Eburru geothermal field opened up with a construction of 2.3MW
- The Worlds' largest single geothermal power plant construction underway - The 280MW Olkaria I & IV Power Plant
- Currently, the leader in wind power generation in East Africa with an installed capacity of 5.1MW
- Asset Base, Kshs.161.0 billion
- Capital expenditure, Kshs.19.2 billion
- Electricity Revenue, Kshs.14.4 billion
- Profit before Tax, Kshs.3.7 billion
- Installed Capacity, 1,180.7MW

Performance Highlights at a Glance

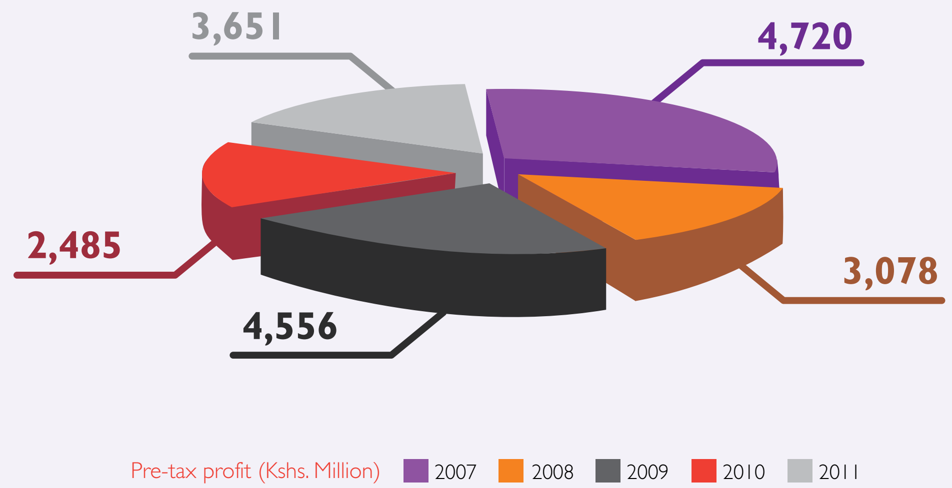
Revenue (Kshs. Million)



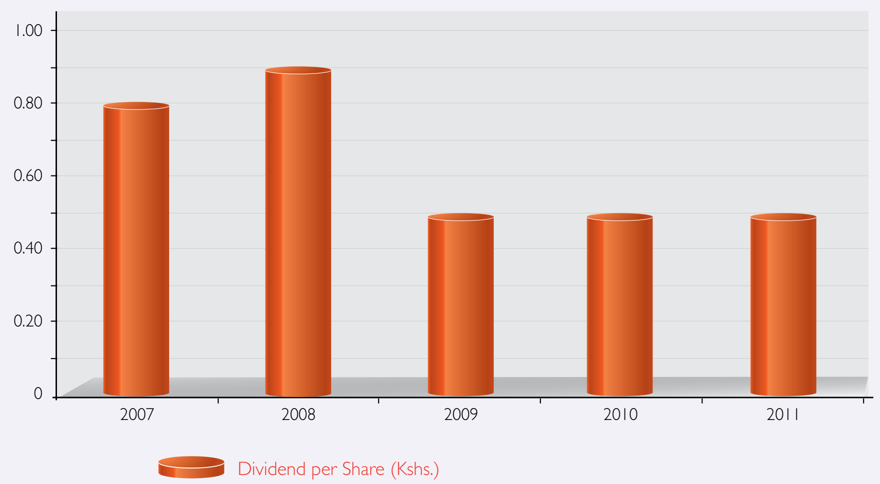
Total Units Sold (Gwh)



Pre-tax Profit (Kshs. Million)

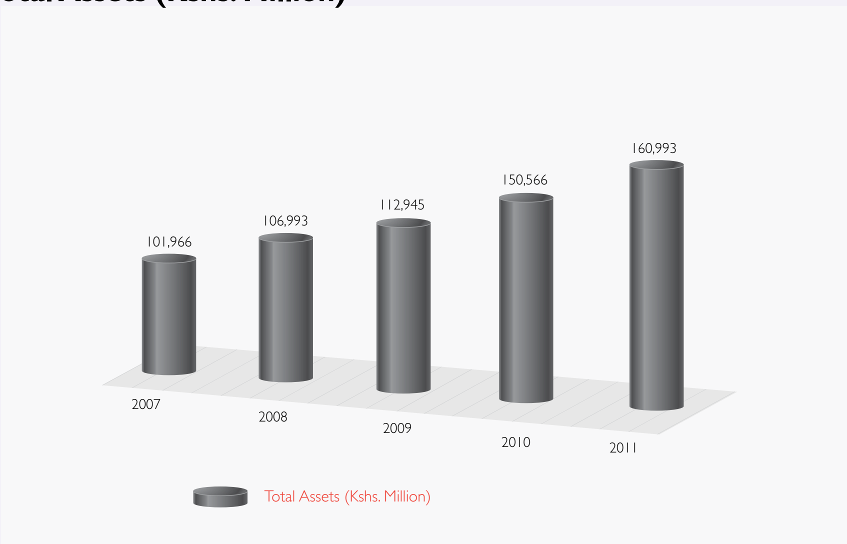


Dividend per Share (Kshs.)

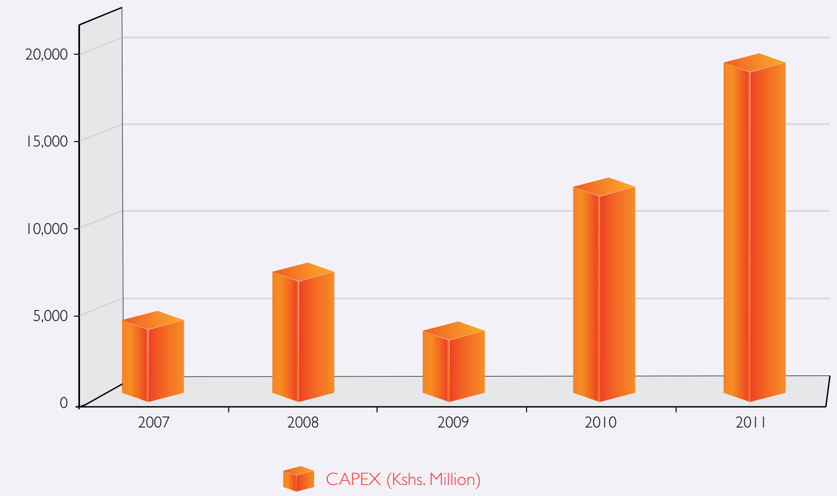


Performance Highlights at a Glance

Total Assets (Kshs. Million)

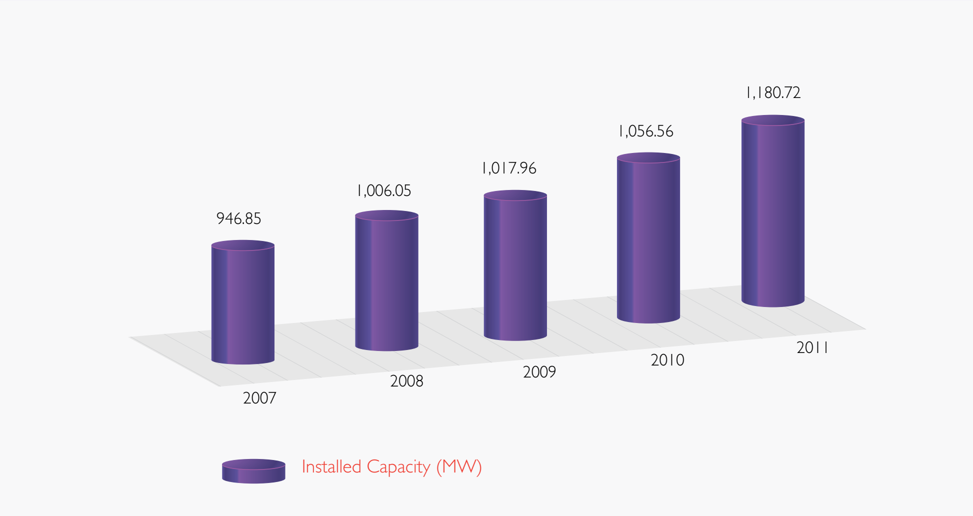


CAPEX (Kshs. Million)

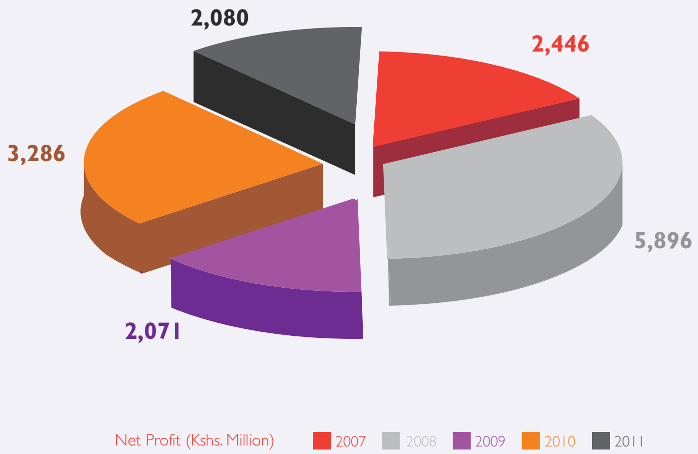


KenGen
2011 ANNUAL REPORT & FINANCIAL STATEMENTS

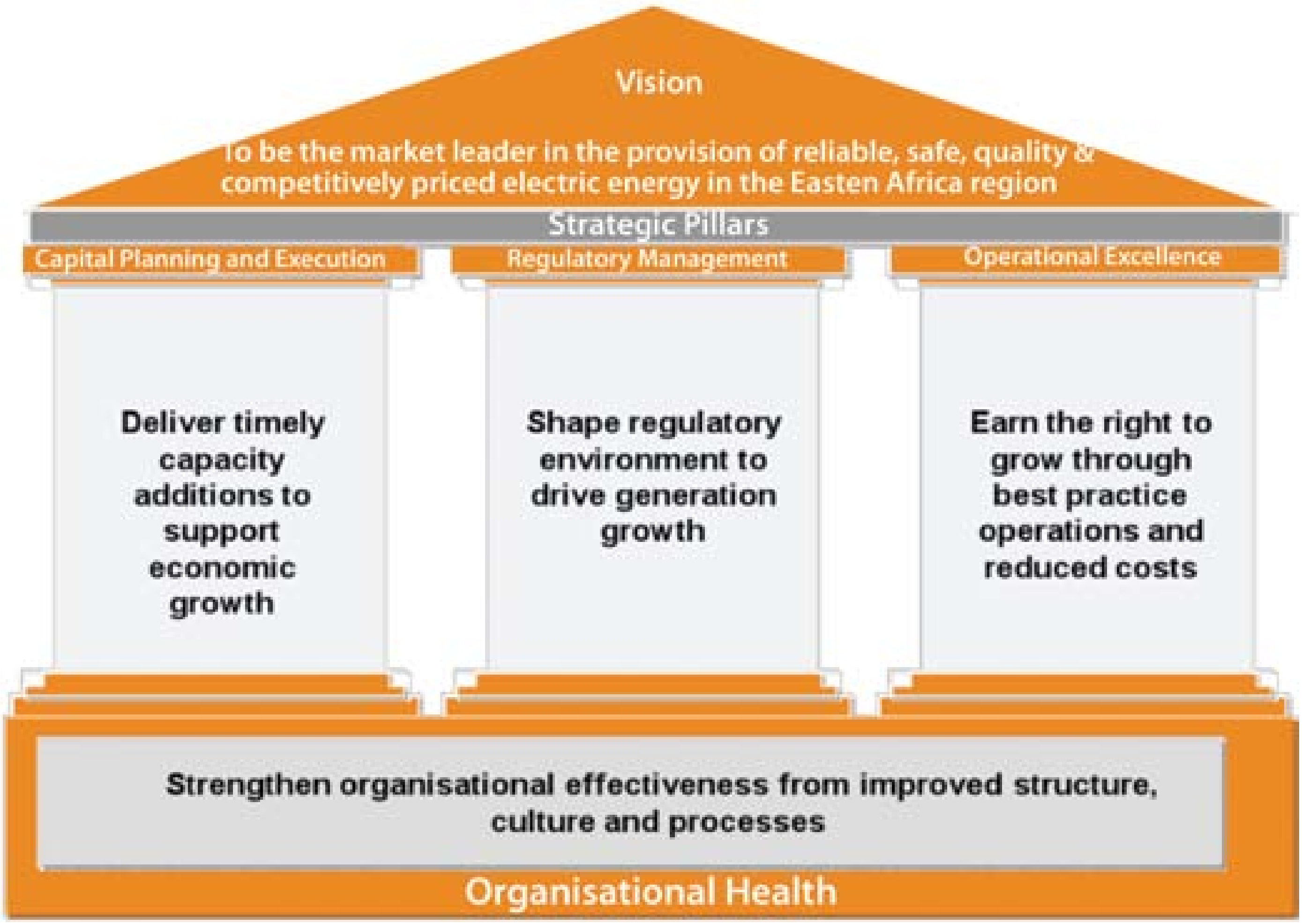
Installed Capacity (MW)



Net Profit (Kshs. Million)



KenGen Transformation Strategy

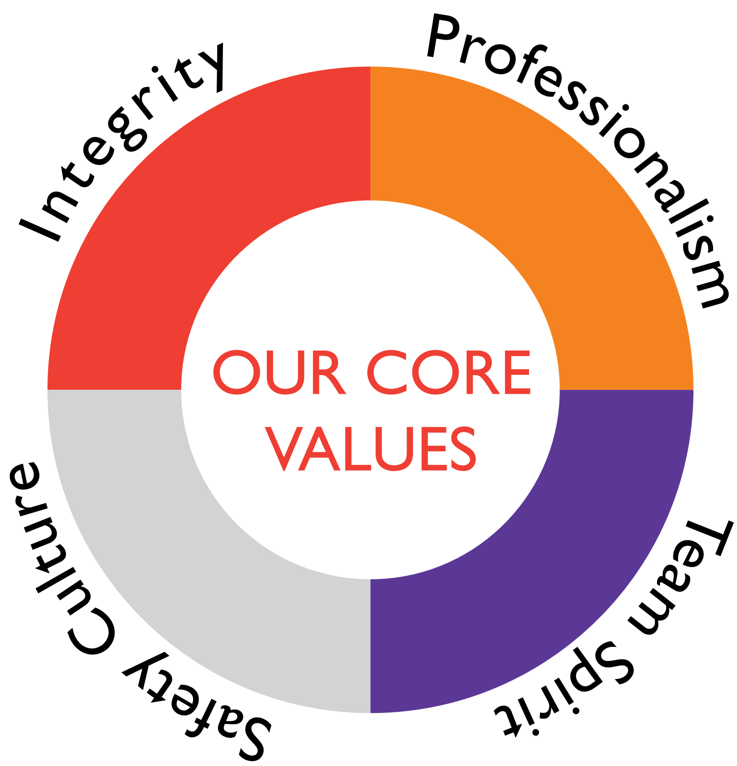


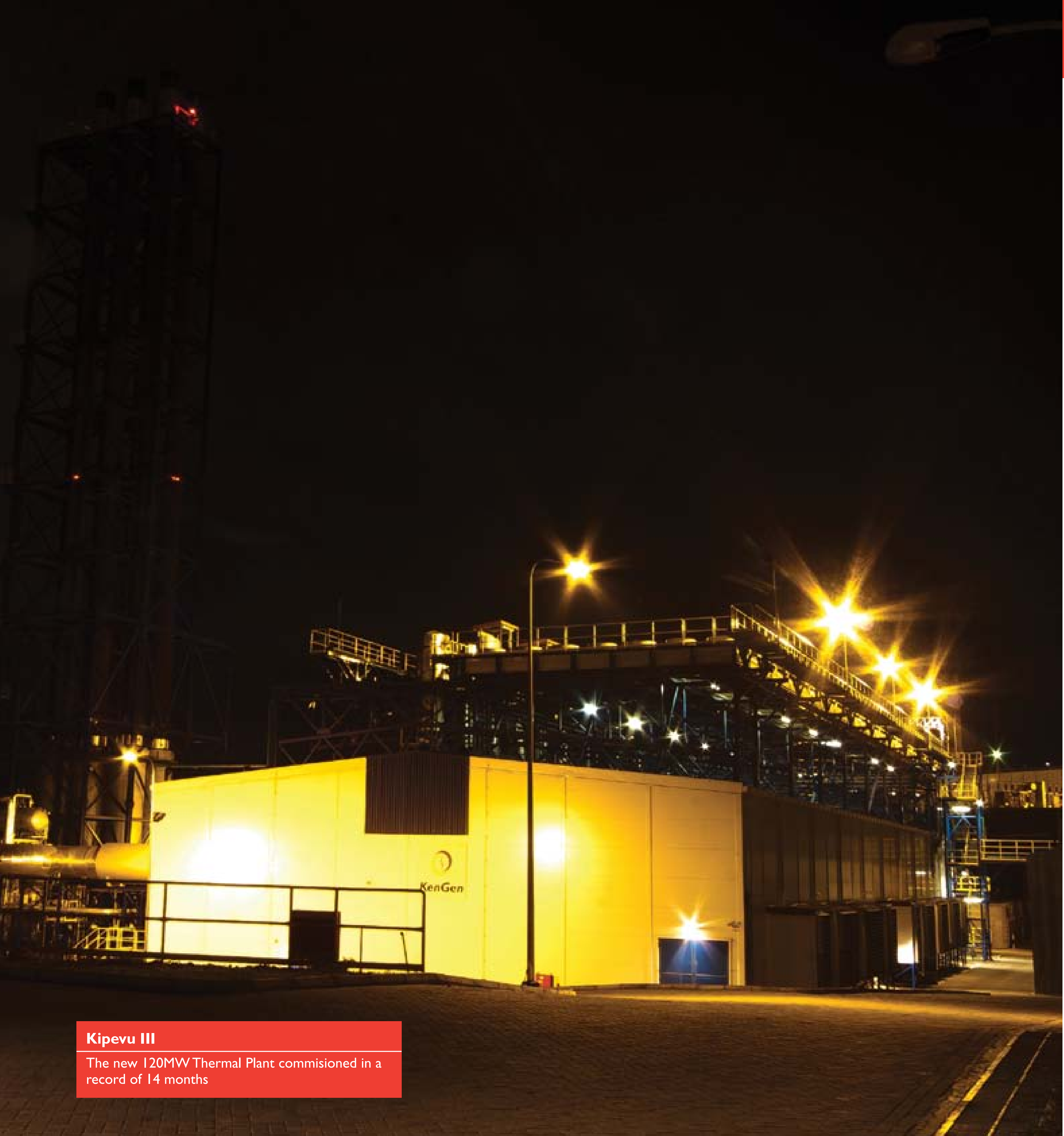
Vision

To be the market leader in the provision of reliable, safe, quality and competitively priced electric energy in the Eastern Africa region.

Mission

To efficiently generate competitively priced electric 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 and environmentally friendly capacity expansion. Consistent with our corporate culture, core values will be adhered to in all our operations.





Kipevu III

The new 120MW Thermal Plant commisioned in a record of 14 months

Leadership Overview

FOCUSED

Our responsibility is to deliver affordable, reliable and clean energy today, while making investments needed to ensure a sustainable future. This means managing our business responsibly and transparently from the financial ledger to the shop floor, as well as caring for the communities we serve and the environment.

Message from the Chairman

Titus Mbathi

Chairman

I am pleased to report that KenGen had another vibrant year in 2011. We once again grew our generation capacity as well as pre-tax earnings.

Despite the macro-economic shocks of the financial year and the business challenges that accompanied them, our overall operating environment remained favourable during the year. We have continued to make substantial investment in our infrastructure to meet the ever increasing demand for electric power in Kenya.

The average annual inflation stood at 6.9% as at June 2011. However, Kenya prevailed over the lingering effects of the global financial crisis to record a GDP growth rate of 5.6% in 2010 which was more than double the growth realised in 2009. In 2011, the projected GDP is likely to maintain a positive growth but at a decelerated rate of between 3.5% and 4.5%, shaped by high international oil prices, fluctuations in the exchange rate and rising global food prices.

In the context of operating within a dynamic business environment, KenGen is on an exciting journey where relevant issues that dominate both the local and global agenda such as climate change, carbon disclosure and renewable energy are among its priority considerations.

KenGen's installed capacity increased steadily with the injection of 120MW from Kipevu III in March 2011 and 20MW from Tana Re-development in May 2011. As we gear up to transform from hydro to weather resistant geothermal, KenGen has been continually growing its geothermal generation to meet the current demand of 1,194MW and a reserve margin of 15%. Our flagship projects, the Olkaria I & IV 280MW are on course for commissioning by early 2014.

The Government of Kenya has continued to finance the drilling of wells through substantial budgetary allocations. It is worthy to note that the current budget for the energy sector was doubled significantly thereby increasing funds for geothermal development. At the same time, our development partners have approved over Kshs.100 billion to fund the Olkaria projects.

KenGen's ultimate goal has been to become an outstanding Company with sustained high performance. I am confident that KenGen will achieve this, and continue creating value for its shareholders.

The Company achieved its Performance Contract targets as set out with the Government of Kenya for the year under review, by attaining its operational, financial and strategic goals. The Board is committed to achieving and exceeding the agreed performance targets.

As a Board, our goal has been to always make the right decisions based on the long-term opportunities for the business. As a result, we now have an established generation-mix with an attractive potential for sustained growth and investment. This approach has led to strong returns to shareholders and a consistent dividend policy over the last five years.

I note with optimism that though the bear run on the Nairobi Stock Exchange, fuelled by the market fundamentals and cycles depressed our share price to Kshs.13.55 at the close of the financial year; the forecasted improved macro-economic environment is expected to impact the stock market favourably.

A dividend of Kshs.0.50 per share totalling to Kshs.1,099 million is recommended to be paid to the shareholders. If approved at the Annual General Meeting, this dividend will be paid on or about 31st January 2012 to shareholders who appear in the Register of Members as at close of business on 9th December 2011.

I wish to recognise with gratitude the vital support and trust that we have continued to receive from our shareholders, customers and other stakeholders. I wish to also thank the Government of Kenya for facilitating the growth of the energy sector and the various regulatory authorities for their continued support. Needless to say, even as the sector continues to play a significant role in economic development, the active backing by the Government and other stakeholders is essential for the sustained growth of the industry across the region.

As I conclude, I would like to thank the Board for its support and wise counsel. The Board joins me in appreciating the MD & CEO and management team for their hard work and commendable efforts in steering the business in the face of operating and economic challenges. I also wish to express our deep appreciation to all members of staff for their commitment and dedication.

Hon. Titus K. Mbathi, EGH - *Chairman*

Ujumbe kutoka kwa Mwenyekiti

Nina furaha kutangaza kuwa KenGen ilikuwa na matokeo ya kusisimua 2011. Kwa mara nyingine, tuliongeza uwezo wetu wa uzalishaji pamoja na mapato kabla ya kutozwa ushuru. Licha ya misukosuko ya kiuchumi iliyoibuka mwaka uliomalizika wa matumizi ya fedha, na changamoto za kibiashara zilizoambatana nayo, kwa jumla, mazingira ya utendakazi yalikuwa mema mwaka uliopita. Tumeendelea kuwekeza kwa kiwango kikubwa kwenye muundomsingi wetu ili kutosheleza mahitaji ya nguvu za umeme yanayoendelea kuongezeka nchini Kenya.

Kiwango cha wastani cha mfumko wa kila mwaka wa bei za bidhaa ulikuwa asilimia 6.9 kufikia Juni 2011. Hata hivyo, ilihimili athari za mshindo wa msukosuko wa kiuchumi duniani na kuongeza jumla ya mapato ya nchi kwa asilimia 5.6 mnamo 2010, kiwango ambacho ni maradufu ya kile kilichopatikana 2009. Mnamo 2011, kiwango cha ukuaji wa jumla ya mapato ya nchi kinakadiriwa kuongezeka, lakini kwa kiasi cha chini cha kati ya asilimia 3.5 na 4.5, kutokana na bei ya juu ya petroli kwenye soko la kimataifa, kupungua kwa thamani ya Shilingi ya Kenya dhidi ya sarafu zingine kimataifa na kupanda kwa bei ya vyakula duniani.

Katika muktadha wa kuhudumu katika mazingira ya kibiashara yanayobadilika, KenGen imo kwenye safari ya kuvutia ambapo masuala ibuka, ambayo ni muhimu kwenye ajenda ya kimataifa kama vile mabadiliko ya hali ya anga, kupunguza viwango vya hewa ya kaboni na kukumbatia kawi isiyochafua mazingira ni miongoni mwa masuala tutakayoyapa kipaumbele.

Uwezo wa uzalishaji umeme wa KenGen uliimarika kwa njia madhubuti baada ya kuongeza MW 120 kutoka Kipevu III mnamo Machi 2011 na MW 20 kutoka kwa mradi uliozinduliwa upya wa Tana mnamo Mei 2011. Tunapojiandaa kugeuza mkakati na kutumia zaidi umememvuke kuliko ule uzalishwao kwa maji, KenGen imeendelea kuongeza uzalishaji wa umememvuke kutosheleza mahitaji ya sasa ya MW 1,194 na umeme wa akiba wa asilimia 15. Miradi yetu mikuu, Olkaria I na IV ya MW 280 ingali inaendelea tayari kwa uzinduzi mapema 2014.

Serikali ya Kenya imeendelea kufadhili uchimbaji wa visima kwa kutenga kiasi kikubwa cha fedha kwenye bajeti ya kitaifa. Ni vyema kutambua kuwa bajeti ya sasa kwa sekta ya kawi iliongezeka kwa kiwango kikubwa na hivyo kuongeza pesa za ustawishaji wa umememvuke.

Wakati huo huo, washirika wetu wa maendeleo wameidhinisha zaidi ya Sh100 bilioni kufadhili miradi ya Olkaria.

Azima kuu la KenGen limekuwa, kuwa Kampuni ya kipekee yenye matokeo endelevu bora. Nina imani kuwa KenGen itafikia hili, na kuendelea kuunda thamani kwa wenyehisa wake.

Kampuni ilifikia malengo yake kama yalivyoainishwa kwenye Kandarasi ya Utendakazi iliyotolewa na Serikali ya Kenya katika mwaka unaoangaziwa, kwa kufikia malengo ya utendakazi, kifedha na pia mkakati.

Kama Bodi, lengo letu limekuwa kufanya maamuzi bora sambamba na malengo ya muda mrefu ya kibiashara. Kwa

mintaarafu hiyo, tuna mchanganyiko wa njia tofauti za uzalisaji zilizo na uwezo wa kuleta ufanisi na uwekezaji. Mbinu hii imeongeza mapato kwa wenyehisa na malipo ya kila mara ya mgao wa faida kwa zaidi ya miaka mitano iliyopita.

Nina matumaini kuwa licha ya kudidimia kwa shughuli katika Soko la Hisa la Nairobi, iliyochochewa na misingi ya kibiashara na kuchangia kupunguza bei ya hisa yetu hadi Sh13.55 mwishoni mwa mwaka wa kifedha; kuimarika kwa hali ya uchumi kunakobashiriwa kunatarajiwa kuimarisha kwa njia ifaayo soko la hisa.

Mgao wa faida wa Sh 0.50 kwa kila hisa wa jumla ya Sh.1,099 milioni unapendekezwa kulipwa kwa wenyehisa. Iwapo utaidhinishwa katika Mkutano Mkuu wa Kila Mwaka, mgao huo utalipwa mnamo au karibu na Januari 31, 2012 kwa wenyehisa walio kwenye Rejista ya Wanachama, kufikia mwisho wa shughuli za siku mnamo Desemba 9, 2011.

Ningependa kutambua kwa furaha mchango mkubwa na imani tunayoendelea kupokea kutoka kwa wenyehisa, wateja na washikadau wengine. Ningependa kushukuru Serikali ya Kenya kwa kufanikisha ukuaji katika sekta ya kawi na mashirika mengine tofauti ya usimamizi kwa msaada wao wa mara kwa mara. La mno ni kuwa, huku sekta hiyo ikiendelea kutekeleza wajibu muhimu katika ustawi wa kiuchumi, mchango wa Serikali na washikadau wengine ni muhimu kwa ukuaji wa kutegemewa wa sekta hiyo katika eneo hili.

Ninapohitimisha, ningependa kushukuru Bodi kwa usaidizi wao na ushauri wao wa busara. Bodi inaungana nami kumtambua Mkurugenzi Mkuu na Afisa Mkuu Mtendaji na kundi la wasimamizi kwa kazi yao nzuri na jitihada zao za kuridhisha katika kuendesha biashara katika mazingira ya kiuchumi yenye changamoto nyingi. Pia, ningependa kuwashukuru wafanyakazi wetu wote kwa uzingatifu na kujitolea kwao kazini.

Mhe. Titus K. Mbathi, EGH - *Mwenyekiti*

Letter from the Managing Director & CEO

Edward Njoroge

Managing Director & CEO

Dear Shareholders

Today, we operate in a turbulent world, but our mission and vision is constant: produce and deliver affordable, reliable and clean energy that benefits our stakeholders.

To succeed in this mission, we are relentlessly pursuing effectiveness in all areas of our business — capital growth, regulatory, operations and organizational health. We must deliver results today, while investing for the future. We are creating a future that strengthens our ability to exploit opportunities and be more productive and efficient .

Our commitment to sustainability is embedded in our transformation philosophy themed "G2G". It symbolizes two critical themes of moving from a "Good" to a "Great" Company through the creation of sustainable value from "Generation" to "Generation". In line with this philosophy, we bring you our first sustainability segment in this annual report.

Achievement

We began our ambitious transformation journey in 2007. Our goal was to add 500MW by year 2012 to stabilize the power situation in Kenya. We have made great strides in meeting that goal. The commissioning of Kipevu III 120MW in March 2011 exemplifies our commitment. The plant is part of our infrastructure bond investment funds which we raised two years ago. The plant was completed within the scheduled time and budget.

Delivering Today, Investing in the Future

Stabilizing Power Today: Horizon I

Our responsibility is to deliver affordable, reliable and clean energy today, while making investments needed to ensure a sustainable future. This means managing our business responsibly and transparently from the financial ledger to the shop floor, as well as caring for the communities we serve and the environment.

KenGen is on target to complete the Horizon I projects expected to deliver 500MW by 2012. We have delivered 264MW with construction and project development of more capacity going on. Projects commissioned are 60MW Sondu Miriu, 35MW Olkaria II 3rd Unit, 24MW Kiambere Optimization, 5.1MW Ngong Wind, 120MW Kipevu III commissioned in March 2011 and 20MW Redevelopment of Tana Power Station completed in April 2011.

Investing in the Future: Growing the Renewable Energy Portfolio

In our Horizon II for the period 2012 to 2018, we plan to inject an additional 2,000MW into the national grid. Over the next decade, we expect to generate over 70% of our electricity from clean sources of energy. By modernizing and diversifying our generating plants now, we will produce energy more efficiently, retire older plants and reduce our carbon footprint. Going forward we look to our development partners for continued support to deliver green energy. Already we recognise the great support extended to us for an amount of US$ 920 million towards the realization of our landmark 280MW Olkaria I & IV project by 2014.

The 2.3MW Eburru geothermal project is expected to be completed in December 2011, a move that will open up Eburru geothermal fields for future development.

Our first CDM project, Olkaria II 3rd Unit 35MW is abating 149,000 tons of (CO_2) earning US$ 10.25 per ton of CO_2 emissions. Of this amount, 10% will go towards community projects around Olkaria. We have received US$ 225,000 – funds that we are ploughing back to the community by implementing social projects. We remain committed to reducing our environmental footprint and are taking action today for a clean energy future. We have commenced the Clean Development Mechanism (CDM) registration process for the Olkaria I & IV 280MW geothermal power plant.

Nuclear Power

The National Least Cost Power Development Plan for the period 2010 - 2030 envisage a nuclear plant in Kenya by the year 2023. Consequently, the Government has established a Nuclear Electricity Development Project Committee to work out a roadmap to realize this objective.

Realization of a nuclear power generation takes time and we support this preparatory initiative to tap into latest nuclear technology to spur economic growth.

Natural Gas

Natural gas is increasingly becoming a popular fuel for electric power generation. This is primarily due to lower prices driven also by its lower environmental emissions compared to other fuel oils.

New discoveries of shale gas reserves in various parts of the globe including Africa, brings a new focus in using gas for power generation. We plan to build a gas power plant at the Coast and have already commissioned Messrs Mott McDonald for a feasibility study. Gas exploratory works is ongoing around the country.

Hydro

Hydro plants on course to be delivered include Sang'oro 21MW expected to be commissioned in March 2012. Construction of 32MW Kindaruma 3rd Unit & Rehabilitation is on schedule for completion in 2013. The Company has secured a sovereign guarantee for the financing of this project through KfW of Germany.

Thermal

To stabilize power supply in West Kenya, KenGen is putting up a fast track 80MW thermal plant in Muhoroni. Subsequently, a consultant has been engaged to begin development of the plant and is expected to be online in 2013.

Upcoming Projects

The Company has completed a feasibility study for the 60MW Karura Hydro Power project on Tana River cascade in preparation for the construction phase.

At the same time, we expect to complete feasibility studies for wind projects in Isiolo and Bubisa by December 2011. In addition, we have also engaged feasibility consultants for the development of a 600MW coal project at the Coast that will use clean coal technology.

Further, we are assessing the feasibility report on the construction of a socially conscious and commercially viable 50MW waste-to-energy plant within the Nairobi Metropolitan. The project is expected to convert municipal waste into electricity. Feasibility study to determine viability is ongoing.

On the Solar front, we are tendering for a consultant to undertake a grid connected solar power plant.

Maintaining Financial Strength

We delivered on our operational and financial commitments as we grew earnings and maintained a consistent dividend policy and a strong balance sheet.

Favourable hydrology and new power generation plants impacted our results positively. The improved performance of our installations and our employees' dedication to delivering high-quality customer service allowed us to capture the value of capacity and energy based revenues.

Profit before tax increased by 47% to Kshs 3,651 million compared to Kshs 2,485 million in 2010 attributed to an increase in electricity sales. The expiry of the five-year Initial Public Offer (IPO) tax concessions resulted in an increase in corporate tax rate from 25% to 30%. Consequently, taxation rose by Kshs 2,273 million from Credit of Kshs 802 million to Kshs 1,571 million. This resulted in a reduction of the Profit after tax from Kshs 3,286 million to Kshs 2,080 million.

The Company incurred total interest of Kshs 4,394 million on borrowings, out of this Kshs 2,399 million was capitalised to the ongoing projects and Kshs 1,997 million expensed after related projects were commissioned during the year.

Cash flows decreased from Kshs 21,331 million to Kshs 3,116 million after investing the Public Infrastructure Bond funds in Kipevu III, Tana Redevelopment, Kiambere, Eburru, Sang'oro, drilling rigs and start up costs for Olkaria I & IV.

Due to implementation of new power projects, capital expenditure increased from Kshs.13 billion last year to Kshs.19 billion this year. We are committed to growing our capacity and have targeted a long-term capital expansion program of US$ 5 billion by 2018.

Investing in Technology

We are entering a new cycle in Horizon II from 2012 to 2018 — replacing aging power plant facilities, improving productivity and efficiency, meeting stricter environmental standards and diversifying our fuel sources. I believe that investing in new energy infrastructure and related technologies is the catalyst for achieving the Vision 2030 dream.

We are promoting energy efficiency to improve productivity and hold down costs. Consequently, we have ventured into research and utilization of idle steam through early geothermal generation using wellhead technology.

By upgrading our Enterprise Resource Planning and SCADA system, we are able to detect and address operational issues faster as well as enable our engineers to use, monitor and maintain the plants more efficiently. This also provides the management with vital information for decision-making.

Focused on the Future

As we continue to implement our aggressive capacity expansion program, we will explore favourable funding mechanisms that will enable us to deliver cost effective projects.

We are optimistic that together we shall deliver the energy required for the expansion of our economy. We will continue to foster an environment that nurtures innovation, performance, teamwork and growth.

As we look ahead to 2012 and beyond, we are inspired by the great potential of our country and we commit to provide energy for the nation and create value for our stakeholders.

Edward Njoroge, EBS - *Managing Director & CEO*

Barua kutoka kwa Mkurugenzi Mkuu na Afisa Mkuu Mtendaji

Wenyehisa Wapendwa,

Leo, tunahudumu katika ulimwengu tepetevu, lakini azima na maono yetu ni yale yale: kuzalisha na kutoa umeme nafuu, wa kutegemewa na safi ambao unawanufaisha washikadau wetu. Ili kufaulu katika lengo hili, tunazingatia uadilifu katika nyanja zote za biashara zetu- ustawi wa mtaji, usimamizi, operesheni na usimamizi bora wa shirika hili.

Hatuna budi kutoa matokeo bora leo, huku tukiwekeza kwa siku za baadaye. Tunaunda siku sijazo zinazoimarisha uwezo wetu wa kutumia vyema nafasi zilizopo na kuzalisha zaidi na kuwa madhubuti.

Kujitolea kwetu kuwa shirika endelevu kumejikita kwenye mfumo wetu wa mageuzi wa "G2G". Inaashiria maudhui mawili muhimu ya kubadilika kutoka Kampuni "Bora" hadi "Bora Zaidi" kwa kuunda mfumo endelevu kutoka "Kizazi" hadi "Kizazi." Sambamba na falsafa hii, tunawaletea kitengo cha kwanza cha mfumo endelevu kwenye ripoti hii ya kila mwaka.

Ufanisi

Tulianza safari yetu ya mageuzi yenye matarajio makubwa mnamo 2007. Lengo letu lilikuwa kuongeza MW500 kufikia 2012 ili kutosheleza mahitaji ya umeme nchini Kenya. Tumepiga hatua kubwa katika kufanikisha lengo hilo. Uzinduzi wa kituo cha Kipevu III cha kuzalisha MW 120 mnamo Machi 2011 ni thibitisho la kujitolea huko. Kiwanda hicho ni sehemu ya muundomsingi uliotokana na fedha za uwekezaji wa dhamana zilizopatikana miaka miwili iliyopita. Kiwanda hicho kilikamilishwa kwa wakati uliowekwa na bajeti iliyotengwa.

Kuzalisha leo, Kuwekeza Siku Sijazo

Kutosheleza mahitaji ya Umeme Leo: Upeo I

Wajibu wetu ni kuzalisha umeme nafuu, wa kutegemewa na usiochafua mazingira, huku tukiwekeza kwa lengo la kuhakikisha siku za baadaye za kutegemewa. Hii inamaanisha, kusimamia biashara yetu kwa njia ya uwazi na uwajibikaji kwanzia kwa matumizi ya fedha hadi tunakouzia kawi, pamoja na kujali jamii tunazohudumia na mazingira.

KenGen imo karibu kukamilisha miradi ya Upeo I inayotarajiwa kuzalisha MW 500 kufikia 2012. Tumezalisha MW 264 huku ujenzi na ustawi wa mradi wa kuzalisha umeme zaidi ukiendelea. Miradi iliyozinduliwa ni ule wa MW60 wa Sondu Miriu, ule wa MW 35 wa Olkaria II Kitengo cha Tatu, ule wa kuimarisha Kiambere wa kuzalisha MW24, ule wa MW5.1 wa Ngong Wind, MW 120 wa Kipevu III uliozinduliwa Machi 2011 na ule wa kustawisha upya kituo cha umeme cha Tana cha MW 20 uliomalizika Aprili 2011.

Kuwekeza kwa Siku Sijazo: Kuongeza kiwango cha kawi inayoweza kuzalishwa tena

Katika Upeo II kwa kipindi cha 2012 hadi 2018, tunapanga kuongeza MW 2,000 kwa mfumo wa nyaya wa kitaifa. Kwa zaidi ya mwongo mmoja ujao, tunatarajia kuzalisha zaidi ya asilimia 70 ya umeme wetu kutokana na vyanzo visivyochafua mazingira. Kwa kustawisha na kupanua viwanda vyetu vya uzalishaji, tutatoa umeme kwa njia madhubuti, kusitisha viwanda vilivyozeeka na kupunguza kaboni inayotoka kwenye viwanda vyetu.

Kuendelea mbele, tunatazamia washirika wetu wa maendeleo kuzidi kutuunga mkono kuzalisha kawi safi. Tayari, tunatambua msaada tuliopokea wa Dola za Amerika 920milioni ambazo zitafanikisha mradi wetu mkubwa wa kuzalisha MW280 wa Olkaria I na IV kufikia 2014.

Mradi wa Eburru wa kuzalisha MW2.3 unatarajiwa kumalizika Desemba 2011, hatua ambayo itafungua viwanja vya umememvuke vya Eburru kwa ustawi wa siku za baadaye.

Mradi wetu wa kwanza wa CDM, Olkaria II, kitengo cha tatu, wa kuzalisha MW 35 unapunguza tani 149,000 za kaboni na hivyo kuingiza Dola za Amerika 10.25 kwa kila tani ya kaboni inayoingia hewani. Kati ya pesa hizo, asilimia 10 zitatumika kwenye miradi ya kijamii karibu na eneo la Olkaria. Tumepokea Dola za Amerika 225,000-fedha ambazo tunatumia kwa miradi ya kunufaisha jamii.

Tunajitolea kupunguza athari mbaya kwa mazingira kwa kuchukua hatua leo kwa kawi isiyochafua mazingira siku sijazo. Tumeanzisha utaratibu wa kusajili mradi wa kuzalisha umeme safi (CDM) kwa mradi wa kuzalisha MW 280 wa Olkaria I na IV katika kiwanda cha kuzalisha umememvuke.

Kawi ya Nuklia

Mpango wa Kitaifa wa Kawi ya Gharama ya chini kwa mwaka 2010-2030 unakadiria kuwepo kwa kiwanda cha nuklia nchini Kenya kufikia 2023. Hivyo basi, Serikali ilibuni Kamati ya Kustawisha Mradi wa Kawi ya Nuklia kutafuta mbinu za kufikia lengo hili.

Kufanikisha uzalishaji wa kawi ya nuklia huchukua muda, na tunaunga mkono hatua hii inayolenga kutumia teknolojia ya kisasa za nuklia kuimarisha ukuaji wa uchumi.

Gesi Asili

Gesi asili inaendelea kuwa fueli maarufu katika uzalishaji wa nguvu za umeme. Hii ni kutokana na bei ya chini na pia kiwango cha chini cha uharibifu wa mazingira, ikilinganishwa na aina nyingine za mafuta.

Uvumbuzi wa akiba mpya za gesi za mwambatope katika sehemu tofauti za dunia ikiwemo Afrika unachochea upya matumizi ya gesi katika uzalishaji wa umeme. Tunapanga kujenga kiwanda cha kutumia gesi mkoani Pwani na tayari tumetoa kandarasi kwa Messrs Mott McDonald kufanya tathmini kuhusu uwekezano wa mradi huo. Uchunguzi wa kutafuta gesi kote nchini unaendelea.

Maji

Viwanda vya kutumia maji ambavyo vinakaribia kumalizika ni pamoja na kile cha MW 21 cha Sang'oro kinachotarajiwa kuzinduliwa Machi 2012. Ukarabati wa Kitengo cha Tatu cha kiwanda cha MW32 cha Kindaruma ungali unaendelea tayari kwa ufunguzi 2013. Kampuni imepokea dhamana kwa ufadhili wa mradi huu kupitia KfW ya Ujerumani.

Umemejoto

Ili kutosheleza mahitaji ya umeme magharibi mwa Kenya, KenGen imeanzisha kwa dharura kiwanda cha umemejoto cha kuzalisha MW80 Muhoroni. Kufuatia hali hiyo, mtaalamu ameteuliwa kujenga kiwanda hicho na kinarajiwa kuwa tayari mnamo 2013.

Miradi inayokuja

Kampuni imekamilisha uchunguzi kuhusu uwezekano wa mradi wa kuzalisha MW 60 wa Karura katika Mto Tana kwa maandalizi ya awamu ya ujenzi.

Wakati huo huo, tunatarajia kukamilisha uchunguzi kuhusu uwezekano wa miradi ya upepo Isiolo na Bubisa kufikia Desemba 2011. Mbali na hayo, tumeajiri wanakandarasi kufanya uchunguzi wa uwezekano wa ustawi wa mradi wa kuzalisha MW600 katika Pwani utakaotumia teknolojia safi ya makaa.

Vile vile, tunatathmini ripoti ya uchunguzi kuhusu uwezekano wa ujenzi wa kiwanda cha kufaidi jamii na cha kutegemewa kibiashara cha kuzalisha MW50 kutokana na taka katika Jiji la Nairobi. Mradi huo unatarajiwa kugeuza takataka kwenye manispaa kuwa umeme. Uchunguzi kuhusu uwekezano wa mradi kama huo bado unaendelea.

Kwa upande wa kawi kutokana na miale ya jua, tumetoa kandarasi kwa mshauri wa kuunganisha kiwanda cha kuzalisha umeme kutokana na jua kwa mfumo wa nyaya za kitaifa.

Kudumisha uthabiti wa kifedha

Tulifanikisha malengo yetu ya kifedha na utendakazi, huku tukiongeza mapato na kudumisha sera yetu ya kulipa mgao wa faida na kuwa na mizanio imara.

Viwango vya kutosha vya maji kwenye mabwawa na viwanda vipya vya uzalishaji vilituwezesha kuwa na matokeo bora. Utendakazi bora wa mitambo yetu na kujitolea kwa wafanyakazi wetu kutoa huduma za hali ya juu kwa wateja ulituwezesha kuongeza mapato yetu.

Faida kabla ya ushuru iliongezeka kwa asilimia 47 hadi Sh3,651 milioni ikilinganishwa na Sh2,485 milioni mnamo 2010 kutokana na nyongeza ya mauzo ya umeme. Kumalizika kwa kipindi cha miaka mitano cha kututozwa ushuru kufuatia Toleo la Hisa kwa Umma (IPO) kulipandisha ushuru wa kampuni kutoka asilimia 25 hadi asilimia 30. Hivyo basi, kodi ilipanda kwa Sh2,273 milioni kutoka kwa Mkopo wa Sh802 milioni hadi Sh1,571 milioni. Hii ilichangia kupungua kwa faida baada ya ushuru kutoka Sh3,286milioni hadi Sh2,080 milioni.

Kampuni ilipata faida ya jumla ya Sh4,394 milioni kutokana na mikopo. Kati ya hizo, Sh2,399 milioni zilitumika kwa miradi inayoendelea na Sh1,997 milioni zikagharimia miradi sawa na hiyo iliyozinduliwa mwaka uliomalizika.

Fedha zilizoingia kwa Kampuni zilipungua kutoka Sh21,331 milioni hadi Sh3,116 milioni baada ya kuwekeza pesa za hazina ya Dhamana ya Muundomsingi katika Kipevu III, ustawishaji upya wa Tana, Kiambere, Eburru, Sang'oro, mitambo ya uchimbaji na gharama za kuanzisha mradi wa Olkaria I & IV.

Kutokana na utekelezaji wa miradi mipya ya umeme, matumizi ya mtaji yaliongezeka kutoka Sh13bilioni mwaka uliopita hadi Sh19 bilioni mwaka huu. Tunajitolea kuongeza uwezo wetu wa uzalishjaji na tumelenga mpango wa muda mrefu wa upanuzi utakaogharimu Dola za Amerika 5 bilioni kufikia 2018.

Kuwekeza katika teknolojia

Tunaingia kwenye awamu mpya katika Upeo II kuanzia 2012 hadi 2018-kubadilisha vifaa kuu kuu kwenye mitambo yetu, kuimarisha uzalishaji na kuwa madhubuti katika utendakazi, kuzingatia viwango vya juu vya utunzaji wa mazingira na kupanua vyanzo vya fueli yetu. Naamini, kwa kuwekeza katika muundomsingi mpya wa kawi na teknolojia kama hizo ndio kichocheo cha kufaninisha ndoto ya Ruwaza ya 2030.

Tunahimiza matumizi bora ya kawi kuimarisha uzalishaji na kupunguza gharama. Hivyo basi, tumeanzisha utafiti na matumizi ya mvuke kupitia uzalishaji wa umememvuke kwa kutumia teknolojia ya vyanzo vya mvuke.

Kwa kuimarisha mitambo yetu wa Mfumo wa Rasilimali za Kibiashara na SCADA, tunaweza kugundua mapema masuala ya utendakazi pamoja na kuwawezesha wahandisi wetu kutumia, kuchunguza na kukarabati viwanda vyetu kwa njia ifaayo. Hii itatoa taarifa muhimu kwa wasimamizi kufanya maamuzi.

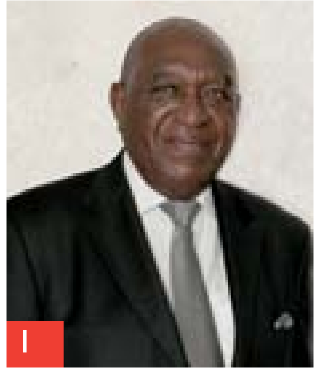
Kulenga siku za baadaye

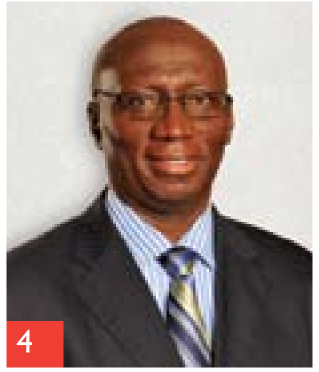
Huku tukiendelea kutekeleza mpango wetu mahususi wa upanuzi, tutaendelea kutafuta mbinu zifaazo za ufadhili ambazo zitatuwezesha kuzindua miradi ya gharama nafuu.

Tuna matumaini kuwa, pamoja tutazalisha umeme unaohitajika kwa upanuzi wa uchumi wetu. Tutaendelea kukuza mazingira yanayopalilia uvumbuzi, utendakazi, ushirikiano na ustawi.

Tunapotazama mbele hadi 2012 na zaidi, tunatiwa shime na uwezo mkubwa wa nchi yetu na kujitolea kutoa umeme kwa taifa na kuunda thamani kwa wenyehisa wetu.

Edward Njoroge, EBS - *Mkurugenzi Mkuu na Afisa Mkuu Mtendaji*





1. Hon. Titus Kitili Mbathi, EGH

Hon. Mbathi, Chairman of the Board, aged 82 years, holds a BA (Hons) Economics degree, from Madras University, India and an MA degree 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, Platinum Credit Ltd, Agripro Kenya Limited and several other companies.

2. Edward Njoroge, EBS

Mr Njoroge, 58 years, a holder of BSc (Hons) Chemistry from Makerere University, has been the Managing Director & CEO since 2003. He is the current Chairman of the Nairobi Stock Exchange and Telkom Kenya, as well as President of the Union of Producers, Distributors and Transporters of Electric Power in Africa (UPDEA). He is also the Chairman of the Kenyan Chapter of the World Energy Council (WEC). He holds other directorships in CFCStanbic Bank Kenya, REAL Insurance Company Limited, Proctor & Allan (EA) Limited and other leading enterprises in Eastern Africa. In addition, Mr. Njoroge is a director of Tana & Athi River Development Authority (TARDA) and Kerio Valley Development Authority (KVDA).

3. Joseph Kinyua, CBS

Mr. Kinyua, aged 60 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. He is currently the Chairman of the East African Development Bank. Mr. Kinyua is a member of the Board Audit & Risk Management Committee.

4. Patrick Nyoike, CBS

Mr. Nyoike, aged 63 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.

5. Sarah W. Wainaina, HSC

Ms. Wainaina, aged 69 years, holds a Bachelor of Arts degree from Morningside College, Iowa, USA and postgraduate studies in Antitrust Law, Micro Economics and Development Policy from Harvard University. Ms. Wainaina has a wealth of experience in civil service and was previously the Price Controller and later the Commissioner of Monopolies & Prices. She is a member of the Board of Governors of Kirangari High School and Kihara Secondary School. Ms. Wainaina is the Chairperson of the Board Strategy Committee.

6. George M. Njagi

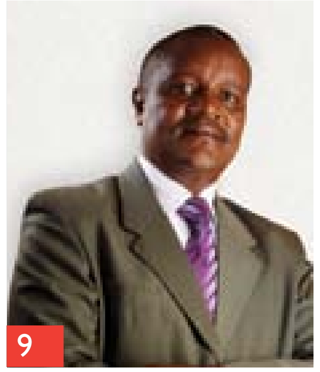
Mr. Njagi, aged 64 years, is a former Deputy Secretary, Ministry of Transport and Communications with a wealth of experience in civil aviation and air transport. He was the Chief Executive Officer and Secretary of the defunct Civil Aviation Board. He has also served as an alternate director of Kenya Airports 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 a member of the Audit & Risk Management Committee and the Chairman of the Human Resources Committee of the Board.

7. Musa Ndeto

Mr. Ndeto, aged 59 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 also holds a Masters in Business Administration (Finance) and an MBA in strategic Management. He is also a Director of Kenya Commercial Bank and is currently in private practice. Mr. Ndeto is a member of the Board Strategy, Public Infrastructure Bond Committees and the Chairman of both the Board G2G Steering and Procurement Oversight Committees.

8. Dorcas Florence Kombo

Mrs. Kombo, FCCA CPA(K) CPS(K) aged 57 years, is a Fellow, Chartered Association of Certified Accountants, an Associate of the Institute of Certified Public Accountants of Kenya and a Member of the Institute of Certified Public Secretaries of Kenya. Dorcas has extensive experience in statutory audits and consulting in both public sector and private organizations across Africa gained with major international firms. She has worked on multi-disciplinary assignments both in Kenya, Uganda, Tanzania, Burundi, Rwanda, Ethiopia, Botswana, Ghana, Nigeria, and Sierra Leone. Dorcas has a rich experience in privatization programmes and has played a key role in the formulation of the labour laws, practices and procedures in the Governments of Uganda, Malawi and Sierra Leone during their public sector reforms during which time she worked with the respective privatization units. Dorcas is a director of Metis Consulting and Eleven Ninety One Coffee Estates Limited, Namenge Brothers Limited and Menana Development Company Limited. She is a trustee of Kenya Medical Women's Association (KEMWA). Mrs. Kombo is a member of the Human Resources, Procurement Oversight, Public Infrastructure Bond Committees and is the Chairperson of the Board Audit & Risk Management Committee.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9. Hedrick Masaki Omanwa

Mr. Omanwa, aged 46 years, holds a. BCom degree and MBA from University of Nairobi. He is a member of both the Institute of Certified Public Accountants and the Institute of Certified Public Secretaries of Kenya. He is the Managing Partner of Omanwa & Associates, an audit and consultancy firm. Mr. Omanwa is currently a member of the Board Audit & Risk Management and Procurement Oversight Committees.

10. Henry Nyamu M'Narobi, MBS

Mr. M'Narobi, aged 65years, 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 the Chairman of the Presbyterian Foundation, chairman/member of the Boards of Governors for several schools & hospitals in Kenya and the Chairman of Rubate Teachers' Training College. 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 Strategy, Audit & Risk Management, G2G Steering Committees and is the Chairman of the Board Public Infrastructure Bond Committee.

11. Mary Goima Michieka

Mrs. Michieka, aged 64 years, holds an LLM in International Law from Kiev State University. She is a member of the Industrial Society of London and ACL Tutor and has previously worked in the civil service for 18 years as Principal Personnel Officer, Senior Under Secretary, and in the private sector with Kenya Commercial Bank where she was the Group Deputy Manager-HR/Training Manager for 14 years. She is a Board Member of Lake Basin Development Authority and KCB'S Pension Association. She is also a chairperson and board member to various women associations Chairperson Board and board member in two government secondary schools. Mrs. Michieka is a member of both the Board Human Resources and G2G Steering Committees.

12. Humphrey Muhu

Mr. Muhu, aged 46 years, holds a BSc (Mathematics & Statistics) from Kenyatta University, B Phil (Economics) degree from the University of Nairobi, MA in Economics from the University of Nairobi. He also holds a Diploma in Financial Management from KCA University. He is the alternate director to the Permanent Secretary, Treasury. Mr. Muhu is an Economist with 18 years experience in various government ministries and departments.

13. John Omenge

Mr. Omenge, aged 50 years, holds a BSc degree in Geology from the University of Poona, India and MSc Mineral Exploration and Mining Geology from 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 26 years as a Geologist for the Government of Kenya.


Beatrice Soy
Human Resources & Administration Director


Rebecca Miano, CPS(K)
Company Secretary, Legal & Corporate Affairs Director


Simon Ngure
Regulatory Affairs Director


Edward Njoroge, EBS
Managing Director & CEO


John Mudany, FCPAK
Finance & Commercial Director


Albert Mugo
Business Development & Strategy Director

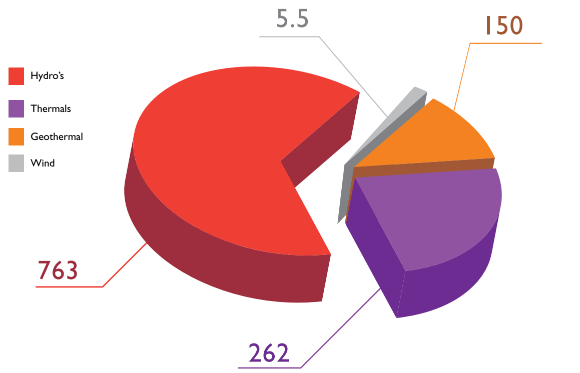

Richard Nderitu
Operations Director

1. Operating & Business Report

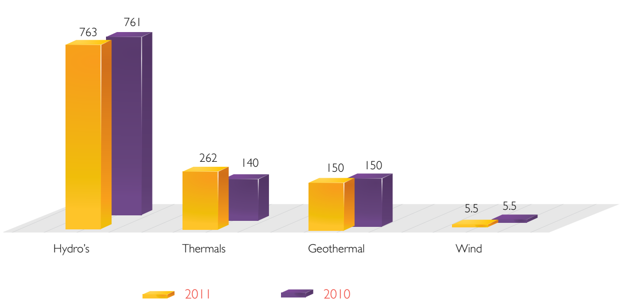
Installed Capacity – 12% ▲

Installed capacity increased by 12% from 1,057MW to 1,181MW mainly due to commissioning of the 120MW Kipevu III and Tana 20MW.

Generation Mix (MW)

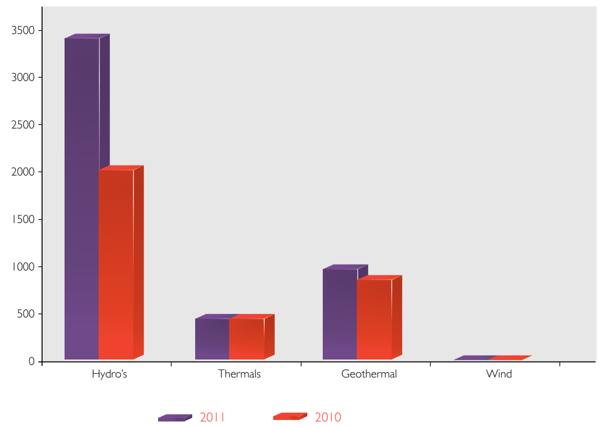


Segment Comparison between 2011 and 2010 (MW)



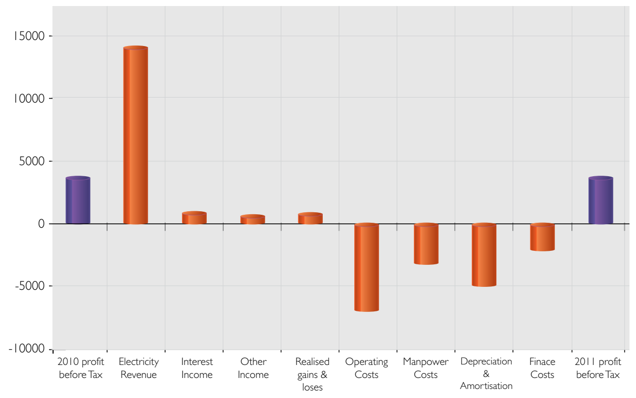
Units Sold compared to last year – 37% ▲

Unit sales increased from 3,596 Gwhrs to 4,933 Gwhrs during the year under review after successful commissioning of new plants and improved hydrological conditions as a result of good long rains in 2011. Hydro generation increased by 1,252 Gwhrs or 58%, while geothermal increased by 90 Gwhrs or 10% after the commissioning of Olkaria II Unit III. Thermal generation decreased by 7 Gwhrs or 1% after commissioning of Kipevu III Power Plant in March 2011. However outages from Kipevu I and relocation of the Gas Turbine (GT) from Kipevu to Embakasi reduced output from thermal.



Financial Performance

Summary of results (Kshs million)



Electricity Sales – 31% ▲

Total revenue from capacity charge rose from Kshs.10,998 million to Kshs.14,389 million, an increase of Kshs.3,391 million or 31%, arising from an increase in hydro-generation revenue by Kshs.1,728 million, geothermal by Kshs.672 million, thermal by Kshs.597 million and energy charge increase of Kshs.343 million.

Commission earned from the management of the emergency power to mitigate the low generation from the hydro plants declined from Kshs.211 million to Kshs.63 million owing to the commissioning of Kipevu III.

Interest Income – 57% ▲

Interest income rose from Kshs.398 million to Kshs.549 million, a net increase of Kshs.151 million mainly on account of increased interest received from Treasury bonds of Kshs.273 million and decline in interest on cash deposits by Kshs.83 million.

Other Income – 149% ▲

Other income increased from Kshs.114 million to Kshs.284 million, a net increase of Kshs.170 million. This is mainly due to gain arising from fuel pass-through efficiency of Kshs.189 million, sale of sludge and scrap materials of Kshs.15 million. The Company also earned Kshs.23 million from Geophysics survey in Rwanda and Orpower 4 cementing services. Additionally Kshs.3 million was received as insurance compensation for a burned turbine at Mesco Power Station.

Operating Expenses – 17% ▲

Operating expenses increased from Kshs.8,558 million to Kshs.10,014 million, an increase of Kshs.1456 million. Depreciation increased by Kshs.752 million due to capitalization of Olkaria II Unit 3, Kiambere, Tana and Kipevu III. Operations and maintenance costs increased by Kshs.90 million due to commissioning of Kipevu III, Olkaria II Unit 3, Kiambere, and Tana power plants. Insurance increased by Kshs.69 million due to premiums for new plants. Other expenses increased by Kshs.108 million due to inflationary increase in the cost of goods and services.

Finance Cost – 170% ▲

Finance cost increased from Kshs.741million to Kshs.1,997 million, an increase of Kshs.1,256 million mainly due to interest expense on the Public Infrastructure Bond funds that were utilized on projects which have been completed and capitalized including Kiambere Optimization, Tana Redevelopment and Kipevu III projects.

Profit before Taxation – 47% ▲

Profit before tax rose from Kshs.2,485 million to Kshs.3,651 million, an increase of Ksh.1,166 million, owing to an increase in revenue.

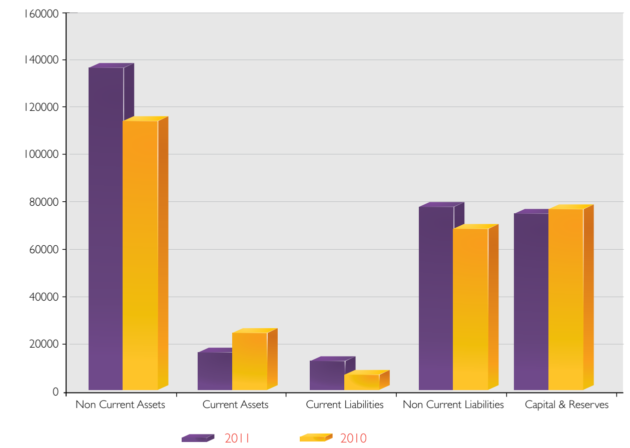
Taxation – 296% ▲

The expiry of the five-year IPO tax rebate resulted in the change of the corporate tax rate from 25% to 30%. Consequently, taxation rose from a credit of Kshs.802 million to an expense of Kshs.1,571 million, an increase of Kshs.2,373 million.

Net Profit for the year – 37% ▼

Profit after tax dropped from Kshs.3,286 million to Kshs.2,080 million, a decrease of Kshs.1,206 million mainly due to increase in the corporation tax amount.

Summary of assets and liabilities (Kshs million)



Non Current Assets – 20% ▲

Non-current assets increased from Kshs.117,717 million to Kshs.141,454 million, an increase of Kshs.23,737 million. Property, Plant and Equipment increased by Kshs.14,555 million as a result of Kipevu III, Tana, Olkaria II Unit 3, additions to work-in-progress of Sang'oro, Kindaruma, wellhead, Eburru and relocation of Gas Turbine.

Current Assets – 41% ▼

Current assets decreased from Kshs.32,849 million to Kshs.19,539 million, a decrease of Kshs.13,310 million mainly due to utilisation of the Public Infrastructure Bond funds in implementation of projects.

Current Liabilities – 62% ▲

Current liabilities increased by Kshs.4,287 million from Kshs.6,969 million to Kshs.11,256 million mainly due to the first principal repayment of Public Infrastructure Bonds funds amount due in April 2012.

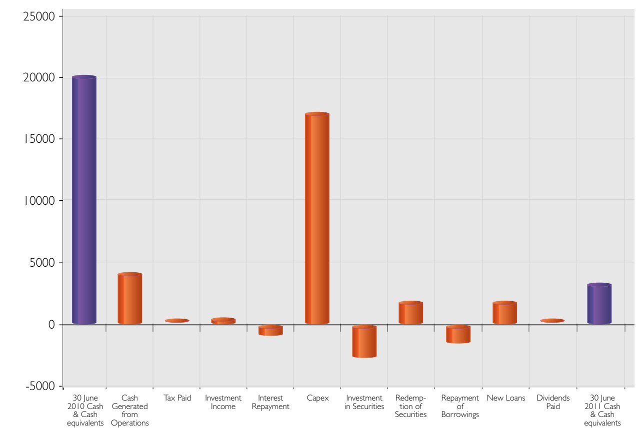
Capital and Reserves – 2% ▼

Capital and Reserves declined from Kshs.70,531 million to Kshs.69.419 million, a decrease of Kshs.1,112 million mainly due to treasury bonds revaluation loss of Kshs.633 million and retained earnings of Kshs.2,080 million.

Non Current Liabilities – 10% ▲

Non-current liabilities rose from Kshs.73,066 million to Kshs.80,318 million, an increase of Kshs.7,252 million mainly due to net increase in borrowings of Kshs.4,529 million arising from loss on revaluation and new borrowings and deferred tax liability of Kshs.3,031 million.

Cash Flow movements (Kshs million)

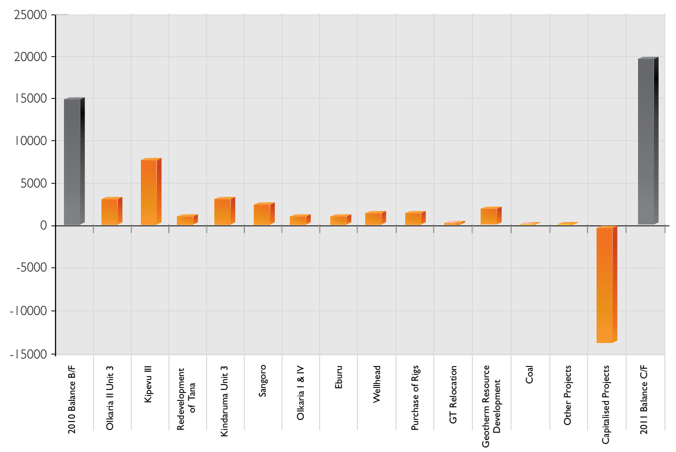


Net cash generated from the Company's operating activities during the year increased to Kshs.4,513 million compared to Kshs.2,125 million the previous year, mainly due to increase in revenue from the newly commissioned plants of Tana and Kipevu III. Payment to contractors reduced by Kshs.5,810 million after completion of Kipevu III and Tana projects. Cash and cash equivalents amount decreased from Kshs.21,331 million to Kshs.3,116 million, a decrease of Kshs.18,215 million mainly due to investment of Public Infrastructure Bond funds in designated projects.

Capital Expenditure - 43% ▲

Capex rose from Kshs.13,360 million to Kshs.19,170 million, an increase of Kshs.5,810 million. The increase is majorly due to investment in new projects as below:

Capex (Kshs million)



Executive Performance Overview (Continued)
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2. Growth Plans

The following table outlines the progress of the ongoing projects.

Project	Type	Capacity (MW)	Status
Eburru	Geothermal	2.3	Commissioning in Nov 2011
Muhoroni MSD	Thermal	80	Commissioning in 2013
Sang'oro Hydro	Hydro	21	Commissioning in March 2012
Ngong Wind I Phase II	Wind	6.8	Commissioning in April 2013
Ngong Wind II	Wind	13.6	Commissioning in April 2013
Kindaruma 3rd Unit & Uprating Unit 1&2	Hydro	32	Unit 3 to be Commissioning in June 2012 Unit 2 to be Commissioning in December 2012 Unit 1 to be Commissioning in June 2013
Olkaria I Unit 4 & 5	Geothermal	140	Commissioning in 2014
Olkaria IV	Geothermal	140	Commissioning in 2014
Isiolo Wind	Wind	50	Commissioning in July 2013
Marsabit Wind	Wind	150	Feasibility ongoing
Olkaria I Unit 6 & Olkaria IV Unit 3	Geothermal	140	Commissioning in June 2016
Olkaria IV unit 4 and 5	Geothermal	170	Commissioning in June 2016
Kilifi Coal	Thermal	600	Commissioning in July 2016
LNG	Thermal	300	Feasibility ongoing
TOTAL CAPACITY		1,845.70	

3. Risk Management

We recognize the existence of potential risks which may negatively impact on the achievement of the strategic objectives. These risks could be environmental and social risks, economic risks, political risks, security risks, financial risks, human resources risks or contracts management related.

As a result, KenGen has established structures, policies and procedures to undertake overall risk management in its operations.

Environmental Risks

Environmental Issues
Environmental issues could pose enormous challenges for KenGen. In addition, changes in environmental laws and regulations may expose the company to liability and result in increased costs. Compliance with these requirements, as well as any future norms with respect to the Environmental Act, may result in increased project and plant operating costs.

KenGen has put in place an effective environmental management system that stipulates environment standards that must be maintained in all areas of operation. The Company was certified for ISO14001: 2004 environmental management system in 2009. Further, the Company is committed to ensuring compliance by undertaking environmental impact assessments for any new investment in capacity expansion and implements the required mitigation measures both at construction and operation stages. Regular environmental audits are carried out in power stations and annual audit reports submitted to NEMA.

Hydrology Risk
A hydro-dominated power system like Kenya's is vulnerable to extreme weather variations due to climate change. This has proved to be a big challenge in the recent past with droughts leading to low inflows into the reservoirs resulting in power shortfalls.

To mitigate this risk, an effort has been made to ensure geographical diversification of hydro plants and proper water management.

Our current strategy focuses on investment in clean and renewable sources such as geothermal, wind and solar, which are not subject to weather variations.

Sedimentation of Hydro-Dams
The dams are faced with the risk of sedimentation arising from poor land use in the catchment areas which may affect generation output. As the sediments accumulate in the reservoirs, the dams gradually lose their storage capacity.
To mitigate this risk, KenGen collaborates with other agencies to conserve water catchment areas and promote proper land use.

Geothermal Steam Supply
Geothermal power generation faces the inherent risk of depletion of steam.

For continued availability, KenGen closely monitors the steam flow in geothermal wells and re-injects brine for re-use. New make-up wells are also drilled to maintain adequate supply of steam to the plants.

Economic Risks
Macro-economic factors such as exchange rate, inflation, interest rates and taxation affect the Company's operations.

Exchange Rate Risk
Depreciation of the Kenya Shilling exposes the company to increased project and operating costs.

However, KenGen is fully hedged by the PPA against foreign currency fluctuations.

Inflation
Inflation erodes the purchasing power and disrupts the procurement of goods and services. The Company is cushioned by an inflation clause in the PPA.

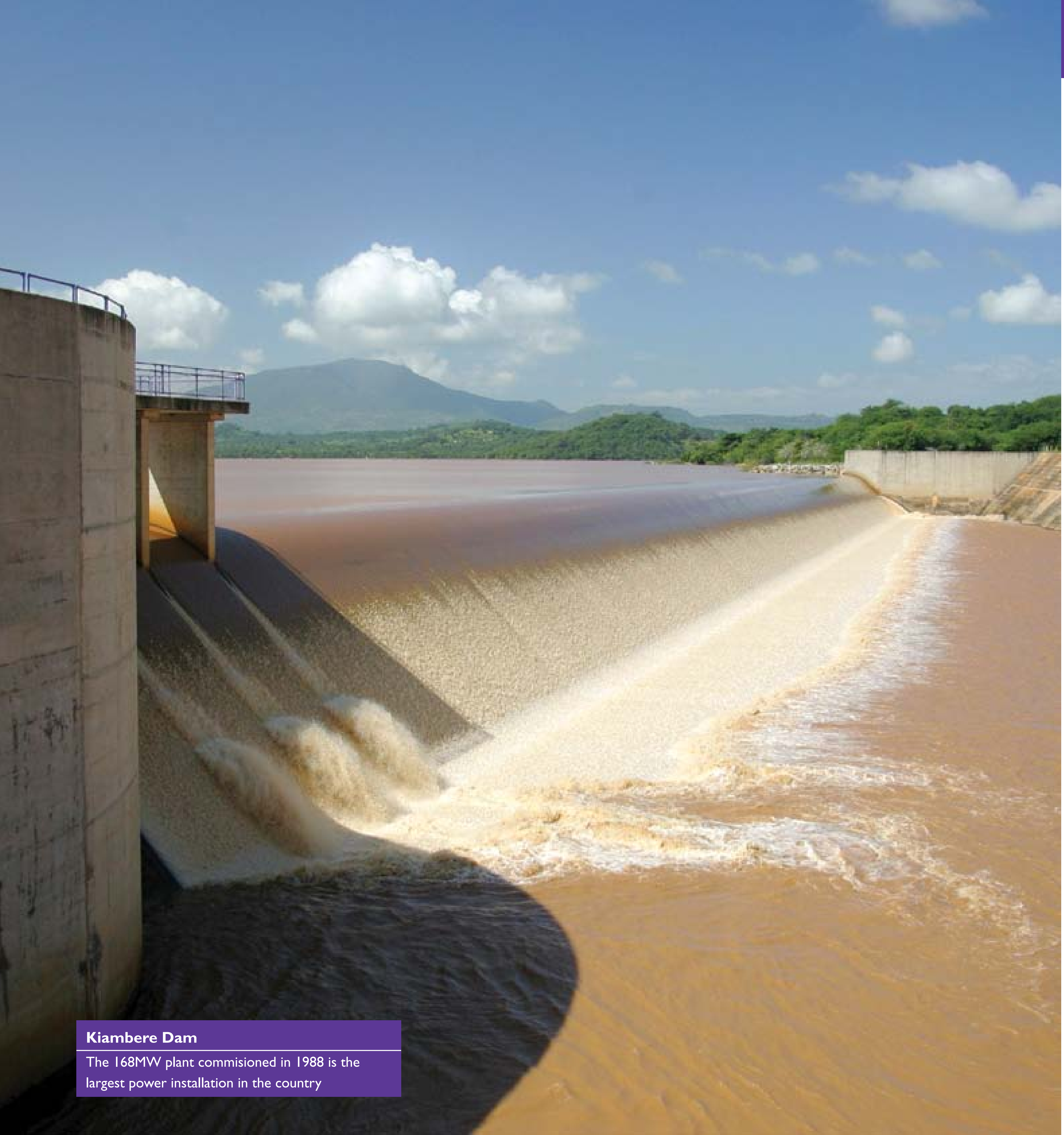
Interest Rate Risk
Increase in interest rates affects lending rates and thus to increase in financing costs.

To mitigate it, the Company negotiates fixed terms financing, concessionary loans and seeks government guarantees to facilitate favourable DFIs borrowings.

Taxation
Changes in Taxation directly or indirectly affect project and operational costs.

KenGen negotiates with the relevant Government agencies for tax exemptions especially in new capital projects.

Other risks have been broadly discussed in this report under the Financial Statements.



Kiambere Dam

The 168MW plant commisioned in 1988 is the largest power installation in the country

Our Strategic Focus

The KenGen Strategic Plan is focused on three strategic pillars i.e. Capital Planning and Execution, Regulatory Management and Operational Excellence. The pillars are supported by a strong foundation focused on people, culture and information.

1. Capital Planning & Execution

This pillar emphasises the delivery of capacity additions to support economic growth.

To meet the rising demand for electric energy and cope with the current reforms in the sector, KenGen aims to increase its installed capacity by over 2,000MW by the year 2018. The capacity expansion will be achieved through three strategic horizons. Horizon I Projects will be implemented between the years 2008-2013 whereas Horizon II projects will be implemented by the year 2018.

Horizon I
The Horizon I projects earmarked for implementation between the years 2008 to 2013 are:

Project	Capacity (MW)	Status
Sondu Miriu Hydro	60	Complete
Optimization of Kiambere Hydro	24	Complete
Ngong Wind-Phase I	5.1	Complete
Olkaria II 3rd Unit	35	Complete
Redevelopment of Tana	20	Complete
Kipevu III	120	Complete
Eburru	2.3	Implementation
Sang'oro	21	Implementation
Ngong Wind I Phase II	6.8	Design & tendering
Ngong Wind II	13.6	Design & tendering
Olkaria IV	140	Design & tendering
Olkaria I Unit 4&5	140	Design & tendering
Kindaruma 3rd Unit	32	Implementation
Muhoroni MSD	80	Design & tendering
Total	699.8	

Horizon II
KenGen has received approvals to procure a Joint Venture Partner ("JV Partner") and then enter into a Joint Venture (JV) with the concerned JV Partner for purposes of designing, financing, erecting, commissioning, and operating a 600MW Coal Power Plant under a Power Purchase Agreement.

The construction of the 400 kV transmission line and the 400 kV substations will be coordinated with the commissioning of the new 600 MW power station.

KenGen has adopted a geothermal-led capacity expansion which will utilize the indigenous resource to provide clean base load capacity. This will ensure a least levelized cost of power for the country and boost grid stability.

KenGen recognizes the importance of an effective and well coordinated capital planning process.

The capital planning process entails project conception, feasibility studies, design, implementation and commissioning. The process also involves provision of the necessary human and financial resources for timely project implementation.

The process also involves choosing the optimal size of the projects and the appropriate technology to be used. In addition, capital planning also entails a systematic analysis of both the financial and economic value of project.
The planning process is flexible enough to accommodate changes as necessitated by emerging issues during the project implementation cycle.

2. Regulatory Management Pillar

The regulatory pillar was created to mainly negotiate for competitive returns for KenGen's investment and ensure we meet our contractual agreements under the power purchase agreements.

The Energy Billing System has been successfully rolled out and is helping the company access real time energy generation information.

KenGen is making good progress towards embracing the ISO culture. Since the Company was certified in ISO 9001:2008 Quality and ISO 14001:2004 Environmental Management Systems there has been a marked improvement in the execution of our processes and environmental management practices.

The Company undertook a corporate internal audit on both systems in the last financial year. As one of the key pillars in ISO maintenance, the internal audit confirmed a marked improvement on how we are continually improving the way we execute the processes and how we are heading towards achievement of sustainable environmental practices.

In QMS, the internal audit report clearly brought out some milestones our business areas have achieved. Through quality practice, SMART divisional objectives are continually evaluated through review meetings. Focused delegations of authority have been issued to staff undertaking critical tasks, the training process has been evaluated and improved to achieve value addition, condition based maintenance is now being practised in most of technical the areas, while constant review of performance of our operations and processes is being carried out in all areas and appropriate corrective action implemented in good time.

In EMS, the significant environmental aspects, environmental objectives and targets have been identified. Elaborate Environmental Management Programmes have been put in place and most of the areas have put in place mechanisms that mitigate against the impacts of our significant environmental aspects. Further, the EMS has significantly improved our compliance with statutory requirements leading to effective generation modes and sustained effort to conserve the environment.

4 Operational Excellence

The operations excellence pillar aims to ensure our operations are optimized and by so doing, reduce costs.

The implementation of an integrated Enterprise Resource Planning System (ERP) is on schedule. Rollout of Business Objects and integration of Plant Maintenance System to SCADA/Plant Information system enable Condition Based Maintenance (CBM)

Another emphasis is on the reduction of operational and overhead costs through quick wins, as well as energy saving and process efficiency initiatives. A number of fuel saving initiatives and quick wins were implemented with savings of over Kshs.200 million. We have also improved operational processes with emphasis on the new supply chain process (based on planning, buying and monitoring), the establishment of a dispatch centre and services outsourcing. We have established planning and tender secretariat functions to embed and enforce procurement planning linked to budget. During the year we began consignment stocking of generation fuel.

3. Organisational Health

Strengthen organisational effectiveness from improved structure, culture and processes

Putting our People First
KenGen is a constantly evolving organization that provides the life blood of our economy. We need the right people for the right job. Every effort is being made to ensure that we employ and retain the skills needed to ensure a reliable electricity supply for generations to come.

The Human Resources Department's focus is to drive a high performance culture to ensure delivery of the company strategy. Key to this is raising people's capabilities and driving innovative solutions that will promote a high performance culture and strengthen the engagement of the KenGen family.

Recruitment
A key requirement for achieving the strategic goals and objectives of the business is a highly skilled workforce. With the availability of skilled people, particularly in the technical and engineering disciplines, being an ongoing dynamic, there is a need to ensure a sufficient pool of skilled employees to meet future skills requirements and for succession planning.

Automation of our recruitment process has translated into a shift from hard copy paper applications to online applications for all vacant positions through the company website.

KenGen had a head count total of 1,663 employees at the end of the financial year.

Our Strategic Focus
(Continued)

Performance and Training:
Developing employee skills and competences is of critical importance to both our business performance and the advancement of employees. The drive to build people's capabilities has seen the Company invest in improvement initiatives and programs.

A great deal of focus has been placed on the development of personal effectiveness and leadership capability skills for our staff. Management training programs cover such key areas as project management, supervisory and communication skills and team leadership training. Over 1,500 employees have benefited from these programs.

In addition to formal training and development programs, there has been a further improvement in performance management which has now become entrenched in most parts of the business. This includes clear roles and responsibilities, performance reviews, performance ratings and action plans to uplift performance.

We have engaged a goal-oriented change management model that allows our management teams to focus their activities on specific business results. This model is a useful framework in planning and executing of our major transformation initiatives.

Health and Wellness:
KenGen continued to carry out an integrated employee workplace program that covered a baseline survey on gender, disability, drug and substance and HIV/AIDS. These intervention initiatives ensure that employees are aware of their health status and are empowered to make the right choices to ensure they maintain good health and wellbeing.

In recognition of its responsibility towards managing HIV and AIDS, KenGen has an HIV and AIDS policy that encourages training and education, voluntary counselling and testing (VCT), and ensures fair, compassionate and non-discriminatory treatment of those who may be impacted by the disease. Due to the requirements of confidentiality and privacy, as well as medical and clinical expertise needed to treat HIV and AIDS patients, the Company makes use of external service providers to manage workplace programmes.

The Company engaged a consultant to carry out a survey and sensitise employees on drug and substance abuse as well as to carry out a risk assessment in the organization.

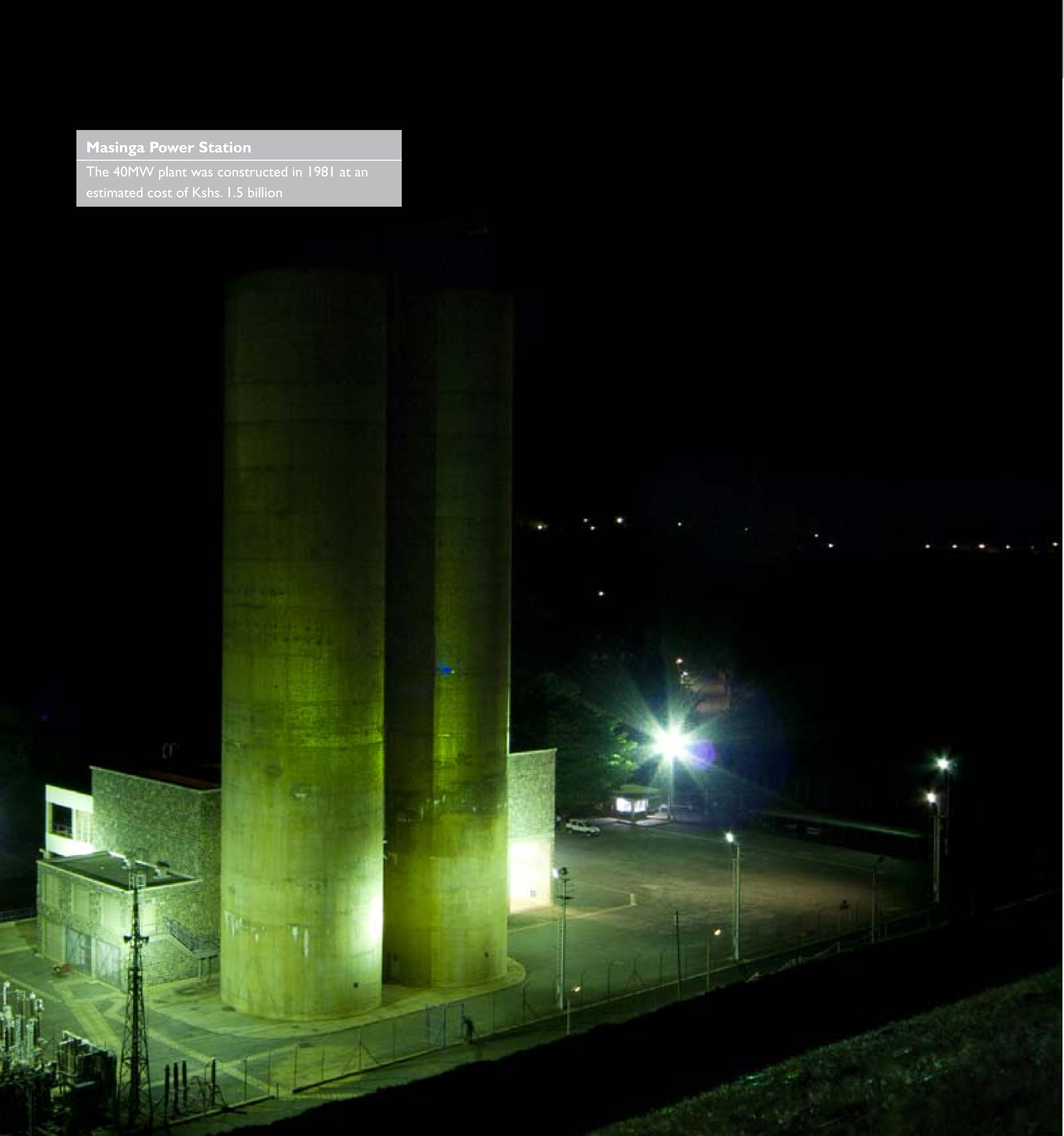
We have streamlined our access to medical services at our various service providers around the country by providing biometric medical cards.

In addition, KenGen offers employees a wide range of sports and social activities enabling them to keep fit, meet and socialise. The sports and social amenities encourage and promote social activities within the company. Events are organised throughout the year at various locations and all employees are free to get involved.

Re-engineering:
KenGen's sustainability requires world class business reporting and forecasting to enable effective decision making. The enterprise resource planning (ERP) system is in place to re-engineer our business processes as a backbone of our operations. The objective is to standardise and simplify identified processes, policies, procedures, controls and reporting, ultimately creating a foundation for the consolidation and reimplementation of SAP.

The Business Objects functionality (dashboard) aimed at monitoring critical processes has also been put in place, leading to real-time management of information.

Over the years, KenGen has realised improved internal efficiencies and cost savings from the ERP system.



Masinga Power Station

The 40MW plant was constructed in 1981 at an estimated cost of Kshs. 1.5 billion

Corporate Governance

Our core values of integrity, professionalism, team spirit and safety culture steer our company's organizational health and decision - making process. Our business is conducted in compliance with the relevant legal principles and the highest ethical standards.

Corporate Governance Statement

Our core values of integrity, professionalism, team spirit and safety culture steer our Company's organisational health and decision-making processes. Our business is conducted in compliance with the relevant legal principles and the highest ethical standards.

KenGen is committed to the maximisation of its shareholders value. This can only be achieved by the dynamic and diligent leadership offered by the Board to ensure long-term sustainable development and growth of the Company.

Board Charter

The Board Charter is a commitment by 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.

Responsibilities

The responsibilities of the Board are clearly spelt out in both the Articles of Association of the Company and the Board Charter.

The Board defines the purpose of the Company, its strategic intent, objectives and its values. It ensures that procedures and practices are in place to protect the Company's assets and reputation.

The Board retains full and effective control over the Company and monitors Management's implementation of the plans and strategies of the Board; ensures ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the Code of Ethics. It strives to act above and beyond the minimum requirements and benchmark performance against best international practices.

The Board reviews the strategic direction and adopts business plans proposed by the Management, reviews processes for the identification and management of business risks and compliance with key regulatory and legal issues. It reviews succession planning for the management team and endorses senior executive appointments, organizational changes and remuneration issues. It provides oversight of performance against targets and objectives. The Board also oversees reporting to stakeholders on the direction, governance and performance of the Company, as well as other processes that require reporting and disclosure.

In accordance with the principles of good corporate governance, each Director undertakes to always act in the best interest of the Company and exercise his/her power in the execution of duties in good faith and act with care and prudence.

The Directors subscribe to the Company's core values to always act in the interest of society and promote the effective and responsible use of resources by taking into account not only the possible financial impact of their decisions, but also their impact on sustainable development, relations with stakeholders and the general interest of the communities in which the Company operates.

Each Director is fully aware that the Board is responsible for determining the Company's vision, mission and values, deciding its strategic objectives, ensuring establishment of the organizational structure and procedures to achieve the objectives, ensuring effective control over the Company and accounting to its shareholders.

Directors familiarise themselves with the relevant regulations, statutes, the Memorandum and Articles of Association, the Board's operating rules and procedures necessary for the discharge of their duties.

The conduct of the Directors is in tandem with their duties and responsibilities to the Company and shareholders. They always act within limitations imposed by the Board.

Quarterly, the Board reviews an Operational Report from the Managing Director and CEO; Management Accounts; Board Committee reports; specific proposals for capital expenditure and acquisitions and major issues and strategic opportunities for the Company.

During the year, the Board approves periodic financial statements, Annual Report & Accounts, reports to the Government and public announcements of material nature. It reviews the Company's audit requirements; performance and composition of the Board Committees; the Company's Code of Ethics and ethical standards. The Board also reviews the Company's Corporate Social Responsibility, investment policies and sustainable development programmes.

Board Effectiveness

The independence of the 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 the appropriate balance of authority, increased accountability and improved capacity for decision making, independent of the Management.

Appointment: The Directors are appointed on rotation of three- year terms, and seek re-election at the Annual General Meeting (AGM). Any Director appointed to fill in a casual vacancy within the financial year, is subjected to election at the AGM.

Induction: On joining the Board, new Directors undergo an intensive induction programme to deepen their understanding of the Company's business, operating environment and markets in which it operates. They are provided with corporate literature and interactions facilitated with the senior management team. In addition, familiarization visits are arranged to the power stations.

Continuous Professional Development: Training and development programs have been developed to ensure that the Directors update their skills and knowledge, as well as keep abreast of developments in corporate governance. The Board members attended several energy conferences and forums during the year.

Evaluation: Performance of the Board is a fundamental component of the Company's success. During the year, an independent consultant was engaged to assess the Board's own performance alongside those of its Committees and individual Directors.

Board Composition

The Board of eleven (11) members is led by a non-executive and independent Chairman, one executive Managing Director, Permanent Secretaries in Treasury and the Ministry of Energy respectively plus seven independent and non-executive directors. The two directorship positions held by the Permanent Secretaries represent the Government of Kenya as the majority shareholder.

The non-executive Directors are drawn from diverse backgrounds and this is identified as one of the strengths of the Board.

The biographies of the Directors are published on pages 10 to 12.

Attendance

It held 9 meetings in the year, of which 4 were regular and 5 were special meetings.

Name	Attendance
Titus Mbathi	9
Edward Njoroge	9
Humphrey Muhu	9
John Omenge	9
Sarah Wainaina	9
Musa Ndeto	8
George Njagi	9
Dorcas Kombo	9
Hedrick Omanwa	9
Henry M'Narobi	9
Mary Goima Michieka	8

Board Committees

All Board Committees are established with formal and written terms of reference outlining their respective authority and duties.

Audit & Risk Management

Mandate

The Audit & Risk Committee is responsible for the oversight of effective internal controls, risk management, governance, compliance with laws and regulations and the code of conduct in the Company.

The Committee's duties are based on six broad functions namely the Internal Control, Risk Management and Compliance; Financial Reporting; Internal Audit; External Audit; Compliance with laws and Regulations; and Compliance with the Companies Code of Conduct and ethical guidelines functions.

The Committee assesses effectiveness of the Company's internal controls, risk management and compliance framework. It:

i. reviews the impact of significant accounting and reporting issues such as professional and regulatory pronouncements;
ii. meets the management and both the internal & external auditors to review the financial statements and the results of the audit process;
iii. assesses whether International Financial Reporting Standards(IFRSs) have been consistently applied during the preparation of preliminary announcements, interim and annual financial statements;
iv. is responsible for the internal audit & risk management function by ensuring Management acts on audit and risk management reports;
v. reviews the performance and assesses the independence of the external auditors;
vi. confirms that regulatory compliance has been taken into account in the preparation of financial statements; and
vii. reviews the process for monitoring compliance with the Company's code of ethics and ethical guidelines.

Membership

Its membership includes four independent and non-executive directors.

It comprises Dorcas Kombo who is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) as the Chairperson, with PS-Treasury, Hedrick Omanwa CPA(K), Henry M'Narobi and George Njagi as members.

Appointment to the Committee is for a period of three years which may be extended for two further three-year periods provided the director remains independent. The Chairman of the Committee is an independent non-executive director.

The Committee routinely invites the Managing Director & CEO. It also invites the Finance & Commercial Director and Internal Audit & Risk Manager who are both members of the Institute of Certified Public Accountants of Kenya (ICPAK) to its meetings.

Additionally, it invites a representative of the external auditors when reviewing the audited results.

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

Name	Attendance
Dorcas Kombo	8
Humphrey Muhu	5
Hedrick Omanwa	8
Henry M'Narobi	8
George Njagi	8

Strategy

Mandate
The Strategy Committee assists the Board in discharging its oversight duties with respect to the overall strategic direction of the Company, operational performance and organizational health. It reviews the Company's strategy and investment policies and makes recommendations to the Board on issues of strategy adjustment. It also assesses the progress of the Company's Strategy execution plans through identification of priority areas.The Committee monitors, evaluates and reviews the Company's financial and business plans as well as the overall performance management system.

Membership
It comprises Sarah Wainaina as the Chairperson with PS-Treasury, PS-Energy, Musa Ndeto, Henry M'Narobi and Edward Njoroge as members.

Attendance
It held 4 regular and 1 special meeting in the year.

Name	Attendance
Sarah Wainaina	5
Humphrey Muhu	2
John Omenge	5
Musa Ndeto	4
Henry M'Narobi	5
Edward Njoroge	5

Human Resources

Mandate
The Committee monitors the policies and practices of KenGen in relation to the Human Resources, offers advice and recommendations on the Company's human resource strategies, initiatives and policies; and the Nomination and Remuneration of Directors and Senior Management respectively.

The Committee's duties are based on three broad functions namely the Human Resources, Nominating and Remuneration functions.

Human Resources function
The Committee:
i. continually reviews, in line with the organization's strategy; the organization structure, core functions and optimum establishment;
ii. monitors the Company's Human Resources strategy to determine whether the human resource plans and initiatives will enable the Company achieve its strategic objectives;
iii. examines policies and procedures on staff recruitment and selection process;
iv. reviews the staff training and development policy for operational efficiency and capacity enhancement;
v. examines and reviews the terms and conditions of service.
vi. examines the adequacy of performance and reward system;
vii. reviews the Company's Human Resource Policies and recommend any amendments to the Board for approval.
viii reviews the Succession Plans.

Nominating function
The Committee:
i. supports and advice the board on the appropriate size and composition that will enable it discharge its responsibilities;
ii. sets a formal and transparent procedure for selecting new directors for appointment and re-selection to the board;
iii. makes recommendations to the board on the appointment and removal of directors;
iv. identifies and proposes ways of enhancing directors' competencies;
v. develops a succession plan for the board and regularly reviews the plan;
vi. develops a process for evaluation of the performance of the board, the various committees and individual directors;
vii. ensures that there is an appropriate induction program in place for new directors and members of senior management and continuously review its effectiveness.

Remuneration function
The Committee:
i. reviews the company's remuneration, recruitment, retention, incentive and termination policies and procedures for executive directors and senior managers;
ii. considers the basic salary paid to executive directors and senior managers and any recommendations made by the chairman or managing director/ceo of the company for changes to that basic salary;
iii. considers and reviews the criteria for payment of bonuses to all staff and monitor its operation, and to consider any recommendations of the chairman or managing director/ceo of the company regarding payment bonuses or performance related remuneration;
iv. reviews succession plans for executive directors and senior managers.

Membership
It comprises George Njagi as the Chairperson with PS-Energy, Dorcas Kombo, Hedrick Omanwa, Mary Goima Michieka and Edward Njoroge as members.

The Committee is authorised by the Board to secure the attendance of external advisers at its meetings if it considers this necessary and to obtain reliable, up to date information about any of its business.

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

Name	Attendance
George Njagi	6
John Omenge	4
Dorcas Kombo	6
Hedrick Omanwa	6
Mary Goima Michieka	4
Edward Njoroge	6

G2G

Mandate
The Committee monitors the implementation of the Major Transformation Initiatives (MTIs) in relation to the G2G Strategy, provides guidance on overcoming major organisational challenges and mobilises resources to achieve the transformation targets. It also aligns the Company to the transformation strategy in its daily functions.

Membership
It comprises Musa Ndeto as the Chairperson with George Njagi, Sarah Wainaina, Henry M'Narobi, Mary Goima Michieka and Edward Njoroge as members.

Attendance
It held 3 regular meetings in the year.

Name	Attendance
Musa Ndeto	3
George Njagi	3
Sarah Wainaina	3
Henry M'Narobi	3
Mary Goima Michieka	3
Edward Njoroge	3

Procurement Oversight

Mandate
The Committee is mandated to review the proposals of the Tender Committee for contract awards for strategic procurements. It also approves all the annual procurement plans and deliberates on all the quarterly procurement reports for submission to the Board. It has the oversight role to ensure compliance to the Public Procurement and Disposal Act 2005 and the Public Procurement and Disposal Regulations 2006.

Membership
It comprises Musa Ndeto as the Chairperson with Titus Mbathi, Sarah Wainaina, Hedrick Omanwa, Dorcas Kombo and Edward Njoroge as members.

Attendance
The Committee meets once every month or as when strategic procurements need to be reviewed.

It held 19 regular meetings in the year.

Name	Attendance
Musa Ndeto	18
Titus Mbathi	18
Sarah Wainaina	19
Hedrick Omanwa	17
Dorcas Kombo	15
Edward Njoroge	19

Public Infrastructure Bond (PIB)

Mandate
The Committee was established as an ad-hoc oversight committee to oversee the implementation of the overall investment plan for the Public Infrastructure Bond (PIB) funds as outlined in the Information Memorandum.

It convenes on a quarterly basis to review the utilisation and investment performance of the PIB funds to ensure competitive returns. It is mandated to review the repayment of the PIB funds to ensure the adequacy of the cashflows and fulfilment of the repayment obligations.

Membership
It comprises Henry M'Narobi as the Chairperson with PS-Treasury, Dorcas Kombo, Musa Ndeto, Sarah Wainaina, George Njagi and Edward Njoroge as members.

Attendance
It held 4 regular and 1 special meeting in the year.

Name	Attendance
Henry M'Narobi	5
Humphrey Muhu	3
Dorcas Kombo	4
Musa Ndeto	4
Sarah Wainaina	5
George Njagi	5
Edward Njoroge	5

The Company Secretary who is a member of the Institute of Certified Secretaries of Kenya (ICPSK) is the Secretary of all the Committees of the Board.

Directors Remuneration

In accordance with guidelines provided in the State Corporations Act and the approval given by the shareholders at 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. It is proposed that each Director receives fees of Kshs.600,000 per annum for the financial year ended 30th June 2011.

No loans were granted to any non-executive Director.

Code of Conduct

Our core values of integrity, professionalism, team spirit and 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. KenGen applies these standards in all dealings with employees, customers, suppliers and other stakeholders.

The Company complies with the CMA Corporate Governance Guidelines as part of our continuing listing obligations. We also ascribe to the ethical standards prescribed by the Public Officer Ethics Act.

The Board is committed to the underlying principles of good governance as stipulated in the "Guidelines for Corporate Governance in State-Owned Corporations".

Recognition

The Company Secretary, Rebecca Miano was recognized by her peers and received the inaugural national award for the 2010 Company Secretary of the Year under the auspices of the Institute of the Public Secretaries of Kenya (ICPSK).

Engagement with Shareholders

KenGen is committed to providing regular and timely information to its shareholders. The Company publishes its interim and annual results in the local daily newspapers. In accordance with Article 137 of the Articles of Association of the Company, the Annual Report & Accounts is posted on the Company website at www.kengen.co.ke at least twenty-one(21) days before the Annual General Meeting (AGM) to ensure that all the shareholders are well informed at the AGM. The Company's revamped website also gives shareholders quick access to the corporate information.

Shareholding

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

Top Ten Shareholders as at 30 June 2011

		Number of Shares	%
1	Permanent Secretary - GOK	1,538,853,019	70.00
2	National Social Security Fund	28,927,829	1.32
3	Standard Chartered Nominees Ltd A/C 9230	10,175,300	0.46
4	Standard Chartered Nominees Ltd A/C 9098AC	8,194,631	0.37
5	CFC Stanbic Nominees Ltd A/C R10602	6,185,131	0.28
6	Standard Chartered Nominees Ltd A/C 1853	5,046,204	0.23
7	Jubilee Insurance Company of Kenya Ltd	4,571,600	0.21
8	Standard Chartered Nominees Ltd A/C 9098AP	4,379,731	0.20
9	Kensigton Developers Ltd	4,148,427	0.19
10	Standard Chartered Nominees Ltd A/C 9230	4,052,002	0.18
		1,614,533,874	73.44
	203,955 other shareholders	583,827,582	26.56
	Total	2,198,361,456	100.00

Distribution of Shareholders

Range	No. of Shareholders	Shares	% Shareholding
1 - 500	90,533	23,621,757	1.07
501 - 1,000	42,806	34,079,176	1.55
1001 - 5,000	47,941	102,534,669	4.66
5,001 - 10,000	18,709	122,455,069	5.57
10,000 - 50,000	3,315	63,546,939	2.89
50,001 -100,000	267	18,727,135	0.85
100,001 - 500,000	265	57,901,565	2.63
500,001 - 1,000,000	60	44,669,936	2.03
Above 1,000,000	69	1,730,825,217	78.73
Total	203,965	2,198,361,456	100.00

Impacting Lives through Corporate Social Responsibility

KenGen continued to reach out to Kenyans though its corporate social responsibility (CSR) program in the financial year ending June 2011.

The CSR activities were mainly aimed at improving the well-being of Kenyans, especially those who live near KenGen installations, by contributing to their economic improvement though education, conservation and peace building.

Like in the past, areas of focus were education, health, water, environment, sports and culture.

All the CSR programs were implemented in close collaboration with communities to ensure relevance and sustainability.

Peace Building

Some parts of the country, particularly the north-western region, have suffered years of insecurity occasioned by a scramble for limited resources. The result has been loss of lives and underdevelopment.

Over the years, KenGen has worked in partnership with other stakeholders to bring peace to the region. Key among last year's peace building efforts was the Great Turkwel Race & Cultural Beauty Show which sought to raise resources for peace building and improving the living conditions of vulnerable groups in the region-particularly those who live in Turkwel.

Organised in conjunction with the Tegla Loroupe Peace Foundation and Cabesi, the highly successful event attracted more than 500 participants and 26 corporate sponsors who helped to raise more than Kshs. 5 million.

In addition, KenGen also supported the Moroto Peace Race held in Moroto township, Uganda. The race is a cross-border peace-building event aimed at building trust and intercommunity relations among conflict-affected communities in the Karamojang Cluster; Karamojang, Sebei (Uganda), Kenya's North Rift (Pokot, Marakwet, Turkana, Samburu, and Sabaot) and warriors from Southern Sudan. The annual event is also aimed at consolidating gains made in peace building and guarding against rolling back towards conflict.

Education

KenGen recognizes the importance of education in bringing about positive change and continues to give scholarships to bright needy students as well as provide equipment and infrastructural support to schools.

During the last financial year, KenGen provided secondary and university scholarships to 35 students from different parts of the country.

The company donated books to the Sondu Miriu Public Library in Nyanza as a way of encouraging a reading culture.

Corporate Governance
(Continued)

Environment

Over the years, KenGen has given emphasis to environmental conservation with a view to ensuring a healthy business environment and has continued to support conservation initiatives in different parts of the country.

During the last financial year, the Company provided support to the Energy Management Awards, an initiative that promotes a culture of energy efficiency within the manufacturing and services sectors of the economy.

Health

Like in most developing countries, access to health services is still a challenge in Kenya, especially in rural areas.

During the just-ended financial year, KenGen continued to provide health services at company clinics to communities living near its installations at subsidized rates.

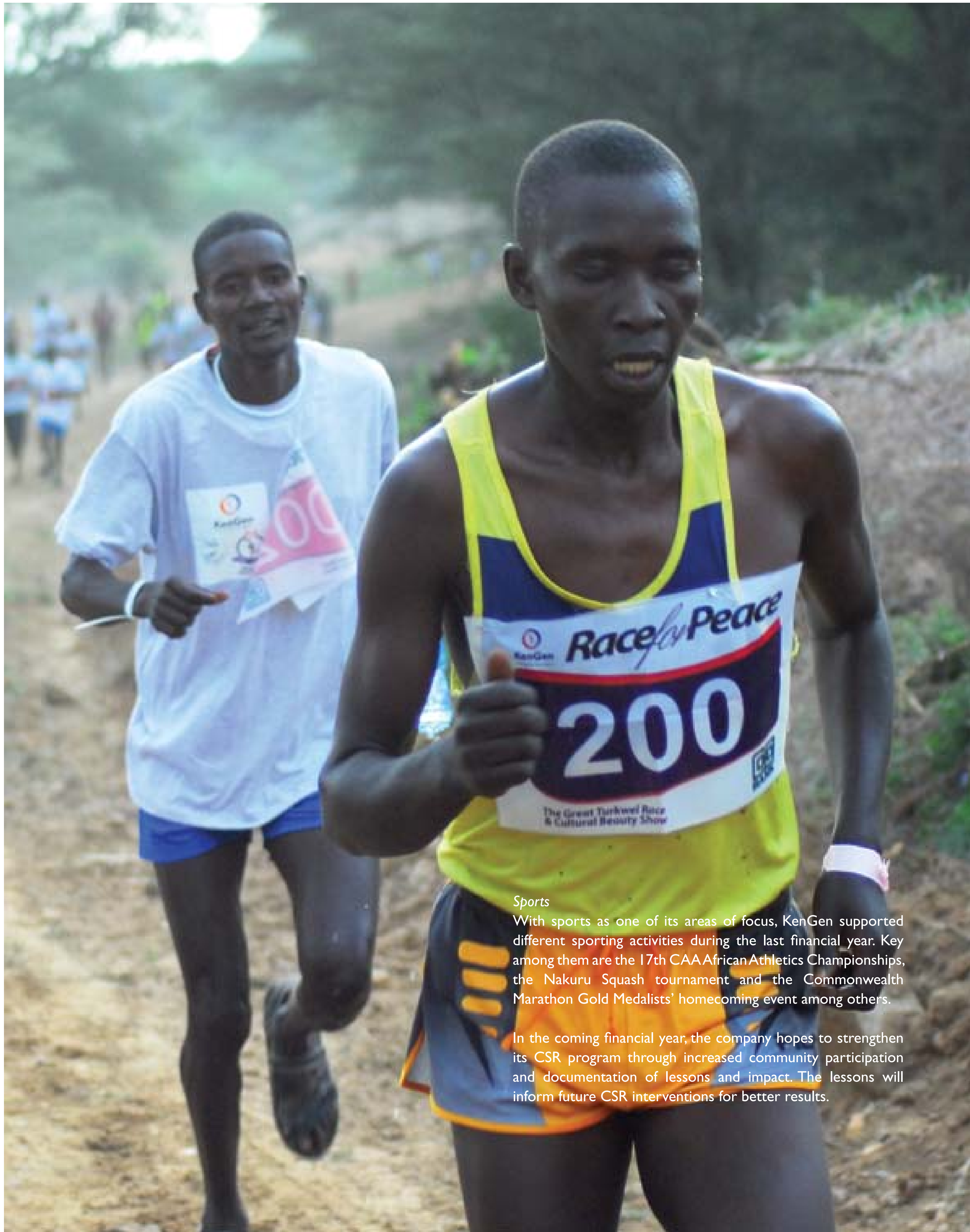
Additionally, the company supported other health initiatives aimed at improving the well-being of vulnerable groups, including medical camps and health walks aimed at addressing various types of diseases. Among initiatives supported were the Diabetes Walk 2010 and the Mater Heart Run.

Water

Rising population and climate change are having a far-reaching impact on the country's water resources and some communities have to travel long distances in search of the commodity. This scarcity has been blamed for socio-economic problems including starvation, disease and in certain cases, conflict.

One of KenGen's CSR program areas of focus is provision of water to communities through establishment of water collection points and support to water distribution infrastructure.

In the last financial year, the company provided funding for the construction of water storage tanks for Kaki Water Project in Kivaa area in Masinga Division.



Sports

With sports as one of its areas of focus, KenGen supported different sporting activities during the last financial year. Key among them are the 17th CAA African Athletics Championships, the Nakuru Squash tournament and the Commonwealth Marathon Gold Medalists' homecoming event among others.

In the coming financial year, the company hopes to strengthen its CSR program through increased community participation and documentation of lessons and impact. The lessons will inform future CSR interventions for better results.

Sustainability

"From Generation to Generation"

The Great Turkwel Peace Race

A peace building initiative to create a conducive environment for development

As a Company, we cannot be sustainable unless we continue to engage all our stakeholders. We will therefore continue to strengthen our stakeholder engagement initiatives to ensure a meaningful and mutually beneficial relationship.

1. What Sustainability means to KenGen

KenGen is committed to being a responsible corporate citizen. We recognise that we cannot operate in isolation of the environment around us. This environment is in the form of shareholders, communities, economic partners, social environment, climate change, regulatory and competition.

Kenya's sustainable economic growth depends on reliable and cost effective electric energy.

Sustainability represents the engagement of our environment to enable us to fulfil our vision, mission and strategic objectives. To sustain the operating environment, KenGen strives to positively impact its environment through its responsible corporate actions.

In this regard, KenGen is exploring all possible sources of generation mix to ensure sufficiency in power generation thereby being sensitive to the demands and needs of Kenyans.

Where we operate	
Eastern Hydros	Masinga, Gitaru, Kamburu, Kindaruma, Kiambere, Tana, Wanjii, Ndula, Mesco, Sagana
Western Hydros	Sondu, Turkwel, Gogo, Sosiani, Sang'oro
Geothermal	Olkaria, Eburru
Thermal	Kipevu, Lamu, Garissa, Nairobi
Wind	Ngong

This Sustainability Report aims to inform our stakeholders of our contribution to the well being of our neighbours in line with our transformation strategy from Generation to Generation.

2. Joint Message from the Chairman and the Managing Director & CEO

Titus Mbathi
Chairman

Edward Njoroge
Managing Director & CEO

Welcome to the first edition of our Sustainability Segment. We are proud to highlight how KenGen's business has retained its leadership in a competitive operating environment while positively impacting its stakeholders.

In the context of operating within a dynamic business environment, KenGen is on an exciting journey where relevant issues that dominate both the local and global agenda such as corporate social responsibility, climate change, carbon disclosure and renewable energy are among its priority considerations.
As a result, we now have an established generation-mix with an attractive potential for sustained growth and our commitment to maintained investment. This approach has led to strong returns to shareholders and consistent value chain to all the stakeholders.

KenGen's ultimate goal has been to become an outstanding Company with sustained high performance. We are confident that KenGen will achieve this and other important goals to continue creating value for its stakeholders.

We recognize that consideration of the environment and communities lies at the core of our operations and the development of our capacity expansion program. By taking action to address our impacts today, we set a precedent for our business to thrive in the future. We continue to focus on the key areas of our sustainability agenda – climate change, education, conservation, community engagement and renewable energy.

I wish to recognise with gratitude the vital support, confidence, loyalty and trust that we have continued to receive from our stakeholders. Needless to say, the energy sector continues to play a significant role in the region's economic developments and the support of all the parties involved is essential for the sustained growth.

3. Wealth Creation

The Company directly supported 1,663 jobs in various positions in the power plants and other essential services. KenGen business creates unrivalled value chain to all stakeholders including customers, suppliers, business partners and the communities all over Kenya. The Company is the lead supplier of electric energy in the country and thus supports direct or indirect employment in all sectors of the economy including the informal sector. It also strategically supports employment in the region and globally in the entities that supply a wide range of goods and service to the Company.

In line with Government of Kenya policy to support local suppliers and contractors to help them achieve greater expansion and sustainability, we encourage them to participate in all our procurement processes and contribute to corporate citizenship standards.

4. Stakeholder Engagement

KenGen is accountable to various stakeholders with varied interests and expectations. The Company maintains open dialogue with both the internal and external stakeholders to ensure mutual relationships for long term sustainability of its business. In this regard, various stakeholders have been identified in order to address varied interests and expectations as illustrated below:

KenGen Stakeholders

Employees	Customers	Shareholders	Government Ministries	Trade Unions	Local Communities
	Suppliers	Development Partners	Regulators		Civil Societies
	Service Providers				Media

KenGen relates with all its stakeholders in a transparent and ethical manner in line with national and international guidelines. The Company has established a feedback mechanism including periodic surveys, open forums and technical working committees with a view of strengthening its relationship with all stakeholders. It is the Company's desire to work harmoniously with its diverse stakeholders.

5. Partnership with Communities

Great Turkwel Race & Cultural Beauty Show a big success

In the early morning hours of September 25, 2010, more than 500 people who had converged on the Turkwel Gorge the previous day were ready to take part in the 10-kilometre Great Turkwel Race with one purpose: participate in building peace in the conflict-wary north-western Kenya.

For years, Turkwel and other parts of north-western Kenya have been steeped in cattle-rustling related conflict, which has cost lives and slowed development, thereby perpetuating the cycle of poverty.

As part of its corporate social responsibility, KenGen has been supporting peace and development initiatives and identified itself with various problems affecting the region. "As part of its corporate social responsibility activities, the company has been involved in peace building initiatives with a view to creating a conducive environment for development. Support to education, health and water projects has been part and parcel of our peace effort," said Managing Director & CEO Eddy Njoroge.

Together with the Tegla Loroupe Peace Foundation and ICIPE-sponsored-Cabesi, the Company organized the second edition of the Great Turkwel Race and Cultural Beauty Show to showcase the beauty of western Kenya to the rest of the world as well as to raise funds to support peace-building and development initiatives in the area.

Unlike the first race in 2006 which was purely social and served as forum for disseminating peace messages, this year's event was mainly a fund raiser targeting organizations and individuals. Chief guests included Sports Minister Paul Otuoma and Uganda's Minister of State for Minerals, Hon. Peter Lokeris.

The exciting event attracted people from all walks of life – ranging from corporate executives to warriors from the Pokot, Turkana and Marakwet communities. The race, which started at 7am, covered a 10 kilometre course and was flagged off by KenGen Chairman Hon. Titus Mbathi, CEO Eddy Njoroge and former world marathon Champion Tegla Loroupe.

Participants were drawn from corporate organizations and local communities as well as warriors who have abandoned cattle-rustling and turned into peace ambassadors.

The climax of the day was the captivating cultural beauty show which began at 8 pm staged by 24 girls from the Pokot, Turkana and Marakwet communities. The crowd cheered as each of the girls, clad in beautiful cultural attire, displayed enormous confidence and professionalism as they strut the stage. The judges had a difficult time picking the winner.

Eventually, Rosina Jeruto impressed the judges most and was declared Miss Kerio Peace Queen 2010. She pledged to use her position as Miss Kerio Peace Queen to preach peace among the pastoralist communities.

KenGen hopes to raise funds with future editions of this event to build a model high school in the area where children from all communities will live and learn together as they launch their careers through quality education.

"KenGen strongly believes that providing the youth with an education will increase their opportunities and change their outlook to life, thereby making cattle raids irrelevant," said KenGen Chairman Hon. Mbathi

6. Skills For Life

Putting a smile on vulnerable children's faces

Ikuu Special School in Chuka in Eastern Kenya is faced with the daunting task of caring for mentally challenged children. Started in 1996 as a special unit of Ikuu Primary School, the institution has grown to a national level, admitting children from different parts of the country.

However, the rising demand for its services has brought enormous challenges: The facilities are stretched to a breaking point, while the pupil-teacher ratio has tumbled. Despite the odds stuck against it, the school has continued to nurture talent among the children, thereby proving that disability is not inability as exemplified by the impressive furniture and ornaments made by the pupils.

It is this display of resilience and hope that prompted KenGen employees, in conjunction with Kenya Electrical Trade and Allied Workers' Union (KETAWU) to extend a helping hand. During a visit on 26th November 2010, KETAWU officials as well as KenGen employees donated foodstuff, 100 plastic chairs and tree seedlings.

KenGen employees based at the Eastern Hydros contributed Kshs.153,250. As per tradition, the Company augmented the employees' contribution by donating Kshs.160,000 in support of the school. The money was presented to the school during the visit.

The school principal, J.R. Nyamu, thanked KenGen and the Union for the support.

7. Supporting Livelihoods

Water projects transform lives

The KenGen-sponsored water projects in Sondu are transforming lives. With the water, some community members have set up income generation activities to not only put food on the table, but also send children to school. One of them is Idris Otieno, who lives close to the channel that links Sondu Miriu power station and Sang'oro.

With the water from the channel – constructed in 2008 - he has dug up three ponds in which he keeps two varieties of fish, mud fish and tilapia, which he sells to hotels in Kisumu.

"I had always wanted to do fish farming but it had been difficult to get water as the nearest river is three kilometers away. Now I have water on my door step and my dream is to increase the number of ponds so that I can make more money," he says.

With the money he makes from the fish, he supports his family of seven and six orphans. He is thankful to KenGen for making the water available. "Without the water, my dream would not have become a reality," he adds.

With the profit from the fish, Otieno has built a 10-roomed rental house and set up a business in the nearby Kong'ou market, and has plans of putting up another building.

The KenGen water projects benefits more than 20,000 people in Sondu, most of whom live in dry areas far away from water sources.

8. Environmental Conservation

To Hell's Gate on a wheelbarrow

Hell's Gate National Park situated in Naivasha, is home to over 67,000 wild animals of which only 5% are enclosed within the protected areas of Hell's Gate and Mt. Longonot National Parks. The other 95% roam freely on land belonging to local communities. This has resulted in both human wildlife conflict and continued human encroachment within the area.

Human encroachment has led to increased cases of human-wildlife conflict, resulting in deaths through animal attacks and a high proliferation of illegal game meat.

Over the years, KenGen has supported conservation activities in the Park which is home to its geothermal power installations. Once again, KenGen was the platinum sponsor of the 2011 Hell's Gate Wheelbarrow Race donating Kshs.3 million to raise money for the conservation of the Park.

More than Kshs.10 million was raised. The funds will be used for the construction of a fully-equipped conservation education centre at the park. The facility will play a key role in the mobilisation and sensitisation of over a million inhabitants of Naivasha on the importance of protecting and conserving

wildlife, as well educating them on alternative wildlife enterprise for their economic benefit.

9. Renewable Energy

Worldwide, global warming is leading to a variety of changes in climatic conditions, including increases in the frequency and intensity of extreme weather conditions such as drought and floods.

Kenya has not been spared the effects of this phenomenon. In the recent past, the country has witnessed extreme weather events which have impacted different spheres of life, including hydro-power generation, thereby occasioning a national power deficit.

At the same time, the fluctuating global oil prices have put to question the viability of thermal generation, which often results in run-away operating costs and electricity bills.

Yet Kenya is at a critical stage where every resource, particularly electricity, which has been described as a key driver of Vision 2030, is required to move it to the next level of development. We are therefore faced with the gargantuan task of providing electricity to power the Vision, meaning the country's future will be determined by our decisions and actions. This therefore calls for outside-the-box thinking.

Kenya is the first African country to tap geothermal power. As a Company, we have put our heads together to craft a green energy-led strategy, which we hope will cushion Kenyans from weather-induced power shortages and high power prices associated with the rising global oil prices, while ensuring availability of adequate electric power for development.

Clean energy also contributes to improved environmental quality, health and increased productivity. The increased power availability will create more opportunities for expanded rural electrification with far reaching impacts on job creation and improved livelihoods.

Over a five-year period running from 2008 to 2013, we expect to stabilize the national power supply by improving efficiency, delivering ongoing projects in a timely manner, managing peak demand and emergency power and prioritizing and kick-starting future projects. During this time, we will expand capacity by 615MW – geothermal by 318MW, thermal by 120MW, hydro by 157MW and wind by 20MW.

From 2013 to 2018, we intend to create a sustainable power growth in the country. This will be achieved through delivery of optimal future projects on time and within budget, growing supply ahead of demand to establish a reserve margin, as well as optimizing project portfolio. Over this period, we will pursue a green energy-led strategy.

To achieve our objectives, we have embarked on a programme aimed at increasing generation from geothermal and wind energy sources since they are clean, renewable and are not subject to weather variations.

Studies have shown that geothermal is available in abundance in the Rift Valley Province with a potential of 7,000MW. Although the initial investment is prohibitive, it is cheap in the long-term and will help provide affordable energy.

In Olkaria, we have begun the implementation of an ambitious 280MW project aimed at increasing our geothermal output to 315MW. The USD 1 billion fast-track project will consist of two units of 140MW each and will be completed in 2013. Recently, we launched Phase 1 of our Ngong Wind Farm. At the same time, we are working to expand our wind generation from the current 5.2MW to at least 50MW by 2014.

In addition, we have collected wind speed data in about nine sites across the country to establish whether they are viable for large scale commercial wind energy exploitation.

All these investments require an enormous amount of resources, and as a company, we are ever looking for innovative ways to raise money to build power plants.

In 2009, we launched a highly successful Public Infrastructure Bond Offer which attracted applications for Kshs.27 billion against a target of Kshs.15 billion. We were able to absorb Ksh25 billion since the bond had a Kshs.10 billion green-shoe option.

We have also been engaging with the government to provide guarantees for concessional loans to finance our green energy projects, while negotiating for favourable loans with our traditional development partners. Already, we have signed an agreement with the Japan International Cooperation Agency (JICA) for US$323 million as part of the financing for the 280 MW.

By focusing on generating power from renewable energy sources like wind, KenGen will ensure sustainable availability of affordable electricity while safeguarding the environment.

10. Carbon Credits

The Clean Development Mechanism (CDM)

KenGen is the pioneer Company in the Clean Development Mechanism (CDM) project development process in the country. The objective of the CDM is to assist industrialized countries meet their emission reduction commitments cost-effectively and help developing countries invest in clean energy projects and achieve sustainable development, thereby contributing to the global effort to stem climate change. This is also in line with Kenya's Vision 2030's objective of achieving sustainable development through clean, renewable energy.

The 35MW Olkaria II Geothermal Expansion Project is KenGen's first registered CDM project. It was registered on 4th December 2010 and the expected annual carbon credits/Certified Emission Reductions (CERs) from the project are 149,000tonnes of carbon dioxide emissions (tCO2e). The credits will be purchased by the Community Development Carbon Fund (CDCF) of the World Bank.

KenGen already received an advance payment for the Olkaria II CDM Project in June 2011 and is the first Company in Kenya to receive carbon revenue from a CDM Project. Ten percent of the total carbon revenue will be used for community projects which include water, health and education.

Other CDM projects in the pipeline:

Project	Expected Annual CERs
20MW Re-development of Tana Hydropower Project	29,000tCO_2e
20MW Optimisation of Kiambere Hydropower Project	29,000tCO_2e
5.1MW Ngong I Wind Power Project	29,000tCO_2e
280 MW Geothermal in Olkaria	Early stage of CDM development

The Company will continue developing renewable energy projects under the CDM hence displacing fossil-based electricity generation.

11. Resource Optimisation

KenGen is keen on managing the available energy production resources for sustainability. This includes optimisation of geothermal generation through maximisation of steam usage. After an optimization study was carried out to determine the potential of geothermal resource in the Olkaria I field, it was established that there was potential for an additional capacity of 140MW. As a result, KenGen has realised a new opportunity to put up a 140 MW Plant.

The Company also re-injects brine back to the steam field for re-use in power generation.

In Hydro Power Plants, the Company carries out catchment conservation activities to minimize siltation in the dams. In addition to rehabilitating and upgrading hydro-plants to optimise generation using the available water resources.
The Company has also embarked on a rigorous exercise to review its operational process in order to optimise costs and eliminate wastage.

To leverage on information technology and create efficiency, KenGen implemented the SCADA system to operate and monitor power stations. This has resulted in optimising human resources.

Financials

New capacity is funded from a combination of sources – retained earnings (reserves), new equity, borrowings, and regulated revenue and tariffs.

Report of the Directors

The directors have pleasure in presenting their report and the audited financial statements for the year ended 30 June 2011 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 (Kenya Power).

2. Results

	2011 Shs'000	2010 Restated Shs'000
Profit before tax	3,651,307	2,484,953
Taxation (charge)/credit	(1,571,186)	801,534
Profit for the year transferred to revenue reserves	2,080,121	3,286,487

3. Dividends

Subject to the approval of the shareholders, the directors recommend the payment of a final and total dividend of Shs 1.099 billion (2010: Shs 1.099 billion) for the year representing Shs 0.5 (2010: Shs 0.5) per issued ordinary share.

4. Directors

The present members of the board of directors are shown on page 10 to 12

5. Auditors

The 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 Auditor General to appoint other auditors to carry out the audit on his behalf.

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2011.

By order of the Board

Rebecca Miano - *Company Secretary*

Nairobi

26 October 2011

Statement of Directors' Responsibilities

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

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, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 in the manner required by 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 the company's 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 financial control.

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

Director **Director** **Director**

26 October 2011

Report of The Auditor-General on the Financial Statements

The accompanying financial statements of the Kenya Electricity Generating Company Limited set out at pages 49 to 89 which comprise the Statement of financial Position as at 30th June, 2011, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte & Touché, auditors appointed under Section 39 of the Public audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Auditor-General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance about 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 depend on the auditor's judgment, including the assessments of the risks of material misstatements of the financial statements, whether due to fraud of error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion the financial statements present fairly, in all material respects the financial position of the Company as at 30th June, 2011, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

Report on other Legal Requirements

As required by the Kenyan Companies Act, I report based on the audit that:

(i) In my opinion, proper books of account have been kept, by the company, so far as appears from the examination of those books: and,

(ii) The Company's Statement of Financial Position and Statement of Comprehensive Income are in agreement with the books of account.

Edward R. Ouko
Auditor-General

Nairobi

26 October 2011

Statement of Comprehensive Income | For The Year Ended 30 June 2011

	Note	2011 Shs'000	2010 (Restated) Shs'000
Revenue	4	14,389,027	10,998,429
Interest income	5	548,975	398,331
Other income	6(a)	284,094	113,683
		15,222,096	11,510,443
Other gains and losses	7	439,669	274,449
Operating costs	8	(10,013,507)	(8,558,448)
Finance costs	10	(1,996,951)	(741,491)
PROFIT BEFORE TAX	11	3,651,307	2,484,953
Taxation (charge)/credit	12(a)	(1,571,186)	801,534
PROFIT FOR THE YEAR		2,080,121	3,286,487
Other Comprehensive (Loss)/ Income			
Net (losses)/gains on revaluation of available-for-sale treasury bonds		(587,268)	1,403,400
Cumulative gain reclassified from equity on disposal of available-for-sale treasury bonds		(46,230)	(39,950)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR NET OF TAX		(633,498)	1,363,450
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,446,623	4,649,937
Earnings per share -Basic and diluted (Shs)	13	0.94	1.49

Statement of Financial Position | For The Year Ended 30 June 2011

ASSETS	Note	2011 Shs'000	2010 (Restated) Shs'000	2009 (Restated) Shs'000
Non-current assets				
Property, plant and equipment	14	116,786,429	102,230,784	92,699,405
Prepaid leases on land	15	1,373	1,417	1,446
Intangible assets	16	663,553	695,284	543,893
Amount due from Kenya Power-deferred debt	17(b)	1,472,503	1,220,570	1,064,696
Treasury bonds	18	9,610,661	6,864,340	1,545,680
Recoverable foreign exchange adjustment	19	12,919,737	6,705,077	4,220,359
Total non-current assets		141,454,256	117,717,472	100,075,479
Current assets				
Inventories	20	1,168,240	1,443,374	752,767
Amount due from Kenya Power	17(a)	7,786,396	3,590,525	5,195,179
Other receivables	21	1,593,845	4,115,238	522,366
Amount due from Ministry of Energy	22	4,574,417	1,316,384	283,589
Treasury bonds	18	391,127	519,201	1,631,485
Recoverable foreign exchange adjustment	19	523,554	250,378	120,922
Corporate tax recoverable	12(c)	385,857	282,868	141,383
Cash and cash equivalents	23(a)	3,115,598	21,331,446	4,221,990
Total current assets		19,539,034	32,849,414	12,869,681
TOTAL ASSETS		160,993,290	150,566,886	112,945,160
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	24	5,495,904	5,495,904	5,495,904
Share premium	25(a)	5,039,818	5,039,818	5,039,818
Capital reserve	25(b)	8,579,722	8,579,722	8,579,722
Investments revaluation reserve	25(c)	751,962	1,385,460	22,010
Property, plant and equipment revaluation reserve	25(d)	19,038,008	21,600,510	22,782,040
Retained earnings		30,513,173	28,429,454	25,060,618
TOTAL EQUITY		69,418,587	70,530,868	66,980,112
Non-current liabilities				
Borrowings	26(a)	64,166,527	59,636,829	25,793,197
Operating lease liability	27(b)	7,000	9,000	11,000
Retirement benefits liability	28	1,112,400	1,419,100	1,490,300
Deferred tax liability	29	15,032,183	12,001,274	12,802,808
Total non-current liabilities		80,318,110	73,066,203	40,097,305
Current liabilities				
Borrowings due within one year	26(a)	4,480,481	1,876,081	1,399,880
Trade and other payables	30	3,645,245	2,749,336	2,935,273
Amount due to Kenya Power	17(c)	13,659	5,955	8,037
Operating lease liability	27(b)	2,000	2,000	2,000
Leave pay provision	31	191,387	182,049	137,585
Dividends payable	32(a)	2,923,821	2,154,394	1,384,968
Total current liabilities		11,256,593	6,969,815	5,867,743
TOTAL LIABILITIES		91,574,703	80,036,018	45,965,048
TOTAL EQUITY AND LIABILITIES		160,993,290	150,566,886	112,945,160

The financial statements on pages 49 to 89 were approved and authorised for issue by the board of Directors on 26 October 2011 and were signed on its behalf by:

Director Director Director

Statement of Changes In Equity | For The Year Ended 30 June 2011

	Share Capital Shs'000	Share Premium Shs'000	Capital Reserve Shs'000	Investments Revaluation Reserve Shs'000	Property, plant and Equipment Revaluation Reserve Shs'000	Retained Earnings Shs'000	Foreign Currency Translation Reserve Shs'000	Total Shs'000
At 1 July 2009								
As previously reported	5,495,904	5,039,818	8,579,722	22,010	22,782,040	25,735,015	(4,341,281)	63,313,228
Prior year adjustment*	-	-	-	-	-	-	4,341,281	4,341,281
Prior year adjustment**	-	-	-	-	-	(674,397)	-	(674,397)
As restated	5,495,904	5,039,818	8,579,722	22,010	22,782,040	25,060,618	-	66,980,112
Profit for the year	-	-	-	-	-	3,286,487	-	3,286,487
Other comprehensive income for the year net of tax	-	-	-	1,363,450	-	-	-	1,363,450
Total comprehensive income for the year	-	-	-	1,363,450	-	3,286,487	-	4,649,937
Transfer of excess depreciation	-	-	-	-	(1,575,373)	1,575,373	-	-
Deferred tax on revaluation surplus	-	-	-	-	393,843	(393,843)	-	-
Dividend declared -2009	-	-	-	-	-	(1,099,181)	-	(1,099,181)
At 30 June 2010	5,495,904	5,039,818	8,579,722	1,385,460	21,600,510	28,429,454	-	70,530,868
At 1 July 2010								
As previously reported	5,495,904	5,039,818	8,579,722	1,385,460	21,600,510	28,168,569	(6,955,455)	63,314,528
Prior year adjustment*	-	-	-	-	-	-	6,955,455	6,955,455
Prior year adjustment**	-	-	-	-	-	260,885	-	260,885
As restated	5,495,904	5,039,818	8,579,722	1,385,460	21,600,510	28,429,454	-	70,530,868
Profit for the year	-	-	-	-	-	2,080,121	-	2,080,121
Other comprehensive income for the year net of tax	-	-	-	(633,498)	-	-	-	(633,498)
Total comprehensive income for the year	-	-	-	(633,498)	-	2,080,121	-	1,446,623
Transfer of excess depreciation	-	-	-	-	(1,575,373)	1,575,373	-	-
Deferred tax on revaluation surplus	-	-	-	-	472,594	(472,594)	-	-
Adjustment to deferred tax on revaluation surplus due to change in tax rate from 25% to 30%	-	-	-	-	(1,459,723)	-	-	(1,459,723)
Dividend declared - 2010	-	-	-	-	-	(1,099,181)	-	(1,099,181)
At 30 June 2011	5,495,904	5,039,818	8,579,722	751,962	19,038,008	30,513,173	-	69,418,587

*The prior year adjustment relates to reclassification of recoverable unrealised exchange differences from equity to receivables in line with IAS 18.
**Relates to adjustment for deferred tax overprovision and defined benefit obligation understatement (see note 41).

Statement of Cash Flows | For The Year Ended 30 June 2011

	Note	2011 Shs '000	2010 Shs '000
CASH FLOWS FROM OPERATING ACTIVITIES	33(a)	5,254,785	2,604,398
Income tax paid	12(c)	(102,989)	(141,485)
Interest received	33(b)	710,525	368,142
Interest paid	33(c)	(1,349,795)	(705,932)
Net cash generated by operating activities		4,512,526	2,125,123
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	(19,169,926)	(13,360,160)
Purchase of intangible assets	16	(143)	(151,391)
Payments to acquire treasury bonds		(4,544,707)	(4,434,461)
Proceeds on sale/redemption of treasury bonds		1,317,050	1,590,000
Net cash used in investing activities		(22,397,726)	(16,356,012)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,571,189)	(817,551)
Proceeds from borrowings		1,570,295	32,487,651
Dividends paid to owners of the company	32	(329,754)	(329,755)
Net cash (used in)/generated from financing activities		(330,648)	31,340,345
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(18,215,848)	17,109,456
MOVEMENTS IN CASH AND CASH EQUIVALENTS			
At beginning of the year		21,331,446	4,221,990
Net (decrease)/increase in cash and cash equivalents above		(18,215,848)	17,109,456
At end of the year	23(a)	3,115,598	21,331,446

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. Accounting Policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

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 2 (a) and 2 (c) and unless otherwise stated.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

(a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2011

Annual improvements to IFRS
Various amendments to existing standards resulting from April 2009 Annual Improvements to IFRSs were effective in the year but had no material effect on the company's financial statements. These included:

Amendments and revised standards	Effective for annual periods beginning on or after
IFRS 5, Non-current Assets Held for Sale and Discontinued Operations — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IFRS 8, Operating Segments — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IAS 1, Presentation of Financial Statements — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IAS 7, Statement of Cash Flows — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IAS 17, Leases — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
	1 January 2010
IAS 36, Impairment of Assets — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IAS 39, Financial Instruments: Recognition and Measurement — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010

2. Accounting Policies *(Continued)*

(b) Relevant new and amended standards in issue but not yet effective in the year ended 30 June 2011

Amendments IAS 24: Related Party Disclosures (2009)
The amendments to IAS 24 provide a partial exemption from related party disclosure requirements for government-related entities; clarifies the definition of a related party; and include an explicit requirement to disclose commitments involving related parties. The amendments are effective for annual periods beginning on or after 1 January 2011.

The company will apply this amendment prospectively. The directors, however, anticipate no material impact to the company's financial statements.

IAS 28, Investments in Associates and Joint Ventures (2011)
This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The standard is effective for annual periods beginning on or after 1 January 2013. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements currently. However, the company would have to apply this standard to any such arrangements entered in the course of its expansion strategy.

IFRS 9: Financial Instruments – Classification and Measurement (2010)
IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The standard is effective for annual periods beginning on or after 1 January 2015. The company will apply this amendment prospectively. The directors, however, anticipate no material impact to the company's financial statements.

IFRS 10: Consolidated Financial Statements
IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the returns.

The standard is effective for annual periods beginning on or after 1 January 2013. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements currently. However, the company would have to apply this standard to any such arrangements entered in the course of its expansion strategy.

2. Accounting Policies *(Continued)*

(b) Relevant new and amended standards in issue but not yet effective in the year ended 30 June 2011 *(Continued)*

IFRS 11: Joint Arrangements
IFRS 11 replaces IAS 31 'Interests in Joint Ventures'. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 'Investments in Associates and Joint Ventures (2011)'. Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted.

The standard is effective for annual periods beginning on or after 1 January 2013. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements currently. However, the company would have to apply this standard to any such arrangements entered in the course of its expansion strategy.

IFRS 12: Disclosure of Interests in Other Entities
IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

The standard is effective for annual periods beginning on or after 1 January 2013. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements currently. However, the company would have to apply this standard to any such interest acquired in the course of its expansion strategy.

IFRS 13: Fair Value Measurement
IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

The standard is effective for annual periods beginning on or after 1 January 2013. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements.

Notes to the Financial Statements *(Continued)*
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2. Accounting Policies *(Continued)*

(c) Early adoption of standards

The company did not early adopt any new or amended standards.

(d) Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain plant and machinery and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(e) 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. Revenue is measured at the fair value of the consideration received or receivable excluding discounts, rebates and sales taxes or duty. The following specific recognition criteria must be met before revenue is recognised:

(i) Electricity sales
Electricity sales are recognised on the basis of available capacity and energy sold to the authorised distributor's transmission systems. Revenue also includes realised foreign exchange adjustments as stipulated in the Power Purchase Agreements (PPAs).

The billing system regime has shifted from energy charging to capacity charging. The PPAs stipulates that electricity sales will be agreed upfront on capacity the company is going to produce and transmit. The capacity availability is to measure how much energy the company can transmit to Kenya Power as per the PPAs and any capacity shortage is penalized within the period. Capacity charge is meant to accelerate the company recoup the investments and focus on future expansion programs in building capacity to meet demand.

(ii) Interest
Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

(iv) Fuel pass-through revenue
Fuel pass-through revenue is accounted for in line with the provisions of the Power Purchase Agreements where the company nets off the fuel pass through revenue against the related fuel costs and recognises the fuel usage efficiency in the profit or loss.

(f) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2. Accounting Policies *(Continued)*

(f) Taxation *(Continued)*

(iv) Other taxes
Revenues, expenses and assets are recognised net of the amount of sales tax except:

Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(g) Property, plant, equipment

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. Plant and machinery class of property, plant and equipment are stated at valuation whereas the other classes of property, plant and equipment are stated at cost.

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.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Any revaluation increase arising on the revaluation of such plant and machineryt is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the companys accounting policy. Such properties, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 profit or loss in the year in which they are certified complete but unproductive. Where a well ceases to be productive before the end of its expected useful life, the net book value of the well is charged to the profit or loss in the year it ceases to be productive.

Depreciation on revalued buildings is recognised in profit or loss. An annual transfer from the asset revaluation reserve to retained earnings is made. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Depreciation is calculated on the straight-line basis and is recognised so as to write off the cost or valuation of assets (other than freehold land and Work-in progress under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Residual value, useful life and depreciation methods are reviewed at least annually at the reporting 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.

The annual depreciation rates in use are:

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

2. Accounting Policies *(Continued)*

(g) Property, plant, equipment *(Continued)*

An item of property, plant and equipment is derecognised 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.
On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(h) 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. Currently, the estimated useful life is eight years. 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 profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. 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 profit or loss when the asset is derecognised.

(i) Impairment of tangible and intangible assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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 profit or loss in the period in which they are incurred.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs. Net realisable value is the price at which the inventory can be

2. Accounting Policies *(Continued)*

realised in the normal course of business after allowing for the costs of realisation. Obsolete and defective inventories are fully written off.

(l) Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated as Available-for-sale financial assets or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The company has investments in debt securities that are traded in an active market and are stated at fair value at the end of each reporting period. The fair value of available-for-sale debt securities is determined by reference to published price quotations in an active market. Interest income calculated using the effective interest method is recognised in profit or loss except for interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets which is deducted from the borrowing costs eligible for capitalisation.

Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For Available-for-sale debt securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

2. Accounting Policies *(Continued)*

(l) Financial instruments *(Continued)* | Financial assets *(Continued)*

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 40 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Impairment of financial assets (Continued)
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an Available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets
The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the company retains control), the company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments
Classification as debt or equity
Debt and equity instruments issued by the company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

2. Accounting Policies *(Continued)*

(l) Financial instruments *(Continued)* | Financial liabilities and equity instruments *(Continued)*

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at fair value through profit or Loss' or 'other financial liabilities'.

Other financial liabilities
Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities
The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(m) 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 cost of providing benefits under the defined benefit plans is determined using the attained age method.

Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the scheme. The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension scheme, past service costs are recognised immediately.

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 Shs. 200 per month per employee. The company's contributions in respect of retirement benefit costs are charged to the profit and loss in the year to which they relate.

ii) Other entitlements
The monetary benefits for employees' accrued annual leave entitlement at the reporting date are recognised as a provision.

(n) Accounting for leases

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

The company as lessor
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 an operating lease 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
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Dividends on ordinary shares

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

2. Accounting Policies *(Continued)*

(p) 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 recognised in profit or loss 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 statement of financial position by deducting the related grant in arriving at the carrying amount of the asset.

(q) Foreign currencies

The financial statements are presented in Kenya Shillings, which is the company's functional and reporting currency.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The company does not have any foreign operations.

(r) Provisions

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

3. Critical Accounting Judgements And Key Sources Of Estimation Uncertainty

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see 3 (b) below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Held-to-maturity financial assets
The directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is 2,448 million (30 June 2010: nil). Details of these assets are set out in note 18.

b) Key sources of estimation uncertainty

Useful lives of property, plant and equipment
The company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the financial year, no changes to the useful lives were identified by the Directors.

Impairment losses
At each reporting period end, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

3. Critical Accounting Judgements And Key Sources Of Estimation Uncertainty *(Continued)*

b) Key sources of estimation uncertainty *(Continued)*

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 statement of profit or loss.

4. Revenue

	2011 Shs'000	2010 (Restated) Shs'000
Electricity sales:-		
- Capacity charges revenue	12,217,021	9,219,329
- Energy revenue	1,211,653	869,440
Power Purchase Agreements' adjustments		
- Capacity shortfall	-	(269,880)
- Foreign currency adjustment payments	897,407	968,195
	14,326,081	10,787,084
Revenue from Emergency Power Project (EPP)	62,946	211,345
	14,389,027	10,998,429

5. Interest Income

	2011 Shs'000	2010 Shs'000
Treasury bonds	507,762	234,220
Other receivables	3,510	43,212
Banks and other financial institutions	37,703	120,899
	548,975	398,331

The following is an analysis of interest income earned on financial assets by category of asset

	2011	2010
Available-for-sale treasury bonds	288,341	234,220
Held-to-maturity treasury bonds	219,421	-
Loans and receivables (including cash and bank balances)	41,213	164,111
	548,975	398,331

6. Other Income

	2011	2010
(a) Consultancy services	51,435	27,953
Miscellaneous income	43,256	24,690
Sale of fuel	-	49,925
Net fuel pass-through (Note 6 (b))	189,403	11,115
	284,094	113,683

	2011	2010
(b) Net fuel pass-through		
Fuel pass-through revenue	6,148,072	5,835,258
Fuel pass-through costs	(5,958,669)	(5,824,143)
	189,403	11,115

In line with the provisions of the Power Purchase Agreements, the company is reimbursed by Kenya Power for 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.

7. Other Gains And Losses

	2011 Shs'000	2010 (Restated) Shs'000
(a) Foreign exchange gain on other monetary items excluding borrowings	478,673	275,629
Cumulative gain reclassified from equity on disposal of available-for-sale investments	46,230	39,950
Loss on disposal of available-for-sale investments	(22,142)	(41,130)
Loss on impairment of property, plant and equipment	(63,092)	-
Unrealized foreign exchange differences on revaluation of borrowings	(6,802,871)	(2,758,474)
Recoverable foreign exchange differences (note 7(b))	6,802,871	2,758,474
	439,669	274,449

(b) Recoverable foreign exchange differences

In line with the provisions of the Power Purchase Agreements (PPA), the company is compensated by the power consumer through Kenya Power for foreign exchange losses incurred as a result of fluctuations in foreign exchange rates relative to the base values of the Kenya Shillings to foreign currencies agreed at the time of signing the PPA. Exchange gains are credited to the consumer through Kenya Power.

8. Operating Costs

	2011 Shs'000	2010 (Restated) Shs'000
Staff costs (note 9)	2,890,984	2,677,510
Depreciation (note 14)	4,549,805	3,829,169
Plant operation and maintenance	919,863	830,407
Welfare and training	464,729	337,619
Amortization - Prepaid leases on leasehold land (note 15)	44	29
- Intangible assets- software (note 16)	31,874	-
Insurance	278,901	210,006
Catchment preservation and dam maintenance	107,000	107,000
Transport and travelling costs	275,180	254,932
Consultants fees	111,701	37,452
Office expenses	115,925	98,616
Other costs	267,501	175,708
	10,013,507	8,558,448

9. Staff Costs

Salaries and wages	2,868,708	2,311,805
Leave pay allowance	72,865	110,866
Pension (gain)/cost - Defined benefit scheme	(56,400)	249,000
- National Social Security Fund	5,811	5,839
	2,890,984	2,677,510

	2011 Numbers	2010 Numbers
The number of persons employed by the company at the year end was	1,663	1,658

10. Finance Costs

	2011 Shs'000	2010 Shs'000
Interest on borrowings	4,394,494	2,813,080
Interest on bank overdrafts	1,959	20,704
Total interest expense	4,396,453	2,833,784
Less: capitalized interest	(2,399,502)	(2,092,293)
	1,996,951	741,491

11. Profit Before Tax

	2011 Shs'000	2010 Shs'000
Profit before tax is arrived at after charging:		
Amortisation of intangible assets	31,874	-
Amortisation of prepaid lease	44	29
Impairment losses	63,092	-
Adjustments to property, plant and equipment	384	33
Non executive Directors' emoluments - Fees	6,000	6,000
- Others	17,545	16,413
Auditor's remuneration	4,344	5,000
Operating lease rentals	79,270	57,209
Interest on borrowings	1,996,951	741,491
And after crediting:		
Interest income	(548,975)	(398,331)

12. Taxation

(a) Taxation charge/(credit)

	2011 Shs'000	2010 (Restated) Shs'000
Current taxation based on the adjusted profit at 30% (2010: 25%)	-	-
Deferred tax charge/(credit) (note 29)	1,571,186	(801,534)
	1,571,186	(801,534)

(b) Reconciliation of expected tax based on accounting profit to taxation charge

	2011 Shs'000	2010 (Restated) Shs'000
Profit before taxation	3,651,307	2,484,953
Tax applicable rate of 30% (2010: 25%)	1,095,392	621,238
Tax effect of income not subject to tax	(7,283)	(295)
Tax effect of capital allowances exceeding 100% of cost	(509,218)	(1,433,055)
Tax effect of expenses not deductible for tax purposes	51,763	10,578
Effect on deferred tax balances due to the change in tax rate from 25% to 30%	940,532	-
Total taxation charge/(credit)	1,571,186	(801,534)

	2011 Shs'000	2010 Shs'000	2009 Shs'000
(c) Corporate tax movement			
Balance brought forward	282,868	141,383	73,190
Paid during the year	102,989	141,485	68,193
	385,857	282,868	141,383

13. Earnings Per Share

Basic earnings per share is 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 is 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.

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

13. Earnings Per Share *(Continued)*

	2011	2010 (Restated)
Profit attributable to ordinary shareholders for basic earnings (in Shs'000)	2,080,121	3,286,487
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 Shs)	0.94	1.49

14. Property, Plant And Equipment

30 June 2011

	Freehold land and buildings Shs'000	Trans- mission lines Shs'000	Plant & machinery Shs'000	Motor vehicles Shs'000	Furniture, Equipment & fittings Shs'000	Work- in- progress Shs'000	Total Shs'000
COST /VALUATION							
At 1 July 2010	18,299,235	81,061	93,904,430	595,675	2,216,984	15,405,859	130,503,244
Additions	-	-	-	-	-	19,169,926	19,169,926
Transfers from WIP	3,018,025	21,686	10,195,339	168,554	258,598	(13,662,202)	-
Reclassification	(524,700)	(3,331)	354,010	-	174,021	-	-
Adjustments*	(1,768)	-	-	-	-	-	(1,768)
At 30 June 2011	20,790,792	99,416	104,453,779	764,229	2,649,603	20,913,583	149,671,402
DEPRECIATION							
At 1 July 2010	4,336,618	8,357	21,988,827	346,029	1,592,629	-	28,272,460
Charge for year	497,421	3,562	3,739,163	140,098	169,561	-	4,549,805
Impairment losses	-	-	63,092	-	-	-	63,092
Adjustments*	(365)	-	(19)	-	-	-	(384)
At 30 June 2011	4,833,674	11,919	25,791,063	486,127	1,762,190	-	32,884,973
NET BOOK VALUE							
At 30 June 2011	15,957,118	87,497	78,662,716	278,102	887,413	20,913,583	116,786,429

30 June 2010

	Freehold land and buildings Shs'000	Trans- mission lines Shs'000	Plant & machinery Shs'000	Motor vehicles Shs'000	Furniture, Equipment & fittings Shs'000	Work- in- progress Shs'000	Total Shs'000
COST/VALUATION							
At 1July 2009	15,826,045	81,061	84,911,431	439,290	2,064,096	13,820,806	117,142,729
Additions	-	-	-	-		13,360,160	13,360,160
Transfers from work - in-progress	2,471,420	-	8,993,019	156,385	152,888	(11,773,712)	-
Adjustments*	1,770	-	(20)	-	-	(1,395)	355
At 30 June 2010	18,299,235	81,061	93,904,430	595,675	2,216,984	15,405,859	130,503,244
DEPRECIATION							
At 1 July 2009	3,924,270	5,264	18,762,099	268,013	1,483,678	-	24,443,324
Charge for year	412,003	3,093	3,237,442	78,016	98,615	-	3,829,169
Adjustments*	345	-	(10,714)	-	10,336	-	(33)
At 30 June 2010	4,336,618	8,357	21,988,827	346,029	1,592,629	-	28,272,460
NET BOOK VALUE							
At 30 June 2010	13,962,617	72,704	71,915,603	249,646	624,355	15,405,859	102,230,784
At 30 June 2009	11,901,775	75,797	66,149,332	171,277	580,418	13,820,806	92,699,405

*Relates to correction of errors made in prior years.

Notes to the Financial Statements *(Continued)*
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14. Property, Plant And Equipment *(Continued)*

Plant and machinery were last revalued on 30 June 2005, by CB Richard Ellis International valuers, on a depreciated replacement cost basis. Their report was issued on 21 May 2007.

The company land is located in the following power stations:

- Olkaria I and II
- Gitaru
- Kiambere
- Mesco
- Masinga
- Turkwel
- Sondu Miriu
- Kamburu
- Sosiani
- Tana
- Nairobi South
- Wanjii
- Tana
- Kipevu I and III
- Kindaruma
- Gogo
- Sagana
- Garissa
- Ndula
- Ndula
- Lamu

15. Prepaid Leases On Leasehold Land

	2011 Shs'000	2010 Shs'000	2009 Shs'000
COST			
At start of the year	1,768	1,768	1,768
PREPAID LEASE EXPENSES			
At start of the year	351	322	293
Prepaid lease expense for the year	44	29	29
At close of the year	395	351	322
NET BOOK VALUE			
At close of the year	1,373	1,417	1,446

16. Intangible Assets

	2011	2010	2009
COST			
At start of the year	695,284	543,893	303,751
Additions	143	151,391	240,142
At close of the year	695,427	695,284	543,893
AMORTIZATION			
At start of the year	-	-	-
Charge for the year	(31,874)	-	-
	(31,874)	-	-
At close of the year	663,553	695,284	543,893

Intangible asset relates to costs incurred towards the installation of the Scada software at the power stations. Amortisation has been charged on these assets from the time they became available for use.

17. Related Party Transactions

The company is 70% owned by the Government of Kenya. The remaining 30% of the shares are widely held. The company main related parties are the Government of Kenya and Kenya Power. Kenya Power is the authorised electricity distributor in Kenya with its majority shareholder being the Government of Kenya.

	2011 Shs'000	2010 Shs'000	2009 Shs'000
(a) Amount due from Kenya Power	7,786,396	3,590,525	5,195,179
(b) Amount due from Kenya Power-deferred debt	1,472,503	1,220,570	1,064,696

The average credit period on amounts due from Kenya Power is 40 days. No interest is charged on the receivables for the first 40 days from the date of the invoice. Thereafter, interest is charged at the Central Bank of Kenya rate on the outstanding balance. Allowances for doubtful debts are recognised against receivables which remain partially or fully unserviced for one year and when a debt is under dispute based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The deferred debt from Kenya Power relates to the foreign component of project costs for land, other costs, transmission lines and substations on the Sondu Miriu project implemented by the company on behalf of Kenya Power under a management agreement. The debt is payable over a duration of 30 years commencing on 15 August 2014 to 15 August 2044. The effective interest rate on the deferred debt during the year was 0.74% (2010 0.74%, 2009 0.74%).

Japan Bank for International Corporation funded the foreign component of the Sondu Miriu project under the loan agreement between the Japan Bank for International Corporation, and the company. The loan balance of Shs 1,472,503,000 (2010 Shs 1,220,570,000, 2009 Shs 1,064,696,000) is payable over a duration of 30 years commencing 20 February 2014 to 20 February 2044 and is included in the loans disclosed under note 26 of these financial statements. Interest accrues at 0.75% per annum.

	2011 Shs'000	2010 Shs'000	2009 Shs'000
(c) Amount due to Kenya Power	13,659	5,955	8,037

(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:

	2011 Shs'000	2010 Shs'000
(i) Electricity sales to Kenya Power	13,428,674	9,818,889
Realised foreign exchange adjustments	897,407	968,195
	14,326,081	10,787,084
Fuel pass-through	6,148,072	5,835,258
(ii) Electricity purchases from Kenya Power	133,152	128,440

Terms and conditions of transactions with related parties
The deferred debt from Kenya Power is payable in 60 equal semi-annual instalments at an interest rate of 0.75% per annum.

The sales to Kenya Power are made in accordance with the signed Power Purchase Agreements whereas the purchases from Kenya Power are made at normal market prices. Outstanding balances at the year-end are unsecured and settlement occurs in cash.

17. Related Party Transactions *(Continued)*

(d) Related party transactions *(Continued)*

	2011 Shs'000	2010 Shs'000	2009 Shs'000
(iii) Government of Kenya (Ministry of Energy):			
Funds received for Geothermal Resource Assessment	-	22,300	4,472,700
Interest expense on project borrowings	-	-	437,100
Geothermal Resource Assessment advance	525,761	1,130,250	4,730,738
Geothermal Development Company	2,732,272	-	-

Other details relating to balances with the Government of Kenya (Ministry of Energy) are disclosed in notes 22, 26 and 35.

	2011 Shs'000	2010 Shs'000
(iv) Staff advances	108,674	88,663

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

	2011 Shs'000	2010 Shs'000
(v) Executive directors and key management compensation		
Salaries and wages	60,597	63,933
Pension scheme contributions	-	17
Other allowances	34,943	21,922
	95,540	85,872
Non-executive directors' emoluments		
- Fees	6,000	6,000
- Others	17,545	16,413
	23,545	22,413

18. Treasury Bonds

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Available-for-sale treasury bonds carried at fair value	7,552,800	7,383,541	3,177,165
Held-to-maturity treasury bonds carried at amortised cost	2,448,988	-	-
	10,001,788	7,383,541	3,177,165
Maturity analysis of treasury bonds			
- Within one year	391,127	519,201	1,631,485
- After one year but within two years	493,964	995,014	79,292
- After two years but within five years	140,626	174,392	1,466,388
- After five years	8,976,071	5,694,934	-
	10,001,788	7,383,541	3,177,165
Less current portion	(391,127)	(519,201)	(1,631,485)
Non-current	9,610,661	6,864,340	1,545,680
Weighted average interest rate	9.31%	11.22%	8.49%

At 30 June 2011 no impairment losses have been recognised for treasury bonds (30 June 2010: Nil).

None of these assets had been past due or impaired at the end of the reporting period.

Out of the total treasury bonds of Shs 10.001 billion (30 June 2010 Shs 7.383 billion), Shs 634 million (30 June 2010 Shs 834 million) are held under lien by Kenya Commercial Bank.

19. Recoverable Foreign Exchange Adjustment

(a) Recoverable foreign exchange adjustment relates to unrealised exchange differences on foreign denominated borrowings recoverable from the power consumers through Kenya Power when realised. The Power purchase Agreement ("PPA") with Kenya Power, allows the company to bill and recover all realised foreign currency fluctuations relative to the base rates allowed by the PPA.

(b) The movement in recoverable/(payable) foreign exchange adjustment is as follows:

	2011 Shs'000	2010 Shs'000	2009 Shs'000
At beginning of the year	6,955,455	4,341,281	(1,109,627)
Unrealised exchange losses in the year (note 26)	6,802,871	2,758,474	5,635,658
Realised exchange losses on loan repayment (note 26)	(315,035)	(144,300)	(184,750)
At the end of the year	13,443,291	6,955,455	4,341,281
Less current portion	(523,554)	(250,378)	(120,922)
Non-current	12,919,737	6,705,077	4,220,359

20. Inventories

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Fuel	596,314	928,723	243,252
General stores	67,294	49,125	55,103
Machinery spares	425,990	371,459	376,218
Goods-in-transit	78,642	94,067	78,194
	1,168,240	1,443,374	752,767

21. Other Receivables

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Receivable from staff	25,508	48,718	67,430
Payments made on behalf of third parties*	391,487	651,133	-
Other receivables and prepayments	793,676	748,168	255,607
Advance payments**	383,174	2,667,219	199,329
	1,593,845	4,115,238	522,366

*Payments made on behalf of third parties mainly relate to recoverable payments made by the company on behalf of Aggreko International Projects, an Emergency Power Project administered by the company as commission agent.

**Advance payments mainly relate to prepayments for purchase of machinery spares.

None of these assets had been past due or impaired at the end of the reporting period.

22. Amount Due From Ministry of Energy

	2011 Shs'000	2010 Shs'000	2009 Shs'000
(a) Geothermal Resource Assessment funds			
As at July 1	1,316,384	283,589	25,551
Received during the year	-	(22,300)	(4,472,700)
Interest receivable	-	(75,155)	-
Advances during the year	525,761	1,130,250	4,730,738
As at 30 June	1,842,145	1,316,384	283,589
(b) Geothermal Development Company			
As at July 1	-	-	-
Interest receivable	105,307	-	-
Advances during the year	2,626,965	-	-
As at 30 June	2,732,272	-	-
Total Due	4,574,417	1,316,384	283,589

These amounts relate to application of Geothermal Resource Assessment funds and advances to Geothermal Development Company Limited for the purpose of exploration, exploitation and development of geothermal resources in the country. The company acts on behalf of the Ministry of Energy in undertaking the activities pertaining to this project.

The balance as at 30 June represents amounts expended by the company on the project in excess of the amounts received from the Ministry of Energy. These amounts are receivable from the Ministry of Energy.

23. Cash And Cash Equivalents

	2011 Shs'000	2010 Shs'000	2009 Shs'000
a) Analysis of bank and cash balances			
Cash at bank and on hand	1,894,001	15,024,786	4,189,491
Short term bank deposits – Held to maturity	1,221,597	6,306,660	32,499
	3,115,598	21,331,446	4,221,990

b) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

c) Short-term bank deposits – Held-to-maturity

The short-term bank deposits mature within 90 days from the date of placement.

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Term deposits – at amortised cost	1,000,000	4,155,700	32,499
Call deposits - at amortised cost	221,597	2,150,960	-
	1,221,597	6,306,660	32,499

The weighted average interest rates earned on the short-term bank deposits during the year was 4.59% (2010: 7.25%, 2009: 8.65%).

Term deposit of Shs 15,834,000 (2010 Shs 15,066,000, 2009 Shs 32,499,000) are held by Housing Finance Company Limited as security against current house loans by members of staff under the discontinued staff housing scheme.

24. Share Capital

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Authorised: 2,215,927,528 ordinary shares of Shs 2.50 each	5,539,819	5,539,819	5,539,819
Issued and fully paid: 2,198,361,456 ordinary shares of Shs 2.50 each	5,495,904	5,495,904	5,495,904

25. Reserves

(a) 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.

(b) The capital reserve relates to development surcharge received from Kenya Power for financing the development of certain power projects for the period 1997 and prior years. The directors do not currently intend to make any distribution from the capital reserve.

(c) The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

(d) The Property, plant and equipment revaluation reserve arises on the revaluation of plant and machinery. When revalued property, plant and equipment are disposed, the portion of the plant and machinery revaluation reserve that relates to that asset is transferred directly to retained earnings.

26. Borrowings

(a) Analysis of interest bearing borrowings:

	Maturity Year	2011 Shs'000	2010 Shs'000	2009 Shs'000
Government of Kenya Guaranteed				
2.6% Japan Bank for International Cooperation KE P20 2005/2025 (JPY 5,954,424,000)	2025	6,642,285	5,899,122	5,535,494
2.3% Japan Bank for International Cooperation KE P21 2007/2027 (JPY 5,411,104,000)	2027	6,036,200	5,316,175	4,947,161
0.75% Japan Bank for International Cooperation KE P23 2014/2044 (JPY 10,554,000,000)	2044	11,773,209	9,758,914	8,509,772
0.75% Japan Bank for International Cooperation KE P24 (approved JPY 5,620,000,000), Disbursed JPY 2,902,878,225)	2047	3,238,222	1,626,282	891,999
On lent				
7.7% International Development Association 2003/2018 (USD 51,080,130)	2018	4,590,260	4,782,075	5,165,248
7.7% Kreditanstalt Fur Wiederaufbau 2004/2019 (Euro 795,302)	2019	103,556	90,183	110,766
4.5% International Development Association Credit IDA 3958, 2010/2027(USD 27,134,309)	2027	2,436,091	2,053,502	850,042
1.5% KBC Bank loan (Belgium) Ngong Wind Power (Euro 10,534,359)	2023	1,371,679	1,132,081	1,029,814
3.5% International Development Association IDA 4743 KE (USD 862,500)	2035	77,508	-	-
Direct borrowings				
2.7% Agence Francaise de Development (AFD) (EURO 20,000,000)	2024	2,604,200	2,001,089	-
5.9% European Investment Bank (USD 45,870,750)	2025	4,122,124	3,891,034	-
12.5% Public Infrastructure Bond (Shs. 25,000,000,000)	2019	24,816,178	24,774,113	-
		67,811,512	61,324,570	27,040,296
Accrued interest		835,496	188,340	152,781
Total borrowings		68,647,008	61,512,910	27,193,077
Less: Amounts due within 12 months		(4,480,481)	(1,876,081)	(1,399,880)
Non-current borrowings		**64,166,527**	**59,636,829**	**25,793,197**

26. Borrowings *(Continued)*

(b) Borrowings maturity analysis:

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Due within 1 year	4,480,481	1,876,081	1,399,880
Due between 1 and 2 years	1,687,740	1,687,740	1,247,099
Due between 2 and 5 years	5,063,221	5,063,221	3,741,297
Due after 5 years	57,415,566	52,885,868	20,804,801
	68,647,008	61,512,910	27,193,077

(c) Analysis of loans by currency:

	Borrowings in US$ Shs'000	Borrowings in JPY Shs'000	Borrowings in EUR Shs'000	Borrowings in Shs Shs'000	Total Shs Shs'000
Loans 30 June 2011	11,378,794	27,817,857	4,103,356	25,347,001	68,647,008
Loans 30 June 2010	7,444,362	22,175,455	7,118,980	24,774,113	61,512,910
Loans 30 June 2009	6,015,290	20,037,206	1,140,581	-	27,193,077

Securities

The Government of Kenya guaranteed and the on-lent borrowings have no securities held as the Government of Kenya is the guarantor. The Public Infrastructure Bond is unsecured.

The securities held for the European Investment Bank and the Agence Francaise de Development borrowings are a fixed charge over all rights, title and interest of the company in and to (a) all the land, (b) all the real property including power plant buildings and structure at the Olkaria II geothermal power plant, a fixed charge over the plant, machinery and other infrastructure at the Olkaria II geothermal power plant and an assignment of the benefits of proceeds of insurance in connection with the project.

(d) The movement in borrowings is as follows:

	2011 Shs'000	2010 Shs'000	2009 Shs'000
At beginning of the year	61,324,570	27,040,296	20,796,609
Received in the year	1,570,295	32,487,651	2,422,590
Repaid in the year	(1,571,189)	(817,551)	(1,629,811)
Realised exchange losses on repayment(note 19)	(315,035)	(144,300)	(184,750)
Unrealised exchange losses in the year(note 19)	6,802,871	2,758,474	5,635,658
At the end of the year	67,811,512	61,324,570	27,040,296
Add accrued interest (note 33(c))	835,496	188,340	152,781
Total borrowings at the end of the year	68,647,008	61,512,910	27,193,077

(e) World Bank financing credit line IDA 3958 KE:

(i) The company received financial support from the World Bank Credit No. 3958- KE 3958 dated 4 August 2004 to support implementation of the Energy Sector Recovery Project. Shs 2,436,090,719 (US$ 27,108,669) has been disbursed under this credit line to date as disclosed in note 26(a). 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:

26. Borrowings *(Continued)* | (e) World Bank financing credit line IDA 3958 KE: *(Continued)*

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Balance at the beginning of the year	36,093	45,351	39,727
Amounts received during the year	83,418	136,585	69,573
Interest income	(7,231)	1,591	4,870
Expenditure during the year	(45,618)	(147,434)	(68,819)
Balance at the end of the year	66,662	36,093	45,351

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.

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

(ii) The company received financial support from the World Bank Credit No. 4743- KE dated 1st October 2010 to support implementation of the Kenya Energy Expansion Project (KEEP). Summary information on transactions during the year is as follows:

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Amounts received during the year	77,508	-	-
Balance at the end of the year	77,508	-	-

The closing balance shown above is included in cash and cash equivalents and represents the balances outstanding on the World Bank funded designated Account No. 0810296571876 held at the Equity Bank Ltd. Kshs 77,507,614(US$ 862,500) has been disbursed under this credit line to date as disclosed in note 26(a).

The disbursements to the Special Account have not been expended as at 30 June 2011.

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

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Direct payments from letter of credit	249,629	1,038,291	415,436

27. Operating Lease Commitments

(a) AS LESSEE

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

	2011 Shs'000	2010 Shs'000
Within 1 year	15,089	23,845
After 1 year but not later than 5 years	36,421	34,854
	51,510	58,699

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.

27. Operating Lease Commitments *(Continued)*

(b) AS LESSOR

The company leased out geothermal wells OW 101 and OW 306 to Oserian Development Company Limited for a period of 15 years at a cost of Shs 15,000,000 per well receivable in advance.

The advance receipts have been accounted for as shown below:

	2011 Shs'000	2010 Shs'000	2009 Shs'000
At beginning of year	11,000	13,000	15,000
Charge to profit or loss	(2,000)	(2,000)	(2,000)
At end of the year	9,000	11,000	13,000
Less current portion	(2,000)	(2,000)	(2,000)
Non-current portion	7,000	9,000	11,000
Maturity analysis of operating lease commitments as lessor:			
Within 1 year	2,000	2,000	2,000
After 1 year but not later than 5 years	7,000	8,000	9,000
After 5 years	-	1,000	2,000
	9,000	11,000	13,000

This amount is amortised annually on a straight-line basis over the remaining life of the lease.

28. Retirement Benefits Liability

Up to 31 December 2000, the company operated a joint defined benefit scheme with Kenya Power, 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.

Under the plan, the employees are entitled to retirement benefits of 3% of Final Pensionable Emoluments for Pensionable Service upto 1 January 2000 and 2% of Final Pensionable Emoluments for Pensionable Service after 1 January 2000 on attainment of a retirement age of 60 years. No other post-retirement benefits are provided to these employees. In addition, these disclosures reflect the changes to the employer's retirement policy to reflect a revised retirement age of 60 years from a prior year retirement age of 55 years.

A valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2009 by Ms Alexander Forbes Financial Services EA Limited for statutory purposes. An actuarial valuation to fulfill the Disclosure requirements of IAS19 was also carried out as at 30 June 2011. On this basis, the present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Valuation at	2011 %	2010 %	2009 %
Discount rate(s)	13%	10%	10%
Expected return on plan assets*	TBD	10%	10%
Expected rate(s) of salary increase	11%	8%	8%
Expected return on reimbursement rights	n/a	n/a	n/a
Pension Increases - Kenya Power Service	3%	3%	3%
Pension Increases - KenGen Service	0%	0%	0%

*As this will impact the Expected Return on Plan Assets to 30 June 2012, Management have not as yet determined this figure and will do so at the end of the financial year.

28. Retirement Benefits Liability *(Continued)*

	2011 Shs'000	2010 Shs'000
Current service cost	125,600	110,500
Interest on obligation	539,000	475,600
Expected return on plan assets	(421,300)	(337,100)
Past service cost	(299,700)	-
Adjustments for restrictions on the defined benefit asset	(56,400)	249,000

The expense for the year is included in the employee benefits expense in the statement of comprehensive income.

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Present value of funded defined benefit obligation	4,832,100	5,367,500	4,737,700
Fair value of plan assets	(4,668,600)	(4,127,800)	(3,247,400)
	163,500	1,239,700	1,490,300
Present value of unfunded defined benefit obligation	-	-	-
Net underfunding	163,500	1,239,700	1,490,300
Net actuarial gains not recognized	948,900	179,400	-
Net liability arising from defined benefit obligation	1,112,400	1,419,100	1,490,300

Part of the defined benefit liability amounting to Shs 379 million is a claim from Kenya Power which is a subject of ongoing discussions between the company and Kenya Power as provided for by an agreement for transfer of schemes assets and liabilities executed by all the parties in 2004. The disputed amount has therefore been recognised as a contingent asset in accordance IAS 37 (note 35 (b)).

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2011 Shs'000	2010 Shs'000
Opening defined benefit obligation	5,367,500	4,737,700
Current service cost	125,600	110,500
Interest cost	539,000	475,600
Contributions from plan participants	50,100	64,100
Actuarial (gains)/losses	(819,700)	117,400
Past service cost	(299,700)	-
Benefits paid	(130,700)	(137,800)
Closing defined benefit obligation	4,832,100	5,367,500

Movements in the present value of the plan assets in the current year were as follows.

	2011 Shs'000	2010 Shs'000
Opening fair value of plan assets	4,127,800	3,247,400
Expected return on plan assets	421,300	337,100
Actuarial (losses)/gains	(50,200)	296,800
Contributions from the employer	250,300	320,200
Contributions from plan participants including AVCs	50,100	64,100
Benefits paid	(130,700)	(137,800)
Closing fair value of plan assets	4,668,600	4,127,800

28. Retirement Benefits Liability *(Continued)*

The major categories of plan assets, and the expected rate of return at the end of the reporting period for each category, are as follows:

	Expected return 2011 %	Expected return 2010 %	Fair value of plan assets 2011 Shs'000	Fair value of plan assets 2010 Shs'000
Equity instruments	N/A	15.0%	1,073,600	858,000
Debt instruments	N/A	10.0%	1,521,000	1,672,900
Property	N/A	7.5%	1,775,200	1,405,300
Offshore Investments		7.5%	242,100	187,900
Cash	N/A	0.0%	56,700	3,700
Weighted average expected return	N/A	10.1%	4,668,600	4,127,800

	2011 Shs'000	2010 Shs'000
The actual return on plan assets in the year was	371,100	633,900
The plan assets include ordinary shares of KenGen Limited with a fair value of	33,046	37,429

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Present value of defined benefit obligation	4,832,100	5,367,500	4,737,700
Fair value of plan assets	(4,668,600)	(4,127,800)	(3,247,400)
Deficit	163,500	1,239,700	1,490,300

29. Deferred Tax Liability

Deferred taxes are calculated on all temporary differences under the liability method using the applicable rate, currently at 30% (2010 - 25%, 2009 – 25%). The makeup of the deferred tax liabilities in the year and the movement on the deferred tax account during the year are presented below:

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Deferred tax assets:			
Tax losses	(6,417,053)	(3,686,570)	(725,782)
Provisions for obsolete inventory	-	(98,701)	(98,701)
Provisions for bad debt	(57,416)	(45,513)	(34,397)
Leave pay provision	(23,393)	(18,412)	(18,412)
Provision for bonus	(13,750)	-	-
Defined benefit obligation	(333,720)	(354,775)	(372,575)
	(6,845,332)	(4,203,971)	(1,249,867)
Deferred tax liabilities:			
Unrealised exchange gains	58,104	123,983	91,151
Revaluation surplus	8,285,745	7,298,616	7,692,459
Accelerated capital allowances	13,533,666	8,782,646	6,269,065
	21,877,515	16,205,245	14,052,675
Net deferred tax liability	15,032,183	12,001,274	12,802,808

29. Deferred Tax Liability *(Continued)*

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Movement on the deferred tax account is as follows:			
At the beginning of the year			
As previously reported	13,341,831	13,279,283	11,186,948
Prior year adjustment*	(1,340,557)	(476,475)	-
As restated	12,001,274	12,802,808	11,186,948
Deferred tax charge/(credit) (note 12(a))	1,571,186	(801,534)	1,615,860
Effect of change in tax rate from 25% to 30% on deferred tax on revaluation surplus	1,459,723	-	-
At the end of the year	15,032,183	12,001,274	12,802,808

*Relates to deferred tax overprovision adjustment.

30. Trade And Other Payables

Trade payables	2,611,977	1,506,327	1,804,872
Contract payables and retention money	184,251	1,055,379	793,902
Sundry payables	659,654	187,630	118,994
VAT payable	189,363	-	217,505
	3,645,245	2,749,336	2,935,273

31. Leave Pay Provision

At beginning of the year	182,049	137,585	119,252
Charge to profit or loss	9,338	44,464	18,333
At close of the year	191,387	182,049	137,585

32. Dividends

a) Dividend payable			
As at 1 July	2,154,394	1,384,968	615,542
Declared	1,099,181	1,099,181	1,978,525
Paid during the year	(329,754)	(329,755)	(1,209,099)
	2,923,821	2,154,394	1,384,968
b) Dividend proposed			
Proposed for approval at annual general meeting (not recognised as a liability)	1,099,181	1,099,181	1,099,181
Proposed dividend per share in Shs	0.50	0.50	0.50

33 Cash Generated From Operations

	2011 Shs'000	2010 Shs'000
(a) Reconciliation of operating profit to cash generated from operations		
Profit before taxation	3,651,307	2,484,953
Adjustments for:		
Depreciation	4,549,805	3,829,136
Impairment loss on property, plant and equipment	63,092	-
Adjustments on property, plant and equipment	1,384	-
Amortisation of intangible assets	31,874	-
Prepaid lease expense	44	29
Interest income (note 33(b))	(548,975)	(398,331)
Interest expense (note 33(c))	1,996,951	741,491
Unrealised foreign exchange gain related to amount due from Kenya Power-deferred debt	(251,933)	(155,874)
Net (gain)/loss on derecognition of treasury bonds	(24,088)	1,180
Reduction in actuarial deficit arising from valuation of retirement benefit liability in the year	(306,700)	(71,200)
Operating profit before working capital changes	9,162,761	6,431,384
Changes in working capital		
Decrease/(increase) in inventories	275,134	(690,607)
(Increase)/decrease in amounts due from Kenya Power	(4,195,871)	1,604,654
Decrease/(increase) in other receivables	2,359,843	(3,562,683)
Increase in amount due from Ministry of Energy	(3,258,033)	(1,032,795)
(Increase)/decrease in trade and other payables	895,909	(185,937)
Increase/(decrease) in amount due to Kenya Power	7,704	(2,082)
Decrease in operating lease liability	(2,000)	(2,000)
Increase in leave pay provision	9,338	44,464
Cash generated from operations	5,254,785	2,604,398
(b) Reconciliation of interest received to interest income		
Interest receivable at beginning of the year	271,326	241,137
Interest income	548,975	398,331
Interest received	(710,525)	(368,142)
Interest receivable at the end of the year	109,776	271,326
(c) Reconciliation of interest paid to finance costs		
Accrued interest at beginning of the year	188,340	152,781
Interest expense	1,996,951	741,491
Interest paid	(1,349,795)	(705,932)
Accrued interest at the end of the year	835,496	188,340

34. Emergency Power Project

The company manages an Emergency Power Supply project known as Aggreko International Projects as an implementing commissioning agent on behalf of the Ministry of Energy. Funds from the Ministry of Energy are disbursed to the company for the purpose of procuring emergency power supply capacity on behalf of the Ministry of Energy through the Project. These funds are held in an escrow bank account at the Commercial Bank of Africa and are represented below as Disbursements from the ministry of energy. Electricity generated from this Project is sold to the Kenya Power and Lighting Company and relating revenue is represented below as Receipts from sale of electricity. Expenditure incurred relating to the project is represented below as expenditure during the year. None of these transactions and balances are presented in these financial statements.

34. Emergency Power Project *(Continued)*

	2011 Shs'000	2010 Shs'000	2009 Shs'000
At the beginning of the year	531,728	3,335,035	(343,836)
Disbursements from the Ministry of Energy	3,903,500	5,727,689	6,253,492
Receipts from sale of electricity	5,806,949	15,793,518	18,349,396
Interest income	12,441	11,674	56,729
Expenditure during the year	(9,800,956)	(24,336,188)	(20,980,746)
As at the end of the year	453,662	531,728	3,335,035

The company earned Shs 62.946 million in the year (2010: 211.345 million) in relation to managing these projects. This revenue is disclosed under note 4 of these financial statements.

35. Contingent Liabilities And Assets

(a) Contingent liabilities

I. Disputed Interest Income from unspecified sources

On 09 January 2011, the Commissioner of Domestic Taxes issued an assessment of Shs 526 million as a result of interest income as a specified source of income from 2004 to 2008. The directors believe that the company will be successful in defending this case.

II. Disputed claim for water charges for hydro-generation

Following the Gazettement of the Water Resource Management Rules 2007 (Water Regulations), Water Resource Management Authority sought to implement the prescribed charges for Hydro Power Generation by filing a case in the High Court claiming Shs 142 million as owing and due to it from the onset of Water Regulation up to 30th September 2008. By a Ruling dated 15th of October 2010, the court ruled in favour of the applicant. The Company has appealed the court's decision.

III. Disputed tax penalties

On 12 August 2002, the Customs and Excise Department issued an assessment of Shs 22.2 million 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 Shs 31 million. 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 as the liability will not crystallise.

IV. Disputed withholding tax on contractual fees - Olkaria Geothermal Station

On 05 February 2010, the Commissioner of Domestic Taxes issued an assessment of Shs 290 million 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 appealed to the Local Committee but lost the same to Kenya Revenue Authority (KRA). The company has appealed the Local Committee decision to the High Court. The principal tax of Shs 131.8 million has since been settled in full except for penalties and interest whose application for waiver has been filed with KRA. The directors believe that the company will be successful in defending this case.

V. Disputed withholding tax on contractual fees - Sondu Miriu

On 9 July 2010, the Commissioner of Domestic Taxes issued an assessment of Shs 591 million inclusive of penalties and interest. The assessment was as a result of withholding tax on contractual fees paid to Konoike–Veidekke–Murray and Roberts JV in relation to Sondu Miriu Power Project. The principal tax of Shs 198 million has since been settled in full except for penalties and interest whose application for waiver has been filed with KRA. The directors believe that the company will be successful in defending this case.

VI. 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 2011 amounted to Shs 3.697 billion (30 June 2010Shs 10.129 billion).

35. Contingent Liabilities And Assets *(Continued)*

(b) Contingent assets

An amount of Sh 379 million relating to part of the net defined benefit liability is a claim from Kenya Power which is a subject of ongoing discussions between the company and Kenya Power as provided for by an agreement for transfer of schemes assets and liabilities executed by all the parties in 2004 (note 28).

36. Financial Risk Management

Introduction and overview

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the company's business and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risks include:

- Market risk – includes currency, interest rate and other price risk
- Credit risk
- Liquidity risk

The company's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise potential adverse effects of such risks on its financial performance within the options available by setting acceptable levels of risks.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

The company's Finance Division identifies, evaluates and hedges financial risks in close cooperation with operating units. The board provides written principals for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk and price risk.

The company does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risks

The board has put in place an internal audit function to assist it in assessing the risk faced by the company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

i) 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 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.

The carrying amount of the company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

36. Financial Risk Management *(Continued)*

	Ksh Shs '000	Others Shs '000	Total Shs '000
At 30 June 2011			
Financial assets			
Amount due from Kenya Power – Deferred debt	-	1,472,503	1,472,503
Recoverable foreign exchange adjustment	-	13,443,291	13,443,291
Cash and cash equivalents*	2,563,954	544,064	3,108,018
	2,563,954	15,459,858	18,023,812
Liabilities			
Trade and other payables	3,102,405	10,747	3,113,152
Borrowings	25,347,001	43,300,007	68,647,008
	28,449,406	43,310,754	71,760,160
Net foreign currency liability	(25,885,452)	(27,850,896)	(53,736,348)
At 30 June 2010			
Assets			
Amount due from Kenya Power – Deferred debt	-	1,220,570	1,220,570
Recoverable foreign exchange adjustment	-	6,955,455	6,955,455
Cash and cash equivalents*	15,140,993	6,183,067	21,324,060
	15,140,993	14,359,092	29,500,085
Liabilities			
Trade and other payables	2,464,011	280,431	2,744,442
Borrowings	24,774,110	36,738,800	61,512,910
	27,238,121	37,019,231	64,257,352
Net foreign currency liability	(12,097,128)	(22,660,139)	(34,757,267)
At 30 June 2009			
Assets			
Other receivables (excluding prepayments and taxes)	325,400	196,966	522,366
Amount due from Kenya Power – Deferred debt	-	1,064,696	1,064,696
Recoverable foreign exchange adjustment	-	4,341,281	4,341,281
Cash and cash equivalents*	1,938,080	2,283,910	4,221,990
	2,263,480	7,886,853	10,150,333
Liabilities			
Trade and other payables	2,192,634	742,639	2,935,273
Borrowings	-	27,193,077	27,193,077
	2,192,634	27,935,716	30,128,350
Net foreign currency liability	70,846	(20,048,863)	(19,978,017)

*Cash and cash equivalents exclude cash in hand.

Exposure to borrowings foreign currency risk is mitigated by the terms of the Power Purchase Agreement that allows the company to recover a foreign exchange movement from Kenya Power.

36. Financial Risk Management *(Continued)*

a) Market risks (Continued) | *i).Foreign currency risk (Continued)*

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 Shs	2011 Shs	2010 Shs	2009 Shs
US$	64.9242	89.8639	81.90	77.10
Yen	0.6404	1.1155	0.92	0.81
Euro	100.793	130.21	100.05	109.06

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income 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. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax Shs' 000	Effect on equity Shs' 000
2011			
US$	10%	140,985	338,305
YEN	21%	8,381	18,536
EURO	30%	142,763	331,512
Total		292,129	688,353
2010			
US$	6.00%	234,205	(212,457)
YEN	14.00%	79,121	3,354,565
EURO	8.00%	160,498	409,020
Total		473,824	3,551,128
2009			
US$	19.00%	22,331	(1,120,574)
YEN	32.00%	-	6,022,313
EURO	7.00%	78,797	62,832
Total		101,128	4,964,571

ii) *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.

iii) *Other 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 Kenya Power and the company, with Energy 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, Kenya Power.

36. Financial Risk Management *(Continued)*

b) Credit risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

The carrying amount of financial assets recorded in the financial statements representing the company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Neither past due nor impaired Shs '000	Past due but not impaired Over 60 days Shs '000	Over 365 days Shs '000	Total Shs '000
At 30 June 2011				
Amount due from Kenya Power	6,297,091	741,542	747,763	7,786,396
Treasury bonds –available-for-sale	10,001,788	-	-	10,001,788
Foreign exchange adjustment receivables	13,443,291	-	-	13,443,291
Other receivables (excluding prepayments and taxes)	750,155	-	-	750,155
Amount due from Ministry of Energy	4,574,417	-	-	4,574,417
Cash and cash equivalents*	3,108,018	-	-	3,108,018
	38,174,760	741,542	747,763	39,664,065
At 30 June 2010				
Amount due from Kenya Power	3,036,695	553,830	-	3,590,525
Treasury bonds –available-for-sale	7,383,541	-	-	7,383,541
Foreign exchange adjustment receivables	6,955,455	-	-	6,955,455
Other receivables (excluding prepayments and taxes)	1,740,010	-	-	1,740,010
Amount due from Ministry of Energy	1,316,384	-	-	1,316,384
Cash and cash equivalents*	21,324,060	-	-	21,324,060
	41,756,145	553,830	-	42,309,975
At 30 June 2009				
Amount due from Kenya Power	4,644,460	-	550,719	5,195,179
Treasury bonds –available-for-sale	3,177,165	-	-	3,177,165
Foreign exchange adjustment receivables	4,341,281	-	-	4,341,281
Other receivables (excluding prepayments and taxes)	522,366	-	-	522,366
Amount due from Ministry of Energy	1,631,485	-	-	1,631,485
Cash and cash equivalents*	4,221,990	-	-	4,221,990
	18,538,747	-	550,719	19,089,466

*Cash and cash equivalents exclude cash in hand.

The company only sells generated electricity to Kenya Power and this minimizes the credit risk exposure on amount due from Kenya Power. 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.

Credit risk from balances with banks and financial institutions is managed by company's treasury department in accordance with the company's policies. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the company's directors on an annual basis, and may be updated throughout the year subject to approval of the company's audit and risk management committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

36. Financial Risk Management *(Continued)*

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 Kenya Power 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.

The table below analyses maturity profiles of the financial liabilities of the company based on the remaining period using 30 June 2011 as a base period to the contractual maturity date:

	Less than 3 months Shs '000	3 to 12 months Shs '000	1 to 5 years Shs '000	> 5 years Shs '000	Total Shs '000
2011					
Trade and other payables	2,662,460	982,785	-	-	3,645,245
Less non-financial liabilities	(532,093)	-	-	-	(532,093)
	2,130,367	982,785	-	-	3,113,152
Amount due to Kenya Power	13,659	-	-	-	13,659
Borrowings	643,942	6,206,318	28,279,922	41,474,057	76,604,239
	2,787,968	7,189,103	28,279,922	41,474,057	79,731,050
2010					
Trade and other payables	1,716,140	1,033,196	-	-	2,749,336
Less non-financial liabilities	(4,894)	-	-	-	(4,894)
	1,711,246	1,033,196	-	-	2,744,442
Amount due to Kenya Power	5,955	-	-	-	5,955
Borrowings	830,186	3,788,999	27,947,925	47,812,185	80,379,295
	2,547,387	4,822,195	27,947,925	47,812,185	83,129,692

d) Capital risk 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.

36. Financial Risk Management *(Continued)*

d) Capital risk management *(Continued)*

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Total equity	69,418,587	70,530,868	66,980,112
Borrowings	68,647,008	61,512,910	27,193,077
Less cash and cash equivalents	(3,115,598)	(21,331,446)	(4,221,990)
Net debt	65,531,410	40,181,464	22,971,087
Gearing ratio	94%	57%	34%

37. Fair Values of Financial Assets And Liabilities

The directors consider that there is no material difference between the fair value and carrying value of the company's financial assets and liabilities where fair value details have not been presented.

Fair value hierarchy

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2011, the company held the following financial instruments measured at fair value:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000
Assets measured at fair value:			
30 June 2011			
Treasury bonds-available-for-sale	7,552,800	-	-
30 June 2010			
Treasury bonds-available-for-sale	7,383,541	-	-
30 June 2009			
Treasury bonds-available-for-sale	3,177,165	-	-

Liabilities measured at fair value:

As at 30 June 2011, there were no liabilities measured at fair value.

38. Capital Commitments

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

	2011 Shs'000	2010 Shs'000	2009 Shs'000
Authorised but not contracted for	153,068,207	133,299,073	76,012,995
Authorised and contracted for	23,402,629	31,126,591	21,656,123
	176,470,836	164,425,664	97,669,118

39. Operating Segment Information

The company's only activity is generation of electricity. The business is organised on a regional platform – Western and Eastern Hydros, Mombasa, Olkaria, Head Office and Ngong' Hill which only serves the necessary functional and administrative roles in these areas and not allocation of resources and financial performance assessment. The operations and management reporting are all done under the head office.

40. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. Where changes are made and affect the statement of financial position, a third statement of financial position as at the beginning of the earliest period presented is presented together with the corresponding notes.

41. Prior Year Adjustments

In compiling the financial information included herein, the following adjustments were made to make all the financial statements compliant with International Financial Reporting Standards (IFRSs) applicable for the financial period ended 30 June 2011.

a) Restatement of Audited Statement of Comprehensive Income for the year ended 30 June 2010

	As previously reported 2010 Shs'000	Prior year adjustment 2010 Shs'000	Restated 2010 Shs'000
Revenue [1]	11,142,729	(144,300)	10,998,429
Foreign exchange gain on other monetary items [2]	130,149	144,300	274,449
Unrealised foreign exchange differences on revaluation of borrowings [3]	-	(2,758,474)	(2,758,474)
Recoverable foreign exchange differences[4]	-	2,758,474	2,758,474
Operating costs [5]	8,629,648	(71,200)	8,558,448
Taxation (charge)/credit [6]	(456,391)	1,257,925	801,534

[1] Relates to reclassification of foreign exchange adjustment payments from revenue (note 4) to recoverable realised exchange differences (note 19).

[2] Relates to removal of realised foreign exchange losses on loan repayment previously posted in foreign exchange gain on other monetary items (note 10) and equity.

[3] Relates to reclassification of unrealised exchange differences on revaluation of loans for the year from equity to other gains and losses (note 7).

[4] Relates to recognition of recoverable unrealised exchange differences for the year (note 7 and 19).

[5] Relates to understatement of the defined benefit obligation (note 28).

[6] Relates to deferred tax overprovision adjustment (note 29).

41. Prior Year Adjustments *(Continued)*

b) Restatement of Audited Statement of Financial position as at 30 June 2010

	As previously reported 2010 Shs'000	Prior year adjustment 2010 Shs'000	Restated 2010 Shs'000
Assets			
Recoverable foreign exchange adjustment [1]	-	6,955,455	6,955,455
Equity and Liabilities			
Foreign currency translation reserve [1]	6,955,455	(6,955,455)	-
Retained earnings [2]	28,168,569	260,885	28,429,454
Retirement benefit liability [3]	339,428	1,079,672	1,419,100
Deferred tax liability [4]	13,341,831	(1,340,557)	12,001,274

[1] Relates to reclassification of recoverable unrealised exchange differences from equity to receivables (note 19).

[2]Relates to deferred tax overprovision adjustment (note 29 – (Shs 1,340,557,000)) and adjustment for understatement of defined benefit obligation (Shs 1,079,672,000).

[3] Relates to understatement of the defined benefit obligation (note 28).

[4] Relates to deferred tax overprovision adjustment (note 29).

c) Restatement of Audited Statement of Financial position as at 30 June 2009

	As previously reported 2010 Shs'000	Prior year adjustment 2010 Shs'000	Restated 2010 Shs'000
Assets			
Recoverable foreign exchange adjustment1	-	4,341,281	4,341,281
Equity and Liabilities			
Foreign currency translation reserve [1]	4,341,281	(4,341,281)	-
Retained earnings [2]	25,735,015	(674,397)	25,060,618
Retirement benefit liability [3]	339,428	1,150,872	1,490,300
Deferred tax liability [4]	13,279,283	(476,425)	12,802,808

[1] Relates to reclassification of recoverable unrealised exchange differences from equity to receivables (note 19).

[2] Relates to deferred tax overprovision adjustment (note 29 – (Shs 476,425,000)) and adjustment for understatement of defined benefit obligation (Shs 1,150,872,000).

[3] Relates to understatement of the defined benefit obligation (note 28).

[4] Relates to deferred tax overprovision adjustment (note 29)

42 Currency

These financial statements are prepared in Kenya shillings thousands (Shs'000) which is the company's functional and presentation currency.

Kipevu III

Newly cladded engine exhaust ducts

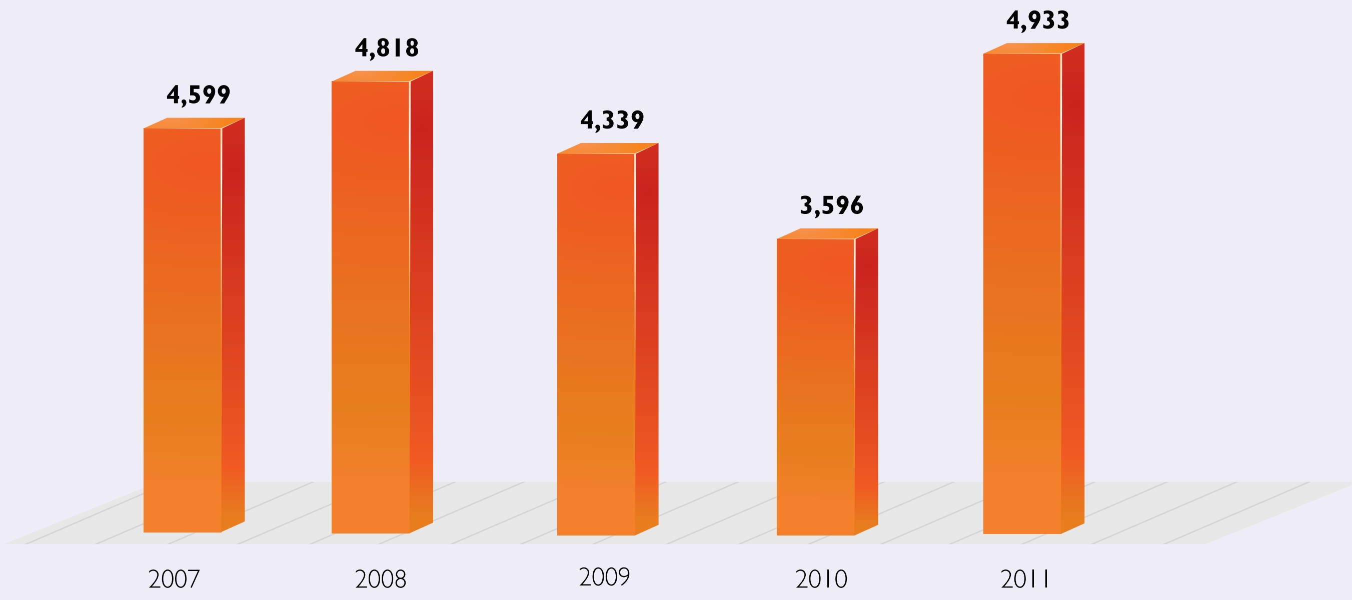
5 Year Statistical Information

KenGen is the leading producer of electricity in Kenya with an installed capacity of 1,181MW, which accounts for 76% of the market share.

Financial Statistical Information

	2007	2008	2009	2010	2011
Units Sold(Gwh'Millions)	4,599	4,818	4,339	3,596	4,933
weighted Average tariff(Kshs/Kwh)	2.36	2.36	2.42	2.42	2.42
	Kshs'million	Kshs'million	Kshs'million	Kshs'million	Kshs'million
Electricity Sales	10,853	11,372	11,518	9,819	13,429
Other revenue	288	177	1,134	1,180	960
	11,141	11,548	12,652	10,998	14,389
Operating expenses	(8,071)	(8,012)	(8,247)	(8,558)	(10,014)
	3,070	3,537	4,405	2,440	4,376
Interest and Other income	2,203	340	907	786	1,273
	5,273	3,877	5,313	3,226	5,648
Finance costs	(554)	(798)	(756)	(741)	(1,997)
Profit before tax	4,719	3,079	4,556	2,485	3,651
Taxation	(2,274)	2,818	(2,485)	802	(1,571)
	2,446	5,897	2,071	3,286	2,080
Funds Generated from Operations					
Net income for the year	2,446	5,897	2,071	3,286	2,080
Depreciation	3,446	3,404	3,843	3,829	4,550
Amortization of operating lease	0	0	0	0	32
Currency realignment	(1,420)	(9)	(176)	(131)	(252)
	4,472	9,292	5,738	6,984	6,410
Capital employed					
Fixed assets less depreciation	87,357	91,822	92,699	102,231	116,786
Operating lease payment	2	1	1	1	1
Treasury Bonds	3,941	3,509	1,546	6,864	9,611
Intangible assets	216	304	544	695	664
Kenya Power -Long term debt	627	702	1,065	1,221	1,473
Kenya Power -Current debt	4,129	4,678	5,195	3,591	7,786
Deferred assets- Recoverable forex	-	-	4,220	6,705	12,920
Net current assets	(1,199)	(1,608)	1,807	22,289	496
	95,073	99,408	107,077	143,597	149,737
Financed by					
Share capital	5,496	5,496	5,496	5,496	5,496
Emergency Power	1	-	-	-	-
Reserves	58,142	62,629	61,484	65,035	63,923
Deferred tax	15,039	11,464	12,803	12,001	15,032
Prepaid lease	15	13	11	9	7
Retirement Benefits Scheme	339	339	1,490	1,419	1,112
Loan capital	16,041	19,466	25,793	59,637	64,167
	95,073	99,408	107,077	143,597	149,737
Capital expenditure	5,357	7,897	4,731	13,361	19,170

Elecricity Sales (Units)



Financial Ratios

	2007	2008	2009	2010	2011
Income for the year as % of average capital employed	3.23%	3.63%	4.60%	2.10%	1.42%
Profit before tax, dividend & exceptional items/ Net fixed assets in service	7.00%	3.35%	4.92%	2.36%	3.13%
Return on total assets	3.00%	3.52%	4.89%	2.20%	1.29%
Profit before tax, dividend(less exceptional items)/capital employed	1.00%	1.11%	3.37%	1.77%	2.44%
Current Ratio	2.00	1.40	2.17	4.68	1.74
Debt Service Coverage Ratio	5.40	4.99	3.90	4.50	2.43
Self Financing Ratio	40%	74%	97%	60%	42%

Elecricity Sales (Units)

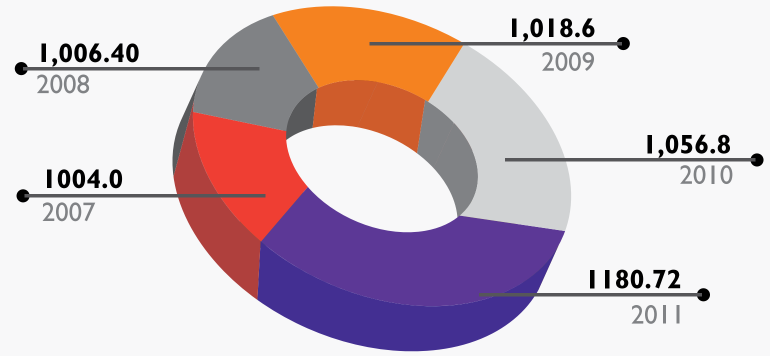
UNITS GENERATED & SOLD

	Year ending June…..	Installed (MW)	Effective (MW)	2011 Generated	2011 Sales	2010 Generated	2010 Sales	2009 Generated	2009 Sales	2008 Generated	2008 Sales	2007 Generated	2007 Sales
HYDRO	Tana	20	10.4	49.4	49.4	29	29	44	44	65	64	68	68
	Wanjii	7.4	7.4	40.7	40.4	28	27	29	28	38	37	37	36
	Kamburu	94.2	94.2	407.5	407.5	251	251	348	348	489	489	467	464
	Gitaru	225	216.0	804.3	803.8	458	458	655	655	977	977	945	945
	Kindaruma	40	40.0	191.3	191.2	109	109	157	157	241	239	216	215
	Gogo	2	1.8	6.8	6.7	5.3	5	5.8	6	5.0	5	5.3	5
	Sosiani	0.4	0.4	1.6	1.5	1.4	1	1.6	2	1.8	2	2.9	3
	Mesco	0.38	0.35	0.0	0.0	0.3	0.2	2.6	3	2.8	3	1.6	2
	Ndula	2	1.8	0.4	0.4	3.4	3	2.0	2	5.5	5	3.7	4
	Sagana	1.5	1.5	8.0	8.0	8.4	8	5.9	6	7.8	8	8.0	8
	Masinga	40	40.0	201.1	201.0	62	61	129	128	232	230	184	183
	Kiambere	164	164.0	898.8	882.7	550	549	621	614	946	937	983	973
	Turkwel	106	106.0	455.4	455.4	335	335	527	524	346	341	378	372
	Sondu Miriu	60	60.0	364.3	364.3	321	321	333	333	151	150	-	0
	Total Hydros	762.9	743.85	3430	3412	2161	2160	2861	2849	3508	3488	3299	3277
DIESEL	Kipevu I Diesel	73.5	59	226.3	222.7	325	316	386	376	303	295	334	326
	Kipevu III Diesel	120	115	227.0	227.0	0		0		0		0	
	Total Diesel	193.5	174	453	450	325	316	386	376	303	295	334	326
GEOTHERMAL	Olkaria I	45	45	236.0	235.1	366	366	384	368	372	359	376	360
	Olkaria II	105	105	796.4	794.0	584	573	564	535	594	564	569	540
	Total Geothermal	150.00	150.00	1032	1029	951	939	948	903	966	922	945	900
GAS TURBINE	Fiat - Nairobi South	0	0	0.0	0.0	0	0	9	9	8	7	4	4
	JBE - Kipevu	60	60	0.9	0.9	146	145	187	184	90	88	77	75
	Total Gas Turbine	60	60	0.9	0.9	146	145	197	193	98	95	81	79
ISOLATED DIESELS	Garissa	5.98	5.660	16.7	16.1	13	12.40	11	11	12	12	11	10
	Lamu	2.889	1.45	7.0	6.9	7	6.51	6	6	6	6	6	6
	Total Isolated	8.87	7.11	23.7	23.0	20	19	18	17	19	18	17	16
WIND TURBINE	Old Ngong Wind	0.35	0.15	0.0	0.0	0.02	0.02	0.3	0.29	0.2	0.17	0.2	0.17
	New Ngong' Wind	5.1	5.1	17.7	17.7	16.29	16.29	0	0	0	0	0	0
	Total Wind	5.45	5.25	17.7	17.7	16.3	16.30	0.3	0.29	0.2	0.17	0.2	0.17
	TOTAL	1180.72	1140.21	4957.6	4932.7	3619	3596	4411	4339	4893	4818	4677	4599

Installed Capacity (MW)

Plant	2011	2010	2009	2008	2007
Hydro					
Tana	20	14.4	14.4	14.4	14.4
Kamburu	94.2	94.2	94.2	94.2	94.2
Gitaru	225	225.0	225.0	225.0	225.0
Kindaruma	40	40.0	40.0	40.0	40.0
Masinga	40	40.0	40.0	40.0	40.0
Kiambere	164	168.0	156.0	144.0	144.0
Turkwel	106	106.0	106.0	106.0	106.0
sondu Miriu	60	60.0	60.0	60.0	0.0
Small Hydros	13.7	13.7	13.7	13.7	12.3
Hydro Total	762.9	758.3	749.3	737.3	675.9
Thermal					
Kipevu Steam	0	0.0	0.0	-	60.0
Kipevu I Diesel	73.5	75.0	75.0	75.0	75.0
Kipevu III Diesel	120				
Fiat- Nairobi South	0	0.0	13.5	13.5	13.5
Kipevu Gas Turbine	60	60.0	60.0	60.0	60.0
Garissa & Lamu	8.87	5.4	5.4	5.2	4.2
Thermal Total	262.37	140.4	153.9	153.7	212.7
Geothermal					
Olkaria I	45	45.0	45.0	45.0	45.0
Olkaria II	105	105.0	70.0	70.0	70.0
Geothermal Total	150	150.0	115.0	115.0	115.0
Wind					
Ngong	5.45	5.1	0.4	0.4	0.4
TOTAL	**1180.72**	**1,056.8**	**1,018.6**	**1,006.40**	**1004.0**

Installed Capacity (MW)



5 Year Statistical Information (Continued)
KenGen
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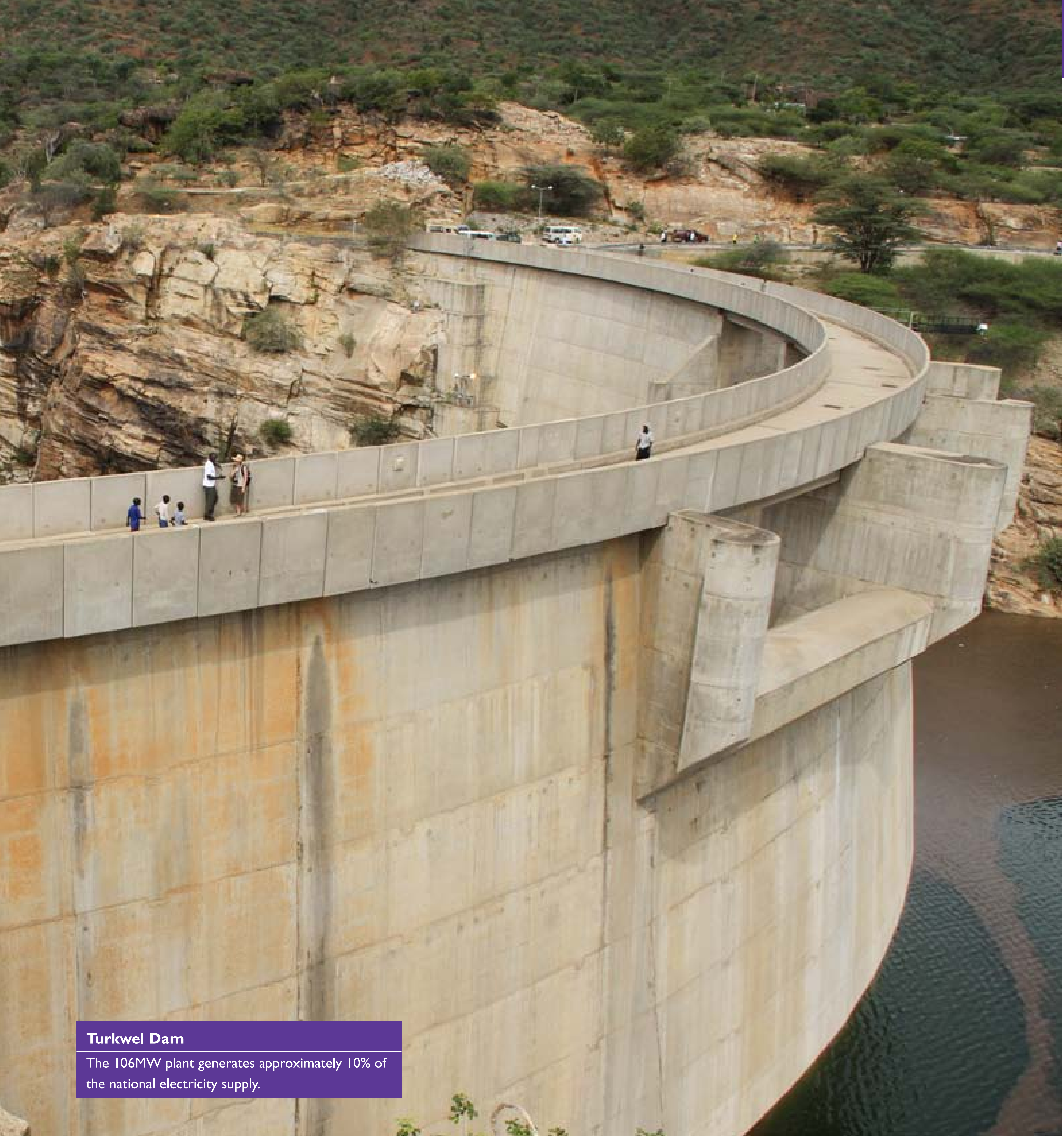
Weighted Factors (%)

Year ending June….		2011		2010		2009		2008		2007	
POWER STATION	Effective Capacity(MW)	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor
Hydro											
Tana	10.4	83.08	17.94	90.68	32.65	99.28	48.11	96.39	51.33	90.82	74.83
Wanjii	7.4	76.11	62.83	73.35	42.86	99.63	44.61	70.31	58.35	61.29	56.71
Kamburu	94.2	96.25	48.40	97.04	27.99	99.63	45.13	86.69	59.32	96.40	56.59
Gitaru	216.0	97.78	40.98	92.52	23.93	99.11	34.64	94.39	49.58	85.69	49.95
Kindaruma	40.0	94.22	54.24	96.43	31.15	99.38	44.87	96.63	68.85	78.98	61.73
Gogo	1.8	95.38	38.92	66.58	32.53	95.25	33.02	63.43	28.56	70.18	33.80
Sosiani	0.4	83.84	44.43	100.00	40.80	72.42	46.28	96.60	51.74	96.44	82.32
Mesco	0.35	0.00	0.00	11.72	7.86	93.16	78.37	91.78	84.06	53.91	53.06
Ndula	1.8	75.04	5.18	70.59	18.37	97.49	15.58	76.54	31.21	49.67	42.72
Sagana	1.5	91.43	64.18	94.72	56.52	96.20	44.71	82.67	59.02	79.09	61.09
Masinga	40.0	90.34	57.44	65.90	17.48	98.23	36.88	98.80	66.14	97.03	52.58
Kiambere	164.0	95.11	62.67	77.56	37.98	90.21	49.22	86.57	75.01	95.51	77.90
Turkwel	106.0	86.28	50.01	95.98	37.18	93.81	56.73	91.21	37.22	96.38	40.66
Sondu Miriu	60.0	95.38	69.31	95.35	64.78	97.49	63.38	95.60	28.67	-	-
Total Effective Capacity	743.85										
Weighted Factors - Hydros		94.02	51.70	88.93	33.15	96.33	45.56	91.39	54.73	91.04	57.16
Kipevu I Diesel	59.00	74.76	41.84	76.95	59.49	91.90	73.51	88.16	11.74	79.69	57.85
Kipevu III Diesel	115.00	96.53	61.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Effective Capacity	174.00										
Weighted Factors - Diesel		89.15	55.03	76.95	59.49	91.90	73.51	88.16	11.74	79.69	57.85
Geothermal											
Olkaria I	45.0	78.45	63.95	94.27	95.87	95.24	97.53	96.41	94.45	94.47	95.47
Olkaria 2	105.0	99.04	97.39	97.94	89.30	97.13	91.95	99.68	96.81	97.72	93.21
Total Effective Capacity	150.0										
Weighted Factors - Geothermal		92.86	87.36	96.84	91.27	96.39	94.13	98.40	95.88	96.45	94.09
Gas Turbines											
Fiat-Nairobi South	0.0	0.00	0.00	76.11	37.83	48.21	10.61	88.10	6.46	73.14	3.73
JBE-Kipevu	60.0	100.00	0.17	77.92	28.33	95.44	35.67	95.35	16.33	79.76	14.57
Total Effective Capacity	60.0										
Weighted Factors - GT's		100.00	0.17	77.92	28.33	86.76	31.07	94.02	14.52	78.54	12.58
Isolated Diesels											
Garissa	5.66	83.70	53.13	83.25	49.76	86.72	37.46	93.51	32.09	85.89	36.46
Lamu	1.450	82.62	45.72	80.95	35.65	70.48	55.87	61.88	38.96	82.70	36.31
Total Effective Capacity	7.110										
Weighted Factors - Isolated		83.48	51.62	82.78	46.88	80.32	44.72	81.05	34.79	84.63	36.40
Wind Turbine											
Old Ngong Wind	0.15	0.00	0.00	7.66	0.50	53.69	9.42	42.91	11.64	50.00	13.45
New Ngong' Wind	5.1	86.39	40.19	87.52	44.05	0.00	0.00	0.00	0.00	0.00	0.00
Total Effective Capacity	5.25										
Weighted Factors - Ngong'		83.92	39.04	85.24	42.81	1.53	0.27	1.23	0.75	1.43	0.38



Turkwel Dam

The 106MW plant generates approximately 10% of the national electricity supply.

Shareholders' Diary

The Company complies with the CMA Corporate Governance Guidelines as part of our continuing listing obligations.

1. Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FIFTY-NINTH ANNUAL GENERAL MEETING of the Company will be held at the Bomas of Kenya, Langata Road, Nairobi on Wednesday, 14 December 2011 at 11.00 a.m. to conduct 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 2011, 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 30 June 2011.

5. To elect Directors:
   (i) Mr. Joseph Kinyua, Permanent Secretary-Treasury who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers himself for re-election as a Director of the Company.

   (ii) Mrs. Dorcas Kombo who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers herself for re-election as a Director of the Company.

   (iii) Mr. George Njagi who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers himself for re-election as a Director of the Company.

6. To approve payment of Directors' fees for the year ended 30 June 2011.

7. Auditors:
   To note that the audit of the Company's books of accounts will continue to be undertaken by the 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 132
   By deleting in its entirety and substituting it with the following new Article:
   "All dividends, interest or other sum payable and unclaimed for twelve(12) months after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of seven (7) years after having been declared or become due for payment shall be forfeited and be paid by the Company to the Investor Compensation Fund in accordance with section 18(ee) of the Capital Markets Act (Cap 485A) and shall cease to remain owing by the Company."

10. To consider any other business for which due notice has been given.

By Order of the Board

Rebecca Miano - *Company Secretary*

26 October 2011

NOTES:

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.

   A Proxy Form may be obtained from the Company's website at www.kengen.co.ke, registered office of the Company, Stima Plaza, Kolobot Road, Parklands, Nairobi or offices of the Company's shares registrar firm, Image Registrars Limited, Transnational Plaza 8th Floor, Mama Ngina Street, Nairobi.

   To be valid, the Proxy Form, must be duly completed by a member and must either be lodged at the registered offices of the Company's shares registrar firm, Image Registrars Limited, Transnational Plaza 8th Floor, Mama Ngina Street, P.O. Box 9287, 00100 GPO, Nairobi or be posted, or scanned and emailed to info@image.co.ke in PDF format; so as to reach Image Registrars not later than Tuesday, 13 December 2011 at 11.00 a.m.

2. In accordance with Article 137 of the Articles of Association of the Company, 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

ILANI INATOLEWA KWAMBA MKUTANO MKUU WA KILA MWAKA WA HAMSINI NA NANE wa Kampuni utaandaliwa katika Bomas of Kenya, Langata Road, Nairobi mnamo Jumatano, Desemba 14, 2011 saa tano asubuhi kuendesha shughuli zifuatazo:

1. Kuwasilisha majina ya wawakilishi na kutambua kuwepo kwa idadi ya kutosha ya wanachama kuendesha shughuli.

2. Kusoma Ilani ya kuandaa mkutano

3. Kuchunguza na iwapo itaidhinishwa, kupitisha taarifa za kifedha za Kampuni zilizokaguliwa kwa mwaka uliomalizika Juni 30, 2011, pamoja na Ripoti za Mwenyekiti, Wakurugenzi na Wahasibu zilizoambatanishwa.

4. Kupitisha malipo ya mgao wa mwisho wa asilimia 20 au Sh 0.50 kwa kila hisa ya kawaida ya Sh2.50 ikitegemea ushuru wa kushikilia inavyohitajika, kuhusiana na kipindi cha matumizi ya fedha kilichomalizika Juni 30, 2011.

5. Kuchagua Wakurugenzi
   (i) Bw. Joseph Kinyua, Katibu katika Wizara ya Fedha ambaye anastaafu kwa mzunguko kwa mujibu wa Kifungu 104 cha Katiba ya Kampuni na kwa kuwa anahitimu, anajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.

   (ii) Bi. Dorcas Komboo anastaafu kwa zamu kwa mujibu wa Kifungu 104 cha Katiba ya Kampuni na kwa kuwa amehitimu, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.

   (iii) Bw. George Njagi anastaafu kwa zamu kwa mujibu wa Kifungu 104 cha Katiba ya Kampuni na kwa kuwa amehitimu, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.

6. Kuidhinisha malipo ya ujira wa Wakurugenzi kwa mwaka uliomalizika Juni 30, 2011.

7. Wahasibu:
   Kutambua kuwa ukaguzi wa vitabu vya hesabu vya Kampuni utaendeela kutekelezwa na Mhasibu Mkuu au kampuni ya uhasibu atakayoteua kwa mujibu wa Sehemu ya II ya Sheria ya Mashirika ya Umma (kama ilivyorekebishwa na Mkusanyiko wa Sheria wa 2002) na sehemu 14 na 39 (i) ya Sheria ya Uhasibu ya 2003.

8. Kuidhinisha Wakurugenzi kuamua mshahara wa Wahasibu.

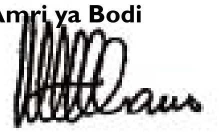
9. Shughuli Maalumu:
   Kuthibitisha na, iwapo itakubaliwa, kupitisha Azimio Maalumu lifuatalo:

   "Kwamba Sheria za Kampuni zirekebishwe:

   Kifungu 132
   Kwa kuondoa Kipengele chote cha sasa cha 132 ili kisome hivi:
   "Mgao wote wa faida, riba au fedha zozote ambazo hulipwa na ambazo hazitadaiwa katika muda wa miezi kumi na miwili (12) baada ya kutolewa, zinaweza kuwekezwa ama labda kutumiwa na Wakurugenzi kwa manufaa ya Kampuni hadi zidaiwe na Kampuni haitakuwa mlezi wa fedha kama hizo. Mgao wote wa faida ambao hautadaiwa kwa muda wa miaka saba (7) baada ya kutangazwa au kuwa tayari kulipwa utatwaliwa na kulipwa na Kampuni kwa Hazina ya Kufidia Mwekezaji kwa mujibu wa sehemu 18 (ee) ya Sheria ya Masoko ya Mtaji (Cap 485A) na Kampuni haitadaiwa chochote."

10. Kuangalia shughuli zingine zile ambazo ilani imepeanwa.

Amri ya Bodi



Rebecca Miano - *Katibu wa Kampuni*

Oktoba 26, 2011

MAELEZO:

1. Mwanachama ana haki kuhudhuria na kupiga kura kwenye mkutano na yule hawezi kuhudhuria, ana haki ya kuteua mwakilishi ambaye atahudhuria na kupiga kura kwa niaba yake. Mwakilishi si lazima awe mwanachama wa Kampuni.

   Ili kuwa halali, fomu ya uwakilishi, ni lazima ijazwe na mwanachama na ni lazima iwasilishwe katika afisi rasmi za msajili wa hisa wa Kampuni, Image Registrars Limited, Transnational Plaza ghorofa ya nane 8, Mama Ngina Street, S.L.P 9287, 00100 GPO, Nairobi au kutumwa ili ifikie Image Registrars kabla ya Jumanne, Desemba 13, 2011 saa 5.00 asubuhi.

2. Kwa mujibu wa Kifungu 137 cha Sheria za Kampuni, nakala ya Ripoti yote ya Hesabu ya Kila Mwaka inaweza kuangaliwa kwenye mtandao wa Kampuni katika www.kengen.co.ke au nakala iliyochapishwa inaweza kupatikana kwenye afisi rasmi za Kampuni, Stima Plaza, Kolobot Road, Parklands, Nairobi, SLP 47936 - 00100 GPO, Nairobi.

2. Proxy Form

I/WE .... of ....being a member of the above Company, hereby appoint: .... of .... or failing him/her.. of .... failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 14 December 2011 and at any adjournment thereof.

As witness my/our hand this .... day of .... 2011.

Signed ....

Notes:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a limited Company this form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. The Proxy Form must be delivered to Image Registrars not later than Tuesday, 13 December 2011 at 11.00 a.m. Proxy Forms should be sent by Post to Image Registrars of P O Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format.

Fomu ya Uwakilishi

MIMI/SISI .... wa .... Kama mwanachama wa Kampuni iliyotajwa hapa juu, hii hapa namteua: ....wa........................ au akikosa .... wa .... na iwapo hataweza kuhudhuria, Mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu, kupiga kura kwa niaba yangu/yetu katika Mkutano Mkuu wa Kila Mwaka wa Kampuni utakaoandaliwa mnamo Jumatano, 14 Desemba 2011 au wakati wowote ule endapo utaahirishwa.

Kama mashahidi sahihi yangu/yetu .... siku ya .... 2011.

Sahihi ....

Maelezo:

1. Mwanachama aliye na haki ya kuhudhuria na kupiga kura ana haki ya kuteua mwakilishi mmoja au zaidi kuhudhuria na kupiga kura kwa niaba yake na sio lazima mwakilishi awe mwanachama wa Kampuni.
2. Iwapo ni mwanachama wa kampuni ya dhima yenye kikomo, hii fomu ni lazima ijazwe chini ya nembo yake au mbele ya afisa au wakili ambaye ataidhinishwa kwa maandishi.
3. Fomu ya Uwakilishi ni lazima iwasilishwe kwa Image Registrars kabla ya Jumanne, 13 Desemba 2011 saa 5 asubuhi. Fomu za Uwakilishi zinapasa kutumwa kwa Posta kwa Image Registrars wa SLP 9287, 00100 Nairobi. Badala yake, fomu za uwakilishi zilizojazwa na kutiwa sahihi zinaweza kutolewa nakala na kutumwa kwa baruapepe info@image.co.ke kwa umbo la PDF.

3. Shareholder Notifications

Final Dividend for the Financial Year Ended 30 June 2011

Closure of Register and Date of Payment

The Register of Members will be closed from Tuesday, 13 December 2011 to Wednesday, 14 December 2011, both dates inclusive.

If approved, the dividend will be paid, less withholding tax where applicable on or about Tuesday, 31 January 2012 to the shareholders whose names appear in the Register of Members at the close of business on Friday, 9 December 2011.

Update of Particulars

- For all CDS account holders, please update your postal address, email address and bank account details at the CDSC through your Stockbroker or Custodian Bank.
- For all Share Certificate holders, please update your postal address, email address and bank account details at the offices of Image Registrars, Transnational Plaza 8th Floor, Mama Ngina Street, P.O. BOX 9287-00100 GPO Nairobi.

Taarifa ya Mwenyehisa

Mgao wa Mwisho kwa Kipindi cha Matumizi ya Fedha Kilichomalizika Juni 30, 2011

Kufungwa kwa Rejista na Tarehe ya Malipo

Rejista ya wanachama itafungwa kuanzia Jumanne, 13 Decemba 2011 hadi Jumatano 14 Decemba 2011 siku zote zikiwemo.

Ikiwa itaidhinishwa, mgao wa faida utalipwa baada ya kuondoa ushuru wa kushikilia mnamo au karibu Jumanne 31 Januari 2012, kwa wenyehisa ambao majina yao yamo kwenye Rejista ya Wanachama kufikia mwisho wa shughuli za siku mnamo Ijumaa, 9 Decemba 2011.

Kuteng'eneza Upya/Kurekebisha Maelezo

- Kwa wote walio na akaunti za CDS, tafadhali toa maelezo mapya kuhusu anwani yako, barua pepe na akaunti ya benki katika CDSC kupitia wakala wako wa hisa au Benki Angalizi.
- Kwa wote walio na vyeti vya kumiliki hisa, tafadhali toa malezo upya kuhusu anwani yako ya posta, barua pepe na maelezo kuhusu akaunti yako ya benki katika afisi za Image Registrars, Transnational Plaza ghorofa ya nane, Mama Ngina Street, SLP 9287-00100 GPO Nairobi.

Notes

Contact Information

HEAD OFFICE

Stima Plaza, Phase III
Kolobot Road, Parklands
P. O. Box 47936, 00100 GPO
Nairobi, Kenya
Tel: +254-20-3666000
Mobile: +254-711-036000 | +254-732-116000
Fax: +254-20-2248848
E-mail: comms@kengen.co.ke

ADDRESSES OF STATIONS

Olkaria I & II Geothermal Power Station

P.O. Box 785 - 20117, Naivasha
Tel: 050 - 20233/4 | 050 - 2021223
Fax: 050 - 2021223
Mobile: 0722 202894 | 0722 202895

Western Hydro Power Stations

P.O. Box 874 - 40100, Kisumu
Tel: 057 - 2023800
Fax: 057 - 2023855
Mobile: 0728 608203 | 0738 600078

Eastern Hydro Power Stations

P.O. Box 205 - 60100, Embu
Tel: 020 - 2310323
Fax: 020 - 2310324
Mobile: 0722 509500 | 0735 826344

Thermal Power Stations

P.O. Box 80801 - 80100, Mombasa
Tel: 041 - 3435000/1 | 3434876
Fax: 041 - 3435431
Mobile: 0722 2653900 | 0734 600377

KenGen

Energy for the nation

Kenya Electricity Generating Company Limited
Stima Plaza, Phase III, Kolobot Road, Parklands
P.O. Box 47936 - 00100 GPO, Nairobi, Kenya
www.kengen.co.ke